

Chairman PROXMIRE. Professor Auerbach, you have obviously done a lot of thinking about the overall principles involved in price stabilization. How do you resolve something that has come before the committee again and again? Professor Hansen brought it up in a very convincing way the other day, I thought; and both Walter Reuther and Mr. Goldfinger also brought it to our attention.

How do you resolve this real income dilemma? The whole principle as I understand it is that labor should receive an increase in real income comparable to their productivity increase. You indicate here, in discussing what Colm said the other day that you think you have got to compromise with this and give them something half way between their money income and their real income. That is what you would do, is provide for the increase in productivity and make a partial adjustment for the increase in the cost of living.

Now as soon as you do that, don't you erode the worker's benefit? Don't you create a situation in which he is going to get less than his productivity increase in real terms, and why should workers with a strong labor union, and with their principle supported by such eminent economists as Hansen and others, accept that?

Mr. AUERBACH. Well, Professor Hansen poses a dilemma which we haven't resolved and which I would like to comment on briefly.

The suggestion that Professor Hansen made is attractive and just. But surely labor understands that so long as there are no institutional means to control prices, any effort to obtain wage-rate increases equal to the rate of productivity increase plus post cost-of-living increases plus anticipated cost-of-living increases will create the threat of inflation. This is precisely how the wage-price spiral gets started.

Once the spiral gets started, labor as a whole will not benefit. The less tightly organized, the less fortunate segments of labor are going to suffer the most; the more tightly organized, the more fortunate segments of labor, at best, may hold their own.

In other words, I think that the equitable claim that labor makes for increases in real income cannot be denied. But those who are moved by this claim ought to give more attention than they have in the past to the problem of how you prevent the wage-price inflationary spiral from arising. When you begin to concentrate on that problem, you begin to talk about price control and the equitable distribution of income in the United States.

Chairman PROXMIRE. Senator Percy?

Senator PERCY. Good morning, Doctor. I certainly welcome the comment that you made when you said:

The change in the administration's policy is a welcome one, whereby formal statements to the public commenting on particular wage and price decisions might not be made as freely.

It is unusual for politicians to protect steel companies, but a rise in the steel price oftentimes is only a reflection of thousands of price increases and wage increases that the steel companies have already had. They simply have reflected in their price increase the increase in costs that they have been forced to absorb and feel that they can't, in the long-range good of their own industries—research, development, plowback of profits—continue to carry on. And yet they are the ones that are singled out as the whipping boys and in the industry