

inordinate, unanticipated increases in inventories. At the same time as purchasing power is maintained, it should not, of course, find a shortage of goods and thus produce inflation. If more purchasing power is channeled into time-consuming investment than is going to be provided from current savings, inflation will be the result. This condition has been the situation now for some years. Investment has proceeded apace in response to perhaps the wildest profit boom in our history.

It is in this context that we have never been able to accept the veracity of a voluntary "incomes policy" comprehended in wage-price guideposts. A sacrificial wage policy will not keep profits up, if consumer expenditures fall below the level anticipated as necessary to "clear the market," if the low-wage increases merely leave incorrect anticipations of higher profits. We think the wage policies of unions have helped sustain an expanding market by preserving the proportion of the national income going to wage and salary compensation.

The old Council urges labor to accept wage increases (money) of no greater than 5 percent, and businesses to accept profit margins no higher than the average achieved in 1967-68—probably as high as they have been in recent years—and asks that they absorb increases in unit labor costs up to 1 percent.

The profit margins of 1968 required a 2.6-percent increase in industrial prices. The corresponding increase in the Consumer Price Index was 4.2 percent. If these increases are approached in 1969, it does not appear that an increase in money average earnings of 5 percent would increase real average earnings sufficiently to maintain the present distribution, as between wages and profits, from the national income, unless there were less than a 3.3-percent increase in productivity—in which case the profit margin would not be retained anyway.

We find it gratifying that the new Council of Economic Advisers has abandoned the idea of wage-price guidelines as a mechanism for maintenance of distributive shares. Since, as the Wall Street Journal recently acknowledged, it is *prices* which lead *wages* upward, a guidelines policy is poorly designed for its job—because it always leaves wages behind. While wages and salaries have gone up by 40.5 percent since 1960, profits have gone up 85.7 percent.

We think profit margins are already too high, and offer too high an incentive for further investment. We note a recent release from the Internal Revenue Service indicating that, for the fiscal year ending in June 1968, while individual income tax collections increased by \$8.7 billion over the previous year, corporate income tax payments declined by \$5 billion. Note that this period covered the higher rate of expansion in the first half of calendar 1968.

The current additional "dosage" of indirect fiscal policy contained in the 10-percent surtax, though probably necessary to curb a runaway inflation incident to heavy governmental expenditures, does not appear to be depressing investment aspirations as much as it affects consumer expenditures, if the last half of 1968 is any indication. We suspect that this is partially the effect of high returns from investment in industries with a heavy concentration of Government contracts.

We think it is time to attack inflation on a discriminating basis, by a frontal attack on the proportion of national income going to profits as compared to wages and salary compensation, in order to stabilize