country's stockpiles of materials so as to help effectuate price stabilization objectives or to write into every Government contract and subcontract a requirement that the contractor comply with the wage-price policies formulated for his industry. I would not object if Congress provides that wage increases in excess of those permitted by the applicable wage-stabilization policies should not be recognized as business costs for tax purposes and that net income attributable to price actions in conflict with applicable price-stabilization policies should be subject to a tax of 100%; or even if Congress makes available more traditional civil and criminal penalties. Some sanction may prove to be necessary to assure compliance with the requirement that advance notice be given of certain proposed wage or price actions. And it may prove to be impossible, without some sanction, to bring about the price and profit reductions which the stabilization policies may call for and without which the structure of voluntary compliance may collapse.

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 important 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." [55] 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." [56]

Certainly, even direct controls deserve the most serious consideration as an alternative to policies that would have these deleterious consequences. They may permit us once and for all to abandon the idea of managing the economy through unemployment.

Chairman PROXMIRE. Thank you very much, Professor Auerbach. Let me see if I understand your proposal. You would establish boards for the various industries which are characterized by administered price behavior and by large unions. The boards would consist of representatives of unions, management, and the public. They would hold public hearings on labor-management policy within the particular industry.

They would then make recommendations. For the time being, you would not insist on sanctions to carry out those particular recommendations. What have I missed here?

Mr. AUERBACH. The principal board that I envisage would not be a tripartite board. It would be an agency in the executive branch of the Government, preferably answerable to the President—not an independent agency.

The representation of labor, management, and the public would come through committees that would be advisory to this public body which would have the ultimate authority. I do not envisage that the agency that would be entrusted with the authority would itself be a tripartite board.

Chairman PROXMIRE. A tripartite board would be an agency that would be for the purpose of giving representation.

Mr. AUERBACH. Correct.

Chairman PROXMIRE. The kind of thing that Secretary Wirtz said was absent in the present stabilization policy.

[55] 1966 Annual Report of Council of Economic Advisers, at 93.
[56] Ackley, Why Stability of Copper Prices Is So Urgent an Objective of U.S. Policy, No. 14, 1965, p. 3 (unpublished mimeo.).