

are as to what is going to happen this year. I say that the Federal Reserve Board seems to be telling us that they are going to keep the brakes on the economy and try to make credit tight, keep reserves at a minus figure, and so forth, discount rate high until we slow down to a dollar increase GNP at an annual rate of 5 percent, real 2 percent.

Mr. KLEIN. I would say that we won't find that big a drop in the price level to three percent inflationary rate as a result of these more severe monetary policies. I would agree—

Senator PROXMIRE. But you think they are going to change their minds and let up a little bit on monetary policy anyway?

Mr. KLEIN. Well, I think they will be forced to, not by the movement of the price level but by the movement of overall income performance. There are many more indicators.

Senator PROXMIRE. Including employment.

Mr. KLEIN. Employment, yes.

I would agree very much with Professor Suits' notion that we are locked in for much of the price inflation in terms of the costs that we have incurred and the wage increases that we have had in the last 12 months. The techniques of slowing down the rate of economic expansion are going to show very modest results in terms of slowing down the inflationary pressure.

Senator PROXMIRE. My time is up, I will be back.

Chairman PATMAN. Senator Percy?

Senator PERCY. I would like to join our chairman and vice chairman in saying how valuable this testimony has been this morning.

Dr. Klein, you seem to be the most pessimistic in forecasting the lowest GNP increase, the highest unemployment level, and the highest wage increase estimates.

Dr. Shultz seems to be in general agreement with the AFL-CIO on the effect of an increase of the minimum wage. Do you agree that if the minimum wage were extended this year that we may have further unemployment problems? What effect would it have on the economy?

Mr. KLEIN. Well, the problem of the wage effect enters in more than one way. The minimum wage has its special effect, I think, on one of the problem areas of the economy: namely, teenage unemployment, especially in urban areas, and I think we should reconsider the whole question of minimum wage legislation until we have made much more headway in eliminating this big problem of unemployment of teenagers and especially of nonwhite teenagers.

As for the overall wage picture, I would say that the change in the minimum wage won't have a very big effect on the average hourly earnings or the average wage rate because that really is going to be dominated by the kinds of overall trade union agreements that have been negotiated in the last 2 or 3 years, especially those that have long-term contracts.

I think the most favorable thing we can say for the wage picture at the moment is that many of these 2- and 3-year contracts are now negotiated so that we can expect not as much pressure on the wage front in 1969 as we had in 1968 and toward the end of 1967.

Senator PERCY. Dr. Perry, Dr. Shultz testified that about 85 percent of all the gain in male employment since 1965 has been attributable to the war in Vietnam, that is two and a half million people in the