REVIEW OF PHASE II OF THE NEW ECONOMIC PROGRAM

HEARINGS

BEFORE THE

JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES

NINETY-SECOND CONGRESS

SECOND SESSION

APRIL 14, 18, 19, 20, 21, AND 24, 1972

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CONTENTS

WITNESSES AND STATEMENTS

Friday, April 14, 1972

Tuesday, April 18, 1972

Wednesday, April 19, 1972

Thursday, April 20, 1972

Friday, April 21, 1972

MONDAY, APRIL 24, 1972

SUBMISSIONS FOR THE RECORD

FRIDAY, APRIL 14, 1972

TUESDAY, APRIL 18, 1972

WEDNESDAY, APRIL 19, 1972

THURSDAY, APRIL 20, 1972

FRIDAY, APRIL 21, 1972

MONDAY, APRIL 24, 1972

APPENDIX

REVIEW OF PHASE II OF THE NEW ECONOMIC PROGRAM

FRIDAY, APRIL 14, 1972

CONGRESS OF THE UNITED STATES,
JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The committee met, pursuant to notice, at 10:05 a.m., in room 1202, New Senate Office Building, Hon. William Proxmire (chairman of the committee) presiding.

Present: Senators Proxmire and Percy; and Representatives Reuss and Brown.

Also present: John R. Stark, executive director; Loughlin F. McHugh, senior economist; John R. Karlik, Richard F. Kaufman, and Courtenay M. Slater, economists; Lucy A. Falcone and Jerry J. Jasinowski, research economists; George D. Krumbhaar, Jr., and Walter B. Laessig, minority counsels; and Leslie J. Bander, minority economist.

OPENING STATEMENT OF CHAIRMAN PROXMIRE

Chairman PROXMIRE. The committee will come to order.

This morning the Joint Economic Committee is beginning 6 days of hearings in which we will attempt to evaluate the progress of the price and wage control program. Our witnesses this morning are Herbert Stein, Chairman of the Council of Economic Advisers and Vice Chairman of the Cost of Living Council, and Marina Whitman, member of the Council of Economic Advisers, who also has had very substantial experience on the Price Commission. And we are delighted to have that advantage, because, of course, that is one of the major things we want to discuss this morning.

The first comprehensive peacetime price and wage controls in U.S. history have now been in existence for about 8 months—3 months during which prices and wages were frozen, and 5 months of the more flexible phase II controls. Judging by recent administration statements it is probable that the controls will continue for a good many additional months.

Now, did George Meany's walkoff kill the program by destroying confidence that the program can work? Confidence is the one absolutely essential element that this program has to have.

It, therefore, seems more appropriate for this committee at this time to seek answers to some very fundamental questions regarding the controls and their effect on the economy. It is most important that we evaluate these controls as best we can, with a view to making constructive suggestions which may enhance their chances for success.

As I view it, the main questions we wish to investigate are these:

Have the controls kept the rate of inflation below what it would otherwise have been? Have the controls helped to reduce expectations of inflation?

Why, with 5 million unemployed, and excessive industrial capacity, should not inflation have been halted after 8 months of controls?

Have the controls made unemployment worse than it would otherwise have been?

Is the rate of growth of real output less than it would have been without the controls?

Have the controls made the rich richer and the poor poorer?

Is the administration putting us into a controlled socialized economy?

Can 3,000 Internal Revenue agents enforce control over millions of businesses and tens of millions of workers?

Are the Pay Board, the Price Commission, and the Cost of Living Council working together effectively?

If we are to have effective controls we certainly must have public knowledge, because public knowledge is necessary to public confidence. How can we do this, how can we have confidence and knowledge when the program has operated in almost complete secrecy, with one hearing by the Price Commission in 5 months? Why does not the Price Commission hold public hearings in specific cases?

Why cannot the public get the data on which decisions are based?

These are only a few of the many questions which need to be asked, but they are sufficient to give an idea of the things in which the committee is interested. I want to make it clear at the outset that I am a skeptic with regard to phase II. I have never thought that the control system was well designed. While I would be delighted to see some evidence that the program is working better than I have predicted, so far I have seen no such evidence.

According to most of the major price indices, inflation has been—some say, the staff tells me it is worse, and I understand that the Chairman this morning is telling us that it is better—but it is a matter of controversy—during phase II, that is, than it was before the freeze. It is becoming increasingly difficult to see this as only a temporary fault.

The Cost of Living Council has wisely established a 5.5-percent limit, a moderate limit, on wage increases. And most people have the notion, in fact I have had it up until recently, that wages were the primary problem, almost the only problem. Well, we have been wrong. Elements in which the labor content is very little have been rising very rapidly. The wholesale price of lumber has been rising not at a rate of 5.5 percent, but at a more than 22-percent rate; iron and steel scrap, not at 5.5 percent, but 38 percent; copper scrap, not at 5.5 percent, but almost 10 times as rapidly, 40 percent; and hides, over 100 percent.

I do not yet know the reasons for these increases or what can be done to slow the rate of increase. What does seem obvious is that when the prices of raw materials rise, this will sooner or later be reflected in the prices of finished products. This will be so whether or not we are successful in holding down the rate of wage increase. On the face of it, it is hard to be very optimistic about the success of phase II in controlling inflation.

I am also skeptical about the administrative feasibility of phase II. It is too detailed, too complicated, and too uncoordinated. Labor clearly did not feel that its interests were fairly represented. Consumers also feel their complaints are being ignored. Businessmen report frustration in their attempts to deal with the Price Commission. Tenants feel rents have been increased unfairly. If inflation were being controlled, these frustrations might be accepted as the necessary price. But, so far, inflation is not being controlled. The program has high costs and few, if any, identifiable benefits.

So, Mr. Stein, you face a skeptic. I hope you can persuade me that things are better than they seem.

Before I give you the floor I ask you to identify the people who are with you at the table in addition to Mrs. Whitman.

Let me say that I am embarrassed to say this, particularly with you, since you are such an important witness, and so vital to our hearings here, but we have established the precedent, and I think if it is going to be effective, it will have to be continued. And that is we have a timer, and we time witnesses the same as members of the committee. Members of the committee are cut off sharply after 10 minutes. The timer will go on a minute or two before 15 minutes and then at 15 minutes it will ring for some time. Congressman Reuss and I are the only members here now, but I am sure there will be other members a little later. And this is such a hot subject, and we are so anxious to get into it, that we want as much time as possible to question you, and we do not want to keep you after the lunch hour.

So take it away.

JOINT STATEMENT OF HON. HERBERT STEIN, CHAIRMAN, AND MARINA v.N. WHITMAN, MEMBER, COUNSEL OF ECONOMIC ADVISERS, ACCOMPANIED BY RICHARD CHENEY, DEPUTY DIRECTOR, COST OF LIVING COUNCIL; AND JOSEPH E. MULLANEY, GENERAL COUNSEL, COST OF LIVING COUNCIL

Mr. STEIN. Thank you very much, Mr. Chairman.

I will first identify the people with me. The statement which we will deliver is a joint statement by me and Mrs. Whitman, members of the Council of Economic Advisers.

I think this morning we passed some kind of watershed, because this is the first time that I have appeared with Mrs. Whitman when the chairman has not remarked on the fact that the average pulchritude of the Council of Economic Advisers has been improved.

Chairman PROXMIRE. Well, I always thought you were a beautiful man.

Mr. STEIN. But I just discovered that that comment was not really a comment on me but a comment on the member of the Council to my right.

We have Mr. Cheney, who is the Deputy Director of the Cost of Living Council in charge of operations, and who can answer questions on that aspect of things.

And Mr. Mullaney, who is General Counsel of the Cost of Living Council. And in a way we appear here both for the CEA and for the

Cost of Living Council, of which I am the Vice Chairman, and Mrs. Whitman works with this senior review group.

I want to thank you for setting this date. And it will be very helpful in permitting me to fulfill my plan of leaving th country this evening as soon as possible after the testimony.

The question you have already asked would take several hours to answer. But I will go very briefly through our joint statement. We have submitted a joint prepared statement of some length, which I hope will be included in the record, and which I hope that you and others will read.

Chairman PROXMIRE. Yes, without objection, the entire joint prepared statement will be placed in the record.

Mr. STEIN. Because it is of considerable importance.

I certainly agree with you that this program depends for its success upon public understanding. And we hope that this hearing will contribute to public understanding, and will cut through some of the partisan debate which is going on about this subject.

We will summarize our view of the present situation very briefly. The phase I and phase II programs—the freeze and its successor—have dramatically reduced the anxiety in the country. We can see this in all polls, the state of consumer confidence, and the business confidence, the behavior of the stock market, and in many other ways. And the fact, as Mrs. Whitman pointed out, that people are so shocked at seeing some prices going up indicates how their expectations have changed.

The programs have significantly reduced the rate of inflation below what it was before the freeze, and below what it almost certainly would have been without the freeze. I think as people have faced the program these days they have forgotten the anxiety, the kind of fears which existed last July and August which led to the institution of these programs, even when you compare the admittedly flawed behavior of the program with the more ideal situation which has not existed for a long time, if ever. Anyway, these programs have contributed to a more rapid rise of real wages; that is, to a more rapid rise of wages relative to cost of living. And they have contributed to an increase of over 1.8 million in the number of employed workers from the second quarter of 1971 to the first quarter of 1972.

We believe that the price and wage control system will continue to contribute to slowing down the rate of inflation and to the expansion of output and employment. We cannot say we are sure that the system as it now exists will achieve our goal of getting the rate of inflation down to the 2 to 3 percent annual rate by the end of the year. But this statement should not be misinterpreted. We are not saying the program as now constituted will not achieve the target. We are saying that we cannot be sure it will achieve the target. Therefore, we—the CEA, the Cost of Living Council, the Price Commission, and the Pay Board—must be constantly monitoring it to see whether it has a reasonable prospect of reaching the goal and to see what we can do to increase the likelihood of doing so. Our confidence in achieving the goal is largely based on he determination and flexibility of everyone concerned, starting with the President, and on the support of the American people.

Much of the recent concern about the effectiveness of the program has focused on the price of food, especially of meat. But the sharp rise of meat prices from November to February was essentially unrelated to the control program, and reflected earlier developments affecting supply plus the increase of demand that came with increased employment. Moreover, the rise was temporary. A decline of 3½ percent in meat prices between February and March has already been shown in the wholesale price index. Retail meat prices have now also begun to decline, and this will be reflected in the price statistics for April. Food prices will fluctuate, as they always do, but the worst of the rise is behind us.

We are aware of the numerous hazards to which price and wage control systems are exposed. I suppose nobody did more than we to explain these hazards, notably to this committee: The historical record shows classic routes to trouble—the resistance of one or another sector of the economy, inability to handle the mass of paperwork, tolerance of excessive inflationary pressure, and interference with productivity growth. Being aware of these hazards we think we have a good chance to avoid them and are consciously devoting our efforts to doing so.

Now, I would turn, since there is so little time, to what has actually been happening to prices under the new program. And this is summarized very well in the table of our joint prepared statement.

Probably the most significant thing to say is that during the period of the new policy, including both phases I and II, the Consumer Price Index rose at an average rate of 3.3 percent compared to an annual rate of 4.1 percent in the 6 months of the freeze.

And the gradual decline in consumer prices, looking at the 6-month period in order to avoid monthly aberrations, is shown in the chart that is up there. [Showing chart.]

It is especially noteworthy that for commodities, other than food, consumer prices rose during the August-February period at an annual rate of nine-tenths of 1 percent. [Showing chart.]

Here we see the very erratic behavior of food prices and the recent increases of food prices which have contributed so much to the change in the total. [Showing chart.]

But, if we can look at the next chart, we will see the very encouraging and safe behavior of consumer prices for nonfood commodities. Again, if we look at wholesale prices, we see that in the period from August 1971 to March 1972, all commodities which are not shown in this chart rose at an annual rate of 3.1 percent compared to 4.6 percent before the freeze. [Showing chart.]

We think that the more significant thing is the behavior of industrial prices at wholesale, which rose at an annual rate of 1.8 percent during the period of the new economic policy, compared to 5.7 percent before the freeze. And also we see some decline, although a small one, in the rate of increase of what is probably the best measure of average hourly earnings. These rose at an annual rate of 6.1 percent in the period since the freeze compared to 6.8 percent after the freeze.

Now, it is, of course, significant to divide the behavior of prices into what happened during the freeze and what happened in the 3 or 4 months of phase II for which we have data. And, of course, it is true, as many people have pointed out, that prices rose more rapidly in phase II than during the freeze. And that was only naturally to be expected. But the significance of the rise of prices during phase II has to be understood in the light of two basic facts. The first is that the rise during phase II so far to some extent reflects the fact that prices had been held down so rigidly during the freeze. And that is what is meant by saying that we have been having a bulge, that a lot of price increases, based on previously occurring cost increases, did become possible immediately after the freeze, and that a lot of permissions were given to raise prices over a period of time. And when those permissions were utilized in the few weeks after the freeze, they again contributed to the bulge.

We do have some evidence that the bulge is tapering off. For one thing, industrial prices at wholesale in March rose a little less than in February. And a more significant thing, or at least a very significant thing commonly noted, is that increases awarded by the Price Commission in relation to the total sales of companies in tier 1 has been somewhat less in the later months of the postfreeze period than in the earlier months.

The other, of course, very important aspect of what has been happening in the postfreeze period has been the big rise in food prices.

I pointed this out on one occasion, and Mr. Buchwald made quite a joke about this in a column in the Washington Post and elsewhere, the implication being that if we could look at prices other than food that we could live without eating. That was not my point, although one could at least live without eating in Sans Souci.

But the point is that food prices are excessively volatile, and when they go up often they come down again. And we have seen this happen, of course, as I have just said, with respect to meat. And we are quite sure that we are not going to have anything like the recent rise of food prices during the remainder of this year.

Well, we have made some effort. The Cost of Living Council, the Price Commission and the Pay Board all have been studying the prospects for the behavior of prices during the remainder of this year under this program. And this is a very difficult thing to do. I think it is fair to say that we cannot assemble a mass of evidence which will incontrovertably demonstrate that we are going to get down to the 2/3 rate as of the end of the year with the present programs. But neither can the contrary be proved.

And we have a good deal of confidence which is based essentially on three propositions. First, we believe that if you look at the standards set by the Price Commission and the Pay Board together, the basic 5.5 percent, with some exceptions, the basic rule of cost pass through limited by profit margins, that these do add up to, in a period of normally rising productivity, these do add up to a rate of price increase in the neighborhood of 2 to 3 percent.

We know that there are a number of exceptions granted to the pay increases. But on the average the pay increases awarded by the Pay Board have been well within the 5½-percent limit; that is, the average pay increase granted by the Pay Board has been about 3 percent. And the average price increase approved by the Price Commission has been about 1.6 percent of the sales to companies that got increases, and about 1.1 percent of the sales of all the companies in tier 1.

A second reason for confidence is that, of course, we are counting on the control system only to push prices in the direction of equilibrium; that is, we are not counting on the control system in general to resist strong market pressure. And that is what distinguishes this control system from others. And the main point is that we, the Cost of Living Council, the President's Price Commission, and the Pay Board, are all devoted to the objective, and are prepared to consider amendment of the rules with respect to any part of the system if it appears convincingly that we are not on the way to doing it.

And in this connection I should say that we welcome the suggestions that we have received from the Joint Economic Committee and from the chairman. And we do not come here to defend to the last comma everything that we have done to this point, but to discuss the approaches to our common problems.

If you look at our joint prepared statement you will see a considerable review of the issues that we discussed, the alternatives that were considered, on the path to getting the kind of system we have, the system of which you expressed considerable skepticism. I can only assure you that we did not just fall into this system or get into it without considering the alternatives. I am sure that we are not in any degree naive or wishful about it. It is our considered contribution to the present problem. But we are, as I say, continuously in the process of considering modifications, and we welcome your suggestions.

And with that I think I will conclude.

(The joint prepared statement of Mr. Stein and Mrs. Whitman follows:)

JOINT PREPARED STATEMENT OF HON. HERBERT STEIN AND MARINA V.N. WHITMAN

We welcome these hearings and the opportunity to discuss the economic stabilization program with you. This program, more than most others, depends for its success on public understanding. The program is addressed to national problems of overriding importance; its success is important to the nation, and not just to this Administration. Its characteristics reflect a consensus of what should be done to deal with these problems. The program is largely being carried out by nonpartisan citizens groups and relies basically on voluntary, national support and compliance. Therefore, it is especially appropriate that those who are close to the program should report on its progress and problems and that others should be given a chance for constructive criticism and suggestions.

We summarize our view of the present situation briefly at the outset. The Phase I and Phase II programs—the freeze and its successor—have dramatically reduced the anxiety in the country. They have significantly reduced the rate of inflation below what it was before the freeze and below what it almost certainly would have been without the freeze. They have contributed to a more rapid rise of real wages, i.e., to a more rapid rise of wages relative to the cost of living. They have contribured to an increase of over 1.8 million in the number of employed workers, from the second quarter of 1971 to the first quarter of 1972.

We believe that the price and wage control system will continue to contribute to slowing down the rate of inflation and to the expansion of output and employment. We cannot say we are sure that the system *as it now exists* will achieve our goal of getting the rate of inflation down to the 2 to 3 percent annual rate by the end of the year. But this statement should not be misinterpreted. We are not saying the program as now constituted will *not* achieve the target. We are saying that we cannot be sure it will achieve the target. Therefore we—the CEA, the Cost of Living Council, the Price Commission and the Pay Board—must be constantly monitoring it to see whether it has a reasonable prospect of reaching the goal and to see what we can do to increase the likelihood of doing so. Our confidence in achieving the goal is largely based on the determination and flexibility of everyone concerned, starting with the President, and on the support of the American people.

Much of the recent concern about the effectiveness of the program has focussed on the price of food, especially of meat. But the sharp rise of meat prices from November to February was essentially unrelated to the control program, and reflected earlier developments affecting supply plus the increase of demand that came with increased employment. Moreover, the rise was temporary. A decline of 3½ percent in meat prices between February and March has already been shown in the wholesale price index. Retail meat prices have now also begun to decline, and this will be reflected in the price statistics for April. Food prices will fluctuate, as they always do, but the worst of the rise is behind us.

We are aware of the numerous hazards to which price and wage control systems are exposed. The historical record shows classic routes to trouble—the resistance of one or another sector of the economy, inability to handle the mass of paperwork, tolerance of excessive inflationary pressure, and interference with productivity growth. Being aware of these hazards we think we have a good chance to avoid them and are consciously devoting our efforts to doing so.

We do not expect anything like the present control system to be a permanent part of the American economy. But what follows Phase II is an open question. One possibility, which should certainly not be ruled out, is that we return to essentially the uncontrolled system which existed before August 15, 1971, and without any serious change in the structure of the private economy. In a formal sense, at least, the range of possibilities includes controls of different degrees of coverage backed up by greater or smaller amounts of compulsion. What will be appropriate will depend upon answers we don't yet have to questions about the nature of the American economy, and about the causes of the economic dilemmas which led to the adoption of the present program. The Council of Economic Advisers, the Cost of Living Council, and other bodies are now studying what comes after Phase II. However, it is probably true that the answer to that question will be determined by our experience in the remainder of Phase II, and by public perception of that experience, more than by anything else.

To appreciate what is going on in Phase II today it is necessary to review the conditions which gave rise to it, the alternatives which were considered, and the reasons for the decisions that were made. Nothing is easier than to point to flaws in the present system and to inadequacies in the present state of the economy. The rate of inflation and the rate of unemployment are still higher than anyone would like. Unless one is aware of the history it is all too easy to imagine that there must be some other set of policies which would surely eradicate these evils. But the fact is that the present policies for all their deficiencies were chosen after serious consideration of the alternatives by reasonably informed and objective people, who concluded that the probable outcome of the alternatives was inferior. After eight months of experience we see no reason to think that these judgments were wrong and that there was or is some "Open, Sesame!" which remains unspoken.

In the Summer of 1971 the United States was swept by a wave of anxiety about the economy. The rate of inflation had diminished from its peak, but less than had been commonly expected and hoped. The economy was rising, but not fast enough to reduce unemployment. These present objective conditions were serious, but the more acute problem lay in the prospect. There was a widespread fear either that the much desired revival of the economy would start the inflation accelerating again or that the expectation of inflation would prevent the revival. And beyond these specific fears was a nameless worry evident on all sides.

This anxiety was commonly joined with a belief that our problems could be resolved or at least reduced by some kind of price and wage control system which in those days we used to call "income policy." The history of such policies was filled with lessons of their disadvantages and inadequacies, which the Council of Economic Advisers pointed out repeatedly to this Committee and in other forums. But a point was reached at which these arguments were no longer compelling. It would have been irresponsibly unprincipled to have abandoned the classical, free market approach to our problems before giving them a full trial. But after a point, to have refused to try for the gains, however limited and temporary, that controls might offer, would have been irresponsibly dogmatic.

While there was widespread support for some kind of incomes policy, there was little agreement on the nature of the policy. Congress had overwhelmingly enacted a law giving the President authority to impose mandatory price, wage and rent controls, but Congress had shown no inclination to impose the controls on its own initiative. Most talk focussed on a voluntary program, involving a plea for cooperation by large businesses and unions in adhering to certain standards of price-wage behavior. However, what the standards should be, to whom they should apply, who was to make the plea and a number of other critical questions remained unanswered.

The Administration had studied the various options repeatedly, almost from the first month it was in office in 1969. By the time for action came in 1971 the conclusion had already been reached that the action would take the form of a comprehensive, mandatory freeze. There were several reasons for that decision. One compelling reason was that if the first step was more limited, there would be general expectation of later escalation of controls, which would lead to a rush to raise prices and wages in advance and thus immediately undermine the initial controls. Also, the need was conceived of as largely psychological—that is, to create the expectation that the government would in fact control inflation—and starting out with the most forceful measures seemed best designed to give the desired psychological jolt. Moreover, review of our own experience and that of other countries led to skepticism about the effectiveness of moral suasion alone, especially if applied to one part of the economy which would at once consider itself unfairly treated.

Of course, there were risks in the freeze as well. It required us to start from scratch with no staff and no regulations to control almost the entire U.S. economy. It would be regarded as unfair by many people and in a certain sense it would be unfair. It would distort production in some cases. If for these or other reasons the freeze did not hold, we would have no place to go.

Nevertheless these risks were taken and, as it turned out, the decision was correct. After a few days of honeymoon we ran into a barrage of criticism from the press which called the system confusing, a mess and a failure. However, before it was over even the press came to regard the freeze as a great success. An enormous administrative task was performed with great efficiency by a small staff almost literally conjured up from nowhere. During the three months of the freeze the consumer price index rose at an annual rate of only 1.7 percent. Commodities other than food did not rise at all. Wholesale prices *declined* at an annual rate of 0.8 percent and wholesale industrial prices declined at an annual rate of 1.3 percent. Average hourly earnings rose at a rate of 2.3 percent, although some additional increases for this period were later granted retroactively. This remarkable achievement can only be explained by the feeling of national purpose which inspired the American people at that time.

Of course we knew that the freeze could not last for long. One of the most urgent tasks during the freeze was to decide what should follow it. In the making of this decision a great many options were seriously considered. These options ranged from complete abandonment of controls to a total, tailored and minutely-enforced system on the model of the wartime OPA as it finally evolved. There were a few issues then which persist today, in the form of suggestions about what we should have done then or should now do, and we may discuss them briefly.

One of these issues was whether the controls should be slimmed down to cover only a very few—say a few hundred—large corporations and unions. That would have greatly restricted the administrative problem. However, we did not believe that, at least in the circumstances of 1971 and 1972, the inflation problem was confined to a few large economic units; we thought rather that it had pervaded the whole economy. Moreover, the freeze had given rise to widespread expectations that the controls would protect the consumer at every point, and it seemed dangerous to frustrate this belief until it was demonstrated that the inflation was under control. Also, we were concerned that the controlled sector of the economy would consider the system unfair if a large part of the economy remained uncontrolled. This might reduce the willingness of the controlled sector to cooperate and render the whole system ineffective.

Nevertheless, we had to recognize that administrative requirements alone would require that closer attention be paid to the larger economic units than to the smaller ones. A given amount of antiinflationary effect on the economy could be obtained from limited staff if the staff efforts were concentrated on the larger economic units, where individual economic decisions affected a very much larger part of the total economy and of the total behavior of prices. It was for that reason that the system was devised of classifying economic units into three categories, Tiers 1, 2 and 3. The largest units, those in Tier 1, were required to notify the authorities in advance of their intention to raise wages or prices and were subject to close analysis before the increases were permitted. A second tier of the economy, firms and bargaining units of medium size, were required to report regularly so that their behavior could be monitored and corrected if it was out of step with the requirements of the system, but they were not required to secure advance approval for their actions. The third sector, including by far the largest number of firms and workers, were expected to observe the general regulations of the system, but would not be required to report regularly. They would be subject to spot checks, and complaints against them would be investigated. We knew from the beginning, in this as in many other respects, of course, that our initial decisions would have to be adapted as time went on and as experience indicated the need for change. In this field of coverage we have been continuously concerned with tailoring the system to our administrative capabilities in order to get the maximum possible effect.

A second major issue of planning for Phase II had to do with the structure of the control system. A key question was the extent to which the sectors of the private economy, notably labor and business, should be involved in making decisions about permissible increases. In our previous experiences with wage and price control, during World War II and the Korean War, wage control had been largely under the jurisdiction of tripartite boards representing labor, management, and the general public. We received a great deal of advice last fall to the effect that we should not repeat this pattern. It was suggested to us that the tripartite pattern was essentially an engine of inflation because the labor members would support extremely high demands for wage increases and the public members would always find themselves in the position of making concessions to these demands to keep the tripartite system in existence.

However, while recognizing some force to this position, we concluded that we would do better to proceed with a tripartite system in which labor and business as well as the general public would be represented. For one thing, this was the system with which labor was familiar and which the leaders of organized labor urged upon us. More important, we recognized from our own experience and from the experience of other countries that the cooperation of labor, by which we mean the cooperation of working people as distinguished from the cooperation of labor leadership, was essential to the success of the program. The program would not work if the working people regarded the settlements proposed as unfair. We thought that the presence of the labor leadership on the board that determined permissible pay increases would help to insure that the pay increases permitted were fair to workers and, which is not quite the same thing, to insure that workers themselves would regard the outcome as fair. This advantage seemed to us to outweigh the possible disadvantages of a tripartite system. Of course, we recognized that the presence of the labor leadership was not indispensible for the cooperation of working people. We believed that the system could be managed in a way that would justify and would receive the support of working people. However, we thought this would be better assured and communication would be better if we did have the participation of the labor people.

Once it was decided that pay decisions should be made by a tripartite board a good deal of the rest of the organization was almost automatically determined. For example, the question whether pay and price decisions should be made by one body or by two was determined once it had been decided to have a tripartite board for pay, because no one thought it would be reasonable to have this same tripartite board making the price decisions. Moreover, partly because this then gave us a separate Pay Board and a Price Commission there was need for some overall coordinating body which was the Cost of Living Council. A good deal of attention was paid in the early days, as you may remember, to the question of the relationship between the Pay Board and the Price Commission on the one hand and the Cost of Living Council, as the President's chief agent, on the other. This was worked out in what seemed a satisfactory manner with the decision that the Cost of Living Council would not review the decisions of the other bodies in particular cases, that it would not control their specific standards in advance, but that it would have an overall coordinating responsibility, that it would observe the total effectiveness of the program with a view to taking such action as might be necessary to assure achievement of the President's objectives, and that it would make decisions on the questions of coverage and classification.

A third major area for discussion and consideration during the period of planning for Phase II related to the standards for permissible price and wage increases. In the end, of course, this became a matter for determination by the Pay Board and the Price Commission. However, a view was developed in the Cost of Living Council during the period of Phase I about the general nature of these standards and the Price Commission and Pay Board independently came more or less to this same position. The question was essentially how freeze-like the initial Phase II standards should be. Should an attempt be made to hold very close to zero price and wage increases or very close to some across-the-board flat rate of increase or should room be allowed for the pass-through of cost increases and for catch-up and for other factors which might reasonably be thought to justify increases. The outcome of our discussions of this matter was that a considerable degree of flexibility would be required. We did not conceive of ourselves as moving into the kind of meticulously-tailored, item-by-item, price control system that the OPA became in its final days. Even though we hoped the standards of Phase II would not be as crude as those of the freeze, they would nevertheless be fairly crude and would require a great deal of tolerance by the economy if they were to be accepted. But, nevertheless, we did think that room had to be allowed in the standards for dealing with particular thorny problems in order to avoid any irreconciliable confrontations between the system and particular private sectors. What was developed was a kind of very general set of standards which revolved around the idea of wages increasing at approximately the rate of increase of productivity plus the target rate of price increase and of prices rising more or less in proportion to costs, subject to a limitation on the profit margins that might be realized. A variety of exceptions was provided for this from the beginning and subsequently as time went on. However, it seemed to us that this kind of standard had the advantage of being intuitively fair in the sense that it would more or less preserve the distribution of income between labor and other factors that might have been expected in a normal noninflationary economic expansion and that it would allow room for taking care of particular problems of specific cases.

In general terms this was the kind of system that was set in motion on November 14 when the freeze ended and Phase II went into effect. This system was modified in fairly important respects by the Economic Stabilization Act as passed by the Congress and signed by the President. In particular, the Act provided for certain increases in pay which might not have been otherwise permitted by the standards of the Board. For example, it required retroactive payment for increases which had been held up during the freeze period, at least under a fairly wide set of circumstances. It exempted from controls certain important parts of fringe benefit increases. And it exempted from control wage increases which did not bring earnings above the level represented by the income of the working poor.

Since the system was launched by the President's decisions and the Act of Congress last November and December, there have been, of course, a number of developments in it. Many of these relate to the elaboration of the standards and the procedures which will be discussed, I am sure, by Judge Boldt and Dean Grayson when they appear before you next week. I will call attention only to two matters which have been of particular concern to the Cost of Living Council. One has been the question of the coverage of the system. We have been greatly impressed from the beginning with the enormous number of economic units which are subject to the control system and with enormous volume of administrative work (in the handling of complaints, inquiries, requests for exemptions and exceptions and so on) which this large number imposes upon the Government in managing the system. This system imposes an even greater amount of paperwork upon the private economic units themselves in assuring their own conformity with it. Therefore, we have been seeking ways in which this burden upon both the public and the private sectors could be reduced without significantly weakening the effectiveness of the control system. In fact, it has been our general view that insofar as we could reduce this burden we could increase the effectiveness of the system by concentrating our efforts more directly on the economic units which might be of greater consequence for the overall result. We think that this view of the problem is not only shared by the Congress but is really an instruction to us from the Congress in the form of the provision of the Economic Stabilization Act which requires us to pay attention to the possibility of excluding small businesses from controls. Our first step in response to this problem was the decision to exclude from controls all retail establishments doing less than $100,000 worth of sales per annum. We have also excluded from control rental units in a number of special situations. We continue to study this question trying to determine how far it may be possible for us to go in excluding firms and employee units from control while strengthening rather than reducing the effectiveness of the system. We, as we have indicated, consider that we have a mandate from the Congress to do that.

Our philosophy in approaching this problem is to make exclusions from the bottom up, that is to exclude the very smallest firms, of which there are millions, with the idea that their price behavior in any case would be rather effectively disciplined by the competition of the remaining firms that are still under control. Our philosophy is not to count from the top down in order to find a very limited number of large firms and bargaining units who should be kept under control on the theory that they alone are responsible for the inflation. It does remain our plan to maintain the closest surveillance over the largest firms.

We should also make clear that we regard the system as retaining its initial voluntary cooperative character. The fact that we have exempted some units from the requirements of the control system does not mean that we regard them as relieved of their responsibilities as members of this economy to participate in this voluntary effort and to exercise restraint in the pricing and wage-making policies along the lines of the standards which have been set up by the Pay Board and the Price Commission. This, it seems to us, is a very important point. The essence of the system on which we are now embarked is that it is a temporary emergency system, deserving the voluntary cooperation of the public, and the fact that we may confine the administrative machinery, the reporting, the enforcing, the red-tape and so on to a particular sector of the economy does not mean that the remainder of the economy is relieved of its responsibilities for conformity.

A second development which has, of course, been of concern to the Cost of Living Council and to the President has been the withdrawal of four of the five labor union leaders who were initially appointed as members of the Pay Board. This has required a restructuring of the Pay Board from its initial tripartite character to one in which, like the Price Commission, there are seven members, all of whom are considered to be representative of the general public, although in the particular case of the Pay Board there is one member whose experience and contacts are primarily with organized labor, just as there is also one member whose experience and contacts are primarily with business. This shift of the structure of the Pay Board has not, as far as we can see, diminished the effectiveness of the Board in handling the problems before it. The Board continues to operate with the general standards which were initially devised by the tripartite Board that was set up in November and in which the labor members participated. During the period when it was tripartite the great majority of the decisions made by the Board were decisions in which the labor membership concurred. We see no reason to think that the Board as now constituted will depart from principles and practices of behavior which will be recognized as fair by the working people of this country and, as we see it, the evidence is strong that the system is working in a way that is beneficial to labor people and will continue to do so regardless of the absence of a certain number of labor leaders.

There was another aspect of the original arrangements which caused some anxiety at the beginning and about which we might say a few words. That had to do with the relations between the Cost of Living Council on the one hand and the Pay Board and Price Commission on the other hand. Although there was a good deal of worry in the early days about the precise language in which the relationship between these bodies would be expressed, it is fair to say that in the five months since Phase II began the relationship has been a most constructive one without any serious jurisdictional disputes having arisen. The Cost of Living Council as a body and in its individual membership has been quite correct in not injecting itself into individual case decisions being made by the Pay Board and the Price Commission. Moreover, the Cost of Living Council has not attempted to direct the other bodies in the standards which they have set. The Cost of Living Council and its members and supportive groups have been available to provide advice to the Pay Board and Price Commission about matters that they wanted to refer to the Cost of Living Council. This has been only natural in view of the fact that the Cost of Living Council had been giving a great deal of attention to all of these matters before the Pay Board and Price Commission ever entered the scene and because of the broad knowledge and interests which the members of the Cost of Living Council could bring to bear on the questions which confronted the Pay Board and the Price Commission. However, this advisory relationship has I think not been abused or misunderstood at all. Similarly, and in the other direction, the Cost of Living Council has always sought the advice of the Pay Board and the Price Commission when it was considering policy issues that affected them, particularly policy issues with respect to coverage of the system.

We turn now to the evidence on the effectiveness of the system to date. We shall not go into the administrative area of the numbers of inquiries, complaints, requests for exceptions and other matters that have been handled. Mr. Cheyney of the Cost of Living Council staff is here and can describe the operational situation to you if you wish.

Instead we shall concentrate on the course of the inflation during the program to date and on its prospects for the future. The table on the following page summarizes most of the relevant information. Probably the most significant thing to say is that during the period of the new policy, including both Phases I and II, the consumer price index rose at an annual rate of 3.3 percent compared to an annual rate of 4.1 percent in the six months prior to the freeze. It is especially noteworthy that for commodities other than foods consumer prices rose during the August-February period at an annual rate of 0.9 percent, as compared to an annual rate of 3.7 percent in the period before the freeze. If we look at wholesale prices again we see that in the period from August 1971 to March 1972 all commodities rose at an annual rate of 3.1 percent compared to 4.6 percent before the freeze. The contrast is even stronger if we look at industrial prices at wholesale which rose at an annual rate of 1.8 percent during the period of the new economic policy compared to 5.7 percent before the freeze. Also we see some decline, although a small one, in the rate of increase in what is probably the best measure of average hourly earnings. These rose at an annual rate of 6.1 percent in the period since the freeze compared to 6.8 percent in the six months before the freeze.

MEASURES OF PRICE AND WAGE CHANGES BEFORE AND DURING THE PRICE-WAGE-RENT STABILIZATION PROGRAM

[Percent change, seasonally adjusted annual rate]

Price or wage measure	6 months prior to Phase I: February to August 1971	Phase I: August to November 1971	Phase II: November 1971 to March 1972	Phases I and II: August 1971 to March 1972
Consumer price indexes:				
All items	4.1	1.7	[1] 4.9	[1] 3.3
Food	5.4	1.7	[1] 9.3	[1] 5.4
Commodities less food	3.7	.0	[1] 1.7	[1] .9
Services [2]	4.5	3.1	[1] 4.4	[1] 3.7
Rent [2]	3.9	2.8	[1] 3.1	[1] 3.0
All items less food	3.7	2.3	[1] 2.9	[1] 2.6
Wholesale price indexes:				
All commodities	4.6	−.8	6.0	3.1
Farm products, processed foods, and feeds [3]	2.3	.0	12.0	6.7
Industrial commodities	5.7	−1.3	4.2	1.8
Earnings of private nonfarm production workers:				
Earnings in current dollars:				
Adjusted hourly [4]	6.8	1.9	9.3	6.1
Gross weekly	6.1	4.6	8.9	7.0
Spendable weekly [5]	5.4	4.1	12.6	8.8
Earnings in constant dollars:				
Adjusted hourly [4]	2.6	.3	[1] 4.7	[1] 2.4
Gross weekly	1.9	2.9	[1] 4.4	[1] 3.6
Spendable weekly [5]	1.3	2.4	[1] 9.6	[1] 5.9

[1] Data through February 1972.
[2] Not seasonally adjusted; data contain almost no seasonal movements.
[3] Raw agricultural products are exempt from the price controls.
[4] Adjusted for overtime (manufacturing only) and for interindustry employment shifts.
[5] Worker with 3 dependents.

Source: Department of Labor.

The period of the new economic policy naturally divides itself into two parts, first the freeze and second the Phase II period. It is obvious, of course, that prices rose more rapidly in Phase II than they did during the freeze. Indeed for consumer prices in total and wholesale prices in total the increase was more rapid in the months of Phase II than it had been in the period before the freeze. However, this should not be interpreted as an indication the policy is failing to restrain the rate of inflation. There are two very important factors which must be taken into account in looking at the overall price increases for the period of Phase II.

First, the period of Phase II cannot be interpreted in isolation from the fact that it followed three months of freeze. The rise of prices in the months immediately after the freeze was in some considerable degree a response to the fact that price increases had been held down so severely during the freeze itself. This is what is meant by saying that we had a post-freeze bulge. Since the bulge concept is so important in appraising the significance of recent information, its meaning should be made clear. In the weeks and months immediately after the freeze ended companies were permitted to raise prices on the basis of cost increases occurring since the base period, that is since the pre-freeze month. In many cases these cost increases were the result of pay increases which had either been negotiated before the freeze went into effect or which had been negotiated subsequently to take effect after the freeze ended. Thus, we got concentrated in a short period after the freeze ended a large number of price increases of a non-recurrent nature reflecting previous developments. Moreover, once these price increases were permitted and put into effect, the occasion for subsequent price increase would in most cases not arise again for some time. For example, a significant part of the increase of prices permitted by the Price Commission in Phase II has been permitted under the term limit pricing program which permits a company to raise its prices by some stipulated amount, say 2 percent, but prohibits them from making a further price increase over a considerable period after this initial increase has been made. This, again, tended to concentrate in a very limited period a large volume of price increases which would not be repeated thereafter and which were not representative of the rate of inflation which could be expected later.

The fact that the system would tend to generate a bulge is of course inherent in its basic nature, and we have no doubt that it has occurred. The question of the size of the bulge and how much of the recent prices increase has been an aspect of the bulge is still unresolved. Nevertheless, we think that we begin to see in the March figures for industrial prices at wholesale some beginnings of the end of the bulge because the price increases in March were less than in February in total and in a great many specific categories.

The second significant aspect of the post-freeze price increase which cannot be overlooked in interpreting it the very strong concentration of these price increases in the food sector. Although both the total consumer price index and the total wholesale price index rose more rapidly during Phase II than they did before the freeze, neither the wholesale price index excluding food nor the consumer price index excluding food rose as fast after the freeze as in the pre-freeze period.

Now one can naturally ask why should food be excluded? Mr. Art Buchwald raised this question with the implication that by suggesting that we should look at the price indexes as they would be without food, we are suggesting that people could live without eating. This, of course, is not our point. Our point is that there is something special about food prices which make them unrepresentative of the effectiveness of the controls program.

In the first place the prices of unprocessed foods are not controlled. This is commonly misunderstood by people who think it means that the prices of food at the retail stores are uncontrolled. However, this is not the case for most foods. The prices of most foods at retail are controlled, but they are controlled subject to the condition that the retailer, like the wholesaler and the processor, is permitted to pass through in increased prices cost increases that arise at earlier stages in the production and distribution process. As a result, when the uncontrolled prices of unprocessed foods rise, the prices of foods at retail are also likely to rise. Therefore, the behavior of the prices of food is not representative of the effectiveness that may be expected from the control system.

In the second place as is well known the prices of food are extremely volatile and increases in their prices are subject to sharp reversals. In fact, meat prices, which were the main element in the recent rise of food prices, have declined at wholesale since they reached their peak in February, and prices of meats at retail have also declined since early March. The wholesale price index for March showed a decline of 0.3 percent in the wholesale prices of processed food, feeds and farm products. This is another reason for saying that the behavior of food prices during the recent sharp run-up is not at all representative of what is likely to happen under the control program during the remainder of the year. In fact, while it is perfectly safe to say that the prices of foods will fluctuate, it is also fairly safe to say that the period of most rapid increase in food prices is behind us.

With that understood it becomes possible to look at the price performance in Phase II in a more realistic way and get a better picture of probable continuing trend. When we do that we see, for example, that consumer prices of commodities excluding foods rose at an annual rate of 1.7 percent in the post-freeze period compared to 3.7 percent in the pre-freeze period. Similarly the wholesale prices of industrial products rose at an annual rate of 4.2 percent in the post-freeze period compared to 5.7 percent in the pre-freeze period. Moreover, the most recent increases both in wholesale industrial prices and in nonfood commodities at retail have been less than the average of the Phase II period.

The most worrisome aspect of the inflation picture outside the food sector in Phase II has been the behavior of wages. As measured by hourly earnings adjusted for overtime and inter-industry shifts, the increase in the Phase II period has been at the annual rate of 9.3 percent, as compared to 6.8 percent in the pre-freeze months. However, there is some hope in this situation also, because the post-freeze figures are dominated by an enormous increase in wages during the month of December when there was a great deal of catching up of increases deferred during the freeze.

Another way of looking at the effect of the control system on prices and wages is to look at the increases that have actually been approved. From the beginning the Phase II average price increase granted by the Price Commission on products covered by price increases for the largest firms, that is the Tier 1 firms has been 3.2 percent. However, even for the firms that were granted price increases, the price increases did not extend across-the-board to all their products, so that the average price increase on the total sales of the firms that were granted price increases was 1.6 percent. Furthermore, there have been a large number of firms that have not been granted any price increases at all during the Phase II period. When that is taken into account, and the price increases granted by the Commission are expressed as a percentage of total sales of all the firms in Tier 1, the price increase granted amounts to only a little over 1 percent. Furthermore, one of the most encouraging aspects of the whole performance is that apparently the rate of price increase granted by the Price Commission has been diminishing during Phase II. That is, the price increases granted in relation to the total sales of Tier 1 firms were larger in the earlier days of the Phase II period than they have been subsequently.

In recent weeks the Price Commission has been receiving reports of financial operations, including sales and profits, of Tier 1 and Tier 2 firms for their first quarter of operation under Phase II. As has now been made clear in the press, a significant proportion of these returns show that firms that have been permitted price increases have been apparently earning profit margins in excess of those permitted by the system. One cannot be perfectly sure of this, and must say "apparently" because it is difficult to get a precise estimate of profits on a quarterly basis. However, there is apparently good reason to believe that in a large number of cases the price increases granted have permitted an increase of profit margins beyond the standards of the system. From the standpoint of the prospects for reducing the rate of inflation it is a matter which holds a certain degree of promise, for it means that the price increases granted by the Commission were in many cases excessive by the Commission's own standards and the Commission can now use that information as a basis for reducing some of the price increases that have already beeen granted. Furthermore there is good reason to believe that the discovery of these situations will tend to hold down the price increases that are requested and granted in the future. Viewed in this light, the recent revelations do not show a weakness in the system, but rather show the strength of the profit margin test as a limitation on the granting of excessive price increases.

On the pay side, a similar set of figures can be presented. In all Category 1 cases, which means cases involving large number of employees whose pay increases have so far come before the pay board, the average pay increase granted has been 5.1 percent in the period through March 31, 1972. The average pay increase granted under new agreements entered into since November 13 has been 4.80 percent. In the category of moderate sized employee units, the average percentage increase approved by the Pay Board has been 4.52 percent. Thus it is clear that contrary to a common interpretation based on a very few highly publicized cases, the increases approved by the Pay Board have been averaging well within its basic standard of 5.5 percent.

We at the CEA, in the Cost of Living Council and in other agencies of the government have, of course, made every effort to foresee the probable course of prices under the price and wage control system as it now stands. It must be confessed that this has turned out to be extraordinarily difficult and inconclusive. One reason for this is that neither the price increases granted nor the pay increases granted can be converted into annual rates of change of prices or wages by any technique or information that is now available to us. When the Price Commission authorizes an increase of, say, 2 percent to a firm, we don't know when this 2 percent increase will occur. It could occur immediately, causing a big one-shot increase followed by a zero rate of increase for many months thereafter, or it could be spread out over a considerable period giving a trend of increasing prices over that whole period. Furthermore, of course, we don't know when the companies which have not come in for price increases will do so, and when and under what circumstances companies which have already come in for price increases may come in again. Therefore, it is literally impossible to translate the actions of the Commission into future rates of price increase and the same may be said about the actions of the Pay Board. Furthermore, we are only now beginning to get reports on the companies in Tier 2 and we have no reports whatever from the system itself on the companies in Tier 3. So that for the largest part of the economy we are dependent on the ordinary price and wage statistics and there is not yet a sufficient accumulation of evidence in them to provide any firm basis for a projection of the course of prices.

Nevertheless, it seems to us a reasonable conclusion that the course of prices will, by the end of this year, reach the goal that was set by the Cost of Living Council at the outset of Phase II, namely to get the rate of inflation down to the range of 2 to 3 percent. There are several reasons for thinking this.

First, the rate of inflation set as a target for the end of the year is not much if any below the projections of the rate of inflation that might be made by many econometric models in the absence of wage and price controls, given the degree of slack now existing and expecting to remain in the economy. That is to say, what we are expecting of the control system is a moderate degree of pushing in the direction of market equilibrium, not resistance to powerful market forces tending to accelerate inflation.

Second, as we look at the standards set by the Price Commission and the Pay Board together, that is to say the basic 5.5 percent pay increase and the basic price rule permitting the pass through of costs subject to an upper limit on profit margins, these seem to add up, under conditions of reasonably rising productivity, to a rate of inflation that would be in the 2–3 percent range. The outcome would depend on how well adherence to the standards could be obtained. As we look at this question, given the absence of any very general and strong demand pressure, we believe that the system will succeed in achieving adherence to the standards.

Third, we finally base our expectation of success upon the fact that the Administration and the country are determined to achieve a substantial reduction in the rate of inflation and will be prepared to make adaptations in the system as the necessity for them appears, if the necessity does appear.

Of course, prudence requires us to recognize conditions which might make the achievement of the target especially difficult. One might be a general slippage of actual behavior from the standards as the result of the granting of excessive exceptions by the Board and the Commission, the over-estimation of costs in handling applications for price increases or a neglect of the standards of the system by the people who are not under very close surveillance. The second might be a more or less overt resistance to the system by those who might consider it unfair or in any case reject it simply because they do not consider it to be in their immediate interest to abide by the standards. A third possibility might be the generation of a large excess of demand which would overwhelm the ability of the price and wage control system to resist it. And a fourth might be a failure of productivity to grow at the normal rate which is assumed by the standards for price and wage increases.

However, while we recognize these difficulties and dangers, we believe that the difficulties will be overcome and the dangers escaped. Essentially we believe this because we find that all the parties involved in the execution of this program are so aware of these dangers.

Again we return to the fundamental point about this system. It will work if the American people by and large recognize the importance of making it work, if the objective of controlling inflation retains the high priority which we believe it now has in the minds of the American people, and of the Administration, and of the Congress.

We believe that the prospect for the effective operation of the system and continued support for it are strengthened by the fact that the price and wage control system is part of a larger program which is bringing great benefits to the American people. The program was initiated not only to stop inflation but also to stop inflation in a way which would permit us to achieve a rapid expansion of output and employment. We have been accomplishing this. In the three quarters from the second quarter of 1971 before the new program began to the first quarter of 1972 just finished total employment increased by 1,800,000 people. There is now abundant evidence that the economy is rising strongly, that the rise of employment will continue and that it will cut significantly into the rate of unemployment. This has been one of the great benefits of the new economic policy a benefit of which, of course, is the most significant to those people who are numbered among the additional employed.

Moreover, during the period of the new economic policy real weekly earnings, earnings of workers after adjustment for the rise in the cost of living, have risen at an annual rate of about 3.6 percent almost twice as high as the 1.9 percent rate of increase before the freeze. This is another evidence of the benefits which the program conveys to the working people of this country and is another evidence of the stake they have in its continued functioning and success.

While Phase II is still in process of evolution and improvement to meet changing conditions and assure achievement of the objectives set for it, we are naturally also concerned with the question of the policies that will follow Phase II. We do not believe that a control system as comprehensive, detailed, and mandatory as the one we now have is a desirable permanent feature of the American economy or in fact could be. We do not believe that its results would contribute to efficiency in the growth of productivity in the economy or that it would achieve a degree of equity which would earn its continued support over a long period beyond the present emergency and without such support from the public the system could not function. Although the system has operated better than many of us have expected none of our experience with it contradicts this view, in our opinion. Beyond that, however, it is very difficult to say anything about the likely successors to Phase II. The answer to this question depends very much on an analysis of the conditions which gave rise to the controls in the first place and on the developments in the economy during the crucial months ahead.

Chairman PROXMIRE. Mr. Stein, thank you. And I want to apologize for what I am sure appears to be, and may well be, a rude procedure in cutting you off and limiting you to 15 minutes. You did a fine job in cutting your remarks down. And as I say, other witnesses at other times, not you, have gone to great length. We committee members will confine ourselves to 10 minutes in questioning.

I want to thank you for a fine statement.

But I think anybody listening to my opening statement must think we are talking about different countries, different periods, different times, we disagree so entirely. Now, this is the whole story, of course, about economic debate. You always get disagreements, and it leaves the public just befuddled. And it depends upon whether they are Democrats or Republicans, maybe, as to who they believe and what they believe.

So what do we do here? I think what we are talking about is statistics simply. I say that prices have gone up, they are not much better than they were before the freeze. You say that there is an improvement. And you have adduced some very impressive documentation that there has been improvement.

What you have done is something that I think I can understand, but something that I think can be questioned. You have taken, not the Consumer Price Index, but the wholesale price index, and on that basis you come up with different figures.

