Contemporary Public Affairs

WAGE-PRICE CONTROLS

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WAGE-PRICE CONTROLS

I. A Shaky Economy

Throughout the closing years of the 1960's the American economy was plagued by ills which failed to respond to the remedies which were applied. The symptom which drew the most attention was the rise of prices--inflation. Usually when we talk about inflation we are talking about the rise in the prices which we pay for those items we buy from day to day. In other words, the first meaning of inflation for the average person is a rise in *retail* prices. The standard measure of retail prices in the economy is the Consumer Price Index. Beginning in about 1964 this index showed an increasingly rapid rate of rise, as indicated by the following figures:

TABLE I: The Consumer Price Index Level and Per Cent of Rise Per Year, 1964-1970 (Years 1957-59 = 100)

Year	Index Level	% of Rise from Previous Year
1964	108.1	---
1965	109.9	1.7
1966	113.1	2.9
1967	116.3	2.8
1968	121.2	4.2
1969	127.7	5.4
1970	135.3	5.9

Source: U.S. Bureau of Labor Statistics, *Monthly Labor Review*, 1965 through 1971.

However, retail prices and the Consumer Price Index are only a part of the story of inflation. While prices were raising so were wages. In addition, the cost of services, of renting, and of borrowing money were all on the increase. A 10 per cent surcharge had been placed on personal income tax. And, finally, there was a rising rate of unemployment.

TABLE II: Average Hourly Wage for Workers in Mining, Construction and Manufacturing and Per Cent of Rise Per Year

Year	Hourly Wage	% of Rise from Previous Year
1964	$2.97	---
1965	3.07	3.4
1966	3.22	4.9
1967	3.37	4.7
1968	3.58	6.2
1969	3.85	7.0
1970	4.14	7.5

Source: U.S. Bureau of Labor Statistics, *Monthly Labor Review*, 1965 through 1971.

What was behind these economic ills? The customary explanation for the root of such an inflation is summed up in the classic phrase "too much money chasing too few goods." The logic behind this statement is that an increase in demand increases the supply so that if people are demanding more goods and services, more goods and services will be supplied to them. However, there are certain physical limits on the supply. Such basic considerations as the number of plants, size of the labor force, availability of raw materials and so forth, limit the amount of goods and services that can actually be supplied. If everyone suddenly decided to buy a mink coat, for example, thousands of mink coats would not quickly flood the market. After all, there are only a limited number of mink pelts, only a limited number of pelt processors, and only a limited number of skilled coat makers. What would happen instead? From experience we all know that the price of the existing number of mink coats would sky-rocket while manufacturers pushed to gear up their production. Now, if this happens to the economy in general, that is, if people get too much money and they all start demanding to buy with it, the conditions are ripe for inflation. Such is the classical theory of inflation, often called *demand-pull inflation*.

Under this theory, how do you stem the rise in prices? Obviously we have a two-sided equation: too much money, too few goods. Since we can not do much in a short period of time to increase the number of goods, the answer is to work on the amount of money available. This can be done largely by raising taxes to take money out of circulation, by raising interest rates to slow the demand for borrowed money, and by cutting federal expenditures to ease the demand for goods. All these steps dictated by the classical theory of inflation were taken in the late 1960's by the Nixon administration. Still, as indicated in the figures cited previously, the rate of inflation did not slow down, rather, it increased. And, resulting from the measures intended to cure the inflation, there was also a problem of increased unemployment. Given the political climate it was natural that more drastic steps would be considered. Could the answer lie in an alternative theory of inflation called *cost-push inflation*?

Under this theory, once an inflationary psychology has taken over, the people who make the various economic decisions (e.g. the producers who set the price of raw materials, the union officials who decide what wages to demand, etc.) begin to compensate ahead of time for the inflation that they expect to occur in the months ahead. If, for example, you are about to negotiate a three-year contract with management and you expect prices to go up 10 per cent each year, you might decide to ask for a 40 per cent raise spread over the three years in order to stay ahead of prices. Or, if you are a producer of raw materials and your employees got a 10 per cent raise last year and the contract calls for the same raise next year, you might decide to raise your prices 25 per cent in order to keep ahead of your costs. The net result is that the costs of production go up and the resulting push on prices makes the expectation of inflation become a self- fulfilling prophecy. Under this theory of inflation the remedy is quite different from the one that we saw in the previous theory. Here the answer would seem to be to control the level of prices and wages in order to stop the spiral upward.

