profit margins. To the contrary, the evidence is that profit margins have in many cases been far too high, and that this has contributed powerfully to the recurrent tendency of the rate of growth in investment in plant and equipment to exceed the rate of growth in consumption, particularly in view of the increasing productivity of capital. But even if it were to be conceded that fringe benefits should be included in the comparisons between hourly wage and salary trends and productivity, the picture which I have set forth above would not be changed materially in its fundamental import. The picture would still show that real labor compensation lagged seriously behind productivity trends, until the advent of a seriously retarded rate of real economic growth.

Finally, in this phase of the discussion, I have used the trends in real hourly wages and salaries, while the CEA consistently has compared the current dollar trends in wages and salaries (or in total wage costs) with productivity trends. This posture on the part of the Council is completely indefensible. Productivity is a real output concept, and the core problem of maintaining a balanced relationship between productivity trends and hourly wage and salary trends must involve the concept of the real purchasing power of wages. And from the viewpoint of business costs, there has been absolutely no evidence that the adjustment of real rather than current dollar wage and salary trends to productivity trends impair profit margins. This is true in part because, when the price level is generally rising or under conditions of reasonably full prosperity even with a relatively stable price level, the price makers are in at least as good a position to protect their profit margins as other income earners are to protect themselves.

Shortcomings in CEA treatment of inflation

With respect to 1968, the CEA report says that "The pressures of excessive demand pushed up the price level at the unacceptable rate of nearly 4 percent," and insists that "Total demand must be brought into better balance with the Nation's productive capacity" (p. 33).

I have stated above my disagreement with this position. Further, and in accord with my own basic position, the CEA says that erratic ups and downs in the economic performance "would probably involve a more serious danger of inflation than would steadier movement that remained close to the path of potential output" (p. 54). So why, acquiesce in, or even promote, such erratic movements? Yet, the CEA's entire fiscal-policy position, including extension of the 10-percent surcharge tax for another year, and the extension at present levels of excise taxes on automobiles and telephone services, has moved in just that direction (p. 54–55).

Then, the CEA report states that "In a slack economy, rising prices are hardly a problem," and attempts to support this as follows (p. 94):

> The difficulties of combining price stability and high employment in the past 15 years are evident . . . In 1956–1967 and from 1966 to 1968, when the unemployment rate was between 3.6 and 4.3 percent, price increases ranged between 3.1 percent and 4.1 percent. In contrast, between 1958 and 1964 the unemployment rate consistently exceeded 5 percent, and price increases were uniformly less than 2 percent.

I submit most earnestly that this fragmentary and highly selective use of figures will not stand comparison with my more complete analysis of relative trends in prices and economic performance, as set forth above.