Now, let me ask you about the opinion of Mr. Lanzillotti, who, as you know, was appointed by President Nixon as a member of the Price Commission. He is a highly reputable economist, thoroughly honest. And he certainly has no reason at all to make the situation look worse, because he is representing, as you are in a sense, the administration. He said this on April 10: "Regrettably the rate of inflation is measured by the WPI. The wholesale price index was higher during the months from December through February than during the 6 months before the freeze." In other words, this is not working helpfully, it is working in reverse. He goes on to say: "More specifically, the seasonally adjusted WPI rose at an annual rate"—and that is what it translates to—"of 7.2. The February increase, which was abnormally high, the highest in nearly a year, did not represent a merely postfreeze adjustment phenomena."

Now, as I say, here is a man who is not representing a Democratic Party as a critic or the Republican Party as an apologist. I presume he is trying to call the signals as he sees them. What is your answer to Mr. Lanzillotti?

Mr. STEIN. I cannot appraize Mr. Lanzillotti's comments on the basis of his motivation; that is not the point. The fact is that there is no disagreement about certain statistics. If you look at the table in our joint prepared statement, we show that the wholesale price index for all commodities rose at an annual rate of 6 percent from November to March as compared with 4.6 percent——

Chairman PROXMIRE. Just a minute, let me get to that page of your joint prepared statement.

Mr. STEIN. So about that fact there is no controversy. I do not know where he got his seven. He used some different material, I guess.

Chairman PROXMIRE. In all of these things there are aberrations, there are periods when they jump and periods when they fall. In the 6-month period prior to phase I there was a very unique situation, and it was perhaps exaggerated in July, was it not, or about that time?

Mr. STEIN. We had in the industrial prices another one of those aberrations about lumber which contributed to the rise then.

But I think there is no question about this fact, that overall wholesale prices have risen more rapidly in the postfreeze period than in the period immediately before the freeze. The question is how do we interpret this fact? I have tried to explain that I do not think this fact can be interpreted without reference to two very important factors, one of which is the enormous contribution of farm products, food products, to the rise during this period. And the reason I have tried to explain looking at that separately is that that is a reversible kind of increase, it is already being reversed, it is not, and never has been over the long run, any forecast of the average trend of prices. For example, as we look at this same table in our joint prepared statement, we see that farm products, processed foods and feed rose at an annual rate of 12 percent in the period from November to March. Nobody thinks that farm prices, processed foods and feeds are going to continue to rise at that rate. There are people around who might hope that they would, but they do not expect that they will.

Chairman PROXMIRE. Let me interrupt to say at this point that other debate within the administration what to do with food prices, Mr. Grayson and Mr. Butz, for example, and I take the position of Mr. Butz, which is one that is very hard to defend in terms of inflation. I do not know what you are going to do about the fact that the farmer in this country has an income that is only two-thirds of those off the farm, in spite of the fact that it is the most efficient industry in the country. They are not getting enough. I recognize that this is part of the problem. But I do not think that if we included food in the price control system that it would be advisable. I think you and the administration are wise in not doing so. Technically it is very hard to do, No. 1, and No. 2, if you are going to do it at all you ought to do it through import quotas, and the price support system we already have in trying to get more for the farmer.

Mr. STEIN. We do agree that food is a special situation.

Chairman PROXMIRE. Yes.

Mr. STEIN. Furthermore, aside from the question which he raised about whether food prices should or should not go up, we do not expect that they will go up at anything like this rate, and I think you will probably agree with that also; that is, this is unprecedented.

Now, for the longer run trend, it seems to me that the industrial commodities are an important index.

Chairman PROXMIRE. May I just interrupt to say that while I will agree that none of these things will continue indefinitely—of course, they cannot, we would have a ridiculous situation if food continued to go up at this rate—but I think what we ought to recognize is that as to food, in a sense the price is really very low, the consumer is paying far less than he has done at earlier times in history as a proportion of his income, far less than any consumer in any country. And as I say, the farmer has a long way to go to get adequate compensation.

Mr. STEIN. Yes, sir. And I think that the food situation has contributed enormously to the recent unease in the country about the inflation situation. And if the people understood what you have just said, their acceptance of the system would be greatly improved.

Chairman PROXMIRE. I understand it, I think, and I do not accept it.

Let me just interrupt again to ask Mrs. Whitman a question before my time is up.

In my opening statement I cited some examples of raw material prices which have gone up at an alarming rate in recent months. I know that raw material prices are volatile. I know that they tend to rise in periods of economic recovery. And I know that not all raw materials prices have been going up. Nevertheless, when the spot market index of 13 raw material prices—and just by definition, raw material prices have very little labor content, and we cannot explain this on the basis of wages—have been going up at a 32-percent rate, when we have this very large increase of metal and scrap and hides going up 100 percent, the pattern is disturbing. What analyses have been done within the administration—and I ask you, since you have been on the Price Commission so recently—to determine how seriously this problem is and whether or not we can be realistic in expecting, as Mr. Stein has indicated, to bring this kind of thing under control within a reasonable time.

Mrs. WHITMAN. Well, in several particular instances there have been quite intensive analyses. One of them, of course, is the question of lumber, on which there have been intensive interagency discussions. It is a matter which is now being considered by the Cost of Living Council. As you know, of course, part of that is caused by fortuitous weather conditions having to do with the cold winter which made it very difficult to harvest lumber, and partly, of course, also by this very substantial housing boom which we are having, which is a major contributor to the economic recovery.

And again, it is a classic supply and demand situation.

Chairman PROXMIRE. Have studies been done?

Mrs. WHITMAN. Oh, yes, indeed, very intensive.

Chairman PROXMIRE. Have they been disclosed publicly, rather widely distributed?

Mrs. WHITMAN. No.

Chairman PROXMIRE. That is the kind of thing I cannot understand. As I pointed out, one of the great difficulties here is the secrecy that goes on. And I am sure that 99 percent of this is not a matter of malice in keeping it from the public and not wanting anybody to know, but a matter of just ignoring the fact that if you are going to have a program to work you have to have public confidence. As Mr. Stein just said, if the public understood the problem of food they would have more confidence in the program. Why is not this released so that people will know about it?

I did not mean to be rude to you, Mrs. Whitman.

Mr. STEIN. May I say this, Mr. Chairman? It does take us some time. At the most recent meeting of the Cost of Living Council there was a further discussion of the lumber situation and a decision to make a statement about it as soon as we could get together with a certain number of recommendations and explanations of the situation. And this, I believe, will be forthcoming fairly soon.

Chairman PROXMIRE. My time is up.

Congressman Brown.

Representative BROWN. Mr. Stein and Mrs. Whitman, we are glad to have you once again before the committee.

Mrs. Whitman, we especially welcome you. I do not know whether the economics of the country are looking up, but certainly the economists look better.

Mr. Stein, one of the serious economic problems we are facing in the country, and something which the latest BLS figures confirm, is the critical unemployment situation facing our Nation's young people. Table A6 in the April 1972 BLS news release on unemployment shows an alarmingly high rise and continuing level of unemployment for young men and women between the ages of 16 and 24 years of age. The March 1972 figures for young people between 16 and 19 reveal a male unemployment rate of 17.8, and a female rate of 17.9.

Perhaps even more worrisome are the figures for the 20- to 24-year-olds, where the unemployment rate for males is 10.4 and 9.2 for females. This contrasts with a 5.9-percent overall unemployment rate, and a rather pleasantly low unemployment rate of 3.1 for males in the 25 to 54 age category, which is an indication of some general recovery in the economy as far as unemployment is concerned, but certainly not an improvement in the unemployment figures for young people.

I would like to get off the price question for a minute and get to this particular interest of mine which we have pursued in other sessions of the Joint Economic Committee. What do you see as a means of dealing with this youth unemployment problem on both the shortrun and longrun basis?

Mr. STEIN. Congressman Brown, I think probably the most important thing to be said about this question at this juncture is that we are now facing the question of whether the Government is going to adopt policies which will make the problem even very much worse than the one you have described. What I have in mind is the question of whether we are going to have an increase in the minimum wage for young people. As you know, the administration has proposed that, when the minimum wage is increased, a differential should be provided for youth, so that for 16- and 17-year-old young people there would be no increase beyond the present $1.60 rate. For 18- to 19-year-olds, the $1.60 rate would be retained for the first 6 months of their new job, and for students under 20 years, the $1.60 rate would be continued.

Now, we have made a study—of course, this is a very difficult thing to do—but there is a lot of evidence to show that the effect of an increase in the minimum wage is always to raise the unemployment of young people. And we have these estimates of the addition to the unemployment rate that would be caused by raising the minimum wage for teenagers to $2 at this time. And we estimate that it would add by July 1972 nine-tenths of a point—that is, almost 1 percentage point—to the unemployment rate of white teenagers, and by October it would add 1.7 percentage point to the unemployment rate of white teenagers. And for nonwhites it would add 2.8 percent to the unemployment rate of teenagers by July, and 5.1 percent by October. So we think that the failure to provide the differential for youth, if the minimum wage is to be raised at all, would be quite disastrous.

Beyond this, of course, in the longer run, we do have a difficult problem. We think the problem revolves around the question of the transition of young people from school to work. And it is going to require or may require very substantial change in the kinds of present vocational educations that are provided in our secondary schools.

As you probably know, we do have in the budget very large sums for the employment of young people in the summer, when a good deal of this unemployment occurs. But this, of course, is not the permanent solution to the problem. We do have some work going on on this question under the direction of our third member. And I think the solution, aside from the fact that it is not pricing these people out of the market by perverse action on the minimum wage front, the solution is going to have to lie largely in the educational system.

Representative BROWN. Mr. Stein, in terms of the Neighborhood Youth Corps program, for example, this summer is exactly the same in terms of its dollars and its prospective employment as it was last summer. It seems to me with higher numbers of unemployed that that does not represent an effort to address the problem with a great deal of vigor on the part of the administration. Are there other specific programs that are going to be invoked between now and the summer when a lot of these youngsters are going to be looking for temporary work, and a lot more are going to be graduating from high school or college and entering the labor market? Are we going to have significantly more unemployment or higher percentage unemployment statistics come June than we have now in this young people's group?

Mr. STEIN. Of course, the unemployment rate of young people, while it has been rising relative to the unemployment rate of others, nevertheless will move with the total unemployment situation. And we do expect the total unemployment situation to improve significantly during the summer. Beyond that, I can only say that we have raised this question within the administration, and that work is going on in the Council and elsewhere about possible steps to take.

Representative BROWN. To whom do you think I ought to direct my concerns in the administration? I go along with you. Let me say that I support your argument that perhaps we need to do something a little bit more productive with the educational system in order to prepare youngsters for jobs that are really available. And I think we have been making some mistakes in the past in training people for careers that are on the way out. But it seems to me we only have three choices. We sort of entertain them, give them summer work and money and something to do, keep them off of streets and out of teen centers, or you try to employ them by giving some kind of subsidy to industry to give them a job, or you have to try to educate them to whatever the needs are of society. I gather that your suggested long-range solution lies in the educational area.

But what about any kind of a device that might encourage their serious employment? Again, I understand what you are saying about the minimum wage. Is there any way that we can get them on the payroll on a continuing basis?

Mr. STEIN. We think that general expansion of the economy—after all, we have 1.8 million people on the employment rolls in the past three quarters—will absorb many of them, especially if we permit a favorable relative wage position for them.

In answer to the first part of your question, the immediate administrative responsibility for these matters is in the Department of Labor.

Representative BROWN. I think I will direct some questions to them as to why the young employment program this year is not significantly improved or increased from what it was last year, because last year's program was to take care of last year's figures, and this year's figures are worse, is that not correct?

Mr. STEIN. I believe so.

Representative BROWN. We have previously had three economists here; Mr. Okun, Mr. Eckstein, and Mr. Wallach. And they each commented on the minimum wage problem and suggested that we not at this time increase the minimum wage at all. And they also spoke in favor of the youth differential. Does your comment on the youth differential apply to the minimum wage generally?

Mr. STEIN. Well, the administration, as you know, has proposed a moderate increase in the minimum wage more or less to keep pace with the increase of average wages of the country, and not to upset a long-standing policy of the Government with respect to the minimum wage. My own preference would be for no increase at all.

Representative BROWN. At this time?

Mr. STEIN. At this time.

Representative BROWN. It seems to me that if you are going to increase the unemployment rate of black youths by 5.1 percent by October as a direct result of increasing the minimum wage 25 percent, which is somewhat over the 5.5-percent Cost of Living Council guidelines, that you might also have some similar effect of that nature even on white adults.

Mr. STEIN. Yes, sir. I think that the minimum wage is the enemy of full employment and price stability, and it is unnecessary in the kind of economy that we now have. But I think that what we are most able to demonstrate statistically is the bad effect on the employment of youth, because it is the young people whose productivity is closer to the minimum wage and who, therefore, become unemployable if the minimum is raised.

Representative BROWN. My time is up. But it has certainly taken them out of the potential job category for some reason, and I think we ought to find out what it is and do something about it.

Chairman PROXMIRE. Congressman Reuss.

Representative REUSS. Thank you, Mr. Chairman.

Mr. Stein, the joint prepared statement shows that phase I was indeed a great success, and I am glad we recommended it. The cost-of-living index for the 6 months before that had been increased 4.1 percent. It went down to 1.7 percent in phase I. And the wholesale price index had been 4.6 percent, and it went down to a negative, which is fine.

Having said these kind things about phase I, however, phase II, on your own record, is, I suggest, a miserable failure. The Consumer Price Index the 6 months before phase I had been 4.1 percent. In phase II it went up to 4.9 percent. And the wholesale price index, at 4.6 percent for the 6 months prior to phase I, was bounding ahead at a 6-percent rate in phase II. The key to this mystery, I would suggest, may be contained later on in the joint prepared statement, where you point out that you have now gotten a significant return from tier 1 and tier 2 firms on their first 3 months of operation under phase II, and that these show—I am quoting from you— "a significant proportion of these returns show that firms that have been permitted price increases have been apparently earning profit margins in excess of those permitted by the system." You go on to say:

"There is apparently good reason to believe that in a large number of cases the price increases granted have permitted an increase of profit margins beyond the standards of the system." What you are saying, in effect, is that price control, as alleged, has been a fraud, has been disregarded, in your phrase, by a significant proportion of the companies, and in a large number of cases. And then conclude—and I find it astounding—in the joint prepared statement: "The recent revelations do not show a weakness in the system, but rather show the strength of the profit margin test as a limitation on the granting of excessive price increases."

Are you kidding? Do you really mean that, that this widespread violation of price control, which produces worse inflation in phase II than before we had price controls—do you really mean that that shows the strength of the system?

Mr. STEIN. Mr. Congressman, I do not know whether you were here during my earlier presentation in which I explained the sources of the increase of prices in phase II as compared with the period prior to phase I.

Representative REUSS. You talked about the bulge, and on and on.

Mr. STEIN. I talked to a considerable extent, of course, about the price of food and farm products, none of which is involved in these recent revelations of our profit margin. So we are talking about, in these recent profit margin cases, essentially about industrial commodities, their average behavior has not been bad. However, I do want to explain what I meant by saying that I thought this was an encouraging development, because we have seen these prices going up, and we have seen that price increases have been given. And now we find that we have a mechanism which will turn up which will reveal for us—after all, this system is not a 3-month system or a 4-month system, we are in the process of developing a system which will achieve the goal by the end of this year. And we find that the procedures which have been set up are revealing, bringing to light the cases of excessive price increases, and providing a basis on which a correction will be made. And having found these cases, certain steps have already been taken. The companies which are suspected of having exceeded their profit margins have been prevented from making any further price increases until this situation is clarified, and if the fact is verified that they have exceeded their profit margins, they will be required to roll back their prices. So that what we are now having is evidence that the price increases we have already got may not stick. And I think that is very encouraging.

Now, Congressman, you were here during the OPA. The OPA did not spring into full flower in the first 3 months of its operation. And a lot of things were not known at the beginning. But I think as we go through this process we will learn how to do it more effectively. And I think the revelation that the profit margin test does work is, I find, very encouraging.

Mrs. WHITMAN. May I comment there?

Representative REUSS. Surely.

Mrs. WHITMAN. I was on the Price Commission at the time these standards were being set up. And at the time we saw the system as having essentially two kinds of standards for price increases, one of which was justifiable cost increases, and the other was the profit margin test. And we always envisioned the profit margin test as a sort of second-line defense, that even if certain increases were justified by cost increases, nonetheless there was also this additional constraint. But we knew that that could not possibly come into effect immediately, because neither the Price Commission nor the companies had simply enough experience and enough information to know what the effect of the profit margin test would be. It was strictly learning by doing, both of them. This was an entirely new ball game for everybody. There was no way of telling. But I think what happened is what we might have expected to happen, that on the basis of more information that was available, then, it became clear that the profit margin constraint is a separate, and therefore an effective constraint over and above the other constraints having to do with cost increases. And I think you will see as a result of that not only some freezes on further increases for those firms until the situation is clarified, not only some rollbacks where it becomes clear that indeed the constraint was violated, but also, on the basis of more experience and more information, greater caution in the future, and greater sophistication on the part of the

Price Commission in the price increases that are both requested and granted in the coming months.

But this is precisely the learning process that we expected and hoped for.

Representative REUSS. Meanwhile the American consumer is having a very tough time, while this learning process goes on.

Let me ask, Mr. Stein, when are you going to start rolling back these illegal price increases? You say that they are a significant proportion of tier 1 and tier 2 businesses, and that they occur in a large number of cases. What are you waiting for? Why don't you reel them back?

Mr. STEIN. Mr. Congressman, there have been a few cases which have been announced in the press where the prices have been reeled back.

Representative REUSS. I think I have read two. Let me ask this. How many tier 1 and tier 2 firms are there?

Perhaps one of your assistants can answer.

Mr. STEIN. Approximately 3,000 taken together.

Representative REUSS. And how many of them were delinquent and in violation of the law on their reports on the first 3 months of operation of phase II?

Mr. STEIN. I think, Mr. Congressman, one has to be careful about saying in violation of the law. What we said, what Mr. Rumsfeld said the other day, was that a preliminary survey raised a question about whether something like 20 percent of a sample of firms had complied. There is a difficulty in determining whether they have complied with the profit margin test, because the calculation of profit margins on a quarterly basis is a very uncertain thing. So that these companies do have to have an opportunity to explain whether there was some exceptional seasonal factor or something else which meant that despite the superficial appearances in their reports, they had been in conformity.

So, that the Price Commission—of course, these are questions that Mr. Grayson can answer for you much better than I can. And he will be here.

Representative REUSS. I would ask one question before my time expires. When you say a significant proportion of these returns in a large number of cases, how many does that mean out of the 3,000? Is it 10 percent? What is significant?

Mr. STEIN. I believe it was about 20 percent of a small sample.

Representative REUSS. That would be about 600 firms?

Mr. STEIN. Mr. Congressman, we are not prepared to extrapolate to the whole 3,000 what was seen in the case of about 15 companies.

Mr. CHENEY. Specifically, sir, the review focused on parent firms only, and it was a limited sample, it was not a random sample. There were 24 firms that were apparently over their base period profit margin. They received communications from the Price Commission.

Chairman PROXMIRE. Twenty-four out of 105; is that right?

Mr. CHENEY. Twenty-four out of 105. Those 24 firms have been contacted and required in a specified period of time to justify the fact that they were over their profit margin. And if they are able to do so, the matter is closed; if they aren't able to do so, then the Price Commission initiates rollbacks, which it has done, I believe, in three cases in the last 48 hours.

Representative REUSS. My time is up. But I certainly sense a great unfairness in the system if one-fifth or more of the 3,000 leading companies are, in Mr. Stein's phrase, taking margins "in excess of those permitted by the system," and only three of them have had anything done about it.

Mr. STEIN. Mr. Chairman, I think it is very unfair to say that this one-fifth of 3,000 companies. This is based on 105 companies which, as Mr. Cheney says, were not selected as a scientific random sample. We don't know what proportion of those 3,000 companies it will be.

Representative REUSS. What was the philosophy governing the selection of the 105?

Mr. STEIN. You should understand, sir, that these findings are based on the submission of quarterly returns for the first quarterly period of the fiscal year of the companies during phase II. Since phase II has been in effect for only 5 months, we are just beginning to get a flow of reports on the first quarter, so that we don't have a full assembling of the information yet.

Representative REUSS. My time is up.

Chairman PROXMIRE. Senator Percy.

Senator PERCY. Mrs. Whitman, when I was over in the White House some time ago I saw a very large button on Clark MacGregor's lapel, "We care about Congress." I thought it was a very touching sentiment on his part. There is some concern as to whether there is a mutual feeling about this. But I would like to say to you that I have never known a chairman of a committee in the Congress to ever go through more painful preparations for your hearing here this morning than our very distinguished chairman has. [Laughter.]

This committee does care about the executive branch.

Chairman PROXMIRE. Some people I really want to impress.

Senator PERCY. Mr. Stein, I would like to report to you that not only are food prices very much in people's minds but I have also heard much concern about real estate prices recently, particularly among the elderly. Just this past week I went to a lot of elderly centers. The real estate tax bills just came out in Cook County. They are up about 16 percent this year. People who are not educating children in schools realize that their real estate taxes, which essentially go for the education of children, have gone up and they may lose their homes because of these tremendous increases. There has been a good deal of general discussion about what might be done about this.

What are the options the administration is considering now for a reduction, or at least a moratorium on real estate tax increases, and how can the Federal Government help in this area?

Mr. STEIN. Well, as you may know, Senator, the administration has under consideration a proposal—I would emphasize that it is under consideration. It is a very difficult matter. It is a very complicated matter in various respects. And the fact that we have it under consideration, I think, shouldn't be taken as an indication that this will become the administration's policy.

But partly by virtue of the problem to which you have alluded, and partly by virtue of recent court decisions affecting the financing of education, the administration has been evaluating the possibility of increased assistance to States and localities in the financing of education in order to permit a reduction of State and local property taxes for that purpose.

And the problem is presumably conditioned on the reduction of those taxes.

Of course, the problem then is where to obtain the additional revenue at the Federal level with which to replace those taxes. And a good deal of attention is being given to the possibility of a value-added tax.

I might say before getting to that point, of course, that we have a prior proposal which has been kicking around for some time for revenue sharing from the Federal Government to the States and localities which would significantly relieve their fiscal burdens and relieve the necessity for them to increase the property tax. However, this other matter of a possibly much larger contribution of the Federal Government in the financing of education on the condition that the use of the property tax for that purpose be reduced is beyond the general revenue-sharing proposal which Congress has had before it for, I suppose, 2 years.

Senator PERCY. Mr. Stein, you have discussed at some length, and very helpfully, some of the possible options which are before our present phase II program. This committee will be conducting hearings—and I am grateful to the chairman for arranging them at my request—on productivity. We will be going out into the field in Chicago very soon for other hearings on productivity. What impact would it have on the necessity of continuing our price and wage controls if we could dramatically, such as Japan has, restore our productivity, increase output, reduce costs, and be able to maintain prices?

Mr. STEIN. I think it would make a very substantial contribution. As I indicated in part of the testimony, one of the dangers of the price control systems, or one of the dangers which might keep us from getting to the objective, would be a substantial shortfall of productivity growth below what has been expected. And similarly, an advance, if we could get productivity in the United States growing more than 3½ or 4 percent, this would make an enormous contribution. And the reason for that is quite simple. Part of the problem with which we are now dealing is that certain standards, certain habits, and practices of wage increases, some of them embodied in contracts, have become embedded in the performance of the economy over the years, the last 5 or 6 years. And if we continue to be forced to make wage increases in the neighborhood of 6 or 7 percent, inflation, rather great inflation, is inevitable, unless we can get productivity in the neighborhood of 4 or 5 or so percent per annum.

So it is a very simple arithmetic question. And the problem of trying to beat down these expectations about the disparity of increase of wages is a very difficult one. That is a good deal of what the President's price-wage control system is all about. And if we could meet the problem more effectively on the other side by getting the rate of productivity up, we would not only make it easier for us to get rid of the control system, but, of course, contribute enormously to the standard of living of the American people.

Senator PERCY. Thank you, Mr. Stein.

Mrs. Whitman, the President, Secretary Butz, and Secretary Connally, all within a period of 2 or 3 days, made some very strong statements, really for the purpose of informing the American public about the problem of food prices, that the farmer is not the one that is benefiting or has benefited from this increase in food prices. I think Secretary Connally said that a friend paid $5 for scrambled eggs at the Pierre Hotel which the farmer said was 30 cents a dozen. He dramatically illustrated this point.

Would you care to add your own advice as to who the culprit is? Who is the culprit? Is it the middleman? And who is the middleman? And if it is not the farmer, who is causing this great increase? Certainly the farmer has had a very low return on investment. How can we get at this problem and what is the cause?

Mrs. WHITMAN. We were talking about this at lunch the other day. And I told Mr. Stein that if Secretary Connally had realized that there were four eggs in eggs Benedict and not two, because the other two are in the Hollandaise sauce, it might have changed the calculations.

But quite seriously, I am not sure really that the way to go at this very real and very serious problem is to start looking for a culprit, because I think, as with most major problems, it is not a question of finding a single culprit and taking him to task and thereby solving the problem.

I think we have two major goals here, one of which, of course, is slowing down the rate of inflation and one of which is maintaining farm income. And there are times when to some extent, in the short range, at least, these two come into conflict.

One can't deny that a major part, at least, of the recent increase in food prices had to do with supply-and-demand conditions which brought about substantial increases in the price of the raw product.

Senator PERCY. Right on that very point, though, as I understand it, the very conditions that brought about the present high meat prices will continue to persist through the fall. If those conditions prevail, how can we then expect meat prices to come down?

Mrs. WHITMAN. It is my understanding that on the demand side the growth in the demand for meat, particularly beef, as you have increased employment and income and so on, will continue. On the supply side I understand that the conditions have changed, that there are more cattle coming to market now than there were in the early months of this year, and that that should cause an improvement. We are anticipating an improvement, certainly a leveling off, and perhaps some decline in the prices of beef on the hoof, so to speak.

There was also the problem of the margins, the whole question of the middleman, whoever he is. And there is some evidence that the margins have widened somewhat. This is a very touchy business; it is very hard to tell, because of the way the Labor Department collects data; the information on selling prices comes from one source, and the information—the prices at which the retailers purchase their meat—comes from another source. And so it is a little bit hard to tell what you have got. Probably there was some widening in the margins. They now seem to be narrowed again. And so from that source also there will probably be some relief.

Both statements are true. It is perfectly true that over a long period of time farm income has not been increasing anywhere near as rapidly as income in other sectors of the economy. At the same time it is also true that over this rather short period there were specific supply conditions which did contribute quite substantially to the rise in prices.

Senator PERCY. Mrs. Whitman, we have not been able to get any real clairvoyance on when phase II might end from anyone else. Can we try it from you? Do you have any clairvoyance? To your mind, what is the foreseeable range of phase III possibilities?

Mr. WHITMAN. I am afraid that you are not going to get any new and different answers from me. I think the answer is still that we do not regard it as a permanent way of life, that we hope ultimately to work our way out of the phase II type of control. But then, on the other hand, we are determined to keep the system and to keep it working and working effectively as long as it is needed.

Senator PERCY. Thank you very much indeed. It is a pleasure to have you with us.

Chairman PROXMIRE. Mr. Stein, the economics profession until very recently felt that inflation was a simply explained matter, that inflation was a result of supply and demand, that when demand was excessive that prices tended to rise, and when supply was increased prices tended to moderate or drop. We have had over a period of the last 3 years a very puzzling situation which has perplexed many economists.

Now, it was hard for us to explain what happened before we put the freeze into effect, and then followed it up with phase II. And now it seems to me that it is even harder to explain this situation, because until phase II went into effect at least we thought we could put controls on it. Now, it seems as if this is a kind of a situation in which there is nothing that we can do that works effectively. You are quite optimistic this morning, I think more so than the facts justify.

What I am getting at is, would you argue—how would you feel about the recommendations in our Economic Report which was issued only a few weeks ago in which we contended that we have competitive forces working in most of the economy, that inflation can only be explained on a cost-push basis? We have monopolistic union power and monopolistic industrial power, where they can operate without reference to the marketplace. On the basis of this analysis I have concluded—and a few others have concluded, and I understand many of the administration have concluded—that we should limit, not extend the controls, but limit the controls to the big unions, the big businesses, the monopolistic areas, and let the rest of the economy be disciplined by competitive forces.

How do you feel about that?

Mr. STEIN. That is a very big question, Senator. I am not inclined to be dogmatic about it at all. I certainly agree that in the present circumstances, or in the circumstances of early 1971, that the continuing rapid rate of inflation could not be explained by the presence of the forces which characteristically give rise to inflation. It seems to me that there are two hypotheses. One is that since 1970, during 1971, still in 1972, we are contending with the aftermath of forces generated by a classical kind of inflation. I think there is no doubt that we did have a classical kind of inflation, a demand-generated inflation from 1965 to 1968 or 1969. And one hypothesis is that we have ever since been living in the aftermath of that, dominated by the expectations that that was set in motion by the labor contracts and other commitments and so on. So that we have appeared, then, of cost-push which has been initiated by a period of demand inflation, and that if we could stick on out and perhaps control the thing for a sufficient period, we would get sufficiently far away from the expectations and commitments of the earlier thing it generated, and we would be able to return to this Eden in which we have price stability without controls.

Chairman PROXMIRE. Do you think this hangover from 1965 should equally affect all phases of the marketplace? It seems to me that it would have much more effect in the areas where you have concentrated economic controls.

Mr. STEIN. I don't think that is true. I think, when it becomes a standard practice that wages should go up by 6 or 7 percent per annum, that it becomes a standard practice more or less all over, and without regard to the forcefulness of the union. And as far as we can see during this period, of course, big price increases were not correlated with the force of unions except, perhaps, in construction unions, or with the concentration of power. So I think if you will buy this hypothesis——

Chairman PROXMIRE. I hate to interrupt, but once again, certainly the most spectacular wage increases associated with phase II, the initial wage increases that they permitted, 15 percent for the coal miners, a union-pushed settlement, 12 percent or so for the railroad workers, an enormous settlement for longshoremen, there has been nothing comparable that I know of in the northern union sector. The Teamsters got a huge settlement long before the new economic program came into effect. And of course, as you say, in the construction area you have had spectacular increases, far above any nonunion area; is that right?

Mr. STEIN. Well, the construction area does present a problem of its own, and maybe a continuing one. But with respect to the rest of the economy, it is always hard to argue from a few examples. But I know that in writing the Economic Report from time to time we are always looking for the dove to bring us the branch of disinflation. And we were looking for the period when we could say, at last, nonunion wages are rising less rapidly than union wages, and we could have it for a quarter or so. But that has not been a persistent tendency in the last, say, six or eight quarters.

Anyway, I was going to say that there are two hypotheses, and I am not clear which one is the valid one at this time.

The other one is the one which underlies the proposal you make, which sees that there is something in the concentration of power in big corporations and big unions. What I find difficult to accept—the reason I find this difficult to accept as an explanation of the inflation is twofold. First, these big unions, big corporations, were here, and more or less just as big, or at least just as big relative to the state of the economy, before 1965, as they are now. And they did not create this problem before 1965, apparently.

The second point is that it is not in the logic of the situation that big unions and powerful corporations should create a consistent tendency to higher prices. You can understand why a strong union should get for its members high wages relative to the wages of other people.

But this doesn't explain why their wages should rise continuously faster than the wages of other people, or at any high rate at all.

Chairman PROXMIRE. How about the fact that the unions tend to be pattern setters—there is an example here—that the beginning has to come in some areas, and it comes in the area where you have union negotiations visible, it is reported in the newspapers, everybody knows about it, the whole union is aware when the steelworkers got a settlement. And we had a dramatic example in 1962, when President Kennedy stepped in. And he had worked prior to that with the unions, as I understand it, to get some kind of agreement on wage increases of 3.2 percent with no increase in prices. And when the steel companies increased their prices, he acted. But the example that set, with everybody knowing about this dramatic confrontation, everybody appreciating it, of all the workers, all the businessmen in the country, wouldn't that be part of the explanation?

Mr. STEIN. Well, I feel in a peculiar position in defending the unions. And I understand Mr. Meany will be here to do that. But I can't ignore the fact that in the period from 1965 to 1968 or so, nonunion wages rose more rapidly than union wages. I don't think that we can omit from the explanation of our present situation the fact that we did have a classical demand-pull inflation of greater magnitude than we have ever had in anything like peacetime, at least for a very long time. And I think this still has some effect.

I would say with respect to your general recommendations that we also are very interested in cutting back the coverage of the system, although for a somewhat different logic than the one that you have proposed, mainly because we believe that we can do a much better administrative job if we don't try to control some, and that we will have better results. And we have made one very big step when we eliminated from control retailers with annual sales of less than $100,000——

Chairman PROXMIRE. Let me follow that up by saying that one of your eminent colleagures, Mr. Ackley, who was also Chairman of the Council of Economic Advisers, has suggested that all retail prices, all rents, all personal services be exempted from controls. He is, as I said, a former Chairman of the Council, he is a very competent economist. And the question I asked you earlier about the effect of the concentration of power in the unions has been inspired by Mr. Ackley. He has worked in this, and this has been his specialty. And so he is not only a fine economist, as you are, but he is an expert in this area.

Mr. STEIN. I will match him on that. I don't think he worked on price controls during World War I, and I did.

Chairman PROXMIRE. World War I?

Mr. STEIN. I wrote a book about it before World War II, in fact——

Chairman PROXMIRE. Did you say World War I?

Mr. STEIN. Yes. I wrote a book called "Government Price Policy in the U.S. During the World War." And I wrote it at a time when I didn't know there was going to be a second one. And it came out in 1938. So I have been following the subject for some time.

Chairman PROXMIRE. You wrote that book 70 years ago?

Mr. STEIN. I wrote it as a historian, not as a participant.

However, I would not want to rule out the possibility that at some point it might be desirable to exempt all retailers. You realize, of course, that when we made the move that we did to exempt retailers with sales of less than $100,000 we got some criticism to the effect that we are leaving people to the tender mercies of their grocers. And we replied to that that we are retaining control on by far the larger part of the sales, and on the biggest companies, and their competition will discipline the others, but I think that is something that we will have to consider.

Chairman PROXMIRE. Let me just say that I think there is a lot of politics in this. I don't accuse you of being political in your answers, but I think there is a lot of politics.

Wednesday I talked to the AFL–CIO, a very substantial and impressive group. And I told them as clearly and as candidly as I could that I thought we ought to decontrol most of the economy except for the big unions and the big companies. I think it is a difficult thing to explain to the consumer. It is very difficult for them to accept that. And it is even more difficult to explain to union leaders. But I think it is a truth that has to be faced. And even though I understand—you explained your position—that you disagree strongly with me, I would hope that you would consider as Chairman of the Council of Economic Advisers doing your best to at least have this discussed.

Mr. STEIN. I don't disagree strongly, I am just expressing some uncertainty. But I am also saying that I expect that we are going to be moving in your direction, perhaps not as rapidly as you would like, and maybe not exactly for the same reasons, but I do envisage that our steps will be in the direction of reducing coverage.

Chairman PROXMIRE. Congressman Brown.

Representative BROWN. Mr. Stein, I would like to just make one point with reference to something you said. You talked about nonunion wages going up more rapidly in 1965 and 1968 than union wages did at that time. That was a period of very low unemployment, labor shortage, in fact. Would that likely have had some impact on the fact that nonunion wages moved more rapidly than union wages?

Mr. STEIN. Yes, that together with the fact that the union wages are governed by contracts which tend to persist for some time, so that they don't get an adjustment as promptly, or they may not, as a nonunion worker.

Representative BROWN. There is generally more flexibility in the nonunion sector of the employment than there is in the union sector?

Mr. STEIN. Yes.

Representative BROWN. Wage increases would not necessarily be inflationary if we had high productivity rates, if we had more sharply advancing productivity rates than the wage increase rates; isn't that correct?

Mr. STEIN. That is absolutely correct.

Representative BROWN. How do we get that productivity rate moving up? Now, one of the methods, it seems to me, would be for an increase in purchasing. And I understand we have had some positive news in that regard with reference to consumer purchasing intention from the Consumer Index Center that the University of Michigan produces. Is that likely to increase our productivity picture and improve the price picture in the future?

Mr. STEIN. Yes, Congressman. We should distinguish two aspects of this problem. One is the rise of productivity which we get during a period of economic expansion or cyclical expansion such as we are now going through. And we expect during this period that the expansion itself will generate a more than average rate of productivity increase. And with respect to the point you just made about consumers, we not only have these indexes of competence which show a great improvement, but as you may have seen, the retail trade figures for March were just release, and they show a very encouraging increase.

Now, we also have the productivity problem for the longer run; that is, what it will be in the average rate of growth of productivity, and how to increase that. And that is a much more difficult matter. And as far as I can see there are no easy ways to make big increases in that rate. But there are some things that can be done.

Representative BROWN. Could I ask you, before you get into that, can you explain why the productivity rates of a lot of other countries—the Japanese, the Germans, the Swiss—were so extreme in this last 8 or 10 years, when our productivity rates improved so little?

Mr. STEIN. Well, I think that Japan is still something of a mystery. But for the other countries there has been quite an adequate explanation. And there is an excellent study of this done by Edward Dennison, called "Why Growth Rates Differ." And the conclusion of the study is that there was no magic here, the same factors that work in the United States work there, but they were present to a larger degree. Of course, one thing that over the course of time has contributed very much to the rates of U.S. productivity has been the shift of workers out of agriculture into the industrial sector where output per man is higher.

Now, in most other countries of the world there still has been a lot more room for that to go on than here.

Representative BROWN. I also have farmers in my district, so let me just say that has been possible only because productivity has also increased in agriculture; isn't that correct?

Mr. STEIN. Well, it is possible. But, you see, we have this phenomenon that productivity has been rising more rapidly in agriculture than elsewhere, but the level of productivity from which it starts is lower. So that when you move people out of—when the rise in productivity of agriculture permits you to move people out of agriculture into the industrial sector, you get an increase in total productivity.

Representative BROWN. Agriculture tends to be more labor intensive.

Mr. STEIN. Right.

Also many of these European countries—and this is also true of Japan—are just beginning to reach the level of scale of production, especially in consumer durable goods, at which maximum efficiency is achieved, such as automobiles and appliances, and so on. So, we get a great deal from that. They also have the enormous advantage of starting behind; that is, they have the advantage of being able to adapt the technological advances for which we have paid so much by investments in R. & D. and by experimentation and failures, and so on, which is also a great advantage to them. So, there are lots of things that they have at work for them. They have had a higher rate—they have devoted a higher proportion of their gross national product to investment than we have in the recent period. It is a complicated story.

Representative BROWN. But, as the standard of living of those countries has increased, they also have had a somewhat higher rate of inflation than we have had on the average; is that correct?

Mr. STEIN. That is true. We have now, and in the last 2 years, had a lower rate of inflation than any other industrial country, with two exceptions.

Representative BROWN. And the point I make is that they have had high rates of inflation, but they have generally been better off at the end of that high rate of inflation than we have with a lower rate of inflation, because the actual improvement in the status of the average worker in this country, in spite of the fact that he has got more money or is getting a higher wage rate, is not that great during this period of relatively lower inflation.

Mr. STEIN. That is true. Productivity is where it all comes from. Just from increases in wages productivity doesn't rise; it does no good.

Representative BROWN. So the productivity impact of what happens to the Consumer Price Index is not necessarily a measure of whether we are better off as individual citizens in this country as a result of a period of economic growth, decline, or stability.

Mr. STEIN. That is right.

Representative BROWN. I would like to change the subject for a moment, if I might, to food price controls.

Can you tell me what the status is under the present arrangement on controlling food prices? Now, they are not controlled, as I understand it, at the farm level. Are they controlled at grocery store level? What method of control is there in the formal sense?

Mrs. WHITMAN. Yes; you are quite right, Congressman. The prices of raw agricultural products—that is, at the farm, before processing—are not controlled. They are controlled, of course, the rest of the way through, and particularly at the retail level. They are controlled essentially on a cost-pass-through basis, which means that price increases at the farm will be reflected in increases at the retail level.

Representative BROWN. Let me stop you on that point. I am not sure I have the statistics well in my mind. But I was under the impression that in the last 20 years—I think 20 years is the differentiation, because we are comparing the last similar level of food prices, 1952—that the on-farm price is up 12 percent, but that the wholesale price of farm products is up about 24 percent, and the retail price is up about 43 percent. Am I right in those statistics? Are those roughly correct?

Mrs. WHITMAN. I am not quite sure. But you are certainly right in the direction of the statistics. I would have to check the actual numbers.

Representative BROWN. The spread is what I am concerned with, and the fact that the increase has been so much higher at the retail and wholesale levels. I am curious about the reasons for that. I am trying to identify this middleman who is making a killing.

Mrs. WHITMAN. I haven't checked the spread back for 20 years, but certainly part of the reason is the very great change in what is happening to the nature of the food when it reaches our table in the last 20 years.

Representative BROWN. You mean it isn't the middleman, it is the consumer——

Mrs. WHITMAN. Certainly in part at least—I am not prepared to say how much of the phenomenon this accounts for—the increase in the amount of processing and the increase in convenience foods, in frozen foods, in packaged foods, in one way or another has been tremendous over the last 20 years. If you look at the way in which food comes home now as compared to the way it did 20 years ago, obviously there has been a tremendous increase, in, as I say, the kind of processing and the kind of packaging. It has to do with what is called convenience foods. And this obviously is expensive. And that will contribute to at least part of that spread between the cost at the farm and the cost in the grocery store.

Representative BROWN. If we freeze food prices at some level—and I am not prepared to suggest what level that might be, but let's start out with one end and go back up—if we freeze food prices at the retail level, are we going to lose the convenience items in the process? In other words, will we have a successful venture in freezing food prices at the retail level?

Mrs. WHITMAN. I guess it depends in part on how you freeze them. One thing, of course, that would happen would be that price freeze would be pushed backward and you would get pressure on the prices of food at the farm level. That is one thing that would happen. Whether you would also lose the convenience and get low quality, and so forth, would depend on how you specified the rules of the freeze. Certainly insofar as the freeze permitted this sort of thing, it makes it possible for stores to emphasize lower quality, less processing, and less convenience; yes, of course, this also would happen.

Representative BROWN. I will come back to that. But it seems to me that if the price rise is greatest in the wholesale to retail level, and if that cost pressure is still there, that what you are going to do if you freeze prices at the store level is take out the convenience factor. You will leave the food price rise, which has been quite small, and skip the processing. I will come back to it, because I think it is an interesting point.

Mrs. WHITMAN. One more point is that, of course, there was, as I say, we think some increase in the spreads from wholesale to retail. As far as we can tell again, these seem to have narrowed somewhat.

Representative BROWN. You mean a penny increase to the farm becomes a 2-penny increase at wholesale and a 4-penny increase at retail?

Mrs. WHITMAN. It is something like that. Again, I would have to look at the number to be precise. But something like that.

But let me say on the whole, however, these margins are relatively narrow; that is, the margins that retailers operate on as a percentage of sales are not very large margins. By and large, retailers operate with very low margins and very high volume, at least the major retailers, I think 1 percent on sales—I don't know if it is exactly the average, but it is somewhere in that range.

Chairman PROXMIRE. Mr. Stein, in our last colloquy, I indicated that I thought we would do a lot better, be a lot more efficient, and it would work better, if we cut back controls from most of the economy to just the big corporations and the big unions. You disagreed with that. I would like to ask, will you affirm or deny that the administration has any plans to cut back controls only to the very big corporations and the big unions?

Let me make just one exception. I recognize, of course, that construction has to be covered. And I recognize also that you do have a World War II type of situation in the health services where you have such serious shortages that you have to continue that. With the exception of special cases of that kind, would you deny that the administration has any plans to cut back controls?

Mr. STEIN. The question is a little ambiguous, because I don't know exactly what you mean by very large corporations.

Chairman PROXMIRE. All right, we will say the two tiers, the first two tiers, $50 million.

Mr. STEIN. And that is not our present intention or expectation.

Chairman PROXMIRE. It sounds as if you have some kind of intention that would apply to that. The very big ones, the first tier?

Mr. STEIN. I think it is not our present intention or expectation that we will cut the controls down——

Chairman PROXMIRE. You said there was no expectation——

Mr. STEIN. The kind of reductions of coverage that are being discussed—and there are a lot of matters to be considered; that is, what degree of representations would be retained in various industries, and so on, at different cutoff levels—is a matter of some concern to us, and how much inflation-controlled power would be retained at various cutoff levels. What I am saying is that while we do consider changes in the coverage, which would have a fairly significant effect on the number of farms covered, we are not now considering as drastic a reduction of coverage as is suggested by your question.

Chairman PROXMIRE. Were you going to exempt small employers from paperwork?

Mr. STEIN. I am not able to answer that question. It is a question under discussion. And when we have come to a conclusion, we will announce it. I don't think it would be helpful for me to speculate about what the numbers might be.

Chairman PROXMIRE. You are discussing further exemptions?

Mr. STEIN. Yes.

Chairman PROXMIRE. The president of the UAW, Leonard Woodcock, gave what I think is a very careful, well-reasoned explanation for his departure from the Pay Board. If you haven't read that, I recommend that you do. You are the main spokesman for the Cost of Living Council who will testify at these hearings. I would like to go over Mr. Woodcock's criticisms with you and get your reaction, because there are broad criticisms of the entire program, not just criticisms of the Pay Board.

I quote him:

"The Nixon game plan is to take work money and place it in the pockets of employers through both action and inaction."

I am sure you won't like that wording, but can you deny that if the rate of price increase exceeds the 2½-percent guideline, business will gain at the expense of labor? Can you deny that windfall profits can and probably will result from the program?

Mr. STEIN. Yes, I deny the first proposition that if the rate of interest exceeds 2½ percent, you can't conclude that this will result in an excess of profits to corporations, or any increase of profit to corporations, because everything will depend on what is simultaneously happening to wages and productivity.

A lot of people go around saying that wages are frozen and prices are not. Now, we know that wages are rising, and that the rate of increase—the best measure of our earnings we have in the phase II period is 9.3 percent per annum. That is certainly not a freeze on wages.

Chairman PROXMIRE. As of when?

Mr. STEIN. From November to March.

Chairman PROXMIRE. We have a control program? That is the most astounding revelation I have ever heard, in a long time, about it.

We have a control program which is resulting in wage increases of about 10 percent, or am I wrong?

Mr. STEIN. 9.3 percent. I wouldn't say the control program is a result of it.

Chairman PROXMIRE. I didn't say that, either.

Mr. STEIN. But this is what happened during this period.

Now, during this period we had in the month of December an increase in our hourly earnings as measured in this way at an annual rate of almost 18 percent. That is the money that we got in the big coal settlement, of course.

Most recently increases have not been that large. But the point I am making is that this bulge about which everybody is complaining has existed on the wage side at least as much as on the price side.

Chairman PROXMIRE. During the first 5 months of phase II we have had a 9.3-percent annual rate increase in wages?

Mr. STEIN. Four months, from November to December, January——

Chairman PROXMIRE. All right. What is your projection for the year on the basis of that experience? Can you argue that we could possibly, conceivably have anything like a 5½-percent increase for this year? Wouldn't it have to be very much bigger than that under any realistic measure?

Mr. STEIN. If you are asking me a question of year to year, I am not familiar with that number, because I haven't considered it in those terms. But our goal——

Chairman PROXMIRE. Just the logic of it.

Mr. STEIN. Their goal is to reach a target at the end of the year. So if you would ask me: What do I expect the rate of wage increase to be, say, in the first quarter of this year? I would say, I would expect it to be 5½ to 6 percent.

Chairman PROXMIRE. If it is 5½ to 6 percent in the fourth quarter, it is easy to figure out that it will have to be at least 7 percent for the entire year, which means, it would seem to me, that your target of 3-percent inflation that the President has announced he is determined to reach, we are not going to reach, are we?

Mr. STEIN. I think we are not stating the target correctly. The target relates to the rate of increase in prices at the end of this year. And if we have wages rising at, say, 5½ to 6 percent in the fourth quarter of this year, and productivity rising up, say, 5½ to 4 percent, which would not be unusual in an expanding economy, we will have labor costs rising at something like 2 or 2½ percent. And given the rules of the system, I will expect that prices will be rising in the neighborhood of 2½ percent.

Chairman PROXMIRE. Well, as I understand—the staff may be wrong, but they informed me that the Council of Economic Advisers, nobody but the Council of Economic Advisers, of which you are Chairman, forecasts that the inflation for the year, not at the end of the year, but for the year, is 3¼ percent.

Mr. STEIN. That is right. That is not to 3 percent.

Chairman PROXMIRE. What is that?

Mr. STEIN. The 2 to 3 percent is the goal for the end of the year.

Chairman PROXMIRE. All right, in view of the 9.3-percent increase in wages, can you get 3¼ percent for the year?

Mr. STEIN. We don't expect 9 percent for the year. The 9 percent was the first 4 months, which included the same bulge which appeared on the price size. It included that enormous coal increase, and so on. And we now see that the settlements, the compliances that are coming through the Pay Board, are running below 5 percent, or just about 5 percent.

Chairman PROXMIRE. What we know is what happened during the first 4 months of the year. What we do not know is what is going to happen in the last 8 months of the period.

Mr. STEIN. That is right.

Chairman PROXMIRE. And if we know anything about economy, we know that forecasting is very feeble. What we would have to rely on primarily is the first 4 months. So it seems to me it is very unrealistic, and perhaps it is political, it is very unrealistic to argue now, on the basis of 4 months' experience with us, regardless of what they said in the beginning, that you can have 3¼-percent inflation only this year, in view of what has happened to wages in the first 4 months.

Mr. STEIN. You are making a forecast about the rest of this year.

Chairman PROXMIRE. I am asking you. You have made the forecast. I just asked you about it, and you confirmed that you made it.

Mr. STEIN. But this is our forecast. When you express criticism about it you are making an alternative forecast.

Chairman PROXMIRE. Can you deny that windfall profits can and probably will result in the program?

Mr. STEIN. Yes. I don't think the system—it seems to me that the rules of the system will work to restrain the rate of growth of profits yet effectively. That is what we are seeking in the first review of these cases, that where companies have a profit margin—for one thing, we have to recognize that we started with a very low rate of profit. The profit standard that is permitted in itself is a very stingy one, in my opinion.

And we find that when people are exceeding that they are going to have prices rolled back.

Chairman PROXMIRE. Profits are lower, and there is no question about that, than they have been historically on any fair basis, using the overall figures. But do you really argue that this is going to work effectively, in view of the revelations that we had a couple of days ago that Congressman Reuss referred to, that 20 percent of this sample that was inspected by the administration, itself, exceeded the profit margins?

Mr. STEIN. I hope you are not implying that we picked it in order to find out either that this was a large number or a small one.

Chairman PROXMIRE. You certainly didn't pick it to make yourself look bad.

Mr. STEIN. That is right. We didn't pick it at all.

Chairman PROXMIRE. And therefore the assumption is that it is probably bigger than 20 percent.

Mr. STEIN. You give us too much credit, Senator.

Chairman PROXMIRE. I would never accuse the administration of being stupid, I really wouldn't. I think President Nixon is one of the most intelligent men that I know of. And I mean that. I wouldn't try to rate his ethical position, but I think as far as intelligence is concerned, it rates very well.

