

growth. At the same time, another turnabout in tax policy reducing some of the high rates might be required next year if recession threatens. If more stimulus is needed next year, it would be far simpler to increase expenditures deferred this year than to cut taxes again.

The most certain way for the administration to protect the gains of the past and to insure social and economic gains in the future is by promoting a balanced and sustainable expansion without inflation.

The remainder of these minority views will elaborate on the need for immediate action to stop inflation, the inadequacy of the administration's program and the policy best suited to provide the degree of restraint required by current economic conditions.

THE ANATOMY OF INFLATION

A. *The price record in 1965*

Last year witnessed a marked acceleration of the upward drift of the cost of living and a dramatic departure from the stability of the wholesale prices that prevailed for seven years.

The Consumer Price Index rose 2 percent from December 1964 through December 1965 after an annual average rise of 1.2 percent over the previous 7 years. Between January 1965 and January 1966 the wholesale price index rose 3.6 percent. From October 1965 through January of this year, wholesale prices rose at an annual rate of 6 percent.

Actually these increases understate the magnitude of inflationary forces in the economy. The reduction or removal of Federal excise taxes last year had a downward influence on the Consumer Price Index of about 0.3 percent. In the absence of these tax changes the index would have risen by 2.3 percent over the year. The index also has a downward bias to the extent that while corrections are made for quality improvements in durables they are not made for quality changes in services, which the Bureau of Labor Statistics admits "deteriorated further" last year.

The wholesale price index also masks a high degree of "hidden" inflation. The Council admits that in a period of weak demand list prices are discounted or lowered, freight absorbed and other terms of transactions changed. The wholesale price index fails to take fully into account the shaving of discounts and other changes in the terms of transactions, amounting to price increases, in a period of strong demand. The February 1966 issue of *Fortune* magazine reported that many executives say that prices of goods they buy have advanced faster than the price indexes, suggesting that actual prices are perhaps rising faster than list.

GUIDEPOSTS SUPPRESS INFLATION

The wholesale price index also would have been higher except that the administration suppressed some price rises by the coercive use of the wage-price guideposts. Chairman Ackley admitted before the committee that industrial prices would have risen more in the second half of the year if the President had not made clear his view "that the guideposts really ought to be taken seriously." Not only have the guideposts suppressed price increases in the highly visible steel, aluminum, and copper industries but also, according to Dr. Ackley, "in a large number of industries" where the actions received no publicity.

The administration frequently denies that strong inflationary forces now exist. What forces was it acting to control in these situations if not forces of inflation? The problem is that the basic economic pressures for price increases still remain in spite of artificial restraints, and they are likely to break out sometime in the future unless fiscal and monetary restraint is pursued.

B. *The price outlook for 1966*

Although honest men may differ over the seriousness of the price inflation experienced last year, there can be little doubt that 1966 will see a substantial acceleration in the rate of price increases. Food and clothing prices will continue their strong upward trend, while other commodities and services will show larger increases than last year. There is little price weakness anywhere today. Increases in prices are being balanced off less and less by price declines.

The National Association of Purchasing Agents reported in February that its monthly survey of members showed 63 percent of those queried paid more for their purchases in January than in December, compared to 39 percent reporting higher prices from November to December. Less than 1 percent reported lower prices in January, while the number reporting higher prices was the largest in 7 years.