

Mr. HANSEN. Yes. Of course you are then in the situation in which there is no solution except price controls, and so on.

If the economic power blocks step in, and all the time create an imbalance by boosting their side of the income, why you can of course restrain their activities through monetary and fiscal policy, but are likely under those circumstances to create undue unemployment, because already your administered prices and your wages have been shot out of line, and if now monetary and fiscal policy refuses to go along with that and to validate those increases, then you are going to create unemployment. This is the problem that confronts all countries.

Chairman PROXMIRE. The thing to keep our eye on in your view is the real, keeping real income in line with productivity increases?

Mr. HANSEN. In line.

Chairman PROXMIRE. Unless you do, in a way you are cheating labor. In other words, it was most transparent last year. If we have a 3.3-percent increase in the cost of living and a 3.2-percent increase in wages because of productivity, you have a decline, an actual decline in real income.

Mr. HANSEN. Right.

Chairman PROXMIRE. And under these circumstances the only way you can have a fair productivity increase is to make allowance with an escalator.

Mr. HANSEN. Right. My point is that the escalator is simply re-establishing a balanced income distribution. It does not itself add to aggregate income. It only redistributes income.

But now when the administered price comes along and creates a new imbalance, and your escalator again tries to correct that, then you are on the spiral all right, and it is the administered price increase which causes the imbalance. It is the culprit, not the escalator.

Chairman PROXMIRE. Congressman Reuss and I have been working on something, trying to get some kind of a practical solution here. The administration, as you know, just walked away from the wage-price guidepost, the specific post this year, and they are supported by Walter Heller and other distinguished economists.

We have been wondering whether or not we could get some compromise, some practical acceptance of maybe a 5 percent or maybe a 5½ percent, which would be close to what you suggest, guideline, which in my judgment at least would be better than nothing.

Mr. HANSEN. Yes.

Chairman PROXMIRE. If you have nothing, then you have a situation where you are likely to get more cost-push it seems to me than if you have something, especially when you can justify it as you do so well, by saying let's put it squarely on a recognition of real income matching productivity increases.

Mr. HANSEN. Right.

Chairman PROXMIRE. Do you agree with that, as a practical matter, not as a matter of theory now, but as a practical way of achieving greater price stability?

Mr. HANSEN. Yes, I agree. Mr. Chairman, my analysis is based on theory, and I think we should switch from the productivity of the total private GNP to productivity of the commodity-producing industries. That makes a higher figure than the 3.2 percent, and I think it is more realistic, because I think all we really expect to do, and I