power. Therefore, the problem of treating general cost-of-living increases was not even mentioned.

This assumption of *basic* price stability has become unrealistic since 1966. Therefore, it has been suggested that the guideposts should be modified so as to grant a cost-of-living adjustment in addition to an adjustment for national productivity gain. Even an allowance for *expected* cost-of-living increases has been demanded. The Government has rightly shied away from a general sanctioning of this proposal; for a complete and prompt cost-of-living adjustment tends to compound inflationary pressures. In an inflationary situation equity considerations make it indeed imperative to allow for some cost-of-living adjustment. If, however, the Government's monetary and fiscal policy fails to promote a dynamic balance between demand for and potential supply of goods and services a rise in the price level may be regarded as a crude and undesirable substitute, say, for a tax increase. A complete and prompt cost-of-living adjustment would exempt the protected groups from this tax substitute, and that would mean a much heavier burden would be imposed on the unprotected groups.

National programs, including monetary and fiscal policies, antimonopoly policies, foreign economic policies, policies related to Government inventories, should contribute to reasonable stability of the price level. However, I also believe that the Government has to issue criteria which help to distinguish between price and wage determinations which are in accord with the objective of price stability and those which violate this objective. Thus I am convinced that the guideposts serve an essential purpose in an economy in which there is possible conflict between the exercise of market power and the general interest.

I welcome that the Economic Report has forcefully restated the principles of the guideposts and re-emphasized the need for having them. I agree with the statement that some cost-of-living adjustment in wages is needed. I also agree that under present conditions no one figure separating inflationary from desirable wage-cost increases could be mentioned, be it the old 3.2% or a new 5 or 6%. There are labor groups which have, and other groups which do not have, automatic cost-of-living adjustments in their contracts. It would be impossible to have one percentage apply to both groups. Also, the Council expects now a price rise of 2.5% for the current year over last year. They would formulate now a new guidepost with that figure in mind. However, if prices were to rise by more than expected, how soon would the guideposts have to be modified again? Also, the exceptions in the interests of occupational and geographical mobility have become much more important now that a high level of employment has been reached and more scarcities for labor have developed than were previously the case. Also, in the absence of a numerical criterion for warranted and unwarranted price increases it would appear that wages are dealt with differently from prices. For all these reasons I think the Council was justified in not giving any numerical criterion to separate what would be regarded as an excessive and a non-excessive increase in wage costs.

The dropping of the numerical wage guidepost criterion has, quite naturally, been interpreted as a weakening of the guideposts. Also, in the Economic Report nothing is said about the implementation of the guideposts in the future. Does the President believe that the present necessarily vague formulation will really have an effect on any business decision or union demand? Apparently, it is intended that the present practice will be continued by which the President and/or the Chairman of the Council talks to business managers and union leaders when a price or wage action is threatening or one has been taken which violates the guideposts. With the present guideposts outlined only in general terms most of the time of the Council members and a great deal of staff time could be absorbed by spelling out what the guideposts mean for specific industries, considering all the factors involved. The Council states in the Economic Report that they have been involved in the price rise of about 50 separate industries in 1966. This demonstrates that the guideposts are taken seriously; it demonstrates, to my mind, even more convincingly that there is a need for some more orderly procedure for the examination of price and wage actions imminent or taken in specific industries. I feel even more strongly than before that for the Council to continue this "fire brigade" function would distract the members and the staff from their other primary functions. Instead, I believe it would be desirable to set up a price-wage-productivity board—under the policy guidance of the Council, or possibly in a combined Commerce-Labor Department. The