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PRICE AND WAGE CONTROL: AN INTERIM REPORT

REPORT

OF THE

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TOGETHER WITH

MINORITY VIEWS

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CONTENTS

PRICE AND WAGE CONTROL: AN INTERIM REPORT

MINORITY VIEWS ON THE NEW ECONOMIC POLICY

I. INTRODUCTION

In mid-April, the Joint Economic Committee conducted an interim evaluation of the Phase II price-wage-rent control program. Testimony was heard from the Chairman of the Price Commission, the Chairman of the Pay Board, the Vice Chairman of the Cost of Living Council, and also from labor and business leaders and consumer spokesmen. These are the only Congressional hearings held on the Economic Stabilization Act Amendments since their adoption last December. Since the announcement of the President's New Economic Policy last August 15, the Joint Economic Committee has now held a total of 23 days of hearings on these policies, not including our regular Annual Hearings in February. The membership of the Joint Economic Committee includes the Chairmen of both the House and the Senate Banking Committee, the Committees with legislative authority over the Stabilization Act. Our Committee thus feels it speaks forcefully and on the basis of thorough investigation. This report is intended to provide Congress with a summary of the main conclusions which have emerged from our hearings and of our recommendations.

Our main conclusions are as follows:

- **Inflation is not being effectively controlled.**
- **The control program is serving as a vehicle for economic injustice. The program serves to lock in existing economic inequities and, in some cases, to exacerbate them.**
- **Excessive secrecy surrounding the operation of the program is not only destroying public confidence in the program itself, but is contributing to a general public attitude of mistrust of Government.**

In general, we conclude that the cure is worse than the disease. As inequitable and economically damaging as inflation may be, the policies that have been followed by the present Administration to bring it under control are even more damaging. For 2½ years, the Administration followed a policy of restricting the growth of output, and therefore of employment, in order to control inflation. Despite the enormous human costs of the unemployment thus created, this policy did not succeed in controlling inflation. Now the economy has been subjected to nine months of sweeping, mandatory price, wage, and rent controls. For all the irritation and inequity associated with these controls, little apparent progress has been made against either inflation or unemployment. In April, the unemployment rate was still at the 6 percent mark on which it has been stuck for 17 long months. The inflation rate in the first quarter was also 6 percent. This was higher than at any time during 1971.

NOTE.—Representative Griffiths states: "I have no objection to the publication of this report but, by reason of the fact that I was unable to participate fully in the hearings and deliberations of the Committee on this matter, I must refrain from endorsing specific recommendations."

In its Annual Report last March, the Committee recommended immediate decontrol of most of the economy. The basis for this recommendation was our belief that removal of the facade of complete control would permit available program resources to be concentrated on effectively controlling the real sources of current inflation. The principal source of the current cost-push inflation is the substantial monopoly pricing power of big business and strong unions. There are also a few sectors, such as the health care and construction industries, where unusual supply or demand conditions are pushing up prices.

To say that most areas of the economy should be decontrolled at once is not to say that the control program should be abandoned. Quite the contrary. We are saying that the control program should be made effective. This can best be done by limiting the controls to the true areas of monopoly power and of serious supply shortage. This would mean that many Tier I firms and a few Tier II firms would remain under the controls. The health care industry and the construction industry should also remain under control. The rest of the economy should remain subject to voluntary guidelines, and these guidelines should be backed up by strong Presidential leadership.

Of course, the controls should not remain forever. Once true progress has been made toward restoring reasonable price stability, the controls should be replaced by voluntary guidelines.

The entire effort to directly influence wages and prices should be accompanied, beginning immediately, by a vigorous program of structural economic reforms. The present failure to take action to increase the competitiveness of the economy by removing import quotas, tightening government procurement practices, strengthening anti-trust enforcement, and making other similar reforms is a major explanation of why inflation continues.[1]

> **Our recent investigation has provided additional evidence that a sweeping program of controls encompassing almost the entire economy is a costly mistake. Controls should be removed immediately from all areas of the economy where a reasonable degree of competition prevails, except for the few areas where there is evidence that current supplies are seriously inadequate to meet existing demand. Controls should be maintained for the present on those areas of the economy characterized by a high degree of monopoly or oligopoly power. A meaningful program of structural reforms designed to make the economy more competitive should be undertaken at once.**

We commend the recent move to exempt firms employing fewer than 60 persons, but our hearings uncovered no evidence that the Administration plans to move rapidly in the direction of further decontrol, although this approach has been recommended not only by this Committee, but by control program staff and consultants. Since we do not anticipate that progress toward decontrol will be as rapid as we would like, this report contains not only specific recommendations for beginning the process of decontrol, but also recommendations

[1] Senator Ribicoff states: "The reference to removal of import quotas should be clarified to limit removal only to those quotas which cannot be justified as required to provide transitional protection to industries during an adjustment period."

for making the controls that remain as equitable and effective as possible.

Summary of Recommendations

A summary of our principal recommendations follows. The recommendations have been grouped under the three headings: public confidence, equity, and effectiveness. These three evaluative criteria obviously overlap, for unless a program is equitable and deserving of public confidence, it will not be effective for very long.

Public Confidence

- Both the Price Commission and the Pay Board should hold more public hearings. In refusing to hold even a single hearing on a specific requested price increase, the Price Commission has failed to comply with section 207(c) of the Economic Stabilization Act Amendments. If necessary, Congress must force the Price Commission into compliance by enacting additional more specific legislation. The Pay Board has held public hearings on a few cases. There should be more. In addition, the Pay Board should hold hearings reviewing general policy questions prior to the anticipated recodification of the Pay Board regulations.
- The Price Commission should make publicly available all data submitted to it except that which can legitimately be classified as a "trade secret." Congress should provide such legislative authority and directive as may be necessary.
- Consumers must be given meaningful direct access to the Price Commission. The procedure of filing all consumer complaints with local Internal Revenue offices, which are not prepared to handle this specialized work and which are fully occupied with other duties, is not proving satisfactory. Similarly, Category III employers and employee groups, if they remain under the controls at all, should have direct access to the Pay Board. Again, the Internal Revenue Service is not a satisfactory intermediary.

Equity

- It should be frankly recognized that a program to control wages and prices is, by definition, a program to control the distribution of real income. The distribution effects are the heart of the program. The current program appears to lock in and put the stamp of approval upon many existing economic inequities. The Administration argument that this "is a program to control inflation, not to correct inequity" is specious and irrelevant.
- The definition of poverty level wages as $1.90 per hour or less does not meet the intent of the Congress that those in poverty should be excluded from wage control. Many of the working poor remain subject to wage control. They should be exempted. If necessary, Congress should mandate this through additional, more specific legislation.
- Executive compensation must be brought under strict control. Executives should not be permitted a choice of the best of the past three years as the base for calculating increases. No executive who earned $200,000 or more in 1971 (including the value of bonuses, stock options, and other such incentive compensation) should receive further increase in compensation of any sort for the duration of the program.

Executives who earned $200,000 a year or more in 1971 and who received pay increases exceeding 10 percent in 1971 should have their total 1972 compensation reduced so that it does not exceed the 1970 level by more than 10 percent.

- The rent control program must either be abolished or totally revised. Regulations which set current increases in line with whatever increases were being made just prior to the freeze do not control inflation but insure its continuation. The program has the effect of putting a stamp of approval on all the economic distortions from which the rental housing industry currently suffers.
- Every effort must be made to see that the consumer, the smaller employer, and nonunion workers have full access to the Pay Board and the Price Commission and that regulations are drawn up so as to be easily understood by those without special training, so that systematic advantage does not accrue to those who are best able to hire specialized legal and accounting assistance or who have had long experience in dealing with the Government.

