duced standard of living from what they had when they were working. There can be very serious hardships in many of those cases.

Senator MILLER. Right.

Professor Wallich, you made a statement that surprised me a little. You said business can always take care of itself in connection with the rounds of wage and price increases. But do you not have to take into account the competitive position in world markets?

Mr. WALLICH. Yes. I think as particular businesses are concerned in particular sectors, that may well be so. You see it in the steel industry, for instance. Historically—that is what I was referring to—income shares as between capital and labor have been remarkably stable. The efforts of labor to increase the income share by pressing for higher wages have been quite unavailing. Over short periods that may vary, because profit margins undoubtedly get squeezed at certain times. And we have never had a period like the present of a heavy payments deficit and heavy pressure of foreign competition.

Senator MILLER. I would like to ask each member of the panel a double-barreled question. And I know how difficult it is for members of the economics profession to make an absolute statement. But I suppose there are certain axioms in the economics profession—not many, perhaps, but there are probably some. But would you say that it would be axiomatic that an increase in the money supply over and above the amount of the increase in real economic growth would lead to inflation?

Mr. MODIGLIANI. I can definitely say that it is not so. There is no such axiom. There is nothing that says than an increase of the money supply above the growth of real GNP meets——

Senator MILLER. Now wait a minute, please. I do not say real GNP. I worded it this way: above real economic growth. I might say I certainly do not subscribe to the thought that GNP has any necessary relationship to real economic growth.

Mr. MODIGLIANI. Right. Well, I think even to that, the answer is that there is no simple relation between the rate of growth of the money supply, in relation to the capacity of the economy or whatever other measures you want, and inflation.

Senator MILLER. Suppose the three of you all agreed that during the last 3 months we had real economic growth in this country of $10 billion. Now, that is quite an assumption, because we would have quite a time figuring out what indeed constitutes real economic growth. But suppose that you could come up with a formula in computing that that would be reasonably agreeable among the three of you. And we saw an inflation in the money supply of $15 billion.

Mr. MODIGLIANI. Yes.,

Senator MILLER. Would it follow that we would have had some inflation as a result of the disproportionate increase in the money supply over and above the real economic growth?

Mr. MODIGLIANI. I have tried to precisely answer this question. If you give the specific figures you give, I would say that today, if in fact the capacity rose by $10 billion, however measured, and the money supply rose by $15 billion, I would have no doubt that would generate inflation. However, it would not follow that if the money supply grows faster than the thing to which you refer, inflation must necessarily result.