

and services that have been the chief forces of pushing up the level of consumer prices. The price of finished manufactured goods has not been rising, at least not rising nearly as much as the cost of food or of services. And the price of finished, durable manufactures has actually been about level for the past several years, amazingly so.

Senator MILLER. Then do you think that the operations of the Federal Government, especially in connection with deep and multibillion-dollar budget deficits, have a role to play in this inflation problem?

Mr. HAGEDORN. Oh, of course, and this is tied in with the whole question of full employment, Federal fiscal policy and monetary policy.

When you get uneconomic excessive increases in labor costs, the initial impact is to reduce employment. It is just the same thing as when you raise the price of onions, you are going to sell fewer onions. When you raise the cost of employing somebody, fewer people will be employed.

But now one way of offsetting that is to use an inflationary fiscal policy or an inflationary monetary policy. In a way you are tricking people out of the increases they thought they got. You are nullifying them by reducing their real wages through price increases, so that the unemployment creating effect of the original cost increase is then nullified. This is the progress of events: you get the cost increase and you get the inflation because you are trying to counteract the unemployment creating effects of that cost increase.

Senator MILLER. I have noted that during the last few years, that there is a definite relationship between inflation and deep multibillion-dollar deficits of the Federal Government under the administrative budget. I believe in recent years that we have had a billion dollars of deficit, that has been accompanied by two or more billion dollars of inflation.

I take it that you are suggesting that it would be helpful in dealing with the inflationary problem for the Federal Government to avoid these deep multibillion-dollar deficits.

Mr. HAGEDORN. Yes, sir.

Senator MILLER. All right. Now how should we avoid having these deficits? On the one hand we could have a tax increase. On the other hand, we could have a cutback in spending, or we might try a middle road and do some of each. Do you have any suggestions?

Mr. HAGEDORN. I think you should operate on the spending side. Reduce spending as a way of controlling inflation, for the reasons that I gave.

If you try to control inflation by raising taxes, you are likely to make it worse under the situation that exists here in the year 1967.

Senator MILLER. How are we going to cause a problem if, as Mr. Reuther pointed out, the profits after taxes in the big three are so apparently large compared to the normal? Would it not be feasible to have a tax increase of some kind which would not particularly affect the production and the operations of some of these corporations?

Mr. HAGEDORN. Well, I don't see how you can have any kind of a tax increase that wouldn't affect their operations.

Senator MILLER. Well, would it affect them to the extent that there would be a reduction in their production? Suppose that—I don't recall the figures, but suppose that—there was, in General Motors' case, a billion dollars more profit after taxes than normally would be the