Effectiveness

- Productivity improvement is essential to the reduction of inflation. Productivity gains will be greatest in a healthy, full-employment economy in which workers do not feel their jobs are threatened by technological advance. Contrary to the currently widespread fear that full employment and reasonable price stability may be inconsistent, we believe that in present circumstances, a rapid return to full employment will have a salutary effect on inflation.
- Many of the most effective things the Government can do to control inflation lie outside the authority of the Pay Board and the Price Commission. The continuation of such government contributions to inflation as wasteful procurement practices, inadequate anti-trust enforcement, weak regulatory practices, and import quotas make it difficult to believe that the Government is truly serious about controlling inflation.
- A more limited control program would be a more effective program. The recent exemption of all firms employing fewer than 60 workers is a step in this direction. Controls should be removed immediately from all areas of the economy where a reasonable degree of competition prevails, except for the few areas of seriously inadequate supplies. If this is not done immediately then, at the very least, all firms with fewer than 1,000 workers, that is, all "Category III" firms, should be exempted.[2] We would emphatically oppose any move to extend the scope of the program, such as for example, the control of raw agricultural prices.
- State and local government employees should be exempt from the pay controls.

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[2] Senator Humphrey states: "While I support the general thrust of the Joint Economic Committee's interim report, I want to stress my strong belief that any system of economic controls must be fair, just, and evenhanded.

"I do have reservations concerning some of the recommendations of this report such as the elimination of all category III firms from controls and the statement concerning the impact of import controls on inflation.

"In any control system, economic effectiveness and social equity are required to achieve public confidence. This means using all the resources at our command to investigate complaints, to prosecute violators, and to make the control system work for the American people rather than against them."

• More effective enforcement of the profit margin regulation is required if it is to be a meaningful part of the enforcement machinery. Specifically: adequate staff must be assigned to reviewing the quarterly reports of *all* the 3,000 corporations which are required to file these reports; when violations are identified, the amount of the excess profit and of the required price reduction, refund, or fine must be made public knowledge; additional legal authority should be provided for payment of triple damage fines into the Federal treasury in cases where complete refunds and price roll-backs are not feasible.

• Refunds to consumers should be made to compensate for the overcharges resulting from Price Commission acceptance of individual firm's estimates of their own productivity up until the end of April. Where refunds are not feasible, equivalent payment should be made to the Treasury.

• No addition to the profit margin should be allowed when costs increase. The Price Commission regulation which permits the customary profit margin to be added to allowable cost increases should be changed.[3]

[3] Senator Bentsen does not concur with this recommendation. Limiting price increases to a dollar for dollar pass-through of allowable cost would cause profit margins to shrink impeding the already slow economic recovery we are experiencing. Profits are being limited to an average of two of the last three years. Since two of those years were a recession, there is a sufficiently stiff control during a recovery period when margins historically increase.

77-815—72——2

II. INFLATION IS NOT BEING EFFECTIVELY CONTROLLED

Both the Chairman of the Price Commission and the Chairman of the Council of Economic Advisers (who is also Vice Chairman of the Cost of Living Council) stated at our hearings that they expected the Administration's goal of reducing the inflation rate to between 2 and 3 percent by the end of the year to be realized. However, the available statistical evidence appears to contradict this conclusion. So does the current rather frantic effort to tighten Price Commission regulations. The Administration's hopes for significantly reducing inflation are not being realized. The goals are not being met. Rosy statements to the contrary will not conceal this fact from the consumer.

Table 1 shows the annual rate of increase in some of the principal price indices during the 6 months prior to the freeze and during the 5 months of Phase II. There has been some improvement in the Consumer Price Index, but the Wholesale Price Index has worsened, indicating that large future price increases are still to be anticipated at the consumer level. As can be seen in Table 1, these wholesale price increases are by no means limited to foods.

The various time lags involved in the collection of price data and the many erratic factors which influence short-run price changes make it impossible to draw final conclusions at this point with respect to price trends. However, the evidence so far available is certainly discouraging. The recent behavior of the Gross National Product deflator, the most comprehensive measure of price change, reinforces this view.

TABLE 1.—SELECTED MEASURES OF PRICE CHANGES BEFORE AND DURING THE PRICE-WAGE-RENT STABILIZATION PROGRAM

[Percent change, seasonally adjusted annual rate]

	6 months prior to Phase I, February to August 1971	Phase II, November 1971 to April 1972
Consumer price index:		
All items	4.1	[1] 3.7
Food	5.4	[1] 7.4
Commodities less food	3.7	[1] 2.1
Services [2]	4.5	[1] 3.7
Wholesale price index:		
All commodities	4.7	5.1
Industrials	5.4	4.1
Consumer foods [3]	4.6	5.0
Consumer commodities less food	1.6	3.3
Producer finished goods	3.5	4.8

[1] Data through March 1972.
[2] Not seasonally adjusted; data contain almost no seasonal movements.
[3] Raw agricultural products are exempt from the price controls.

Source: Bureau of Labor Statistics.

As shown in Table 2, the Gross National Product deflator rose at an annual rate of 6 percent in the 1st quarter. Even when allowance is made for the anticipated post-freeze "bulge," this still indicates lack of progress against inflation. A similar pattern appears in the alternative measures of price change also shown in Table 2. Of the four alternatives only the chain price index for private GNP shows an inflation rate which is below the second quarter of 1971, the last complete pre-freeze quarter, and that drop is very slight.

Our view that the "bulge" does not fully explain these disappointing statistics was confirmed in a recent speech by Dr. Robert Lanzilotti, a member of the Price Commission, in which he said:

> Regrettably, continuing bulges in the WPI and the CPI can no longer be regarded as temporary aberrations or all due to the post-freeze bulge.

TABLE 2.—GROSS NATIONAL PRODUCT DEFLATOR AND SELECTED ALTERNATIVE MEASURES OF PRICE CHANGE

[Percent change, seasonally adjusted annual rate, 1971:1 to 1972:1]

	1971				1972
	I	II	III	IV	I
GNP implicit price deflator	5.4	4.2	2.5	1.7	6.0
GNP chain price index	6.4	4.8	3.3	2.2	5.6
Private GNP implicit price deflator	4.5	4.3	2.5	1.2	5.1
Private GNP chain price index	5.5	4.8	3.4	1.7	4.4

Note: The implicit price deflator measures the difference in GNP between current prices and 1958 prices, with the current period weights used as a base. Since the weights shift from quarter to quarter, comparisons between 2 quarters may reflect changes in the composition of GNP as well as price changes.

The chain weight deflator also measures the difference between current and 1958 prices, but uses a fixed wieght so that the effect of changes in the composition of GNP are removed from price changes. For example, when 2 quarters are being compared, the weights of the 1st quarter are used in computing the index for both quarters.

The private GNP deflators exclude government (Federal, State, and local) purchases of goods and services.

Source: Bureau of Economic Analysis, Department of Commerce.

There are at least 4 basic reasons why prices have continued to rise so rapidly. First, productivity gains have been inadequate, second, no program of structural reform to make the economy more competitive has been undertaken, third, the control program attempts to cover too much of the economy, and fourth, the price control regulations are too permissive both in their design and in their enforcement.

THE NEED FOR PRODUCTIVITY IMPROVEMENT

Productivity gains in recent quarters have been only moderate compared to previous periods of recovery from a recession. Real output growth has not been sufficient to induce the rapid short-run productivity gains typically associated with recovery periods. Productivity gains are the key to holding down costs, and a more rapid growth of real output is the key to these productivity gains.

Meaningful productivity improvement in the longer run requires worker cooperation. If workers fear their jobs are threatened by the introduction of new machinery or new procedures, they will naturally resist these changes. Similarly, expansion of imports from abroad will be resisted when domestic jobs are threatened. The changes in productive techniques and in the composition of output which are essential to productivity gains are realistically possible only in a full-employment economy in which workers feel confident a new job is available if the old one disappears.

Productivity improvement is essential to the reduction of inflation. Productivity gains will be greatest in a healthy, full-employment economy in which workers do not feel their jobs are threatened by technological advance. Contrary to the currently widespread fear that full employment and reasonable price stability may be inconsistent, we believe that in present circumstances, a rapid return to full employment will have a salutary effect on inflation.

