rise at a slower rate in 1967. Assuming no change in Vietnam, the rise in the Consumer Price Index should be 3% or less, and that in industrial wholesale prices 2% or less.

The degree of price inflation will be determined to a large extent by events in Vietnam and by the fiscal and monetary policies adopted. Further escalation of the war would intensify the pressures for higher prices unless fully offset by higher taxes. On the other hand, a stabilization of the war effort or a cutback would moderate significantly the pressures for price inflation. Since I have no way to determine which of these two alternatives will develop, any projection of prospective price changes must be qualified.

THE FUTURE OF WAGE-PRICE GUIDEPOSTS

I strongly endorse the educational objectives of the guideposts as originally described in 1962. It is useful to emphasize there are general limits to rates of gain in real wages and in the levels of living that can be realized annually particularly since public expectations seem to have far outdistanced the possibilities of even our affluent society. However, the CEA analysis is based on so many erroneous assumptions that the educational value of the guideposts is open to serious question. There is little value to a program which educates the public to believe that unit labor costs determine prices, that only productivity determines wages, that real wages can increase at an uniform annual rate, that the general price level can be stabilized by controlling increases in labor costs, or that levels of living can be raised by 3% or more annually.

Moreover, an educational goal stated in general terms is a far cry from the establishment of annual objectives expressed in numerical terms. The guideposts as used prior to this year unfortunately created expectations of steady, annual increases in real labor income at a 3.2% rate, or higher than is realistic and hence higher than actually developed. Moreover, such a steady increase in real income each year ignores the fact that labor payments perform a rationing function as well as provide a source of purchasing power. Different rates of change in labor income are appropriate for periods of recession than for periods of marked economic growth. The failure of the guideposts to provide for these cyclical variations is another weakness that usually is ignored.

We will be better off with the termination of this experiment in economic marksmanship. As a device to determine acceptable increases in wages and prices, the guideposts leave much to be desired. The implementation by persuasion has really had no administrative base and appears to have been a hit or miss affair. If the objective is to overcome the market power of labor and business, guideposts are a very crude tool since they seek to contain the exercise of that power in a few instances rather than to attack it at the source.

If we desire to contain market power by business, the main instrumentality is the antitrust laws. Pressures on prices can also be modified by the timing of government spending programs, lowering barriers to foreign trade, and by sales from the stockpile. It must be recognized that while the latter programs can be helpful in stabilizing the prices of some products they cannot stabilize the general price level.

The elimination of make-work practices, and of restrictions on membership in some unions, retraining, training and mobility programs, and repeal or modification of the Walsh-Healey Act and Bacon-Davis Act could help reduce the pressures on the labor front but there would still remain the strong market power of the unions in many industries. One difficulty is that problems may develop through small unions strategically located as well as the giant unions which are the usual targets for anti-monopoly proposals.

The most constructive approach would require the mix of fiscal and monetary policies which would restrict excessive expansion in the economy plus direct attacks on specific abuses of market power.

In the wage-price environment projected for this year the guideposts can serve no useful purpose. On the contrary, they may aggravate what already are certain to be excessively large increases in labor costs. By emphasizing long term gains in output per manhour and the accompanying rise in living standards, they encourage unions to seek increases large enough to cover both the past rise in the CPI and the so-called "normal" rise in real wages. This combination would mean labor cost increases of 7% or more and would result in a substantial rise in unit labor costs as the CEA has warned (p. 129). The abandonment of a specific numerical value for labor cost increases was unavoid-