Mr. STEIN. Anyway, the President didn't pick it, the Cost of Living Council didn't pick it, somebody on the staff of the Price Commission, whose political affiliation I don't know, picked. And I don't think there is any point in that.

But it is like saying that because we have found some people in violation of the law, that the law is not going to work. I would be much unhappier if I saw prices going up as they have been, and price increases being given as they have been, and we had no recourse by which to get a reduction and a rollback.

So I think it shows that the effect of this system is that when prices go up too much it generates the mechanism for getting a reduction.

Chairman PROXMIRE. Boy, if you can sell that, I really have to bow down to you. It shows how effective this system is if prices are going up this much. No matter what you say after that——

Representative BROWN. I would like to say that as we are approaching the intersection, the fact that we are in the middle of the block going 35 miles an hour does not mean that we are going to go through the intersection at 35 miles an hour. The brakes have been applied, and the results are apparently showing up to some extent already.

Chairman PROXMIRE. Would you yield?

Representative BROWN. I would be happy to yield.

Chairman PROXMIRE. If the brakes are applied, and 5 months later you are still going at almost the same speed——

Representative BROWN. I don't think that is correct, Senator. I think we are not going at the same speed. I can look at the chart and see some progress on that chart. And the statistics would indicate that we have made very good progress in a lot of the wholesale areas, and I presume what will happen in the Consumer Price Index areas later on, unless I am completely mistaken. I think that has always been the case, historically.

But once again, if we are going to assume that what is happening now will continue to happen for the next 8 months, we are going to set some rather interesting records on what is happening to food prices.

I would like to get back, if I might, to where I was before I got on food prices specifically with Mrs. Whitman, to the area of reduction of controls, which I hope is where we are headed sometime in the near future. Hopefully as the wage-price situation gets under some control, we will decontrol through the Wage Board and the Price Board on some basis.

Now, I assume that that decontrol process will be from the bottom up, in terms of economic units. I only assume that because of what you have done thus far, or what the Price Commission and Wage Board has done thus far.

I understand that exempted now are those with $100,000 in sales, or less. Is that correct?

Mr. STEIN. That is correct. Those decisions were made by the Cost of Living Council with the advice of the Pay Board and the Price Commission. But they were made by the Cost of Living Council.

Representative BROWN. And the requirement for posting has been waived for retail establishments with sales under $200,000 on an annual basis?

Mr. STEIN. That is correct.

Representative BROWN. Which is sort of the next step up. Now, is it fair to assume that that will be the pattern in the future, or do you care to comment on it? In other words, that you may raise it to $500,000 for posting and $200,000 for exemption?

Mr. STEIN. I will say that our approach is to work from the bottom, and to raise the cutoff limits, whether the cutoff limits will be in dollars or number of employees, and so on, are still questions, and what industries should be covered. But what we are considering, and what I expect we will do, is to considerably reduce the number of covered firms by reducing the smallest ones on a just and very reasonable proposition, that the benefit in terms of reduction of inflation is much smaller relative to the cost and administrative burden when you deal with these very small firms, as compared to the larger ones.

Representative BROWN. In effect also, because you wanted to hold down the cost of administration, you have had to depend upon the voluntary willingness of the people to comply with these regulations, because you don't have a system for policing it, isn't that right?

Mr. STEIN. We will alsways depend on that, and I think in any system we will have to depend on that.

Representative BROWN. We didn't in World War II. We went into a full-scale enforcement procedure which cost $4 billion to operate, as I understand it.

Mr. STEIN. But even with all those policemen the system would not have worked if there was not a general patriotic support of the program.

Representative BROWN. Let's go back to how the system does work and talk about food prices for a moment. The point I was trying to make with Mrs. Whitman when my time ran out is that a large part of the cost of what goes into food at the retail level is the preparation of the food rather than the on-the-hoof price at the farm level. If we control the price at the retail level, as has been suggested, and the prices continue to rise from the farm level, for whatever reason, isn't it likely that the things that go into making those foods convenience items will one by one drop out of the picture, because you have got a top-level lid on, while a major portion of the cost continues to increase? And so the result will be to cut out the difference in cost in between there, and pretty soon we won't have our TV dinners, and we won't have the packaged things that you drop in the pan and cook.

That seems logical to me. Is that likely?

Mrs. WHITMAN. Of course, this would be the logical response, I think, of retailers, wholesalers, and processors.

Representative BROWN. You will get back to the meat wrapped in the brown paper.

Mrs. WHITMAN. After all, when the housewife goes to a store, she doesn't buy a cow or a steer, she buys something very different. A lot has happened to it since it was a cow or a steer.

And obviously the most logical possibility would be that that would happen. You could set your rules so that that wouldn't happen. You could freeze prices and forbid the retailer to change the quality of the packaging. And then one of two other things would happen.

As I say, I think the most likely one would be shortages, those in which the squeeze is greatest between the frozen price of retail and the frozen price of the raw product. It would simply disappear from the shelves.

Representative BROWN. Let's get back to the farm and ask that question. The same thing would apply, would it not, to the farmers?

In other words, if you set a lid upon the hoof price of an animal, and the farmer discovers that his cost of feed, in addition to labor, and the rising cost of the equipment that he must buy, or the interest rate which finances that equipment, pushes him, and he is simply not going to produce in that position.

Mrs. WHITMAN. Well, prices are controlled by supply and demand, as I generally believe they are in the case of farm products in general, and then you simply try to control prices at an artificial level, there is going to be one result, and that is, there are going to be shortages.

I noticed, I think it was in this morning's paper, that Mr. Leo Peris, of the AFL-CIO, said: "Well, if it takes rationing to get these prices down, then let's have rationing." And of course, that is one solution.

I don't honestly believe that it is the solution that would be preferred by the American people. But that is sure as heck what you are going to have to come to if you create a situation in which shortages develop.

Representative BROWN. You are too young, I am sure, to remember the World War II experience. Mr. Stein has indicated that he can, World War I included. But what was the experience in World War II or the Korean war in this regard?

Mrs. WHITMAN. Certainly in World War II you had a situation in which at least in many products you simply replaced the pricing system by rationing. And indeed there were—you flatter me, I remember a little bit, but not much—there were indeed shortages in certain critical areas and certain critical food areas, and the problem was dealt with by rationing, you could buy only so much meat a week and, it was allocated to each family on a certain proportion which they were permitted to buy, and presumably it was designed so that it would all add up to the amount available.

But you necessarily had under those conditions a complete suspension of the free market principle and the principle that you could choose to buy as much as you wanted of various items limited by tastes and by total income.

Representative BROWN. Mr. Stein, do you have any further comment on memories?

Mr. STEIN. My memory confirms Mrs. Whitman's study of the history.

Representative BROWN. Let me head into another area briefly, if I may, with reference to the wage situation generally.

And I am back to that point because of my concern about the teenage work force. Is there some way we can determine better what the labor needs are going to be in the future? It seems to me that—and I have made this comment before—it seems to me we are moving into a much more technologically oriented era than we have in the past. This may be one reason why using young workers and teenagers are not as much in demand as they were before, as our economy is beginning to improve.

Now, what is the practical limit to which we can predict our future labor needs and have some preplanning in our education for future labor markets? Can you give me any advice or thought on that?

Mr. STEIN. I am not an expert on that subject, I must say. I know that we don't predict it very well. I remember some goofs in that area, predictions of things that we were going to be short in, and it turned out when the time came that they were in surplus—I mean kinds of labor. And I think an important thing is that the relative price in wage system should be adaptable, so that we do adapt to the fact that the supply of labor that we do have.

One thing that is happening is of course is that we have an extraordinarily large supply of young people, and extraordinarily large proportion of young people in the labor force. Now, given time and free movement of wages, the practices of employers, the proportions in which they employ people, would adapt to the fact that there are a lot of young people around. But we keep that from happening by the minimum wage. It may take a little longer to happen than it has, anyway. And I think one thing that is going to do is that in an earlier period, while young people were less experienced, they were more educated than the average people who were already out there on the force, the work force, because we were so rapidly raising the educational attainment of the population, and whereas maybe the people who were out there in the work force had had 9 or 10 years of education, we were putting out a lot of young people with 12.

Now, everybody out there has had 12 years or so of education, and the young people have lost that advantage without losing the disadvantage of their inexperience.

I don't believe in technological sanctions for the problems of unemployment. We went through this in the early 1960's when there was great concern that the rapid advance of technology and automation was putting people out of work. And after a lot of study it was decided not to be the case. And I don't think in general it is the case.

I think our problems have to do with the adequacy of the education of a lot of young people.

I will also say that I think that the picture with respect to the unemployment of young people is greatly exaggerated by the commonly used statistics, because these statistics don't distinguish between young people in school and young people who are not in school.

And a lot of the young people who are reported as being unemployed are also in school and looking for part-time work. And this has had a good deal to do with the significance of the unemployment and the possibility of affecting it.

But it is undoubtedly becoming a bigger problem than anybody thought it would be. And it will require, I think, much more intensive consideration than what we are giving it in our schools.

Representative BROWN. Thank you.

Mr. STEIN. Could I say something in amendment or qualification of what I said earlier on somebody's time?

In response to Senator Proxmire's questions about the behavior of prices, and so on, I guess I kind of got forced into the position of asserting that everything is OK, and it is going to come out all right, no matter what. And that is not my position or our position.

As I said in my statement, I am not here swearing to you that with the system as it now exists we are going to come out with the goal of the President. I am saying, I think, that it is possible that we will. And we, and the Price Commission, and the Pay Board, are constantly looking at their practices to see—and we in the Cost of Living Council are looking at our practices to see—what we can do to increase the probability that we are going to achieve this goal.

So that we are not frozen into everything as it now stands. We do think, as we have already indicated, that some reduction in the coverage will make the system work better. The Price Commission, as has been clear from the papers, is considering revision of their standards, which might make the thing work better.

We are considering changes in reporting, and so on, which we think might make the system work better. So I don't want to be interpreted as saying that we have now got the best of all price-control systems and that it will certainly get us there. But we think that we have made some progress and that we are approaching this problem in an open-minded way, and we are not trying to justify everything we have done.

I think what we did, the enormous, almost total coverage that we established on November 14 I think was required by the psychological situation at that time. But that may have changed. So that I don't want to seem to be totally denying everything the chairman said.

Chairman PROXMIRE. Mr. Stein, I am very, very grateful for that statement, which is a good statement, and I welcome it very much. And I didn't feel that you were being a Mr. Pangloss, and that you were saying that this is the best of all possible worlds, at all.

On the other hand, you are in a position—how in the world can anybody expect the chairman of the Council of Economic Advisers to be even fairly skeptical? After all, if he doesn't have any confidence, how can this system work? You can't expect the coach to tell the team, Well, fellows, I don't think you can make it today, I hope you can, but gee, it looks kind of bad. Those other fellows are a lot better than you are, you are licked. You have to be optimistic. And while I have great confidence in you, and I don't know of anybody who has more expertise on this subject, I tend to go back to people who are a little more objective outside.

Mr. STEIN. They are outside nothing, they are inside something else.

Chairman PROXMIRE. If this were a Democratic administration that had put this into effect and you were still at the Brookings Institution, I doubt very much if you would be coming up and giving us this Pangloss treatment—this happy outlook.

Mr. STEIN. I will say that I am much more informed than I was when I was in Brookings.

Chairman PROXMIRE. The hour is late, Mr. Stein. You have been very patient and very responsive.

Just two more quick questions.

79-980 O—72——4

Mr. Woodcock said:

> Contrary to the Congress command to exempt the working poor from Pay Board controls, the Cost of Living Council has properly construed the law so that those who earn below the poverty level are rigidly controlled.

Now, what did Congress say? The amendment written into the administration bill by the Congress to make sure that this would work is this:

> Notwithstanding any other provisions of this type, 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.

Now, how do you interpret the provisions of the law to limit those below the proverty level?

Mr. STEIN. Well, Mr. Chairman, we wrestled with that problem quite a bit, and came up with a solution, which was that $1.90 per hour was the cutoff between persons who were members of the working poor and those who were not. And this analysis rests on two main points.

I should indicate that we are being sued by somebody for not having abided by the requirements of Congress. And I just signed an affidavit that we did. And this will be decided in a court of law at some time, I suppose.

But there were two main criteria, two main tests that we used. One was we used the figure for the annual income of the working poor.

First, I must point out that Congress did not set any hourly figure. If Congress had wanted the figure to be $3 or $3.50 or $4 an hour——

Chairman PROXMIRE. The law just used the word "substandard."

Mr. STEIN. The working poor seem to be higher than substandard. But it was a working poor problem that we were trying to define. We used the figure for the annual income of the working poor set by the Department of Labor, and to which there was specific reference in the legislative history.

And that was a number of something like $6,500 a year. I don't remember how much it was, something between $6,500 and $7,000. And we then took account of the fact that the average working family includes 1.7 workers, that the additional 0.7 workers impose certain additional costs of transportation, workload, and so on, which had to be adequate and necessary incomes, that this caused certain changes in prices, and also a reduction in taxes, since the $6,500 approximately was estimated.

And we went through all this arithmetic, and we came out very close to $1.90

Another way of going at this, which I find really much more convincing is something like this: It said, what proportion of all families in the United States are in this working poor? And they found—I don't remember—they said it was 12 percent of all families, or whatever the number was, x percent.

And then we said, What are the wage rates below which x percent of the workers are found?

And that turns out to be very close to $1.90.

So we felt that these numbers confirmed each other, and that that was a reasonable definition.

Chairman PROXMIRE. You have to go through calculations, I think, to come to any kind of a determination. And it is very helpful to do it. But at the same time, I think what was in the back of Mr. Woodcock's mind, and what bothers me is, why should anybody near the poverty line be subject to controls?

Let me just point out as an example that 5½ percent of $2 an hour is 11 cents, while 5½ percent of a $10 an hour wage is 55 cents. And low-paid workers just can't see any reason why high-paid workers should get five times as much of an increase as they do. And they have got a point.

Mr. STEIN. Well, we are trying to abide by the mandate of Congress, and in doing this trying to interpret what Congress said, and not injecting a policy.

On the question you have just asked, my own view about the price and wage control system was not established to make a radical change in the distribution of income in the United States. Congress has plenty of inner legislation for doing that. So this program has plenty of other problems without that one.

Chairman PROXMIRE. At the same time, certainly Congress didn't have any view, nobody in Congress, neither party had any ideological view that the program should be used to continue to keep people with low incomes at that level, and we have a preeminent desire in any and all circumstances to do economic justice, and we didn't want to prevent any law from continuing an injustice.

Mr. STEIN. Congress described their wishes in those words, and we interpreted them as we could.

Chairman PROXMIRE. Mr. Woodcock said:

> The day-to-day operation of wage controls has been largely dedicated to the inexpert Internal Revenue Service which offers contradictory and confusing advice to workers and employers.

How can the IRS be expected to understand all of the details of phase II? How can they get their regular tax work done when so much effort is being shifted to phase II enforcement? And why should requests for exemptions from the Pay Board guideline go through IRS?

Mr. STEIN. Well, if the Internal Revenue Service can understand the income tax, they can certainly understand phase II. But the Internal Revenue Service is mainly a channel, and if there are difficult questions, they come up to the Pay Board and its staff.

The Internal Revenue Service is interpreting the regulations issued by the Pay Board and the Price Commission in the field. But they do have recourse to the Pay Board when they have difficulty. And there is a continuous interchange in educational processes between the Internal Revenue Service and the Pay Board and the Price Commission, so that they all know what is going on. And I don't think this has been really a great problem.

Chairman PROXMIRE. Thank you, as I say, Mr. Chairman. I think these have been most useful hearings. And we have made a good record on our inquiry into this very difficult and highly important situation.

Representative BROWN. I would like to make one final observation, in lieu of your comments about economic justice.

It seems to me that the real price and wage freeze is not designed to do economic justice nor to do social justice, but rather just simply to freeze the situation as it is, just and unjust. And I would suggest that that is why it is a bad system to start with, and something that we ordinarily ought not to operate under. I think we are talking about three different things. I think we are talking about three different things when we are talking about social justice, economic justice, and political justice.

Chairman PROXMIRE. The committee will recess until 10 o'clock Monday morning, when we will hear Hon. Ogden R. Reid, a U.S. Representative from New York, and C. Jackson Grayson, Chairman of the Price Commission.

(Whereupon, at 12:20 p.m., the committee recessed, to reconvene at 10 a.m. on Monday, April 17, 1972.)

REVIEW OF PHASE II OF THE NEW ECONOMIC PROGRAM

TUESDAY, APRIL 18, 1972

CONGRESS OF THE UNITED STATES,
JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The committee met, pursuant to recess, at 10 a.m., in room 1202, New Senate Office Building, Hon. William Proxmire (chairman of the committee) presiding.

Present: Senators Proxmire and Percy; and Representatives Reuss and Conable.

Also present: John R. Stark, executive director; Loughlin F. McHugh, senior economist; John R. Karlik, Richard F. Kaufman, and Courtenay M. Slater, economists; Lucy A. Falcone and Jerry J. Jasinowski, research economists; George D. Krumbhaar, Jr., and Walter B. Laessig, minority counsels; and Leslie J. Bander, minority economist.

OPENING STATEMENT OF CHAIRMAN PROXMIRE

Chairman PROXMIRE. The committee will come to order.

This morning the Joint Economic Committee continues its evaluation of price and wage controls. Our first witness is Mr. C. Jackson Grayson, chairman of the Price Commission. He will be followed by Congressman Ogden Reid of New York.

In my judgment, phase II has so far been almost a total failure. The fault lies with the President and the Congress who imposed this task and gave the machinery its unworkable form.

How can a staff of a few hundred people control virtually all of the millions of pricing decisions which take place in the U.S. economy? How can a few thousand hastily trained Internal Revenue agents police and enforce this vast network of controls?

Mr. Grayson, in your prepared statement you say the controls have two objectives. The first is to slow inflation. The second is to avoid interfering with economic recovery. So far the control program, in my judgment, obviously not in your judgment, is batting zero. It has struck out on both objectives. Inflation has been worse during phase II than before the freeze and unemployment has not been reduced. Furthermore, the objective of the program, as I had understood it, was to hasten recovery, not just to avoid retarding recovery.

Not only has the program not slowed inflation so far, but the public has no confidence it ever will. A survey of my constitutents shows over 80 percent think phase II is not working. The secrecy in which the program is shrouded, the lack of public hearings, and the incomprehensible complexity of regulations have combined to completely destroy public confidence.

The program cannot continue as it has been without becoming a total farce. It can go one of two ways. The first possibility is that the Price Commission can expand into the great bureaucracy which would be needed to really control the U.S. economy in detail. This would be a disaster. Yet there is every reason to fear that this is the direction in which the program may be evolving.

The alternative is to remove the facade of controls from these large areas of the economy where competition functions, leaving the Price Commission free to concentrate on the true problem areas which are the source of inflation. This is a course which this committee has urged. There are two types of problems which may require Government action under this approach.

First, there is monopoly power. Here competition does not work and the Government must influence prices, either by controls or by voluntary persuasion.

Second, there are the true shortage areas. There are not many of these in an economy with the great reserves of idle capacity which the United States has at present. But there are a few. Health care is one example. Hides and possibly lumber are others. Here Government policy must be directed primarily toward increasing the supply. If there is to be price control, there must also be rationing.

Our basic question to you this morning, Mr. Grayson, is: Which way are you going? Will you take the steps toward decontrol which will leave your present staff free to concentrate on doing something about the real sources of inflation: monopoly power and true shortage areas? Or will you attempt to spread a network of real controls over everything—adding staff to handle control of farm prices, staff to read the thousands of quarterly reports which are being submitted to you, staff to handle consumer complaints, staff to hold hearings, staff to enforce compliance?

Mr. Grayson, I hope we are not unwittingly stumbling down this latter road. It would be the wrong road. I know that the Price Commission is concerned about the shortcomings of the present program. I know your own staff is conducting evaluations, and I know you are seeking expert advice from outside the Commission. It is widely reported in the press that you are under pressure to reduce the scope of the controls and to make the controls that remain more effective.

The same sources suggest you are not following this sound advice because this is an election year and partial decontrol is not the politically popular course and I know it is not. I know my constituents do not want the controls, but I think they are wrong in that respect. It is not easy to explain to the consumer that the best way to control prices is to lift controls from most of them. It will take courage to adopt this course.

Mr. Grayson, the administration has learned a great deal in how to handle Congress in the past 3 years. When they have an impossible program to sell they send the smoothest, smartest, most articulate salesman around up to sell it. They pick a soothing man, a man no one can be mad at. That's why William Rogers yesterday appeared before the Senate Foreign Relations Committee selling that appalling, heartbreaking bombing program to the Foreign Relations Committee. There just isn't a more soothing man in Washington than Secretary Rogers—or there wasn't until you came on the scene.

You are articulate, persuasive, decent, a man any one of us would be proud to have as a friend. But you have an appalling program to sell. In my view it has been a pathetic failure and the sooner we change it the better. Now if there is anyone who can dissuade us of this view, it is you. Go to it.

I might say, the committee has recently adopted a procedure holding witnesses to 15 minutes. A buzzer will ring when you have 2 minutes left of your 15 minutes, and then we will proceed with the questions.

We would like to make the questions as long as possible. We have another witness.

Senator Percy.

Senator PERCY. Mr. Grayson, I want to say first that if the program you are trying to carry out is an appalling program, it is because Congress has designed that program. The law that you are carrying out was designed by Congress with bipartisan thought behind it. I think the chairman had more to do with it than almost anyone else——

Chairman PROXMIRE. If the Senator from Illinois will yield just at that point, he came in just after I read my opening statement. I will say it again:

> In my judgement, phase II has so far been almost a total failure. The fault lies with the President and the Congress who imposed this task and gave the machinery its unworkable form.

As you may recall, a number of Proxmire amendments were defeated on the floor of the Senate.

Senator PERCY. I do remember that, and I probably voted for some and against some.

But I for one feel that the task you have undertaken at the Price Commission is an impossible task. There is no one who could have more appreciation for the delicacy and balance and sophistication of the consumer in the marketplace for setting prices than someone who is trying to administer the price system fairly and justly. And if anyone has any illusions about a controlled economy, they would not have it if they had to serve on the Price Commission or the Pay Board.

So I think, taking into account that you have an impossible task and that you are dealing with a body of law that has been devised by men and not angels, I would say that I am just filled with admiration for the job that has been done. I think you have the full respect of the American people.

The job is not finished, results to date are not perfect by any means. We have imperfections in the system, but at least those elements that to date have shown the greatest tendency to get out of control are those in those areas where you are powerless to work. I hope we do not have to extend your power.

I think we all agree with increased productivity. There is no substitute to be able to turn out more. To demand more wages you have to give more in the way of performance, otherwise prices are going to go up.

I would like the first annual report of the National Commission on Productivity, which has just been issued, giving highlights for the years 1970 to 1972—and certainly no one on the other side of the aisle has supported this program for increased productivity more than Senator Proxmire—incorporated in the record at this point, because I think it is quite pertinent to the comments you make on productivity.

Chairman PROXMIRE. Without objection, that will be incorporated in the record.

(The report follows:)

First Annual Report of the NATIONAL COMMISSION ON PRODUCTIVITY

March 1972

For sale by the Superintendent of Documents, U.S. Government Printing Office
Washington, D.C. 20402 - Price 25 cents

NATIONAL COMMISSION ON PRODUCTIVITY

WASHINGTON, D.C. 20506

Letter of Transmittal

MARCH 1, 1972.

To the PRESIDENT AND THE CONGRESS OF THE UNITED STATES:

I have the honor to transmit herewith the first Annual Report of the National Commission on Productivity, pursuant to Public Law 92–210.

This first report covers the significant activities of the Commission for the 20-month period from July 1970 through February 1972.

(Signature)

George P. Shultz

GEORGE P. SHULTZ
Chairman, National Commission on Productivity

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Hon. Herbert Stein
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[1] Harlee Branch, Jr., former chairman of the board of the Southern Co., and Edward J. Dwyer, former chairman of the board of the National Association of Manufacturers served until Dec. 31, 1971. Jerome M. Rosow, former Assistant Secretary of Labor, served as Vice Chairman until July 23, 1971. Hon. Maurice Stans, former Secretary of Commerce, served until Feb. 29, 1972.

[2] The President designated Hon. Peter G. Peterson as Chairman of the National Commission on Productivity to succeed Hon. George P. Shultz, effective Feb. 29, 1972. This annual report is the last official act by Mr. Shultz as Chairman.

TABLE OF CONTENTS

STATEMENT BY THE CHAIRMAN

The productivity of the American economy over the years has been a vital factor in enabling us, as a Nation, to enjoy and share with others the greatest prosperity known to man.

Our record of continuing progress in this field came under challenge in the 1960's, and now we recognize that we must build again if we are to improve the quality of life in the future.

Central to such progress is a fuller public understanding of and support for increased productivity, which until recent years received close attention only from a relative handful of technical experts. Better public perception and support are essential if the absolutely vital concept of productivity is to become a conscious and continuing motivation for the American people.

The National Commission on Productivity was created by the President in June 1970 to insure a new national concern with the importance of continued productivity improvement to our economic strength. At the time he announced formation of the Commission, the President outlined its challenge as follows: "In order to achieve price stability, healthy growth and a rising standard of living, we must find ways of restoring growth to productivity. The task of this Commission is to point the way toward this growth in 1970 and in the years ahead."

The role and responsibilities of the Commission were broadened with the advent of the new economic policies announced by the President on August 15. Members of the Commission were consulted in the process of designing the post-freeze economic stabilization program and the full Commission was briefed on that program before it was formally announced. Under that program, the Commission was formally given the role of consultant to the Cost of Living Council in recognition of the fact that productivity growth is a key to long-run economic stability and should be both reflected in and fostered by the decisions of the various boards and commissions administering the programs.

The Economic Stabilization Act Amendments of 1971 formalized this role and called upon the Commission to undertake a much expanded program to foster productivity growth. Specifically, the Congress set forth a National Productivity Policy which authorized the Commission to organize regional and local councils, undertake an expanded research program and develop a stronger program to foster public understanding of the meaning and importance of productivity growth. The President's 1973 budget provides over $5 million for these activities.

The need for renewed national attention to the productivity improvement which has been so much a fact of American life was pointed out most dramatically by trends which emerged in the late 1960's. In the 4 years ending in 1970, output per manhour rose at an annual rate of only 1.7 percent as compared with a 3.1 percent rate for the preceding 16 years. This rate was far slower than the rate of increase in wage rates over the same 4-year period and fell considerably short of the rates of productivity growth among our major foreign competitors. The implications of this poor performance for domestic economic stability and international competitive strength are now all too painfully clear.

The productivity record of the late 1960's was due in part to changing economic conditions as we dealt with the dual problems of controlling an accelerating inflation and making the transition from a wartime to peacetime economy. With these problems largely behind us, even stronger productivity gains can be expected—in fact, such gains started to become evident as the economy expanded in 1971 with output per manhour rising 3.6 percent.

The 1971 productivity record is encouraging and the prospect of continued gains as we take up the remaining slack in the economy offers further hope for success in the effort to bring inflation fully under control. However, neither of these developments should be cause for complacency. The demands of the American people for continued improvement in the quality of life whether in the form of cleaner air and water or in more and better community services exert powerful pressures on our resources. Productivity gains are vital to our ability to satisfy these demands at the same time that we meet the demand for greater private consumption and investment.

The stakes here are high. If we could, for example, increase the average annual rate of productivity growth over the 1970's by one-tenth of 1 percent a year, and if this were translated into output, we could produce $15 billion of additional real output per year by 1980. Over the decade, the total gain would amount to about $60 billion.

If we are to approach this potential, concerted action by all groups is needed. The President recognized the need for a cooperative search for consensus on matters in which various segments of our society may sometimes have divergent interests and included leading representatives of business, labor, the public, and government on the Commission at the outset. Since that time, he has acted to make the Commission even more broadly representative by adding representatives of farmers, consumers, and State and local government to the membership of the Commission.

In pursuit of its objectives, the Commission has met six times. The highlights of these meetings are discussed in chapter I. Research on some of the major economic, social, and technological factors influencing the rate of productivity growth has been initiated. Specialists have been invited to prepare research studies—many of which are described in chapter II—for information and guidance. Finally, the Commission has approved a program of activities to meet the responsibilities assigned to it under the Economic Stabilization Act Amendments of 1971. This program is discussed in some detail in chapter III.

CHAPTER I

HIGHLIGHTS OF THE COMMISSION'S ACTIVITIES—1970–72

In opening the first meeting of the Commission on August 7, 1970, the President stated that productivity growth is the key to the continued improvement in the quality of life for all Americans, to the satisfaction of urgent domestic needs, and to the maintenance of the competitive position of the United States in world trade. This theme has become a unifying and stimulating element for subsequent activities of the Commission.

The President stressed, in announcing the Commission, that "productivity in the American economy depends on the effectiveness of management, the investment of capital for research, development and advanced technology, and most of all on the training and progressive spirit of 86 million working Americans." This charge to the Commission provided the framework for its initial activities and organization.

The first session of the Commission was concerned with developing a common understanding of the background for the Commission and an organizational framework for its activities. The Chairman reviewed the basic trends in productivity, wages, and costs and their economic implications. The meaning and measurement of the terms were also discussed. A working agreement on these matters was considered central to the effectiveness of the Commission.

In this setting the Commission organized itself into four working groups each composed of members representing labor, business, the public, and government. The titles of the working groups are sufficiently broad to permit a wide range of inquiry and still to focus on topics of immediate concern. The four groups and questions they were to consider are:

Labor and Management Policies and Practices.—What type of labor relations climate is most conducive to improved productivity? How are the costs and benefits of change to be distributed? What is the appropriate role of the firm, the union, the government in the adjustment process?

Education and Research.—How can we improve the input of basic research to technological innovation and productivity? How does the education system feed into this process and how can it be improved?

79-980 O - 72 - 5

Government Activities.—In what way can the government influence productivity in the private sector of the economy by improving practices in such areas as procurement, and construction regulations? How can productivity in government at all levels—Federal, State, and local—be measured and improved?

Management Organization and Capital.—How can management improve its organization for productivity gain? Are there impediments to diffusion of technological knowledge—can the adoption of new technology be accelerated? Is the rate of investment adequate for desired productivity goals?

The second session, in November 1970, continued the process of developing mutual understanding of basic factors and problems. As the working groups progressed on their investigations, reports of their findings became the main topics of the agenda of Commission meetings. At its April and June 1971 sessions, the Commission reviewed the conclusions and recommendations of various reports submitted to it and made suggestions for refinement and extensions.

Policy Statement of September 7, 1971

On September 7, 1971, the Chairman of the National Commission on Productivity released a statement, entitled "Productivity and the National Interest," which had been approved by the members of the Commission (app. B). This statement expresses the consensus of business, labor, public, and Government representatives as to the importance of policies and programs to foster productivity growth and as to the general structure and thrust of such policies and programs. In several areas—most notably, research and development and government productivity—the consensus expressed by the Commission has served as a catalyst for the development of concrete programs.

In substance the statement underscores the importance of maintaining our historic rate of productivity increase as vital to employment growth, curbing inflation, meeting international competition, abating pollution, eliminating deprivation, and improving services at the local level. Productivity is seen to depend upon the optimum combination and development of human, capital, and natural resources in harmony with our traditional values of opportunity, work, and reward.

The Commission stated that "the first and basic prerequisite" for productivity improvement is an "expanding economy, with maximum employment and maximum utilization of plants and machines .... In the absence of such economic expansion, there is lagging productivity, usually accompanied by increasing unemployment and underemployment." Noting that "a high level of economic activity is a necessary but not sufficient condition for the realization of our full productivity potential," the statement identified six "targets of opportunity," on which the Nation must consciously focus.

The first is *productivity bargaining* which features the specific discussion of productivity in the collective bargaining process. The potential is far greater than the current scope of bargaining practices. "Work rules, training and upgrading workers, group incentives, job redesign and enrichment, workplace participation and communication, safety and work scheduling are all areas that deserve close attention."

Complementing the first, the second target is the *strengthening of manpower adjustment policies* to meet the human costs of change where such costs exist. This can be done by such means as avoiding worker displacement, mitigating financial loss to individual workers, and assisting workers to find alternative work. Both private and government sectors must provide programs to avoid adverse effects.

The third target involves selective stimulation of *education and research and development*. The Commission finds a need for "further active experimentation, with government support, in development of new and more flexible institutional and financing arrangements as well as improved educational content and instructional methods." Since the benefits of basic research are broadly diffused, the Commission found that the Federal Government has a special responsibility to assure an adequate and sustained level of funding and the private sector might be given incentives to invest more in applied research and development.

Improvement of productivity of government is the fourth target. The Commission found that there is considerable scope for applying the productivity bargaining approach in the public sector. Also, there should be efforts to identify emerging ideas to improve local government productivity.

The fifth target is the urgent need to assess the extent to which business, government, and other institutions will have access to an adequate *supply of capital funds* in the 1970's and to identify the means of correcting any deficiencies.

Finally, the Commission recognized the importance of timely *identification of industries with lagging productivity growth* and practical measures for improvement. This involves more adequate productivity measurement of such major sectors as construction, services, and government.

The Commission agreed that public awareness of the importance of productivity must be promoted through the widest possible dissemination of information.

Activities Under the Stabilization Program

Following the freeze on wages and prices, the attention of the Commission shifted to the design of the economic stabilization program. Members of the

Commission, a cross section of eminent representatives of business, labor, the public, and government, were consulted during the formulation of the post-freeze program plans. New members were added to give additional representation to business and labor, and to provide representation for the farm sector, State and local government and the consumer. The entire Commission was convened in October 1971 for a preview of the decisions on the structure of the post-freeze economic stabilization program, and members were given an opportunity to express their views. It was also noted that the Commission would be called upon to consult with the Cost of Living Council as the stabilization program progressed.

Plans for expansion of the Commission's work as provided by an amendment to the Economic Stabilization Act were reviewed at a session convened in February 1972 (these are covered in chapter III). Members also heard about several new initiatives to enhance productivity growth: the proposed new Federal programs for research and development and innovations in labor-management relations, in the steel and construction industries. Finally, progress of the economic stabilization program was discussed with officials of the agencies involved.

Public Information Activities

The President's initiative in bringing together outstanding leaders of labor, business, the public and government had the effect of focusing nationwide attention on the economic importance of productivity, a subject that normally had interested only a few specialists. The first year and half of the Commission's life, therefore, saw growing popular interest in information about productivity. Public leaders, the communications media, and professional and trade groups dealt with the issue, highlighting the changing position of the United States in its relations with the major economic blocs of the world, and the Executive Director was invited by a number of professional groups to discuss the objectives and work of the Commission in relation to trends in productivity and the economy.

Several national periodicals, including Time, Business Week, Fortune, U.S. News and World Report, and Newsweek, featured stories about the domestic and international conditions that gave rise to the establishment of a National Commission on Productivity. An example of the interest of the trade press was the special 16-page section featuring statements by the President, Secretary of Labor, and Commission members on the productivity problem in the April 1971 issues of four trade journals published by Cahners Publications. These journals have a circulation of over 250,000 among plant engineers, managers, and purchasing agents in different industries. Copies of the productivity section were also sent to 12,000 leading officials of industry and government.

Many members of the Commission cited the urgent need to promote a better public understanding of the relationship of productivity change to the rate of inflation and to the economy's long-term growth capacity. One of the first steps in this direction was taken when the Commission lent its support to the preparation by the U.S. Bureau of Labor Statistics of a Chartbook, *Productivity and the Economy* (Bulletin 1710), which has proved highly useful in increasing public awareness and appreciation of the productivity issue.

In an effort to broaden its educational activities, the Commission contracted with the Smithsonian Institution to prepare a popular exhibit tracing the productivity theme in American history. This exhibit will be shown beginning about June 1972 in the National Museum of History and Technology, which is visited by about 6 million people each year. Plans were also being made for smaller traveling exhibits to permit wider public exposure.

The Commission is planning to hold a national conference of leaders of labor, industry, agriculture, education, government, and the public in the spring of 1972 to consider policies and programs for promoting long-term growth in productivity. In addition, Commission staff will be working with other individuals and organizations who have indicated a desire to sponsor regional or industry conferences on productivity. The resources of the Federal Regional Councils composed of representatives of the principal grant-making domestic departments and agencies in each of the 10 standard Federal regions will be available to support Commission staff in this effort.

CHAPTER II

REPORTS, PAPERS AND STUDIES

Experts in government and universities prepared under contract a number of papers, reports, and studies to help the Commission members in their consideration of various substantive issues. A list of the Commission's publications available to the public is presented in appendix C. This chapter briefly summarizes the findings and conclusions of the most important papers and studies and relates them to the problems considered by the Commission.

Meaning and Measurement of Productivity

The importance of clarifying the meaning of the term "productivity" for the general public was stressed at the first meeting of the Commission. Statistical measures of productivity vary and misunderstanding about the meaning of trends in productivity often arises because of the plausibility of different concepts and the use of different data sources. Members of the Commission, therefore, invited leading experts to explain the meaning of the terms and methods used in measuring productivity.

Meaning of Productivity

In a brief paper on the meaning of productivity, Dr. Herbert Stein, now Chairman of the Council of Economic Advisers, dealt with the most commonly used definition—real output per man-hour. Productivity in this sense is a rough measure of the effectiveness with which we use our most important productive resource—labor. This concept has significant social and economic implications. It takes account not only of the chief means of satisfying individual and social wants, i.e., output of goods and services, but also of the major real cost of getting the output, namely, man-hours of work. Moreover, the trend in output per man-hour has a direct bearing on the movement of labor costs, prices, and real earnings of workers.

While the simple index of output per man-hour serves many analytical and policy purposes, Dr. Stein believes additional measures are needed. When we measure output per unit of capital and labor combined and adjust for quality change, we have another useful measure of the efficiency of resource use. In short, a family of measures is needed to provide better understanding of our economic problems.

Concepts and Measurement

The concepts and data used in available indexes of productivity together with some problems of measurement, were the main issues considered in a paper by Jerome A. Mark, Assistant Commissioner for Productivity and Technology, Bureau of Labor Statistics, of the U.S. Department of Labor. Measuring trends in output, labor input and capital input in a highly diverse and ever-changing economy involves many complex statistical problems.

A fundamental problem of measurement is the difficulty of obtaining directly quantitative measures of output and input, consistent in scope and coverage. Hence, substitute measures or approximations must be used. Within these general constraints, however, productivity measures for the total private farm and nonfarm sectors of the economy, for some major groups, such as manufacturing, transportation, mining and utilities, and for many key industries, such as auto, steel, coal and airlines, are considered reliable and useful for economic analysis.

Reliable measures for construction and service industries, however, are not available. To improve these series, more accurate data on price changes in these sectors are needed. There is also a need for more comprehensive estimates of industry man-hours, including better measures of the hours of supervisory workers and changes in the "quality" of labor. Measures of output per capital input and total factor productivity, based on the flow of services as well as the stock of capital, would significantly enhance our knowledge of productivity change.

Statistical Research

The Commission granted funds to the Bureau of Labor Statistics to expand its research work to improve data on productivity and related trends. The number of individual industries for which indexes of output per man-hour is available is being increased. However, the BLS is devoting special attention to developing measures for industries in the service sector where the concept of output is more difficult to quantify than in manufacturing. Only a few new productivity series may be produced, but it is hoped that the effort will lead to a better knowledge of trends in the important service sector. Price indexes for individual industries are also being developed by the BLS. This expansion of statistical information about productivity will provide a firmer basis for economic policy decisions.

Activities of Working Groups

A significant part of the work of the Commission was carried out by the four working groups which met frequently during 1970 and 1971 to choose alternative topics, to direct inquiries for background papers or research, to deliberate over policy and program, and to develop the issues for presentation to the full Commission. The findings of these working groups are currently under final review and will shortly be considered as policy recommendations by the full Commission. The reports, papers and studies that were prepared for the working groups are summarized below.

A. Labor and Management Policies and Practices

The potential contribution of cooperative action by labor and management to improving productivity was recognized by the Commission at the outset. It was agreed that productivity advances generally have been accompanied by rising employment and real wages, but the possibility of labor displacement in particular instances could not be overlooked. The Commission, therefore, arranged for the preparation of a series of reports or working papers on various aspects of collective bargaining experience with productivity improvement and on the related subject of manpower adjustments to technological change, both in the United States and abroad. These working papers provide a factual basis for recommendations on productivity bargaining and manpower adjustments by the working group on labor and management policies and practices for consideration by the full Commission.

Examples of Labor—Management Practices

The Bureau of Labor Statistics prepared for the Commission a report, entitled "Improving Productivity: Labor and Management Approaches," which described cases of "good" practice in industry. Thirty-one examples of special efforts in different industries were analyzed in terms of their benefits and problems.

One section of the report dealt with cases of collective bargaining settlements in which work rules were revised to permit the use of labor-saving technology in return for job or income security. This type of "productivity bargaining" included the agreements setting up trust funds for musicians affected by mechanical recording; the protective arrangements for butchers with the introduction of centralized meat cutting in retail food chains; the settlements to eliminate "bogus" typesetting in the printing industry; agreements to facilitate prefabricated housing construction; and the mechanization and modernization agreement in West Coast longshoring.

The report also described the application of various collective bargaining agreements to cushion the impact of technological change such as the attrition arrangements in the railroad industry; interplant transfers in autos; relocation allowances in steel; early retirement plans; and the Armour automation fund for plant shutdowns. Closely related to these protective approaches are the extensive efforts in manpower planning in the telephone industry and the Internal Revenue Service to avoid adverse effects among workers.

In addition to work rule changes and manpower adjustments, the BLS report described a broad range of joint labor-management actions for productivity improvement, many outside the collective bargaining table: union sponsored retraining programs to upgrade plumbers, printers, hospital, steel and maritime workers; the Scanlon and other plantwide productivity incentive plans; the TVA and similar programs to use the know-how of workers to improve operations. Experiments with job redesign, human engineering, and the 4-day week were also described as ways of influencing worker attitudes, absenteeism, and motivation.

Productivity Bargaining

Special attention was devoted by the Commission's working group to an examination of potentialities of "productivity bargaining." The term is defined as a process which seeks to treat production as a central collective bargaining consideration and explicitly recognizes the trade off between measures to improve labor productivity and the sharing of resulting benefits. A few U.S. examples were summarized in the Bureau of Labor Statistics report, but the Commission also contracted with Prof. Robert B. McKersie, dean of the New York School of Industrial Labor Relations, for a detailed study of productivity bargaining in Great Britain, with special attention to its relevance for the United States.

Professor McKersie found that the British experience, though not easily transferable, had some useful implications for the United States. First adopted at the Fawley Oil Refinery in 1960, productivity agreements were introduced in a wide range of industries where they often resulted in elimination of restrictive work practices and modified manning scales and lower unit labor cost. In return, workers received higher earnings, more fringe benefits, and job security. The report concluded that the most significant result of productivity bargaining in the early stages of its development in Britain was to encourage acceptance of union-management negotiations as a useful device for accomplishing change and to focus attention on improving labor productivity to justify wage changes.

The establishment of a statutory "incomes policy" aroused great enthusiasm for productivity bargaining in 1967 and 1968. Wage increases over the norm were permitted only if warranted by productivity gains in the individual firm. Although many bona fide agreements were made, a great number of requests based on spurious productivity gains resulted in a general upward push on wages. The report attributed the decline in productivity bargaining after 1968 to such factors as the limited content, exhaustion of possible gains, and growth of unemployment and resistance to change in the late 1960's.

Reviewing the limited experience with productivity bargaining in the United States, Professor McKersie concluded that the concept has promising results, similar to those in Britain, in industries based on the craft system such as longshoring, printing, railroads, airlines, and construction. Because of differences in general attitudes toward technological change, there is less scope in manufacturing where productivity agreements have been prominent in Great Britain. The British experience in service industries, however, may have some lessons for the United States. Also, greater emphasis on worker consultation and participation on a continuous basis may be applicable.

To foster productivity bargaining, Professor McKersie suggested greater planning by management and the need for the education of union leaders by first hand observation of successful cases. The impetus for this type of bargaining, however, must come from the parties at the local level.

Worker Protection in Western Europe

The policies of Western European governments in protecting workers affected by technological change were the subject of a brief study by the Bureau of Labor Statistics. In these countries, a policy of full employment is considered the best setting for dealing with problems of labor adjustment. They have gone beyond the policy of providing unemployment compensation and place emphasis on maintaining existing jobs and creating new jobs for redundant workers by subsidies, loans and credits to industry; by regulation of labor migration and other labor market controls; by financial aid and guidance, especially to older workers, in transfer, relocation, training, and retraining. In general, the report concluded that measures to prevent redundancy have been effective in Western Europe.

Private and Public Manpower Programs

An assessment of the whole range of private and public manpower policies that could facilitate productivity improvement was undertaken by Prof. Eli Ginzberg with Prof. James W. Kuhn, and Beatrice G. Reubens of the Conservation of Human Resources Project, Columbia University. Their brief report, "Private and Public Manpower Programs for Adjustment to Productivity Change," reviewed policies in the United States and Europe.

The principal directions where new initiatives, according to the authors, hold promise of constructive advances were as follows: Emphasis in public policy on the twin objectives of productivity improvement and worker protection against adverse effects; the institution of a technical assistance service to facilitate adjustment; compulsory vesting of private pensions after a qualifying period of 10 years or so; liberalization of social security to permit earlier pensions for displaced workers; more liberal mobility allowances; greater coordination among government procurement, regional development, and manpower policies; and efforts to improve Employment Service assistance to displaced workers. Above all, the report concluded, "the sine qua non for a conducive environment for stimulating productivity changes is a high level of continuing employment for the economy."

B. Education and Research

Economists in the past decade have devoted much study to the role of intangible investments in education and research in improving productivity and have found that the growth of human capital has contributed significantly to economic progress. The Commission, therefore, invited several outstanding researchers to evaluate these studies and to draw implications for national policy.

Education and Productivity

In a paper on "Education and Productivity," Prof. Theodore W. Schultz, of the University of Chicago summarized his own studies and those of other researchers on the return on investment in education, both to the worker and to the economy as a whole.

It is generally agreed that the cost of education includes not only the cost of such things as teachers' salaries and physical facilities, but also the individual's earnings he had to forego by continuing his schooling instead of taking a job. When the extra income earned through finishing school is considered against the total costs of elementary school, high school, college, and post-graduate study, the rates of return on investment are high, compared with the average rate of return on investment in the private business economy. As might be expected, the biggest gains come from elementary education when the child is acquiring basic skills in reading, writing, and the ability to do arithmetic.

While the return on investment at all levels of education appears to be high, it is not certain that our educational system at present is structured to obtain the maximum return for the student and for society. On this important issue, the experts are divided on how to take account of differences in the quality of the services and of the outputs.

Research and Development

Expenditure on research and development is another key factor affecting the growth of productivity. In support of the Commission, the National Science Foundation invited four outstanding economists to prepare papers reviewing the research studies on the impact of R. & D. The papers by Charles T. Stewart of George Washington University, Edwin Mansfield of the University of Pennsylvania, William Fellner of Yale University, and Zvi Griliches of Harvard University, with a summary by Leonard L. Lederman, were published February 1971 by the National Science Foundation, in a report entitled, "A Review of the Relationship Between Research and Development and Economic Growth and Productivity."

The authors considered the return on investment in research and development in such widely diverse fields as agriculture, machinery, chemicals, and petroleum. They concluded that despite the lack of definitive measures of the relationship, research and development has been one of the major sources of economic growth and improvements in productivity. Measurement of the relationship between R. & D. and productivity growth involves many complexities of isolating R. & D. contribution from that of many interacting factors such as organizational and managerial progress and economies of scale.

The authors agreed that the evidence suggests that "the United States is probably underinvesting in civilian sector research and development from a purely economic growth/productivity point of view." One reason for this underinvestment is that the private firm which pays for the R. & D. cannot capture all the benefits accruing from it. Because of inadequate patent protection, widely dispersed markets, and failure to exploit the innovation, other firms are able to copy or to follow the innovator. Since other firms obtain benefits without having to pay for the cost of research and development, more benefits are achieved in the economy than can be measured by the firm which pays for the initial expenditures. Also, a distinction must be made between basic research which has a long lag-time before payoff is realized, and applied research and development for which the returns may be realized very quickly. Hence, private underinvestment is likely to be greater for basic than for applied research.

One conclusion shown from the studies was that nothing can be said about where particular R. & D. investments should be made, but "there is good reason to expect that a well diversified incremental R. & D. investment will result in high payoffs similar in magnitude to those of the past."

R. & D. in the Federal Budget

As the competitive position of the United States in world trade became more critical during 1971, members of the Commission along with government officials and many private individuals became deeply concerned about the loss of exports in the field of high technology. Also, economists projected a lag in national productivity over the decade because of the increasing importance of service industries with low levels of productivity. Many experts attributed this situation to the relatively low level of support for research, especially applied research in these fields.

This issue was discussed with the President in several Commission meetings and the President ordered a complete review of Federal research and development programs to assess the need for new programs to open up opportunities for technological innovation. A task force of technical experts from various government agencies, with the assistance of scientific and industrial leaders, conducted a comprehensive review of opportunities to advance technology. The result of this review was a major presidential initiative in the field of R. & D. for fiscal year 1973.

The budget for fiscal year 1973 provided an increase of $1.4 billion in scientific research and development funds and a number of important policy trends. Among the objectives of the new budget were closing the gap between the United States and its world competitors in productivity growth rates and improving the efficiency of some basic services of the economy. Civilian oriented programs, including energy, health, education, environment, urban problems, transportation, and other areas were increased significantly. Also, funds were provided for experiments in stimulating innovation and productivity in the private sector.

C. Improving Government Productivity

The sharp growth of public employment relative to private jobs has been one of the most significant trends in the structure of the economy over the past decade. In 1970, nearly one out of every five wage and salary workers was a government employee. Experts project continued increases as our urbanized population seeks more and better education, health, police, and sanitary services. As government regulations and the demand for reports proliferate, overhead staffs in government and business are significantly enlarged. Since government services are still largely labor intensive, the growth of government employment has involved greatly increased costs. The Commission's working group, therefore, gave special attention to seeking ways of improving productivity in government operations. As a first step, it supported efforts to improve measurement of change in output per man-hour at both the Federal and local levels.

Measurement of Productivity in the Federal Government

There has been considerable dissatisfaction with measures of Government productivity based on national income concepts. Because labor input is used to measure output, indexes of output per man-hour for Government activities cannot show any change. While this statistical convention is useful in fitting Government activities into the national income accounting framework, it is often misconstrued to mean that there has been no improvement in actual Government productivity. A study of selected activities in five Federal agencies by the Bureau of the Budget in 1964 demonstrated the possibility of developing indexes based on actual physical output, a more appropriate concept. The derived series, however, were not maintained or extended.

As a first step in a Government-wide approach, the General Accounting Office, together with the Office of Management and Budget and the Civil Service Commission and with support from the Commission, initiated a study of productivity trends in Federal agencies. The background and objectives of the study were reported to the Commission in a paper, "Productivity in the Federal Service," by the Office of Management and Budget.

