

and the CEA talked a great deal about cost-push inflation, and developed the unworkable and unfair price-wage guidelines accordingly, long before 1966, when the rate of real advance in wages and salaries was lagging far behind the rate of productivity gains). I cannot accept the CEA position, implied if not made explicit, that the relative trends in wages and salaries and productivity during 1966-68 justified in any sense the accelerated price inflation during this period, particularly in view of profit margins and aggregate profits, which the CEA appears extremely anxious to avoid discussing in its 1969 report, and handled very gingerly in previous reports. Consumption, supported so substantially by wages, had certainly not been excessive, but rather has been deficient, during the past 2 years, by economic equilibrium tests which the CEA never brings forth.

But let us assume for the moment—contrary to my own view—that the relative trends in wages and salaries and productivity during 1966-68 “caused” or even “justified” the accelerated price inflation. In that event, this happened, not because the rate of advance in real wages and salaries was too high in terms of any equilibrium model for reasonably full use of our potentials, but rather because the rate of productivity growth dropped abysmally. And this happened precisely because of the abysmal decline in the real rate of economic growth, coupled with the election (desirable in itself) to translate this into less efficient utilization of the employed labor force rather than into more overt unemployment. Of course, such inefficient utilization is a form of concealed unemployment, although the CEA has not yet come to think that way.¹⁸

Under these circumstances, how wrong and upsidedown it is to try to stop this kind of cost-push inflation by further repressive measures, designed to reduce still further a seriously inadequate rate of real economic growth.

Further, my basic position is that policies designed effectively to achieve a stable and optimum economic growth would in the long run yield less net price inflation than result from erratic ups and downs in the real economy, rapidly changing labor and business expectations, and general uncertainty. The evidence to date on this seems fairly clear. But even if the evidence were less conclusive or more arguable on rational grounds, we should choose the certain benefits of steady and optimum economic growth and minimal unemployment, instead of committing ourselves to a theory as to the cause of inflation which cannot be squared with what has been happening.

In the foregoing discussion of wage and salary trends, the data are based upon hourly rates of pay, and do not include other so-called labor compensation in the form of fringe benefits, while the CEA does include fringe benefits in its analysis of this problem. I am convinced that my approach is preferable, because fringe benefits in general do not enter currently into the disposable income of wage and salary earners, and it is this disposable income which must keep up with productivity trends in order to maintain a reasonable balance between growth in output and growth in consumer demand. From the viewpoint of total labor costs including fringe benefits, there is no evidence that the trends in total labor costs have militated against adequate

¹⁸ See chart 17, following text.