It should be noted in passing that these two theories can be somewhat complementary, that is, a temporary demand-pull situation can trigger a longer cost-push inflation. This may in fact be what happened in '64-'66 when the nation geared up military demand for Vietnam without raising taxes or in any other way trying to slow consumer demand.

One of the major proponents of some sort of control of wages and prices is John Kenneth Galbraith, author and professor of economics at Harvard University. Professor Galbraith summarized his position in hearings before the Committee on Banking and Currency of the House of Representatives, June 16, 1970. His major assumption, as you might suspect, is that the type of inflation which was being experienced in the late 60's was a cost-push inflation. His next assumption is that the push is focused at the intersection between big business and big labor. As he reported in his testimony: "farm prices, [and] prices of services generally at the moment are stable or even coming down, but prices in the organized sector of the economy--prices in the sector of the economy where large corporations bargain with strong unions--still are going up." [1] It is into this critical nexus that Professor Galbraith would interject the two stage policy of a wage-price freeze followed by wage-price controls.

The freeze, as he sees it, would be of about six months duration and its purpose is largely psychological:

> The immediate need is to break the whole structure of inflationary expectations. By which I mean the expectations that prices are going to go up 6, 8, 10 per cent next year, therefore, you must have wage increases and interest rates to cover that kind of a price increase and must so plan your prices. [2]

At the end of this freeze period one would begin a period of selective controls:

> Where prices and wages are set by the market rather than by corporate and union power, there is no need to continue the freeze. This means that all retail prices, all farm prices, all wages not covered by collective bargaining contracts, all prices of firms employing fewer than 100 or possibly even 1,000 workers should be promptly released from control. [3]

What would remain under control would be the prices and wages in industries which have strong private control over those prices and wages. This action would control the "push" and thus, according to the assumptions, it would also control the inflation.

Naturally there are those who would oppose such controls. Among the best known is Milton Friedman, author and professor of economics from the University of Chicago. As far back as the early 1960's Friedman had expressed his views publicly on such controls:

> The view has been gaining widespread acceptance that corporate officials and labor leaders have a "social responsibility" that goes beyond serving the interest of their stockholders or their members. This view shows a fundamental misconception of the character and nature of a free economy . . .
>
> [A] particular aspect of the doctrine . . . is an alleged social responsibility of business and labor to keep prices and wage rates down in order to avoid price inflation. Suppose that at a time when there was upward pressure on prices--ultimately of course reflecting an increase in the

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1 Statement in hearings before the Committee on Banking and Currency, House of Representatives, 91st Congress, 2nd Session, *To Extend the Defense Production Act of 1950, as Amended* (Washington, D.C.: Government Printing Office, 1970), p. 7.

2 *Ibid.*, pp. 11-12.

3 *Ibid.*, p. 8.

> stock of money--every businessman and labor leader were to accept this responsibility and suppose all could succeed in keeping any price from rising, so we had voluntary price and wage control without open inflation. What would be the result? Clearly product shortages, labor shortages, gray markets, blackmarkets. If prices are not allowed to ration goods and workers, there must be some other means to do so . . .
>
> Price controls, whether legal or voluntary, if effectively enforced would eventually lead to the destruction of the free- enterprise system and its replacement by a centrally controlled system. And it would not even be effective in preventing inflation. History offers ample evidence that what determines the average level of prices and wages is the amount of money in the economy and not the greediness of businessmen or of workers.[4]

It does not seem that Friedman's views have changed any during the intervening years. In his column in *Newsweek* magazine on July 5, 1971, he discussed the predictions of his school of economic thought, then he says: "The monetarists--a smaller though growing group [those who would alter economic conditions by manipulating the quantity of money in circulation]--are forecasting a vigorous expansion with or without further fiscal measures. We believe that the real danger is an expansion so rapid that it will reignite inflation."[5]

Six weeks later, after the imposition of the wage-price freeze, Friedman reiterated his point that economic growth was already underway.

