TESTIMONY OF CARL A. AUERBACH, PROFESSOR OF LAW, UNIVERSITY OF MINNESOTA

Mr. AUERBACH. Thank you, Mr. Chairman. It is a pleasure to appear before this committee, with you as chairman. I hope that the kind words you have said about me will be repeated after my testimony.

Chairman PROXMIRE. I am sure they will.

Mr. AUERBACH. You have asked me to discuss principally the wage-price policy set forth in the 1967 Economic Report.

Both the President and the Council of Economic Advisers have been criticized in recent weeks for abandoning the wage-price guideposts. But this criticism, in my opinion, is too general and, therefore, unfair.

I think the most significant change in the administration's policy is not that it has refused to specify a single figure as the wage guidepost for 1967—neither President Truman who originated the guidepost policy, nor Presidents Eisenhower and Kennedy, who further elaborate it, ever specified such figures. Rather, the most significant change is that the President has announced that the Government's weapons of intervention in private wage and price decisionmaking would be limited to information and persuasion and efforts to apply "sanctions" to "violators" of the guideposts would be abandoned.

If this is a correct interpretation of administration policy, the change is to be welcomed, not deplored; and particularly if Congress now seizes the opportunity to accomplish the objective which Congressman Reuss has urged upon it in recent years.

I say this because very serious criticism may be directed at the way the guidepost policy has been formulated and administered up to now. To be clear about the problem we face, we must begin with the fact—which Presidents Truman, Eisenhower, Kennedy, and Johnson, their Councils of Economic Advisers and, I think, this committee have accepted—that structural characteristics of the American economy are responsible for the tendency of wages and prices to rise, even before full employment is achieved. Historical experience has led us to accept this fact. Prices increased rapidly in 1937, despite massive unemployment and under utilization of resources. The defense program of 1940 and 1941 produced inflation even though the economy was then operating far below capacity. Events from 1956 to 1958 again showed that we could have inflation in the absence of excess demand and, indeed, even in the face of declining demand. The experience of the last year only adds to the proof.

Experience has also demonstrated that monetary and fiscal policies alone cannot prevent an inflationary price-wage spiral without sacrificing the twin objectives of income growth and full utilization of resources. In other words, we constantly hesitate to use monetary and fiscal policies, to the extent necessary to attain these objectives, for fear of inflation. To eliminate the necessity for such hesitation is the principal purpose of the guidepost policy. Through this policy, it is hoped price and wage restraint will come to be practiced in certain otherwise unregulated sectors of the private economy.

The guidepost policy has been defended as a means of assuring such private restraint principally on the ground that it is not a policy of compulsion but one that calls for voluntary compliance with its re-