

1. It is feared, for example, that corporations may use wage increases as the occasion and excuse for raising prices. But profits generally are at levels high enough to permit absorption, without price increases, of wage increases considerably larger than those likely to be negotiated in 1967. In fact, profits in many industries are at levels which would permit reductions in prices even after meeting the cost of substantial wage increases. Attempts by corporations to pass on the cost of wage increases which they can afford to absorb out of profits, refusals to reduce excessive prices, and other abuses of corporate market power can and should be dealt with by creation of the price-wage review machinery previously discussed. That machinery would also serve to minimize any danger that union demands might adversely affect the Price level.

2. Shortages of skills—which, fortunately, are confined to a very limited number of occupations—can be overcome, with varying degrees of speed, by such measures as stepped-up training and worker relocation programs, tax and other incentives to industry to locate new plants in areas of relatively high unemployment, and the great ingenuity that management has repeatedly displayed in adapting jobs to the qualifications of the available workers. In the longer run, a rounded and equitable incomes policy such as is proposed elsewhere in this statement would serve to restrain increases in the price level resulting from disproportionate increases in the incomes of professionals in short supply. Physicians' fees reflected in the Consumer Price Index rose 7.8 percent between December 1965 and December 1966—more than twice as much as the 3.3 percent increase in the Consumer Price Index as a whole.

3. Selective tax and monetary measures can be used both to rechannel demand away from those areas of the economy where pressures of demand on bottlenecks might give rise to inflationary pressure and to encourage the particular investments and other actions needed to open up the bottlenecks.

Recent price rises sectoral

Such price increases as we have thus far experienced are clearly not the result of an overall excess of demand but rather can be traced to special factors operating in particular sectors of the economy. For example:

1. Prices of certain agricultural products rose because of shortages.
2. In the service component of the Consumer Price Index, shortages of professional personnel are a significant factor in rising medical care costs; tight money and rising interest rates have raised housing costs.
3. In manufacturing, abuses of market power contribute to the increase in the general price level as corporations (a) raise prices even though their profits are ample and their capacity not fully utilized, and (b) refuse to pass on in reduced prices gains from rapidly rising productivity and increased volume.
4. Excessive profits obtained through such price practices have fueled an investment boom which has given rise to sectoral inflationary pressure and to labor shortages in the capital goods industries.

Some of these upward pressures on prices are now beginning to abate and price decreases are replacing price increases. Prices of farm products and processed foods are already down at the wholesale level and the reductions are starting to be reflected in retail food stores. The industrial crude materials component of the BLS Wholesale Price Index is already down more than 4½ percent from the peak reached in March 1966, and the industrial intermediate materials component has fluctuated within a narrow range since May 1966.

The seasonally adjusted index of wholesale prices except farm products and foods, after rising at an annual rate of 3.7 percent between January and July 1966, remained practically level from July to December.

An easier monetary policy is beginning to be reflected in lower interest charges on home mortgages.

Inflationary pressures in the capital goods industries can be expected to taper off as the expected slowdown in the growth rate of capital investment materializes.

The essential point, to repeat, is that *there is no general excess of demand that must be drained off by a tax increase*. Such inflationary pressures as exist are selective in character and should be attacked selectively. The selective approach would enable us to press forward vigorously on the road toward genuine full employment and the achievement of the Great Society. Measures to reduce total demand—whether they be tax increases or reductions in government civilian spending—would seek to buy price stability with unemployment. They would