588

92d Congress } JOINT COMMITTEE PRINT
2d Session }

PRICE AND WAGE CONTROL: EVALUATION OF A YEAR'S EXPERIENCE

REPORT

OF THE

JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES

TOGETHER WITH

SUPPLEMENTAL AND ADDITIONAL VIEWS

DECEMBER 14, 1972

Printed for the use of the Joint Economic Committee

U.S. GOVERNMENT PRINTING OFFICE
86-932 O WASHINGTON : 1972

For sale by the Superintendent of Documents, U.S. Government Printing Office
Washington, D.C. 20402 - Price 30 cents

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NOTES

Senator Sparkman states: "Since I was away during the hearings on this matter, I do not feel qualified to approve, disapprove, or comment on it."

Senator Fulbright states: "While other responsibilities have prevented me from participating in the recent hearings and deliberations of the Joint Economic Committee with respect to the Administration's program of Wage and Price Controls, I am in general agreement with the main conclusions reached in this report, particularly those dealing with the failure of the present control program to adequately hold down price increases."

Senator Percy and Congressmen Conable, Brown, and Blackburn state: "It is our feeling that the Majority conclusions bear little relation to the information developed in the Committee's hearings. If these conclusions are intended to be economic, and not political, we do not understand their premature release to the press by the Chairman without adequate notice to the Minority Members of the Committee. We disagree with most of the specific recommendations and criticisms of the Report. We also deplore the increasingly common and unfortunate practice of scheduling many Committee hearings and recommendations on important matters such as this at times when Congress is adjourned and when no consideration has been given to the extent of participation possible by Committee Members. These procedures do not permit adequate consideration of issues by the Committee nor do they result in representative findings or recommendations."

Senator Miller, Senator Pearson and Representative Widnall state that due to the pressure of other responsibilities they were unable to participate in the hearings and deliberations preceding this report, and they therefore reserve judgement on its specific recommendations.

Representative Boggs was missing in Alaska at the time this report was under consideration.

Representative Bolling states: "Due to the pressure of other responsibilities, I could not participate fully in the hearings and, therefore, reserve judgment on the draft report of the Committee on 'Price and Wage Control: Evaluation of a Year's Experience'."

CONTENTS

I. INTRODUCTION

The United States has now gained slightly more than 1 year's experience with the first compulsory wage and price controls in our peacetime history. These controls, which were imposed following a comprehensive 3-month freeze on virtually all wages and prices, were intended to gradually remove inflationary pressure from the economy while at the same time allowing both for growth of real wages in keeping with the historical trend and for the relative price adjustments essential to an efficient economy. A major purpose of the controls was to create an atmosphere in which it would be possible to adopt the stimulative monetary and fiscal policies so necessary to bring about a rapid reduction in unemployment from the 6 percent level which had prevailed throughout 1971.

The Joint Economic Committee has followed the wage-price control program, as well as other elements of the Administration's New Economic Policy, with close attention and concern. Last May this committee issued a report entitled "Price and Wage Control—An Interim Report." At that time the committee had held a total of 23 days of hearings on the New Economic Policy, not including the committee's regular annual hearings. More recently the committee has conducted an additional 3 days of hearings and has prepared a volume of written study papers evaluating some important aspects of the price and wage controls.[1]

The law authorizing the present control program expires on April 30, 1973. When the new Congress convenes this coming January, one of its first concerns must be whether to extend authority for the controls and, if so, in what form. This report is intended to provide the Congress with our assessment of the accomplishments of the control program over the past year, of its weaknesses and problems, and of future policy needs.

Our main conclusions and recommendations are as follows:

1. The control program has been accompanied by wholly inadequate policy steps to reduce unemployment. Unemployment remains above 5 percent. This is far too high. Whatever the impact of the controls on the various price indices and other measures of inflation, anti-inflationary policies cannot be deemed a success if they fail to create an atmosphere in which the unemployment rate can be brought at least to the traditional interim target of 4 percent without creating unmanageable new inflationary pressures.

2. In order to reach our employment goals, some form of active price-wage or incomes policy will be an essential ingredient of overall economic policy for the foreseeable future. The present

[1] "Price and Wage Control: An Evaluation of Current Policies. Part I. Hearings and Part II Studies of Selected Aspects" forthcoming.

comprehensive controls are a temporary expedient and should be removed as soon as this is feasible, but some form of incomes policy must be continued.

3. The present control program has failed to adequately hold down price increases. This failure is dramatic since it has taken place in a context of virtually stable unit labor costs, continued high unemployment, and low capacity utilization. The failure is partly due to the dispersion of the control effort to include broad areas in which competition is adequate to hold prices in check. The control effort should be concentrated on the sectors of the economy in which monopoly power, scarcities, or imbalances between management and labor power produce strong inflationary pressures.

4. In those sectors of the economy which remain under control, *price* control needs to be made far more effective. Section 5 of this report contains a number of specific recommendations for improving the administration of the price controls.

5. To date wage control has been measurably more effective than price control. Pending greater progress on price control, any downward revision of the wage guideline would be highly inequitable and would destroy the labor cooperation so essential to enforcement of the standard.

