show a certain apprehension going into 1968 of $15 billion per quarter month in GNP on the average, or worse. And when that happens, I think that our luck will begin to run out with respect to price behavior.

I happen to be of the view—I shall be frank and not say that it is a majority view among economists—that the wage-price guideposts have had a substantial effect, and that in previous recoveries of the magnitude we have had under an economy, such as we had in McKinley's day or in the 1920's, or even prewar, you would have a lot more price increases than you have had. So that I think business has shown restraint, but I don't think you can count indefinitely upon that restraint. The more months go on with a new wave of resumption of demand, I will just have to say that my betting odds are that there is danger that basic wholesale prices will begin to rise and that profit margins will begin to be restored.

Representative BROCK. My point was that when you are operating, as you said, not at a low level but at a plateau level where we have, for various reasons, kept these employees on rather than turning them loose and having to go back in the market when we need more; by keeping them on we are in a somewhat different position, because we can absorb a pretty good increase in demand simply by increasing the productivity of these workers. We are not out competing with all countries. Each country is not competing with the other on the open market for workers, thereby driving up wages.

The basic problem, to me, at the moment and for the next several months is not so much demand but costs. And I think our currently important negotiations are of significance in this respect, as they affect inflation or prices. That kind of cost pressure is not so much influenced by a tax increase. It would be more affected, frankly, by wage price guidelines which we provide.

Mr. SAMUELSON. I think there is much in what you say that I agree with and would emphasize with you. On the other hand, in wage negotiations there are two sides: labor pressing and management resisting. If management were of the opinion that a very strong burst of demand is ahead of us, I think that would change the militancy of its collective bargaining and its attitude with respect to work stoppages and other matters. I can't candidly shrug off that consideration. There are a number of reasons to be concerned about what is just around the corner. I am not concerned so much, for example, that housing starts, which have shown a slight increase, will be chocked off the rest of this year to a level like that of last year, because commitments are made in advance and a good deal of the money is now in hand to support the current level and perhaps something a little better. But you could have a crunch in housebuilding again next spring if these forecasts are right.

I also would like to mention that the money supply—although none of your witnesses in February seemed to recognize that the element they considered to be vital was then taking off—has been growing at a very rapid rate. Corporations have been trying to restore liquidity. Savings and loans have been trying to restore liquidity. Banks have been trying to restore liquidity. That is perfectly understandable from their viewpoint. They want their freedom next fall. But from the standpoint of the macroeconomy, we cannot let them have this freedom. They cannot be permitted at that time to add at will to what may be inflationary pressure.