

just want to base it on the facts of productivity and then add the escalator clause.

Representative REUSS. Then on prices you would leave the guideposts the same as they are?

Mr. HANSEN. I would make them higher than the Council has had them, because I think that theirs is based on the assumption that you can properly hold the Consumer Price Index stable. I think that is unwise, because that would really mean a falling Wholesale Price Index, which I think is not desirable for the economy.

I think the price development of 1960-65 was a good one, stable wholesale prices, subsequently rising consumer prices. That was good reasonable price stability. That is the kind of thing I would like to aim at.

Representative REUSS. Let me see if I can formulate that. Then you would get rid of the productivity gage for prices?

Mr. HANSEN. For the private industry. My guidepost is based on productivity in the all commodity producing industry.

Representative REUSS. Why not use as a price guidepost your commodity industry productivity?

Mr. HANSEN. Yes.

Representative REUSS. Which is $4\frac{1}{4}$.

Mr. HANSEN. Pardon?

Representative REUSS. Which you say is about $4\frac{1}{4}$ percent?

Mr. HANSEN. Yes, it was that in the period 1960-65.

Representative REUSS. So you would recommend that as the—

Mr. HANSEN. As a guidepost.

Representative REUSS. As a price guidepost. How do we arrange that between the Wholesale Price Index and the Consumer Price Index?

Mr. HANSEN. Automatically that would take care of itself. If wages are increased on the basis of this formula of $4\frac{1}{4}$ percent, that would make the demand in the economy as a whole—everybody is getting that increase, presumably, everybody, service industries, they are all getting that increase.

Of course, we know that that is not exactly true. We are talking about an average here. Everybody all around is getting $4\frac{1}{4}$ -percent increase in money wages.

That means that the demand coming from individuals, personal income, is rising $4\frac{1}{4}$ percent a year. And since productivity in the service industries is very low, it means that the monetary demand will exceed the supply of goods and services, so that consumer prices will rise at about 1.2 percent a year, as it did in 1960-65.

Representative REUSS. In order to preserve the same income shares as between labor and industry—

Mr. HANSEN. Use the escalator.

Representative REUSS. You would need to use the same $4\frac{1}{4}$ -percent commodity for prices as you have suggested for wages; is that right?

Mr. HANSEN. That is right, for wages all around the whole economy, so far as average wage increases are concerned.

Representative REUSS. And this cost of living escalator which you would add to the wage guideposts, although only on an if-as-and-when basis—

Mr. HANSEN. Right.