> Freezing wages and prices can't do any good. But it can't do too much harm so long as the period isn't longer than 90 days. I can sympathize with the President. He's been under tremendous political pressure to do something about the economy.
>
> You know, it's really extraordinary the snow job the Democratic politicians and the Democratic economists have accomplished.
>
> They've also persuaded the American people that our country is in a very bad economic state. It's not true. The economy is operating at a high level.
>
> They've also persuaded the American people that the recovery from the business recession is sluggish, very slow. Not true. The recovery pace is no worse than the previous four recession recoveries.
>
> Also, they have persuaded the American people that no progress has been made in reducing the rate of inflation. Not true. The inflation rate has been reduced from more than 6 per cent to 4 per cent.[6]

Thus, whether because of the demands of economic reality or because of the demands of political reality, the subject of wage-price control has become vital to the average American. What effects they can be expected to have will be the subject of our next unit.

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4 *Capitalism and Freedom* (Chicago: University of Chicago Press, 1962), pp. 133-135.

5 *Newsweek*, July 5, 1971, p. 62.

6 "Friedman Declares Freeze Won't Work," *Chicago Tribune*, August 16, 1971, 1:1.

WAGE-PRICE CONTROLS

I. A Shaky Economy

Discussion Questions

As a first point, there are some major concepts in these pages that you should be sure to have clearly in mind. Take a moment just to make sure everyone means roughly the same thing when talking about: Consumer Price Index, demand-pull inflation, cost-push inflation, markets under private control, and economic game plan (old and new).

This country has imposed wage-price controls twice since the Depression. If any members of the group have experienced these previous controls, they could share those experiences with the other members of the group.

> How are such previous experiences likely to influence views of wage-price controls in the present?
>
> To what extent are the most vivid memories not of the controls themselves but of the shortages and the rationing?
>
> Does the concept of wage-price face any additional problem by being linked in people's minds with the problems of the war years such as shortage of consumer goods, black markets, etc. To what extent must these problems be linked with controls, if at all? That is, do they necessarily follow whenever such controls are imposed?

We indicate two basic assumptions lie behind Dr. Galbraith's views of the economy: 1) the inflation of the late '60's was largely cost-push, and 2) the reason for cost-push was primarily big business and big labor. Comment on these assumptions and analyze them. For example, one possible criticism is that much of the inflation was not in the manufacturing sector (where management and labor are strong), but in the service sector, as in the cost of health services, insurance, repairs, etc. Another possible criticism is that a large part of the inflation came from the cost of government: education, welfare, defense, etc.

Professor Friedman makes several points that are worthy of deeper consideration and discussion.

> He raises the issue of social responsibility. Do corporate and labor officials have such a social responsibility? Why? Why not? What types of social responsibility might they have or not have?
>
> Will the undertaking of such a social responsibility, as he infers, ultimately change the nature and character of our free economy? If so, how?
>
> Is our economy free or is that an assumption on Dr. Friedman's part. If it is free, in what sense(s) is it free? In what sector(s) is it free?
>
> To what extent would wage-price controls, as he says, necessarily mean a centrally controlled economy?

WAGE-PRICE CONTROLS

II: A New Approach to a Changed Situation

In a very basic way the move of President Nixon in August of 1971 to freeze prices, wages, and rents was something quite new in American economic history. True, the technique of a freeze was not new, but it was being used in quite a new economic context.

There were three previous instances of freeze followed by controls in our history: 1917-1919, 1941-1946, and 1951-1953. Each of these periods was one in which the nation was beginning to become deeply involved in a wartime situation. There was a great increase in demand for military goods. In order that this new surge of demand would not bid up prices, steps were taken to stabilize price levels.

In 1971, however, the situation was quite different. The Vietnam war was economically in the past. Military demand, if it was doing anything, was dropping off and resulting in greater unemployment. Spending on the conflict in Vietnam had peaked in 1969 and by 1970 was showing a significant decline. Production facilities, in fact, were increasingly being idled.

