clear. The inflation of 1966–68 was not due to any overall violation of the price guideposts. Relative profit margins were lower at the end of the period than at the beginning (chart 4, p. 32). The overwhelmingly predominant factor was rising labor costs. That the wage guideposts failed when they were needed most is a doleful commentary on the efficacy of the hortatory approach to the restraint of inflation.

III. Abandonment

At his first press conference, President Nixon stated:

"I do not go along with the suggestion that inflation can be effectively controlled by exhorting labor and management and industry to follow certain guidelines. I think that is a very laudable objective for labor and management to follow. But I think I am aware of the fact that the leaders of labor and the leaders of management, much as they might personally want to do what is in the best interest of the Nation, have to be guided by the interests of the organizations that they represent. So the primary responsibility for controlling inflation rests with the national administration, and its handling of fiscal and monetary affairs." [56]

In its first appearance before the Joint Economic Committee of Congress, the new Council of Economic Advisers delivered itself on the following:

"From time to time, in the United States and elsewhere, attempts have been made to promote the achievement of expansion and price stability by recourse to 'incomes policy.' Essentially this means an attempt by education, persuasion, exhortation, threats or other means short of mandatory and specific controls to induce businesses and labor organizations to hold price and wage increases below the amounts that would naturally occur in the prevailing market conditions. The United States has had recent experience with this kind of policy under the name of wage-price guideposts. We question whether these should play much of a role in the period ahead.

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"Probably the chief reason for the general ineffectiveness of incomes policy is that it can apply only to a limited segment of the economy. This is the segment of centralized national unions and large corporations. Even within that segment the distribution of the Government's influence is quite uneven. And those upon whom the influence is exerted become resentful and resistant, for understandable reasons. They have been singled out by no relevant criterion but only by vulnerability. They are asked to follow rules of behavior that are arbitrary and become more arbitrary as the policy is pushed harder. The rules have not been established by due process of law. They are sometimes enforced by the threat of using Government powers not given for that purpose. All of this undermines the moral basis on which the policy originally rested. For its part the Government has set up rules of voluntary behavior and is torn between seeing its rules violated and making the behavior less voluntary.

[56] Washington Evening Star, Jan. 27, 1969.