6. The control program should have been accompanied from the beginning by vigorous efforts to reform the structure of the economy in ways which would increase the degree of competition. Unfortunately no procompetitive reforms have been undertaken and, indeed, some policy measures which further restrict competition have been adopted. A meaningful program of structural reform including labor market reforms, expanded public service employment, removal of import restrictions, vigorous antitrust prosecution, and improved government procurement practices should begin at once.[2] With the needed structural reforms it should be possible over time to create an economy in which sensible monetary and fiscal policy together with an active but largely voluntary incomes policy can sustain high levels of employment without inflation. Without the necessary structural reforms, this objective is simply not attainable.

The remaining sections of this report discuss each of these six conclusions in greater detail.

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[2] Senator Humphrey states: "Import restrictions may be required where the removal of such restrictions would have a direct adverse effect on the economy of an area."

II. REDUCING UNEMPLOYMENT

The wage and price controls were not intended to be a substitute for responsible fiscal and monetary policy. Administration spokesmen have repeatedly stressed that the controls are not designed to deal with inflation caused by excess demand. We emphatically concur. As we discuss in section VII of this report, the controls are also not designed to bring about the structural economic reforms so necessary to our long-run success in controlling inflation at high levels of employment, and they have not been accompanied by any such reform effort.

Nonetheless, as Administration spokesmen have frequently reiterated, the controls were intended to be part of a total policy package designed to promote vigorous economic growth and to restore noninflationary full employment. For example, the Council of Economic Advisers in its August 1972 mid-year report described the objectives of the new economic policy as follows:

> 1. The short-run objectives were to stimulate a much more rapid expansion of demand and at the same time to make sure that expansion led to increases in real output and employment rather than to increases in prices.
>
> 2. The longer run objective was to restore a state of affairs in which reasonable price stability and high levels of employment can be maintained without controls.

These objectives are not being adequately met. Sixteen months after the inauguration of the New Economic Policy the unemployment rate remains well above 5 percent. Worse yet, Administration spokesmen have made it clear that they no longer have any hope or any intention of reducing unemployment to the traditional interim target of 4 percent. They fear that a reduction of unemployment below the 4½- to 5-percent range would be accompanied by unmanageable new inflationary pressures.

We reject this view. Policy should be directed toward reducing unemployment quickly to 4 percent and, over a longer period, to 3 percent or less. While the control program was not designed to deal with the inflationary pressures of excess demand, it was intended to deal both with the inflation which stems from monopoly power of big business and strong labor unions and with the inflationary expectations which cause inflation to feed upon itself and become more intense and more prolonged.

As we discuss in sections IV and V of this report, the control program has not fully come to grips with monopoly power as a source of inflation because the program has not focused with sufficient intensity on those sectors of the economy where such power is greatest. Neither has the control program succeeded in eliminating expectations of future inflation. This is demonstrated by the fact that many private

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economic forecasters anticipate a higher rate of inflation in 1973 than in 1972.

The wage-price control program has not as yet come to grips with monopoly power as a source of inflation nor has it succeeded in removing expectations of future inflation. The control program has not been accompanied by adequate policy steps to reduce unemployment, nor by structural reforms to increase competition and thereby remove some of the inflationary bias in the economy. For these reasons, the control program has not succeeded in approaching its basic objective of helping to create an economy in which unemployment can be reduced to 4 percent or less without generating unmanageable inflation.

III. THE CONTINUING NEED FOR AN INCOMES POLICY

The present comprehensive wage and price controls are a temporary expedient and should be dismantled as soon as they have met their immediate objectives. In the remaining sections of this report, we outline the steps we believe to be needed in order for the controls to reach their objectives and then to be removed.

Removal of the present controls need not and must not mean abandonment of an incomes policy. Despite the most vigorous efforts at structural reform which could conceivably be anticipated, the U.S. economy, like all modern industrial economies, will continue to be characterized by a significant degree of monopoly and semimonopoly power. This power enables big businesses to set prices higher than those which would be established under more competitive conditions and it enables powerful labor unions to obtain wage gains in excess of those justified by economic circumstances. It is the continuing responsibility of government to see that big business and strong labor unions reach price and wage decisions which are in the public interest.

It has long been the position of this committee that voluntary price and wage guidelines are an essential ingredient to overall economic policy and will continue to be so for the foreseeable future. The active involvement of the President, with all the prestige of his office, can make a voluntary incomes policy of this type a powerful tool. Because inflationary problems have recently been so severe, it will be necessary for a time to have this voluntary policy backed up with the availability of legal sanctions which can be invoked in important cases in which voluntary compliance with guidelines cannot be obtained.

The present comprehensive wage and price controls are a temporary expedient. They should be removed as soon as their immediate objectives have been attained. When the controls are removed, they should be replaced with an incomes policy consisting of general price and wage guidelines. Every effort should be made to achieve voluntary compliance with these guidelines. With the active involvement of the President, a high degree of voluntary compliance should be possible. Legal sanctions should be available to enforce compliance in important cases in which voluntary compliance is not obtainable.