Two other notable changes had also taken place in the country, one of them economic, the other social. The economic change was that during the years since 1950 people were increasingly becoming consumers of services rather than consumers of commodities as the following figures indicate:

Year	Percentage of Personal Income Spent On Services	Index of Prices Paid for Services 1957-59=100
1950	32.7	73.4
1955	35.9	89.4
1960	39.6	107.4
1965	40.6	120.0
1969	42.1	149.2

Source: *Statistical Abstract of the United States*, 1970, table 472, p. 312, and *Economic Report of the President, 1970,* p. 230.

At the same time they were paying relatively more for those services than for the goods that they bought. We can see this by comparing the index of prices paid for services, given above, with the index of prices paid for commodities. Note that the price of commodities is rising much more slowly:

Year	Index of Prices Paid for Services 1957-59=100	Index of Prices Paid for Commodities 1957-59=100
1950	73.4	87.6
1955	89.4	94.6
1960	107.4	101.7
1965	120.0	106.4
1969	149.2	120.5

Source: *Economic Report of the President, 1970,* p. 230.

The important point to be aware of here is that all of the inflation in the economy is not, as is often claimed, in those parts of the economy which are highly unionized, i.e. manufacturing. A good deal of it also exists in the area of services, i.e. hotels, laundries, beauty shops, advertising, repair services, entertainment, health services, etc.

The social change which was affecting the economy was a restiveness among various groups over their place in the economic "pecking order." Many groups such as firemen, policemen, teachers, sanitation workers, nurses, etc., began to see themselves as underpaid members of society and started to bargain for a better position on the economic ladder.

It was into this strange situation of a dwindling war and soft demand for goods, but high demand for services, accompanied by rising prices, and rising unemployment and discontent about one's income status, that the new economic "game plan" was born. It is the only historical instance of stabilization controls being placed on the economy while we were not at the same time trying to increase production for a war effort. One can perhaps argue convincingly that what had to be done in 1971 was the result of what had not been done in 1965. That is, if we had made a better effort to keep the economy in balance when we were deepening our involvement in the conflict in Vietnam, we would not have had to step in and freeze it some six years later. By 1971 the inflationary problem seemed to be largely a psychological one. People had learned to anticipate a certain rapid rise in prices (4 to 6 per cent per year) and thus were making adjustments which in turn made that expected rise a reality.

At least this was repeatedly the theme of the administration in imposing the freeze and then the controls. At a news conference following President Nixon's announcement of phase two of his plan, Secretary of the Treasury John B. Connally was asked: "What will have to be accomplished before the program will be terminated?" Secretary Connally responded:

> I think there will have to be a basic agreement and feeling throughout the country that the inflationary psychology has been halted and has been broken and that there is in this country a commitment to stability, to price stability, to wage stability, so that we can know what to expect in terms of the future.

> Now, I can't tell you what month and what day that we'll reach the point where we have, indeed, erased from the minds of people that they're living in a society where there's going to be nothing but continuing inflation.[1]

What effects this particular "game plan" will have will become apparent only with the passage of time. Some observers stated their belief in the days following the imposition of the freeze that we were attending at the deathbed of the free market system. Never again, they predicted, would the American economy be spared controls in a significant part of the traditionally free market place. The administration, however, was indicating that this was only a temporary interruption. It was created in order to allow that system to come back into balance again. Regardless of the statements on either side, it seems reasonable to expect some rather notable and enduring effects from the present controls. Indeed, there have been such effects in the past.

For sake of simplicity we will try to identify two levels of effect in this discussion. The first we will call structural effects to indicate that they operate at a very basic level; that is, that they affect the very shape of the economy. The other level we will refer to as production effects to indicate that they are not so concerned with *how* goods are produced (i.e. the structure of the system) but are more concerned with *what* particular goods are produced and *what quality* of goods are produced.

