or their enforcement. I will expand on that if you wish me to, Senator.

Chairman PROXMIRE. I would like to ask you, Mr. Hagedorn, directing your attention to the proposal that Mr. Reuther made. You heard it, his national income policy proposal; that is, that you have a productivity increase for wages and in addition an escalator to reflect the rise in the cost of living, with possibly a profit sharing added on to that. And then in order to prevent inflation, he proposes review boards with possibly some kind of a tax system that would provide for penalties for price increases that aren't justified. What is your feeling about this kind of a proposal?

Mr. HAGEDORN. I don't think that incomes policy, the way it is generally understood, and certainly this proposal for a review board, is either workable or desirable, Senator. The difficulty with the price-wage guideposts has been that they correctly define the way we would like to see the economy move in its largest aspects. We would like to see wage increases average out in line with productivity, and we would like to see price stability be the result of the averaging out of price reductions and price increases.

But I don't think you can apply such a rule as a method of administering the price system.

Chairman PROXMIRE. Let's start right at the beginning. You indicated that we have to worry very much about a cost-push inflation. You know that there are a number of important labor-management contracts that have to be settled this year including the auto workers as represented this morning, including the Teamsters, and so forth, involving 3 million people, much more than last year. Under these circumstances—and labor feels that they have some catching up to do.

Mr. HAGEDORN. That is right.

Chairman PROXMIRE. Now, if there is no wage-price guideposts, I might point out that if you took the Reuther proposal and made the assumption as the Council does that the rise in the cost of living this year would be a 5.7-percent guidepost, most of the estimates I have seen indicate that they expect settlements to be higher than that. So that in this sense the Reuther proposal might tend to hold down wage increases, and, therefore, exert less pressure on prices than you might have if you don't have any guideposts at all.

Furthermore, you have no effective discipline, if you walk away from this, on prices in the administered price area.

Mr. HAGEDORN. I understand, Senator, and I have to confess I have ambivalent feelings about the wage-price guidepost system. Insofar as it is a way of bringing out the importance of the relationship between productivity and wages, and its connection with the whole area of employment and inflation, I think perhaps the guideposts have made an important contribution. But they have broken down because they can't be applied in detail to the specifics of the economy. They give a good picture of what ought to occur to the economy when it's viewed from a distance in perspective, but not what you should expect to occur in every detail in the economy.

The proposal of Mr. Reuther for adding a factor recognizing the increases that have occurred during the past couple of years in the cost of living would——

Chairman PROXMIRE. As I understand it, there would be a cost escalator in it rather than recognizing what has happened in the past