A preliminary review by the GAO of 17 major Government agencies found that some agencies maintain data that could be useful in measuring productivity change. Such data are used by the agencies for manpower planning, work measurement, cost control and, in a few cases, for productivity measurement by the agencies themselves. This survey reported that approximately 500,000 employees, most of them in the Post Office, are directly covered by existing productivity indexes, and measures may be feasible for an additional 750,000 employees.

The study group, with technical assistance of the Bureau of Labor Statistics, is now collecting data from various Government agencies on real output and man-hours. These data will be used to prepare indexes of output per man-hour for broad functions of Government rather than for individual agencies. The study group plans to work with agencies to improve reporting systems and basic data and extend the coverage of productivity measures.

Productivity in State and Local Government

Since 10 million persons—about 80 percent of all government employees—work for State and local governments, prime targets for productivity improvement are the major functions performed by these units such as law enforcement, sanitation, and education. The Commission, therefore, asked the Urban Institute to undertake an exploratory study of the status of productivity measurement and its feasibility.

In their report, "Improving Productivity and Productivity Measurement in Local Governments," Dr. Harry P. Hatry and Mr. Donald M. Fisk of the Urban Institute, reviewed major conceptual problems and current measurement practices. They found little factual data readily available, either for measuring trends or for comparing levels among localities. However, they concluded that data which could be useful for productivity measurement of specific functions are collected by some localities and there are many technological opportunities for improving productivity that should be evaluated and disseminated.

A brief paper on "Productivity and Technology in Law Enforcement," by William M. Spreches and Edwin L. Golding, of the Department of Justice provided some illustrations of the possibilities of measurement and the role of science and technology in improving productivity of police departments. Computers, communication systems, helicopters, and electronic alarm systems are being used increasingly to improve the performance of law enforcement officers.

Following these exploratory studies, the Commission in October 1971 contracted with the Urban Institute to undertake further research on the improvement of productivity in local government. This decision followed a review of the exploratory report by several public interest groups, including the National League of Cities, the U.S. Conference of Mayors, the National Association of Counties, the International City Management Association, the National Governors Conference, and the Council of State Governments. The Urban Institute's study will deal with measurement and improved practices in two functions: law enforcement and refuse collection. The study will examine different types of measures to determine the most appropriate indicator, taking account of any special circumstances. For example, more frequent garbage collection might result in reducing productivity if measured in tons removed per man-hour, but could result in a more sanitary community. An alternative measure might cover not only the quantity removed but also the degree to which a desired level of service is achieved.

Another objective of the study will be to identify and report on outstanding "success" stories in improving productivity in local functions. These reports would describe managerial and organizational as well as technological innovations in city government. The dissemination of success stories might encourage others to use the latest ideas.

D. Management Organization and Capital

The availability of capital for investment at reasonable interest rates affects productivity in two ways. First, investment in labor or material-saving devices leads directly to increased productivity. Second, the availability of capital has a significant effect on the steady growth of the economy and the close relationship between increasing output and increasing productivity is well established.

Because of its critical importance, the Commission requested the Department of Commerce to study the factors influencing the availability of capital throughout the 1970's. The study, "Capital Requirements for the Seventies," generated estimates of capital requirements by considering the factors involved in the supply and those involved in the demand for capital, independently. While the initial intent of the study was to indicate whether potential supply and demand would be in balance, and whether capital would be available through traditional sources at reasonable interest rates, the results were particularly useful in indicating the necessary policy objectives to assure that adequate capital would be available.

E. Industry Studies

The special problems of specific industries in improving productivity were another area of research. The Commission contracted for studies of two key consumer goods industries—the food and the footwear industries—to determine where obstacles to productivity improvement exist and how they might be overcome.

The study, "Productivity in the Food Industry: Problems and Potential," by Prof. Gordon Bloom of the Massachusetts Institute of Technology, reviewed a wide range of institutional, legal, labor, and systems problems affecting productivity in food manufacturing, wholesaling, and retailing. The report found that there are numerous opportunities to improve efficiency in food distribution by considering the entire process from the farmer to the consumer. Standardization of shipping methods and hardware, for example, could produce sizeable gains in productivity. Also, more extensive use of unit trains for food could improve output per man-hour in transportation, the cost of which significantly affects food costs to the consumer.

The study of the footwear industry, by Prof. Stanley Jacks of the Massachusetts Institute of Technology, covered a labor-intensive industry where negligible productivity gains in recent years have contributed to capture of a large part of the domestic market by overseas producers. Additional research and development in machine and materials technology is needed to maintain the domestic shoe industry competitive with foreign producers. Although shoe machinery suppliers are engaged in substantial R. &.D. programs, rising costs and decreasing markets may cause difficulty in obtaining capital needed to support expansion. The report recommended that indirect support to the footwear industry might be provided under such programs as the trade adjustment assistance program. While government programs to assist noncompetitive companies are not widely favored in the United States, the report pointed out that many countries are subsidizing footwear firms producing for the export market.

Industry Efforts

The need for productivity improvement and innovations in practices was considered by two key industry groups represented on the Commission—construction and steel. Leaders of the Building Trades Council of the AFL–CIO took up the issue at their convention and industry, labor and government members of the Commission have formed a group to pursue this issue in conjunction with the Construction Industry Stabilization Commission. Considerable attention was also devoted to the need for productivity growth by the United Steelworkers of America AFL–CIO. The 1971 Basic Steel Collective Bargaining Agreement provided for the establishment of joint union-industry committees on productivity at the plant level.

79-980 O - 72 - 6

FUTURE PLANS UNDER THE NEW PROGRAM

Under Section 4 of the Economic Stabilization Act Amendment of 1971, entitled "National Productivity Policy," (approved Dec. 22, 1971), Congress declared that "it is the policy of the United States to promote efficient production, marketing, distribution, and use of goods and services in the private sector, and improve the morale of the American worker, all of which are essential to a prosperous and secure free world, and to achieve the objectives of national economic policy."

Relating productivity improvement to the price and wage stabilization programs, Congress finds that "management and labor have a strong mutual interest in containing "cost-push" inflation and increasing output per man-hour so that real wages may increase without causing increased prices, and that, without in any way infringing on the right of management or labor, machinery should be provided for translating this mutuality of interest into voluntary action."

The act declares that "it shall be the objective of the President's National Commission on Productivity . . . to enlist the cooperation of labor, management, and State and local governments in a manner calculated to foster and promote increased productivity through free competitive enterprise."

The act lists several additional objectives, including promoting the improvement of worker motivation and community interest in reducing waste; the more effective use of labor and management personnel; policies to insure the competitiveness of U.S. products in world markets; and programs to deal with problems of workers adversely affected by automation and other technological changes or the relocation of industries.

A substantial increase in funds for the Commission was authorized and over $5 million has been requested in the President's fiscal year 1973 budget. These funds will be used to expand the staff, to enhance informational activity, and to contract for research and other services.

Under this legislative mandate, the Commission will extend its activities in several directions. First, the Commission plans to expand its substantive program of policy research and development needed by the working groups to formulate recommendations. Most of this basic work will be done by the Commission staff. They will enlist the aid of outside consultants, provide background papers, arrange for seminars and conferences, and draft recommendations for the Commission.

Special attention will be given to work on the opportunities and obstacles to improving productivity in important industries which have been lagging. In this effort, the Commission will strive to be responsive to the needs and suggestions of the agencies involved in the economic stabilization program. In this context, the studies of productivity in the Federal Government and in local government described earlier will be continued, with the staff working with interested organizations such as the U.S. Conference of Mayors and the Council of State Governments. Also, work will be undertaken on several other key industries, including construction and health, where costs have been rising sharply.

Another broad area of examination by the Commission will involve factors that affect productivity generally. Alternative approaches to pollution control will be analyzed in terms of both relative efficiency in achieving goals and implications for productivity growth. Studies will be made of the influence on productivity of workers attitudes and motivation, and the possibilities of improvement through group incentive plans, job redesign and related techniques. The contribution of R. & D. programs to productivity enhancement will also be covered. These areas will be explored with the assistance of leading experts in government, universities, and private industry who are already giving attention to these problems.

Second, the Commission has been charged under the act with the task of fostering attention to productivity improvement on a regional and local basis throughout the Nation. In order to meet this challenge, the regional representative of the Secretary of Labor will be given responsibility for development of a coordinated Federal effort to promote greater awareness of productivity at the local level and in specific industries at the regional level. These representatives will receive technical assistance from the Commission's national office and will draw on the work of the Commission to promote the objectives of the act. With the regional councils as their base, the regional representatives will be able to utilize the resources of a wide range of domestic departments and Federal agencies who have close working relationships with State and local governments and broad contact with all sectors of the public.

Finally, the Commission will enlarge its information program to improve public understanding of the issues and its program. Workers, managers, and consumers will be given more information about the meaning and importance of productivity and its relationship to jobs, income and living standards. The Commission's studies, reports, and recommendations will be disseminated widely. National, regional, and local conferences, meetings, workshops and seminars with a wide range of participants will be held. Special pamphlets, speeches, and other educational materials will be prepared. The Commission will continue to develop recommendations for private and public policy to encourage productivity improvement in the decade of the 1970's.

In addition to activities under the section on "National Productivity Policy," the Economic Stabilization Act Amendments of 1971 seek to enhance productivity growth through provisions of the pay stabilization program. Section 2 precludes from control by the Pay Board any increase in wages "paid in conjunction with existing or newly established employee incentive programs which are designed to reflect directly increase in employee productivity." The types of employee incentive plans intended to be covered by this provision "are mainly those known as productivity sharing plans," e.g., bona fide programs of "productivity bonuses on a plant-wide basis to reward workers for achieving established productivity goals."

Section 2 also provides that rules, regulations, and orders issued under the pay and price stabilization programs "insofar as practicable be designed to encourage labor-management cooperation for the purpose of achieving increased productivity, and the Executive Director of the National Commission on Productivity shall when appropriate be consulted in the formulation of policies, rules, regulations, orders, and amendments under this title."

These provisions specifically recognize the importance of productivity growth in maintaining cost stability and are likely to provide additional stimulus to the progress of the productivity improvement programs. The Commission and its staff will work closely with the economic stabilization program agencies to see that these provisions and the importance of productivity to long-run economic stability are given full consideration.

Appendix A

The President's action establishing the National Commission on Productivity was set forth in a statement issued on July 10, 1970.

THE WHITE HOUSE

The President today announced the appointments of members of the new National Commission on Productivity. The Commission includes six representatives each from business, labor, and the general public, and five members from government.

The President announced his intention to establish such a commission in his speech on Economic Policy and Productivity on June 17. At that time, he described productivity as "a measure of how well we use our resources. . . . In particular, it means how much real value is produced by an hour of work." The President pointed out that productivity "depends on the effectiveness of management; the investment of capital for research, development, and advanced technology; and most of all on the training and progressive spirit of 86 million working Americans."

In the last 2 years, productivity has grown at a much slower rate than usual. It will be the task of the National Commission on Productivity to find ways in which that rate of growth can be increased—in 1970 and in the years beyond. Greater growth in productivity is essential if the Nation is to achieve price stability, health, economic expansion, and a rising standard of living.

The Commission's first priority, as the President said, will be "the problems we face now; we must achieve a balance between costs and productivity that will lead to more stable prices." The Commission will begin its activities immediately. It is the President's intention that the Commission sponsor a special President's Conference on Productivity that will bring together leaders of business, labor, government, and the general public.

Appendix B

POLICY STATEMENT OF SEPTEMBER 7, 1971

Productivity and the National Interest

The ability of our Nation to produce efficiently—our high level of productivity—has been the source of our high and rising standard of living and the key to achievement of many of our basic national goals. Since 1966, however, the rate of productivity increase in the United States has fallen well below the average of the last 20 years and, more importantly, has fallen short of our domestic economic needs and of the growth rates of our major foreign competitors. This shortfall in productivity growth is due in part to the economic slowdowns of 1967 and 1969–70, accompanied by a substantial increase in idle productive capacity.

The National Commission on Productivity was appointed by President Nixon as an instrument of economic policy to address this issue and to recommend ways to further productivity improvement.

The roots of our past productivity accomplishments are no mystery. They are to be found in a vital free-enterprise economy, which offered challenges to both labor and management to produce more in exchange for a fair share of increased output. If we are to maintain and build upon our tradition of high productivity, we must strive to sustain full utilization of our productive capacity, to improve the organization of our human, financial and material resources and to exploit fully our unparalleled reservoir of skill, technology, and managerial talent.

The maintenance of our historic rate of productivity growth is a vital element in our broader task of improving the quality of life for all Americans.

—It is vital to a sound economy which can provide more and better jobs for everyone who wants to work.

—It is vital to our efforts to curb inflation and protect the real take-home pay of workers and the well being of those on fixed incomes. Only by increasing production per unit of resources, can we expect to achieve both rising real incomes and stable prices.

—It is vital to our ability to compete in world markets and preserve job opportunities. Foreign competitors aided by the export of our technology and capital have greatly enhanced their role in both domestic and world markets formerly dominated by the United States.
—It is vital to our ability to pay for clean air and water, without an intolerable sacrifice in other facets of the quality of life.
—It is vital to freeing the resources necessary for elimination of hunger and deprivation, and to aiding underdeveloped countries of the world.
—It is vital to more and better community services without backbreaking taxes. Productivity increases in the public sector are a partial answer to the fiscal crisis in the cities.

Sources of Productivity

Human resources are first and foremost. They are the fountain of energy, skills, organization talent and ingenuity, which must be fully and effectively utilized if we are to realize our productivity goals. Productivity is the basis for progress. Human beings have the life force to make it possible.

Natural resources are our heritage in land, water, air, and energy. These resources are limited. Their intelligent and prudent utilization in the production of goods and services is a core factor in the quality of life for all Americans.

Capital resources are the funds, facilities, equipment, and technological tools which are an indispensable ingredient in our production potential. A strong, expanding economy, with attractive returns to capital under relatively stable prices, insures a willingness to invest in new technology and serves as a stimulus for efficient growth.

Educational resources represent a most critical investment—in human beings. Expanding educational opportunities enlarge the pool of national talent and enable our citizens to realize their full potential as productive members of society. We have led the world in opening and expanding educational horizons—we must continue to lead.

Research and development resources have applied the results of scientific investigation and knowledge with vast benefits to all mankind. The long lead times and unpredictable results inherent in research could weaken our commitment to investment in it. Neither government nor the private sector can afford to falter in its support of these activities.

The unique resource—The American Spirit. As a young Nation, we have grown and prospered in an economic climate which rewards good work, which motivates the individual man to improve himself and to take pride in the product he produces. We have searched eagerly for new worlds to conquer—in space, under the sea, in medicine, in education, and in the problems of our urban, suburban, and rural life. This youthful spirit, which thrives on hope, is the root source of change. It has been our trademark since colonial days and it remains a national heritage, in combination with our commitment to the basic value of freedom and human dignity.

We must rekindle this American spirit and not be content with the status quo, nor be complacent about our society and the inevitability of continued progress. We must reappraise our attitude and mobilize our resources to close the gap between actual and potential national product.

Areas of Improvement

Rising productivity in an expanding economy means high levels of employment for American workers, optimum utilization of plant capacity for business and industry, and a better standard of living for all Americans.

The first and basic prerequisite is an expanding economy, with maximum employment and maximum utilization of plants and machines. Such an expanding economy is essential for efficient economic operations, productivity growth and increasing business investment in new plant and equipment. It is also essential to provide the needed expansion of job opportunities for a growing labor force and for those workers who may be displaced by technological changes. In the absence of such economic expansion, there is lagging productivity, usually accompanied by increasing unemployment and underemployment.

A high level of economic activity is a necessary but not sufficient condition for realization of our full productivity potential. We must also consciously focus on identifiable targets of opportunity.

1. *Productivity bargaining* can constitute an important avenue to increased production, profits, and wages. It involves conscious attention to the trade-off between progress for the enterprise, for large groups of employees and for the consumer, and costs which may be incurred by individual groups of workers.

Our potential is far greater than the current scope of bargaining practices and goes far beyond the limits of current production goals. Work rules, training and upgrading workers, group incentives, job redesign and enrichment, workplace participation and communication, safety, and work scheduling are all areas that deserve close attention in the interest of increased productivity.

2. *Manpower adjustment policies* should be strengthened and refined to assist in meeting the human costs of change, where such costs exist. Although total productivity growth and job growth tend to move together in an expanding economy, adverse effects occur in some situations. A society that seeks the benefits of productivity growth is obligated to safeguard those who would otherwise suffer from these adverse effects. This can be done by such

means as: avoiding worker displacement, mitigating financial loss to individual workers, and assisting workers in securing alternative work.

The private sector should initiate or continue programs for manpower planning, advance warning systems, internal workforce adjustments, dismissal pay policies, and retirement and separation programs which provide benefits in case of involuntary early termination.

Government must also join in by providing appropriate manpower readjustment programs and improving labor market machinery.

3. *Education and Research and Development.* Education provides both direct benefits to the individual and long-range benefits to the society in which he lives. Our public commitment to financial support of education recognizes the returns of education to society as a whole, both in its contribution to national economic growth and its broader contribution to the quality of life. There is reason for concern as to whether rigidities within the institutional structure of education are handicapping opportunities for its proper growth and orientation. There is need for further active experimentation, with government support, in development of improved educational systems, including new and more flexible institutional and financing arrangements, as well as improvements in educational content and instructional methods.

Basic research, much of which is centered in our higher-education institutions, is also essential to long-range productivity improvement. Our future depends upon continuously advancing the technological frontier. This ultimately rests upon the vigor and scope of our research efforts and on the effectiveness of the coupling of basic research to the productive mechanisms of society, through applied research and development. Since the benefits of basic research are broadly diffused, the Federal Government has a special responsibility to assure an adequate and sustained level of funding of such research.

The private sector, too, should be encouraged to invest more of its own resources in applied research and development. This requires a close look at institutional arrangements outside and inside the Government which may need to be modified and an appraisal of tax or other possible fiscal incentives for additional private investment in research and development.

4. *Government Productivity.* Government has been and will continue as an employment growth sector providing almost 4 million new jobs by 1980, primarily at the State and local levels. Efficient government services depend very heavily upon human resource management. In the absence of increased efficiency, higher wages and pensions will increase the costs of providing government services, and contribute to the fiscal crises of our cities.

There is considerable scope for encouraging and facilitating the application of productivity bargaining in the public sector. The Commission should also lead in efforts to identify and evaluate emerging ideas to improve local government productivity, including development of procedures for measuring the relative efficiency of States and cities in performing similar services.

5. *Capital requirements for the 1970's.* One of the basic problems related to the process of economic growth is the demand for and the supply of funds in the capital markets. For some time now there has been a spirited public discussion of the possibility that there may be a capital shortage in the 1970's. Thus, it is imperative that we assess the extent to which individuals, businesses, governments, and other institutions will have access to an adequate supply of funds in this decade to realize their investment plans and identify means to assure that any deficiencies in the supply of capital required to promote adequate economic growth are corrected.

6. *Industries with relatively low productivity improvement.* While some sectors of the economy have high and rapidly rising productivity, there has been lagging productivity growth within other sectors. Moreover, adequate measurement of productivity is lacking for major and growing parts of the economy—such as government, the various services, construction, trade, finance, insurance, and real estate.

Adequate measurement and better information are needed on actual productivity trends and developments in each sector of the economy, so that lagging sectors can be more clearly identified and practical efforts can be made to improve their productivity growth.

The Commission must promote public awareness of the importance and desirability of productivity growth—that we can have more only if the Nation produces more. This is clearly not an easy assignment. But we know this: Every effort made to increase American productivity will be repaid many times over in a higher standard of living and a better quality of life.

Appendix C

NATIONAL COMMISSION ON PRODUCTIVITY

Selected Reports, Papers, and Related Reference Materials [1]

Productivity and the National Interest, September 1971

A statement approved by members of the Commission stating the need for productivity improvement, sources of productivity and areas of improvement (13 pages).

The Meaning and Measurement of Productivity, September 1971

Two papers by Herbert Stein and Jerome A. Mark on the meaning, concepts, and measurement of productivity (15 pages).

The Need for Productivity Growth: The Work of the National Commission on Productivity, September 1971

Talk by Leon Greenberg, Executive Director of the Commission, before the National Association of Business Economists on recent trends, the importance of growth and the role of the Commission (11 pages).

Improving Productivity: Labor and Management Approaches, September 1971

A report by the Bureau of Labor Statistics presenting case study examples of formal efforts by labor and management to improve productivity (35 pages).

Private and Public Manpower Policies Tc Stimulate Productivity, June 1971

A working paper by Eli Ginzberg, with James W. Kuhn and Beatrice G. Reubens, Columbia University, presenting a roundup of methods followed by companies or government in the United States and other

[1] Prepared by or for the National Commission on Productivity. Some of them are background, working papers relating to topics under discussion by the Commission and do not necessarily reflect the views of the Commission members. All items listed are available on request.

countries for preventing or mitigating the adverse manpower impacts of technological change (22 pages).

Has Productivity Bargaining a Future in America, October 1971

By Robert McKersie, Laurence Hunter, and Werner Sengenberger, describing British and American experiences with productivity bargaining and factors relating to the outlook (available about March) (50 pages).

Public Employment Characteristics, Trends, Outlook, September 1971

A brief informational report by the Bureau of Labor Statistics (14 pages).

Improving Productivity and Productivity Measurement in Local Government, June 1971

By Harry P. Hatry and Donald M. Fisk, The Urban Institute. Problems and practices in the measurement of productivity in local governments and illustrative local productivity improvement possibilities (57 pages).

Education and Productivity, June 1971

Two papers by Theodore W. Schultz, University of Chicago, dealing with the role of education in productivity and economic growth and allocation of investment resources (19 pages).

The Relationship Between Research and Development and Economic Growth/Productivity, February 1971

Four review papers by Charles T. Stewart, George Washington University; Edwin Mansfield, University of Pennsylvania; William Fellner, Yale University; and Zvi Griliches, Harvard University; prepared for the National Science Foundation. They cover information on the relationship between R. & D. and growth and whether it is possible to arrive at conclusions about further investment in R. & D. (75 pages).

Productivity and the Economy, 1971

Description: Bulletin 1710, U.S. Department of Labor, Bureau of Labor Statistics—tables, figures, and text on trends in productivity, unit costs and related factors in the United States and other countries. Available from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402, at 50 cents per copy.

Productivity Issues in the Domestic Shoe Industry, August 1971

A report by Stanley M. Jacks, Massachusetts Institute of Technology. Prospects and problems of high productivity systems of production in the shoe industry.

NATIONAL COMMISSION ON PRODUCTIVITY

The Staff

Leon Greenberg
Executive Director

Professional

Terence G. Jackson, Jr.
John E. Morrissey
Edgar Weinberg

Administrative and Clerical

Doris Anderson
Dennis Condie
Deloris A. Ginyard
Marian Wilk

Chairman PROXMIRE. I might say, thanks to Senator Percy and his aggressiveness, the committee will start hearings on productivity next week.

Senator PERCY. So we welcome you this morning, Mr. Grayson. I share the chairman's thought that you are an articulate person, but I think you are also one of the most fairminded and justminded people we have in Government today. We are grateful to have your kind of administration of this impossible task that you have and that has been imposed upon you by the Congress and the President of the United States.

Chairman PROXMIRE. Please proceed, Mr. Grayson.

STATEMENT OF HON. C. JACKSON GRAYSON, JR., CHAIRMAN, PRICE COMMISSION, ACCOMPANIED BY LOUIS NEEB, EXECUTIVE SECRETARY; BERT LEWIS, EXECUTIVE DIRECTOR; AND DAVID SLAWSON, GENERAL COUNSEL

Mr. GRAYSON. Mr. Chairman and Senator Percy, I deeply appreciate your remarks.

I am going to hold my remarks to as short a time as possible. I have had hearings myself as a member of the Price Commission, seven times now, and I know what it is like to sit down and hear a read statement for a period of time. I appreciate your personal remarks. I am not going to try to be bombastic and try and come and sell something I do not believe in or do not think it so. I will try to be as honest as I can in all of my assessments of where we are. I appreciate the hearing to give us an opportunity to tell the data like it is, so I will try to hold my opening statement to just a few significant highlights contained in my prepared statement.

I would like to introduce the members present with me. Mr. Neeb, Executive Secretary of the Price Commission; Mr. Lewis, who is the Executive Director; and Mr. Slawson, who is our General Counsel.

With all due respects, Mr. Chairman, I would like to say I disagree the program is a failure to date. I think it is too early to say the program is set exactly on target and it is going to achieve its target date exactly as we had hoped for. But I do think it is on the right course. I do think the policies that have been set are moving us in that direction. I do not think it is an impossible task. I think it is a very difficult task, as you and others have pointed out. I would point out many things that have been done and some of the problems we face and some of the decisions coming up.

As I said in the prepared statement, the job is to slow the rate of inflation and not retard the recovery of our national economy but to stimulate it. I might add one mandate to those written in the prepared statement, and that is not to sit on the bubble. Not to build the structure so that when you release the controls you get a large explosion. So we are trying not to build the controls in such a way that people do not want them taken off because they fear what will happen in the economy when the controls are removed.

I think there are many encouraging signs that the economy is recovering. Let me just cite some of the things. I will not go over the figures that are available, to look at the recovery underway. They are in the daily press, but they contain indicators that are very encouraging—retail sales lately, Federal Reserve Board industrial index, new plants and equipment expenditures, the stock market—all are encouraging signs. I still think it is too early to say it is definitely recovering.

We are definitely aimed for extremely high recovery, but the signs are there that the country is moving towards a recovery from a low rate of activity. That certainly is important as a way to get the unemployment figures moving downward.

The success of phase II certainly will not be known until it is really ended, so I am not claiming victory or success today. I am saying there are encouraging signs. If you look at the statistics of phase I and phase II, comparing them to the earlier period, 6 months prior to the freeze, I think there are some encouraging indicators.

First of all, looking at phase I and phase II together—I realize that the Price Commission did not come into existence until phase II—but phase II is obviously influenced by what happened in phase I. So, it would make sense to put the two figures together. If you look at the CPI, the figures of the two periods together, 3.3, compared to 4.1 rate of increase prior to the imposition of the freeze. And the wholesale price index is 3.1 in phases I and II together, compared to 4.6, for the same commodities prior to the freeze. The rates have been cut down by the combination of phases I and II, and it does make sense to put them together. The bubble in phase II is caused by the fact it was held down in phase I.

But even if you say let's forget that, and just look at phase II, then the figures are down if you take out food. If you do not take out food, then the CPI is up to 4.9 compared to 4.1, for the 6 months prior to the freeze. But if you remove food, then it goes from 3.7 to 2.9. So there is a reduction in the areas which the Price Commission does control.

Now, we do not control agricultural products, as you know, and the fact that the food did go up was obviously a concern to the Price Commission and that is why we called the food hearings. It is too early to say what the Price Commission will do, if anything. But I think the data is there for the Price Commission to be able to make a decision now in a very complex area.

The wholesale price index has gone up in phase II if you look at phase II alone. But again if you remove food, the rate goes from 5.7 6 months prior to the freeze to 4.2 in phase II, taken alone. Thus, in the areas controlled by the Price Commission, the rate has gone down in the wholesale price index.

So I submit that the numbers do give sign for encouragement and are not a sign of failure.

There is also some encouragement in the announcement made recently by the steel companies. They are voluntarily saying they are not going to go up in their prices. Food prices in recent weeks have gone down in the area of meat. That does not mean that food is going to continue to go down from here on. Food goes up and down. Anyone can look at the indicators and see the seesaw method by which we have to live with food and the sources of supply in this area.

In tier I—the firms which the Price Commission controls and which the Chairman is very interested in as a method of controlling—

looking at the large firms, we have given 1.6 percent price increase across the revenues of those firms that have come in for price increases. There are a little less than 200 firms who have not come in. We do not know definitely that those firms have not increased prices but the presumption is they have not. If they, have then they would be in violation. We are now checking those firms to see if they have raised prices.

I would not like to paint everything as beautiful and pretend that we do not have any problems. That is just not so. We have problems in the area of food. If it continues at the rate it did during the month of February, it would be a serious problem for the whole program. But I have to point out either side of that month which was a very bad month for the Index, in January, the prices were zero-percent increase and WPI which came out for March was very encouraging in the area of food. As I said, we are not out of danger yet. Food could be a very serious problem. We certainly are aware that could be a problem for the program.

THE POSTING AREA

It is well known this is a problem for the whole program because of the confusion surrounding what posting really means. People presume the fact we require posting meant that people could tell if there has been a violation. Well, it is not true. You cannot tell from the base price list whether there has been a violation or not, but it was never intended to be used that way and we are in fault for letting people believe that is so. We should have corrected that impression from the beginning.

The base price lists should be put in better format so the consumers can use them. We are starting to try and correct this, but the posting still is a problem for us and we are examining that right now.

INFORMATION FOR THE PUBLIC

We need to get more information out. I have made trips around the country, we have held hearings and we have asked people to comment on the program. There is some misinformation about the program. We think we need to get better information to the public and have started an effort to create dissemination of information to various media.

There are some glaring inequities and distortions that are beginning to show up that we are concerned about. We do not want to get into the area where we start going down too deep in the commodities or industrials, or we will end up with what you fear, which is an extremely large bureacracy trying to overcontrol in specific industries and commodities.

There are some problems caused by the fact that we have some problems in teir I and others in tier II. The firms in tier II can move faster because they do not have permission to increase prices in advance as tier I does. We tried to create some special rules but I know it creates problems in the market.

There are some special problems. The rate of increase in cattle hides which has come to the attention of the Nation recently. Lumber and other specific products. So we are not saying that everything is in place perfectly. We are aware of these and we are trying to do our best to decide what should be done about it.

We have tightened recently some areas because we thought they should move in the direction of being a little tighter in the beginning than looser. We have reduced the TLP from 2.0 to 1.8. We have added industry productivity offsets rather than company figures and that is a way to stimulate the company's low productivity, to increase their productivity and to let those companies who have high productivity be awarded incentives for getting productivity up. One of the tests in which we are now beginning to see the effect of it is the profit margin ceiling. That was designed from the beginning with the knowledge that this profit margin ceiling would become effective when the economy began to move. We are now beginning to see companies bump up against this profit margin. It is an effective anchor. I use the analogy if you throw an anchor out from a moving ship, there is slack in the line from the beginning, and that is what it was when we first created this test. As the individual companies drift and start to accelerate their profit margins, that line is going to become taut and that anchor is going to begin to hold and it is holding. I have some data on specifics when we get into this later.

We are doing our best not to create a very large bureaucracy because the staff has been held to a moderate increase from the beginning. We started out with approximately 400 people with no knowledge of how many were needed. We have gone to 450. We are up to 500 and something now. I have the exact figures in the prepared statement. Our staff goes up and down, depending on the specific needs in front of us, but I would say 600 is roughly a figure around which we are stabilizing.

I think in most of the areas we have done our best not to create a bubble. That has created some problems in specific areas because we have permitted the economy to move as flexibly as we could. We are trying not to creat a distortion that will prevent the removal of controls. We do not want to have the type of big jump that happened after World War II.

The question has been directed any number of times. "Will we make our goal?" I think so. I am not giving any guarantee. We have never said that this is going to be exactly the date we are going to make it, but the determination is there in the Commission to make this goal and to take whatever steps are necessary to do so.

We do not—as the Chairman said earlier to me in an earlier hearing—control all of the cards. We cannot control all of the variables. So we do not say we definitely have all of the variables at our disposal that we should have. I do not think that should be concentrated in one unit, that much power of the economy. So we are not saying we should have all of that power. The Congress has power, so do other executive branches and independent agencies.

We are going to monitor it to be sure these indicators begin to move to the goal. We will take whatever steps are necessary. These reports that you referred to, Mr. Chairman, are the ones we are asking for now in an effort to tell us how we are doing. We have asked for these reports openly. We have not exhibited different directions. We are listening to people who comment on the program, just as we will take your advice in these hearings.

As to phase III, it is often asked what will happen when this program is over. My own personal recommendation will be that this program be destroyed. That is my personal belief. The final decision is not my choice, obviously. It is part of the decision of the Congress and the decision of the President. There are some options that are obviously available. We could move toward very tight controls over a large number of industries and commodities, and I think that will be very onerous in terms of the bureaucracy, but it would be tight. You could move to a very selective control mechanism over big business or big unions as has been discussed and that is a possibility. I do think it is a responsibility of the Price Commission and the other units in the stabilization program to begin to start to think about these alternatives and to present them to those responsible for making the decision.

I appreciate the opportunity to come here and have this dialogue and hope this has been of help, as a beginning. Thank you.

(The prepared statement of Mr. Grayson follows:)

PREPARED STATEMENT OF HON. C. JACKSON GRAYSON, JR.

Mr. Chairman, and Members of the Joint Economic Committee, I appreciate the opportunity to appear before you today. The timing of these hearings seems particularly appropriate, since it was about six months ago that the Price Commission came into existence. Some 20 days later, its basic policies were announced. Two days after that, on November 13, 1971 the Phase I price freeze ended, and Phase II of President Nixon's Economic Stablization Program officially was under way.

The Price Commission received a double mandate from the President, and subsequently from the Congress. One objective was to slow the rate of inflation in the United States to a level with which American productivity could keep pace. The second objective was to achieve this without impeding the recovery of our ailing national economy to prosperity and full employment.

Neither of these mandates was—nor can it be—separable from the other. To gain a materially reduced cost of living by inhibiting the revitalization of the economy and increased employment would have been a travesty. Such an alternative was unacceptable to the President, and was unacceptable to the Price Commission. The twin objectives necessarily became one: achievement of a dynamic full-employment economy, free from both the fact and the psychology of inflation.

I. A DYNAMIC, FULL-EMPLOYMENT ECONOMY

Before offering measurement and evaluation of the Commission's record to date, it is important to review briefly the degree to which the Price Commission has fulfilled its obligation to that second goal—keeping a controlled economy flexible enough to foster growth and increased employment.

As of today there is no indication that Commission policies have unfairly penalized or impeded growth in any sector of our economy. No evidence has been presented that links any Commission policies or action to forced retrenchment, layoffs, or business failure.

No evidence exists that Price Control policies and action have diminished public confidence in the economy's ability to recover; the evidence indicates quite to the contrary. Surveys conducted in February 1972 by the Institute of Social Research at the University of Michigan, show consumer confidence in the economy at its highest level since the mid-summer of 1969.

There is measurable evidence as well that the program has not impeded the various fiscal, monetary and other policies adopted by the Administration and the Congress to hasten recovery and reduce unemployment. The evidence includes 1,000,000 new jobs created since the beginning of Phase II, and in March, despite controls on prices, the biggest monthly rise in employment since 1967, despite controls.

The five leading economic indicators: the factory work week, claims for unemployment insurance, new building permits, common stock prices, and industrial materials, have all improved each month since Phase II controls took effect.

Recent Department of Commerce figures show that in March, retail sales are up 8% from last year, despite controls.

U.S. Gross National Product according to financial analyst Erich Heinemann of the New York Times, whose report was placed in the Congressional Record by Senator Proxmire, will increase 100 billion dollars in 1972, despite controls on prices.

In sum, the Price Commission, in its first half-year has demonstrably lived up to the second mandate of its two imperatives. The economy in April 1972 remains free, dynamic, growing and productive.

II. THE FIRST MANDATE: "THE WAR ON INFLATION"

In pursuit of its first objective, which the President has characterized as the "war on inflation," I would like to submit the following record of the Price Commission's progress to date in slowing inflation during the first half-year.

A single policy

The Price Commission policy, announced last November 11, is the first U.S. price control policy ever enunciated in the United States in peacetime, without the catalyst of war to induce voluntary compliance and support for those under controls.

It is the first price control policy in American history to extend its regulatory activities to insurance companies, utilities, professional services, and the communications media.

It is the first price control policy in the United States which did not exercise its function through control of prices on specific items, and instead exercises its anti-inflationary objectives through controls on price markups and corporate profit margins.

It is the first price control policy in the United States to be conceived and based on the premise that strict control of the "price leaders"—the 1500 dominant U.S. companies—would provide a reflective controlling mechanism for the rest of the economy, thereby eliminating the cost of vast cumbersome bureaucracies of enforcement personnel, on the scale exemplified by wartime OPA and OPS price controls.

The policy embodied in these innovations was expressly directed at slowing inflation in the United States to a projected rate of 2–3% by the end of 1972. This basic policy has remained unchanged and unamended since its announcement on November 11, 1971.

Total tier I companies applying for increases to date

1,570 corporations with annual sales of $100 million or more, whose combined revenues are $840 billion, or approximately 40% of the U.S. economy, were designated by the Cost of Living Council as Tier I "pre-notifier" companies, which must receive Price Commission approval for raising any price on any good or service.

To date, 1,100 of those companies, with combined revenues of $750 billion, have notified the Price Commission of a desire to discuss price increases in one or more product lines.

702 of these 1,100 companies are under signed Price Commission orders.

540 (with revenues of $350 billion) have signed the Price Commission's PC–1 order 162 (with revenues of $181 billion) have signed Term Limit Pricing Agreements (see below).

222 of these 1,100 companies have been subject to other Price Commission policies, such as custom or long-term contracts, contracts entered into prior to August 15, 1971, volatile prices, or establishing a new base price under Phase II regulations.

176 of these 1,100 companies are awaiting Price Commission decisions on their applications.

204 additional companies, which are solely retailers or wholesalers, have signed the special PC–1R form designed for such companies.

98 additional companies, which are solely utilities, have been dealt with in accordance with Commission policies regarding utilities.

168 companies have not been heard from to date, and investigation is being made to determine if such companies are in compliance with Price Commission regulations.

Total cases acted on to date

A single application may involve a dozen or more different filings during the process of analysis and evaluation. A single parent company may involve many subsidiary companies, each with many product lines. Some parent companies own retailing or utility subsidiaries which file the different PC–1R form or are dealt with by regulatory agencies, as well as the PC–1. Some firms which subsequently signed TLP agreements may have previously signed PC–1 agreements for specific price increases.

The figures represented below deal with cases, or applications for specific price increase in a specific good or service, using the PC–1.

To date, 5,485 specific applications, or cases, have been submitted for approval. Of these,

Have been approved	2, 400
Have been reduced, and then approved	425
Have been denied	140
Have been withdrawn or cancelled	1, 070
Are pending	1, 450
Total	5, 485

Term limit pricing agreements to date

In addition to the 5,485 cases which have been or will be disposed of by the Commission, the Commission has signed Term Limit Pricing agreements with 162 additional companies, whose combined revenues totaled an additional $180.8 billion. Under the TLP agreement, the average price increase of each such firm was under 2% annually. On March 15, 1972, the Commission announced that all new company-wide TLP agreements will henceforth be limited to a raise of 1.8% annually, with a ceiling on any given product line of 8%.

Tier I companies not requesting increases to date

168 Tier I "pre-notifier" companies, or 11% of all of Tier I, have not yet filed formal application for a price increase, as of this date. The Commission assumes that such failure to apply indicates no need or desire for increases, but is investigating these companies to make certain that none of them is in violation of price control regulations.

When combined revenues of those companies not requesting increases are added to those under controls as cited above, the average approved price increase of all Tier I companies in the United States is only slightly over 1%.

Tier II companies to date

The 1450 Tier II companies required by law to report quarterly to the Commission represent approximately 5% of total sales in the United States. Since the first quarter had just ended, only 59 Tier II reports have yet been filed, and are currently being analyzed.

Tier III companies to date

Approximately 3 million Tier III "non-reporting" companies representing approximately 55% of U.S. annual sales were identified by the Economic Stabilization Act as controlled by "voluntary compliance," under IRS monitoring.

Compliance with commission policies

The reporting practices of the Internal Revenue Service do not distinguish between Tier I, Tier II, and Tier III firms.

During the Price Commission's first six months, public complaints and IRS investigations have revealed 75,415 alleged cases of noncompliance. Of these 43,744 were found not to be in violation. Another 13,244 complied after investigation. 144 cases are pending in American courts.

Profit-margin limitation

As noted above, the profit-margin limitation is one of the principal weapons of the entire control policy of the Price Commission, applying equally to all three "Tiers" of companies under Commission controls. Tier III companies are not directly controlled by the Commission. But all Tier I firms under signed PC–1 orders, and Tier II firms are required by the Economic Stabilization Act to submit Quarterly Reports (PC–51) for Commission analysis.

Not until early April, 1972 could the Commission assess the factual effectiveness of the profit-margin policy, as first-quarter reports began to appear. To date, only 416 such Quarterly Reports have been received. By May 15, 1972, since 70% of Tier I and Tier II firms have their fiscal year on a calendar basis, some 2,000 PC–51 Quarterly Reports are expected by the Commission.

Preliminary reports of the 252 such reports already examined on April 2 are revealing, but such a small sample cannot be used to indicate any significant trend. However, half of those received were found to be incomplete or inaccurate, and were returned for revision.

Of the 129 properly filled out, as of April 12, 1972, 51 were in excess of their base period profit-margin, and 78 were within their base period profit-margin.

Of those companies in excess of their base profit-margin, all were notified with responses due by April 19. 5 have responded, and 2 of the 5 were issued price-reduction orders.

Exceptions to date

The Economic Stabilization Act stipulated that the Price Commission must make exceptions for those companies in which claims of "gross inequity" could be demonstrably proven. Of 958 applications for exceptions on which reviews have been completed, 650 were found to be covered by existing regulations, and did not require Price Commission action. 101 cases—about 10% of the total—received Price Commission approval. 207 applications were denied. Of the cases currently under review, 22% concern prices, and 78% concern rents.

Average approved price increase to date

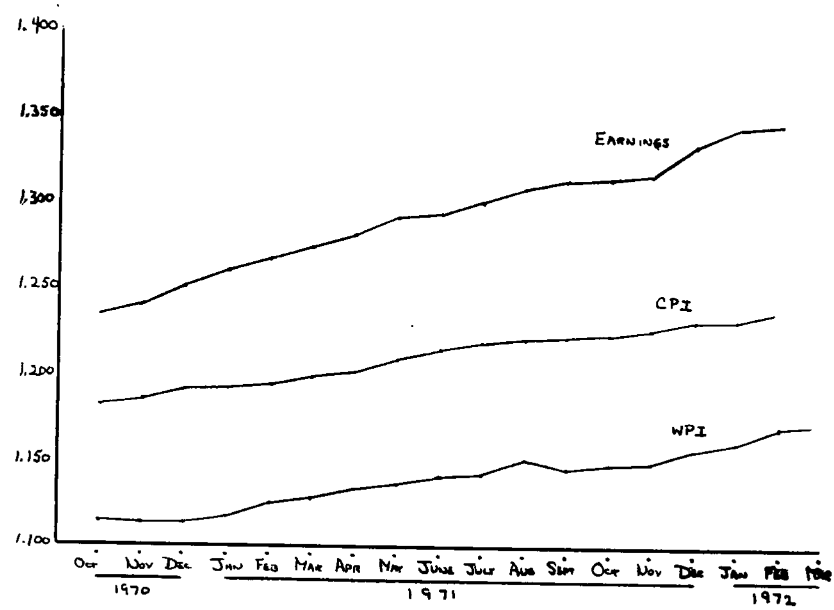
The average approved price increase granted by the Commission in its first half-year comes to 1.6% for total revenues, and 3.2% for applicable (product-line) sales of all companies, including TLP companies which are under orders from the Commission. This evidence sharply refutes allegations of "laxity" or "softness." It is worth noting, moreover, that total revenues of all companies which have signed such orders exceed the combined GNP of all nations in the entire European Economic Community.

III. EXTERNAL MEASUREMENT INDICES: WPI, CPI, HOURLY WAGES

On April 14, 1972, Dr. Herbert Stein and Dr. Marina Whitman of the President's Council of Economic Advisors appeared before this Committee to assay the overall effectiveness of the Economic Stabilization Program. Their testimony reviewed the effectiveness of the program since its inception on August 15, 1971; their analyses of various indices reflecting the effectiveness of the program since its inception were based on data annualized for the combined Phase I/Phase II period.

In order not to duplicate the observations and analyses made by Dr. Stein and Dr. Whitman, I have focused the Price Commission analyses, as elsewhere in this report, only on the period of time since November 13, 1971, when the Price Commission was activated. Certain figures in the following analyses of the measurement indices differ from those presented by Dr. Stein and Dr. Whitman because they have been annualized to reflect Phase II performance only, in an effort to provide the Committee with measurement of price performance during only that period of the Stabilization Program in which the Price Commission has been active. As of April 18, 1972, the March Consumer Price Index was not yet available; the figures following reflect only the December—January—February CPI figures annualized as of February. The March WPI, however, as available, and has been included in the analyses.

Attention is called to the attached chart measuring rates of increase of the WPI, CPI, and hourly wages across an 18-month period commencing October 1970 and ending in March 1972, prepared to establish a correlation between prices and wages. It is worth noting on that chart that the WPI for March reflects the anticipated downturn in the post-freeze "bulge," as discussed in detail by Dr. Stein and Dr. Whitman. It is also worth noting that of the three indicators, contrary to some assertions, hourly wages reacted significantly more to the post-freeze bluge than did either price indicator, particularly in November and December, the first two Phase II months.



CONSUMER PRICE INDEX, WHOLESALE PRICE INDEX, AND INDEX OF HOURLY EARNINGS OF PRODUCTION WORKERS, SEASONALLY ADJUSTED 1967 = 1.0

Wholesale price index to date

The WPI is a more extensive indicator of economic activity than the CPI. As the graph indicates, it therefore reacts a good deal more sensitively to economic changes. The WPI's slow-down during the price freeze was more marked than that of the CPI; most of its major components registered distinct price declines. Similarly, when the freeze was lifted, the WPI reflected the post-freeze "bulge" a good deal more sensitively than did the CPI. The March WPI rose only 0.1%—the least increase in this indicator since the freeze—due largely to declining prices for farm products, which had risen through February 1972.

As Dr. Stein pointed out, the wholesale index for industrial commodities during Phases I and II fell from a previous 7.5 increase to only 1.8. Yet the Phase II—only figure of 4.2, while not yet within Commission guidelines, is 1.5 points lower than the 6 pre-freeze months, despite the "bulge" pressures in those months which were described by Dr. Stein.

Consumer price index to date

Although more frequently used as an indicator of inflationary history, the Consumer Price Index is sometimes accused of being inappropriate as a measuring rod, for it is not a base indicator. Some economists consider the IPD (GNP Implicit Price Deflator), to be more comprehensive and reliable, for it is made up of purchases of goods and services by all final demand sectors, including government and foreign sources. The IPD is available only in quarterly reports, however, and is not available for computation or comparison in this report.

The CPI, even accepting its alleged inadequacies, tells but a partial story of price control effectiveness in the entire economy. But even within that partial story, 22% of the goods and services included in the CPI—notably raw agriculture product and meat—do not fall under Price Commission regulations. The latest available CPI, that of February 1972, reveals the same disturbing increase in food prices identified in the WPI. As noted in the table below, the annualized Phase II increase in food prices reached 9.3%, a finding which caused the Commission to order food hearings last week, on April 12th and 13th.

A breakdown of the CPI, however, reveals a considerably different story in other areas of the index as shown in the following table.

	Percent	February CPI	Annualized rate November–February (PHS II)
December 1971 Weight:			
Food	22.19	+1.7	+9.3
All nonfood commodities	40.40	−.1	+1.7
Services	37.41	+.2	+4.4
Total	100	+.5	+4.9

It is significant that the annualized rate of increase in nonfood-consumer prices, for the Phase II period through February 1972 was only 2.9%, which puts it within the range of the Price Commission's goal of 2.5%. The table also reveals that almost half of the annualized Phase II price increase of 4.9% was due to food.

Average hourly wage index to date

In still another index developed by the Labor Department, wages across the economy (both union and nonunion) rose 3% in the first four months of Phase II, or at annualized rate of 9%. The index uses 1967 as a base of 100. In August, before the freeze, the index stood at 130.9. When the freeze ended it stood at 131.6—the freeze having held wages to a rise of 0.5%. Since November, however, the rise has climbed up again to 3%. These figures as shown in the attached graph, clearly refute the repeated assertion by organized labor that wages have been held down, while prices have climbed disproportionately. In fact, the opposite is evidently true. As a glance at the chart immediately reveals, hourly wages had the sharper and quicker post-freeze "bulge."

IV. POLICY REFINEMENTS TO DATE

The basic Price Commission policy of controlling profit margins and mark-ups so as to be able to slow inflation to the projected annual increase of 2–3% by the end of 1972, has, as noted, remained unchanged during these first six months. It has, however, constantly been refined, modified, and tightened. Flexibility and responsiveness to changing conditions in the economy has been, and will continue to be, a primary objective in implementing the basic policy. Instances of such significant refinements include the following:

Productivity measures

The importance of achieving rising productivity gains until they meet lowering inflationary rates, and permit an end to controls, has been consistently stressed by the Price Commission.

From the outset, the Price Commission established productivity gains as part of its evaluative process in determining allowable price increases. Such gains are used as an offset to cost increases. During application of this evaluative process, the Commission discovered a majority of applicant firms had unreliable productivity measuring methods. In unnumbered cases, the Commission has been obliged to reject productivity figures, and demand more reliable measurements.

As an inducement to stimulating greater productivity in applicant firms, the Commission announced in April 1972, the imposition of industry-wide productivity standards, which will be used henceforth as the basis for determining allowable productivity offsets. Adoption of this new evaluative technique by the Commission provides greater incentives, both for companies below and those above industry standards, to increase productivity gains. Adoption of the techniques is expected to result in an average price-rise reduction of 1%. An expanded report on productivity will be provided by the Commission in hearings before the Joint Economic Committee on April 26.

Allowable cost rule

This adopted refinement of policy was made only to permit those cost increases incurred since January 1, 1971, or the last price increase, whichever is more recent, to be passed on. This limits a firm's ability to reach back for costs.

Term limit pricing

As noted, TLP agreements have been limited henceforth to a maximum weighted average of 1.8%, with an 8% limit of specific products covered in the TLP agreement.

Small retailers

After careful evaluation of the retailing program, it was decided to exempt the retailers with annual sales of less than $100,000 from price control regulations. From the same study came a decision to waive the requirement to post base-period prices by all retailers with annual sales of less than $200,000. Both of these actions were taken to comply with Section 214 of the 1971 amendment of the Economic Stabilization Act, concerning small business.

Customary business practices

Another study resulted in a decision that a company no longer may follow its customary pricing practices when these practices would cause the company to exceed its initial percentage markup, or to anticipate future costs.

Loss/low profit firms

As a result of another study, firms in the marginal profit category with annual revenues of less than 1 million dollars now may use a profit margin of 3% for pricing purposes. Loss/low-profit firms grossing more than 1 million dollars have been furnished by the Commission with a table to permit them to receive stipulated nominal profits.