One structural effect which lasts at least for the duration of the freeze was pointed out by Professor Louis H. Haney after the experience of World War I. He says:

> Any price fixing is bad in the sense that some of the advantages of free competition are abandoned, the most notable loss being that of the "weeding out" process which attends competition. As a result, there is no guarantee that the margin of production will be economically determined.[2]

What he meant was that, as economists traditionally saw a free market economy, there was a price (i.e. the margin of production) beyond which it was unprofitable to produce a given item. Producers whose costs would not allow them to stay under that price simply had to go out of production, thus keeping production as a whole efficient. A perfect example of this is the lead mines at Dubuque. It was profitable to mine lead there until the work reached the water table. The added cost of pumping water to keep the shafts from flooding caused the mines to close even though much lead remains. Normally this margin of production would be determined by the free interplay of supply and demand in the market place. However, with fixed prices, especially when they are fixed by a formula which allows a percentage of profit over and above costs, there is no way for this normal "weeding out" to take place. The consequence, then, is that many producers stay in production who ordinarily would not. The structure of the economy is changed and, according to the theory, made less efficient.

Another structural effect which has been alleged to stem, at least in part, from the times of price control, especially World War I, is price-fixing among competitors. Associated with the World War I controls there was a strong growth spurt in several types of associations: labor organizations, trade organizations, and farm organizations. The war time

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1 *New York Times*, October 9, 1971; 16:4.

2 Excerpt from "Price Fixing in the United States During the War," in Julia E. Johnson, *Federal Price Control* (New York: H. W. Wilson Company, 1942), p. 53.

situation probably only provided a catalyst for the sort of growth that is more or less inevitable. Yet the growth of each of the associations has changed the shape of the economy. The question has been raised whether the trade organizations, in particular, in the years following government control of prices did not in fact carry on this same function privately by allowing competitors to discuss common pricing policy and thus to render the free market substantially less free. Normally this takes the form of "price leadership", i.e. a major manufacturer in the field announces a price rise and within a month most other manufacturers have followed suit. Occasionally, though, there is a kind of price-fixing scandal that hit the heavy electrical equipment industry in 1959-61.

While these are structural changes in the economy, there is no doubt that their final result ends up being felt in the pocketbook of the average consumer. One of the possible effects of the 1971 freeze-control period will indicate that even more clearly. This effect is called "a national incomes policy." It is not being too widely discussed in this country at the moment. Yet, it is definitely a part of the British scene in the aftermath of their freeze-control measures of 1966-67. As Lloyd Ulman indicates in the beginning of an article on British incomes policy, the underlying assumption of the program is:

> that the British system of collective bargaining has contributed importantly to the continuous wage inflation, the slow rate of economic growth, and the relative low levels of productivity that have been instrumental in producing the balance of payments crises which have plagued the country for the past 15 years. [3]

A national incomes policy, as we are using the term, then, is an attempt, which may take many differing forms, to change the structure of wage determination in a country's economy. As yet, the British have not settled on a suitable and well defined national incomes policy, but they are searching for one. Sweden, on the other hand, already has a highly centralized policy of this kind. However, they also still have inflation!

In 1965 the Labour government issued a White Paper which detailed to some extent their national plan for the British economy. Essential to this plan was "an effective incomes policy–with an overall wage- salary norm of 3 to 3.5 per cent a year." [4] In the beginning stages of the plan, however, the so called Nil Norm applied. This meant that no raises would be allowed, except in two instances. The first of these was in the case of the "lowest paid workers." The second was for reasons of productivity. Ulman expands on this latter exception:

> What has come to be known in Britain as "productivity bargaining" is potentially the more significant of the two exceptions to the Nil Norm, as least as far as the future development of collective bargaining is concerned. Under the productivity bargaining exception, wage increases would be allowed to groups of employees as compensation for identifiable contributions to increased productivity . . . [5]

An alternative to this plan would be to allow a certain productivity raise to all workers in the economy, or to all workers in selected segments of the economy, equal to some overall increase in productivity.

[3] "Under Severe Restraint: British Incomes Policy," *Industrial Relations*,6(May, 1967)214.
[4] *Ibid.*, p. 221.
[5] *Ibid.*, p. 248.

The point is that collective bargaining would no longer be based solely on the positions of relative strength between company and union. In a systematic way, depending on the particular plan, any proposed settlement would be judged against specified criteria by a review agency. After this it might be subject to modification if it did not meet those criteria. Such a program could be voluntary or compulsory. Britain's early experience with an incomes policy was something less than totally successful and would lead to the question of how long any such program could work effectively while still remaining on a voluntary basis.

