plish. The trend of wages and prices in European countries does not suggest that the incomes-policy approach is apt to provide strong defense against inflation. The results from the United Kingdom's policy for incomes and prices, launched just over a year ago, are not auspicious, and the next version will apparently be legislation to require advance notice of price change and of wage negotiations.[9]

The articulation of the guidelines, let me repeat, has been useful. It has certainly given the whole subject greater public visibility and understanding, and that has been helpful. Their job is to make a marginal contribution—to field the few wild-ball price and wage situations that might occur—under circumstances where fiscal and monetary policies are the basic defense against inflation. At the same time the hard evidence here or abroad does not suggest that they are a strong or highly effective anti-inflationary weapon. And if they divert attention from more fundamental matters of fiscal and monetary policy, they could give the price level an upward bias while they are also reducing the capability of the economy to sustain vigorous economic progress. At this point they would collide squarely with any reasonable interpretation of the Employment Act's section 2.

It is, however, high time that we move on to other matters. One possible contribution to a more stable price level is squarely within the domain of the Federal Government's operational activities. The fact is that important Government programs and actions give a direct and significant upward thrust to the price-cost level. At a time when rising food prices have been a significant factor in the higher cost of living, which in turn will influence wages, the Government will spend on agriculture an estimated $4.3 billion this fiscal year and $3.4 billion in fiscal year 1967. Proposals to increase the minimum wage are inimical to the objectives of the Employment Act if we are concerned about price-cost-level problems, and if we are also trying to draw into regular employment those in the labor force only marginally employable. Secretaries of Labor in their administration of the Bacon and the Walsh-Healey Acts have usually interpreted prevailing "minimum" wages for Government contracts to be synonymous with union rates even in localities where these rates had no real relevance to local situations.[10] Obviously the rationale that these programs reflect "political realities" will no longer do. Political gain is to the political arena what profits and wages are to the economic arena. A Government requesting unions and managements to rise above their self-interest on wage and profit decisions can be asked to lead the way itself in some of these operational programs.

If society decides to channel more of its national income into the public sector, and to do so via sales and excise taxes, it makes no sense to have this affect the Consumer Price Index. In an era where demands in the public sector are going to be heavy, we have arranged things so that the use of a tax with substantial popular support would quite directly push upward our most widely used measure of changes in the price level. During 1965 the Consumer Price Index rose 2 percent, but the rise would have been 2¼ percent except for the reduction of excise taxes. And we are in the odd position of increasing excise taxes in 1966 to counter inflation, though their increase will directly raise the price index—and directly and indirectly have an effect on wage movements.

It would be in the public interest for the Joint Economic Committee to conduct an exhaustive study of all Federal programs that have direct effect on costs and prices. They might be found to be consequential.

Few things are more effective in neutralizing the exercise of power than availabilty of alternatives. Even our powerful corporations cannot force or cajole consumers into buying what they do not want. They cannot because the consumer has alternatives. If the gas company suffers from delusions of grandeur, it will be brought back to earth by marginal shifts of energy requirements to electricity or oil. If Chevrolet buyers were to feel abused, Ford or Chrysler would be eagerly ready with alternatives. A part of our price-cost policy could usefully be exploration of ways to widen alternatives further. The increasing internationalization of economic life offers a major opportunity. The alternative of imports has already served as a significant restraint on the dour ritual of large increases in wage rates duly succeeded by ample price increases.

[9] Cf. Ray Vicker, "Holding the Guidelines," Wall Street Journal, Feb. 7, 1966, p. 14. Also International Financial News Survey, Jan. 14, 1966, p. 10.

[10] Gordon F. Bloom and Herbert R. Northrup, "Economics of Labor Relations" (Irwin, 1961), pp. 549–550.