IV. REDUCING THE COVERAGE OF THE CONTROLS

The Phase II control program which has been in effect since November 1971 has a number of defects in its basic design. The most serious of these is its attempt to be too sweeping in its coverage. By attempting to maintain a facade of controls over virtually the entire economy, the limited resources of the control program have been spread far too thin, and it has proved impossible to exercise really firm and effective control at the points at which control has been most needed.

In our interim report last May, this committee recommended several specific steps which could be taken to reduce the coverage of the control program, including the exemption of all firms with fewer than 1,000 workers, the exemption of State and local government employees, and the exemption, as clearly specified in the law, of all the working poor. With the exception of a change, necessitated by a court order, in the Cost of Living Council's definition of poverty, these recommendations have not been adopted either in whole or in part. We believe that inflation would certainly have been no greater if these suggestions had been adopted at the time they were made. Inflation might well have been less since more of the control program resources would have been available to concentrate on the sectors of the economy in which inflationary problems are the most serious.

We continue to believe that the coverage of the control program should be substantially reduced. Such a reduction in coverage would both make possible a more effective control program during the next few months and facilitate the removal of the controls as soon as their objectives have been reached. Several witnesses who testified at our most recent hearings suggested that the controls could be removed industry by industry with the decontrol decision being based on a finding that a reasonable degree of competition existed in a particular industry and that there were no unusual supply shortages or other special factors creating severe price pressures within that industry. This is a most interesting suggestion and should receive further study. Before proceeding to a possible industry-by-industry removal of the controls, however, the following more general reductions in coverage of the controls should be made. Most of these reductions in coverage could be made either immediately or in the very near future with no detrimental impact on the effectiveness of the control program as a whole. Indeed, by concentrating the control effort where it is the most needed and can be the most effective, the impact of the program as a whole would be increased.

1. All workers earning less than $3.50 per hour should be exempted from the wage controls.

The law authorizing the control program specifies "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." The legislative history of this act makes it clear that Congress intended to exempt from the wage controls all workers earning less than the amount required to support a family of four at the level defined by the Bureau of Labor Statistics in their "lower budget." This budget standard requires an annual income of approximately $7,000 or, for a full-time worker, an hourly wage of $3.50. At present all those earnings less than $2.75 per hour are exempt from the wage controls. This $2.75 standard was established after a court ruling that the previous standard of $1.90 per hour did not meet the requirements of the law that the working poor be exempted. The $2.75 figure has no particular logical basis other than the hope that it is sufficiently high to survive further court challenges. It should not be necessary to await the outcome of further litigation before moving to the $3.50 an hour standard which represents the original intent of Congress. The majority of workers who earn less than $3.50 an hour do not belong to labor unions. Wage increases granted to nonunion workers during the control period have been measurably less than increases granted to union workers and they have been significantly less than the 5.5 percent increase allowable under Pay Board guidelines. The evidence thus indicates that the wage increases obtained by nonunion workers are not a source of inflationary pressure. There is no need to control the wages of those earning less than $3.50 an hour and in any case use of the control program to restrict the wage gains of low income workers is simply not acceptable on equity grounds.

2. Firms employing less than 1,000 persons should be exempted from the control program.

Essentially, this would mean the exemption of all firms in category 3 as defined by the Pay Board. Except in rare instances, these small firms do not have sufficient market power to set prices different from those charged by larger firms in the same industry. The effort to police the activities of these smaller firms represents an administrative burden which is not accompanied by any significant contribution to the success of the anti-inflation program.

3. Retail firms and independent wholesalers should be exempted from the controls.

We realize that the retail level is the point at which consumers come into contact with the price control program. Thus it may superficially seem politically attractive to maintain controls at the retail level. However, the types of inflation with which the control program is intended to deal do not originate at the retail level. Retailing is competitive and, in the absence of generalized excess demand, increases in prices at the retail level represent the passing on of increases in the retailer's costs. Firmer control of prices at the producer level would translate itself into smaller cost increases for retailers and smaller price increases for the consumer. This would be accomplished through the workings of the economic system without the need for direct policing of retail prices. The same reasoning applies to independent wholesalers, most of whom are small and would in any case be exempt if firms employing less than 1,000 workers were exempted.

4. State and local government employees should be exempted from the wage controls.

As we discussed in our earlier report last May, the typical collective bargaining procedures of public employees differ from those of industrial unions, and the Pay Board has failed to develop appropriate procedures for handling this specialized situation. We believe it is preferable that the responsibility for bargaining with public employees be returned to the State and local government units. The development of effective procedures for bargaining with their employees is an essential component of the exercise of local power and local responsibility.

5. Rent controls should be lifted but standby authority to reimpose such controls on an area basis if necessary should be retained.

Construction of rental dwelling units has been running at a very high rate during the past 2 years. In most parts of the country the supply of rental housing is adequate and competitive forces should be sufficient to prevent excessive rent increases. However, rental housing still remains scarce in certain geographic areas, particularly in the northeastern part of the country. If removal of the rent controls should lead to excessive rent increases in these areas, then controls should be reimposed on an area basis and any unjustified increases already paid should be returned to tenants.

