David Dodge
Patrick Grady
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The Illusion of Wage and Price Control, edited by Michael Walker, Vancouver, Fraser Institute, 1976, pp. xxii, 236.

This book is the second salvo in the Fraser Institute's campaign to "redirect public attention to the role of competitive markets in providing for the well-being of Canadians". The target of the volley is, of course, -the Federal Government's Anti-Inflation Program. This is not to say that the book has much to say about the specifics of the current controls program, but rather that it attacks the current program as symbolic of controls in general.

The main theme developed in this volume by some of Milton Friedman's Canadian disciples such as Michael Walker, Jack Carr, and David Laid1er is that "inflation is always and everywhere a monetary phenomenon" .

After making the observation that a 5 percent growth rate of the money supply, as measured by the privately held money supply, is roughly consistent with price stability, Mike-WaJker proposes a gradual move towards that target growth rate with interim targets of 11 per cent in 1976, 8.5 per cent in 1977, 7.5 per cent in 1978, and 6.0 per cent in 1978. To assure the attainment of such a goal, he suggests that the Bank of Canada Act be amended to require the target growth of the money supply for three and twelve month periods be published quarterly in the Canada Gazette.

The ultimate 5 per cent goal for the growth rate of money proposed by Mike Walker is exactly the same as that mentioned by Governor Bouey of the Bank of Canada in a recent speech. The Governor also favours a gradual reduction in the growth rate of the money supply to its ultimate goal of 5 per cent. The main differences between the Governor's point of view as expressed in recent speeches and Mike Walker's is that the Governor is reluctant to get locked into too precise of a target in the short run and that the Governor prefers a goal for the growth rate of currency and demand deposits, a more narrowly defined monetary aggregate , than the privately held money supply. In other words, given that Governor Bouey and Mike Walker share so much common ground, Mike Walker's proposal could be interpreted as being essentially the same as the current prospective stance of monetary policy. Thus, since the stance is an integral part of the Anti-Inflation Program, Mike Walker's proposal is not really an alternative to the Program, but rather already part of the Program.

If a gradual slew down in the rate of growth of the money supply to the trend rate of growth of output is the only way to get inflation down to zero in the long run, does this mean that controls have no role to play. Mike Walker, Jack Carr and David Laidler agree that not only do they not have a role to play but that they are positively harmful because of the allocative inefficiencies they introduce into a smoothly function market economy. They all acknowledge that inflationary expectations are an important source of adjustment costs as the money supply growth moves from a higher to a lower growth path. However, they explicitly deny controls can significantly reduce adjustment costs. In so doing, they completely ignore the fact that binding controls can make economic agents act as if their expectations had charged, until they actually do change, thus reducing adjustment costs. Controls are likely to be most useful in this regard where market power has made expectations least sensitive to changing levels of aggregate demand.

Although Mike Walker emphasizes that monetary policy is the *sine qua non* of any successful attack on inflation, he also offers a gimicky scheme for curtailing government expenditure which involves a Government Expenditures Review Board (GERB). The terms of reference of GERB are a parody of those of the AIB. The purpose of the program to curtail government expenditure is to create the illusion of doing something that is necessary to keep the public off the government's back until monetary policy has had time to work. We find it hard to take this scheme seriously. We suspect that it is merely a joke directed against the AIB. Government expenditure restraint is already part of the Anti-Inflation Program.

The chapters of the book that we have not discussed are those by Robert Schuettinger on the errors of past wage and price controls over fifty centuries, Michael Parkin on the lessons from British wage and price controls, Michael Darby on the U.S. Economic Stabilization Program and Jackson Grayson on his personal experience controlling prices in the U.S. All of them are well written and informative and they highlight the problems that arise when controls are not accompanied by appropriate demand management policies.

In this chapter on the U. S. Economic Stabilization Program Michael Darby makes a lot of the theoretical point that controls caused reductions in quality that caused price increases to be under-stated during controls and overstated afterwards as quality returned to normal. He supplies empirical evidence of the magnitude of this effect based on the dubious assumption that real output changes controlling for quality over the period in question could be measured by an Okun' s law approximation to actual output. The implication of this assumption is that real output always grows slower than measured in a boom and greater than measured in a slump, and that prices grow faster in a boom and slower in a slump. We have no good reason to expect such a bias in the published numbers, thus Michael Darby's empirical evidence would appear to be useless.

In conclusion, the Fraser Institute is to be congratulated for the readability and timeliness of their book on controls. They have made a significant, albeit one-sided, contribution to the public debate on this important question. Their book is especially valuable for those of us directly involved in the Anti-Inflation Program, because it reminds us of the importance of a complementary demand management policy and because it warns us of possible problems that very well might materialize in the future. It will serve to keep us on our toes.