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Background to Post-Control
and
Collective Bargaining in the
Public Sector

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BACKGROUND TO POST-CONTROL AND
COLLECTIVE BARGAINING IN THE PUBLIC SECTOR

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INTRODUCTION

Ontario stands firm in its continuing commitment to the fight against inflation. Inflation not only creates inequities and reduces the value of savings within our economic system but it also steals jobs by weakening our competitive position in the international market place. In a country as dependent on foreign trade as is Canada, unemployment is not a separate issue from inflation. Indeed, it has been those countries with a strong anti-inflation stance, such as West Germany, which have demonstrated the best economic performance in recent years. Therefore, the need to continue a vigilance against inflation remains clear.

Ontario called for the establishment and has supported the operation of the Anti-Inflation Program. Although there are serious problems and dangers of wage and price controls, it was clearly necessary to set in motion a program which would have immediate impact on inflationary expectations rather than take draconian deflationary measures at a time when foreign demand was already weak. In general terms, the results have been positive; rates of increase in wages and prices have moderated significantly since the inception of the Anti-Inflation Program. Nevertheless, the fight is not yet over and strong, constructive policies for decontrol must be articulated.

During the twenty-two months of operation of the Anti-Inflation Program, there have been a number of significant developments in the economy. These developments suggest the possibility of a renewal of a non-inflationary economic growth during the next two years. Whether this occurs depends on the performance of prices, profits and wages for the remainder of the Anti-Inflation Program and in the immediate decontrol period.

THE ANTI-INFLATION PROGRAM

Prices

The rate of increase in consumer prices since the inception of the Anti-Inflation Program has moderated significantly. The improvement shown in Table 1 has occurred despite the fact that prices in the non-controlled sectors -- food, energy and imports -- have tended to distort the price movements in the controlled sectors and have had a significant impact on the Consumer Price Index.

CONSUMER PRICE CHANGES PRE AND POST OCTOBER 14, 1975
(At Annual Percentage Rates)

Table 1

	21 Months		Under AIP	
	Pre AIP	Under AIP	The First 15 Months	The Past 6 Months
	Oct. 75/ Feb. 74	June 77/ Oct. 75	Dec. 76/ Oct. 75	June 77/ Dec. 76
All Items	11.4	7.2	5.9	10.2
All Items excluding Food	10.6	8.4	8.5	8.0
Food	13.5	4.2	-1.5	16.4
Goods excluding Food	11.4	6.8	6.2	8.2
Services	11.3	10.0	10.9	7.8

Source: Statistics Canada, 1977

For example, so far in 1977 food prices have accounted for 47 per cent of the total CPI increase, as compared to a minus 4 per cent through 1976. Similarly import prices rose at an average annual rate of 28.5 per cent during the first quarter of 1977, much of which can be attributed to depreciation of the Canadian dollar. The impact of rising import prices also can be seen on industry selling prices which have risen at an annualized rate of 12 per cent during the first five months of 1977, while during the previous fifteen months of the control period, the annual rise averaged 4.1 per cent. Rising energy prices and particularly the certainty of the semi-annual price increases for oil, will continue to distort somewhat the progress being made against purely domestic sources of inflation.

Despite the distortions resulting from these unavoidable price developments, the AIP has witnessed a moderation in consumer prices. The combined effect of the AIP and market pressures in containing domestic source inflation is indicated by the significant moderation of prices in the consumer services sector -- a largely non-import, wage-intensive sector. During 1976, rising prices for services accounted for 69 per cent of the total increase in the Consumer Price Index. This is in contrast to a contribution of less than 30 per cent of the total increase in the first half of 1977.

Profits

Profits demonstrated an important gain in the first quarter of 1977 with pre-tax profits rising by 78.3 per cent over the last quarter of 1976. In addition, the share of GNP accounted for by profits increased from 9.7 per cent to 10.9 per cent. Much of this improved profit performance can be associated with higher export prices and increased export volume, and therefore, does not represent an unwarranted increase in profit margins on domestic business which is subject to AIP regulations.

In general, profits and profit margins which do fall under AIP regulation continue below allowable levels; a condition which merits concern. However, stronger foreign demand should increase capacity utilization, improve profit margins and restore the basis for investment which is needed to provide more jobs and higher real incomes in the economy.

Wages

The unprecedented wage increases which occurred before the establishment of the Anti-Inflation Program had significant negative impact on Canada's competitive position in the international market place. Table 2 shows that the rate of increase of negotiated wage settlements in Canada significantly exceeded that of our major trading partner, the United States.

