language in the Economic Report but some inventiveness on how to extract ourselves from a situation that is admittedly unsound. Instead, one finds (i) a discussion of the "inflationary bias" in labor markets at full employment in which the major emphasis is on market imperfections rather than on the cost-and-price-raising effects of persistently excessive aggregate demands; (ii) an explicitly defeatist attitude toward labor cost developments in 1968; and (iii) the view that it is "unrealistic" to expect labor to accept money-wage increase that do no more than compensate for increases in the cost of living.

The critical deficiency in this treatment of the guidepost problem is that it gives no guidance at a time when guidance is urgently needed. What is needed is a strong reaffirmation of the basic principle that overall price stability requires labor cost increases broadly equivalent to average productivity improvements and some formula by which—with partial recognition of cost-of-living increases in the interim—we can ultimately work our way back to a balance between average wage increases and average productivity improvements.

It would also be helpful if the committee pointed out that a non-inflationary policy with respect to aggregate demand is an absolute prerequisite to success for any program that hopes to preserve stability of unit cost and prices.

I believe it can be said with confidence that the legislative and administrative program outlined here, if put into effect, would have the following beneficial results:

It would promise a reasonable possibility of returning, without too much delay, to cost and price stability;

It would return confidence and a sense of stability to capital markets and promise a return to more stable interest rates;

It would greatly enhance the chances of success for our balance-of-payments program; and

It would virtually eliminate the risk of developments—domestic or international—that could precipitate a financial crisis.

On the other hand, a continuation of the impasse between expenditures policy and tax policy—with huge deficits persisting, back to back, year after year—has implications that are simply too grave to talk about.

I repeat that what we need is a formula that will get some action started, something that will break the impasse. And I can't think of anything more helpful to that end that a unanimous report from the Joint Economic Committee on the few issues—as I have tried to identify them in this listing—that are central and critical to everything else.

Thank you very much for this opportunity to appear again before this committee.

Chairman PROXMIRE. Thank you very much, Mr. Saulnier. I neglected, and I apologize, to identify you properly as the very distinguished and able and nationally known economist you are, a former Chairman of the Council of Economic Advisers in the Eisenhower administration, a distinguished professor at Columbia University—Barnard College, I believe.

Mr. SAULNIER. Yes; thank you, sir.

Chairman PROXMIRE. I have discussed this with Congressman Bolling, and he agrees; we are going to depart a little from the usual pro-