"Clearly, the modern inflation problem presents many conflicting and often irreconcilable factors. What then? Should we abandon the wage-price guideposts? I think not. We do need a thorough overhaul of the statistical foundations upon which the guideposts rest, and we need to clarify our concepts, and our goals, with respect to price stability. But as broad-gauge directives, the guideposts do point to basic relationships which cannot be ignored. The guideposts should be perfected, not abandoned.

"Improved guideposts, Presidential authority to raise or lower taxes within specified limits and, finally, monetary policy working in tandem with fiscal policy, could give us full employment *and* 'reasonable price stability.' In the meantime, let us not blame our inflationary pressures on the New Economics." [emphasis in the original]

While I would not presume to speak for Professor Hansen, I have a strong feeling that when he refers to "improved guideposts" in the last paragraph of his article, he is thinking of some form of incomes policy rather than anything as inequitable as the guideposts. Earlier in the same article, after mentioning price increases resulting from food shortages, he wrote:

More serious is the recent rapid rise in the prices of manufactured goods despite continued stability in unit labor costs.

The reason for these prices hikes is quite simple. Profits soared in 1966 beyond the wildest dreams. And a guidepost policy is always in deep trouble when profits in relation to wages get out of line.

Bargaining over income shares

In past years, the Council's Reports have invariably repeated in one form or another a point to which it attached so much importance that it was stated and restated at three separate places in its original 1962 presentation of the guideposts. The 1962 Report said:

On page 186:

"* * * there is nothing immutable in fact or in justice about the distribution of the total product between labor and nonlabor incomes."

On page 188:

"The proportions in which labor and nonlabor incomes share the product of industry have not been immutable throughout American history, nor can they be expected to stand forever where they are today. *It is desirable that labor and management should bargain explicitly about the distribution of the income of particular firms or industries.* It is, however, undesirable that they should bargain implicitly about the general price level." [emphasis added]

On page 190:

"Finally, it must be reiterated that collective bargaining within an industry over the division of the proceeds between labor and nonlabor income is not necessarily disruptive of over-all price stability. The relative shares can change within the bounds of noninflationary price behavior."

That point, which seems to me to spring from the most fundamental principles of a free society, is, for some unaccountable reason, missing from this year's Report. Yet, bargaining over income shares is not only an essential attribute of a free society; it can also serve valuable economic purposes. There has been discussion in these hearings on the question of whether the existing distribution of income in the U.S. economy is consistent with sustained full employment. There are reasons to believe it is not, and that the inconsistency has been worsened by the distortions in income shares resulting from recent price increases. Collective bargaining can be a powerful instrument for dealing with that problem.

From a longer-run standpoint, it is desirable that income shares should change to offset the effect on total demand of the increasing productivity of capital. As was pointed out in a recent Brookings Institution study, with technological progress reducing the capital required per unit of output, business fixed investment demand will tend to be smaller in the future in relation to any given level of output than with today's technology. The resulting deficiency of demand will have to be made up either by increased government spending, or increased consumption, or a combination of both. Collective bargaining over income shares can help to provide the required increases in consumption.

Particular importance attaches to bargaining over income shares in 1967 because, as the Council's Report says:

"To assume [sic; probably intended to be 'assure'] steady movement toward price stability in 1967, the public interest requires that producers *absorb cost*