The exemptions we recommend above are general ones. There are a few industries in which, because of circumstances unique to that industry, comprehensive controls should be continued for the time being, even for small firms. The construction industry is one such exceptional situation. Medical services is another. These are examples of industries characterized either by supply shortages which will take time to correct, or by an industry structure which gives even small firms or unions a significant degree of monopoly power. But these industries are the exception. As a whole, the economy continues to operate well below its capacity. Except for the few unusual situations of supply shortage, the objective should be to restrict the program to those sectors of the economy where monopoly power seriously interferes with the competitive setting of prices.

During the past year, rapid increases in food prices have made it appear that a number of food commodities might come under the heading of special situations in which more comprehensive controls might be needed. However, a study recently prepared for this committee by Dr. George Brandow of Pennsylvania State University [1] estimates that the basic outlook is for a significantly slower rise in food prices over the next 2 years. Given this outlook, we see no need to extend additional controls over food prices. This does not mean that there are no pricing problems in the food industry. There are significant elements of monopoly pricing power in the food processing and packaging industries, and these industries should be fully subject to the firm controls which we recommend in the next section for all industries characterized by monopoly pricing practices.

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[1] In "Price and Wage Control: An Evaluation of Current Policies. Part II Studies of Selected Aspects" forthcoming.

V. MAKING PRICE CONTROL EFFECTIVE

The regulations governing the price control program are unduly permissive. The rules permit price increases which are not really justified in terms of unavoidable cost increases, and the rules have the perverse economic effect of encouraging cost increases rather than providing incentives to hold down costs. Revision of these rules is long overdue, and it is of crucial importance that these revisions be made promptly.

As we discuss in the following section, the Pay Board has largely succeeded in bringing wage settlements within its guidelines. Workers who have accepted these settlements were cooperating in a program which was also intended to bring the average rate of price increase down to 2½ percent. If this price target is not attained, workers who have agreed to settlements within the past year will be receiving smaller real wage gains than the program envisaged. Workers who will be negotiating in the year ahead will be extremely reluctant to accept settlements conforming to the guidelines without some evidence that the price guideline can also be enforced.

An unusually large number of workers will be involved in major collective bargaining negotiations next year. Noninflationary wage settlements in these pacesetting industries are an essential ingredient for success in controlling inflation for the next several years. Both in order to keep the Government's implied promise to those workers who have accepted wage settlements in the past year and to create a climate in which the existing wage guideline can be maintained in the year ahead, it is crucial that significant progress be made in reducing the rate of price increase between now and the beginning of the next round of wage negotiations in the spring. The Price Commission must strengthen both its regulations and its enforcement. The following changes in the price control regulations would be extremely helpful in the rate of price increase.

1. Price increases should be limited to a strict dollar and cents pass-through of allowable cost increases.

The present regulations which permit producers to add their customary profit margin on to their allowable cost increases should be changed. Under the present regulation, profits can increase every time costs increase. There is no incentive to hold down costs.

2. Allowable cost increases should be limited to increases in direct costs.

The present regulations require overhead costs to be allocated and estimated on a unit basis. Overhead costs per unit vary with the number of units sold. Thus the allocation procedure requires an advance estimate of sales. By making a low estimate of expected sales, the overhead cost per unit is increased, thus giving the appearance that a price increase is justified. The customary pricing practice of a firm in a competitive situation is to base prices on marginal costs, that is on the additional labor and material costs involved in producing additional units of output. These direct costs can be estimated with relative accuracy. The price control regulations should be designed to strengthen rather than to interfere with usual competitive practices. This means changing to a regulation which limits allowable cost increases to the direct cost involved in producing additional output.

We recognize that this proposed change in the regulations could result in a profit squeeze in industries in which there have been unusually large increases in overhead costs. However, should this be the case, this can be accurately determined *ex post* from the profits actually earned by firms in that industry. If necessary, a price adjustment for the increased overhead can be made at that time. Under this procedure, it would not be necessary, as it is under the present regulations, to undertake the virtually impossible task of estimating in advance overhead cost per unit of output.

3. Price control should be exercised on an industry-by-industry rather than on a firm-by-firm basis.

We recognize that as the Chairman of the Price Commission pointed out to use in his recent testimony, this raises difficult problems of defining an industry. However, it is also difficult to define a firm. One problem is no more insurmountable than the other.

There are two significant advantages to control on an industry-by-industry basis. First, the individual firm within an industry has an incentive to operate efficiently because there is no restriction on the profits which can be earned by any particular firm. Second, data on costs, prices, and productivity are available on an industry basis from sources outside the firms being controlled. While this data has many weaknesses which need to be corrected, it is far superior to relying on the unsubstantiated estimates which each firm must now make of its own costs. Already the Price Commission has recogniezd that in the interests of accuracy, it must use industry-wide estimates of productivity, applying them to the individual firms in place of the firms' own estimates which were used during the first few months of the control program.