The Need for a More Competitive Economy

Many of the anti-inflationary actions the Government could and should take lie outside the direct authority of the Price Commission and the Pay Board. A serious effort to improve the structure of the economy by reforming Federal procurement practices, improving regulatory procedures, removing import quotas, and more vigorously enforcing the anti-trust laws would do far more to control inflation than the Phase II control program can possibly hope to do. Many of these reforms could be accomplished by Executive order, others would require congressional action. Neither Congress nor the administration has shown the necessary willingness to thus attack the important structural causes of inflation.

Many of the most effective things the Government can do to control inflation lie outside the authority of the Pay Board and the Price Commission. The continuation of such government contributions to inflation as wasteful procurement practices, weak regulatory practices, inadequate anti-trust enforcement, and import quotas make it difficult to believe that the Government is truly serious about controlling inflation.

More Limited Controls Would Be More Effective

The control program covers, or pretends to cover, far too much of the economy. A few hundred Price Commission employees, aided by a few thousand Internal Revenue agents, cannot conceivably monitor millions of individual price changes. Furthermore, there is no good reason why they should attempt to do so. Competition functions well as a price regulator for most of the economy. With unemployment close to 6 percent and with manufacturing plants operating at only 75 percent of capacity, the danger of generalized excess demand forcing prices up is remote.

This fact of life was recently acknowledged by the Cost of Living Council when it acted to exempt from the control program firms employing 60 persons or less. The Cost of Living Council is to be commended for this step. As stated in Chapter I, we believe controls should be removed immediately from all areas of the economy where a reasonable degree of competition prevails, except for the few areas of serious supply shortage. It is only because of the Administration's apparent unwillingness to take this step that we are making alternative, more limited, recommendations designed to move part way in the same direction. One such step would be to exempt firms with fewer than 1,000 employees. If all firms with fewer than 1,000 employees (essentially all of Category III firms as classified by the Pay Board) were exempted, the staff resources of the control program would immediately be freed to concentrate on effectively enforcing the controls on larger firms, some of which do have the substantial monopoly power which is a principal source of the present inflation.

The market power enjoyed by large monopolistic or oligopolistic firms enables them to set prices which are higher than competitive conditions would dictate. This imparts an inflationary bias to the economy, and a legitimate argument can be made for public policies directly designed to control this source of inflation. These monopolistic areas of the economy should remain under control for the present, but once some real progress has been made toward restoring reasonable price stability, the controls should be replaced by voluntary guidelines.

There are a few sectors of the economy where unusual conditions have created a situation in which demand exceeds current supplies. Health care is the leading example at the present time. The solution to such a situation lies in policies to expand supplies. Until supplies can be enlarged, price controls may be temporarily necessary. It should be noted that the recent exemption of small firms did not apply to the health care industry nor to construction, for which a special program exists.

One of the gravest mistakes which could be made at the present time would be to expand the scope of the control program. It has been widely suggested that raw agricultural products should be brought under control. The outraged reaction of consumers to recent food price increases is understandable, but the solution does not lie in further controls. To the extent that higher food prices are resulting from increased monopoly profits at any stage of food processing, these firms should be subjected to the same controls as other big businesses. Efforts to break up concentrations of monopoly power through antitrust action would also be appropriate.

It is a delusion, however, to suppose that higher food prices necessarily imply excess profits by some elusive middleman. To the extent that higher grocery prices are the result of higher prices to the individual farmer, the consumer should be made aware of the farmers' need for an income more nearly equal to that of other groups in society and also of the fluctuating nature of farm prices. Available evidence suggests that the control program may be having the unfortunate effect of accentuating cyclical fluctuations in food prices at the retail level. Traditionally, the retailer absorbs part of the cost when farm prices rise and offsets this by widening the retail profit margin when farm prices fall. This has not happened during Phase II. Contrary to their usual practice, retailers increased their margin when beef prices rose this past winter. It remains to be seen whether margins will be correspondingly reduced now that beef prices to the farmer are declining. This untypical retail pricing pattern may be due, perhaps, to the retailer's fear that had he let his profit margin shrink when farm prices were rising, he would not later have been allowed to let it widen. The control regulations should be examined to see if they are indeed producing this perverse effect on retail meat prices.

It should also be pointed out that present agricultural policies are designed to keep farm prices high, not low. In general, these policies are designed to restrict supply. If prices of particular farm commodities do rise unduly because of true supply shortages, the sensible policy response is not controls but relaxation of such present price maintenance policies as import quotas, acreage restrictions, and price supports.

A more limited control program would be a more effective program. The recent exemption of all firms employing fewer than 60 workers is a step in this direction. We repeat our recommendation made in Chapter I that most of the economy be decontrolled at once. If this is not done immediately, then at the very least, all firms with fewer than 1,000 workers, that is all "Category III" firms, should be exempted. We would emphatically oppose any move to extend the scope of the program, such as, for example, the control of raw agricultural prices.

Permissiveness of Price Control Regulations

The fourth reason why price control has not been effective is that the program, although too sweeping in its scope, has been unduly permissive both in the design and the enforcement of its regulations. Two examples of the weak regulations are the acceptance of a firm's own estimate of its productivity, a procedure which has only recently been abandoned, and the allowance of a full profit mark-up on all allowable cost increases, a procedure which is still being followed. An example of a regulation which is not being, and realistically cannot be, adequately enforced is the regulation governing profit margins.

Profit Mark-Up on Costs

The Price Commission regulations provide that when a price increase is permitted to cover a cost increase, the price increase can exceed the cost increase by the amount of the firm's customary percentage mark-up. This means that firms are not being asked to absorb any of the costs of reducing inflation. It means that firms have little incentive to control costs, since rising costs will also mean rising profits.

We believe this regulation is in direct violation of the clear intent of the Economic Stabilization Act. For example, Section 203(b)(5) of the Act requires that regulations issued under the Stabilization Program "call for generally comparable sacrifices by business and labor as well as other segments of the economy." The Pay Board regulations have established a 5.5 percent guideline for pay increases irrespective of increases in the cost of living. Workers are thus being asked to forego wage increases which might be fully justified in terms of previous increases in productivity and the cost of living. At the same time, a business is not only allowed to raise its prices to recover the full amount of its increased costs, it is also allowed to earn its customary profit margin on those increased costs. This approach can hardly meet the "comparable sacrifice" requirement imposed by the Economic Stabilization Act.

This regulation was originally adopted by a 4 to 3 vote of the 7-member Price Commission. It is an issue which should be reconsidered immediately. Dr. Robert Lanzilotti, a Price Commission member, said in a recent speech:

> We may be obliged to limit price increases to a strict dollar and cents pass-through of increased costs at all levels: manufacturers, wholesalers, and retailers.
>
> The logic of this approach is *first, indirect* unit costs can be expected to decrease as volume increases.
>
> *Second,* a moderate squeeze would be placed on the margin over *direct* unit costs so that business *shares with labor* the squeeze that must come as the rate of price increases slows down.

We concur.

> **No addition to the profit margin should be allowed when costs increase. The rule which permits the customary profit margin to be added to allowable cost increases should be changed.**[1]

Productivity Measurement

Accurate measurement of productivity changes is crucial to effective administration of a price control program which makes price adjustments based on changes in production costs. For example, if wages rise 5 percent, and output per man hour (labor productivity) also rises 5 percent, unit labor costs are unchanged. If output per man hour rises only 2 percent, the same 5 percent wage increase would cause unit labor costs to rise 3 percent, and this could constitute legitimate grounds for a price increase.

Productivity measurement is difficult and relatively few firms have had experience with making precise measurements of productivity change. Yet the Price Commission initially adopted a regulation which required firms to estimate their own productivity and based allowable price increases on these measurements. In addition to the very serious measurement problem, this regulation weakened incentives for firms to improve their productivity, since less productivity could be offset by a larger price increase. Finally, the regulation gave firms every incentive to produce as low an estimate of their productivity gains as could possibly be justified.