Custom products

On March 11, the Price Commission published rules concerning the pricing of custom products and services (including construction projects) which have no base price. These permit a base price determination to be made in conformity with a firm's customary pricing practises, but reflect only allowable costs, thus avoiding any increase over a firm's base-period profit-margin. The same rules stipulate that a Tier I firm producing a custom product, or providing a custom service, must pre-notify the Commission and receive approval of the proposed base price whenever the amount of contract price exceeds 1 million dollars. The rules also require a firm whose labor or other costs have been reduced by the Economic Stabilization Act to reduce its prices to reflect the lower costs.

Windfall profits

In accordance with specific stipulations by the Economic Stabilization Act requiring the Price Commission to prevent price increases which result in "windfall profits," a study made by the Commission staff resulted, on April 14, in the announcement of a new tightened rule dealing with such profits when the Commission finds they have occurred. Under the new rule, before May 4, 1972 any firm which has increased any price on a product or service because it anticipated a wage or salary increase that did not occur because of wage controls, must roll back that price to its pre-increase level.

Rents

Single family units and owner-occupied dwellings of four units or less, on leases of more than one month, were made exempt after a study and recommendation by the Rent Advisory Board.

Public utilities

Earlier this year, the Commission became troubled by the controversial size and number of rate increases requested by regulated public utilities. It authorized public hearings to evaluate the respective arguments of the industries involved, the regulatory agencies, and the consuming public. Pending the outcome, utility rate increases were frozen for a period of 45 days. The Commission deliberated on the findings of those hearings, and in late March decided on a new procedure to assign responsibility for regulation of utilities thereafter to the appropriate regulatory agencies—but with the proviso that no such regulatory body could approve a new rate increase for any utility before receiving a certificate of compliance from the Price Commission. Such certificates are issued by the Commission only when the affected agency proves that the interpretation of its regulations conforms to the terms of the Economic Stabilization Program.

Health services

By regulations and evaluative procedures designed to eliminate inflationary expectations from approved rate increases in the health services, the Commission during its first six months has endeavored to reduce such rate increases by 40–50 percent. One insurance company, the Federal Employment Program of Blue Cross-Blue Shield, the largest single U.S. health insurer, whose application for a rate increase had been cut by 33% before approval, recently wrote a letter which the Commission published. The letter attested that the company had not encountered the inflationary factors it had anticipated, and in the first quarter of 1972 had been able to perform without loss.

V. CONCLUSION

In its continuing determination to fulfill its double mandate in equal measure to the American public and American business, the Commission in March inaugurated an ongoing series of public hearings, designed to provide an open forum for all those who wish to appear and comment upon Commission policies and the effectiveness of policy implementation. Such public hearings have been held in Chicago, Washington, and San Francisco, with others scheduled for later this spring and summer.

In line with its policy of being totally responsive to the public and to special conditions as they develop, the Commission additionally has convoked open hearings in specialized areas of control, such as the utility hearings (noted above), the food hearings on April 12 and 13, and the rent hearing by the Rent Advisory Board on April 14. Similar specialized hearings will be called from time to time if and as conditions warrant.

For the Commission and its staff, these hearings have yielded inputs of critical evaluative importance for future refinements and modifications of Commission practices and regulations.

To anticipate continuing responses to changing economic conditions, the Commission staff has an ongoing program of analysis and evaluation of present and possible amendments to its policies, which is under constant review by the Commission itself.

Included in the inventory of areas now being studied by the Commission are:

Evaluation of dollar pass-through amendments in various sectors of the economy.

Exempting or decontrolling schedules for certain areas of the economy as conditions warrant.

An evaluation of extending and/or tightening controls on food prices.

New reporting procedures designed to simplify and cohere existing practises.

An evaluation of suggestions for decontrolling major portions of the economy, and concentrating Price Commission manpower on the largest Tier I firms, while decontrolling large portions of the economy.

New rules for loss/low-profit firms in the service (low capital intensive) sector.

Continuing efforts such as these are indicative of the Price Commission's resolve to keep its basic policies unchanged, but always adaptive both to internal discoveries of ways to improve overall effectiveness and to the impact of national and international events which may effect the strategy of controlling inflation down to the target level of 2–3% by the end of 1972.

As the foregoing attempts to make clear, our control policies, as enunciated and practised to date, have not been designed, as in a freeze, for dramatic, instant results. They have been designed to permit the economy to breathe freely while slowly feeling the pressures of profit-margin ceilings of Tier I and Tier II reach across the breadth of the entire economy. I believe we have only begun to feel the impact of those pressures. I believe the months ahead, as our controls bite into the economy, will provide increasing evidence of the effectiveness of our strategy.

In sum, Mr. Chairman, I feel there is cause for all Americans—labor, management, government and the American public we represent—to have confidence that the near and long-range future will benefit from what we have attempted in the service of our double mandate.

Chairman PROXMIRE. Mr. Grayson, in your prepared statement you say you received a double mandate from President Nixon. The first was to slow inflation and the second was to do this without impeding the economic recovery, and these are your words "to full employment."

As I said, in my view, bluntly, you have failed dismally to achieve either one of these, although you think you have achieved the second one. You have not slowed the rate of inflation. Indeed, since you went on the job November 15, prices have been rising faster.

The first 6 months prior to the freeze, that is February to August of 1971, and second, the 5 months, I should say, November to February or March 1971 to 1972, before the freeze the CPI went up, the Consumer Price Index went up 4.1 percent. Since, it has gone up 4.9 percent. Wholesale price increase went up 4.6 percent. Since we put controls on, it has gone up 6 percent. The spot price index went down 2 percent before the freeze went into effect. After phase II, it went up 31.8 percent.

Now, the statistic that seems to me to contradict the fundamental argument you are making is the Wholesale Price Index, less food—this is what Commissioner Moore gave this committee only a few days ago—6 months prior to freeze, rose at 1.8 percent. The period since phase II went into effect, increased 3.5 percent.

Under the circumstances, you still argue that your operation is getting results?

Mr. GRAYSON. Mr. Chairman, I think the difference in our view is how we read these statistics. You said since the controls went into effect. The controls really started with phase I. So I think it is unfair to say phases I and II can be separated in these indicators. I used the analogy the other day in an interview, if you skip a meal you are going to be hungrier at the next meal. Phase I caused the economy to skip some increases in prices and wages. Phase II is an acceleration of that. I think the two need to be put together.

Chairman PROXMIRE. You said disregarding—you said disregard it.

Mr. Lanzillotti, who you know is a very capable man, closely associated with you, and I am sure you have great respect for him, said the continuing bulges in the Wholesale Price Index and Consumer Price Index can no longer be regarded as temporary aberrations or due to the postfreeze fault. That contradicts what you said.

Mr. GRAYSON. I think that was when food was up, if you take food out, as you, yourself, said a moment ago, then the numbers do drop. I would agree though, if the March WPI had been high, or if the March CPI is high, then we will have cause for concern.

Chairman PROXMIRE. They drop but it is still worse. It is a worse performance with food out.

I said 1.8 was the increase of the 6 months prior to the freeze, 3.5 in the period since the freeze went into effect—I mean, since phase II went into effect.

Mr. GRAYSON. You are looking at the consumer commodities? I was looking at the WPI industrial commodities, which is 5.7 in 6 months prior to the freeze. I believe your data is consumer commodities less the food—1.8 6 months prior versus 1.5, if you put phase I and phase II together. If you do not put them together, it is 3.5 as you say.

Chairman PROXMIRE. Secondly, in your prepared statement, you claim that you have lived up to the second half of the President's mandate. You say the economy is free, dynamic, growing, and productive. Those are nice words but the mandate as you phrased it to us this morning, and I quote: "To slow inflation without impeding the economic recovery to full employment."

Now, the claim that you have done that just seems to me an insult to our intelligence. The indices you cite include stock market prices are up. But how about the number 1 indicator, can you honestly say, as you imply, that you are moving toward full employment when unemployment is still 5.9 percent, and has remained at that 6-percent level since phase II went into effect? There certainly isn't evidence this is doing anything effective.

Mr. GRAYSON. No; unemployment has not dropped significantly. It has headed in a down trend.

Chairman PROXMIRE. Isn't that more important to the average American than stock market prices?

Mr. GRAYSON. I might add the number of people entering the market, a million jobs have been added since the beginning of phase II, and 1.8 million since the second quarter of 1971 versus the data today; more than any comparable period in the past 10 years. So there has been a great number of jobs added. A number of people have been entering the market.

Chairman PROXMIRE. Let me interrupt and say, this committee has gone over and over that with Commissioner Moore. We can expect the number of people entering the market to continue increasing just on the basis of figures—age groups maturing and entering the work force, people coming out of the armed services. There are a whole series of factors we can project. We know it is going to continue. It has always been the case when you move into a period of recovery, your work force increases, in addition to the demographics. So this is just something we have to keep in mind. You might argue that if we had a somewhat more ordinary increase in the work force, unemployment would have been 5.8 instead of 5.9. But, this would hardly be an argument that we are getting unemployment under control in the phase II period.

Mr. GRAYSON. I agree that the fact it has not gone down further is a source of concern that should be corrected downward and, hopefully, the projections are in that direction. The fact it has not gone down as much as we would like is not a source of pride.

Chairman PROXMIRE. The fact is, that mandate from President Nixon has not been fulfilled. There is no evidence we are making any progress toward full employment. There is evidence that the stock market has gone up. You have greater production, and we expect greater productivity. But we have not been able to get at this tough basic indicator of prosperity which is unemployment.

Mr. GRAYSON. Well, again, I think if we had not had some success in the program, the unemployment would have been higher. I think that a number of people have entered the employable ranks because prospects are better. I do think the signs of the economy are going to move in that direction to reduce the unemployment.

Chairman PROXMIRE. Mr. Grayson, how intensively do you audit the cost and productivity data submitted by business firms?

Mr. GRAYSON. The analysts go over all of the figures submitted. We do not actually go out to every firm that comes in for a price increase and audit their books.

Chairman PROXMIRE. Have you gone out to any firms and audited?

Mr. GRAYSON. We asked IRS to do that for us.

Chairman PROXMIRE. How often has it been done?

Mr. GRAYSON. Mr. Neeb says about—we are guessing—20 times. We can find out exactly.

Chairman PROXMIRE. Twenty times?

Mr. GRAYSON. Remember, this is in addition to the CPA audits required to be submitted in annual reports.

Chairman PROXMIRE. So you did it 20 times and, in addition, you do not go behind any claim the company has concealed data as confidential?

Mr. GRAYSON. They sign the certificate which says they certify the data are correct. And this is the chief executive officer of the company that is asked to do that.

Chairman PROXMIRE. They certify, but you do not go behind them?

Mr. GRAYSON. We do not go in and make audits. We do not have the staff.

Chairman PROXMIRE. You are a CPA, you know how complicated this is. It is very easy for a man to say it is correct. But if you put a little different interpretation, you can make enormous differences in their position with respect to productivity and profits.

Mr. GRAYSON. Certainly, I am a CPA so I know the problems. But I know how hard CPA's strive to get that data accurate, given there is room for interpretation.

Chairman PROXMIRE. It seems to me in view of the fact you do not go behind this confidential assertion on their part, this assertion the data is accurate, they say it is confidential, that is it, and you accept it—it seems to me you are not only operating in secrecy, but confusion. In other words, you and your Commission do not really know whether you are getting the full truth about the company's justification in claims for higher prices. Isn't this a case of the blind leading the blind?

Mr. GRAYSON. I would not agree, Mr. Chairman, respectfully.

Chairman PROXMIRE. Maybe I should say in the land of the blind the one-eyed man is the king.

Mr. GRAYSON. I just had my vision checked. It seems to be all right since I came on this job.

There is a second check on these data. That is, we can later get the audited figures and if they have over-estimated in their costs, which a company can do, there will be audited data of the firm and they will be caught in the profit margin ceilings.

Chairman PROXMIRE. Well, I want to come to that phase a little later. You made great claims in your prepared statement for price-limiting agreements. What do they really mean? Have you ever called any of these hundreds of firms for any violation in the millions of price changes in their products, violation above their agreements?

Mr. GRAYSON. The reports are just coming in on the quarterly profit margins and that is the first look at the actuals. There have been some cases where we have gone out to check and we are asking them to check now on some of the firms under TLP's, to see if they have violated. We are expecting it next in the food industry. We have directed the IRS to check to see whether they have violated the markup rules. We are not blind to the fact some companies could be deluding us or giving false data, incorrectly or by mistake. They are required to submit quarterly reports on margins, costs, sales and profits and they are also required to submit a composite price index under the TLP arrangement. That is a required part of TLP. They must submit a composite price index on their products.

Chairman PROXMIRE. That is what you have done about this. Is it true that you have instituted rollbacks on two or three occasions?

Mr. GRAYSON. So far we have ordered price reduction for two companies.

Chairman PROXMIRE. With all of the firms involved. Now if the specific rollbacks you have instituted are fully put into effect, what effect would they have on reducing the cost of living overall?

Mr. GRAYSON. We do not know the specific amount.

Chairman PROXMIRE. One hundredth of 1 percent, one 1,000th?

Mr. GRAYSON. So far it is very small.

Chairman PROXMIRE. As you say, not significant. So that with respect to any effective change instituted by your Commission, it comes out, as you say, to zero.

Mr. GRAYSON. These are only two, and the quarterly reports have not been in large numbers. We expect 3,000 by May 15 and we are going into all of those with the same thoroughness we did the first few. If there are price reductions needed, they could be significant. It is too early to tell.

Chairman PROXMIRE. Today, as far as we can tell, however, you show no results. You say in the future you might.

Mr. GRAYSON. It is too early. Firms are given 45 days to file the quarterly report, and 90 days following the close of the fiscal year. If a firm ended its fiscal year December 31, or January 31, you can expect those reports to be coming in now. That is what they are doing.

Chairman PROXMIRE. Senator Percy.

Senator PERCY. Mr. Grayson, a very serious charge has been made against the Price Commission by reporter Jack Anderson. He stated that the Price Commission held secret meetings with the New York Telephone Co., prior to a rate adjustment, which has enabled them to have an inside opportunity to adjust their rates. Would you care to comment on this charge?

Mr. GRAYSON. Yes. That is not true, the word "secret" here. We have meetings with representatives from the firms which we must have in order to get the data. We have meetings with industry. We have meetings with labor representatives, trade associations, Members of Congress, and we have conversations which are necessary for the conduct of our work.

Those meetings that were held with the members of the telephone company were held in order to go over their data. And those were not secret in the sense that we did not want anyone to be sitting in.

Senator PERCY. Were they different from any other meetings?

Mr. GRAYSON. No different from any other meetings—utility, manufacturing, or otherwise. So they are not secret meetings. Because of the interest in this case and the magnitude, I, personally, ordered that this increase be suspended and the money be put in escrow because of the magnitude of that amount, and until we could institute and make a thorough investigation and get new criteria.

So I would say that charge of special treatment or special favor is just simply not true.

Senator PERCY. Charges have also been made by members of organized labor and, if true, certainly they bear careful scrutiny. They charge that unreasonable profits are now being made by companies, that consumer buying is going up, but that these profits are not being passed on to the consumer in the form of price cuts.

Now, this is, of course, the problem for controlled economy—to try to get justice into the system. But it certainly would be inequitable and unjust, when wages are controlled, for a company to pocket the excess profits it might be making under these extraordinary circumstances.

What can the Price Commission do to prevent this from occurring? What can you do about such circumstances?

Mr. GRAYSON. We share your concern, Senator, and that of others. We are worried about that and we have done several things, one of which is a minor one, that of windfall profits. If negotiated wages are reduced by an order of the Pay Board or any other branch of the stabilization program, prices must be also carried back so there are no windfall gains accruing to the company.

Senator PERCY. But that is after the fact. Is there a penalty involved?

Mr. GRAYSON. There is a renegotiation of price, simply because the company could not have foreseen that. And when this happens, there is no penalty involved. It is just a change in the agreement.

But the larger problem you pose is that of whether or not the companies are unduly changing their accounting processes in order to try to circumvent the controls. We are aware of that. The companies are aware of that possibility. We are, therefore, requiring that these reports submitted to the Commission will have CPA audits. The CPA is not going to let them get away with undue changes in the accounting practices.

The other we deal with is operating profits. We do not allow going below the line and shifting things to reserve which they can pull out later. It is the operating profits we are controlling.

Finally, we made the important decision that we are not going to wait until yearend in order to look at profit margins. That would be a mistake to say, we will wait until next December. We said quarter by quarter you must be at the rate of your annual profit margin. That is checking them quarterly rather than waiting until yearend. So we are aware of this problem and we agree with you.

Senator PERCY. The Internal Revenue Service, I think, certainly stands as one of the most efficient tax collection agencies in the world, as we all know, and they have used a procedure for many years that I think is effective. I have never had inside information—but I always noticed in March of every year, there is a flurry of penalties imposed and companies or individuals singled out for tax evasion. I just think it causes people to be a little more careful knowing that there are penalties involved and that the Federal courts are very tough in dealing with tax evasion. There is very little sympathy for people who are tax evaders.

Moral tones have been established for taxes. We all have to pay our fair share. Can you establish a moral tone that it is a matter of immorality for any company to unduly profit and benefit by the controls that have been imposed upon the economy? If companies have not kept controls on their profits but the wage earners have controls, and the company is pocketing undue profits, then we should have strict penalties for a serious, overt attempt to not disclose to you the profits that have been rolled up as a result of these controlled prices?

Mr. GRAYSON. There is a $2,500 fine, civil penalty, for each violation, which could be interpreted to mean each item, and that could be a substantial fine. There is also a $5,000 criminal fine for each violation. So the penalties and fines are standing there as a very strong sanction and we intend to use those against those who are willful violators, very strongly.

In the case of making refunds available to those damaged, we can use an example that we did with a recent company where they had overcharged. We ordered not only a refund to the customers but we ordered treble price reductions to compensate the consumer for the damage they had done.

I hope that you and others will raise your voices along with the Price Commission, to urge people on their own, voluntarliy, to exert this degree of morality about not trying to evade the controls.

Senator PERCY. I think it would be helpful in this public forum to, first of all, have us indicate that those penalties were imposed by law. We would expect those penalties to be imposed and will back you up. I hope you would impose them and crack down on those who are in violation, because I think it then would cause others to feel there is at least justice in the administration of that system.

Mr. GRAYSON. That we will do, Senator.

Senator PERCY. We want to get rid of control as quickly as we can. But certainly while they are here, we have got to live by them and have a penalty system to make controls work.

Mr. GRAYSON. I might add, the way to get rid of controls is to make them work, and that is what I have been telling people. Don't try to evade it, you are only adding to your own worries, adding to the length of the shadow.

Senator PERCY. In your prepared statement you have a chart which shows the hourly earnings of workers are increasing at a higher rate than the Consumer Price Index. Is this inserted for the purpose of refuting the charge by Mr. Meany and others that prices are increasing faster than wages? Would you care to expand on that?

Mr. GRAYSON. Yes, the rate of the earnings, adjusted hourly earnings, have gone up at a rate of 9.3 in phase II which is an unusually high rate, which obviously cannot be tolerated. I think it is not true, the statement that wages have been frozen and prices have not. The data does not show that.

But I think it is only fair to say that is also a bubble. I do not predict it is going to continue at that rate because I think those came through as a result of several increases mandated by the Congress and retroactive adjustments, fringe benefits and so on, which were regarded as being fair by the Congress and were put in. I think that was an unusually high jump. I do not think it portends we are going to have that rate in the future.

Senator PERCY. The tier I firms—and there are 1,574, according to your testimony, that have sales of $100 million or more—could you explain how the 3.2 percent increases accrue for tier I firms from a weighted average of total applicable sales which have risen only 1.6 percent? Isn't this figure substantially below the 2.5 percent guidelines which you have estimated?

Mr. GRAYSON. Yes; if the firm comes in for one product even, we count that price increase in the applicable sales. So if they had an increase in one product at 4 percent that would be recorded as an applicable sale. But the rest of the company's revenues, let's say, they had no price increases. Then we weigh that across the firm and the average is what we are trying to control in the economy. The average price increases across all of the revenues come to 1.6 which is a meaningful figure because we are trying to control the average price increases in the economy.

Senator PERCY. Thank you, Mr. Grayson. My time is up and I will have to excuse myself. Secretary Laird is testifying before the Foreign Relations Committee and I would like to talk about the war.

Mr. GRAYSON. Thank you, Senator. I appreciate your interest in productivity, as the Price Commission is very interested in this factor, and I would like to work with you.

Senator PERCY. Thank you.

Chairman PROXMIRE. Congressman Reuss.

Representative REUSS. Welcome, Mr. Grayson.

Are you generally satisfied with the Economic Stabilization Act, the Price Wage Control Act, which the Congress gave you some months ago?

Mr. GRAYSON. Generally satisfied, yes. There are some things in there that maybe if I had to do it, I would change it, but generally satisfied, yes. I think it was the best act that could be done under the circumstances.

Representative REUSS. I am pleased that any fault is not in the legislation. I had thought when we drew up the act what was going to happen was that wages were going to be restricted to productivity increases, plus a modest catchup, and prices were going to be stabilized. Therefore, I do start out our friendly colloquy with the idea that the social contract has been damaged. When we put into the law the idea that prices could be increased for "gross inequity," I thought we were giving enough elbow room to the administrators so that they could adopt a general principle of price stability, and take care of hardship cases under that.

However, for better or for worse, it was not done. So let's look at the situation as it is, and particularly, about the tier I and tier II reports which are now coming in, which disturb me a good deal because you do report in your very honest and forthright testimony that of the 129 profits forms which have so far come in, properly filled out as you say, 51 of them show that the company was in excess of its base period profit margin—in other words, the price increase granted was not justified.

Now, you also point out that your sample of 129 is just a small part of the thousands that will be due. I believe there are about 3,000 in tier I and tier II firms.

Mr. GRAYSON. That is correct.

Representative REUSS. And, of course, 129 is a small part. However, of the small part, the 129, 40 percent of violating the ceilings, apparently. But I note that these are the 129 that were "properly filled out."

As a long-time student of human nature, I just hazard the guess that those that were not properly filled out probably disclosed worse violations than those properly filled out.

I, therefore, put it to you that when you get the returns in from the 3,000, you are going to have at least 40 percent—that is a conservative figure—at least 40 percent in violation. That is 1,200 firms.

That is a lot of violations, isn't it?

Mr. GRAYSON. Let me just say, first, of the figures, the 126 or so—I have forgotten exactly—were in excess of the annual profit margin. We determined of those, some of them were in excess for legitimate reasons—seasonality is a legitimate reason. The firm could have most of its business in the first quarter and none in the other three. But you are correct in that two of the five, which makes 40 percent, of those that we received were over, but that is from a small subset. That subset has already been reviewed to determine those firms we think are in trouble. And that was only 25 out of those that we examined.

So I would say the number is not in the region of 40 percent, but much lower. If I had to make the extrapolations, I would say it may be in the order of 10 percent would be more proper.

Representative REUSS. The truth will shortly be out when you get those in and you are saying the number of firms that are off base is somewhere in the neighborhood of 300 rather than in the neighborhood of 1,200. My guess is it will be closer to 600, but who knows?

Now, I would hope that as to those 300, 10 percent, there will be prompt, forthright and clear-cut orders from the Price Commission rolling them back, accompanied by whatever efforts can be made to compel refunds of the interim prices illegally charged purchasers.

Mr. GRAYSON. That is exactly what we have done and you can be sure that is exactly what we are going to do with every company that we regard as being over the profit margin ceiling, and that action will be taken promptly. For firms over their annual margin refunds will be made to customers where identifiable, and we will order price reduction in triple the amounts of the overage due from price increases. We have already adhered to that policy. It will be firmly enforced, I assure you.

I think this is one of the most important tests in the program and, particularly, when we start to move to a demand situation in the economy. Because there I think we need to hold it or we will be taking off into inflation again.

Representative REUSS. I am very pleased to hear that, and when you do it, you certainly have my wholehearted support. I want to emphasize again how important I think this is, because it is a plain fact that large segments of the price control has been discriminatory and that wages have been held down but that prices have been allowed to get out of hand. The best way to counter that belief is by the kind of vigorous rollback plus refund policy that you have just outlined.

Let me ask you this: You say there will be refunds where consumers are identifiable. What about where the consumer isn't identifiable? Are you going to let the lawbreakers just keep their windfall profits?

Mr. GRAYSON. No.

Representative REUSS. You have, after all, a treasury where every little bit helps.

Mr. GRAYSON. We thought that would be a good place to put it. We prefer to order price reductions to repay the consumer directly, but where it is not feasible that may go into the U.S. Treasury. So I assure you, this is going to be pushed most vigorously. I think you can expect to see some of these.

Some of these firms did not willfully do this. They were carried over by the volume. As a firm's volume increases, it lowers its unit cost, increases the profit margin, and some are just swept into it without realizing it. We will simply order the price reductions in any event.

Representative REUSS. I am glad to hear that. There is no doubt in your mind as to your legal authority to carry out the program you have just envisaged, including the payment into the Treasury of illegally obtained receipts? I ask about it because if there is the slightest doubt, I would be delighted to help keep the Banking and Currency Committee in nighttime session so that we can provide everything you need.

Mr. SLAWSON. Congressman Reuss, there was certainly no doubt about our ability to assess this $2,500 civil penalty which has a great deal of flexibility built into it, because it is $2,500 per violation.

Representative REUSS. Yes, but some of these are multibillion-dollar corporations——

Mr. SLAWSON. That is right. And I would have to confess, there is some question about our ability to go beyond that penalty as to requiring payments into the Treasury of the United States. I do not think there is any question about our authority to require price reductions or refunds in the amount necessary.

Representative REUSS. Clearly not. But I was talking about the payment into the Treasury.

Mr. Grayson, if there is the slightest doubt, I think you should come up tomorrow and I will be waiting for your forward pass, because we do not want to be in position—when are you going to get these in, in May?

Mr. GRAYSON. They are coming in every day.

Representative REUSS. We do not want to be in a position in mid-May and find out while we would like to do the right thing we lack the authority.

Mr. GRAYSON. Thank you.

Chairman PROXMIRE. Mr. Grayson, has Peter Flanigan, or anyone else in the White House, contacted you or your staff about a company's price increase or policy of the Commission?

Mr. GRAYSON. Not to my knowledge, certainly not me.

Chairman PROXMIRE. I said, Peter Flanigan. Anyone else in the White House?

Mr. GRAYSON. No, sir.

Chairman PROXMIRE. How about Vice President Agnew?

Mr. GRAYSON. No. I have never met him, even.

Chairman PROXMIRE. Never met him?

Mr. GRAYSON. No.

Chairman PROXMIRE. Well, you have a pleasant prospect.

Senator Percy properly hit the moral aspect of this, the moral tone established by holding profits down. There was a fascinating column in the Wall Street Journal by John O'Riley, a fine column, which pointed out even if you were able to eliminate profits, it would not have great effect on the prices because they are such a tiny fragment of the amounts paid out to employees. I think that is right. But I think it is the moral tone we are hitting at.

Have you ever proposed or suggested a fine or a jail sentence for a violator? Do you think you will ever use the fine or jail sentence?

Mr. GRAYSON. As you may know, the enforcement arm is the Internal Revenue Service Investigation and Justice. These are Justice's decisions. But my understanding is there have been several cases in which we have caused them to be presented to Justice. I would like to have the General Counsel comment on actual statistics if you wish.

Chairman PROXMIRE. Fine.

That is Reuss. Henry has a lot of trouble in Wisconsin. He ran for attorney general once. The reason he did not win, the people did not know his name. Finally, he used a catchy line—"Make Reuss Your Choice." But that did not work out because a lot of people thought it was "Choose Roose." But it is, Reuss.

Mr. SLAWSON. I apologize for having hit neither of those, sir. The actual assessment of fines and penalties, the figures have been very slow so far. It is only about $4,500.

Chairman PROXMIRE. Would you repeat that? The fines are $4,500? That is all that has been imposed?

Mr. SLAWSON. That is right.

Chairman PROXMIRE. That is astonishing. With the millions of business firms, with the millions of prices, with the overwhelming evidence there is violation, exactly $4,500 in fines have been imposed. I suggest in the city of Washington in 1 day for the terrible crime of parking your car overtime, more than that is collected.

Mr. SLAWSON. Chairman Proxmire, I think there is something to be said, there is a tremendous lag time in court, bringing of court cases, particularly when you allow appeals, as naturally everyone has a right to.

Chairman PROXMIRE. Yes, but even with the lag time, there is no break in the enforcement of the law. Any smart businessman can increase his price in any way he wishes. The only real penalty is a price rollback. And that is not a penalty, because once the price is rolled back, it is rolled back to where it would have been if he complied with the law in the first place. So, if he wants to be ahead, he increases his prices and there is no real way he can lose.

Mr. GRAYSON. The $4,500 figure is low, I agree that it is low, but I think there is the leadtime, as the General Counsel said. There are 144 cases now in court.

Chairman PROXMIRE. It is low in leadtime, no matter how you construe it. It may be 100 times as big. The $4,500 is pitiful. That is about 10 cents for every firm.

Mr. GRAYSON. Remember, we ordered triple reductions on prices on these two companies; we have ordered profit margins back. So that is going to be a substantial dollar volume.

Chairman PROXMIRE. The reduction in prices though means they go back to where they would have been if they complied with the law.

Mr. GRAYSON. Reduction plus the amount they have to refund. They have to refund and, in addition, they have to do the other. For example, this company had $40,000 in excess, which we have ordered be refunded. In addition, we ordered price reductions of triple that amount.

Chairman PROXMIRE. That is good to hear.

At any rate, it seems to me you would be in a far better position if you focus on the big firms. In other words, if you could take out of the act, these millions of small firms. And you have done a good job in exempting the mom's and pop's, but that was not enough.

Mr. GRAYSON. Senator, we are looking at this. As I said, we are looking at moving the lower limit up and it is under consideration right now to reshuffle the tiers, tiers I, II, and III, and pull price leaders up to I, drop nonprice leaders out of I, take some in III and put them in II, so controls do get more refined. That is the direction we are moving in. It will not be moving in the direction as fast and as far as you have written me but that is the direction we are moving in.

Chairman PROXMIRE. I heard Mrs. Whitman comment, I think it was after the hearing, and it left the impression which is completely wrong, perhaps she was not applying it to this committee or this Senator, that what we wanted to do was have permanent controls on big firms. Far from it. I want to get rid of all controls as fast as we can. At the very most, I like the guidelines we had in the early part of the 1960's.

But I agree with you, we have got to get rid of it. The faster the better.

Mr. GRAYSON. I would like to turn back to the natural forces to see if those cannot hold the breaks in check by the checks and balances we have in the economy.

Chairman PROXMIRE. In figures presented by you and Mr. Stein, you removed the food components from increases in the Consumer Price Index during phase II. I want to deal with a little different aspect of this. In so doing, you take comfort from the fact the rate of price increase in nonfood items is close to the goal of economic stabilization program. I pointed out it wouldn't be at the wholesale price area. But at the present consumer prices you are close to it. For example, in your prepared statement, you say that "it is significant that the annualized rate of increase in nonfood consumer prices for the phase II period through February 1972 was only 2.9 percent, which puts it within the range of the Price Commission's goal of 2.5 percent."

Mr. Grayson, doesn't this type of analysis seriously mislead the American people on the effectiveness of the phase II program? How does the average housewife remove the food component from her budget as you have done with your statistics?

Mr. GRAYSON. She doesn't.

Chairman PROXMIRE. Well, then, as far as the success of the program is concerned, the average housewife is concerned with all of the prices she has to pay.

Mr. GRAYSON. Food does go up and down so you can't judge a short period.

Chairman PROXMIRE. Let me say, here is the point I am trying to get at. Given the decision to exempt food—as I said, I think this has to be done and it ought to be done—doesn't it mean that you mean to be far more tough on price increases for nonfood items if the overall goal of a 2.5-percent rate of price increase is to be achieved by the end of 1972?

Mr. GRAYSON. Mr. Chairman, remember the 2.5 is by the end of the year, not now. So we are saying it has to go down. Equity is in consideration, because why should we penalize one sector for another sector. We are trying to say we do not want controls on food. That is the last thing I would prefer to do. But if that food component is going to drive the program out of control, then I think something must be done and that is why we had the hearings.

Chester Bowles—I had correspondence with him, and he recognized this danger at the beginning of the World War II controls. He said if you don't control food, if food doesn't behave by the laws of natural supply and demand or some other force, it will ruin the program because it cannot get out of the budget of the consumer. But I am hoping that the natural law of supply and demand will cause the figures to come down.

Chairman PROXMIRE. Instead of putting price controls on them, you use the present machinery, import quotas, price support, that kind of program. If we had it in being now, it would be much more efficient. It could be effective. I know it is very difficult to do politically.

Mr. GRAYSON. That is in the range of our options and we are considering that action.

Chairman PROXMIRE. I am not saying you ought to do it, but that would be better.

During your nomination hearings before the Senate Banking Committee, you indicated the Price Commission—I remember those hearings very well because I was present as a member of the committee—would develop its own policies for determining what company data would be made public without accepting at face value a company's claim of confidentiality. What have you done to fulfill this commitment to the Congress?

Let me say in the colloquy before the committee, I said this to you:

> Senator PROXMIRE. You don't check the statement of confidentiality?
> Mr. GRAYSON. Don't check the statement?
> Senator PROXMIRE. The statement that information has to be confidential. The company says this is confidential, that's it. That's good enough for you.
> Mr. GRAYSON. Yes, as of now; but we are studying the question and we will come out with a statement that says which data you submit to us we will not hold confidential.

Mr. GRAYSON. One, Senator, I recognize that and we have. I asked immediately following that we start studies to see if we can't segregate that data. Many of our forms were allocated before we had this confirmation hearing and we are now looking at those forms to see what can be pulled out. I just said this last week. We are considering coming out with some segregation of the data. But this has legally got to be correct——

Chairman PROXMIRE. Why does it take so long to do this?

Mr. GRAYSON. Because of the forms.

Chairman PROXMIRE. This is right at the heart of getting information.

Mr. GRAYSON. The administrative problems to segregate the data, you have to go into it and it takes a lot of staff time to pull it out. You have to go in and tear all of that data apart to pull out confidential data. But we are, if necessary, doing that, and that is the recommendation that is going to be made shortly, that we do have a segregation of the data. I assure you that is going to be done.

Chairman PROXMIRE. You made the statement on January 27—that was 4 months ago—that you were going to do this. We are still waiting for it.

Mr. GRAYSON. We are limited by section 205 of the 1971 amendments to the act. I am mindful of the problems. If I do release confidential data, I am responsible for the protection of that. So that is why I asked the General Counsel to be sure I am legal when we do decide to release certain portions of the data.

Chairman PROXMIRE. By a 4 to 3 vote, the Commission's regulations are similar to cost-plus contracts in that they permit corporations to earn a profit on cost increases. For example, if the cost for making a General Motors car goes up by $100, GM can raise its prices by $114. Doesn't this policy simply add to inflation and destroy a firm's incentive for holding down cost increases?

They would be looking for the reverse. The whole American system has resulted in, it seems to me, a higher standard of living. If you provide incentive for cost increases, because that is where you get your price increase, and that is where you get your profit.

Mr. GRAYSON. I would submit, Mr. Chairman, that is exactly the way business is built. You have cost on which you add margins. That is the normal method of doing business.

Chairman PROXMIRE. But under the circumstances of the control system when we are trying to beat inflation, when they have a cost increase, you should say or you can reflect in your price as a cost increase, not a margin of profit, because it is the easiest thing in the world to let cost increases, the toughest thing for any businessman is to hold down cost. He has to be mean and tough, he has got to be difficult with his employees, he has to fire people who are nice but aren't doing the right kind of job. He has to be pretty cruel with his small business suppliers or any suppliers. This isn't the way people like to operate, but they do. That is why the American system is effective.

You relax all of that if you say cost increase, so be it. Just reflect it in higher prices and make money out of it.

Mr. GRAYSON. I do believe competition still is alive.

Chairman PROXMIRE. If it is, you don't need any of your controls.

Mr. GRAYSON. No; because the markets weren't working competitively and we recognized that. The competition isn't dead. Retailers and wholesalers, if you do not allow the margin there, they simply cannot cover the other cost for which we do not allow them a price increase. Taxes, labor and insurance, they can go up and we will not allow a price increase for retailers and wholesalers. So they have to have the margin.

Chairman PROXMIRE. This is a controversial issue reflected by almost half of your Commission. You only won by a 4-to-3 margin and that is a pretty close vote. One who voted was a new member of the Council of Economic Advisers, Mrs. Whitman, who is no longer a member. You have a new member so maybe this can be upset. Had you talked to your new member, before she was appointed?

Mr. GRAYSON. Not at all. I do not want to mention it to her.

Chairman PROXMIRE. I hope you don't want to just forget it, because if you have another vote on it, you may lose.

Mr. GRAYSON. We pulled it up at the last meeting and looked at it.

Chairman PROXMIRE. Was she present?

Mr. GRAYSON. She had not been confirmed.

Chairman PROXMIRE. As soon as she is confirmed, I hope you have another vote.

Mr. GRAYSON. We have looked at it and I think that would be an option the Commission would use. I think right now there are enough forces at work to pull it down without going that route. One, administratively, I think you recognize the problem of administering dollars and cents pass through. It is difficult to administer. If necessary, that option would be necessary. It is my personal opinion if we have enough other kinds of reductions underway, this won't be necessary. But it is an option that people want.

Chairman PROXMIRE. You still cannot deny the fact you now have incentives for increasing cost and therefore increased prices. The incentive to make higher profits. That is the mission, that is the duty of management, to make higher profits.

Now, there are many fine managements who have the long-range view instead of only higher profits they consider their public obligations. Most people want to do that, I am sure. They recognize now a way to make higher profits under this system, so their costs go up and on those increased costs they can charge higher prices and make higher profits. There is nothing you can do about it.

Let me ask you, the legislative history of the phase II program indicates that one of the goals was to reduce the prices in high productivity industries where productivity gains exceed cost increases. This I am sure must be true in many, many businesses. In hundreds of them. Of course, many of them have normal productivity, many have less than that. How successful have you been in implementing this mandate? Can you cite a single case where prices have been cut or reduced?

Mr. GRAYSON. Because of high productivity?

Chairman PROXMIRE. Yes.

Mr. GRAYSON. Ninety-five percent of the firms coming into the Price Commission are reporting lower productivity than the industry figures indicate. That is why we are switching to industry productivity figures so we can cut back.

Chairman PROXMIRE. Isn't that suspicious? In other words, they are not telling the truth?

Mr. GRAYSON. The problem is measuring a firm's productivity.

Chairman PROXMIRE. I don't mean they are dishonest. But when they measure, they measure in a way that favors themselves.

Mr. GRAYSON. They may have done so and it is hard for us to say they couldn't, because it is very difficult for a firm to measure productivity. That is one of the reasons we shifted to higher industry productivity. Our estimates on this may shave 1 percent off of price increases by merely moving to the higher industry productivity figures.

Chairman PROXMIRE. Let me get to one of the issues of deep concern to me because I was the author of the open hearing amendment. Of the hundreds of price increases you have granted, how many hearings have you had? What I have in mind is not the generalized policy hearings or hearings where we cover some category like food or rent. I was thinking of hearings that justify a specific proposal for a specific price increase. Isn't it true that of the hundreds of price increases you have granted, you have had exactly one open public hearing?

Believe me, what my amendment meant was you have hearings on at least some of the specific price increases. If you do not do that, it means you are not in a position to enable an adversary situation to develop. No. 2, for the public to know about it, and No. 3, for the press and other experts to evaluate it.

Mr. GRAYSON. One, I think that could be interpreted to mean matters of economic situation on which we would hold hearings in various sectors, such as food, or it might have been in oil, as directed at my confirmation hearings. From those hearings we are able to make decisions on individual companies. A company has an opportunity to submit contrary positions. We will have more of those as the need arises. I am mindful of the obligation and will accept it.

When we get individual companies, just think of the many problems that would be stretched out, like a regulatory agency. We would be months trying to respond to companies on specific price increases, we would have administrative problems and a large bureaucracy. I do not think making decisions on individual companies through hearings would be possible. Much of the submissions even at hearings would be confidential, and thus not available to the public.

Chairman PROXMIRE. May I interrupt? Your hearings on food and rent really don't get at what we had in mind. I think it is fine for you to have any kind of meeting with any group to determine what policies you are going to follow and how you are going to change your policy. But what we were concerned with was specific kinds of increases that may or may not be in the public interest. When you have an increase by a big steel company or by a big automobile company, this sets the pace with the whole industry. It may have a profound effect on all industry. It seems to me under those circumstances there ought to be an adversary proceeding, they ought to be publicized, the public ought to be able to follow it, and be in a position to invite an opinion. It would have a very desirable effect on you and the company.

Mr. GRAYSON. We provide for adversary input. When a firm submits a price increase that is publicized. We release the fact they are requesting an increase, and we get comments from those who feel it is not justified.

I am investigating right now the feasibility and the desirability of asking firms coming in for price increases to publicize this in newspapers. As I understand, some other Government agencies do require firms to publicize that they are requesting a price increase in the legal section of the newspaper.

Chairman PROXMIRE. You see, what really frustrates this, Senator, is that, as I say, you are a very soothing and a very fine man, but you are a czar. Let's face it, you told us you make every decision. The other members of the Commission have no voice in this. They never overrule you in the hundreds and hundreds of decisions made. You have been it, you have made the decision, or the staff has made it under your direction, and the other members of the Commission may disagree on policy, but when it comes to decisions, you make it.

One reason why the American people submit to this one-man rule is because they do not know what is going on. If they had hearings and knew there was controvesry and knew Grayson sits up there and makes the decision, it might be different.

Mr. GRAYSON. One, Mr. Chairman, the Commission by resolution empowered me to make the decisions on all individual cases.

Chairman PROXMIRE. You are making all of the decisions in all of the cases.

Mr. GRAYSON. But I delegate out. I look at all decisions over $10 million. In dollar impact, I look at those that affect about 75 percent of sales. So there are carefully delegated rules.

I submit it is working under the direction of the Commission. Their policies are being observed. They look at the decisions which are published, just as everyone else does, but they do not have the time to go into every single decision.

Chairman PROXMIRE. You ought to take the time. This is the most important kind of business I can imagine. These people are appointed by the President. They are going to be confirmed by the Senate of the United States. They are people of great ability. And while you are a man of as great ability, as any of them, it seems to me we ought to have the benefit of their input, too.

Let me ask one question before I turn to Congressman Conable. I have here a list of contracts between the Price Commission and seven groups like Rand, Arthur Anderson, Stanford Research, and Batelle. These seven cost $1.2 million—and my list may be incomplete.

Frankly, I am appalled at some of these prices—$523,000 for Arthur Anderson, $249,000 for Stanford Research, and $149,000 for McKenzie & Co. Even if you stop inflation in some areas, it looks to me like you are promoting it for the "think tanks."

Now, the Douglas Commission—and the top staff man on that was my present administrative assistant, Howard Shuman. The Douglas Commission did 40 major studies for something like $330,000—less than $10,000 each.

A comprehensive study of the property tax was done by the country's foremost expert for about $5,000.

More than 20 on-the-spot studies of public housing projects was done for $22,000.

A survey of almost 18,000 cities, counties, and townships on the cost of their payrolls and salaries, precise details on housing codes, zoning ordinances, building codes, and subdivision regulations, was done for that Commission by the Census Bureau for less than $20,000. That sample was probably 10 times larger than a Gallup poll and included at least 100 questions.

Their experience and that of almost every other commission and study group is that the quality of the results is in inverse relationship to the money spent.

Get a good man, pay him for his work, and you get a good study. Get a big "think tank," pay for all the overhead, and you get a thick nonspecific, mediocre report.

How do you justify a half a million dollars to Arthur Anderson to prepare your forms and set up a computer information system, and sums like $250,000 and $150,000 to other groups? Won't your program be finished before some of their reports are in?

Mr. GRAYSON. Well, one, if you recognize, and others have, the unusual nature of this program, it is the first time controls have ever been done in peacetime. We have used Government agencies to the extent possible but on specialized tasks, just to pick one, such as Arthur Anderson, a CPA firm was needed to come in and set up in a short time not only the forms which have to be designed for customer business practice, and actually designed processing system, which these forms must move through and create a response time, this is an action-oriented response system. So in my opinion, these agencies were desirable. These units that we brought in have worked on action projects which we had to do if we were going to be responsive. We are phasing those out right now. They are beginning to flake off and drop as our needs drop down and the machinery is now set more in place. I think it is the responsibility of us not to freeze in a very high-level personnel.

Chairman PROXMIRE. Let me make it clear, I am not talking about the fact a million dollars has any significance in terms of overall cost of our Government or the price control program or anything else. Of course it is not significant. But I think any kind of waste of this sort is something you ought to be aware of—if it is waste. So, would you submit to this committee the copies of your studies and of the contracts for the record?

Mr. GRAYSON. Certainly. The names and all of the amounts given are a matter of public record and are available to anyone on request. I will see that the committee gets this information.

(The information to be furnished follows:)

EXECUTIVE OFFICE OF THE PRESIDENT,
PRICE COMMISSION,
Washington, D.C., April 26, 1972.

Hon. WILLIAM PROXMIRE,
Chairman, Joint Economic Committee,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: During my appearance before the Joint Economic Committee on April 18, you requested that we provide the Committee with a report of all Price Commission contracts with outside firms.

There are attached three sets of documents:

(1) A list of all Price Commission contracts including their amounts and periods of performance.

(2) "Statement of Work" for each contract.

(3) Samples of products delivered under the contracts.[1]

Some of these firms have assisted us in implementing systems or procedures, which would result, not in a concrete report, but in a programming or service. This is the case in contracts CLC 72–9, Sigma Data and CLC 72–10, Resource Planning Associates.

[1] Attachment 3 may be seen in committee room files.

It is our understanding that the enclosed data is being furnished for the use of the Joint Economic Committee.

Please call upon me if I can be of any further assistance.

Sincerely,

C. JACKSON GRAYSON, *Chairman.*

Enclosures.

ATTACHMENT I

PRICE COMMISSION CONTRACTS AS OF APR. 19, 1972

Contract No.	Contractor	Amount	Period of performance	General areas of work
CLC 72-1	James B. Minor	$16,500	Nov. 15, 1971 to June 30, 1972	Study, review, interpret, organize and codify Public Commission policies and regulatings for publication in the Federal Register.
CLC 72-2	Information Management International Corp. (IMI).	122,603	Jan. 22, 1972 to May 31, 1972	Design, fabricate, test and install information display system.
CLC 72-3	Battelle Memorial Institute (BMI).	475,300	Jan. 31, 1972 to June 30, 1972	Design and equip Price Commission Information Center and perform information analysis functions.
CLC 72-4	Standford Research Institute (SRI).	349,057	Nov. 24, 1971 to July 31, 1972	Research, analysis, and evaluation services in the field of price issue analysis and price policy develpoment.
CLC 72-5	Arthur Andersen & Co	942,500	Nov. 12, 1971 to June 30, 1972	Design, develop, and implement external forms and procedures internal systems and procedures, a computer based processing system, and a single "CORE" information system.
CLC 72-6	The Rand Corp	70,000	Nov. 20, 1971 to June 30, 1972 [1]	Research, analysis, and evaluation services in the field of price issue analysis and price policy development.
CLC 72-7	McKinsey & Co	199,000	Nov. 15, 1971 to June 30, 1972	Develop an effective organization, planning, and management structure for the Price Commission.
CLC 72-8	Interactive Data Corp (IDC).	740,000	do	Systems design and programing services, computer processing services, and computer terminal rental.
CLC 72-9	Sigma Data Computing Corp.	25,500	Dec. 27, 1971 to June 30, 1972	Systems analysis and programing services.
CLC 72-10	Resource Planning Associates.	9,000	Feb. 1, 1971 to Sept. 30, 1972	Analysis and evaluation of business management, organization, and operating methods.
CLC 72-12	Investors Management Sciences.	17,100	Nov. 24, 1971 to Nov. 24, 1972	Compostat tape files and updatings.

[1] Terminated for convenience of the Government Apr. 6, 1972—claim not yet received, terminated portion approximately $35,000.

ATTACHMENT 2

WORK STATEMENTS FOR ALL CONTRACTS LISTED IN ATTACHMENT 1

SECTION 2.0—SCOPE

Under this contract, the contractor shall study and review applicable policy determined by the Price Commission. After interpreting the intent and effects of the price policy, he shall organize and codify the regulations revising and recommending procedure apparatus, and delineate possible areas of need for regulation or the promulgation of Federal price policy to the public and private sectors of the economy. The end product will be published in the Federal Register. The contractor's performance of work will be free of supervision on the part of the Government; however, the Government does not waive its right to review the end product for acceptability prior to certification for payment. Any extension or revision of this scope of work that necessitates a change in contract amount shall be effected by a contract modification, executed by the contracting officer.

Contract CLC 72-2 With Information Management International Corp.

Section A—Statement of Work

The contractor shall furnish all labor and materials to design, fabricate, test and supervise the installation of an information display system as provided below and in the Information Management International Corporation (IMI) Revised Proposal of November 19, 1971 which is incorporated into and made a part of this contract. Specifically the contractor shall:

1. Review the existing conference room and adjoining spaces to determine the most effective way to implement both an individual chart display system and a large-image system for graph viewing and briefing, including the development of designs for coverting required physical space and equipment systems.
2. Prepare detailed architectural drawing for use by a general contractor, exclusive of electrical and mechanical engineering, for converting and/or modifying the existing conference facilities.
3. Conceive and lay out appropriate display systems for both individual display units and large group displays, including audio system, tape recording and playback, intercommunication, cuing, provisions for lighting controls, and full system controllery; more specifically described in IMI Revised Proposal dated November 17, 1971.
4. Engineer, procure, fabricate, test and install all special equipment fully described and identified in IMI Revised Proposal dated November 17, 1971.
5. Provide appropriate supervision during the construction and/or modification activity performed by the general contractor, and supervise the installation of the entire system.
6. Review chart formats in use by existing organizations and develop and finalize the graphic formats most appropriate to the Price Commission's requirements and supervise setting up Graphic Production.
7. Develop and prepare a basic briefing module for general orientation purposes, including data gathering, writing of script, design and production of finished art work and final photography on additive overlay visuals.
8. Train personnel to operate and maintain all systems.

Contract CLC-72-3 With Battelle Memorial Institute

Section A—Statement of Work

1. The Contractor shall furnish the necessary management, personnel, facilities, materials, and equipment (except that to be furnished by the Government) to provide support services specified herein. In performing these services, it is estimated that the Contractor shall provide approximately 3,104 man-hours of work as set forth below:

	Man-hours
Supervision	350
Research engineers and/or scientists	1,954
Stenographic, typists, etc	800

2. Method for Accounting for Man-hours—For the purpose of this contract, and in determining what man-hours are chargeable to the total specified above, a man-hour shall be deemed to be that unit of labor (including all paid absences such as vacations, holidays, etc.) expended on Government premises, notwithstanding accounting classification, which is identified specifically with a particular cost objective such as contract and/or work divisions or increments thereunder. All man-hours and/or labor units expended off Government premises will be classified and accounted for in accordance with the contractor's normal accounting procedures.
3. It is understood and agreed that the scope of work contained in this contract is stated in broad terms in order to achieve maximum required flexibility. The contractor's contractual obligation is expressed as a level-of-effort in terms of total number of man-hours. If any work directed of the contractor by the Government is within the general scope of this contract, as the same is set forth in the contract Schedule, such direction is within the contractor's original contractual obligation and will not constitute nor be construed as, a change within the meaning of the "Changes" clause of the General Provisions of the contract. If any written direction by the Government is considered by the contractor to be outside the scope of

its contractual obligation, the contractor, before performing any effort pursuant to such Government direction, shall refer such question to the Contracting Officer for resolution.