The fundamental economic question, here and throughout this entire discussion seems to be: are the inflationary pressures generated in seeking both rapid economic growth and high employment so great that they can not be controlled by the free market as that structure has evolved in modern industrial economies? The rise of control concepts such as a national incomes policy would seem to be a reluctant admission that the answer to the question may have to be "yes." However, it may also be true that no alternative structure can be any more effective than the free market in controlling those pressures.

The second level of effect flowing from wage-price stabilization is what we have called production effects. These are more short-run effects related to what particular items get produced and to their quality.

One example of a production effect is that controlled prices can create a sort of artificiality in the market place that makes it very difficult to tell what the consumer is willing to buy and at what price. Therefore, production and demand get out of synchronization. The price set on shoes, for example, may be such that it allows a fairly handsome profit. Thus, producers are attracted to this line of production, especially since it does not call for highly expensive machinery. As a result, we end up temporarily with the production of many more shoes than the public really needs. The price of coats, on the other hand, may have been set lower and the profits there are not so great. As a consequence producers limit their production of coats and emphasize related lines where more money can be made. The result is a temporary, artificial scarcity in the number of coats available. A freely fluctuating price level is related to the machinery of production much like the thermostat is related to the furnace. It regulates the output. But to introduce price controls is something like introducing a time lag between the thermostat and the furnace, so that the temperature reading is delayed by a week or a month in reaching the furnace. Eventually the furnace will adjust to the colder winter weather, but not without a lot of discomfort to those who have to live in the house.

The 1971 situation is not at all likely to produce this effect, but in some longer control periods such as the Second World War this sort of effect was not only possible, but even intentional. Manipulation of the profit level was one way of attracting or discouraging production depending on whether the item was necessary or superfluous to the war effort.

Another substantial production effect is that of a virtual price increase without ever changing the actual price of the item on the store shelf. This is possible by lowering the quality of the item. A classic example of this came up during the price control controversy in World War II. The question was over the oil and wax treatments given to leather soles on shoes. Not to treat the soles meant that their wearability was reduced an average of 28%. At the time this meant that the untreated shoes were about $1 less valuable per pair than the treated shoes. As a consequence, to stop treating the soles while holding the price of shoes stable would accomplish three things: 1) decrease costs on the present pair of shoes and thus increase the immediate profit, 2) cause the customer to come back for new shoes more quickly and thus boost future sales at the increased profit level, and 3) in effect raise prices of shoes by selling a poorer quality shoe at the price previously charged for a better quality shoe.

Each of the effects which we have mentioned, even those which seem a bit of an excursion into economic theory, ultimately brings its burden to rest on the shoulders of the consumer and wage-earner. It was this point which led *Consumer Reports* to make the following recommendations shortly after the freeze was imposed:

> Without cooperation from the consuming public, price controls cannot be enforced for very long. Without consumer representation in day-to-day policy making, each industry may wind up writing its own price ticket, as happened during the Korean war. The following steps need to be taken:
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> CONSUMER ADVISORY COMMITTEES. These should be appointed to work at the national and regional levels with the Office of Emergency Preparedness [the agency which administered the freeze]. Their members should include only those with no axe but the public's to grind . . . Consumer interests should have a strong voice in every decision about whether to grant an exception to the wage-price freeze.
>
> CONSUMER EDUCATION. A special effort must be made to inform the public of how price controls function, and how to report illegally high prices.
>
> POSTED PRICES. Every store should be required to post its maximum prices in a conspicuous manner . . .
>
> QUALITY STABILIZATION. When price-controls stretched into the indefinite future, as during World War II and the Korean war, manufacturers found it profitable to reduce quality, thereby achieving a hidden price increase.
>
> Effective price-control machinery must be developed as soon as possible to defeat any built-in economic incentive for manufacturers to degrade the quality of goods. Otherwise, U.S. products will lose further ground in world markets, and consumers at home will be cheated. That calls for compulsory labeling of products with their quality graded whenever a grading scheme already is in voluntary use, as in many food products and basic commodities. Government purchase specifications could form the basis for defining the quality line in many other products.[6]

Wage-price stabilization then is a policy with many immediate effects in our daily lives. It is important as *Consumer Reports* indicated for the public to be educated about the way in which any such controls function and what effect they can have. This is the first step in achieving broad based public representation among the agencies which will do the controlling. As everybody from the President on down has indicated, the program can not work without cooperation from all segments of the country. One critically important factor in that cooperation may well be the presence in the decision making process of some representatives with no narrowly circumscribed self-interest role.

