

Equally troublesome, there can be no certainty in this situation that the President will deal even-handedly with all those who are similarly situated. Not only is the fairness of this system of enforcement in question, but the haphazard quality of Presidential intervention also makes it an ineffective way to enforce stabilization policies.

Finally, in time, labor and management will appreciate that even the powers of the President are limited and begin to flout the President's policies with impunity. I am afraid that the President's 1967 Economic Report reflects his estimate that this time has already come.

The suggestions that I have put before this committee may make it possible to carry out the overall wage-price policy adopted by Congress effectively and equitably without the personal intervention of the President. I would hope and expect that these suggestions will maximize the possibility of securing the voluntary cooperation of labor and management, and, if necessary, of mobilizing public opinion to induce such compliance.

For this reason I do not recommend that Congress, at this time, should impose any sanctions for noncompliance with the wage-price policies that will be elaborated under the authority of the legislation I have outlined.

I would not object, however, if Congress should decide to impose such sanctions. I would not object to sanctions because I do not think that the controls which Congress would then be legislating would displace a free market. On the contrary, they would displace the exercise of private power over the market by the exercise of public authority in the interest of economic stability.

It is very important, in my view, Mr. Chairman, that we should not be ruled by a taboo against price and wage controls. They constitute a way of managing the economy which must be compared and evaluated with other ways. We are told by Chairman Ackley that if the actions of labor and management "create an inflationary spiral, the most likely outcome will be restrictive fiscal and monetary policies which will aim to stop further price increases but will in the process also reduce output, cut back profits, and reduce employment." Because of its impact on our balance of payments, Chairman Ackley adds that the inflationary spiral will also have to be fought by "cutting back or eliminating expenditures on foreign economic assistance, by yielding to restrictionist pressures in our trade policy, and by further limitations on the outflow of capital to friendly nations."

Certainly, Mr. Chairman, even direct controls deserve the most serious consideration as an alternative to policies that would have these disastrous consequences. They may permit us once and for all to abandon the idea of managing the economy through unemployment. And they may even eliminate any possible necessity for a tax increase in 1967.

Thank you, Mr. Chairman.

(The prepared statement of Mr. Auerbach follows:)

PREPARED STATEMENT OF CARL A. AUERBACH

Mr. Chairman, you have invited me to discuss the wage-price policies set forth in the President's Economic Report and the Annual Report of the Council of Economic Advisers. Both the President and the Council have been criticized