4. Term Limit Pricing (TLP) agreements should be discontinued.

If control were on an industry-by-industry basis, there would be no need for the TLP agreements which have been adopted as a means of simplifying the extremely complex control program. The TLP agreements permit firms to make large price increases on individual products so long as the average price increase for all sales by the firm does not exceed a specified percentage. This means that in product markets where they face little competition, firms can raise prices almost at will, offsetting this by not increasing prices at all on products which they sell in competitive markets where price increases could not in any case be made to stick. In short, the TLP system means that there is no effective control on the prices of many products sold in noncompetitive markets—the very place where control is needed.

5. In industries where unusually large gains in productivity have led to significant decreases in cost of production, price reductions below the base period price should be required.

The present program does not in any way cover firms which have not increased their prices since the base period, regardless of the excess profits which may in some cases be realized.

6. If controls were on an industry-by-industry basis, there would be no need to enforce profit ceilings on individual firms.

The present profit margin regulation has no real economic logic. Under this regulation, profits cannot exceed those which were earned in a base period consisting of the two best of the firm's three last fiscal years prior to the price-wage freeze. However, for many firms, profits in the base period may have been excessive. For other firms, profits in the base period may have been quite low. There is no logical reason why the profit rate of each firm should remain what it was in some arbitrarily chosen past period. In any case, the profit margin regulation is not being consistently and uniformly enforced because the sheer volume of work required to do so is simply not possible with a limited staff. And if the regulation were to be strictly enforced, many firms would certainly be tempted to artificially inflate their costs in order to avoid exceeding the arbitrary profit ceiling. If controls were on an industry-by-industry basis, the average profit actually realized in an industry would serve as a guide to the appropriateness of the price ceilings being enforced. If industry profits are excessive, prices should be cut. If an industry's profits are extremely low, the need to allow further price increases would be examined.

Reducing Secrecy of Operation

These proposed changes in the Price Commission regulations would do much to make price control more effective. In addition, the one single step the Price Commission could take to make its operations more effective and to increase public confidence that a sincere effort is being made to control prices would be to reduce the secrecy of its operations.

The law authorizing the control program clearly requires the Price Commission to hold public hearings on important price increase applications. Section 207(C) of the law 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."

To date, the Price Commission has not held one single meaningful public hearing on a specific request for a price increase. The hearing held last fall on automobile prices was held *after* the Price Commission had already denied the requests submitted by Ford and General

Motors. Since competitive conditions compel other automobile companies to follow the lead of Ford and General Motors in setting prices, there was no meaningful price increase request pending before the Commission at the time the hearings on automobile prices were held. New price increase requests from Ford and General Motors have since been approved by the Price Commission and put into effect, and a further price increase request by General Motors, filed almost immediately following the approval of the earlier request, is now pending. Certainly a public hearing should be held on this and other pending automobile requests. This is only one example of the cases in which a public hearing should be held. Obviously it would not be administratively possible to hold public hearings on all requested price increases, but we think it is well within the competence of the Price Commission to identify those requests which could "have a significantly large impact upon the national economy."

In order for public hearings to be really useful, more of the data on costs, prices, profits and productivity must be made available to the public. The present law is quite restrictive in this respect and, as we recommended in our report last May, the law should be changed. Even within the present law, however, the Price Commission could make available far more data than it does at present.

VI. KEEPING WAGES WITHIN THE GUIDELINE

The fundamental principle underlying the Phase II wage and price guidelines is a sound one. The 5½-percent wage guideline and the 2½-percent target for price increases were intended to provide annual growth of real wages of about 3 percent. The trend rate of growth of productivity is about 3 percent per year, and historically real wage gains have roughly kept pace with productivity changes.

If the program fails to achieve the intended relationship between wages and prices so that workers' real wage gains average less than a 3 percent rate, workers will justifiably feel that the controls have not delivered what they promised and labor cooperation with the program will be lost. As shown in table 1, the collective bargaining calendar for 1973 is much heavier than it was in 1972. Pace setting negotiations in automobiles and other industries are scheduled for 1973. The public interest is very much at stake in these negotiations because they will help determine the inflationary pattern for the next several years. Labor cooperation is essential if noninflationary settlements are to emerge from next year's important wage negotiations. There is simply no enforcement mechanism acceptable to a democratic society which could force a large number of workers in a number of powerful unions to abide by a wage guideline which they felt was fundamentally unfair.

TABLE 1.—SCHEDULED NEGOTIATING ACTIVITY IN BARGAINING SITUATIONS[1] AFFECTING 1,000 WORKERS OR MORE, BY MONTH AND YEAR

[Workers in thousands]

Year and month	Contract expirations[2]		Scheduled wage reopenings[3]		Principal industries affected
	Situations	Workers	Situations	Workers	
All years	2,408	10,596	69	225	
1972, total	888	2,643	46	154	
1973, total	679	4,096	21	60	
January	26	66	2	3	Motion picture production.
February	31	173			Apparel; Food.
March	73	294	2	3	Construction; trucking (Chicago); gas and electric utilities; food stores.
April	105	343	5	12	Construction; rubber; stone, clay and glass; food; real estate, electrical equipment.
May	101	426	4	7	Construction; apparel; paper; electrical equipment.
June	95	1,377	3	11	Construction; food; electrical equipment; railroads; trucking (excluding Chicago).
July	55	135	3	13	Apparel; paper.
August	43	134			Food; trucking (automobile transportation).
September	63	843			Autos; farm implements; auto parts.
October	38	151			Farm implements; stone, clay, and glass.
November	22	54			
December	27	100	2	12	Electrical equipment; transportation equipment; food stores.
Month unknown					

[1] Those in the private nonagricultural economy.
[2] Two utility agreements covering 13,700 workers are excluded since they have no fixed expiration or reopening date.
[3] Excludes 317,000 workers, 307,000 in the ladies apparel industry whose contracts provide for possible wage reopeners during the year based on increases in the Consumer Price Index.