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[6] "Who Will Control the Price-Controlers?", XXXVI (October, 1971)614.

WAGE-PRICE CONTROLS

II. A New Approach to a Changed Situation

Discussion Questions

1. Discuss the two basic changes which are mentioned early in this section.

   A. There is a switch from consumption of goods to consumption of services.

   What has been your experience in this area?

   How much more (or less) do you spend on services now than in the past? Remember that you are buying a service when you buy insurance, visit the doctor, dentist, or hospital, pay any dues, mail a letter, get something repaired, go to a movie, get a haircut or permanent, pay your rent; in short, any time you spend money and receive something other than a piece of merchandise.

   Another area you might consider is the cost of the "service" included in your merchandise; the fact that it is pre-shrunk, pre-ironed, pre-cut, pre-seasoned, pre-cooked; or that it comes "complete with" spray top applicator, waxing agent, multiple attachments, gift wrapping, two year warranty and so forth. To what extent have these hidden services raised your costs even for merchandise items?

   Perhaps the most important point to discuss here is a slightly more technical one: to what extent is it possible to raise productivity in the service area? Traditionally we have offset inflation by granting raises in pay as more was produced for every hour worked. How possible is it to apply that principle to teachers, insurance agents, doctors, TV repairmen, entertainers, barbers, and other service people? If it does not apply well to the service professions, and they are becoming a larger and larger slice of the economy, what will offset the inflationary pressure of their raises in pay?

   B. There is an unwillingness to accept the traditional status relationships of the economic system.

   We mentioned firemen, policemen, teachers, sanitation workers, and nurses as groups affected by this element of social change. What other groups can you think of that are restive about their place on the economic ladder?

   How can any group move up without pushing someone else down? Samuel Gompers, president of the A.F. of L. at the turn of the century, once said that the goal of American labor was, "More." To what extent have all Americans taken Gompers' goal to heart? Discuss the implication for the economy of such a goal being held by most members of the work force.

2. Discuss the matter of an American national incomes policy. This concept has at least two levels of meaning. At its broadest level it means something like the whole overall plan for the economy, consisting of: 1) a policy statement about what the relationships within the economy ought to be, 2) some agency or agencies to monitor these relationships and keep them in alignment, 3) a variety of economic programs which are aimed at creating and supporting the desired relationships, and 4) a host of corrective fiscal and monetary

maneuvers. In general, we have used the term to mean something more narrow, a plan designed to control the structure of wages and salaries. Implied, but not mentioned directly, were all those other controls which would have to be added to make up the overall plan.

Discuss whether it would be possible to have an incomes policy for America in the narrow sense without having it in the broad sense as well. That is, would it be possible to control wages and salaries, but not to control and review prices, rents, interest, profits, etc.

Discuss to what extent you think it will be necessary to develop such a policy, in either sense, for the American economy. That is, is it only a temporary necessity in order to get a better balance, or will it be a permanent necessity in order to keep the balance.

Discuss whether such a program is workable on a voluntary basis, or whether it will have to be made compulsory in order to be successful. Here you may want to include in the discussion particular examples of the successes and/or failures of the Phase II Pay Board and Price Commission.

3. If it has not come up in an explicit way already, discuss the central question of whether it is possible to have both rapid economic growth and high employment without also having an unacceptable level of inflation?

4. Finally, discuss the matter of the quality of goods produced in the economy. That discussion should include at least the three areas mentioned in the recommendations of *Consumer Reports*:

   What sort of plan could be set up which would circumvent the built-in incentive for degrading the quality of goods?

   If the quality of American goods does drop what will that do to our place in world markets? And what repercussions will *that* have at home?

   What sorts of quality labeling can be used? How helpful to you has present quality labeling been? How profitable would it be to you if it were used more widely?