Now where does this leave us with respect to the guidelines? I suggest that the implied conclusion is that we should shift our guidelines away from the productivity trend in the total private GNP, which includes both commodities and services, and turn our attention to the commodity producing industries thereby emphasizing stable unit labor costs in this area and a stable all commodities Wholesale Price Index. Alternatively we could use the Council's guidepost and add an escalator clause.

Precisely what the productivity figure in the commodities area is I am not prepared to say, but it is clearly substantially higher than the well-known 3.2 percent in the total private GNP. The figure is probably somewhat around 4 to 4.25 percent, or was at any rate in 1960 to 1965, but, of course, there will be changes in productivity increases over time, which have to be taken account of. These figures at least seem to fit reasonably well into the general picture, and are to some extent supported by admittedly inconclusive statistical data.

The guidelines are intended to help prevent cost-push inflation. They are not a substitute for monetary and fiscal policy. Monetary and fiscal policy are designed to prevent demand inflation, not cost-push inflation.

I suppose it is generally agreed by now that the guidelines approach can play a role only at critical points in the wage-and-pricemaking process, including both management and labor. A democratic society in the interest of otherwise unorganized consumers will increasingly be compelled to exercise a price and wage surveillance over economic power blocs. Government must more and more sit in at the bargaining table equipped with full information about costs, profits, and productivity.

All this becomes even more important under conditions of full employment and high-level prosperity. And it applies to all advanced countries. Western European countries have enjoyed in the last 15 years a degree of growth, prosperity, and full employment unequalled in all history. With higher employment and growth rates than ours, European price increases have also exceeded ours. In fact the consumer index has been about twice ours for 15 years. No one will deny that full employment tends to create upward pressures on prices.

At that point I might mention the fact that in the history of 75 years, prices in the prosperity phase of the cycle have on the average gone up about 3.5 percent per year, in the long history of prices in this country.

It follows that the goal of reasonable price stability must all the more remain an important objectvie of public policy. But we cannot afford to buy price stability at the cost of the 5.7 unemployment rate of 1958 to 1965. With fuller employment it will become much harder to maintain a price stability record equal to that of 1960–65.

Experience all over the industrial world seems, however, to indicate that cost-push inflation such as Europe has had does not tend to accelerate into galloping inflation. In a perfectly fluid free market we could expect a rapid escalation of creeping inflation under the impact of rising expectations. But the market is not a fluid market. Countervailing power enters into the picture. Lags play an important role. The system is a network of contracts, partly legal and