4. The Government hereby agrees to substantially utilize the total manhours (exclusive of overtime) specified in this Section in satisfaction of the Government's requirement for work and services as defined and provided for under this contract; provided, however, that nothing contained herein shall restrict the Government's right to terminate or to limit the Government's obligation as may be provided for elsewhere in this contract.

5. General Scope—Design and equip the Price Commission Information Center (PCIC) to perform the following information analysis functions:

a. Provide quick responses to inquiries of the Price Commission staff as well as other members of the Economic Stabilization Program (ESP), i.e., Cost of Living Council, Pay Board, Internal Revenue Service, through the use of economists, industry area specialists, or information staff as appropriate. Types of responses envisioned under this task include, but are not limited to, the following:

(1) Catalog of models and evaluation of their applicability.
(2) Catalog of computer terminal and software packages.
(3) Conceptualization of relationships between various economic indicators.
(4) Distribution of profit margin and return on investment by industry (SIC).
(5) Economic indicators for regions; major cities.
(6) Selective bibliographies such as one covering classical and current work on productivity.

b. Repackage selected raw data. Through PCIC, rapid access to data resources relevant to ESP requirements, both standing and unanticipated, will be established. Battelle specialists in appropriate fields and subject areas and other experts as required will be brought in and coordinated through PCIC to provide specialized data outputs and products upon demand, and in some cases, in anticipation of expected requirements.

c. Arrange fast access to libraries, data centers and information services. This task includes providing the capability to identify, describe and evaluate the relevance and usefulness of existing libraries and information/data resources in both the governmental and private sectors and develop cooperative, fast reacting communications channels with them.

d. Establish special libraries, data banks, and information collections where needed for direct support to the Economic Stabilization Program staff. Contractor effort will include, but not be limited to:

(1) Rapid development of policies, methods and systems to make available in a coordinated way appropriate files, data collections and other information/data resources built up or in the process of building up in various Offices of the Economic Stabilization Program.

(2) Development of a mechanism for assuring efficient assistance in the procurement of materials needed in various offices and which will avoid unnecessary duplication and proliferation of materials of common interest.

(3) Implementation of storage and retrieval mechanisms which will provide rapid access into the contents of these materials from any viewpoint or need expressed.

(4) Development of the capability to provide information/data selected from the various files and data bases in any format or medium required.

(5) Establishment of a rapid reacting and anticipatory acquisitions program to assure timely, useful responses and questions and other information/data requirements of the Economic Stabilization Program PCIC users.

e. Provide communications for alerting appropriate ESP staff on items of interest, key events and internal meetings. Primary functions to be performed under this task are:

(1) Develop and implement alerting mechanisms tailored to specific needs.

(2) Automatic dissemination of new information/data to selected groups or individuals matching their interest profiles, which are maintained and stored in the information/data system.

(3) Issue periodic bulletins to alert appropriate ESP staff to meetings held or planned with points of contact, accomplishments, problems or other items of current significant interest.

(4) Identify and evaluate new communications requirements.

Contract CLC 72-4 With Stanford Research Institute

SECTION A—STATEMENT OF WORK

1. The Contractor shall furnish the necessary management, personnel, facilities, materials, and equipment (except that to be furnished by the Government) to provide support services specified herein. In performing these services, it is estimated that the Contractor shall provide approximately 7,965 man-hours of work as set forth below:

	Man-hours
Supervision	2, 130
Senior professional	5, 040
Clerical	795

2. Method for Accounting for Man-hours—For the purpose of this contract, and in determining what man-hours are chargeable hereto, all man-hours and/or labor units will be classified and accounted for in accordance with the Contractor's normal accounting procedures.

3. It is understood and agreed that the scope of work contained in this contract is stated in broad terms in order to achieve maximum required flexibility. The Contractor's contractual obligation is expressed as a level-of-effort in terms of total number of man-hours. If any work directed of the Contractor by the Government is within the general scope of this contract, as the same is set forth in the contract Schedule, such direction is within the Contractor's original contractual obligation and will not constitute nor be construed as, a change within the meaning of the "Changes" clause of the General Provisions of the contract. If any written direction by the Government is considered by the Contractor to be outside the scope of its contractual obligation, the Contractor, before performing any effort pursuant to such Government direction, shall refer such question to the Contracting Officer for resolution.

4. The Government hereby agrees to substantially utilize the total man-hours (exclusive of overtime) specified in this Section in satisfaction of the Government's requirement for work and services as defined and provided for under this contract; provided, however, that nothing contained herein shall restrict the Government's right to terminate or to limit the Government's obligation as may be provided for elsewhere in this contract.

5. General Scope—Provide multi-disciplinary research analysis and evaluation services in the fields of Price Issue Analysis and Price Policy Development and implementation consisting of:

a. Generation, collection, analysis, evaluation, and interpretation of information, on a multi-disciplinary basis, necessary for decisions in the Commission's areas of responsibility. The project will focus on the evaluation, based on Commission priorities and values, of available alternative strategies leading initially to formulation of Price Commission policies and later to the appraisal of their impact. It will emphasize flexibility, to insure that project activities are appropriately reoriented as new issues and new price control strategies emerge. It will also emphasize freedom from bias, to insure a balanced presentation of issues and strategies.

b. Identify and define policy-level issues, research and analyze alternative Price Commission policies, and evaluate and appraise the results of policy application. Policy and issue research may relate to business, industry, and government in general, or to specific areas such as minerals, chemical products, machinery and fabricated products, transportation, trade and services, feed and textile manufacturers, rent, and both inflationary and windfall profits.

c. Coordinate work requirements with other elements of the Economic Stabilization Program, other Federal and State agencies, and representatives of industry and business, as directed.

d. Provide quick response or in-depth treatment of issues, depending on the degree of urgency. In this respect, professional and technical assistance in the price policy area at three distinct levels will be required as follows:

(1) *Quick response requirements.*—Working individually or as part of a team, against tight deadlines, to solve problems of an immediate nature. A typical problem might involve the development of an appropriate response to a query from the Price Commission or others. Project members have the responsibility for development of essential actions required, development of a plan, collection of appropriate data for consideration of the issue, analysis of the alternatives, and preparation of a written response involving a synthesis of the results of these actions and including appropriate specific recommendations.

(2) *Longer term studies of policy questions and issues.*—The products of these activities will be in-depth reports reflecting comprehensive analysis of all facets of a problem, treating the subject on the basis of near and long-range implications, with conclusions and recommendations in corresponding depth.

(3) *Management information studies.*—The review of data requirements pertinent to an industry in general, a single issue, or a wider area of interest (such as economic indicators) entailing the collection, analysis, interpretation, synthesis, and presentation of these data in meaningful form for the Commission or key staff members.

Contract CLC 72-5 With Arthur Andersen & Co.

SECTION A—STATEMENT OF WORK

1. The Contractor shall furnish the necessary management, personnel, facilities, materials, and equipment (except that to be furnished by the Government) to provide support services specified herein. In performing these services, it is estimated that the Contractor shall provide approximately 11,920 man-hours of work as set forth below:

	Manhours
Partners	1, 680
Managers (M4B, M5A, and M5C class)	3, 080
Staff (AS-3 class)	6, 544
Clerical	616

2. All man-days and/or labor units expended will be classified and accounted for in accordance with the Contractor's normal accounting procedures.

3. It is understood and agreed that the scope of work contained in this contract is stated in broad terms in order to achieve maximum required flexibility. The Contractor's contractual obligation is expressed as a level of effort in terms of total number of man-hours. If any work directed of the Contractor by the Government is within the general scope and the level of effort of this contract, as the same is set forth in this contract Schedule, such direction is within the Contractor's original contractual obligation and will not constitute nor be construed as, a change within the meaning of the "Changes" clause of the General Provisions of the contract. If any written direction by the Government is considered by the Contractor to be outside the scope of its contractual obligation, the Contractor, before performing any effort pursuant to such Government direction, shall refer such question to the Contracting Officer for resolution.

4. The Government hereby agrees to substantially utilize the total man-hours (exclusive of overtime) specified in this Section in satisfaction of the Government's requirement for work and services as defined and provided for under this contract; provided, however, that nothing contained herein shall restrict the Government's right to terminate or to limit the Government's obligation as may be provided for elsewhere in this contract.

5. General Scope of Work.

a. Design, develop, and implement external forms and procedures, internal systems and procedures, a computer-based processing system, and provide a general systems design of a single "CORE" information system to integrate various operating and information subsystems. The work will be performed in two phases as described below and as more specifically defined in the Contractor's letters of December 1, 1971 and the Contractor's letters of December 7, 1971 (of which there are three) to Mr. C. Jackson Grayson, Jr., all of which are incorporated into and made a part of this contract; however, to the extent that any inconsistencies may exist between the Schedule and General Provisions of this contract and the aforementioned letters, the Schedule and General Provisions of this contract shall govern.

PHASE I

Task 1.—External Reporting Format and Procedures.

Develop initial versions of reporting forms required to permit the Price Commission to monitor prices, costs, and profits. These initial versions will include brief instructions and explanations.

Develop revised versions of the reporting forms in order to correct errors detected in the initial versions, expand on instructions, and incorporate the anticipated requirements for mechanized processing and internal processing criteria. Where possible, these forms will be reviewed with industry groups.

Task 2.—Internal Systems and Procedures.

Assist in the development of procedures, forms, and controls within the Program Operations activity. Each step in the processing of applications for price increases or for reporting price increases will require specific procedures, definition of data sources to be used, and forms on which results and conclusions can be recorded. In addition, the progress and results of the analysis activity must be summarized for control purposes and as an input to future policy change considerations. Initially, these procedures and controls will apply to documents received from prenotification and reporting companies as well as to internal reports on the disposition of applications. The team would also develop procedures for other key control systems required by the analysis function as the need for such procedures becomes apparent.

Task 3.—Computer-Based Processing System.

The computer-based system will focus on Program Operations processing of externally submitted documents, including PC–1, PC–10, PC–50 and PC–51, and price index data. The development of the system will include two phases which are: (1) development of systems design specifications, and (2) programming, testing, and implementation. During the initial phase, systems design specifications, the Contractor will develop the specific approach to processing and validating of all related transactions; master file content, organization, and maintenance procedures; and design of control and information reports. These design concepts will provide the basis for documentation of the computer program specifications necessary for the second phase.

Task 4.—General Systems Design of a Single "Core" Information System to Integrate Various Operating and Information Subsystems.

This task will focus on the identification and definition of additional screening criteria and quantitative measures by which policy effectiveness will be assessed, specification of a work package to meet various information needs, specification of data inputs and flow from all internal and external sources, outline of the analysis logic through which the data will be processed, development of top-level flow charts of the supporting data processing system, and preparation of a detailed work program for the final design, programming and implementation of the system.

PHASE II

Task 1.—Development of Final Version of Forms and Instructions.

These final versions of and instructions for forms PC–1, PC–10, PC–50, and PC–51 represent the final portion of the work described under Phase I, Task 1, External Reporting Format and Procedures. These final versions will be tested extensively with users and Price Commission staff before their release to the general public. The approaches and specific forms will be coordinated with, and approved by, other divisions and by staff personnel of the Price Commission.

Task 2.—Development of Comprehensive Training Manuals and Conduct of Training Sessions.

The objective of this effort is to prepare a set of master information and training manuals to be used to guide firms in understanding how to prepare Price Commission external reporting documents. Additionally, this project will encompass the training of Program Operations personnel and IRS personnel in the use of the master manual.

Task 3.—Implementation of a Computer-Based Production Processing System.

This project will focus on the implementation of a computer-based system design developed under Phase I, Task 3, for processing of external reporting documents, including PC–1, PC–10, PC–50, and PC–51. The objective of the system will be to provide the Program Operations Division with an improved capability for analysis, backlog control, and status and management reporting.

b. Provide special industry assistance and professional services to Price Commission personnel, as requested, relating to the requirements and practices of specialized industries such as public utilities, banks, insurance companies, and others. Such services include, but are not limited to, assistance in the design of forms, writing regulations, or other Price Commission needs for specialized industry knowledge.

CONTRACT CLC 72–6 WITH THE RAND CORP.

SECTION A—STATEMENT OF WORK

1. The Contractor shall furnish the necessary management, personnel, facilities, aterials, and equipment (except that to be furnished by the Government) to

provide support services specified herein. In performing these services, it is estimated that the Contractor shall provide approximately 13 man-months of work by professional personnel and research assistants.

2. All man-hours and/or labor units will be classified and accounted for in accordance with the Contractor's normal accounting procedures.

3. It is understood and agreed that the scope of work contained in this contract is stated in broad terms in order to achieve maximum required flexibility. The Contractor's contractual obligation is expressed as a level-of-effort in terms of total number of man-months. If any work directed of the Contractor by the Government is within the general scope of this contract, as the same is set forth in the contract Schedule, such direction is within the Contractor's original contractual obligation and will not constitute nor be construed as, a change within the meaning of the "Changes" clause of the General Provisions of the contract. If any written direction by the Government is considered by the Contractor to be outside the scope of its contractual obligation, the Contractor, before performing any effort pursuant to such Government direction, shall refer such question to the Contracting Officer for resolution.

4. The Government hereby agrees to substantially utilize the total man-month (exclusive of overtime) specified in this Section in satisfaction of the Government's requirement for work and services as defined and provided for under this contract; provided, however, that nothing contained herein shall restrict the Government's right to terminate or to limit the Government's obligation as may be provided for elsewhere in this contract.

5. General Scope—Provide multi-disciplinary research analysis and evaluation services in the fields of price issue analysis and price policy development and implementation consisting of:

a. Generation, collection, analysis, evaluation, and interpretation of information, on a multi-disciplinary basis, necessary for decisions in the Commission's areas of responsibility. The project will focus on the evaluation, based on Commission priorities and values, of issues and problems leading to formulation of Price Commission policies and to the appraisal of their impact. It will emphasize flexibility, to insure that project activities are appropriately reoriented as new issues and new price control strategies emerge.

b. Identify and define policy-level issues, research and analyze alternative Price Commission policies, and evaluate and appraise the results of policy application. Policy and issue research may relate to business, industry, and government in general, or to specific areas such as minerals, chemical products, machinery and fabricated products, transportation, trade and services, feed and textile manufacturers, rent, and both inflationary and windfall profits.

c. Coordinate work requirements with other elements of the Economic Stabilization Program, other Federal and State agencies, and representatives of industry and business, as directed.

d. Provide quick response or in-depth treatment of issues, depending on the degree of urgency. In this respect, professional and technical assistance in the price policy area at two distinct levels will be required as follows:

(1) *Quick response requirements.*—Working individually or as part of a team, against tight deadlines, to solve problems of an immediate nature. A typical problem might involve the development of an appropriate response to a query from the Price Commission or others. Project members have the responsibility for development of essential actions required, development of a plan, collection of appropriate data for consideration of the issue, analysis of the alternatives, and preparation of a written response involving a synthesis of the results of these actions and including appropriate specific recommendations.

(2) *Longer term studies of policy questions and issues.*—The products of these activities will be in-depth reports reflecting comprehensive analysis of all facets of a problem, treating the subject on the basis of near and long-range implications, with conclusions and recommendations in corresponding depth.

Contract CLC 72-7 With McKinsey & Company

Section A—Statement of Work

1. The Contractor shall furnish the necessary management, personnel, facilities, materials, and equipment (except that to be furnished by the Government) to provide support services specified herein. In performing these services, it is estimated that the Contractor shall provide approximately 4,500 man-hours of work during the period of this contract.

2. All man-days and/or labor units expended will be classified and accounted for in accordance with the Contractor's normal accounting procedures.

3. It is understood and agreed that the scope of work contained in this contract is stated in broad terms in order to achieve maximum required flexibility. The Contractor's contractual obligation is expressed as a level of effort in terms of total number of man-hours. If any work directed of the Contractor by the Government is within the general scope and the level of effort of this contract, as the same is set forth in this contract Schedule, such direction is within the Contractor's original contractual obligation and will not constitute nor be construed as, a change within the meaning of the "Changes" clause of the General Provisions of the contract. If any written direction by the Government is considered by the Contractor to be outside the scope of its contractual obligation, the Contractor, before performing any effort pursuant to such Government direction, shall refer such question to the Contracting Officer for resolution.

4. The Government hereby agrees to substantially utilize the total man-hours specified in this Section in satisfaction of the Government's requirement for work and services as defined and provided for under this contract; provided, however, that nothing contained herein shall restrict the Government's right to terminate or to limit the Government's obligation as may be provided for elsewhere in this contract.

5. General Scope of Work—Develop and equip the Price Commission with an effective organization structure, administrative regulations and procedures, and effective processes for overall planning and control to support day-to-day operations and permit sound management and control within the Commission. The work to be performed shall include, but is not necessarily limited to, the following tasks.

a. Development of effective organization structure and manning program.

b. Development of internal regulations, instructions, and procedures.

c. Development of external procedures reflecting relationships of the Price Commission to organizational elements of the Economic Statilization Program (e.g., Internal Revenue Service, Pay Board, and Cost of Living Council).

d. Development of standard operating and management systems to ensure that the Price Commission decision needs are soundly supported.

e. Provide overall implementation guidance with respect to the foregoing and assess the status of the implementation effort.

Contract CLC 72-8 With Interactive Data Corp.

SECTION A—STATEMENT OF WORK

1. *Systems Design, Computer Programming Services, and Operating Functions.*—a. The Contractor shall furnish the necessary management and personnel to provide systems design, computer programming and operating support services specified herein. In the performance of the services under Item 1 of this contract, it is estimated that the Contractor shall provide approximately 7,250 man-hours of work for which the Contractor shall be paid a fixed hourly rate as provided in Section D—Compensation of this Contract.

b. All man-days and/or labor units expanded will be classified and accounted for in accordance with the Contractor's normal accounting procedures.

C. It is understood and agreed that the scope of work contained herein is stated in broad terms in order to achieve maximum required flexibility. The Contractor's contractual obligation is expressed as a level of effort in terms of total number of man-hours. If any work directed of the Contractor by the Government is within the general scope and the level of effort of this contract, as the same is set forth in this contract Schedule, such direction is within the Contractor's original contractual obligation and will not constitute nor be construed as, a change within the meaning of the "Changes" clause of the General Provisions of the contract. If any written direction by the Government is considered by the Contractor to be outside the scope of its contractual obligation, the Contractor, before performing any effort pursuant to such Government direction, shall refer such question to the Contracting Officer for resolution.

d. The Government hereby agrees to substantially utilize the total man-hours specified in this section in satisfaction of the Government's requirement for work and services as defined and provided for under this contract; provided, however, that nothing contained herein shall restrict the Government's right to terminate or to limit the Government's obligation as may be provided for elsewhere in this contract.

e. General Scope of Work—Perform system design and computer programming services to provide data bases, reporting systems, and to perform maintenance and operating services related to the foregoing, as follows:

(1) The Price Commission Data Base: This data base will contain information from applications for price increases filed with the Commission and Commission action on such applications. The initial data base will contain information from PC–1, PC–1R and PC–2 reports. The initial data base will be designed so that it can be expanded with information from PC–3, PC–4 and PC–50 reports, and this expansion will be implemented on request if personnel are available. The data base will be indexed by PA Number (assigned by the Commission), parent company IRS Employer Identification Number, and requesting company IRS Employer Identification Number, and any of these indices may be used for information retrieval.

(2) The Financial Reporting System: This system will access Compustat data on Contractor's computers and calculate historical margins for those companies requesting price increases for which Compustat data is available.

(3) The Daily Management Reporting System: This system will access the Price Commission Data Base and produce the following listings: all new applications, all applications with missing data, and summary data on action taken by the Commission. Other listings will be implemented on request as personnel are available, such as identification of missing data fields and an aged status report on "work in progress".

(4) The Summary Impact Reporting System: This system will access the Price Commission Data Base and produce reports of Commission action by industry group and P/O division.

(5) The Exception Reporting System: This system will access the Price Commission Data Base and perform screening and report generation functions as specified by the Price Commission.

(6) System design and programing services to maintain the above systems and adapt them to changing Price Commission requirements: Such maintenance and adaptation shall include modifying the systems to accept data from the Arthur Anderson Data Management System, modifying the systems because of PC Form changes, providing additional reports and providing storage and retrieval o f additional data.

(7) Ad Hoc Reports: The Contractor will provide design and programming services, as available, to produce reports using the Price Commission Data Base, Compustat data, Lionel D. Edie economic data and other financial data available on Contractor's computers. Such reports will be produced on an ad hoc basis, as requested by the Commisison.

(8) Arthur Andersen Data Management System: The Contractor will provide system design, computer programming and other services, as available, to assist Arthur Andersen personnel in the development of the Arthur Andersen Data Management System ("AA System"). Areas in which assistance will be provided include implementation of software systems needed for the development and operation of the AA System, such as Base V and IRS, and implementation of methods for accessing data required by the AA System, such as Dun & Bradstreet data and Compustat data.

(9) Provide clerical and supervisory personnel to operate the systems at computer terminals, including data input, report production, etc. Such personnel shall also operate the Price Commission's Data 100 medium speed remote computer terminal.

2. *Computer Processing Services.*—The Contractor shall provide its standard commercial data processing services for use in the development, operation and maintenance of the data bases and systems described in Item 1 above for which the Contractor shall be paid fixed rates as provided in Section D—Compensation of this Contract. Such services shall be provided from Contractor's IBM 360/67 computer in Waltham, Massachusetts and shall be accessible in Washington, D.C. and Waltham, Massachusetts. The Commission shall be responsible for telephone charges to the access location. Such services shall provide the following apabilities:

(1) Programming Languages: Standard IBM OS/360 FORTRAN IV, COBOL, PL/I and Assembly Language.

(2) Program Development Aids: Comprehensive program development aids for FORTRAN, COBOL, PL/I and Assembly Language, including symbolic debugging and automated test data generation.

(3) Data Management Structures: Comprehensive support of data management structures desirable for use in a time sharing environment, such as support of index sequential files.

(4) Financial Data: Compustat data, Lionel D. Edie economic data.

(5) Financial Data Accessing: Routines for accessing Compustat and Lionel D. Edie data by computer programs written in COBOL, FORTRAN, PL/I and Assembly Language; XSTAT for retrieval of, comprehensive statistical processing of, and generating reports from such data without use of a general purpose programming language.

(6) Terminal Support: Support Data 100 medium speed remote computer terminal and a variety of low speed computer terminals.

3. *Computer Terminals.*—The Contractor shall provide low speed (up to 300 BAUD) computer terminals as required for the development and operation of the data bases and systems described in Item 1 above for which the Contractor shall be paid a fixed rate as provided for in Section D—Compensation of this Contract. Such terminals shall be suitable for use with the Contractor's computer processing services.

Contract CLC 72–9 With Sigma Data Computing Corp.

SECTION A—STATEMENT OF WORK

1. The Contractor shall furnish the necessary management, personnel, facilities, materials, and equipment (except that to be furnished by the Government) to provide support services specified herein. In performing these services, it is estimated that the Contractor shall provide approximately 510 man-hours of work.

2. All man-hours and/or labor units will be classified and accounted for in accordance with the Contractor's normal accounting procedures.

3. It is understood and agreed that the scope of work contained in this contract is stated in broad terms in order to achieve maximum required flexibility. The Contractor's contractual obligation is expressed as a level-of-effort in terms of total number of man-hours. If any work directed of the Contractor by the Government is within the general scope of this contract, as the same is set forth in the contract Schedule, such direction is within the Contractor's original contractual obligation and will not constitute nor be construed as, a change within the meaning of the "Changes" clause of the General Provisions of the contract. If any written direction by the Government is considered by the Contractor to be outside the scope of its contractual obligation, the Contractor, before performing any effort pursuant to such Government direction, shall refer such question to the Contracting Officer for resolution.

4. The Government hereby agrees to substantially utilize the total man-hours specified in this Section in satisfaction of the Government's requirement for work and services as defined and provided for under this contract; provided, however, that nothing contained herein shall restrict the Government's right to terminate or to limit the Government's obligation as may be provided elsewhere in this contract.

5. General Scope—Perform necessary systems analysis and programming services to introduce unique Price Commission reporting requirements into the general purpose Inquiry and Reporting System (IRS) to optimize timely response to on-demand report requirements.

Contract CLC 72–10 With Resource Planning Associates

SECTION A—STATEMENT OF WORK

1. The Contractor shall furnish the necessary management, personnel, facilities, materials, and equipment (except that to be furnished by the Government) to provide support services specified herein. In performing these services, it is estimated that the Contractor shall provide approximately 624 man-hours of work by professional personnel and research assistants.

2. All man-hours and/or labor units will be classified and accounted for in accordance with the Contractor's normal accounting procedures.

3. It is understood and agreed that the scope of work contained in this contract is stated in broad terms in order to achieve maximum required flexibility. The Contractor's contractual obligation is expressed as a level-of-effort in terms of total number of man-hours. If any work directed of the Contractor by the Government is within the general scope of this contract, as the same is set forth in the contract Schedule, such direction is within the Contractor's original contractual obligation and will not constitute nor be construed as, a change within the meaning

of the "Changes" clause of the General Provisions of the contract. If any written direction by the Government is considered by the Contractor to be outside the scope of its contractual obligation, the Contractor, before performing any effort pursuant to such Government direction, shall refer such question to the Contracting Officer for resolution.

4. The Government hereby agrees to substantially utilize the total manhours specified in this Section in satisfaction of the Government's requirement for work and services as defined and provided for under this contract; provided, however, that nothing contained herein shall restrict the Government's right to terminate or to limit the Government's obligation as may be provided for elsewhere in this contract.

5. General Scope—Provide analysis and evaluation services in the field of business management and organization and operating methods for the Price Commission. The work shall include, but is not limited to, studies and reports on a wide range of issues of particular interest to the Systems Coordinator, Executive Director and Deputy Executive Director of the Price Commission. The Contractor shall provide reports in connection with the required studies from time to time as issues develop and as specific studies are completed.

Contract CLC 72-12 With Investors Management Sciences

SECTION A—SERVICES TO BE PROVIDED

1. The Contractor shall furnish COMPUSTAT tape files consisting of the Primary Industrial File, Supplementary Industrial File and Electric Utility File, and update of such files, in accordance with the terms of this contract and the COMPUSTAT SUBSCRIPTION AGREEMENT (May 25, 1971), which is incorporated into and made a part of this contract to the extent that it is not inconsistent with any other provisions of the Schedule of this contract.

2. Special study to provide: A. List of companies with sales of $50.00 to $100,000,000.00; B. List of companies with sales of $100,000,000.00 and over.

Chairman Proxmire. Congressman Conable.

Representative Conable. Thank you very much. I apologize for being so late.

I would like to say I think, generally speaking, the Members of Congress feel that you are doing a difficult job very well. I will say it is difficult to get across to the American people the degree of success you have had in reducing the upward spiral of inflation.

I recently sent out a questionnaire to my constituency, asking if they felt the President's program under phase I and phase II was improving economic conditions—that is a pretty general kind of question—and the responses came back "No" by a margin of 7 to 5.

We are in a political year. We have back seat drivers looking over our shoulders, and there is a natural tendency on the part of politicians at a time like this, if there is not wide public acceptance of a program, to constantly ask the question "what more can we do?"

Now, from your vantage point, after the experience you have had in this very difficult area, you must have some concerns about the extent to which Congress intrudes on your work and I would like to know what you think would be the greatest danger at this point to unwittingly sabotage the program, where you think we can get into the most trouble by trying to figure out what further we can do. Just what are your concerns in this respect about the changes that could be made this election year that might be well-meaning, but could cause a great deal of damage?

Mr. Grayson. Well, I think you are quite correct in the fact that if the people do not understand the program, or do not believe in it, that raises questions of credibility and then there might be encouragement of people to violate the rules. I think that would be a mistake.

I am concerned about that and that is one of the reasons why I have made trips to different parts of the country in an effort to try to explain the program better to people. I have been to Dallas, Chicago, Los Angeles, and San Francisco. I am going to Boston later this week. I am trying to get the word out to people to have them understand.

I think we did not do enough to explain in the beginning, as I said in my opening statement, to try to get people to understand. We could not stop the economy just like that without hurting the unemployment figures, making them worse, and we could not get to the 2.5 rate immediately. So I am concerned if we do not get the public informed and if the indicators do not start to move down, then there will be a loss of face and therefore loss of compliance.

Representative CONABLE. They will be moved down. You mean they will stop rising at such a fast rate?

Mr. GRAYSON. That is right. The rate of increase is going down.

If there were a number of amendments passed which would—say the Congress would freeze, make rigidities, I cannot think of a specific one, but I can think of some cases where it would not be good if we were limited in our ability to move further than we are now.

Food is an area that we are concerned about. That could cause damage if it continued at the rate it did in February.

I think the main concern that we think about is in the area of the public continuing to have support of this program, believing that we can stop the psychology of inflation.

Representative CONABLE. If you were to guess now, do you think the public would be more receptive to a tougher program, or to a program that wasn't so tough?

Mr. GRAYSON. In the beginning they would be more receptive to a tougher program. They were happier in general where everything seemed to be equitable, phase I. No one got any increases in prices, no one got increases in wages, for the most part. So everyone thought that was fair. And I think people would welcome a return to that even momentarily.

I do not agree with that. I think that would be a mistake because then you would not have the ability to move up, and that is essential if we are going to get productivity up and the employment down.

Representative CONABLE. Do you think, generally speaking, that we can cause more harm by becoming too rigid than by taking any other possible steps?

Mr. GRAYSON. Definitely.

Representative CONABLE. In a different direction?

Mr. GRAYSON. Chester Bowles wrote a book where he said they wrote up six pages, in fine print, on fruit cake. I would hate to see us get in a position where we start controlling commodities that fine. We are trying to keep away from that and I hope we can.

Representative CONABLE. You held hearings last week on the cost of food and rent. What is the impact of those hearings, generally? Are any changes in the present legislation likely to evolve?

Mr. GRAYSON. It is too early to say on food. The commission is going to meet and look at the data. So it is too early for me to say whether we will take any action or not.

On rent, I do not know. That was just held the latter part of last week. It is too early to say. It is not our desire to put any added controls and restrictions on that market unless they are needed—we will wait for the rent Advisory Board's recommendations.

Representative CONABLE. On the rent?

Mr. GRAYSON. On the food we do not want to go back and interfere with that too much. It is a very difficult area to control and the unanimous advice of most economists is don't. But, we will if necessary, because we can't tolerate the rate of increase.

Rents, it is up to the Rent Advisory Board to advise us, but the Price Commission acts independently. There are some troublesome areas in rent.

Representative, CONABLE. Would you tell me something about the problems you have in administering the profit margin limitation? For instance, how is it possible on the basis of a company's first quarter report to determine an accurate profit margin on an annual basis? To what extent does the Price Commission take seasonal variations into account and administer profit margin? It sounds like it would be very complicated with potential equity in some cases.

Mr. GRAYSON. It is complicated but it must be done. If we wait till yearend, Congressman, they might raise their prices and get away with things until the end of the year and it would be too late. We think we must act fairly soon, recognizing it is not always indicative of year-round results. We do take into consideration seasonal fluctuation. We look at a pattern. It must be historical. So we do require them to substantiate the seasonality but given that we have done that, then we must hold this program in place because we cannot afford to wait until yearend.

Representative CONABLE. Do you think there are many windfall profits being made, potential sources of action by your Commission?

Mr. GRAYSON. With early reports, I think again, it is very dangerous to take the simple statistics from the first filings and extrapolate them for the whole population. Any statistician would shudder at the sample size. But I think there are—I know there are going to be some more reductions, just based on the early information. I think it may run in the order of 8 to 10 percent of the firms. Most firms, I think, are inadvertantly over. Either they did not understand the profit margin test or were swept along with the volume and carried over it. We will order the reductions.

Representative CONABLE. I note what appears to be some very substantial profit increases in the first quarter reports and I assume some of those are related to the issue of windfall profits.

Mr. GRAYSON. That is correct, and pay board cuts would trigger a windfall review in that case, where we must cut back the prices. If the profit margins have been exceeded, we will reduce the prices accordingly.

Representative CONABLE. Let's look at food prices for a minute, controlling food prices at the supermarket level. There have been a lot of discussions with the supermarkets lately on the high levels of food.

Mr. GRAYSON. Several days we looked for the illusive middleman, being sort of like the abominable snowman, sort of hard to find. We do not say it is the middleman or farmer or consumer or anyone else in the chain. We are looking to see if the margins went up during the period of time, were they in the legal limits, what has happened to the farm distribution spread. We accumulated a lot of data.

I am not going to say right now anyone is the culprit until we look at the data and see. There may not be a culprit. It may be simply the result that we had a frost in Arizona, a corn blight in 1970, and the drought and the dock strike and balance of payments and all of those things peaked simultaneously in February. It could be a result of natural forces.

As I said earlier, I want to repeat, we are not trying to upset the market. It is a very delicate thing to move into food controls. We would do it only as a last resort.

Representative CONABLE. I had the impression, over the longer run we have substantial increases in food prices as a result of qualitative differences in processing. It seems to me, in my house, we eat a great many processed foods. It is no reflection on my wife, who is a good cook, but my mother used to deal almost entirely in bulk stuff. I suspect when you look at the statistics here, you have to crank in quite an additional figure for processing over what you might have had to do only a few years ago.

Mr. GRAYSON. That is correct.

Representative CONABLE. You do have to consider qualitative changes of this sort, don't you?

Mr. GRAYSON. That is true. Very definitely.

Representative CONABLE. In addition to purely price.

I have not checked your report carefully, but the staff tells me the table in your prepared statement indicates the price index for services has risen considerably in excess of the administration's goal of 2.5 to 3 percent rate of inflation by the end of 1972.

Does this say anything about the problems of increasing productivity in the service industries? Do you have some special problems there? Is that more difficult than handling the manufacturing side?

Mr. GRAYSON. Yes, it is. In the services area, productivity is well known to be below that of the rest of the economy. That is an area that is of great potential danger and I listed that as an area we are constantly looking at. If you look at the services area in 6 months prior to phase I, it is a 4.5 increase. And the rate from November to February is 4.4. So at least that has not gotten out of hand, despite the facts these statistics went through the bulge period. But that area is potentially dangerous and could explode and we want to watch it.

Representative CONABLE. I have one last comment which I suppose is just political strategy. There seems to be a tendency on the part of the Congress generally, and you just indicated it yourself, to annualize all of this statistical stuff. I find my voters back home get very confused by it. They say it was 3 percent in July and 4 percent in August; therefore, there is a 7-percent rise in 2 months. They do not understand about annualizing. The fact is, we have had pretty good performance since August 15, if you start with August. That is the first day of your consideration. I wish we could find some way of impressing on people that the performance since that time has been pretty good, instead of putting emphasis entirely on an annualized rate, which shows only very modest differences, particularly if you are looking at just the bulge since phase I ended.

I do not know how you can handle this. I am not asking you to misrepresent anything. I am asking you only to handle it in ways that will be more comprehensive and will stress the extent to which the program is succeeding rather than putting the emphasis instead on the very modest changes that are involved if you look at the thing only in terms of what is likely to happen if you extrapolate along the present curve.

Mr. GRAYSON. That is a very good point. I agree. It is very difficult to do that. People want to separate the two or go on one data. The food price is a very good example. February went way up; January was zero. You an annualize February and ring the alarm bell. January, you would have been comfortable. I do think phases I and II are interrelated. It is a mistake to judge whether or not the program is working only by looking at phase II.

Chairman PROXMIRE. The hour is late and we have another witness, but I would like to ask questions that relate to the experience of the distinguished Congressman from New York, Ogden Reid. These questions, I think, will relate to his testimony, and we would like to get your views, too.

Am I correct on January 12, 1972, the Price Commission adopted new and stricter regulations on utility rates? These regulations were published in the Federal Register on January 14, 1972, and went into effect on January 17.

Mr. GRAYSON. I think those are the dates. I would have to check with the General Counsel.

Mr. SLAWSON. Yes; they are.

Chairman PROXMIRE. Am I correct, on January 18, the Price Commission received notice of action taken by the New York Public Service Commission approving a rate increase for the New York phone company; is that correct?

Mr. SLAWSON. Yes; I believe so.

Chairman PROXMIRE. What action did the Price Commission take in this case? Was this action taken under the new regulations or the old regulations?

Mr. GRAYSON. I would like to ask the General Counsel. It was under the old regulations.

Mr. SLAWSON. We originally chose to treat under the old regulations, but ultimately, of course, the New York telephone case was treated under our criteria published in March.

Chairman PROXMIRE. Why didn't you use the changes that seemed to be applicable? They were published and supposed to take effect. Why did you go back to the old ones?

Mr. SLAWSON. We suspended all utility rate increases throughout the country on about February 10. New York Telephone was suspended by a separate order, along with those, deliberately for the purpose of reassessing the utility situation and applying new regulations that would come out of that reassessment.

Chairman PROXMIRE. Here is an example of real frustration. Was any public hearing held on that case or any formal private hearing at which consumers could present their views?

Mr. GRAYSON. Not before the Price Commission.

Chairman PROXMIRE. Why not? Why wouldn't that have been proper procedure?

Mr. GRAYSON. Mr. Chairman, we have never held hearings on any single case.

Chairman PROXMIRE. I know you haven't but why not? The law tells you to do so.

Mr. GRAYSON. One reason is the time it would take. If you look at the number of filings we had, if we had a hearing on every case, we end up as a superregulatory body.

Chairman PROXMIRE. It is one thing to spend a million dollars on studies and something else to have public hearings that the consumers protest and we develop an adversary situation. We have a record to determine whether you are making the right decision or not. We have a vote of the Commission for a change instead of the head of the Commission deciding it by himself.

Let me ask you——

Representative CONABLE. If the chairman would yield—how many hearings were held on rate proceedings?

Mr. GRAYSON. We had 4 days of open utility hearings. But in New York themselves, I don't know how many hearings they held. The New York Public Service Commission.

Chairman PROXMIRE. Is it a correct decision to handle this case under the old regulation as conveyed to Mr. Hervy Froehlich of the New York Telephone Co. in private session with Mr. Edgar Skinner of Price Commission staff before this decision became known to the public or even to the New York Public Service Commission?

Mr. GRAYSON. On the January submission the company called and asked what regulation they were under. We told them. We answered the company just as we would answer anyone who called about the status of a case.

Chairman PROXMIRE. You told the company before you told the Public Service Commission?

Mr. SLAWSON. No.

Chairman PROXMIRE. You did not?

Mr. SLAWSON. No.

Chairman PROXMIRE. Why did you not make a public announcement at the time? Why did you let the company know?

Mr. SLAWSON. Actually, in the February 10 suspension, we made a public announcement, sir, and we let the company know after we made the public announcement.

Chairman PROXMIRE. You made it afterwards?

Mr. SLAWSON. Yes.

Chairman PROXMIRE. My information was to the contrary.

Mr. SLAWSON. I made the call to the company after the announce- of the February 10 suspension myself. The reason your information may seem to be to the contrary, however, is that it relates to the January submission. As to that, your information is misleading because no public announcement was made. Anyone who asked was told that New York, like others filing at about the same time, was being treated under the old regulation, but we never considered this fact sufficiently important to warrant a formal public announcement. The telephone company made its submission on the day after the new regulations became effective. That raised the issue of whether the new or the old regulations would apply, because the new regulations did not themselves state to what submissions they would apply when they became effective. We made the decision to consider the submission as being made under the old regulations for two reasons. First, the submission had obviously been prepared, both by the company and by the State regulatory agency, under the old regulations, since the company and the agency had no way of knowing what the new regulations would provide. Second, under the new regulations we had a self-imposed, 10-day limit within which to act. The substantive criteria were the same under either set of regulations.

Chairman PROXMIRE. Is it correct that by using the old regulations rather than the new ones, the decision process was speeded up by 25 days—25 days during which, had they been available, the public would have had the opportunity to scrutinize this requested rate increase and make their objections known?

Mr. GRAYSON. No; the old regulation was open ended for Commission action time. Under the January 17 regulation the Commission action period would have ended January 28. By being under the old regulation in February we prevented it from going into effect and we lengthened the time under which the case was suspended. It was held up until March 25.

Chairman PROXMIRE. Couldn't you have acted under new regulations and delayed it for a short period so the consumers could make their protest?

Mr. GRAYSON. As a matter of fact, they were held up so consumers did have a chance to protest. We held them up for 45 days additional.

Chairman PROXMIRE. How large an increase is being allowed?

Mr. GRAYSON. The second part of the increase was $160 million, as I remember the figure.

Chairman PROXMIRE. What is the total? You say the second part.

Mr. GRAYSON. The first part was back in July, which was $190 million.

Chairman PROXMIRE. Give it to us in terms of percentage.

Mr. GRAYSON. I do not have the percentage.

Chairman PROXMIRE. The next witness has the percentage. It is fantastic. It is unbelievable to me we could permit a utility to have that kind of percentage increase at one time.

I wanted to ask you how it compared to the average for other utility rate increases you have approved. But if you don't have the percentage, you can't compare it. It doesn't make any sense to compare dollar increases, you have to compare percentages.

Mr. GRAYSON. It was a large one and that is exactly why I suspended it.

Chairman PROXMIRE. Are you satisfied, in general, the utilities are absorbing their share of the cost of reducing inflation?

Mr. GRAYSON. Given the new criteria, I am.

Chairman PROXMIRE. How many utility price increases have been requested? Utility price increases.

Mr. GRAYSON. We have the data. I requested that this morning. I have the exact number.

Chairman PROXMIRE. Over 100. How many were rejected? Any?

Mr. GRAYSON. Two; 128 submitted.

Chairman PROXMIRE. Out of the 128, two were rejected?

Mr. GRAYSON. That is correct.

Chairman PROXMIRE. Any cutbacks in addition to those rejected?

Mr. GRAYSON. Twelve made subject to accounting and refund, 23 finalized and one approved by the Commission under the new criteria.

Chairman PROXMIRE. Mr. Grayson, as I said, you are the best salesman the President could have. He was mighty lucky to pick you up. Without you, this program would really be in trouble. I just tried to think, if a typical, able, and nondiplomatic person came before this committee or any committee trying to sell this program, brother, would it have been in trouble. I think if the President is reelected, which I hope he will not be, you will be partly responsible.

Mr. GRAYSON. Thank you much for inviting us here.

Representative CONABLE. May I say the chairman does not speak for the entire committee, except when he compliments you on the good job you are doing.

Chairman PROXMIRE. Our next witness is the distinguished Democratic Congressman from New York, Congressman Ogden Reid.

STATEMENT OF HON. OGDEN R. REID, A REPRESENTATIVE IN CONGRESS FROM THE 26TH CONGRESSIONAL DISTRICT OF THE STATE OF NEW YORK, ACCOMPANIED BY WM. MICHAEL KITZMILLER, NATHANIEL EMMONS, AND ALEXANDER ALEINIKOFF, STAFF MEMBERS

Representative REID. Mr. Chairman, I have with me at the table, Wm. Michael Kitzmiller, Nathaniel Emmons and Alexander Aleinikoff

Chairman PROXMIRE. You are aware of the time limitations. I am sure it won't matter, because your prepared statement is only 3 or 4 pages long.

Representative REID. I want to say I am very grateful for the opportunity to discuss with this distinguished committee the administration's anti-inflation program and, most particularly, the actions of the Federal Price Commission.

Mr. Chairman, first permit me to say we have provided you and the committee with first, a brief on the telephone company problem, including an affidavit and a chronology; second, a brief on the rent situation; third, a survey of Price Commission actions regarding 100 of the largest companies in the United States; fourth, a model showing the impact of Price Commission's decisions on a middle income family; and fifth, a series of statistics on transportation.

(The documents follow:)

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
Washington, D.C., March 1, 1972.

Hon. WILLIAM PROXMIRE,
Chairman, Joint Economic Committee,
U.S. Congress, Washington, D.C.

DEAR MR. CHAIRMAN: All my thanks for your letter of February 28 regarding the Price Commission's handling of the New York Telephone Company's $350.6 million rate increase.

I have now uncovered what I believe to be incontrovertible evidence that the Federal Price Commission in this case has not only violated its own regulations in such a way as to extend special and improper benefits to the Company, but has also indulged in highly irregular *ex parte* communication with representatives of the Company on matters vitally affecting the public interest.

The violations of the regulations are so serious as to render all actions taken by the Price Commission in this case null and void and also to render illegal the Company's implementation of the increase on February 4. I am now preparing legal action to force a rollback of the entire increase until the Company, the New York State Public Service Commission and the Federal Price Commission have conformed to the requirements of the Economic Stabilization Act and the appropriate regulations issued thereunder.

I believe that you will be as shocked and outraged as I by a brief chronological recapitulation of the Commission's handling of the case.

On January 12, 1972, the Federal Price Commission adopted new regulations governing utility rate increases. These new regulations, which were published in the Federal Register on January 14, set far more comprehensive and detailed requirements for filing with the Price Commission and established new and far stricter criteria for approving increases than had been in effect under the Commission's regulations of November 17, 1971. The new regulations were scheduled to go into effect January 17, 1972.

On January 13, 1972, the New York State Public Service Commission met and decided to approve preliminarily, $350.6 of the $391 million rate increase requested by the Company. It is important to note that this was a decision in principle on the total amount and did not deal with specific rate increases to be allowed. The PSC and its staff thereupon set in motion the preparation and publication of the Opinion and order in the case.

On January 17, the day the Federal Price Commission's new regulations went into effect, the New York State PSC issued its preliminary order in the case. On January 18, the second day after the new regulations went into effect, the PSC and the Telephone Company filed notice of the action on the rate increase with the Price Commission.

There is no question under the law that the case came under the new regulations. Indeed, the New York Public Service Commission itself acknowledged this in its Opinion by including the certification required under the new regulations and explicitly stating that it was doing so. It noted in its certification that "(O)n January 12, 1972, the Price Commission issued new regulations imposing additional certification requirements on state regulatory commissions. . . . In view of the changed regulations, and in an effort to comply therewith, we have set forth estimates of the price changes anticipated for those services which will produce most of the additional revenue."

In spite of all this and in spite of the clear applicability of the new regulations, the Price Commission, with no notice to the public, arbitrarily and secretly elected to treat the rate increase under the old, less stringent regulations which were no longer in effect.

The explanation the Price Commission has given for this highly irregular action is that subsequent to receiving the formal notice of the increase on January 18 from the PSC and the Telephone Company, the Price Commission had made a policy determination that utility rates increases which the regulatory commission having jurisdiction had decided to approve before January 17, 1972 would be subject to the November 17, 1971 rules." [Hervey W. Froehlich, *affidavit,* of New York 72 CIV 577] Thus, the decision to exempt the New York Telephone Company was made *after* the new regulations were adopted and apparently *after* the Telephone Company filed its notice.

It is not clear exactly who in the Price Commission made this decision or when it was made, but it was conveyed on January 21 four days later, not to the PSC or the concerned public, but to Hervey W. Froehlich, a representative of the Telephone Company in a private discussion with Edgar Skinner, Chief of Public Utilities and Regulated Industries Section of the Price Commission.

Even accepting the Price Commission's explanation for its decision, which I do not, this procedure is repugnant to the democratic process and calls into serious question the objectivity and fairness of the Commission.

The Commission's action gives every appearance of special solicitude for the interests of the New York Telephone Company and its desire to help the Company expedite the increase.

Why did the Price Commission follow this unusual procedure? One very convincing explanation is that the filings of the PSC and the Telephone Company were defective and could under no circumstances have met the criteria established under the new regulations. These regulations specify that the regulatory agency granting an increase "shall certify in its order or in a separate document the following:

"(1) The former price, the new price and the percentage price. . . ."

This criterion the PSC stated it could not meet, saying in its certification that "(T)he exact price changes are unknown (Although some can be estimated) because we have directed the company to develop and file revised tariffs which conform to guideline specifications for our further review." In short, the PSC admitted that it had not yet seen the specific price increases to be implemented by the company and could not, therefore, supply them to the Price Commission or properly certify that they conformed to the Commission's guidelines, another requirement of the new regulations.

In fact, the final rates were not available to the PSC until after January 27th or 28th, about ten days after the PSC Opinion was rendered and about eight days before the Telephone Company put them into effect.

The Telephone Company's report to the Price Commission was necessarily equally defective. The new regulations require that each regulated public utility, "(W)ithin 5 days after receiving *final regulatory approval* of a price increase . . . shall report the approved increase to the Price Commission . . . with a copy of the certification required under paragraph (e) of this section and a copy of the agency order approving the increase." (Emphasis supplied.)

The PSC Opinion of January 17 was explicitly *not* a final order. It stated:

"2. The Company is hereby authorized to file amendments to its tariff schedule designed to produce an increase in revenues in an amount and manner consistent with the findings and conclusions contained in the foregoing decision. *Such amendments are not to become effective until approved by this Commission.*" (Emphasis Supplied.)

In an effort to get around these defects and speed the Company to its new revenues the Price Commission elected to close its eyes to the new regulations it had adopted and allow the Company to file under the old rules, which were patently no longer in effect. If they had not done so they would have had to order the Company to withdraw its defective notice and wait the additional 15 days until the PSC's final order was issued, and then refile. Thereafter, the Price Commission would have been compelled by its own regulations to suspend the increase for an additional ten days. Thus, the Company would have been deprived of at least 25 days of new revenues.

Perhaps more important to the Company than the money, was the fact that the delay would have exposed its inflationary increase to 25 days of additional public scrutiny and comment.

Whatever the reasons, it seems clear to me that the Federal Price Commission violated its own regulations in a manner calculated to be of significant benefit to the Company. Furthermore, it took this improper action in secrecy so as to put the consuming public at a great disadvantage in contesting the actions before the Commission.

It is important to note that this is not a technical defect that could be repaired merely by completing certain omitted procedures to bring the filing under the new regulations.

The final order of the PSC was issued on February 1. Under the new regulations, the Telephone Company had 5 days or until Saturday, February 5 to file this final order with the Price Commission and, following the filing, it was required to withhold implementation of the increase for ten days.

The Company has violated these regulations in two significant ways:

First, according to Price Commission officials, the Company had not filed the new tariffs approved by the PSC in final order by Monday, February 7. It therefore failed to file within 5 days as required by the regulations. In fact, there is no evidence that they have filed to this date.

Second, the Company allowed only three days between the issuance of the PSC's final order and the implementation of the release, a flagrant violation of the new regulations.

The Price Commission, having been informed of these circumstances repeatedly by my staff, improperly permitted these violations to occur without any action or public protest whatsoever.

In my opinion, the responsible officials of the Price Commission are guilty, at the very least, of impropriety.