Experience with this regulation showed that 95 percent of firms estimated their productivity gains to be less than the industry-wide average as officially estimated by the Bureau of Labor Statistics. It can only be concluded that many, many firms, either deliberately or inadvertently, were underestimating their productivity gains. At the end of April this regulation was changed. The Price Commission is now making its own estimates of average productivity gains for each industry, based on data supplied by the Bureau of Labor Statistics. We support this change. It should be recognized, however, that, for many industries, these estimates must be based on extremely limited data. Until better data can be developed, lack of accurate knowledge of productivity changes cannot help but be a fundamental weakness of the price control program.

The unnecessarily large price increases allowed under the former rule on productivity measurement cost consumers close to $450 million. This money should be returned to the consumers through refunds or price roll-backs. In cases where refunds or roll-backs are not feasible, the equivalent amount should be paid into the Federal Treasury. If such action would require additional legislative authority, it should be provided.

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[1] See note by Senator Bentsen on p. 5.

Refunds to consumers should be made to compensate for the overcharges resulting from Price Commission acceptance, up until the end of April, of individual firms' estimates of their own productivity. Where refunds are not feasible, equivalent payment should be made to the Treasury.

Enforcement of Profit Margin Regulations

The Price Commission regulations call for profit as a percent of sales to be no higher than the average of the two highest of the last three fiscal years prior to the August 15 freeze. For most firms, this allows a considerable increase in profit margins above the cyclically low levels of 1970 and early 1971. It is basically a more liberal standard than the cost pass through rule used to justify individual price increases. The fact that so many firms are apparently reaching or exceeding the profit ceiling clearly demonstrates the weakness and ineffectiveness of price regulation to date.

The Commission maintains that violations of the profit regulation will be corrected through refunds, price roll-backs, or payments into the U.S. Treasury. This regulation was described by the Executive Director of the Cost of Living Council as "the fundamental control on prices." Regulations which prohibit excess profits, and preferably do so by reducing prices, are indeed fundamental to the price control effort. However, the present regulations are so impractical and so unlikely to be effectively enforced that they will more likely prove to be a fundamental defect than a fundamental control.

Presumably control is effected on the basis of the quarterly financial reports to the Commission required of the roughly 3,000 Tier I and Tier II firms. As of mid-April, when Chairman Grayson appeared before our Committee, only 416 quarterly reports had been filed. Of these, only 252 had been examined, and half of those were found to be incomplete or inaccurate. Of the 129 properly filled out, 51 were in excess of their base period margin. Of those, only 5 had responded to the Commission notification of excess profits and only 2 had been issued price reduction orders.

Subsequent to our hearings additional firms have filed reports and a few additional price reduction orders have been issued. However, as of this writing, much confusion appears to exist regarding even the simple question of which firms have and have not filed the required reports. Since, judging from the first reports examined, as many as 40 percent of Tier I and Tier II firms may be in violation of the profit regulation, failure to thoroughly and systematically review all these reports would be a fatal weakness of the control system.

But how can this flood of reports be carefully examined by professional staff personnel? At best, quarterly financial information are preliminary estimates, subject to later revision. The comparability with prior years or quarterly periods is open to serious question. Indeed, it would not be until a year from now, when the firms will have been reporting on a presumably consistent basis, that any evaluation can be made of whether price increases granted did or did not meet the profit margin test. Even this will be possible only if the reporting firms are made to conform their accounts in the base period.

Those experts who have worked on such quarterly data also point to the problem of seasonality. Many firms just have not worked with refined seasonally adjusted data, so that it will be well-nigh impossible to make intra-year comparison.

Any meaningful attempt to enforce the profit margin rule will require a large staff of experts to carefully review reports and obtain audits where necessary. Obtaining such staff is essential if this aspect of the program is to continue. Otherwise, the regulation will be enforced in only a random way—against some firms but not others. Such inequity should not be tolerated.

More effective enforcement of the profit margin regulation is required if it is to be a meaningful part of the enforcement machinery. Specifically: adequate staff must be assigned to reviewing the quarterly reports of *all* the 3,000 corporations which are required to file these reports; when violations are identified, the amount of the excess profit and of the required price reduction, refund, or fine must be made public knowledge; additional legal authority should be provided for payment of triple damage fines into the Federal treasury in cases where incomplete refunds and price roll-backs are not feasible.

The Effectiveness of Wage Control

As discussed above, the controls appear to have had little effect on the rate of price inflation. The statistical evidence relating to wage control is even more difficult to assess than that on prices. As shown in Table 3, major wage settlements reached in the 1st quarter provide for smaller increases than those reached in 1971, especially during the first year of the contracts. First year increases are substantially below any quarter since the first quarter of 1969. However, the average settlement remained somewhat in excess of the Pay Board guidelines. The number of workers covered by these 1st quarter statistics is relatively small, partly because 1972 is a light year for collective bargaining and partly because contracts not yet approved by the Pay Board are not included. At least one more quarter's statistics will be required before even a tentative conclusion about the effectiveness of wage control can be reached.

77-815—72——3

TABLE 3.—PERCENTAGE CHANGES IN WAGES AND BENEFITS, MAJOR COLLECTIVE BARGAINING SETTLEMENTS

[Average yearly percent change in decisions during quarter]

	1969				1970				1971				1972
	I	II	III	IV	I	II	III	IV	I	II	III	IV	I[1]
Wage rates only:[2]													
Annual rate of increase over life of contract: all industries	6.1	8.7	7.8	7.5	7.8	10.4	9.7	7.3	8.4	7.8	7.8	8.5	7.8
1st-year change, all industries	7.6	9.8	9.9	10.3	10.1	14.1	12.6	9.6	9.9	10.2	14.0	10.5	8.4
Wages and benefits combined:[3]													
Annual rate of increase over life of contract: all industries	6.7	10.3	7.8	9.0	8.0	10.9	11.6	7.5	8.5	8.3	8.4	11.9	8.1
1st-year change, all industries	8.9	12.9	11.6	13.3	11.3	16.3	16.0	10.6	10.5	10.4	15.0	14.7	9.3

[1] Includes only settlements approved by the Pay Board or the Construction Industry Stabilization Committee during the 1st quarter.

[2] Applies to private industry settlements covering 1,000 workers or more.

[3] Applies to private industry settlements covering 5,000 workers or more.

Source: Bureau of Labor Statistics

If the evidence so far available does not permit firm conclusions, it does at least suggest the possibility that wages are being more effectively controlled than prices. The dissatisfaction and disillusionment of labor with the control program, coupled with the apparent enthusiasm of business groups such as the National Association of Manufacturers, may also be an indication that wage control is having more bite than price control. That this could be a potential danger was apparent at the initiation of the program. The number of wage settlements which must be reviewed is far smaller than the number of price changes. Furthermore, the employer has a natural interest in helping to enforce the wage controls. Consider the injustice: assume wages are controlled effectively; then assume at the same time prices are not effectively controlled. What is the result? The wage earner is hit and hit hard. The prices he has to pay are out of control, but his wage increases are held down. Is this fair?

Another disturbing aspect of the wage control program is the range of settlements which go into the average. Settlements approved have ranged from 15 percent increases granted some powerful unions to very minimal amounts in other less publicized cases. As discussed further in Chapter III, this is one of the ways in which the control program may be acting to intensify existing inequities.[2]

Exemption of State and Local Employees

One necessity for effective wage control is a program sufficiently flexible to accommodate the widely different institutional arrangements found in different sectors of the economy. This has been recognized in the case of construction. The Construction Industry Stabilization Committee operates in de facto independence of the Pay Board. While construction settlements remain high relative to the rest of the economy, they have been reduced significantly since this Committee was set up. Labor has continued to participate actively on the Construction Industry Stabilization Committee.

