Prices

The December, 1965 to December, 1966 increase in the Wholesale Price Index was 1.7 percent. The increase in the Consumer Price Index was 3.3 percent. (Tables 8 and 9 and chart 5, pp. 251, 252, and 256.)

(At this point Senator Proxmire assumed the chair.)

The details set out in table 8, 9 and chart 5, and I call your attention to it because you get quite different figures depending whether you take a December through December approach or whether you take an average for one year or the other. Both are set out in the accompanying tables and charts.

Over one-third of the average family spending is on services, and they caused half of the total 1966 increase in the Consumer Price Index. (Table 10 and chart 6, pp. 253, 257.) Pressures in this area will continue, although with perhaps some moderating influences, as, for example, in connection with mortgage interest costs. But since service industries are still low paid, there will be likely wage movements required to obtain and keep competent employees; and since wages in these industries constitute a large element of operating costs, these increases are apt to be passed on. The increasing demand for medical care services, stimulated by a growing population, higher income levels, group insurance plane, and the medicare program, will also mean continuing upward pressures on service costs in this area.

So far as other sectors of the economy are concerned, agricultural supply and demand during 1967 are expected to be more nearly in balance; pressure on industrial capacity probably will lessen; few, if any, raw material bottlenecks are expected; and the more moderate pace of economic advance that is anticipated should further diminish inflationary pressures.

The Guideposts

Committee members have inquired of earlier witnesses about the guideposts. I summarize my own position on this very briefly, and only as a basis for whatever questions the committee may have.

First. The guidepost principle, that unless prices and wages stay in line with productivity for the economy as a whole there will be inflationary pressures, is clearly sound.

Second. This is one principle that should guide price and wage determinations in particular cases. There are also others.

Third. This productivity principle had been too little recognized and understood prior to the Council of Economic Advisers' statement of it in its 1962 report, and in subsequent reports. It is not yet fully understood, and it should continue to be developed and emphasized.

Fourth. The only real question is what governmental procedures or methods should be followed in trying to influence the economy as a whole, or to influence particular price and wage determinations, so that this principle will be followed as far as is practicable. My judgment on this is:

> That legislative enactment of wage and price controls would be a mistake;