

have less inflation than you would have had if you had had a modest escalator.

You would then have been able to preserve the guideline principle on a sound basis, the basis which I understood you to argue that it should be keyed to real income and not to money income, because money income is pernicious.

Mr. WALLICH. The German Council of Economic Advisers has struggled with this problem because they have had high rates of inflation for longer than we have had, and the system they recommend is to sort of deescalate gradually, not to raise wages by productivity plus past inflation, but productivity plus some part of the past inflation. If they do this over a period of years they think they can get down to stability.

Chairman PROXMIRE. Did you want to comment, Dr. Lekachman?

Mr. LEKACHMAN. If I might for just a moment, Mr. Chairman. This is the first I heard of Professor Hansen's proposal, but it seems to me in listening to the discussion of it, that there is something that is implicit in this, and that is that there be a much firmer application of the price guideposts.

Chairman PROXMIRE. That is exactly right.

Mr. LEKACHMAN. Than up to now.

Chairman PROXMIRE. He said we should have administered prices more effectively controlled than has been done in the past. And if we didn't do it, administrative price powers is the element that is going to be unsettling, inflationary, and disturbing.

Mr. LEKACHMAN. If we could do that, I am not enormously hopeful about the administrative possibilities, but if we could do that this it seems to me would then tend to solve one of the problems of the existing arrangement.

If some firms raised their prices and others did not, when prices were rising in general, in effect, the real prices of some firms would go down and should go down on the assumption that these are the firms with exceptionally high productivity experience, and very likely high profit.

In other words, you can restore some implicit flexibility to the price system if you could, which is the central question in my mind, if you could develop the administrative mechanism more firmly to hold prices to permissible increases.

Chairman PROXMIRE. I would like to ask Dr. Colm one other question. Dr. Colm, you indicated you thought it would be wise for the Congress now to give the President the authority to increase taxes on July 1. Do I state your position correctly, or did you indicate you felt we should pass a tax increase as the President suggested?

Mr. COLM. I did recommend the tax legislation, with an effective date of July 1, and hearings before the effective date which would make it possible to reconsider this decision, either at the initiative and the recommendation of the President to drop it, or by the initiative of Congress.

Chairman PROXMIRE. What disturbs me about your proposal is that these hearings would be by the tax writing committees, and without as much economic emphasis as they ought to give it. In other words, if they would rely on what you also refer to, which really disturbs me—