State and local government employees have not received the same recognition of the existence of a specialized situation. The typical collective bargaining procedures of city employees differ from those of industrial unions. Although a "Committee on State and Local Government Cooperation" has been established, it appears to have done little and the few recommendations it has made appear to have been ignored by the Pay Board.

Employees of small governmental units were exempted from the control program under the recent change exempting employers of 60 or fewer persons. We believe all State and local employees should be exempted. It is the responsibility of local officials to develop their own procedures for bargaining effectively with their employees. This is an essential component of the exercise of local power and local responsibility.

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[2] Senator Bentsen notes that organized employees and large business units have productivity figures available which may be used to justify wage increases in excess of the 5.5 percent guideline while non-union employees of small firms seldom have such information available even when significant productivity increases have been experienced. The only practical means of removing such an inequity is the Committees recommendations for enlarging the small business exemption.

Pay Board regulations are not well suited to the bargaining procedures used by State and local government employees. State and local employees should be exempt from the controls.

III. THE CONTROL PROGRAM IS A VEHICLE FOR ECONOMIC INJUSTICE

The economy is riddled with gross inequalities of income and wealth and with special benefits available only to the rich and powerful. The control program did not create these inequalities and injustices, but on the other hand, it is doing nothing to correct them and much to preserve and exacerbate them. The Administration has replied to criticism of this nature by stating that this is a program to "control inflation" and that this is enough to try to do without trying to correct other economic ills. For example, the Chairman of the Council of Economic Advisers said at our hearings:

> My own view about the price and wage control system is that it was not established to make a radical change in the distribution of income in the United States. Congress has plenty of other legislation for doing that. So this program has plenty of other problems without that one.

This reply shows an apparent lack of comprehension of the fundamental nature of any type of "incomes" policy. Price and wage controls, voluntary guidelines, and all other varieties of conscious anti-inflationary policy are policies directly designed to influence or control income distribution either by keeping the distribution unchanged or by shifting it systematically. Indeed, the main argument for attempting to control inflation at all rests on the effects which inflation itself has on income distribution.

Inflation is widely regarded as "unfair" in its effects on income distribution. All too little is known about the distributional effects of inflation, and much more research needs to be done in this area. One group which obviously is hurt by inflation is older persons living on fixed retirement income. Another presumed inequity of inflation is that those most likely to be hurt are persons who are financially unsophisticated and do not know how to "hedge" against inflation. These distributional aspects of inflation are serious social costs. Nonetheless, any objective evaluation of the costs of inflation must compare these costs to the costs of the measures adopted to control inflation.

For 2½ years, the Administration "fought inflation" by restricting output and allowing unemployment to rise. Unemployment has now remained near 6 percent for 17 long months. Not only are the costs of this unemployment enormous, but they are most unevenly distributed. One group of Americans suffers unemployment, parttime employment, and increased poverty while others go virtually untouched by the recession. Even if high unemployment were effective in reducing inflation, which it is not, the inequity of this policy is so great that it should never again be regarded as an acceptable policy alternative.

Nine months ago, the Administration turned to a policy of direct controls to counter continuing inflation. If this policy switch had been accompanied by really effective measures to rapidly reduce unemployment, it would have had more merit. Instead, unemployment has remained high and the controls have placed new difficulties in the way of correcting economic inequities.

The remainder of this chapter identifies some of the specific inequities which are being reinforced by the control program. In our judgment, the equity costs of the program are so great that, unless radical changes can be made, the social costs of controls will far exceed the social costs of the inflation they are designed to eliminate.

> **It should be frankly recognized that a program to control wages and prices is, by definition, a program to control the distribution of real income. The distributional effects are the heart of the program. The current program appears to lock in and put the stamp of approval upon many existing economic inequities. The Administration argument that this "is a program to control inflation, not to correct inequity" is specious and irrelevant.**

What Is Poverty?

The Economic Stabilization Act contains the following provision:

> Notwithstanding any other provisions of this title, this title shall be implemented in such a manner that wage increases to any individual whose earnings are substandard or who is a member of the working poor shall not be limited in any manner, until such time as his earnings are no longer substandard or he is no longer a member of the working poor.

The Cost of Living Council has removed the question of interpretation of this provision from Pay Board consideration and ruled that wages below $1.90 are exempt from control. For a person employed full time all year, this would be an annual wage of only $3,950. Furthermore, vast numbers of lower wage workers are unable to find full-time, year-round employment. The $1.90 ruling does not meet the intent of Congress that all working poor were to be exempt from the program. Nor does the interference of the Cost of Living Council fulfill the President's pledge to give the Pay Board a high degree of autonomy. That the Pay Board was in disagreement with the figure set by the Cost of Living Council is clear from their resolution adopted January 19, which stated:

> It is the sense of the Pay Board that the $1.90 figure recommended by the Cost of Living Council is inconsistent with the purposes of the Amendments to the Economic Stabilization Act and supporting analysis.

The public members of the Pay Board had suggested a figure of $2.20 per hour and the labor members had suggested $3.50. For a full-time, year-round worker, $3.50 per hour would be an annual wage of $7,000. As estimated by the Bureau of Labor Statistics, a minimum adequate standard of living for a family of four now requires an annual income of $7,200. This illustrates how very far $1.90 an hour is from representing an adequate exemption of the working poor.

The general principle underlying a constant percentage guideline on wage increases raises serious equity considerations. 5.5 percent of $1 .90 per hour is 11¢; 5.5 percent of $10 an hour is 55¢. Such uniform perc ent increases in wages preserve existing percent differentials, but they produce widening gaps in absolute terms. Recognition of this fact underlies our insistence that a broader exemption for lower wage workers is essential.

The definition of poverty level wages as $1.90 per hour or less does not meet the intent of the Congress that those in poverty should be excluded from wage control. Many of the working poor remain subject to wage control. They should be exempted. If necessary, Congress should mandate this through additional, more specific legislation.

Executive Compensation

The problem with percent guidelines becomes far more dramatic in the case of executive compensation. A 5.5 percent raise for a worker earning $4,000 per year is $220; for an executive earning $200,000, it is $11,000, or 50 times as much. According to recent surveys, top officials of large corporations received compensation increases averaging between 9 and 14 percent in 1971, a year in which other Americans were asked to submit to a wage freeze followed by a complex control program. It is difficult to see why executives already earning $200,000 and more should receive any further compensation increases at all so long as other workers are subjected to wage control. Indeed, those executives who received unusually large pay increases in 1971 should have their 1972 compensation *reduced*.

The Pay Board regulations governing executive compensation are excessively generous and, in addition, lend themselves to ready evasion. A glaring example of the excessive generosity is the definition of "base period" for calculating allowable compensation increases as "any one of the last three fiscal years." Workers have no such choice of a wage base.

Although the inflationary impact of executive compensation may be minimal, this is highly visible and has a significant impact on public confidence. Equity considerations demand that the control program not be allowed to work in ways that increase existing income disparities if the program is to enjoy any measure of public support.

Executive compensation must be brought under strict control. Executives should not be permitted a choice of the best of the past three years as the base for calculating increases. No executive who earned $200,000 or more in 1971 (including the value of bonuses, stock options, and other such incentive compensation) should receive any further increase in compensation of any sort for the duration of the program. Executives who earned $200,000 a year or more in 1971 and who received pay increases exceeding 10 percent in 1971, should have their total 1972 compensation reduced so that it does not exceed the 1970 level by more than 10 percent.

Rent Control

In certain parts of the country, particularly the Northeast, there is a severe shortage of rental housing. Tenants in these areas have thus become the victims of excessively large rent increases. The control program did not create this housing shortage, nor did it create the economic distortions which underlie the housing shortage. However, the rent control regulations for apartments under leases of one year or longer (about 30 percent of all rental housing) do serve to lock in and reinforce the existing distortions and inequities.

The regulations permit rent increases based on the average increase charged for similar apartments in the same building or development between July 16 and August 14, or the most recent period prior to August 15, 1971, during which a lease was signed. To this base can be added an automatic 2½ percent cost increase allowance, plus factors for any property tax increase or major capital improvement.