NEGOTIATED WAGE SETTLEMENTS: CANADA AND THE UNITED STATES
1974-1977:1
(Average Annual Percentage Increase)

Table 2

	1974	1975	1976	1977:1
<u>All Industries</u>				
• Canada	14.3	17.1	10.4	8.6
• United States	7.3	7.8	6.4	6.5
<u>Manufacturing</u>				
• Canada	13.1	13.9	8.8	6.6
• United States	6.1	8.0	6.0	6.4

Source: Bank of Canada Review 1977; United States, Department of Labour 1977.

These pre-AIB conditions had a serious impact on the Canadian trade deficit, particularly for manufactured goods. This, in turn, has created major problems for employment creation. However, as Table 2 also demonstrates, wage settlements in Canada have moderated since the inception of the AIP, and increases are now approximating those in the United States.

AIB data on total labour compensation also reveal a moderating trend in negotiated settlements with over fifty per cent of the private sector settlements significantly below the guideline. Table 3 illustrates the trend moderation in Canadian settlements to date under the Anti-Inflation Program. A similar pattern is evident for Ontario.

EMPLOYEE COMPENSATION BY PROGRAM YEAR: CANADA

Table 3

	Pre Program	Program Year I	Program Year II	Program Year III
All Industries				
. Number of Employees	213,599	2,994,934	1,286,639	151,797
. Negotiated (%)	14.2	10.1	8.1	6.1
. Guideline (%)	10.8	9.7	7.9	6.0

Source: Anti-Inflation Board

Slack labour markets should continue to be a dominating force in labour settlements across Canada. However, there are dangers. In those labour markets not subject to strong market pressure, large price increases in the non-controlled sectors of energy, food and imports might represent a potential source of pressure for increased wage demands. Another danger is the backlog of excess cost increases in the Canadian economy vis-a-vis those in the United States economy which may hinder our recovery, particularly with regard to end product manufacturing. The current exchange depreciation will offset these increased costs to some extent, but there is a danger that the related effect on import prices could also rekindle increased wage demands.

POST CONTROL ISSUESTiming of Decontrol

Excess capacity in product and labour markets, moderating wage trends, low profitability, and modest total compensation rollbacks, all suggest economic conditions favourable to decontrol. However, adverse price effects from the non-controlled sectors -- food, energy and imports -- coupled with the heightened ability of labour to react quickly to price changes represent major risk factors for current decontrol. In addition, over sixty per cent of the Canadian population now favours controls and should decontrol be accompanied with a resumption of pre-AIB conditions, the decontrol process will be made even more complicated.

Recent price trends already have made the decision on the timing and process of decontrol much more difficult. Although a "lights out" approach may have been preferable had it been implemented six months ago, a phased decontrol process may be the more suitable alternative now. Of the two probable start dates for decontrol, both October 14, 1977 and January 1, 1978 would produce a reasonable phasing-out for labour contracts. However, if January 1 is chosen, the bulk of profits would be controlled throughout 1978.

(i) "Lights-out" Approach

The benefits of early and complete termination of the Anti-Inflation Program are administrative simplicity; relative equity in decontrolling all sectors simultaneously; maximum discretion in timing; reduction of uncertainty among labour and investors; and compatibility with a continued monitoring of wage and price movements. The disadvantages of the "lights-out" approach, particularly at this time, are the risks of a post-control wage, price and profit bubble, and that competitive market pressures may not be sufficient to contain excessive wage or price increases in all sectors.

(ii) Phased Decontrol

The major advantages of phased decontrol are the diffusion of a potential wage and price bubble and the minimizing of any adverse impact on public confidence. The flexibility of phased decontrol also provides the opportunity to set in motion policies and programs for post-control.

Monitoring Agency

Preservation of the existing gains made in moderating inflationary expectations will require the implementation of a national wage and price monitoring agency. Ontario has indicated its support for such an agency as it can play a useful role in mitigating some probable causes and effects of inflation. It will be important, however, to carefully consider the most appropriate structure and process. Unless carefully constrained in its mandate, a post-control monitoring agency may not produce the "clean break" with the Anti-Inflation Program that will be necessary to reduce business uncertainty. It will also be important to avoid excessive bureaucracy, duplication and administrative costs. For example, unrestricted power to require information from private companies could pose an unrealistic burden on that sector of the economy. Or, where there are problems of monopoly pricing, action might be taken under the combines legislation rather than duplicating machinery already in existence.

The public preference for a continuing anti-inflation vigilance might best be met by an agency that would:

- collect and comment on publicly available wage and price data;
- educate the public on sources of inflation, and whether they are controllable through domestic policy, in order to dispel wild speculation and misinformation which accompany inflationary economic conditions;

- present reasons for the importance of recognizing and accepting real wage and profit declines in some sectors and increases in others;
- advise government on the causes of and solutions to inflationary pressures and carry on the useful concentrated research of the AIB with regard to modern inflation.