NOTE: Because of rounding, sums of individual items may not equal totals. This table is based on data available as of January 1972 and therefore understates the number of workers who will actually be bargaining in 1973. At least 4.7 million workers are now expected to be involved in major contract negotiations. Revised data will appear in the January 1973 Monthly Labor Review.

Source: Monthly Labor Review January 1972.

The weight of the evidence currently available indicates that during the entire period of the controls the real wage gains of labor have been very close to what was intended when the phase II guidelines were established. As shown in table 2, real hourly wage gains according to either of the two best available measures have been about 2.9 percent over the past year. However, data for the most recent 6 months available shows a much less satisfactory pattern. This more recent data is important both because it comes closer to showing the current trends of wages and prices and because it covers a period during which the Phase II machinery was fully in operation. During these most recent 6 months, real hourly wages by either of the two measures shown in table 2, have been rising at an annual rate of less than 2 percent. Earnings in current dollars have been rising at a rate slightly below the Pay Board guideline of 5.5 percent per year while consumer prices have been rising at a 3.7 percent rate, which is substantially higher than the 2.5 percent target. The Wholesale Price Index has risen at a rate of 5.7 percent during the last 6 months, indicating that further large increases in consumer prices are in store unless strengthened price controls can succeed quickly in slowing the rise in wholesale prices.

TABLE 2.—SELECTED MEASURES OF WAGE, PRICE, AND PROFIT CHANGE

[Seasonally adjusted]

	Percent change past year	Percent change past 6 months (annual rate)
Wages [1]		
Hourly compensation:		
Current dollars	[2] 6.1	[3] 5.3
1967 dollars	[2] 2.9	[3] 1.8
Average hourly earnings: [4]		
Current dollars	[5] 6.4	[6] 5.2
1967 dollars	[5] 2.9	[6] 1.4
Prices: Consumer Price Index	[5] 3.4	[6] 3.7
Profits: Unit profits, nonfinancial corporations	[2] 6.7	[3] 10.4

[1] Private nonfarm economy.
[2] Change from 3d quarter 1971 to 3d quarter 1972.
[3] Change from 1st quarter 1972 to 3d quarter 1972.
[4] Adjusted for overtime (in manufacturing only) and interindustry employment shifts.
[5] Change from October 1971 to October 1972.
[6] Change from April 1972 to October 1972.

Source: Bureau of Labor Statistics.

Workers who have accepted wage settlements within the Pay Board's guidelines during the past year have been cooperating in a program which was designed to bring the rate of price increase down to 2½ percent. Unless this price target is achieved and achieved quickly, these workers will have good reason to feel that they have been unfairly treated by the program, and the far larger number of workers who will be negotiating in 1973 will have good reason to resist settlements which conform to the 5½ percent guideline. Both out of simple justice to the workers who have already reached settlements and out of concern for a noninflationary pattern of wage settlements in 1973, it seems crucial that the rate of price increase be reduced and reduced quickly. Unfortunately such a reduction is apparently not anticipated by many of those who have made economic forecasts for next year. In the previous section, we have discussed ways of making price control more effective. The additional point to be made here is that at present there is no case for reducing the 5½-percent wage guideline, as some have suggested. Indeed, unless quick progress is made toward more effective price control, it is going to be extremely difficult to enforce even the current guideline for much longer.

> **To date wage control has been measurably more effective than price control. Pending greater progress on price control, any downward revision of the wage guideline would be highly inequitable and would destroy the labor cooperation so essential to enforcement of the standard.**

VII. INCREASING COMPETITION

Any sort of controls program should include not only the stop-gap measures necessary to meet the immediate crisis, but also a comprehensive program to cure the underlying causes of the crisis. Unfortunately, the present control program tried to deal wth the symptoms, but has done practically nothing to cure the disease. Any long-term solution that is to succeed in improving the relationship between unemployment and inflation must be centered about a balanced program of structural reform designed to increase the degree of competition.

The needed reforms are not confined to any one sector of the economy: business, labor, and government are all appropriate targets for change.

The list of reforms might begin with a more clearly designed and consistently enforced antitrust program. It should also include the removal of trade restrictions—both international and domestic.[1] Tax provisions that lure resources out of their natural channels and into tax-sheltered areas must be reformed.

