(*a*) At this time, however, it would be more realistic for an allowance for part of the increase in consumer prices over the past year to be added to the basic productivity factor in cases where there is no cost-of-living escalator in contracts, which is so in the large majority of cases.

Yet the total average increase in hourly compensation in 1968, I think, should be less than that obtained in 1967, as a step in a disinflationary process. Incidentally, I make this comment not knowing what the Council is going to propose in its annual report which will be released tomorrow. I don't know whether they allow for some increment over and above the productivity standard under present circumstances, but it seems to me that would be more realistic. It should be something less than the full increase in cost of living last year, particularly since I think that price increases in 1968 will be no more, and it is possible that they can be made less this year than in 1967, due to the fact we have excess capacity in many industries, and I believe we are going to have a higher rate of increase in output and, therefore, in productivity in 1968 than in 1967. It also appears there may be some slowing in aggregate money demand ahead in 1968, particularly in the second half.

(*b*) Full hearings by the Joint Economic Committee on the refurbished guideposts would help in clarifying and publicizing the guideposts, and giving all parties involved an opportunity to participate in their consideration.

(*c*) With excess capacity in many industries, an outlook for a higher rate of productivity advance in 1968 than in 1966 and 1967, and with the prospect for some slowing in the growth of money demand during the year, the prospects are good for further deceleration in the pace of price inflation—if the pace of advance in the first half can be appropriately restrained by fiscal as well as monetary policy, and if the educational work regarding the need for greater wage and price restraint than in 1967 is done effectively.

7. Finally, with regard to the proposal in the 1967 Joint Economic Report (p. 24) for the creation of a price-productivity-income office in the executive branch with industry-wide PPI boards, on net balance, I am skeptical as to its probably efficacy.

(*a*) The PPI office and boards could certainly attempt to "apply" the guideposts more widely than could the Council of Economic Advisers. But unless a very large bureaucracy were created, its coverage with respect to factfinding, hearings, opinions, publicity, and so forth, would inevitably be uneven, with the attendant inequities and distortions that I noted earlier.

(*b*) Even with excellent analysis, advisory opinions, and publicity, as long as the guideposts are voluntary—and practically no one wants mandatory wage and price controls short of a war emergency—it is doubtful if compliance would be satisfactory even with this office. The experience of 1966 to 1967, beginning with the machinists-airlines dispute in mid-1966, is not encouraging in this country. Foreign experience with voluntary incomes policy and wage-price boards is likewise generally discouraging. Certainly the costs of the new proposed machinery must be weighed against the probable net gains.

May I add that I think the burden of proof, with respect to creating this new office and industry boards, rests with those who advocate it.