

Mr. SPRINKEL. Yes.

Chairman PROXMIRE. Now let me ask about something else. The only point you mentioned which I find myself in disagreement and I don't know how sharp it is—

Mr. SPRINKEL. Wage-price guidelines?

Chairman PROXMIRE. This is wage-price guidelines and you say in effect forget about the guidelines. I don't want to again put words in your mouth, but again you don't think it is a very lamentable loss. You say the incomes policy in Europe was a failure.

Mr. SPRINKEL. Yes, sir.

Chairman PROXMIRE. And I think it is hard to make that case. The income policy at least in some of these countries seems to have worked well. The European economies have done marvelously well. Sure they have had some inflation but they have also been able to progress greatly and real income has risen in these countries, and Professor Hansen, of Harvard, as Mr. Goldfinger indicated, yesterday made a very strong case for this, and also there is the basic justice here. If you are going to get an increase for labor, truly reflecting their productivity increase, you have to allow not only for the productivity increase but for the cost of living, and it is so transparent this year where you have a rise in the cost of living of 3.3 percent, and a rise in productivity of 3.2, sticking to the 3.2 guideline you have a real cut, a reduction in real labor income, which obviously is unjust.

Mr. SPRINKEL. That is correct.

Chairman PROXMIRE. They are producing more.

Mr. SPRINKEL. The basis for my statement that it was a failure was again equating the results with what I consider to be the objectives; namely, to be a major force preventing inflation. Yet all of the European countries that have tried the incomes policy have had much more inflation than we.

Let me talk just a moment about our own situation. I think we are going to have much more than 3.2 percent increase in wage rates this year as a result of the private bargaining which, of course, is really reflecting the excess demand that developed a year or so back.

Now the real question, the argument as I understand it that you have made previously, Senator Proxmire, is that the reason we have to have the wage-price guidelines is primarily that many businesses have a great deal of control over what price they charge, there is a lot of monopoly in the economy, and it's really unjust to permit them to set their prices as they may want, and therefore, we should apply the guidelines.

The first response to this particular argument is that I am not at all sure that the degree of monopoly is as great as generally attributed even in the highly oligopolistic industries. There are close substitutes both in terms of imports and also substitutes internally.

But over and above that and even admitting in some cases it may be true, this in my opinion cannot cause inflation. Very simply, let us suppose that a company raises its prices, because it has the power to do so. The general feeling is well, this adds to inflation.

But if it raises the prices, and more money is spent on those particular goods, which may be inequitable from some point of view, nonetheless there will be less money to spend elsewhere, so the demand elsewhere will not be as great. Consequently, the prices will not rise