In essence, the effect of the regulations is to permit, and by their permissiveness to encourage, the continuation of the same pattern of rent increases that prevailed prior to the beginning of the freeze. Landlords who could obtain large rent increases then can obtain them now. Our hearings uncovered evidence of numerous increases of 30, 40, 50 percent and more which were entirely permissible under the regulations. If all the control program does is to lock in and systematize the existing pattern of inflation, it should be abolished.

Evidence was also presented at our hearings that tenants frequently face danger of eviction proceedings if they complain either to their landlord or to the Internal Revenue Service. Nonetheless, evidence was presented that, at least in some areas, rent control has led to more consumer complaints than any other aspect of the controls. As of April 14, the Baltimore Internal Revenue Office had received 30,773 verbal inquiries and 1,594 written complaints on rent regulations, compared to 9,349 verbal inquiries and 960 written complaints on prices.

The rent control program must either be abolished or totally revised. Regulations which set current increases in line with whatever increases were being made just prior to the freeze do not control inflation but insure its continuation. The program has the effect of putting a stamp of approval on all the economic distortions from which the rental housing industry currently suffers.

Unequal Application of the Control Program

Any program as complex as the current price-wage-rent controls carries with it the danger that it will systematically discriminate against those who are unfamiliar with Washington bureaucratic procedures and who cannot afford to hire specialized lawyers and accountants. This danger is particularly acute for a new program which is suddenly applied to almost everyone in the country.

Little has been done by the control program administrators to guard against this danger. The regulations are too complex to be understood, and consumers, small businessmen, and non-union workers have essentially no meaningful access to those who administer the program. Meantime, some powerful unions obtain large wage increases for their members and big businesses discover ways to turn Price Commission regulations to their advantage. Instead of controlling those who most need to be controlled, the program merely puts official sanctions on the results of the unequal distribution of economic power.

Even more disturbing is the evidence of special favoritism for particular corporations. One example was the Price Commission decision to treat the New York Telephone Company rate increase request under old, superceded but more lenient rules and the communication of this decision to the Telephone Company, but not to the public or even to interested members of Congress.

When this action is considered in conjunction with the Price Commission's refusal to even permit a representative of the Texas Consumer Association to testify at a public hearing on utilities, despite the fact that Texas has no State regulatory commission to protect consumer interests, the differential treatment given big business as opposed to consumers is apparent.

A similar case was the recent decision to handle an application by the General Foods Company for a Term Limit Pricing agreement under old, rather than new, stricter rules. A member of the Price Commission, J. Wilson Newman, is also a director of General Foods and voted on the question of the TLP rule change at a time when General Foods was in direct negotiations for a TLP agreement. This demonstrates how unsatisfactory it is to have a program administered by persons with business connections and to exempt these persons from the conflict of interest laws.

Every effort must be made to see that the consumer, the smaller employer, and nonunion workers have full access to the Pay Board and the Price Commission and that regulations are drawn up so as to be easily understood by those without special training, so that systematic advantage does not accrue to those who are best able to hire specialized legal and accounting assistance or who have had long experience in dealing with the Government.

IV. EXCESSIVE SECRECY IS DESTROYING PUBLIC CONFIDENCE

The ineffectiveness and lack of equity of the control program are, quite naturally and justifiably, destroying public confidence that the program will work. The excessive secrecy in which the program is shrouded is an additional factor which is not only destructive of public confidence in the program itself, but is contributing to an increasingly widespread attitude of general mistrust of government. The natural feeling is: "Why should there be so much secrecy unless there is something to hide?"

NECESSITY FOR PUBLIC HEARINGS

The distaste for public operation is shown most clearly in the Price Commission's determined refusal to hold hearings on specific applications for price increases, regardless of the economic importance of the decision. This refusal represents a failure to comply with Section 207(c) of the Economic Stabilization Act which states:

> To the maximum extent possible, the President or his delegate shall conduct formal hearings for the purpose of hearing arguments or acquiring information bearing on a change or a proposed change in wages, salaries, prices, rents, interest rates, or corporate dividends or similar transfers, which have or may have a significantly large impact upon the national economy, and such hearings shall be open to the public except that a private formal hearing may be conducted to receive information considered confidential under section 205 of this title.

The Chairman of the Price Commission stated to our Committee that such hearings would be administratively infeasible. We agree that it would not be feasible to hold a hearing on every single decision. The law requires hearings on decisions which have "a significantly large impact upon the national economy." It is perfectly feasible both to identify these cases and to hold hearings. For example, the New York Telephone Company case, which affects every one in New York City who uses a telephone and which also raises serious questions of possible improper procedure, should have a public hearing. Similarly, there should be a public hearing on the automobile price changes currently under discussion.

To date, consumer representations to the Price Commission have been largely ignored. If there is anyone who should have full and meaningful opportunity to comment on pricing decisions, it is consumers. The only way for consumers to be heard and for everyone to know that they have been heard is for major decisions to be made only on the basis of a full public hearing record.

Unlike the Price Commission, the Pay Board has held several public hearings on important cases, and the Chairman of the Pay Board has indicated his intention to hold more. However, the Pay Board has held no public hearings on general policy questions. The Pay Board plans shortly to recodify all its regulations. This recodification should be preceded by public hearings on general policy questions.

> **Both the Price Commission and the Pay Board should hold more public hearings. In refusing to hold even a single hearing on a specific requested price increase, the Price Commission has failed to comply with section 207(c) of the Economic Stabilization Act Amendments. If necessary, Congress must force the Price Commission into compliance by enacting additional more specific legislation. The Pay Board has held public hearings on a few cases. There should be more. In addition, the Pay Board should hold hearings reviewing general policy questions prior to the anticipated recodification of the Pay Board regulations.**

Release of Data by the Price Commission

The Price Commission has of necessity had to collect a great deal of economic information in its effort to establish the basis for acceptance or refusal of price increases requested by business firms. This information covers product line output, prices, costs, profits, manhours of work and productivity. Such data are vital not only for price controllers, but for the public at large, if it is to have the confidence that controls are being fairly and effectively maintained.

Yet the public is being denied the benefit of these strategic data. The pretext being cited by the Commission is Section 205 of the Economic Stabilization Act.

SECTION 205. CONFIDENTIALITY OF INFORMATION

> All information reported to or otherwise obtained by any person exercising authority under this title which contains or relates to a trade secret *or other matter referred to in Section 1905 of Title 18, United States Code,* shall be considered confidential for the purposes of that section, except that such information may be disclosed to other persons empowered to carry out this title solely for the purpose of carrying out this title or when relevent in any proceeding under this title.

The italicized portion of this provision refers to—

> Trade secrets, processes, operations, style of work, or apparatus, or to the identity, confidential statistical data, amount or source of any income, profits, losses, or expenditures of any person, firm, partnership, corporation, or association; or permits any income return or copy thereof or any book containing any abstract or particulars thereof to be seen or examined by any person except as provided by law.

To use this language to prevent the dissemination of aggregate statistical information is not justified. In our hearings, for example, we had testimony that the Price Commission refused to release aggregate productivity data for the automobile industry even though it can be shown that such data would not reveal confidential information about any one firm. This and much other statistical information could be provided under the current law if the Commission were to make the effort.

Some of the information most vital to the control program is that relating to costs, profits, and productivity on particular product lines. This information should be made public. Congress should amend the Economic Stabilization Act to make it clear that any such information submitted in the future can and should be made public.

The Price Commission should make publicly available all data submitted to it except that which can legitimately be classified as a "trade secret." Congress should provide such legislative authority and directive as may be necessary.