The only way of correcting this deplorable situation, which cannot help but cast a cloud over the fairness and impartiality of the Federal Price Commission, is for the Telephone Company to be directed to cease further collection of any new rates granted under the order of January 17, repay the monies improperly collected in the interim and to make a new filing, *ab intitio*, before the Commission. If the Price Commission does not so order, I shall take action under Section 210 and 211 of the Economic Stabilization Act, to have it compelled to do so. I also believe that the New York Telephone Company is in violation of Section 208 (b) of that Act.

The Federal Price Commission also acted improperly in refusing to compel the Telephone Company and the Public Service Commission to submit for the Commission's approval the entire $350.6 million rate increase approved by the PSC in its January 17 Opinion and its February 1 approved final order. The Price Commission chose to take the point of view that $190.6 million of the total, having been approved by the PSC as a temporary increase on July 9, 1971, over a month before the 90-day freeze was instituted by the President, was thereby exempt from its jurisdiction. As I pointed out in my letter of January 28 to the Chairman of the Price Commission this is wholly inconsistent with the law.

Under the New York State law, the temporary increase was just that; an *interim* measure to provide the Company with the relief while the PSC considered the full extent of its needs. Although it was assessed against the consumer, it was subject to rebate, if the PSC found it excessive in its final order. (In fact, an earlier interim increase of $134 million granted in 1970 was subsequently rolled back by $14 million by the PSC and in this instant case the PSC's own staff had recommended that the $190.6 "temporary" increase be rolled back by $30 million). When the Opinion of January 17 was issued, the temporary increase of $190.6 million was vacated and a new permanent increase of $350.6 million was instituted. It is not possible—either logically or legally—to separate the $190.6 of the new increase from the total.

The Price Commission erred seriously in ignoring this fact, and the new proceedings whether ordered by the Commission or a Court should deal with the full $350.6 million approved by the PSC.

We have also uncovered irrefutable evidence that the Federal Price Commission's apparent bias towards economic giants carries over into the relationships between the Commission's staff and the executives of the industry in question.

An affidavit filed in Federal Court by Hervey W. Froehlich, a high-level telephone company executive and lobbyist, shows that he was privy to inside knowledge about the Commission's handling of the case which was not available to the public.

The affidavit which I am enclosing shows that the day after the Telephone Company's increase was filed with the Price Commission Mr. Froehlich was permitted to meet with Edgar Skinner, the Chief of Public Utilities and Regulated Industries Section "and other members of the staff to explain the background of the January 17, 1972 order and the Telephone Company's urgent need for higher rates to meet the burgeoning demand for telephone service in New York State." You note that according to Mr. Froehlich, this was considerably more than just a procedural meeting and dealt with the substance and the merits of the case.

Members of the general public were not afforded a similar opportunity to explain their urgent need for price restraint, nor was the general public ever informed of the existence of this cozy relationship between regulator and regulated.

Mr. Froehlich's affidavit also sheds more light on the way the Price Commission reached its highly irregular decision to exempt the Telephone Company from its new regulations. He reveals that, on January 21, three days after the increase had been received, "Mr. Skinner informed me that the Price Commission had made a policy determination that utility rate increases, which the regulatory commission having jurisdiction had decided to approve before January 17, 1972, (i.e., New York Telephone), would be subject to the November 17, 1971 rules." For some reason, this very significent "policy decision" which affected hundreds of millions of the public's hard earned dollars and which was so valuable an advantage to the Telephone Company, was not deemed important enough to publish in the Federal Register or otherwise reveal to the general public. Citizens who, through reading the published regulations, were under the impression that the Commission was handling the matter under the more stringent rules, were relegated to a fool's paradise.

In that same conversation, Mr. Skinner relieved any lingering doubt that Mr. Froehlich might have had as to whether his company's interests were being fully protected by the Federal Price Commission. Mr. Skinner "confirmed" for him that the Telephone Company would not be subject to any bothersome 10-day delay in its increase, as other less favored utilities were, and that "the increase could be put into effect as soon as the New York Public Service Commission had approved the tariff sheets embodying the approved increase in specific rates." (A clear, inadvertent acknowledgement, incidentally, that the Federal Price Commission was well aware of the pendency of a final order from the PSC.)

Finally, to make it perfectly clear to Mr. Froehlich that the whole process was merely a charade, Mr. Skinner assured him that the Price Commission staff "had considered the case and recommended that the Price Commission take no action to prevent the increase from becoming and remaining effective". This reassuring information was passed on to Mr. Froehlich, and presumably his utility employer, scarcely three days after the Price Commission staff had received the preliminary papers on one of the most complex rates cases in modern history, thirteen days before the actual increases were approved by the New York Public Service Commission or were even available and 21 days before the Price Commission announced its intentions to the general public.

In a quasi-judicial proceeding such as that of the Price Commission, a Federal agency should scrupulously observe the rules of fair play. Since the proceeding is essentially adversary in nature, it is a violation of these rules to give special advantage to one party or hold secret communication on the merits of a case with one party without affording other parties a full and equal opportunity to reply. How can the public be expected to have confidence in government when their interests are so brazenly disregarded by public officials? How can the public be expected not to feel that the government has two different anti-inflationary policies, one for the average man and second, more generous one for economic giants.

In my opinion there is only one way to restore public trust in the Price Commission's impartiality and in the fairness of government in general. There must be full public exposure of the way the Commission handled this case and a clear statement of the steps that will be taken to prevent a recurrence of this shoddy performance. It is my feeling that your Joint Economic Committee has the stature and respect essential to assure the public that there can be no further cover-up of distasteful facts and to see that effective remedial action is taken and taken promptly.

I hope that you continue your interest in this matter and will schedule appropriate hearings on the Price Commission in the near future.

With best regards.

Sincerely yours,

OGDEN R. REID.

UNITED STATES OF AMERICA, FEDERAL PRICE COMMISSION

In the Matter of

REGULATIONS GOVERNING RENT INCREASES

REQUEST FOR RECONSIDERATION AND MODIFICATION OF REGULATIONS GOVERNING RENT INCREASES

The Petitioner, Congressman Ogden R. Reid, hereby formally requests that the Price Commission (1) reconsider its current regulations governing rent increases under leases of greater than month-to-month duration and (2) upon such reconsideration modify the regulations so that no lease may be renewed at a rent greater than 2½% per year above the amount paid for the same rental unit in the previous rental period, plus increases in tax and capital improvement costs actually incurred by the landlord during the life of the new lease.

THE PETITIONER

The Petitioner, Ogden R. Reid, is the United States Congressman from the 26th District of the State of New York. He represents approximately 170,000 tenants residing in more than 63,000 rental units. A substantial number of these tenants have incurred, or are about to incur, rent increases assessed under the regulations heretofore promulgated by the Price Commission with respect to rent. To the extent that these rent increases, sanctioned and permitted by Price Commission regulations, are so excessive as not to be "fair and equitable," regulations. Petitioner makes this submission on behalf of all persons who have been, or could be, so affected and aggrieved.

BACKGROUND OF THE REQUEST

In accordance with the procedures of the Price Commission, Petitioner submitted written comment on the Price Commission's regulations governing rent increases in a letter to Chairman C. Jackson Grayson, Jr., dated February 9, 1972 (appended hereto as Exhibit #1). In the letter Petitioner apprised the Price Commission that its regulations had the effect in many cases of permitting rents to be increased by as much as 30–50% above that which the tenant was paying only two or three years ago. Petitioner proposed that the regulations be modified so as to permit increases of only 2½% per year, plus actual tax and maintenance cost increases, above the rent paid for the same unit in the previous rental period.

In order to furnish the Price Commission evidence of such excessive rent increases, Petitioner met with Price Commission officials James Tanck, Guy Harriman, and James Hogue on February 18. At the meeting Petitioner, together with several local elected officials from Westchester County, New York, informed the Price Commission officials of the widespread incidence of excessive rent increases taking place in Westchester County. Specifically, it was noted that more than 15,000 rental units in Westchester are subject to local "Fair Rent Agreements" which permit rent increases of 15% for 2-year leases and 20% for

3-year leases; and that under operation of the Price Commission's "average transaction rent" rule, the majority of these rental units were subject to rent increases of 20–30% during Phase II.

In the period between February 18 and March 1 Petitioner organized the gathering and submission to the Price Commission of additional information and specific examples of rent increases in Westchester County. Petitioner further made available to the Price Commission a total of 23 actual case examples of rent increases reported to him by his constituents prior to March 1; these examples came from seven towns and cities in New York and showed rent increases ranging from 11–75% (Exhibit #2).

In a letter to Chairman Grayson dated February 22, 1972 (Exhibit #3), Petitioner requested that the Price Commission undertake its own survey of rent increases on a nationwide basis in view of the evidence already known.

Petitioner was informed by Chairman Thomas B. Curtis of the Rent Advisory Board that the Board met on March 1, reviewed the evidence submitted by Petitioner and "a limited sample of rent notifications which were compiled by the staff of the Board," and concluded that "to take action on a very limited amount of information consisting of isolated cases rather than on a widespread incidence of such increases, would not be realistic" (letter from Thomas B. Curtis dated March 7, 1972, appended hereto as Exhibit #4).

The Rent Advisory Board also assured Petitioner that "this matter is not closed but only deferred in order that the Board may more adequately consider it in the future" (Exhibit #4).

In response to this letter Petitioner, together with Senator Javits and Senator Case, met personally with Chairman Grayson and Chairman Curtis on March 16. At this meeting Petitioner re-emphasized the gravity of the problem and again demanded prompt remedial action by the Price Commission (see Exhibit #5, letter to Chairman Grayson dated March 16, 1972). The following day, March 17, Petitioner forwarded to the Rent Advisory Board an additional 52 specific case examples of rent increases averaging approximately 21% from eleven cities and towns in Westchester County (Exhibit #6).

To date the Price Commission has made no modification of the regulations which permit rent increases of this size.

On March 23, Chairman Grayson responded to the letter of March 16 from Petitioner and Senators Case and Javits in which the Chairman rejected Petitioner's request for prompt action, saying "I must advise you that the Price Commission will not make any new regulations effective until after April 15, 1972" (Exhibit #7). The reason given by Mr. Grayson was that the IRS "which is charged with interpretation and enforcement of our regulations, is currently in its peak season on normal income tax matters" and that "(a)ny change in our rent policy before April 15 would impose an intolerable administrative burden upon the Internal Revenue Service." Nowhere in Mr. Grayson's letter or other communications was there any expression of awareness of the intolerable financial burden imposed upon renters by the Price Commission's failure to act to provide relief from the gross inequities described by Petitioner.

THE PRICE COMMISSION IS IN VIOLATION OF THE LAW BY PERMITTING EXCESSIVE RENT INCREASES

Section 203(a) of the Economic Stabilization Act Amendments of 1971 (P.L. 92–210; 85 Stat. 743) provides in part that orders and regulations issued by the President to stabilize prices, rents, wages, and salaries—". . . shall provide for the making of such adjustments as may be necessary *to prevent gross inequities* . . ." (emphasis added).

It has been demonstrated, and the Price Commission has not disputed, that in some number of cases the regulations of the Price Commission permit rent increases far exceeding the 2½% annual general guideline for price increases and the 5½ annual general guideline set by the Pay Board for wage increases.

Under these circumstances, rent increases substantially exceeding these guidelines impose a gross inequity upon the tenants who are compelled to pay them. Many tenants have already suffered serious and permanent harm by having had to enter into leases providing for excessive rent increases.

The Price Commission has an obligation under law to modify its regulations so as to redress and prevent the recurrence of such gross inequities.

Petitioner holds that throughout this proceeding, the Price Commission has made no real effort to deal with the gross inequities in its rent policies that have been repeatedly brought to its attention and have been more than adequately substantiated by evidence furnished by Petitioner and others.

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On the contrary, Petitioner holds that the Commission has deliberately and improperly delayed action by continually suggesting further studies, which, in spite of Petitioner's repeated requests have never been produced for Petitioner's review. Petitioner believes that the Commission's tactics of delay have not only caused serious and irreparable harm to thousands of renters, but will cause equally serious and irreparable harm to thousands more unless the Commission acts promptly upon Petitioner's instant request. Furthermore, Petitioner holds that, whatever the purpose of the Commission's delaying tactics, they have had and continue to have the effect of denying Petitioner and others the opportunity to exhaust administrative relief and thus deny them as well the judicial relief which is their right.

THE PRICE COMMISSION HAS FAILED TO DISCHARGE ITS OBLIGATION TO THOROUGHLY INVESTIGATE THE INCIDENCE OF EXCESSIVE RENT INCREASES

Notwithstanding Petitioner's request of February 22, 1972 (Exhibit No. 3), there is no indication that the Price Commission has obtained meaningful evidence on a nationwide basis on the question of the size of rent increases taking effect under Price Commission regulations.

As the Federal agency charged by law with the promulgation of "fair and equitable" regulations stabilizing rent, the Price Commission has a legal obligation to undertake a review and investigation of the size of actual rent increases sanctioned by its regulations. Rather than discharge this obligation, the Price Commission appears to take the position that it will not modify its regulations unless *Petitioner and others* furnish sufficient information to compel such action. This apparent attempt to improperly shift to the public the burden of the Price Commission's own duties is a gross avoidance of its responsibilities by the Commission.

CONCLUSION

For these reasons and in view of the clear statutory mandate under the Economic Stabilization Act, as amended, Petitioner requests that the Price Commission take immediate action to modify its present regulations so as to correct any and all gross inequities that have occurred as a result of said regulations. Specifically, Petitioner requests that the Price Commission promulgate and implement new regulations which will assure that no lease may be renewed at a rent greater than 2½% per year above the amount paid for the same rental unit in the previous rental period, plus increases in tax and capital improvement costs actually incurred by the landlord during the life of the new lease. Further, Petitioner requests that the new regulations provide for correction of gross inequities that have already been experienced by renters as a result of the Commission's existing regulations.

Respectfully submitted,

OGDEN R. REID.

Dated: April 10, 1972.

EXHIBIT 1

February 9, 1972.

Hon. C. JACKSON GRAYSON, JR.,
Chairman, Price Commission,
Washington, D.C.

DEAR MR. CHAIRMAN: My purpose in writing is to urge that the Price Commission modify its regulations with respect to rent increases for residential properties.

As you know, rent is a major portion of many families' budgets, particularly those in low income categories. Moreover, rent increases are especially onerous for families living on fixed incomes.

While current Price Commission regulations limit rent increases over the long run to 2½% annually (plus "allowable costs"), their short-term effect in many cases is to sanction increases of 30–50% and more above the level of two or three years ago. This situation prevails in my district of Westchester County, New York, and may well be true in many other areas of the country.

The following actual example from a resident of Mount Vernon, New York, is typical and illustrates the problem:

On April 1, 1970, tenant signed a two-year renewal of his lease calling for a monthly rent 21.7% above what he paid in his previous rental period. Prior to August 15, 1971, many of the apartment units in tenant's complex were increased by 15% under lease renewals taking effect at that time. Under current regulations, with his neighbors' rent being used as his "base rent," tenant faces an increase of

17½% (plus "allowable costs") above his current rent and nearly 40% (plus "allowable costs") above the rent he was paying two years ago.

Rent increases of this size, in my judgment, defeat the anti-inflationary purpose of the Economic Stabilization Prog am. Most certainly they also destroy the faith of the people affected that the program is working in their interests.

In order to rectify this serious problem, I suggest that the regulations be modified so as to permit increases of only 2½% plus actual tax and maintenance cost increases above the rent paid *for the same unit* in the previous rental period. This would insure that a tenant would suffer only a modest annual increase, consistent with the overall guidelines of the Price Commission, rather than the staggering increase he now faces on many cases.

I hope the Price Commission will give early consideration to this proposal.

Yours truly,

OGDEN R. REID.

EXHIBIT 2

Name and address	Old rent	New rent	Percent increase	Term of new contract
Mr. Harry E. Wholley, 12 Westchester Ave., White Plains, N.Y.	$250	$300	20	?
Miss A. E. Steinberg, 44 North Broadway, White Plains, N.Y.	150	179	19	1
		183	22	2
		186	24	3
Miss Dorothy Coryell, 101 Carpenter Ave., Mount Kisco, N.Y.	155	195	26	?
Mr. Herbert Robinson, 32 East 57th St., New York, N.Y.	114	200	75	?
Mrs. Richard Moore, 23 Stewart Pl., New York, N.Y.	265	310	17	?
Mrs. Marcella S. Tweddle, Blind Brook Lodge, Rye, N.Y.	225	250	11	?
Miss T. H. Davis, 1833A Palmer Ave., Larchmont, N.Y.	?	?	30	?
Dr. Charles Haines, the Professional Bldg., 421 Huguenot Ave., New Rochelle, N.Y.	?	?	20	?
Miss Dorothy W. Demond, 101 Mamaroneck Rd., White Plains, N.Y.	?	?	33	2
Mr. Ramon Colon, 207 Drake Ave., Apt. 3–H, New Rochelle, N.Y.	180	207	15	2
Miss Hermine Manigan, 12 Westchester Ave., White Plains, N.Y.	198	244	23	?
Mr. Charles J. Andrews, 121 North Broadway, White Plains, N.Y.	180	210	17	2
Mr. Don Marschke, 12 Westchester Ave., Apt. 5A, White Plains, N.Y.	210	259	23	?
Mr. E. Allen Ostrander, 415 Gramatan Ave., Mount Vernon, N.Y.	?	?	15	2
			20	3
Mrs. William C. Kostler, 12 Westchester Ave., White Plains, N.Y.	?	?	21	3
R. Pokriefke, 35 Stewart Pl., Mount Kisco, N.Y.	?	?	15	-----------
Morris Fox, 33 William St., Mount Vernon, N.Y.	?	?	20	-----------
Florence Anton, 3 East Ave., Larchmont, N.Y.	?	?	19	-----------
John R. Barrows, 17 North Chatsworth Ave., Larchmont, N.Y.	163	262	65	-----------
Mrs. Miriam Rudzin, 1829A Palmer Ave., Larchmont, N.Y.	155	195	26	-----------
Bernard H. Payton, 300 Pelham Rd., New Rochellle, N.Y.	?	?	20	-----------
William J. Gartland, Larchmont Acres, Larchmont, N.Y.	?	?	28	-----------
Louise Harvey, 70 Locust Ave., New Rochelle, N.Y.	?	?	20	-----------
Mrs. Marcella Tweddle, Blind Brook Lodge, Rye, N.Y.	225	250	11	-----------
Jean Beagan, 345 Main St., White Plains, N.Y.	?	?	12	-----------
Alice A. Zadoorian, 811 Bronx River Rd., Bronxville, N.Y.	122	170	39	-----------
Elizabeth Ohlson, 804 Bronx River Rd., Bronxville, N.Y.	137	166	21	-----------
Mrs. David L. Combs, 9 Stokes Rd., Yonkers, N.Y.	131	150	20	-----------
Larry Blander, 555 McLean Ave., Yonkers, N.Y.	?	?	15	-----------
Mortimer A. Lehman, 1133 Midland Ave., Bronxville, N.Y.	262	299	14	-----------
Mrs. C.M. McRary, Springvale Apt. 1K, Croton-on-Hudson, N.Y.	114	144	30	-----------
Mr. N. Axelrod, 541 Pelham Rd., New Rochelle, N.Y.	240	306	27	-----------
Martin Smith, 609 Palmer Rd., Yonkers, N.Y.	280	360	29	-----------
E. Allen Ostrander, 415 Gramatan Ave., Mount Vernon, N.Y.	185	201	9	-----------
William G. Griffiths, 66 Milton Rd., Rye, N.Y.	190	220	15	-----------
Max L. Brown, 355 Bronx River Rd., Yonkers, N.Y.	244	289	14	-----------
Gerald Robson, 123 Valentine Lane, Yonkers, N.Y.	140	173	23½	-----------
Alexander MacDougall, 9 Lawrence Park Crescent, Bronxville, N.Y.	263	321	22½	-----------
Saul Grusby, 1 Sadore Lane, Yonders, N.Y.	245	294	16	-----------
John F. Guzzette, 762 Tuckahoe Rd., Yonkers, N.Y.	154	200	23	-----------
Charles F. Rheinheimer, 125 Bronx River Rd., Yonkers, N.Y.	?	?	15	-----------
Valentine Schwind, 555 McLean Ave., Yonkers, N.Y.	235	282	20	-----------
Harry Christine, 125 Bronx River Rd., Yonkers, N.Y.	?	?	15	-----------
Jack Ross, 555 McLean Ave., Yonkers, N.Y.	120	137	14	-----------
Rose Balkan, 811 Bronx River Rd., Bronxville, N.Y.	122	170	39	-----------
Mrs. C. A. Torrey, 313D Larchmont Acres, Larchmont, N.Y.	152	195	28	?
Mrs. Harry L. Fried, 300 Pelham Road, New Rochelle, N.Y.	258	371	44	2
Mrs. Jean Scheinbok, 101 Old Mamaroneck Rd., White Plains, N.Y.	160	193	21	1
Mrs. William L. DeLaney, 11 Lake St., Apt. 3V, White Plains, N.Y.	?	?	17½	1
Mrs. Emanuel B. Kirschenbaum, 101 Mamaroneck Rd., White Plains, N.Y.	?	?	23	3
Mrs. Ann Louise Leslie, 1 Barker St., Apt. 509, Mount Kisco, N.Y.	164	188	15	?
Mr. Jacob Miller, 541 Pelham Rd., Apt. 5A, New Rochelle, N.Y.	250	300	20	3
Mr. Frank Colman, 230 Pelham Rd., New Rochelle, N.Y.	225	274	22	-----------
Morton Alexander, 2 Overlook Rd., White Plains, N.Y.	180	216	20	-----------
Dr. Alfred Feleppa, 101 Old Mamaroneck Rd., White Plains, N.Y.	200	240	20	-----------
Miss Virginia Stillson, Overlook Rd., White Plains, N.Y.	200	243	20	-----------
Mr. D. Lundgren, 115 Bryant Ave., White Plains, N.Y.	150	180	20	-----------

EXHIBIT 3

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
Washington, D.C., February 22, 1971.

Hon. C. JACKSON GRAYSON, Jr.,
Chairman, Price Commission, Washington, D.C.

DEAR MR. CHAIRMAN: On Friday, February 18th, I and several elected officials from Westchester County, New York, met with Price Commission officials James Tanck, Guy Harriman, and James Hogue to discuss the problem of excessive rent increases being permitted under current Price Commission regulations.

Actual cases of rent increases ranging up to 40% were brought to the attention of the Price Commission representatives. In the main these increases have resulted from the fact that during the 90-day period prior to last August 15—the period upon which "base rent" is computed from "average eligible transactions"—rents rose sharply in the New York metropolitan area, thus providing a very high "base rent".

It was suggested by Mr. Tanck that this phenomenon was perhaps unique to the New York area, and that the Price Commission lacked statistics on the size of rent increases now taking effect around the country. Accordingly, we and others attending the meeting agreed to gather as much data as possible, and we expect to furnish this to the Price Commission shortly. However, with limited resources, our ability to collect meaningful statistics on a nationwide basis is severely restricted.

By law and regulation (Sec. 300.501(a) and (b)) the Price Commission has easy access to the information needed in this regard. Moreover, I would respectfully suggest that, now knowing that a problem of the nature described at our meeting does exist, the Commission has an affirmative *duty* to ascertain the dimensions of the problem, with a view toward making whatever modification in the regulations may be necessary and appropriate (in this connection please recall my letter to you dated February 9, 1972).

I therefore request that the Price Commission undertake, or direct the Internal Revenue Service to undertake, a meaningful spot check of rent increases now taking effect in the major metropolitan areas of the country. This should be relatively easy to accomplish within a matter of days and would provide the information which the Commission apparently now lacks.

You can appreciate, I am sure, the seriousness of this problem for these tenants who are affected, and you can therefore understand the urgency which attach to it.

Yours very truly,

OGDEN R. REID.

ORR:nte
cc: Mr. James Tanck
Mr. Guy Harriman
Mr. James Hogue

EXHIBIT 4

EXECUTIVE OFFICE OF THE PRESIDENT,
PRICE COMMISSION,
Washington, D.C., March 7, 1972.

Hon. OGDEN R. REID,
House of Representatives,
Washington, D.C.

DEAR CONGRESSMAN REID: Chairman Grayson has referred your several letters concerning rent increases to the Rent Advisory Board for its review and consideration. As I mentioned in my earlier letter to you, the Board is most interested in such input in order that it may be responsive in its role of recommending rent policy for Phase II of the Economic Stabilization Program.

At our meeting on March 1, we reviewed the information you submitted through Nat Emmons, your Executive Assistant, concerning increases reported in correspondence from your constituents. We also reviewed a limited sample of rent notifications which were compiled by the staff of the Board.

The Board did not feel, based on the information presented, that it should alter existing policy on base rent as you suggested in your original letter. Specifically, the information provided appeared to be from a very limited sample consisting of units occupied by middle and upper income individuals. People at lower levels which can be most effected by such increases were not represented.

I believe that it is important to review the rationale behind the Board's policy in regard to base rent, in order that you better understand the Board's position. To establish a base from which all increases are calculated actual transactions which occurred prior to August 15 are used. This establishment of base is done for all prices and for existing wage agreements as well. Because in the case of prices, increases can be instituted with relative ease, base prices were reflected in the last prices charged prior to the freeze itself. More importantly, there was not a significant difference between the last price charged since the limitation of a lease did not preclude price adjustments. However, when a lease of greater than one month was in effect, the landlord did not have the opportunity to adjust his rent since no increase could be instituted until the lease came up for renewal. On the other hand, the landlord's costs were increasing during the period of time up to August 15, 1971. In order to allow for these increases in cost and also allow the landlord to avail himself of the same opportunity for adjustment available to all sectors of the economy, the Board drew up a method of calculating base rental by modifying the price rules in two ways. First, we limited calculations of base rent and only those units under leases of greater than month-to-month where the landlord clearly had no opportunity to adjust his rent level on a unit to reflect increases in costs during the life of the lease. Second, we limited the calculation of base rent to an average percentage increase in the rent level prior to August 15, 1971, rather than the highest rent charged. In the price area, the highest of prices was allowed as a base. Both of these steps tend to modify downward the amount of the base rent. Also, since 70% of the rental units in the country are leased on a month-to-month basis, the calculation of base rent is limited to only those units under lease of greater than one month. This is also for protection for the low income since the vast majority of their leases fall within the month-to-month category.

Base rent is a one time calculation designed to equalize rentals at a particular level. It will not materially effect our overall objective of reducing the rate of inflation for rents to 3% by the end of 1972. As you know, once base rent is established further increases are limited to 2.5% annually along with provisions for pass-through of increases in real estate taxes and municipal services charges which are items not controlled by the Economic Stabilization Program.

The Board will continue to monitor and review the operation of rent stabilization. We stand willing to alter any of our policies if we see evidence indicating the need for such changes. We will welcome submission of such evidence or comments on this letter from you or from the mayors represented at the recent meeting held under your auspices. However, to take action on a very limited amount of information consisting of isolated cases rather than on a widespread incidence of such increases, would not be realistic.

Please be assured that this matter is not closed but only deferred in order that the Board may more adequately consider it in the future.

Sincerely,

THOMAS B. CURTIS,
Chairman, Rent Advisory Board.

EXHIBIT 5

U.S. SENATE,
Washington, D.C., March 16, 1972.

Hon. C. JACKSON GRAYSON, Jr.,
Chairman, Price Commission,
Washington, D.C.

DEAR MR. CHAIRMAN: We appreciate the concern expressed by you and Tom Curtis at our meeting this morning about the urgent problem of excessive rent increases permitted by current Phase II regulations in the New York-New Jersey area, and very possibly elsewhere in the country.

Let us stress again that this is a critical situation affecting millions of people. In view of your promise to make a prompt and careful analysis of the documented cases which we have presented to the Price Commission, we look forward to hearing by not later than the end of next week what specific actions you will take to provide relief.

Sincerely yours,

JACOB K. JAVITS,
CLIFFORD P. CASE,
OGDEN R. REID.

EXHIBIT 6

Name and address	Old rent	New rent	Percent increase
A. E. Steinberg, 44 North Broadway, White Plains, N.Y.	$150	$179	19
Frank Schumacher, 44 North Broadway, White Plains, N.Y.	?	?	15
Herman D. Hoffman, 266 Pelham Rd., New Rochelle, N.Y.	?	?	22½
Mrs. Margaret Van Pelt, 123B Larchmont Acres, Larchmont, N.Y.	159	200	25
Walter O. Lindstrom, 235 Garth Rd., Scarsdale, N.Y.	209	251	21
Constance A. Blandy, 290 Collins Ave., Mount Vernon, N.Y.	?	?	20
Benjamin J. Bartak, 142 Garth Rd., Scarsdale, N.Y.	155	186	20
G. H. Griffeths, 300 Pelham Rd., New Rochelle, N.Y.	205	288	40
Mrs. Frances W. Andrews, Sheridan Ave., Mount Vernon, N.Y.	?	?	15
Dorothy S. Stengel, 101 Old Mamaroneck Rd., White Plains, N.Y.	235	286	21
Richard Pernod, North Broadway, White Plains, N.Y.	205	265	30
George H. Andrews, Old Mamaroneck Rd., White Plains, N.Y.	220	253	15
Miss Elizabeth Jones, West St. Gardens, Harrison, N.Y.	165	190	15
Ronald L. Sposato, South Rd., Harrison, N.Y.	165	200	21
Mrs. Charles McKenna, 642 Locust Ave., Mount Vernon, N.Y.	?	?	20
John N. Strobel, Chateau Brittany, Scarsdale, N.Y.	250	285	14
Mrs. S. Kasper 600 Locust St., Mount Vernon, N.Y.	?	?	25
Harry E. Wholley, 12 Westchester Ave., White Plains, N.Y.	250	300	20

EXHIBIT 7

EXECUTIVE OFFICE OF THE PRESIDENT,
PRICE COMMISSION,
Washington, D.C., March 23, 1972.

Hon. OGDEN R. REID,
House of Representatives,
Washington, D.C.

DEAR CONGRESSMAN REID: In response to your letter of March 16, let me assure you that the Rent Advisory Board and the Price Commission fully appreciate the concern about rent increases in New York and New Jersey which you stated in our meeting last week.

The Rent Advisory Board is currently studying data relative to rent increases in your state and other parts of the Nation, and, if warranted, will make appropriate proposals to the Price Commission for further revision of our rent regulations. I am sure you will understand that we cannot make the specifics of any such proposals public until after the Price Commission has acted.

In regard to the one week deadline mentioned in your letter of March 16, I must advise you that the Price Commission will not make any new regulations effective until after April 15, 1972. The Internal Revenue Service, which is charged with public interpretation and enforcement of our regulations, is currently in its peak season on normal income tax matters. Any change in our rent policy before April 15 would impose an intolerable administrative burden upon the Internal Revenue Service.

Thank you for your continued interest and support of the Economic Stabilization Program.

Sincerely,

C. JACKSON GRAYSON, Jr.,
Chairman, Price Commission.

SELECTED FIRST QUARTER (1972) PROFITS—TOP 100 U.S. INDUSTRIES

Firm and rank	Sales (millions) 1972	Sales (millions) 1971	Profits (millions) 1972	Profits (millions) 1971	Percentage increase
Allied Chemical (91)	349.3	310.3	13.3	11.1	6
Du Pont (18)	[1] 1,040.0	920.0	(2)	(3)	30
General Electric (4)	2,210.0	2,085.0	103.5	91.5	13
Honeywell (49)	450.2	430.4	11.2	7.0	6
IBM (5)	2,312.0	1,870.0	305.7	250.8	22
International Paper (52)	504.7	458.5	20.2	14.9	36
Owens-Illinois (80)	393.7	332.7	11.8	10.7	10
RCA (21)	[1] 924.9	839.4	36.3	33.0	10
Raytheon (88)	358.7	325.2	10.2	9.5	7
Ralston Purina (71)	443.5	428.5	15.3	13.7	12
TRW, Inc. (68)	383.7	373.9	15.4	17.3	11
Westinghouse Electric (13)	1,179.0	1,030.0	[1] 42.8	33.6	27
Monsanto (47)	[1] 615.0	542.3	[1] 47.5	30.5	56

[1] First quarter record high.
[2] $2 per share.
[3] $1.51 per share.

COMPANY (RANK)	DATE ANNC'D	% INCREASE SOUGHT	% INCREASE APPROVED	PRODUCT LINE	% REVENUE INCREASE FOR FIRM
ALCOA (73)	12/17	4.2	4.2	All domestic products, except Railroad & REA Magnetic Wire Mfg. Co.	3.2
Allied Chemical Corp. (91)	12/17	9.7	9.7	Indigo Dye	.02
	1/11	2.0 (1972 weighted av.)	2.0*	Total Product Lines Excluding Foreign Operations & Domestic Regulated Natural Gas Sales	2.0
American Brands, Inc. (74)	1/6	1.56 (Weighted average, not to exceed 3%)	1.56*	Nonfiltered Cigarettes	N/A
(Sunshine Biscuits)	3/10	1.25 (Weighted; max. 10%)	1.25	Crackers and cookies	0.1
		1.25 (Weighted; max. 7%)	1.25	Potato Chips & snacks	
American Can Company (53)	1/13	5.4	5.4	Paper and paperboard cups, their dispensers, and paper plates sold in various sized packages in consumer markets.	.17
		4.4	4.4	Paper and paperboard cups, plates and food containers sold in commercial & institutional markets.	.13
		3.22	3.22	Blow-molded plastic containers	.02
	1/31	4.1	4.1*	Paper tissue, towel & napkin products sold in various sized packages in consumer markets	.306
		5.0	5.0*	Paper tissue, towel, & napkin products sold in various sized packages in commercial and industrial markets	.092
		4.8	4.8*	Paperboard food cartons & trays, coated & waxed food wraps, & miscellaneous flexible packaging & wraps sold in various sized packages in commercial and institutional markets	.041
		2.66 *(average price increase)	2.66*	Containers & packaging materials of paper, paperboard, film, plastic, or laminations	.268
	2/1	3.7	3.7*	Manufacture and sale of plastic cups, plates, dishes, and containers sold in various sized packages in commercial and institutional markets	.024
		7.01	7.01*	Processing and sale of lumber and plywood products in various sizes, grades, and widths	.074
		5.39 *(average price increase)	5.39*	Manufacture & sale of paperboard sold in rolls and sheets	.017
(Printing Group Div.)	2/3	2.52	2.52	Printing services relating to book & magazine publisher & commercial accounts	.069
(Butterick Div.)		3.3	3.3	Publication of magazine advertising, "Progressive Grocer"	.005

COMPANY (RANK)	DATE ANNC'D	% INCREASE SOUGHT	% INCREASE APPROVED	PRODUCT LINE	% REVENUE INCREASE FOR FIRM
American Can (con't) (Butterick Div.)	2/3	4.7	4.7	Publication of magazine advertising, "Grocery Manufacturer"	.001
	1/3	.48	.48	Metal cans made from aluminum	.11
		2.62	2.62	metal cans made from steel	1.30
	2/15	5.8	5.8	Converting, printing & fine papers and their by-products--sulfite & sulfate chemicals	.001
(Wilson Pharmaceutical & Chem. Corp.)	3/10	8.5 *(not to exceed 8.5% for any product)	8.5*	Processing & sale of animal-derived pharmaceuticals & biochemicals	.022
(Packaging Group)	3/20	.99 *(not to exceed 5.79% for any product)	.99*	Paperboard cartons & flexible packaging	.101
American Home Prods. (87)	12/17	4.1	4.1	Candy	.337
	1/7	2.0 (1972 average)	2.0*	All domestic products	2.0
American Standard (77)	1/6	4.63	4.63* *(average)	Plumbing and heating	.577
(Westinghouse Air-Brake Corp.)	1/28	8.0	8.0	Traffic control, signalling & communications equipment for railroads & rapid transit systems	.117
	2/9	2.52 *(weighted average)	2.52*	Residential air conditioning and heating	.088
		7.1 *(weighted average)	7.1*	Equipment for gas & air handing power transmission, & industrial air handling	.103
*Product		wgtd av % inc		max. % increase	
Gas air moving equipment		7.1		8.0	
Power transmission equip.		7.0		7.0	
Industrial air heating equip.		5.7		6.0	
Replacement and spare parts		7.4		8.0	
		6.24 *(weighted average)	6.24*	Earth-moving & pneumatic equipment	.261
*Product		wgtd av % inc		max. % increase	
Scrapers		4.16		9.2	
Graders		1.96		5.5	
Trucks		4.61		6.3	
Loaders		4.11		7.0	
Parts		7.47		45.0	
Portable compressors		4.0		4.0	
Stationary compressors		5.5		5.5	
Air tools & accessories		6.0		12.0	
		3.9 *(weighted average)	3.9*	Air brake systems	.132
*Product		wgtd av % inc		max. % increase	
ABD equip.		(no increase)		(no increase)	
WABCPAC assembly		3.0		3.0	
Locomotive braking systems		5.0		5.0	
Mass transit car braking sys.		13.5		13.5	
Other freight equip.		5.0		5.0	
Compressors		10.0		10.0	
Renewal parts		5.0		8.0	
Repair work		8.0		8.0	
Miscellaneous equipment		5.0		5.0	
(Mosler Safe Co.)		4.9 *(weighted average)	4.9*	Security products	.364
*Product		wgtd av % inc		max. % increase	
Bank products		4.31		10.0	
Commerce and industry		7.28		18.0	

COMPANY (RANK)	DATE ANNC'D	% INCREASE SOUGHT	% INCREASE APPROVED	PRODUCT LINE	% REVENUE INCREASE FOR FIRM
American Standard (con't)	2/9	4.0	4.0*	Graphic arts	.242
		*(weighted average)			
*Product		wtd av % inc		max. % increase	
Bank checks		4.3		6.0	
Business forms		4.73		5.0	
Commercial printing		3.51		5.0	
	2/10	3.9	3.9*	Heat exchangers	.027
		*(weighted average)			
*Product		wtd av % inc		max % inc	
BCF Heat exchanger		2.5		2.5	
SSCF heat exchanger		3.9		3.9	
Packed floating heads		3.8		3.8	
Small coolers		3.7		3.7	
Century series		4.3		4.3	
S-1000 Heat exchanger		6.0		6.0	
Custom		5.0		5.0	
Navy		3.9		3.9	
Replacement parts		3.9		3.9	
Purchased spare parts		5.0		5.0	
Miscellaneous (discontinued lines)		5.0		5.0	
CPI		6.3		6.3	
CPI-SSCF		3.9		3.9	
		1.53	1.53*	Building specialties	
		*(weighted average)			
*Product		wtd av % inc		max % inc	
Steel doors and frames		no increase		no increase	
Factory-built fireplaces and grills		.93		16.0	
Wall covering		2.10		10.0	
Folding doors and partitions		3.43		10.0	
Institutional furniture and cabinets		2.60		5.9	
		4.8	4.8	Merchant pig iron	.036
		5.6	5.6*	Portable rotary-type drilling rigs and vibrator units	.037
		*(weighted average)			
*Product		wtd av % inc		max % inc	
Drilling rigs-vibrator units		5.0		7.5	
Drill pipes		5.0		5.0	
Manufactured spares		7.5		10.0	
Purchased spares		5.5		10.0	
	2/11	3.6	3.6*	Pneumatic & hydralic equip.	.020
		*(weighted average)			
*Product		wtd av % inc		max % inc	
Compressors		no increase		no increase	
Air cylinders		3.0		6.0	
Fluid motors		7.4		7.4	
Fluid conditioners		3.0		3.0	
Air valves		2.8		6.0	
WABCO products		3.0		5.0	
Panelblocs		3.0		5.0	
Machine tool grade cylinders		4.4		10.0	
Armco Steel Corp (69) (Metal Prods. Div.)	2/18	8.84	8.84*	Metal products	.66
		*(not to exceed 10.4%)			
Ashland Oil, Inc. (79)	2/24	2.09	1.79*	No-bake binders	.005
		*(weighted average, not to exceed 8.0%)			
	3/14	2.0	2.0*	Various product lines	.90
		*(weighted average)			

COMPANY (RANK)	DATE ANNC'D	% INCREASE SOUGHT	% INCREASE APPROVED	PRODUCT LINE	% REVENUE INCREASE FOR FIRM
Beatrice Foods Inc. (70)	12/15	9.2%	9.2%	Leather products	1.2%
(E.R. Moore, Co.)	12/16	5.8	5.8*	Gym suits, Choir Gowns,	.039
		*(not to exceed 20%)		& school uniforms	
(Ma Brown)	12/17	5.8	2.2	Pickles & preserves	.018
(Temple foods)		7.9	4.3	Chinese foods	.007
(Fisher nuts)		7.7	7.7	Nuts	.054
(J.H. Rhodes Co.)		7.9	5.6	Steel wool	.013
(Brillion Iron Works)		4.45	4.45	Gray steel castings	.009
(Mid-west Forging)	12/23	6.5	5.6	Springs and blades	less than .001
(Soo Terminal Warehouse Div.)		7.11	5.3	Warehousing	less than .001
(D.L. Clark Div.)	12/17	3.85	3.85	Candy bars	.03
(Rosalita Mexican foods)		6.55	6.55	Tacos, refried beans,	.04
(Kankakee Ice Cream)		2.47	2.47*	Ice Cream products	less than .001
		*(not to exceed 4.78%)			
(Royal Crown Bottling Co.)		10.98	10.98	Bottled Soda	.003
		6.92	6.92	Can soda	less than .001
(Vatco Mfg. Co.)		1.9	1.9	Auto seat covers, furniture slip covers	.005
(Northeast Cold Storage Corp.)		10.0	9.82	Potato storage	.001
(Oswald Jaeger Baking Co.)		3.7	3.7*	Baked goods	.013
		*(not to exceed 8%)			
(Mid-west Forging & Mfg. Div.)		10.0	10.0	Cold drawn steel tubing	.02
	12/30	2.0	2.0*	All domestic products	2.0
		(1972 average)			
*previous approvals withdrawn; max. increase, 18% food, 20% nonfood products					
Bendix Corp. (75)	1/4	5.6	5.6*	Auto & commercial air brake parts	.33
		*(not to exceed 7.4%)			
	2/21	6.15	6.15*	Wood & aluminum products	.08
		*(not to exceed 7.9%)			
	3/2		3.66*	Automobile and truck brake linings and misc.	
		*(not to exceed 8.0%)			
	3/15	4.2	4.2*	Industrial products	.20
		*(average increase, not to exceed 10%)			
Bethlehem Steel Co. (26)	11/23		7.6	for selected products	.76
	12/16	2.74	2.74*	steel products	2.39
		*(average)			
	2/3	3.64	3.64*	plastic products	.04
		*(not to exceed 4.79, industrial plastic; 3.37, toys; 1.53, games)			
Borden Corp. (54)	1/4	2.0	2.0*	all domestic products	2.0
*(max. increases: chem. prods, 8%; dairy and service prods, 7%; foods, 10%)					
Boise Cascade Corp. (61)	12/28	5.18	3.8	Newsprint	.146
	1/13	5.05	3.8	Newsprint, including Mando publication grade paper	
	2/15	2.0	2.0*	All manufactured products	1.16
		*(weighted average)			
Burlington Industries (56)	12/13	1.75	1.75	Cotton products	.61
	1/6	1.39	1.39*	Domestic products	1.25
		*(not to exceed 5%)			
CPC International, Inc. (82)	2/9	2.0	2.0*	Total domestic lines	1.18
		*(weighted average)			

Division	max % inc.
CPC Industrial Div.	10.0
Best Foods Div.	10.0
CPC Development Div.	15.0

COMPANY (RANK)	DATE ANNC'D	% INCREASE SOUGHT	% INCREASE APPROVED	PRODUCT LINE	% REVENUE INCREASE FOR FIRM
Chrysler Corp (7)	12/3	4.4	3.7	Auto parts	less than .001
	12/16	4.9	4.9	Marine and industrial products	.1

COMPANY (RANK)	DATE ANNC'D	% INCREASE SOUGHT	% INCREASE APPROVED	PRODUCT LINE	% REVENUE INCREASE FOR FIRM
Chrysler Corp (con't)					
(Indiana Mfg. Div.)	2/4	3.2	3.2*	Power transmission	.0002
		*(cost pass through)			
(Introl Control Div.)		2.0	2.0*	Misc. automotive and truck parts	.0027
		*(not to exceed 4½%)			
(Detroit Universal Div.)		8.6	8.6*	Prop shafts and universals on individual items	.0003
		*(not to exceed 11%)			
(New process gear div.)		4.7	4.7*	4 and 5 speed truck transmissions and assemblies	negligible
		*(not to exceed 6.8%)			
Cities Service (62)	1/14	3.05	3.05	Helium-gas mixture	.02
(Columbian Div.)	1/26	6.8	6.8	collodial dispersions	.011
	2/23	2.0	2.0*	Domestic product lines*	.838

Product line covered	maximum % increase
Primary copper, copper wire & wire products, rolled drawn, & extruded copper	no increase
Gasoline (commercial or fleet accounts), diesel fuel, plastics, butyl rubber, printing ink, iron and sinter pellets	5.00
Sulphuric Acid	6.00
Jet and turbine fuel: helium	7.00
Lubricants, carbon black	8.00
Iron oxide and other pigments and specialties	9.00
Coast wire and deep sea transportation	10.00
Coke	13.10
Industrial organic chemicals	13.50
Intra-state natural gas; natural gas liquids; waxes, zinc concentrates, industrial inorganic chemicals, fertilizers, other products and services	15.00
Merchandise purchased for resale subject to mark-up limitations	
Aviation gas, tires, batteries and accessories, insecticidal and fungicidal preparations, farm supplies	No Maximum

Excludes: crude oil, auto gas (except commercial), fuel oils

COMPANY (RANK)	DATE ANNC'D	% INCREASE SOUGHT	% INCREASE APPROVED	PRODUCT LINE	% REVENUE INCREASE FOR FIRM
Coca-Cola Co. (67)	1/14	2.0	2.0*	Total domestic lines	.85
		*(weighted 1972 average)			
*maximum increases: not to exceed 8% except the Fanta product which increase will not exceed 20 percent.					
Consolidated Foods (64)	1/4	7.23	7.23 *		.39
		*(average)			
(Sara Lee)		7.46	7.46	Frozen food	
(B.P. John Furniture)		1.90	1.90	Furniture	
(Michigan Fruit Canners)		9.00	9.00	Cherry pie filling	
(Ohio Cleaning)		6.70	6.70	Cleaning service	.407
(Hollywood Brands)	1/17	3.0	3.0	Candy bars	negligible
	1/24	5.96	5.96	Drapery rods	.05
(Conso Prods. Div.)	3/7	6.7	6.7	Decorative and sewing trim accessories	.2
(Delson Candy)	3/23	12.65	6.37*	Merrimints, chocolate mints, & fruit cream	.008
		*(average, not to exceed 11.5%)			
Continental Can Company, Inc. (46)	12/20	3.2	3.2	Flexible packaging	.086
	1/3	2.6	2.6	Containers made form steel, tinmill products.	1.24
	1/6	7.9	7.9	Bleached paperboard, bleached paperboard plates, and byproducts of the bleached paperboard manufacturing process	.29
		3.0	3.0	Plastic bottles	.047
	2/4	6.0	6.0	Manufacture and sale of unbleached kraft and semi-chemical products, corrugated products, fibre and metal drums and byproducts of papermaking process	.658

COMPANY (RANK)	DATE ANNC'D	% INCREASE SOUGHT	% INCREASE APPROVED	PRODUCT LINE	% REVENUE INCREASE FOR FIRM
Continental Can Company (con't)	3/3	8.54	8.54* *(not to exceed 10%)	Manufacture and sale of unbleached Kraft paper and Kraft bags and sacks	.20
Continental Oil Company (31) (Consolidated Coal Company)	12/7	7.09	4.36	Coal	.56
Dow Chemical Corp (51)	12/9	2.0	2.0 (1972 average)	All products	2.0
Eastman Kodak Co. (27)	12/21	1.97	1.97 (1972 average)	All domestic products	1.97
E.I. duPont de Nemours (18) and Co., Inc.	1/16	2.0	2.0 (1972 average)	all domestic products	2.0
FMC Corp. (86)	2/8	4.3	4.3*	Domestic operations of product lines listed below:	3.62
		3.9	3.9*	Agricultural, food processing & packaging equip.**	.30
		7.2	7.2*	Transportation, construction & recreation equip.**	.34
		5.4	5.4*	Pumps, valves & petroleum equipment**	.34
		5.8	5.8*	Power transmission & material handling equipment**	.77
		3.4	3.4*	Inorganic chemicals	.39
		1.5	1.5*	Agricultural & other organic chemicals	.14
		5.6	5.6*	Fibers	.92
		2.2	2.2*	Film and other	.11
		2.8	2.8*	Ordnance products***	.30

*weighted average increase. Upper limit is 9%, with following exceptions:
**Maximum for machinery spare parts not to exceed 18%
***Ordnance spare parts prices will be determined on the standard formula which inludes costs plus a normal markup.

