shares of labor and nonlabor incomes in total output." [33] So it emphasized that "there is nothing immutable in fact or in justice about the distribution of the total product between labor and nonlabor incomes." [34] It thought it desirable that labor and management "should bargain explicitly about the distribution of income of particular firms or industries", so long as they did so within the framework of a stable price level.[35] However, if such bargaining resulted in price increases, the Council pointed out labor and management would not be redistributing income within the industry involved; they would be redistributing income "between that industry and other segments of the economy through the mechanism of inflation." [36]

The Council affirmed this position in 1964, stressing that price behavior in an industry in which such bargaining was going on must remain consistent with the general price guidepost. This guidepost, as we know, requires that in an industry "whose trend productivity is growing more rapidly than the national average, product prices should be lowered enough to distribute to the industry's customers the labor-cost savings it would make under the general wage guidepost." [37] In effect, the Council was saying that bargaining about the distribution of income in such an industry should take place only *after* prices are reduced to the extent indicated. Labor might then receive a larger share of the industry's income if it won greater wage increases than the productivity standard permitted or a larger share might go to profits if the workers were granted smaller wage increases than the productivity standard permitted.

But the Council has vacillated on the desirability of bargaining about the distribution of income. In 1965 it felt constrained to warn that experience during the 1950's demonstrated that such bargaining "proved self-defeating", that neither labor nor capital "gained, and both lost through higher prices, weaker markets, reduced profits, and lower employment." [38] In 1966, apparently, it felt that it had gone too far in advising labor not to bargain collectively for a change in the distribution of income. So it retreated to the position that "public policy is and should remain neutral with respect to wage and price decisions that attempt to change the distribution of industry's income between labor and capital"—so long as such decisions do not produce inflationary pressures.[39] This year, however, the Council repeats its warning "that attempts on the part of unions to redistribute income from profits to wages through excessive wage increases in high-profit industries results primarily in higher prices in those industries" and in the redistribution of "real income from the rest of the community—who are mostly other wage earners—to the workers in question, with very little redistribution from profits to wages." [40]

But of course this is true only because management in high-profit industries has been unwilling to reduce prices and no means have been found to require it to do so. Recognizing that it is unfair to ask workers to restrain their wage demands if their restraint will only result in higher profits, the Council appeals for forbearance on the part of management. It asks producers to "absorb cost increases to the maximum extent feasible, and take advantage of every opportunity to lower prices." [41] For the first time, too, the Council states that profit margins appropriate for the boom stage of a boom and bust economy—to which it likens 1966 average profit margins of manufacturers which were higher, as a percentage of equity, than in any prior year since the highly inflationary year of 1950—are too high for a steadily expanding economy.[42] Indeed, the Council maintains that lower profit margins may be essential to maintain a steadily expanding economy.[43]

But there is no agreement in the country on any standard of "reasonable" profits that would tell us to what extent producers should absorb cost increases and how much lower profit margins should be. For this reason, we cannot tell whether a wage increase higher than that permitted by the wage guideposts should have the effect of redistributing the industry's income or should justify a price increase or a smaller price decrease than the guideposts would call for.

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[33] 1962 Annual Report of Council of Economic Advisers, at 186.
[34] Ibid.
[35] Id. at 188.
[36] Ibid.
[37] 1964 Annual Report of Council of Economic Advisers, at 119.
[38] 1965 Annual Report of Council of Economic Advisers, at 109.
[39] 1966 Annual Report of Council of Economic Advisers, at 91.
[40] 1967 Annual Report of Council of Economic Advisers, at 132.
[41] *Id.* at 133.
[42] *Ibid.*
[43] *Ibid.*