Overreliance on the Internal Revenue Service

The use of the Internal Revenue Service as the repository for all consumer complaints is not satisfactory. The Price Commission regulation are exceedingly complex, and it is not surprising that numerous examples of conflicting interpretations by various Internal Revenue field personnel have been uncovered. The Price Commission's own staff must become more actively involved in investigation of consumer complaints. To date, the same staff which has had plenty of time for private conversation with business executives seeking price increases has had no time for consumers. Consumer groups wanting to assist in monitoring the program have received absolutely no encouragement. This contempt for the consumer creates the impression that members of the Price Commission may be more interested in good relations with the business community than in really holding down the price the consumer pays.

Another task which has been assigned the Internal Revenue Service is the processing of any request by Category III employers for any exception to the Pay Board guidelines. Category III includes all firms employing less than 1,000 workers. Internal Revenue has authority to deny such requests or to refer them to the Pay Board staff. It has no authority to approve requests.

Category III employers and employees are those most in need of direct communication with the Pay Board staff, because they are those least able to hire their own specialists to fill out forms and supply supporting data. Instead, their requests must be screened by Internal Revenue agents who themselves lack familiarity with the complex regulations. Elsewhere in this report, we have urged the exemption of Category III from the control program. Until this exemption is made, equity requires that these employers and employees have direct access to the Pay Board staff and that they be given any necessary assistance in complying with Pay Board red tape.

Consumers must be given meaningful direct access to the Price Commission. The procedure of filing all consumer complaints with local Internal Revenue offices, which are not prepared to handle this specialized work and which are fully occupied with other duties, is not proving satisfactory. Similarly, Category III employers and employee groups, if they remain under the controls at all, should have direct access to the Pay Board. Again, the Internal Revenue Service is not a satisfactory intermediary.

SUPPLEMENTAL VIEWS OF SENATOR FULBRIGHT

While other responsibilities have prevented me from fully participating in the recent hearings and deliberations of the Joint Economic Committee with respect to the President's Phase II program, I am in general agreement with the main conclusions reached in this report.

The Committee's evaluation of the testimony received from officials of the Pay Board and Price Commission, from labor and business leaders, and from consumer spokesmen certainly indicates an urgent need to make major changes in the present wage and price control program. I am pleased that the report emphasizes this need, and I hope that it will stimulate both the Administration and the Congress to focus on these important questions.

MINORITY VIEWS ON THE NEW ECONOMIC POLICY

I. Introduction

Has the New Economic Policy helped to reduce inflation, stimulate employment, and accelerate economic recovery? Certainly it is too early for any definitive answers or analyses regarding the success of the Economic Stabilization Program which President Nixon inaugurated approximately 9 months ago. However, we believe that it is profitable to conduct at least a preliminary study regarding how the program has operated. We also believe that recent months have given us good cause for optimism as to its probable outcome. In these views we wish to avoid a lengthy analysis of how the price-wage control system has been administered, inasmuch as such analysis is readily available elsewhere, including detailed testimony given before this Committee last month by the Chairmen of the Price Commission and the Pay Board. Instead, we wish to focus on what has happened to inflation, wages and profits, employment, and the general economic situation during the last 9 months.

II. Inflation

During the month of March, the Consumer Price Index was unchanged, after seasonal adjustments. This was the first month in more than 5 years, since November 1966, that the index was unchanged. Additionally, excluding the period of the "freeze" last fall, it had been 5 years since the month-to-month change in the CPI had been as low as 0.1 percent. For the entire 7 months of the economic stabilization program, through March 1972, the seasonally adjusted annual rate of increase in the CPI was 2.8 percent, or approximately two-thirds the rate in the 6-month period from February to August, 1971.

As for the Wholesale Price Index, during the 8-month period from August through April 1972, the WPI rose at an annual rate of 3.1 percent. This 8-month period includes, of course, both the freeze and the bulge which followed in the postfreeze period. This rate of increase compares to a rise in wholesale prices at an annual rate of 4.7 percent during the period from February to August 1971, the 6-month period immediately preceding the economic stabilization program. As with the CPI performance, the rate of increase in the post-August period is approximately two-thirds that which obtained in the pre-August 1971 period. We find these reductions in the rate of price increase most encouraging.

III. Wages and Profits

The economic stabilization program has not been working at the expense of wage earners. During the 6 months prior to phase I, the earnings of private nonfarm production workers in constant dollars increased at a seasonally adjusted annual rate of 1.9 percent, while spendable weekly earnings increased at a rate of 1.3 percent. In the 7-month period from August 1971 to March 1972, gross weekly earnings have increased in constant dollars at a seasonally adjusted annual rate of 4.1 percent, while spendable weekly earnings have increased at a very substantial 5.9 percent. As these figures show, prices have not been permitted to rocket upward while wages are held down. It is wages which are rising, while prices are being stabilized.

Critics of the program often call for more rigid controls to prevent soaring profits and profit margins. This has been heard so often, especially during this election year, that some people take for granted that profits are "too high". That many people can be misled is revealed by surveys, which show, for example, that the average person believes corporations net 28 percent after taxes, whereas the actual figure is close to 4 percent. The danger, of course, is that public opinion generally determines policy decisions, and, if public opinion is misled, policy decisions are likely to be wrong.

Between 1966 and 1971, total disposable personal income in this country rose from $511 to $741 billion, up 45 percent, while corporate profits went from $49.9 billion in 1966 to $47.6 billion in 1971, down 4.6 percent. Total 1972 disposable personal income, if the first quarter annual rate continues, will be $766 billion, while corporate profits have been estimated for the year at $50.1 billion. Examination of these figures shows that, from 1966 through 1972, personal income will have risen 50 percent, while corporate profits will be up only 0.4 percent. It is true that profits will have risen nearly $9 billion above the 1970 recession low by yearend 1972. However, in order to reach that low, profits fell nearly $9 billion while personal income continued to climb. Corporate income for 1972 appears likely to approach the same level as 6 years ago, although the inflation factor would mean that real dollar income is still down.

Corporate business cannot attract and hold capital without adequate profits. For those of us who desire a healthy American economy, the recent record on profits is a disturbing one. We must be concerned with maintaining a healthy corporate climate, because that means jobs for people and tax revenues for the Government which are necessary to provide public services. Therefore, there should be more concern about raising profits from the current low levels than over "clamping down on excess profits"—to use the phrase employed by some who, for political purposes, seek to mislead their listeners.

IV. Employment and Unemployment

Within the last year, the number of jobholders has increased by 2.2 million, with most of this increase taking place since last summer. Obviously, this is not an indication of a weak economy, although an unemployment rate which remains above our goal is a matter for concern. As we suggested in our views in the 1972 Joint Economic Committee Annual Report, relative stability in the unemployment rate in the face of steady economic growth is the result of several factors, including the attraction into the labor force of more people as the economy strengthens and job opportunities become more attractive, coupled with the release of hundreds of thousands from the Armed Forces and defense industries. While we do not feel it necessary to restate our earlier views, we should make clear our confidence that an economy which has provided more than 2 million new jobs within the past year is strong enough to reduce our present unemployment rate substantially.

V. 1972 Economic Performance

How has the economy performed so far in 1972? According to preliminary estimates, on a seasonally adjusted basis, the Gross National Product rose in the first quarter of 1972 at an annual rate of 5.3 percent, in real dollar terms. This is within the range which would enable us to achieve an average figure of 6 percent for1972 if the economy continues to accelerate. Additionally, the preliminary GNP figures are subject to substantial revision. Thus, the inflationary part of the GNP growth in the first quarter may well be smaller than currently estimated, while the real growth may indeed be substantially above the 5.3 percent contained in preliminary estimates. The direction of the economy may perhaps best be ascertained by examining the recent performance of some of our principal economic indicators.

Leading Indicators

During March, the index of leading economic indicators, which generally is used to anticipate shifts in the economy, continued the sharp upward trend of the last 6 months. The March rise of 0.9 percent to 136.1 percent of the 1967 average followed a February increase of 0.7 percent. During the first 3 months of this year, the index rose 2.9 percent, following a 2.8 percent rise in the last 3 months of 1971. During the last 6 months the total rise of 5.7 percent comes out to almost 1 percent a month. This strong rise over a fairly extended period is good evidence that our economy is embarked upon the sustained expansion needed to reduce unemployment significantly.