The entire structure of the labor market needs attention. Problems ranging from restrictive labor practices such as featherbedding to providing jobs and training in either private or public employment must be meaningfully dealt with. Age, race, and sex discrimination in hiring and in the whole education and training process that leads to jobs has not been eliminated. Jobs themselves may need redesigning so that they are more desirable and rewarding.

Government at all levels can take effective steps to increase competition. Often regulatory bodies have acted to restrict rather than increase competition; these practices should be changed. Improved procurement policies and minimizing the price-push effects of artificial price supports can also make substantial contributions to a more vigorous competitive economy. Unfortunately, the Administration has moved in the opposite direction as, for example, in its recent action stopping the General Services Administration from acting as a purchasing agent for State and local agencies which are recipients of Federal grants.

The control program should have been accompanied from the beginning by a vigorous and balanced program to reform the structure of the economy in ways which would increase the degree of competition. With the needed structural reforms, it should be possible over time to create an economy in which sensible monetary and fiscal policy together with an active but largely voluntary incomes policy can sustain high levels of employment without inflation. Without the necessary structural reforms, this objective is simply not attainable.

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[1] See note by Senator Humphrey on p. 2.

SUPPLEMENTAL VIEW OF VICE CHAIRMAN PATMAN

With one exception, I am in general agreement with the findings and recommendations of the committee report.

But that one exception constitutes a major shortcoming that must be acknowledged: The failure to even mention interest rates, let alone their control. While the report deals with several aspects of price control, it fails to even mention the price of money which is reflected in the price of everything paid for by the Nation's consumers.

I cannot accept the assertions of the Administration and its Committee on Interest Rates and Dividends claiming that any attempt to regulate interest rates will establish a floor ending any further decline. The fact of the matter is that this hands-off attitude has resulted, at best, in minimal declines in cost of money for the vast majority of the Nation's borrowers—those who seek home mortgage, consumer loan and retail installment credit.

Residential mortgage interest rates have remained intolerably close to the historic high registered during the recession of 1969–70. In point of fact, the effective rates on new home conventional mortgages have been going up during the five month period ending in October, 1972, when the rate stood at 7.62 percent. That figure is only four basis points below the rate that existed for new home mortgages in July of 1971, the last month before the economic stabilization program went into effect. In effect, no progress has been made in terms of lowering residential mortgage rates.

Left to its devices, the Committee on Interest Rates and Dividends apparently will be triggered into action only if home mortgage rates again exceed 8 percent, the housing market once more teeters on the brink of disaster, and virtually every family in the nation is priced out of the housing market.

The Committee on interest rates and dividends itself has reported the same pattern generally exists regarding consumer credit rates charged by commercial banks and finance companies which together hold more than $88 billion in installment debt, 73 percent of the Nation's total installment debt. Consumer installment credit rates charged by commercial banks for new car loans have only dropped from 10.26 percent to 10.01 percent from January to October of 1972. A similar minimal decline is reported by the committee for new car loans made by finance companies which stood at 11.86 percent as of October 1972. The rate on used cars charged by finance companies actually went up from 16.26 percent in December 1971, to 16.67 percent in October 1972.

Commercial bank rates for mobile home loans also showed a barely perceptable decline, from 10.94 percent in January 1972, to 10.66 percent in October 1972. The mobile home rate charged by finance companies dropped from 12.57 percent in March to 12.41 percent in October 1972.

The sad pattern is repeated in the rates charged in installment loans made for the purchase of other consumer goods by commercial banks and finance companies. Commercial bank interest rates on 12 and 24 month consumer loans were well above 12 percent from January to October 1972, and, according to the Committee on Interest Rates and Dividends, rates on comparable loans made by finance companies hovered about the 20 percent mark. It should be pointed out that these figures are averages and that many finance company consumer installment loans are made at rates as high as 36 percent. Moreover, the effective interest rates on commercial bank credit card plans rose during the year, from 17.11 percent in January to 17.23 percent in October 1972.

Prospects for the future are not encouraging. The commercial bank prime rate, which is a base for all other bank rates, has been allowed to rise from 4⅜ percent in February to 5¾ percent in November 1972, a level which is only one-fourth percent below the rate that existed on the eve of the economic stabilization program in July 1971.

A similar rising pattern has been established for short and intermediate term U.S. Government securities and for business loans during 1972. Admittedly, the Committee on Interest Rates and Dividends and other Administration spokesmen have sounded a warning to the banks against any further rise in the prime rate but the warning is in the nature of a plea to avoid the embarrassment of exercising authority to regulate interest rates rather than from a real determination to protect the public interest. At best, this kind of slap on the wrist can serve only as a temporary deterrent. The money market, given the absence of interest rate controls and continued inflationary pressure, expects rates to climb appreciably in the near future. Realistically viewed, the question is not whether rates will go up but rather how much they will rise.

To those charged with achieving it, economic stabilization so far as the price of money is concerned, seems to mean maintaining interest rates at an all the market will bear level.

Of all the administrative inequities marking the economic stabilization program, this is the most glaring. Any real effort to achieve fairness in the economic stabilization program and protect the borrowers of the Nation must begin with immediate regulation of interest rates by requiring that they be lowered to reasonable levels. This is especially true for consumer borrowers. To do less than this is to allow victimization of the Nation's borrowers to continue under a Presidential seal of approval.

