

which the guideposts directly apply—made no significant contribution to the upsurge of prices that began at the wholesale level in late 1964 and at the consumer level early in 1965. As illustrated by the course of unit labor costs in manufacturing, wages, salaries and fringe benefits began to outpace productivity—in money but not in “real” terms—only in response to *previous* price increases that had deprived workers and their families of their share of the fruits of advancing productivity. The irony is compounded by the fact that the objective is *price* stabilization—wages are covered only as a means to that end.

The foregoing diagnosis of the causes of the breakdown of the guideposts indicates what must be done if a new and workable stabilization policy is to be developed. The parties chiefly responsible for adherence to the policy must be actively involved in formulating it; the policy must be flexible enough to allow reasonably for the almost infinite variety of the specific situations to which it will apply; and, above all, it must deal equitably and impartially with all forms of income. As the President's Labor-Management Committee said in the August 18, 1966, statement previously mentioned:

“We believe that in a free society any policy to achieve price stability will be acceptable and effective only if it bears equitably on all forms of incomes.”

From wage policy to incomes policy

The experience of the United States with the guideposts is by no means unique. Other democratic countries have attempted—and similarly failed—to stabilize their price levels through the application of policies aimed primarily at wages. They have found it necessary to place increasing emphasis on nonwage incomes. They have moved from wage policy toward “incomes policy.” Instead of focusing upon the relationship between wages and productivity, they have come to stress the relationship between *total money incomes and real national output*.

The Organization for Economic Cooperation and Development (OECD), of which the United States is a member, has had a Working Party on Costs of Production and Prices studying stabilization policy in its member nations. One of the Working Party's principal conclusions is directly pertinent to the current situation in the United States:

“* * * experience shows that whatever may be the mechanism of cost inflation, wage earners will ask for some *quid pro quo* in return for any agreement to accept a more moderate increase in wages. As the Trade Union Advisory Committee has put it:

‘An argument can be made out for planning or guiding incomes; an argument can also be made for leaving them unplanned and unguided; but there it nothing at all to be said for planning or guiding half the incomes and leaving the other half unguided and unplanned and subject to market forces or varying degrees of monopoly control.’

“The existence of a policy for wages clearly gives this argument considerable weight. Those whose incomes are subject to restraint will naturally demand the establishment of criteria by which the inflationary or noninflationary behaviour of other incomes can be clearly established, and the assurance that action will be taken if the assumption that—discounting short period fluctuations—other incomes will follow the development of wages, turns out to be wrong. In other words, it is not enough for justice to be done—it must be seen to be done; and it must be seen that the government has the ability to intervene effectively in cases where intervention would be justified.”

An appropriate representative body—including labor, industry and the public—should undertake the task of developing a sound and equitable incomes policy. I have suggested that the President's Advisory Committee on Labor-Management Policy set up a special task force of technical experts to explore this matter.

Incomes policy and profit sharing

As other democratic nations wrestle, individually and through OECD and the International Labor Organization (ILO), with the problems involved in developing and implementing an incomes policy, they are confronted insistently with the role of profits in the inflationary process. The Chairman of the OECD Working Party mentioned above, in introducing a study prepared for his group, wrote:

“During the preparation of its second report, the Working Party had several discussions on the role of profits in the process of cost inflation. It concluded that ‘While it is difficult to disentangle the role of different elements in total costs, it seems probable that the failure of cost reductions to be re-