

the efficiency of the pump is no reason for expanding government activities to match its output. And there do not seem to be good grounds for increasing the capacity of the pump by 6% in 1967.

Wage and Price Trends

There are, as is recognized in the Economic Report of the Council of Economic Advisers, strong forces tending to raise labor costs in 1967.

If a general rise in costs of production should materialize, it would be unfortunate. Apparently the major justification claimed for raising wages faster than productivity in 1967 is the past increases in the cost of living. These reflected chiefly price rises outside the area of industrial goods—farm products and services. But the impact of the resulting cost rises would be felt mainly in the industrial area. It would tend to spread and to perpetuate inflation, rather than to offset its effects.

Yet we should not take a fatalistic view that such cost increases are inevitable in 1967. An attitude of this type on the part of responsible persons would encourage the very cost increases that concern us here, and weaken any resistance to them.

For that reason we are gratified that the Council of Economic Advisers resisted the temptation to revise its basic concept of the wage guidepost, and to include a cost of living allowance on top of the trend increase in productivity. But, even if one believes that wage increases in excess of productivity growth are very likely in 1967, there is no reason for an official body to endorse or encourage them.

It remains true, as the Council of Economic Advisers reminds us, that: "The only valid and non-inflationary standard for wage advances is the productivity principle. If price stability is eventually to be restored and maintained in a high-employment U.S. economy, wage settlements must once again conform to that standard."

There have been suggestions that Congress should involve itself directly in the process of establishing guideposts and in activities designed to promote adherence to them. It has been proposed that Congressional responsibilities in this area should be set forth concretely in law.

We urge you most emphatically not to take such a step. If the guideposts are to be voluntary standards, and if they are intended for the information of the general public and of the price and wage decision makers, they should not be given the status of inclusion in the law of the land. Since they are necessarily loose standards, to which many exceptions must be recognized, they should not be formalized by any act of Congress.

One would have to view with great concern an annual process of hearings before a Congressional Committee, designed to settle upon the proper guideposts for that year. Presumably both labor and management representatives would be heard—in fact, most of the proposals of this nature call specifically for their participation in the guidepost-setting process. Thus, in effect, the hearings would become a form of labor-management negotiations. They might be the most important labor-management negotiations of the year, since they would set the framework for subsequent bargaining between employers and unions.

The adoption of these procedures would be a long step toward the system followed in some other countries—where a national framework for labor settlements is established by bargaining between a national employers' association and a national employees' association. And, worse, Congress would have put itself in the position of being the mediator or arbitrator in these high-level labor-management negotiations.

Furthermore, if Congress, or one of its Committees, were subsequently to assume the task of applying the guideposts to particular cases, it would be assuming an inappropriate and impossible judicial function. If the Joint Economic Committee were to do this, it would sadly impair its effectiveness in performing the constructive role it has played in the past.

One other aspect of the wage-price situation should be mentioned—the effect of increases in corporate and personal income tax rates. A tax increase seems more likely to stimulate than to restrain the type of inflationary pressures that are to be feared in 1967. A rise in corporate taxes may simply increase the demand for borrowed funds by corporations. An increase in personal taxes may simply increase the pressure for wage increases to offset it.