Industrial Production

Business activity is increasing rapidly. At the end of April the index of industrial production had risen for the eighth consecutive month. From March to April, the index rose 1 percent to a seasonally adjusted 110.9 percent of the 1967 average. This monthly increase, which is equal to a very substantial 12 percent annual rate of increase, is the largest month-to-month rise since December, 1970, when the economy was rebounding from the General Motors strike. From August 1971, when the Economic Stabilization Program began, through April 1972, the index rose from 105.3 to 110.9, an annual rate of increase of almost 8 percent.

Construction Awards and Expenditures

The rate of contracting for new construction is also encouraging. According to the FW-Dodge division of McGraw-Hill Information Systems Co., construction contracting in March was 15 percent above the level a year earlier, raising first quarter 1972 to 20 percent above the first quarter 1971 level. For the entire first quarter, construction awards totaled \$19.06 billion, compared to \$15.93 billion in 1971. FW-Dodge has estimated that total construction contracting for all of 1972 will reach \$85 billion, up from 1971's \$79.64 billion. The latest estimate is about \$2 billion higher than the initial 1972 forecast made last October and puts the 1972 gain over 1971 at 7 percent, almost double last October's 4 percent.

New construction expenditures are also rising strongly. The seasonally adjusted annual rate of new construction expenditure of $123.8 billion in March is 20.2 percent above the seasonally adjusted rate of $103 billion a year earlier, and 2.1 percent above February 1972's rate of $121.2 billion, or, on an annual basis, 25.7 percent above the previous month. Private residential expenditures, particularly, have been increasing strongly. In the 3-month period ending in March 1972, private residential expenditures were 10 and 41 percent above the spending rates in the 3-month periods ending in December and March 1971, respectively.

Housing

The basis for the strong private residential expenditures is apparent on examination of new housing starts in recent months. During the first four months of this year, new housing starts took place at an annual rate of 2.436 million units, which was 11 percent above the last 4 months of 1971. The exceptional strength of this performance is apparent when it is compared against the projection for total 1972 private starts made by the Council of Economic Advisers in January. The Council then projected total new starts for the year at 2.2 million, which would have been a good performance. The performance to date is almost 11 percent above this original projection. Continued housing activity at this high level would of course have exceptionally favorable effects on the rest of the economy and would make great contributions toward accelerating our rate of economic expansion.

Business Capital Investment

These and other favorable economic developments in the last several months have had a very positive effect on business confidence in the economy. This increase in confidence is reflected in the findings of a recent survey by McGraw-Hill Publications Co., regarding business plans for spending on new plant and equipment in 1972. The most recent survey indicates that businessmen are planning to spend $92.9 billion for capital improvements this year, 14 percent more than in 1971 and considerably above the increase being planned only a few months ago. The McGraw-Hill survey also indicated that planned capital investment averages $100 billion a year over the next 3 years. The 1972 spending plans, at a level 14 percent over 1971, compare very favorably with the results of the Department of Commerce-Securities and Exchange Commission survey taken in November and December 1971, which projected a spending increase of 9 percent on new plant and equipment in 1972, and the Commerce-SEC January and February 1972 survey, which indicated a 10.5-percent increase in 1972 over 1971 outlays. This continued rise in business plans for spending on new plant and equipment demonstrates rising business confidence.

Consumer Confidence and Expectations

This rising business confidence is, in our opinion, matched by increasing consumer confidence. Last month the Survey Center of the University of Michigan reported that consumer expectations regarding what will happen to business conditions and employment during 1972 have risen substantially. The Center stated that its index of consumer sentiment now stands at 87.5, based upon a survey taken in late February, compared to 82.2 in fourth quarter 1971. This increase of more than 6 percent in one quarter is sound evidence that consumers realize that the economy is growing rapidly.

Retail Sales

This consumer confidence is reflected in several ways. In the 3-month period from February through April 1972, retail sales showed good growth, after remaining relatively stable in the 6-month period from August 1971 through January 1972. According to the Department of Commerce, adjusted total February through April sales averaged about 2 percent above the previous 3 months and 8 percent above February through April 1971. Durable goods sales in February through April were 1 percent above the level in November 1971 through January 1972, and 11 percent above the level in February through April 1971. Non-durable-goods sales were 2 percent above November 1971 through January 1972 and 6 percent above February through April 1971. Because retail sales figures can be relatively irregular from month to month, data for 3-month periods are generally necessary in order to determine the underlying trend in retail sales movements. The recent growth in the durable goods category is especially important, inasmuch as expensive discretionary items such as automobiles and household durables are easily postponed if consumers feel economic conditions to be unsettled.

Consumer Installment Credit

The month-to-month changes in consumer installment credit outstanding are also sensitive indicators of changes in consumer confidence. The most recent consumer credit figures released by the Federal Reserve Board showed that there was a record rise in March, with record extension of credit in all categories. The very important consumer installment debt category showed a climb of a seasonally adjusted $1.36 billion in March, which was well above the $966 million rise in February and higher than the previous record rise of $1.27 billion in November 1971. Of the $1.36 billion, auto credit rose an adjusted $450 million, well above February's $353 million rise. However, the sharpest gain was registered in loans for consumer goods other than automobiles. In this category outstanding consumer installment credit rose an adjusted $499 million, well above the $290 million increase in February. Total new extensions of consumer credit were a seasonally adjusted $10.99 billion, a record. These consumer installment credit rises are very significant because they not only show consumers to be confident enough to make purchases, but to be sufficiently confident to go in debt to do so. This strong growth in outstanding consumer debt has taken place throughout the period of the New Economic Policy. We believe that this demonstration of consumer confidence will provide a broad base for continued economic expansion.

VI. Conclusion

Based upon the evidence now available, we believe that on the whole the New Economic Policy is succeeding. Since last August, inflation, as measured by the Wholesale and Consumer Price Indexes, has been reduced to approximately two-thirds the annual rate of increase which we were experiencing in pre-August 1971. While price rises have been limited, wages have increased at a substantially higher rate than during the 6-month period immediately before the President's new program. Although, for reasons outlined above, the unemployment rate has remained relatively stable, total employment has risen rapidly since last summer, a sign of a strengthening economy. The recent performance of a number of our principal economic indicators reveals both rising economic activity and, very importantly, steadily increasing business and consumer confidence.

With the continued cooperation and support of the American people, the economic stabilization program will enable us to achieve economic growth while, at the same time, bringing about a reduction in inflation and unemployment. As we move toward these goals, the present system of controls will gradually be dismantled. We believe that this elimination of controls is essential, because permanent controls are inconsistent with the operation of our free market system.

We add but one caveat: Those in control of the Congress have the power to determine fiscal policy. Congressional action or inaction in the weeks and months ahead can make a major difference—for the better or worse—in our economy.

ADDITIONAL VIEWS OF SENATOR JAVITS

I concur with the views of my Republican colleagues on the Committee concerning the efforts which have been made thus far by the Administration to combat the problem of inflation and restore stability to the American economy. However, I must express strongly my feeling that there is one area in which not enough effort has been made, and this is the effort to reach full employment. For, by any definition, unemployment remains at unacceptable levels.

I have stressed many times the need for an enlarged and comprehensive manpower program. In this regard, I have urged that we take the following steps: first, the establishment of a community-based program of manpower training and jobs for economically disadvantaged, unemployed and underemployed persons, including a proper number of public service jobs; second, a productivity drive designed to double the expected annual rate of productivity increase; third, a special manpower training and employment program for criminal offenders and narcotics addicts taking treatment; fourth, the appropriation of adequate funds for the Neighborhood Youth Corps program; finally, fifth, the establishment of a Federal Full Employment Board, made up of representatives of labor, management and manpower experts, whose purpose would be to advise the nation on how to reach the goal of full employment.

Not until we make some strides in these directions do I believe that we can achieve our dual goal of full employment without inflation.