SUPPLEMENTAL VIEWS OF SENATOR BENTSEN

I agree with the overall thrust of the Committee Report but I wish to devote these supplemental views to my reservations concerning two of its policy recommendations and to expand my support for two others.

The Report recommends the removal of trade restrictions—both international and domestic. While I concur with a policy of reducing import restrictions on non-strategic goods, I believe that reductions should occur only after a reduction in foreign barriers to U.S. exports. Although unilateral reductions would be useful in the effort to control domestic inflation, our present world trade balance makes unilateral reductions unfeasible.

In 1964 we had a trade surplus of $6.8 billion, a condition which was extremely helpful in countering our deficits in other international transfers. However, since 1964 that trade surplus has been altered; in fact, we had a $2 billion trade deficit in 1971. Moreover, this year our imports have already exceeded exports by over $5 billion. While there has been some easing in this deterioration over the past several months, our trade position remains unsatisfactory. In response to this situation the national mood has become increasingly protectionist. If we are to avoid imposing *additional* import restrictions which would stifle trade and further increase costs to U. S. consumers, the current restrictions must be made the subject of hard bargaining with our trading partners to improve the market for U. S. exports. Such serious trade negotiations are by no means the total solution to the decline in the competitiveness of U. S. goods in world markets but they would be an important first step. I feel very strongly that the Congress as a whole and this Committee in particular should examine the competitive position of the U. S. economy in world trade during the next year.

I also take exception to the Committee recommendation that rent controls should be completely lifted. The Report notes that rental housing remains scarce in certain geographical areas and suggests that if recommended decontrol should lead to excessive rent increases, controls could be re-imposed on an area basis with rebates paid to tenants. However, such procedures could create an administrative nightmare.

As an alternative, I would suggest that rent controls should be eliminated by geographic areas, only after a determination that competitive forces in the decontrolled areas will prevent rapid rent increases. That seems a wiser course than relying on re-imposing controls and supplying rebates to tenants who may have long since moved.

I wish to express my particularly strong support for the recommended exemption from wage controls for workers earning less than $3.50 an hour and the exemption from price controls for firms with fewer than 1,000 employees. Small firms and lower wage employees have played a very small role in creating the inflation psychology which created the recent "cost push" price increases, yet they have often been the most severely restricted and burdened by the control program.

I also wish to express my added support for the contention in the Report that we have not done nearly enough during the control program to reduce unemployment. Although unemployment finally dropped below 5½ percent this past month, it is still far above the level most economists believe can be achieved without creating the "demand pull" inflation caused by a scarcity of labor and capacity.

Of even greater concern to me is our failure to deal with the tough problems of structural unemployment among groups which traditionally suffer high unemployment through expanding public service jobs. I would like to see adequate funding of vocational and bilingual education programs and a broadening of the Age Discrimination in Employment Act of 1967 to cover Federal, State and local governments. Older workers and minority groups have suffered disproportionately from high levels of unemployment.

ADDITIONAL VIEWS OF SENATOR JAVITS

While complimenting Senator Proxmire for the foresight to hold hearings on wage and price controls, whose future may be the most important economic issue before the Nation in 1973, I must take exception to some of the general recommendations set forth in the majority report.

The report says that the present comprehensive controls are a temporary expedient and should be removed as soon as possible, while retaining some form of income policy. My position is that while an incomes policy will be necessary in the immediate future, we should be looking toward a time when controls can be phased out and wage-price controls be dismantled. It would seem to me that after the rate of increase of the CPI is at 3 percent or below for one quarter, this could trigger the beginning of the phase out of the control program over 1 year. When this occurs, I feel that those sectors of the economy which have had the best price and productivity performance should be decontrolled, followed by those sectors whose performances have been less successful.

I cannot agree with the majority proposal to exempt retail firms from the control program. In fact as I have stated, I believe the serious problem of the inflation of food prices as compared with the Consumer Price Index as a whole raises serious questions as to whether or not food at the retail level should be placed under the stabilization program, rather than having all retail prices decontrolled as the majority report suggests.

The majority report suggests that rent controls should be lifted, but with standby authority to reimpose these controls on an area basis if necessary. I do not feel that if we are to allow controls on wages to be continued, it is in the interests of equity to tell the workingman that his landlord may raise his rent while his wages are frozen. Additionally, I feel that rental units are usually concentrated in densely populated metropolitan regions, and that in many of these regions there is inadequate rental space and low vacancy rates, suggesting that the free market mechanism is not working well now.

Finally, a point not discussed in the majority report, but one which I feel is crucial to the future of the controls program, is that a great effort must be made to bring back labor participation in the Pay Board. A large number of important contracts affecting important unions will be up next year, and union participation in the decisions of the Pay Board will be essential. I am aware of the difficulties involved in implementing this plan, but I feel strongly that it deserves a new attempt. If no such compromise can be effected, I feel that the Pay Board should be reorganized and composed of only public members such as is the present composition of the Price Commission.

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