

portant role in terms of what should be done and the consequences of what we do. There will be two basic pressures for price rise in 1967. One is the deficit in the Federal budget, and I would like to say at this point that I support the request for an increase in the surtax of 6 percent, because I find it difficult to believe that we will be able to hold price inflation under control with a \$15 billion deficit in the administrative budget, regardless of what the cash or the national income budget shows. They have effects upon economic activity, but this administrative budget has an effect upon inflation.

But secondly, and the most important pressure for price inflation in 1967 will be the very large increase in labor costs which will take place this year.

Throughout the entire postwar years, regardless of what the consequences may have been—and I now go back to the earlier postwar years—there was no time in which unions were willing to settle for, nor management unwilling to give, at least the increase in the cost of living.

Most of the battles in the early postwar period, and I had the opportunity to participate in many of those proceedings, were concerned with how much beyond the cost of living one went. It was almost viewed as a matter of equity that labor should get at least the rise in the cost of living.

And so we start with contracts that have been in many cases 2-year contracts, the one exception is the automobile industry, because auto workers have received both cost-of-living and the productivity increases. In the past 2 years the Consumer Price Index has risen about 4.5 percent. I don't think there is any union of any size that is going to accept less than the 4.5 percent as a start.

In fact, and this is not generally realized, automobile workers received in 1966 a 7-percent increase in wages, which works out to between 5- and 6-percent increase in labor costs. This will be the minimum target for unions in 1967. And since the probability in 1967 is for a rise in productivity or output per man-hour of about 2 or 2.5 percent, we face the large rise in unit labor costs which I described earlier. And, as I indicated, I think this rise will be reflected largely in a cut in profit margins, and in some unemployment, and to a lesser extent, in higher prices.

What about the indications of stability in prices? One of the most important portents of the movement of wholesale prices is what happens to the index of 22 sensitive products. A year ago that index was 115 on a 1957-59 basis. Today it is about 102. The Wholesale Price Index has shown stability since last July. There has been little or no change in the comprehensive Wholesale Price Index for the past 7 or 8 months, and one of the very interesting points about this index is that if we break it down and study what I like to call the anatomy of prices, we find that every component of the index was rising through July 1966, but in the last 7 months, from July 1966 to January 1967, four of the 13 components have actually gone down.

I submit that a period when some components of the index are showing little or no change and others are going down is not the type of price behavior one expects to find in a period of general price inflation.