The membership of such an agency would be partly determined by its functions and powers. Possibilities range from an exclusively government-appointed bureaucracy to a council with wide public representation.

Public Sector Compensation

In late 1974 and early 1975, the average level of wage settlements in the public sector began to exceed the average for the private sector. This divergence was due to the weakness of competitive and institutional forces of restraint in the public sector. The weakness stems from two basic sources. On the employer's side, there is a reduced efficiency motive as a result of:

- the absence of competition for some government services;
- an indirect relationship between the consumption of government services and the financing of those services; and
- the nature of some intergovernmental transfers distorting public accountability.

On the employee's side, public sector employees are unionized to a greater degree than those in the private sector with more accompanying market power. Similarly, over 40 per cent of the non-federal public employees have no comparable private sector group that can serve as a moderating influence. Indeed, public sector wage comparisons and wage "leap frogging" are predominant features of public sector employment. Moreover, low layoff and dismissal rates -- in part a tradition of public sector employment, and in part a reflection of continuous growth in public sector employment -- insulated public employee expectations from these forces of restraint.

In the post-control period, it will be necessary to prevent public sector wage settlements from setting the pace and rekindling inflation. There must be a recognition of the concept of taxpayers' "ability to pay" and the total fiscal impact of wage settlements. Also, labour

market conditions must be reflected in public sector wage settlements through the implementation, where possible, of principles such as "wage comparability" with the private sector. In addition, public employers must communicate more effectively and increase their information base if the structure and method of public sector bargaining is to be made more efficient and equitable.

Consultation

Although additional forums for federal-provincial consultation on economic matters are not required to supplement the already existing avenues through which the levels of government can exchange views, there is room for increased consultation with representatives of all sectors of the economic community, particularly with regard to post-control conditions. The employment of a broad consultative process to determine appropriate fiscal and monetary policies might tend to dilute such policies, but a post-control consultative body could effectively deal with specific structural concerns and include business, labour and community leaders.

Ontario has established a Premier's Advisory Committee on Post-Controls as a follow-up to its Partnership For Prosperity Conference. It includes representatives of labour, business and the academic community, and provides a forum for discussion, research and advice. The Advisory Committee has been divided into three basic sub-committees to prepare papers on the issues of job creation, competitiveness, and inflation and decontrol. The initial work of these sub-committees has resulted in the presentation of some fresh perspectives and a remarkably high degree of concensus on the nature of the policy problems.

Fiscal Restraint

A key feature of any post-controls strategy must be fiscal restraint in the public sector. A major part of the inflationary cycle was the increasingly larger share of total resources claimed by the public sector at the expense of the private sector and at the expense of continued growth and prosperity. It is for this reason that governments must discipline themselves and avoid draining from the economy an unreasonably large proportion of national or provincial resources.

Deliberate expenditure control in the government sector is of central importance to Ontario's long range fiscal and economic planning within the context of the fight against inflation. It contributes to the economic stability of the province by restoring a more appropriate balance between the public and private sector, thus providing a firm base for future growth. The control of expenditure also provides flexibility for changing priorities to meet new needs and improves the efficiency of the public sector.

In Ontario, fiscal restraint in 1976-77 resulted in total spending being held below the Estimates approved by the Legislature and a substantial reduction in the net cash requirement was achieved; a further reduction is planned for this year. The achievement of the stated goal of a balanced budget by 1980-81 assumes the continuation of this trend. It also assumes that the eventual elimination of the budgetary deficit will be realized by expenditure control not tax increases.

Monetary Restraint

A fundamental feature of policy in the post-control period must be the commitment to a monetary policy which is compatible with other post-control policies and which can accommodate a reasonable rate of economic growth in a non-inflationary environment.

Consistent with wage and price controls has been a gradual reduction in the growth of the money supply. More than a year and a half ago, the Bank of Canada explicitly stated, for the first time, the monetary targets at which it was then aiming in its efforts to moderate the pace of monetary expansion. At that time, the objective was to bring the rate of growth down below 15 per cent, but above 10 per cent.

By August 1976, as the rate of inflation was moderating, the Bank of Canada again lowered its target to 8 to 12 per cent. Since that time, the Bank has had some difficulty in keeping the rate above the lower limit of the target. While the monetary agency must avoid rates of money supply growth which are too high to be consistent with a gradual decline in the inflation rate, concern must be taken to ensure that economic growth can be accommodated adequately.

A gradual moderation of the rate of monetary expansion is necessary to create a market environment in which large cost and price increases cannot be passed on easily or automatically. Failure to maintain a monetary policy consistent with the goals of non-inflationary growth in the post-control period will, in all certainty, return high levels of inflation to the economy.