COMPANY (RANK)	DATE ANNC'D	% INCREASE SOUGHT	% INCREASE APPROVED	PRODUCT LINE	% REVENUE INCREASE FOR FIRM
(American Viscose Div.)	12/3	9.7	9.7	Rayon, Rayon staple	0.6
Firestone Tire and Rubber Company (38) (Firestone Steel products)	1/10	5.0	5.0	Rim and wheel products	.078
(Steel products plant, Spartanburg, S.C.)	2/23	3.8	3.8* *(Not to exceed 6.1%)	Stamping	.027
(Plastics Division, Pottsdown, Pa.)		3.24	3.24* *(Not to exceed 3.24%)	Converting services	.001
(Electric Wheel Division, Quincy, Illinois)		3.75	3.75* *(not to exceed 4.37%)	Fabricated industrial metal products	
Ford Motor Company (3)	12/12	1.5	1.07	Mandatory seat belt and warning system, improved emission sys.	.69
(Auto lites parts)	12/16	2.7	2.7	Auto parts	.02
(Industrial Engines Operations Div.)	12/29	4.7	4.7	Industrial engines, power units, and service parts	.01
(Steel Div.)		4.3	4.3	Steel and steel mfg. byproducts	.02
(Automobile parts)		2.7	2.7	Auto parts	.10
(Tractor Operations)		5.9	5.9	Tractors	.10
(Philco-Ford Corp.)	1/14	2.8	2.8*	Domestic consumer products	.04

*Subject to the following limitations

Product line	Maximum % increase
Color Television	1.7
Black and White Television	2.7
Refrigerator	3.8
Radio	1.5
Air Conditioner	3.7
System Stereo	1.5
Components, Parts and Electronics Equipment	3.7

COMPANY (RANK)	DATE ANNC'D	% INCREASE SOUGHT	% INCREASE APPROVED	PRODUCT LINE	% REVENUE INCREASE FOR FIRM
General Dynamics Corp (41)					
(Freeman Coal Co.)	12/7	8.0	4.40	Coal	.092
(United Electric Coal Co.)		7.3	4.49	Coal	.047
General Electric Co. (4)	12/15	2.0	2.0*	All domestic products and services	2.0
		*(1972 average)			
General Foods Corp (45)	1/10	3.9	3.9	Pre-cooked nuts	negligible
		6.51	6.51	Jello Brand Puddings	.001
General Motors Co. (1)					
(Detroit Diesel, Allison Products)	12/22	2.5	2.5*	Diesel products	1.71
		*(not to exceed 7%)			
		2.5	2.5**	Auto service parts, original equipment parts & misc. parts	
		2.5	2.5**	Electro-motive products	
		2.5	2.5**	Terex products	
		2.5	2.0**	Frigidaire products	
		**(not to exceed 10%)			
	12/12	0.9	0.9	Mandatory seat belt and warning system, emission control and bumper improvement	.5
General Telephone and Electronics (20)					
(Sylvania Division)	12/22	2.572	2.57	Electronic tubes, picture tubes, and receivers	negligible
	12/30	2.572	2.5*	Electronic tubes	negligible
		*(rounded down)			
	1/25	2.0	2.0*	Sales of products applicable to domestic operations of the company	2.0
		*(1972 average)			
Genesco, Inc. (90)					
(Wood & Hyde Leather)	2/3	5.0	5.0*	Leather products (specified below):	.045
		2.7	2.7	Glove leather	.001
		6.5	6.5	Cowhide garment leather	.003
		5.1	5.1**	Sheepskin garment leather	.040
	*average weighted price increase				
	**not to exceed 10%				
(Gemco Shoe Mfg. Div.)	2/2	3.8	3.7	Women's black oxford shoe	.001
(Greensboro Mfg. Co.)	1/11	2.8	2.8*	Women's and children's pajamas, gowns, and sleepers	.002
		*(not to exceed 4.0%)			
Georgia-Pacific Corp. (99)	2/7	2.0	2.0*	All domestic products	2.0
		*('not to exceed 15%)			
Goodyear Tire Company (22)	1/14	3.6	3.6	Metal products	.032
Greyhound Corp. (29) (Armour Food Co.)	12/14	.49	.49*	Meat & meat products, poultry, dairy	.31
		(average)			
Gulf Oil Corp. (11)	2/14	2.0	2.0*	Domestic product lines specified below:	.47
Gulf and Western Industries, Inc. (65)					
(Gulf Metals Forming Co.)		8.19	5.58*	Flexolators--furniture seat padding supports	.0011

Gulf Oil Corp.: *covered products (all subject to max. increase of 8%):
gasoline--fleet sales
distillates--jet turbine fuel, solvents, diesel fuel
lubricants
other refined products
propane and butane
intrastate natural gas (not subject to Federal, State, or local regulatory agencies and not comingled with regulated gas products
chemicals
other--misc. products (wholesale/retail products will be priced in accordance with the customary percentage markup practices)

COMPANY (RANK)	DATE ANNC'D	% INCREASE SOUGHT	% INCREASE APPROVED	PRODUCT LINE	% REVENUE INCREASE FOR FIRM
Gulf & Western (con't)					
(stamping div.)	12/10	3.43	3.43	Auto parts	.01
(Young Div. and stamping div.)	12/30	4.5	4.5	Auto parts	.16
(MacKintosh-Hemphill)	1/13	4.84	4.84	Cast iron rolls, cast steel rolls, steel castings, straighteners	.45
(Metals Forming Co.)	1/13	5.0	4.25	Commercial refrigeration products	.0198
(Brown Company)		6.0	4.32	Combination paperboard	.0392
(Lurgston Rock and Gravel Co.)		4.92	4.42	Rock, sand, and gravel	.0392
	2/3	Exception approved because of extreme financial hardship, due to exceptional nature of motion picture industry, to allow adjustment of prices in accordance with base-period profit margin, excluding sales and revenues of Paramount Pictures Corp., and its subsidiaries.			
(Tassell Industries)	2/18	4.79 *(average)	4.79*	Automotive stampings	.005
		4.89	4.89*	Hardware for appliances	.001
*Not to exceed 9% for automotive stampings and 6.6% for hardware					
(Amron Corp.)		.66	.66	M56A4-20mm steel projectiles	less than .001
(Brown Co.)	2/21	4.96 *(not to exceed 4.96)	4.96*	Paper & converted products	.48
(Metals Forming Co.)		21.04	12.04	Insulators--automotive seat padding supports	.02
(Automotive & appliance Mfg. Co.--Tassell Industries Division)		4.32 *(average increase, not to exceed 10.63%)	4.32*	Automotive lamps	.006
(Metals Forming Co.--Bohn Aluminum & Brass Division)	3/2	3.95	3.95	Aluminum airconditioners & refrigeration tubing	.014
(Automotive & appliance Mfg. Company)	3/6	1.25 *(not to exceed 2.43%)	1.25*	Automobile bumpers	.0129
(Metals Forming Co.)	3/23	5.66	5.66	Springs for furniture & bedding	.00003
(Forged Products Div.)	3/28	4.62	4.62	Custom steel forgings	.0046
(Penn. Malleable Iron Div.)		4.05	4.05	Malleable iron fittings	.016
(Metals Forming Co. Beardstown Ill.		5.55 *(weighted average)	5.55*	Commercial air conditioning products	.019
Day-brook--Ottawa)		5.33	5.33	Freight terminal yard tractors	.015
Honeywell, Inc. (49)	12/6	2.2%	2.2%	Test instruments	.04
	12/20	1.3	1.3	Computer sales, rental and maintenance	.34
(Industrial Div.)	1/10	8.15	8.15	Field Srevice Maintenance contracts	.038
	2/3	2.0 *(1972 average)	2.0 *	Domestic sales and service	2.0
IBM Corp. (5)	12/14	1.5	1.5	All domestic products & services	1.5
ITT Corp. (8)	12/17				
(Continental Baking Co.)		3.61	3.61*	Bakery products, bread, cake items	negligible
*Pittsburg, Pa. & Wheeling, W. Va., 5.8%; Honolulu, Hawaii, 2.25%; San Francisco & Sacramento, Calif., 3.8%; Denver, Colo., 6.4%; Morton Fros. Foods, New York, 6%.					
(Continental Baking)	1/3	7.5	7.5*	Bakery products	.77
*Bakeries in Beverly Hills & San Pedro, Calif., av. in. 2.1%; Oakland, Sacramento & San Francisco, Calif., Portland, Ore., Seattle, and Spokane, Wash., av. in., 9.9%; Los Angeles & San Diego, Calif., Ogden & Salt Lake City, Utah, av. in., 9.7%.					
(Electron Tube Div.)	1/14	2.81	2.81	Max. % increase 8.0	

COMPANY (RANK)	DATE ANNC'D	% INCREASE SOUGHT	% INCREASE APPROVED	PRODUCT LINE	% REVENUE INCREASE FOR FIRM
ITT (con't)	1/14			(for the following 25 items:	1.067)
				Max. % increase	
(Intertec Publishing)		3.9	3.9	20.0	
(Abrasive Products)		2.0234	2.0234	5.0	
(Educational Services)		6.8	6.8	25.0	
(Transportation Displays, Inc.)		3.4	3.4	6.5	
(Southern Wood Piedmont, Co.)		2.4	2.4	8.0	
(General Controls)		2.8	2.8	8.0	
(Telecommunications)		3.0	3.0	8.0	
(Jennings)		3.2	3.2	7.75	
(Marine and Recreation, Components Div.)		3.5	3.5	7.5	
(Hoffman Specialty)		2.2	2.2	16.0	
(Grinnell Corp-- Industrial Piping Div.		4.74	4.74	20.0	
Mfg. Operations		4.12	4.12	10.0	
Fire Protection Div.)		6.48	6.48	22.0	
(Thompson Industries)		2.3	2.3	26.0	
(Lighting Fixture Div.)		3.0	3.0	33.0	
(Sheraton Corp. of Amer.)		1.9	1.9	9.0	
(Levitt Mobile Homes)		14.9	14.9	23.9	
(Continental Baking-- Honolulu (Cake))		7.26 (No item to exceed four cents)	7.26	13.5	
(Suprenant Division.)		2.13	2.13	10.0	
(ETC, Incorporated)		3.55	3.55	6.0	
(So. Fla. Development Corp)		12.35	12.35	20.0	
(Service Industries-- Apcoa Parking Div.		2.212	2.212	28.0	
United Building Services		4.6	4.6	10.0	
American Building Services)		3.39	3.39	10.0	
(Reznor)		6.03	6.03	10.0	
(Blackburn Co. Div.)	1/27	2.9	2.9* *(not to exceed 4.6%)	Telephone equipment	.022
(Aerospace/Optical-- San Fernando Div.)	2/18	4.6	4.6	Product &services of the div.	.007
(ITT Marlow)		4.34	4.34* *(not to exceed 6%)	Air-conditioning & heating equip.	.005
(Aerospace/Optical Div-- Fort Wayne)	2/24	5.1	5.1*	Military communications & display & sensor equipment	.014
(Avionics Div.)		4.7	4.7 *	Navigation systems, electronic defense systems, & logistic support systems	.022
(Gilfillan Div.)		4.9	4.9*	Military radar, logistics support & services	.063
		*(uniform price increases)			
(Pennsylvania Glass-- Sand Div.)		3.52	3.52* *(not to exceed 12%)	Quartize & fuller's earth	
(Sheraton Corp. of Amer.)		1.99 (weighted average)	1.99*	Hotels, motels & convatels	.054
		*Not to exceed 9.0% for any product of the Sheraton Corp of America, except menu items under one dollar and extensively renovated rooms, which are not to exceed 15% increase.			
(Nesbitt Div.)		4.4	4.4* *(not to exceed 10%)	Heating, ventilating, and air-conditioning equip.	.023
(Barton Div.)	2/25	1.0	1.0* *(not to exceed 8.0%)	Fluid measurement devices	.002
Cannon Div.)		4.8	4.8* *(not to exceed 15%)	Selected connectors	.041
(Commercial Services Div.)		3.5	3.5* *(not to exceed 12%)	Computer installation & maintenance services	.006
(Grinnell Industrial Piping)		.45	.45	All domestic products	.003
(Pneumotive Div.)		2.3 (uniform increase)	2.3	Air compressors & vacuum pumps	.001
(Continental Baking Div.-- San Diego Plant)		4.96	4.96 *(not to exceed 6%)	Bread products	.003

COMPANY (RANK)	DATE ANNC'D	% INCREASE SOUGHT	% INCREASE APPROVED	PRODUCT LINE	% REVENUE INCREASE FOR FIRM
ITT (con't) (ITT Fluid Handling: Bell & Gossett Div.)	3/3	3.58 (weighted average)	3.58	Pumps and heating transfer equipment	.017
(Continental Baking Div.-- Northeast U.S., except Buffalo, New York area	3/14	4.11	4.11*	Bread products	.0432
Maryland, D.C., Virginia, North Carolina		5.83	5.83*	Bread products	.025
Florida		7.95	7.38*	Bread and cake products	.0091
		*(not to exceed 10%)			
(Avis Inc., Div.)	3/20	1.74	1.74*	Products and services	.045
		*(not to exceed 2.5%)			
(Henze Div.)	3/23	1.6 (uniform increase)	1.6	Repair and maintenance of large industrial marine valves	.0007
(Defense Communications Div.)	3/24	4.9 (uniform increase)	4.9	Tactical radio, transmission, space, and ground communication systems, logistics support and services	.032
(Data Services Div.)		20.00 (weighted average)	3.33*	Programming and systems labor services	.0004
		*No individual increase is to exceed 6.0% of base price of any item, and only 10.% of the sales for each product line may exceed the weighted average price increase of 3.3 percent for any product or service of the Data Services Division.			
(O.M. Scott & Sons)		2.84 (weighted average)	2.84*	Fertilizers, chemicals, control products, & mechanical devices	.02
		*Not to exceed 6% of base period price of any item, and only 10.0% of the sales for each product line may exceed the weighted average price increase of 2.48 percent for any product of O.M. Scott & Sons.			
International Harvester Corp (32)	11/30	4.29	3.93	Self-propelled heavy equipment & vehicles, rubber wheel and crawler	2.97
	12/19	5.76	5.76*	Service centers	.056
		*(Not to exceed 13.9)			
	12/30	3.99	3.99*	Self-propelled heavy machinery and vehicles	3.0
		*Amends the order approved on 11/26(printed 11/30).			
	3/23	3.09	3.09*	Customer hourly rates for 27 designated company service centers	.0117

*The increase granted is an average of 3.09 percent, which results in a cummulative average increase of 4.73 percent for the 27 specified centers. The approved percentage increase for each center is as follows:

Service Center Location	Price Increase Approved %
Greenville, S.C.	6.62
Amarillo, Texas	5.87
Redding, Calif.	5.36
Council Bluffs, Iowa	5.33
Jackson, Miss.	6.64
Sioux City, Iowa	6.30
York, Pa.	4.19
Cincinnati, Ohio	4.65
Milwaukee, Wisc.	4.70
Buffalo, N.Y.	4.54
Kankakee, Ill.	5.38
Lexington, Kentucky	11.56
Fort Wayne, Ind.	3.98
Abilene, Texas	2.40
Duluth, Minnesota	1.83
Columbus, Ohio	2.27
Peoria, Ill.	3.16
Beaumont, Texas	5.38
Newark, Calif.	5.56
Pittsburgh, Pa.	5.15

COMPANY (RANK)	DATE ANNC'D	% INCREASE SOUGHT	% INCREASE APPROVED	PRODUCT LINE	% REVENUE INCREASE FOR FIRM
International Harvester, (con't)					

Service Center Location	% Price Increase Approved
Fort Dodge, Iowa	3.35
Omaha, Neb.	8.68
Baltimore, Md.	5.43
Paterson, N.J.	5.46
Riverside, Calif.	7.04
St. Joseph, Mo.	6.94
Janesville, Wisconsin	2.53

COMPANY (RANK)	DATE ANNC'D	% INCREASE SOUGHT	% INCREASE APPROVED	PRODUCT LINE	% REVENUE INCREASE FOR FIRM
International Paper Corp (52)	12/1	4.1	4.1	Publication grade paper	.12
		3.4	3.4	Newsprint	.07
(Davol, Inc.)	12/28	6.5	6.5	Self-retaining catheters	.03
(Davol, Inc.)	1/24	2.9	2.9	Health products	.032
	1/25	2.8	2.8*		1.7

*4%, not to exceed 8%, container board; 5%, not to exceed 7%, bleached board; 1%, not to exceed 6%, fine paper; 1%, not to exceed 5% unbleached Kraft paper; 1%, not to exceed 5%, semi-bleached paper; 1.7%, not to exceed 6%, market pulps; 5% not to exceed 7%, P.E. coated milk carton and foil laminated; 3%, not to exceed 10%, Murison Label Div.; 3.8%, not to exceed 10%, container division; 3%, not to exceed 6%, Single Service Division; 1%, not to exceed 5%, Bagpak Division; 1%, not to exceed 5%, Grocery Bag Division; 3.5%, not to exceed 7%, Lord Baltimore Press Div.; 5%, not to exceed 7%, P.E. coated milk carton & foil laminated.

COMPANY (RANK)	DATE ANNC'D	% INCREASE SOUGHT	% INCREASE APPROVED	PRODUCT LINE	% REVENUE INCREASE FOR FIRM
(Long-Bell Division)	3/7	3.38	3.38	Lumber	.05
		4.02	4.02	Cabinets	.03
		4.58	4.58	Plywood	.08
		3.24	3.24	Particle board	.03
		7.75	7.75	Millwork	.01
		5.22	5.22	Concrete	.003
Kraft Co. (28)	12/27	.57	.57	Frozen dessert products	.005
	1/17	2.9 *(not to exceed 7.1%)	2.9*	Fountain products	.001
		2.5 *(not to exceed 7.5%)	2.5*	Institutional & industrial shortening products	.026
		4.6 *(not to exceed 7.2%)	4.6*	Institutional salad products	.065
		2.4 *(not to exceed 3.9%)	2.4*	Retail pourable salad dressings	.031
		6.5 *(not to exceed 7.2%)	6.5*	Mixed sweet peas and green beans	less than .001
(Kraft Foods Div.)	1/18	7.1	7.1*	Industrial margarine products	.003
		5.8	5.8*	Institutional margarine prods.	.010
		11.0	11.0*	Retail citrus products	.031

*Cost pass through. Weighted price increase, not to exceed 11.0% for industrial margarine products, 6.9% for institutional margarine products, and 13.0% for retail citrus products.

COMPANY (RANK)	DATE ANNC'D	% INCREASE SOUGHT	% INCREASE APPROVED	PRODUCT LINE	% REVENUE INCREASE FOR FIRM
(Kra-Pak Div.)		43.4 *(not to exceed 66.1%)	43.4*	Food, pharmaceutical, & biochemical products containing casein or lactalbumin	.042
(Sealtest Foods Div.)	1/20	.07 *(not to exceed 2.5%)	.07*	Cottage cheese	.001
(Kraft Foods Div.)		3.1	3.1	Low-moisture mozzarella cheese	.004
	1/21	1.20 *(not to exceed 1.6%)	1.20*	Milk	.02
	1/24	3.9 *(not to exceed 5.6%)	3.9*	Retail viscous salad products	.177
(Kraft Foods Div.)	2/1	5.3 *(not to exceed 6.3%)	5.3*	Retail margarine product line	.163

79-980 O - 72 - 11

COMPANY (RANK)	DATE ANNC'D	% INCREASE SOUGHT	% INCREASE APPROVED	PRODUCT LINE	% REVENUE INCREASE FOR FIRM
Kraft Corp (con't)					
(Kraft Foods Div.)	2/9	4.5 *(not to exceed 4.7%)	4.5*	Retail Kraft vegetable oils	.008
		12.1 *(not to exceed 17.4%)	12.1	Institutional citrus products	.025
	2/16	2.0 *(weighted average)	2.0*	Total domestic lines	2.0
*Maximum increases not to exceed 15% on fluid milk products, ice cream, and frozen dessert products and a maximum increase of 10% on manufactured dairy products, processed food products, and other products					
Litton Industries (36)	1/5	5.90	5.90	Metal cutting machine tool models	.015
(Louis Allis Co.)	1/18	5.0	5.0	75 (or greater) horsepower hermetic electric motors	.013
		10.0	10.0	Replacement parts for 75 (or greater) horsepower hermetic electric motors	less than .001
(Stouffer Foods Corp)	2/1	3.7 *(weighted average)	3.7*	Processing and sale of frozen prepared foods	.067
(Stouffer Restaurant & Inn Corp.)		3.18	3.18	Food service	.056
(Litton Educational Publishing, Inc--American Book Co.		5.6 *(not to exceed 15%)	5.6*	Sale of publications of American Book Co.	.045
McCormick Mathers Co.	2/7	6.3	6.3*	Sale of publications	.007
Delmar Publishers, Inc.		1.3	1.3*	Sale of publications	.001
Van Nostrand Reinhold Co.)		7.3	7.3*	Sale of publications	.024
*Increases not to exceed the upper limit of 15 percent for any product. Primarily represents allowable cost pass-through.					
(Streater Industries, Inc--McCray Div.)	2/15	4.7 *(not to exceed 8%)	4.7*	Manufacture & sale of commercial refrigeration equipment, cases & coolers used in supermarkets & grocery stores	.016
(Litton Business Systems, Inc.--Cole Div.)		6.8	5.4*	Manufacture & sale of office furniture	.052
*Increase requested reduced to eliminate negative productivity. Increases not to exceed upper limit of 10 percent for any product.					
(Litton Business Systems Inc., Lehigh-Leopold Div)	2/17	6.0 *(not to exceed 6%)	6.0*	Manufacture & sale of wood office furniture	.014
(Litton Unit Handling Systems Div.)	2/24	7.5 *(weighted average)	7.5*	Manufacture and sale of pre-engineered conveyor systems	.004
*Increases in prices are not to exceed 12.0% for any of the conveyor systems included in the above product line, except that small valve items (all under $10.00), when ordered in single quantities, may exceed the upper limit of 12.0% in order to recover order processing charges.					
(New Britain Hand Tool Div.)		5.0 *(not to exceed 5%)	5.0*	Manufacture & sale of "New Britain," "Black Hawk," "Husky," & Sparta brand name hand tools	.036
(New Britain Machine Co.)		10.5 (average increase)	10.5	Manufacture & sale of Model 44H horizontal boring machine	.71
(Louis Allis Co.)	3/17	4.34 (weighted average)	3.13*	Mechanical drives, special NEMA motors, eng. services & repairs, generators, motors, controls, & Ajusto-Spedes	
*Additional increase not cost justified. Price increases not to exceed 8.0% for any product detailed above.					
McDonnell Douglas Corp (44)					
(Automation Co.)	2/9	5.0 *(weighted average)	4.65*	Standard prices for computer personnel & equipment services	.04
*Additional increase requested not cost justified. Maximum increase for any item, 10%.					

COMPANY (RANK)	DATE ANNC'D	% INCREASE SOUGHT	% INCREASE APPROVED	PRODUCT LINE	% REVENUE INCREASE FOR FIRM
Minnesota Mining & Manufacturing Co. (63)	1/27	2.0 *(1972 average)	2.0*	Total domestic product line	2.0
*Weighted average basis over established base prices.					
Mobil Oil Corporation (6)	1/13	2.7	2.7	Phosphate rock products	.002
		8.1	8.1	Nitrogen-based chemical products	.18
		2.0 *(weighted average, 3/1/72--2/28/73.)	2.0*	Domestic product line	

*Increase to be applied in accordance withthe following schedule:

product grouping	max. inc. over base price
Asphalts	8%
Waxes	8%
Aviation gasoline	8%
Jet fuels	8%
Commercial gasoline	8%
Lubricants	8%
Distillates--other than home heating	8%
Other petroleum products	8%
Chemicals	8%
TBAS	Restricted to customary % markup.
Natural gas liquids	Maximum price increases restricted to
Natural gas (intrastate sales)	allowed increases under Section 300.16 of the Regulations.

COMPANY (RANK)	DATE ANNC'D	% INCREASE SOUGHT	% INCREASE APPROVED	PRODUCT LINE	% REVENUE INCREASE FOR FIRM
Monsanto Co. (47)	12/19	2.0 *(1972 average)	2.0*	All domestic products	2.0
National Cash Register Company (76)	12/7	1.8	1.8	Maintenance on selected equip.	.23
	2/17	2.0 *(weighted average, 2/3/72--12/31/72)	2.0*	Domestic sales of products	2.0
*This order supersedes all previous Price Commission orders.					
National Steel Co. (92)	11/23	(N.A.)	7.2	for selected products	1.80
	12/16	8.0	8.0	Sheet steel products	4.96
		5.4 (average)	5.4*	Wire machinery & metal prods.	4.16
(Buchanan Steel Div.)		4.9	4.9*	Machinery	less than .001
(*Max. inc. of 4.7%, wire products; 6.9% machinery; 6.4% other metal prods.)					
North American Rockwell (35)	12/9	6.7 (average)	6.7	Auto parts, transmission & axles	1.14
Occidental Peroleum Co. (40) (Island Creek Coal Co.)	12/10	4.5	4.5	Coal	.6
(Island Creek Coal Co.)	12/17	6.7	4.5	Coal	.41
(Chemicals Div.)		2.0 (1/25/72--1/25/73 av.)	2.0*	All domestic products	.42

*Price increase applied on a weighted average basis over established base prices for all domestic products of the Chemicals Divisions, subject to the following limitations:

Product Line	Top Limit Increase	Proposed Application
Industrial chemicals & plastics	15%	1.7%
Metal finishing compounds & prods.	13%	1.8%
Fertilizers & related agricultural chemical products	15%	2.8%

COMPANY (RANK)	DATE ANNC'D	% INCREASE SOUGHT	% INCREASE APPROVED	PRODUCT LINE	% REVENUE INCREASE FOR FIRM
Owens-Illinois, Inc. (80)	12/27	8%	8%	Corrugated paper products	.57
	12/30	3.8	3.8	Tubular containers (glass)	.02
	1/4	8.5	8.0*	Glass tableware	.30
	*Productivity adjustment				
	2/4	3.0	3.0	Blown plastic bottles	.11

COMPANY (RANK)	DATE ANNC'D	% INCREASE SOUGHT	% INCREASE APPROVED	PRODUCT LINE	% REVENUE INCREASE FOR FIRM
Owens-Illinois (con't)	2/17	4.6 (weighted average)	4.6	Bottle caps & related container closing products (product lines specified below:)	.17
		Continuous thread, av. 6.9%, max. 8.0%; beer, beverage, & condiments, av. 0.0%, max. 5.0%; vacuum: infant formula, av. 13.5%, max. 13.5%; vacuum: baby food, av. 6.0%, max. 6.0%; vacuum: other, av. 6.0%, max. 6.0%; thermosetting, 5.0%, max. 10.0%, thermoplastic: threaded, av. 5.0, max. 10.0%; thermoplastic: non-threaded, av. 5.0%, max. 10.0%; thermoplastic: vials, 0.0%, max. 10.0%.			
(Lily Tulip Div.)		4.0 (weighted average)	4.0	Paper & plastic products (product line specified below:)	.37
		Vending products, av. 3.7%, max. 4.0%; packaging products, av. 3.7%, max. 4.0%; service products, av. 3.8%, max. 5.0%; consumer products, av. 2.0%, max. 6.0%.			
(Glass Container Div.)	2/22	4.0	4.0	Glass containers	1.59
(Consumer and Technical Products Div.	3/3	7.13 (not to exceed 10.0%)	7.13	Laboratory ware	.0933
		5.0 (not to exceed 10.0%)	5.0	Pharmaceutical containers	.0733
		3.0 (not to exceed 10.0%)	3.0	Industrial glass products	.0133
		2.0 (not to exceed 10.0%)	2.0	Fluid process system	.0044
(Forest Products Div.)	3/15	3.84	3.84	Fibre cans	.04
(Consumer & Technical Products Div.)	3/17	4.50 (not to exceed 5.34%)	4.50*	T.V. bulbs & components	.19
Phillips Petroleum (39)					
(Wall Tube & Metal Prods.)	12/21	4.32	4.32	Fabricated metal products	.005
(Phillips Products)	2/2	7.6	7.6	Plastic toy ladders	less than .001
(Phillips Products)	2/8	15.8	15.8	Custom molded product parts	less than .001
(Phillips Products-- Cambridge Ohio, plant)	2/24	1.17	1.06*	Plastic parts	.003
(H-P Smith Co.)		2.36	2.25*	Paper products	.016
		*Additional increase not cost justified.			
(Philtex Plant, Borger, Texas)	3/24	3.86 (weighted average)	3.86*	Chemical products	.03
		*Max. price increase not to exceed 6%, and only those products which will generate 10% of expected sales dollars shall receive increases in excess of 3.86%.			
Ralston Purina Co. (71)	12/17	5.84	5.84* *(not to exceed 6.8%)	Ry Krisp	.01
(Chow Division)	12/23	24.5	24.5	Nursing chow	.088
(Chow Division)		6.8	6.8	Nurse grow	less than .001
(Chow Division)		11.1	11.1	Veal chow	.005
	12/27	.27	.27	Health products	.002
	2/4	3.17 *(weighted average)	2.82*	Plant and animal health aids	less than .001
		*Amount of increase granted was adjusted to eliminate cost increase prior to January 1, 1971. The maximum increases allowable are: 3.1% for disinfectants and insecticides; 2.2% for vermifiges, horse products, home and garden products, and avicides; 2.7% for treatments; 2.4% for miscellaneous products.			

COMPANY (RANK)	DATE ANNC'D	% INCREASE SOUGHT	% INCREASE APPROVED	PRODUCT LINE	% REVENUE INCREASE FOR FIRM
Ralston Purina (con't)					
	2/14	3.76	3.76*	Grated light canned tuna, 48/2's	.012
		*(not to exceed 3.85%)			
		5.21	5.21*	C.L. (canned tuna) 24/1's	.3
		*(not to exceed 5.7%)			
Raytheon Co. (88) (Amana Refrigeration)	1/17	1.61	1.61*	Refrigerator-freezers	.046
		*(not to exceed 2.5%)			
		2.13	2.13 *	Window air conditioners	.017
		*(not to exceed 3.65%)			
	1/19	2.0	2.0*	All domestic sales of products & services	1.52
		*(1972 weighted av.)			
R.J. Reynolds Industry, Inc. (58)	2/16	2.0	2.0*	Total domestic product lines	1.65
		*(wtd. av., 1/14/72--1/13/73)			
	*Max. increase: cigarettes, 3.5%; other tobacco products, 8%; selected aluminum and packaging products, 5%.				
Republic Steel (84)	12/10	3.4	3.4	Steel mill products	3.2
	2/8	8.6	8.0*	Fabricated steel prods; fasteners & mine roof support prods.	.58
Shell Oil (19)	2/1	2.0	2.0*	Domestic product line listed below:	.67
		*(weighted average)			
	Liquid gases; aviation gasoline; diesel fuel; asphalt; lubes; commercial gasoline (fleet account); tires and accessories, and aviation turbine fuel. Increase is effective January 31, 1972 thru January 31, 1973. Excludes: crude oil, fuel oil, and retail and jobber gasoline.				

Product line	Maximum increase (%)
Chemical products	15%
Refined products	
Liquid gases	15%
Aviation gasoline	15%
Diesel fuel	15%
Asphalt	15%
Lubes	15%
Commercial gasoline	15%
Tires and accesories	no maximum
Aviation turbine fuel	15%
Subsidiaries	no maximum
Intrastate natural gas	no maximum
Other sales & services	no maximum

COMPANY (RANK)	DATE ANNC'D	% INCREASE SOUGHT	% INCREASE APPROVED	PRODUCT LINE	% REVENUE INCREASE FOR FIRM
Signal Companies, Inc. (78)					
(Garrett Corp.)	12/27	3.4	3.4	Commercial aircraft parts	.07
(Dunham-Bush, Inc.)	2/25	2.583	2.574*	Refrigeration, air conditioning, & heating equipment	.110
		(weighted average)			
	*Reduced to eliminate negative productivity and anticipated cost increases.				
(Mack Trucks)		6.66	4.99*	Trucks and Mack mfg. parts	1.77
		(average increase)			
	*Requested increase of 6.66% included service labor; this item is being handled by a separate PC-1. No individual truck price to be increased by more than 8.0% and no individual part to be increased by more than 10.0%.				
The Singer Co. (43)	12/10	3.15	3.15	Tables	
		4.78	4.78	Casegoods	.12
		1.32	1.32	Industrial products	
(Industrial Products Group)	12/12	5.5	5.5	Steel office furniture and custom office products	.04
(except Singer Housing Co., Singer Credit Co., & Singer Company's U.S. retailing operations)	3/28	2.0	2.0*	All domestic product lines (other than exclusions)	1.03
		*(weighted average)			
	*Not to exceed 8%. Supersedes all previously approved increases.				

COMPANY (RANK)	DATE ANNC'D	% INCREASE SOUGHT	% INCREASE APPROVED	PRODUCT LINE	% REVENUE INCREASE FOR FIRM
Standard Oil Company of California (14)	2/1	5.89	5.89	Low sulfur fuel oil sold on long-term contract to Southern Calif. Edison Co.	.09
(Chevron Chemical Co.)	3/2	1.50	1.50*	All domestic products	.11

*Max. increases: 10% for agricultural pesticides; agricultural fertilizers; garden and home products; industrial chemicals; fibers; additives

COMPANY (RANK)	DATE ANNC'D	% INCREASE SOUGHT	% INCREASE APPROVED	PRODUCT LINE	% REVENUE INCREASE FOR FIRM
Standard Oil Company (Indiana) (16) (American Oil Company)	3/2	2.85	2.85*	Fertilizers	.054

Item	Max. increase (%)
Anhydrous ammonia	5.0
Liquid fertilizers	4.5
Dry fertilizers	-0-

COMPANY (RANK)	DATE ANNC'D	% INCREASE SOUGHT	% INCREASE APPROVED	PRODUCT LINE	% REVENUE INCREASE FOR FIRM
	3/28	2.0	2.0*	Specified product lines (below)	.71

*(wtd. av., 3/20/72--3/19/73)

*This approval supersedes all previously granted price increases.

Product line	Max. Increase (%)
Napthas and gasoline (ex. retail and jobber)	8
Diesel fuels	8
Jet fuels	8
Other chemicals and fertilizers[1]	8
LPG	8
Lubricating oils	8
Other refined products	8
Intrastate gas sales	8
Asphalt products[2]	8
Other sales & services & miscellaneous products	8

1. increases fertilizer from previous max. of 4.5% to 8%.
2. includes prior approval of 10.8% for asphalt contracts. Contracts not included in the original approval must be segregated and separate records maintained.

Contracts containing fixed price and/or fixed escalator pricing clauses are restricted to the contract increase. Contracts containing escalator clauses or flexible pricing arrangements are restricted to either the 8% maximum or the cost justifiable increase, and require notification on a PC-1 form and approval of the Price Comm.

COMPANY (RANK)	DATE ANNC'D	% INCREASE SOUGHT	% INCREASE APPROVED	PRODUCT LINE	% REVENUE INCREASE FOR FIRM
Standard Oil Company of Ohio (83) (Old Ben Coal)	12/7	6.71	4.18	Coal	.2
(Vistron Corp)	3/24	2.0	2.0*	Product lines specified below:	.144

Product line	Max. increase
Agricultural chemicals	8%
Acrylonitrile, byproducts, derivatives and catalyst	8%
Fabricated plastics and resins	8%

COMPANY (RANK)	DATE ANNC'D	% INCREASE SOUGHT	% INCREASE APPROVED	PRODUCT LINE	% REVENUE INCREASE FOR FIRM
Sperry-Rand Corp. (59) (Univac Div. Computer Systems Sales, Rentals, & Maintenance (exluding Defense Systems Div.))	1/12	2.6	2.6*	Monthly rental and maintenance	.44

(*Increases limitations: computer sales--no increase
monthly rental--5.0 percent
monthly maint.--7.0 percent

COMPANY (RANK)	DATE ANNC'D	% INCREASE SOUGHT	% INCREASE APPROVED	PRODUCT LINE	% REVENUE INCREASE FOR FIRM
(New Holland Div.)		6.3	5.8*	Farm equipment other than tractors	.32

*Reduced to eliminate ineligible costs.

COMPANY (RANK)	DATE ANNC'D	% INCREASE SOUGHT	% INCREASE APPROVED	PRODUCT LINE	% REVENUE INCREASE FOR FIRM
(Recording & Statistical Div.)	1/18	5.1	5.1	Printing & related services to Western Rate Insurance Co.	.002
(Remington Shaver Div.)	2/4	22.2	7.46*	Remington Lektro blade electric shaver, model LB-24.	.02

*Request adjusted for productivity and volume.

COMPANY (RANK)	DATE ANNC'D	% INCREASE SOUGHT	% INCREASE APPROVED	PRODUCT LINE	% REVENUE INCREASE FOR FIRM
Sperry Rand Corp (con't) (Remington Shaver Div.)	2/4	16.3	4.22*	Remington Lektro blade electric shaver, model LB-26	.02
		*Request reduced for productivity and volume.			
(Office Systems Products & Services Div.)	2/21	9.61	4.24*	Insulated cabinets, electro-mechanical products, & other products.	.09
		*Additional amount requested not cost justified.			
		Product line	Average Increase	Max. Increase	
		Insulated cabinets	3.85	6.00	
		Electro-mechanical prods.	2.47	5.00	
		Customer service	6.00	6.00	
			6.00	6.00	
		Other	4.70	6.00	
(Sperry Rand Systems--Management Div.)	2/23	4.25	4.22*	Engineering services provided by the div. under contract N0024-72C-5095.	.0013
		*Partial approval to reflect actual price increase under contract.			
(Sperry Flight Systems Div.)	3/8	5.6	5.4*	Products & services of the div.	.20
		*Request reduced by the amount of increased overhead attributable to variable costs.			
(Vickers Div.--Tulsa)	3/14	6.0	4.34*	Winches & power transmission devices	.02
		(*Request not cost justified) Average percent increases: winches & speed reducers, 4.0; power take-offs, 4.0; parts, 6.0; special products, 4.0. (No item to exceed 6% for parts, and 10% increase for all other items.			
(Vickers Div.--Aerospace, Ordnance, & Marine Divisions)	3/13	6.0	6.0*	Hydraulic equip. and services	.08
		*(not to exceed 10%)			
(Vickers--Commercial Div.)		5.8	5.57*	Industrial & mobile hydraulic components (specified below:)	.197
		(average increase)			
		5.3	5.3**	Pumps	
		**(not to exceed 10%)			
		5.1	5.1**	Motors	
		**(not to exceed 10%)			
		7.2	7.2**	Valves	
		**(not to exceed 10%)			
		8.0	8.0**	Filters and elements	
		**(not to exceed 10%)			
		5.0	5.0**	Package power units	
		**(not to exceed 6.0%)			
		3.2	3.2**	Package hydrostatic transmission units	
		**(not to exceed 10%)			
TRW, Inc. (68)	12/21	2.32	2.01*	(see below)	.118
(Marlin Rockwell Div.)		4.6	4.6		
(Ross Gear Division)		3.45	2.76*	Steering gears	
(Ucinite Products)		2.85	2.85	Appliance hardware	
(Columbia Fasteners)		3.6	3.6	Snap fastners	
(Carr Fasteners)		2.54	2.22*	Fastner devices	
(Dot Fasteners)		.89	.89	Clothing fastners	
		*Reduced due to computation error.			
(Credit Data Div.)	1/3	2.0	1.8	Credit data service	.013
(Ross Gear Div.)	1/25	.69	.69*	Steering gears, systems, and parts; hydraulic products	.01
		*(correction of previous order)			
(Marlin-Rockwell Div.)	2/14	5.50	5.36*	Ball and roller bearings	.17
		(not to exceed 8%)			
		*Productivity adjustment.			
(Automotive Div.)		4.8	4.68*	Automotive products	
		(weighted average)			
		*Additional increase not cost justified.			

COMPANY (RANK)	DATE ANNC'D	% INCREASE SOUGHT	% INCREASE APPROVED	PRODUCT LINE	% REVENUE INCREASE FOR FIRM
TRW, Inc. (con't.)					

conditions of approval:

product line	wtd. av % inc.	max. % inc.
Engine components--valves, pistons, bearings, cams, and related parts	4.29	8.0
Chassis components--steering gears, ball joints, suspension parts, shock absorbers, and related parts.	4.85	8.0
Miscellaneous components--pumps, hydraulic motors, castings, and related items	5.44	8.0

COMPANY (RANK)	DATE ANNC'D	% INCREASE SOUGHT	% INCREASE APPROVED	PRODUCT LINE	% REVENUE INCREASE FOR FIRM
(United Carr Div.)	3/1	3.3	2.68*	All domestic products	.129

*Productivity adjustment

Subsidiary	max. % inc.
Carr Fasteners	5
Ucinite	5
Dot Fasteners	6
Nelson Stud Welding	7
The Palnut Co.	7
United-Carr Tennesse	6
Advance Tool	7

COMPANY (RANK)	DATE ANNC'D	% INCREASE SOUGHT	% INCREASE APPROVED	PRODUCT LINE	% REVENUE INCREASE FOR FIRM
(Electronic Component Div.)		2.41	2.33*	All domestic products	.212

*Additional request not cost justified.

Product	max % inc.
Capacitator	5
Printed board circuits	5
Misc. electronics	5
Resistors	5
Potentiometers	5
Connectors	6
Wire Cable	6
Transistors	6
Misc. motors	8
Transformers	8
Coils	8

COMPANY (RANK)	DATE ANNC'D	% INCREASE SOUGHT	% INCREASE APPROVED	PRODUCT LINE	% REVENUE INCREASE FOR FIRM
(TRW Equipment Group--Cleveland, Ohio)	3/24	12.0 (average increase)	6.18*	All domestic products	.51

*Additional amount not cost justified.

COMPANY (RANK)	DATE ANNC'D	% INCREASE SOUGHT	% INCREASE APPROVED	PRODUCT LINE	% REVENUE INCREASE FOR FIRM
(Industrial Operation Group)	3/28	4.6 *(weighted average)	4.0*	All domestic products (valves and pumps)	.23

*Not to exceed 4%, except that increases of up to 6 percent above the base price may be effected on items accounting for no more than 10% of the total sales volume of the items or services covered by this order.

COMPANY (RANK)	DATE ANNC'D	% INCREASE SOUGHT	% INCREASE APPROVED	PRODUCT LINE	% REVENUE INCREASE FOR FIRM
Teledyne, Inc. (96)	12/23	2.0	2.0 (1972 average)	All domestic products	2.0
Tenneco Inc. (34) (Walker Mfg. Co.)	3/20	5.82	5.82* *(not to exceed 8%)	Exhaust systems parts	.24
(Tenneco Chemicals Inc)	3/28	2.0	2.0*	All chemical & allied products	.17

*This increase is subject to the limitation that increases up to 6% above the base price may be effected on items accounting for no more than 10.0% of the total sales volume of the items covered by this order. Additionally, this price increase is not applicable to chemicals and allied products produced and on hand for sale prior to March 22, 1972.

COMPANY (RANK)	DATE ANNC'D	% INCREASE SOUGHT	% INCREASE APPROVED	PRODUCT LINE	% REVENUE INCREASE FOR FIRM
Textron, Inc. (66) (Bridgeport Machines)	2/16	5.6	5.4* (not to exceed 10%)	Manufacture of milling machines & milling machines parts	

*Productivity adjustment.

COMPANY (RANK)	DATE ANNC'D	% INCREASE SOUGHT	% INCREASE APPROVED	PRODUCT LINE	% REVENUE INCREASE FOR FIRM
Textron (con't) (Waterbury-Farrell Div)	12/27	2.76 (average)	2.76	Machinery	.08
(Polaris Div.)	1/10	7.3	7.3	Service parts for snowmobiles	.016
(Campbell, Wyant & Cannon Div.--Paramount Die Casting)		4.2	4.2	Zinc die castings	.0046
(Fafnir Bearing Co.)	1/31	5.9	5.0*	Ball bearings, roller bearings, & plain bearings	.30
	*Percentage increase requested reduced because of productivity adjustment. Price increases not to exceed: Super-precision--7.2%; radial and aircraft, Falflon and controls, custom precision, experimental--5.2%; Industrine--4.1%.				
(Camcar Screw & Mfg. Co.)		4.9	4.35*	Screws and other similar manufactured products (wtd.av.)	
		6.8	6.4*	Sems	
		3.7	3.7	Thread-forming screws	
		4.6	4.55*	Raycarl & spec. parts	
		9.2	9.2	Socket head screws	
		4.3	4.3	Standard screws	
	*Percentage increases requested were adjusted to eliminate from the company's request those cost increases incurred prior to June 1, 1971.				
(Bostitch Division)	3/2	5.19	5.11* (not to exceed 10%)	Domestic operations (fabricated metal products and steel fasteners)	.17
	*Productivity adjustment.				
(Hall-Mack Company)	3/7	6.52	4.03*	Bathroom accessories and medicine cabinets (no individual increase of more than 10%)	.22
	*Productivity adjustment.				
Union Carbide Corp (24)	12/23	2.0 (1972 Average)	2.0	All domestic products	2.0
Union Oil Co. of California (57)	3/17	2.0	2.0*	Domestic product lines (specified below:)	.757
	*(wtd. av.,3/1/72--2/28/73.)				
	*The following product lines are included in this approval; each is subject to a maximum percent increase of 8 percent: commercial and industrial gasoline, other distillates (kerosene diesel fuel, turbine fuel, jet fuel, naphtha, etc.), marine fuel (No. 6 and bunker C), other petroleum products (lube oil, grease, asphalt, etc.), chemicals, natural gas (non-regulated LPG intrastate), other products and services.				
Uniroyal, Inc. (Consumer Products Div.)	2/10	4.05	4.05	Conventional domestic waterproof footwear	.0194
(Latex Fiber Industries, Inc.)	2/11	.93	.93* *(not to exceed 3%)	Latex impregnated paper	.004
	3/28	1.44	1.44* *(not to exceed 2%)	Coated fabrics--automotive	.01
US. Industries (94) (Bilt Rite Prods.)	1/3	8.58	8.58	Chicken cages	.015
(Jernberg Forgings Co.)	1/18	7.25	7.25	Forgings	.10
(Strolee of Calif.)	2/8	5.15	5.15	All domestic products	.03
(Mims & Thomas Mfg. Co.)	2/9	7.76	7.76	White pine louvered bi-fold doors	.01
(Excelled Sheepskin & Leather Coat Co.)	2/17	10.11	10.11	Men's & boy's leather coats	.04
(Wyatt Div.)	2/29	4.71	4.71	Galvanized corrugated steel pipe culverts and accessories	.004

COMPANY (RANK)	DATE ANNC'D	% INCREASE SOUGHT	% INCREASE APPROVED	PRODUCT LINE	% REVENUE INCREASE FOR FIRM
U.S. Industries (con't)					
(Thomason Industries)	3/20	11.35	11.35	Wood flush doors	.04
U.S. Plywood-Champion Papers, Inc. (85)					
(Drexel Enterprises)	1/5	2.18	2.18	Household, office, & institutional furniture	.014
(Catawba Plant)		1.94	1.94	Hardboard	less than .00
(Drexel Enterp.--Birmingham Ornamental Iron Company)	1/10	6.36	6.36	Metal furniture and metal access doors	.018
(U.S. Plywood Div.--West Coast Mfg.)		5.9	5.9	Plywood, hardboard, particleboard, veneer, and lumber	.696
(Diversified Products Div.--Del-Mar Unit)		3.0	3.0	Wood kitchen cabinets	.034
	2/22	5.51	3.17	Paper, paperboard, pulp and byproducts	.61
U.S. Steel Co. (12)	12/8	3.6	3.6	Steel mill products	3.0%
(USS Agri-Chemicals	1/10	4.5	4.5	Agricultural chemical products	.111
(USS Homes Div.)	1/18	7.8	7.8	Factory produced housing components	.015
(Universal Atlas Cement)		7.2	7.2	Cement	.14
(Metallurgical Coal)		7.2	7.2	Coal	.01
(American Bridge Div.)		0.2	0.2	Standard products	less than .001
(Oilwell Div.)	1/28	9.6	9.6	Domestic sales of division--manufactured machinery, parts, & supplied	.040
(USS Chemicals Div.)	3/3	2.10 (weighted average)	2.10*	Domestic coal chemicals, industrial chemicals, and plastics	.048

*Range of increases not to exceed 12% for the following products: low-residue creosote, medium residue creosote, all other creosote, coal tar specification pitch, certain benzene products.

(U.S. Steel Products Div.)	3/24	4.32	4.32*	Shipping containers & stampings	.0387

*Range of increase not to exceed 6% for: plastic and stainless steel containers, repaired steel drums, steel stampings.

Warner-Lambert Co. (89)	3/2	2.0 (wtd. av., 3/1/72--2/28/73)	2.0*	Total domestic product line	1.27

Major Product Groupings	Wtd. Av. % In.	Max. % In.
Animal Health Products	3.83	4.5
Biological Products	1.43	7.5
Chemicals	.50	2.5
Confectionery	(1.20)	7.5
Cosmetics & Skin Care Prods.	.92	5.0
Dental Products	2.04	5.0
Diagnostic Reagents	2.03	4.5
Ethical Pharmaceuticals	1.64	9.0
Hospital Supply Products	2.56	7.0
Medical Equipment	1.20	5.0
Optical Products	4.36	9.1
Orthopedic Products	-0-	-0-
Proprietary Pharmaceuticals	3.98	8.7
Safety Products	-0-	-0-
Scientific Instruments	4.10	9.0
Shaving Products	1.00	9.0

Western Electric Co. (10)	11/24	(?)	3.9	For specialized items	2.1
Westinghouse (13)	12/22	2.0	2.0	All domestic products	2.0
Weyerhaeuser Co. (93)	2/18	2.0 (wtd. av. 1/31/72-2/4/73)	2.0*	All domestically manufactured and sold products ex. the real estate operations (Shelter Group)	1.63

*Maximum increase 15%.

COMPANY (RANK)	DATE ANNC'D	% INCREASE SOUGHT	% INCREASE APPROVED	PRODUCT LINE	% REVENUE INCREASE FOR FIRM
Whirlpool Corp. (100)	12/71	3.1	3.1	Household appliances	2.52
W.R. Grace Co. (50) (Joshua R. Meier Div.)	1/3	2.1	2.1	Misc. office equipment	.003
(Joshua Meier Div.)	1/10	2.1	2.1	Binders, desk pads, and misc. office products	.00304
(Leaf Brands)	1/18	2.54	2.54	Easter confections & chewing gum	.006
(DuBois Chemical)	1/26	2.29	2.29	DuBois chemical products	.13
(and domestic sudsi-diaries:)	2/16	2.0 (wtd. av., 2/8/72--2/7/73)	2.0*	All domestic products	2.0

Product line	Max. % Inc.
Industrial chemicals & converted plastics	10.0
Agricultural chemicals	4.5
Consumer products & service group	8.0
Hatco group	4.8
Chemed	5.0
Other activities	3.0

3/10 Citing certain product lines which were operating at a loss, the company requested an exception to the base period profit margin provisions for its line of fertilizers. Noting the fertilizer line was a major portion of the firms Agriculture Chemicals Group, and that the overall product group was operating at a profit, the Board ruled adherence to the regulations did not inflict a gross inequity or hardship.

3/14 Amendment to 2/14/72 Order to change the maximum individual allowable price increases for Agricultural Chemical product lines from 4.5% to 8.0%.

COMPANY (RANK)	DATE ANNC'D	% INCREASE SOUGHT	% INCREASE APPROVED	PRODUCT LINE	% REVENUE INCREASE FOR FIRM
Xerox (60)	1/4	2.22	2.22	Copiers and duplicators	
		.12	.12	Graphic and Micro communications	
		.06	.06	Communications products	
		.67	.67	Supplies	
		.03	.03	Labeling equipment	
					2.48
(Xerox Data Systems Div.)	1/26	.7	.7	Sigma-3 products	.004
		.1'	.1	Balance of Data Systems Div. products	

COMPANY (RANK)	DATE ANNC'D	% INCREASE SOUGHT	% INCREASE APPROVED	PRODUCT LINE	% REVENUE INCREASE FOR FIRM
American Can Co. (53) (Consumer & Service Industries Group)	3/31	.90	.90* *(weighted average)	Paperboard cartons & trays; food wraps; miscellaneous flexible packaging & wraps.	.007

*The effect of this Order, when added to the approval granted January 19, 1972, is to grant a cumulative weighted average price increase by product line in accordance with the following schedule:

Product line	Cumulative Weighted Average	Cumulative Maximum
Paperboard cartons & trays	5.7	6.0
Food wraps	5.4	6.0
Misc. flexible packaging & wraps	8.0	8.0

(Packaging group)		4.3	4.3* *(weighted average)	Rigid metal & composite cans	2.211

*Increases in prices are not to exceed 6.0% for any products within the above product description, with no more than 10.0% of the sales to be above the weighted average.

Atlantic Richfield Co. (29)	3/31	2.0	2.0* *(wtd. av., 3/22/72-3/21/73)	Product lines specified below:	.45

*Increase granted is to be applied in accordance with the following schedule and made a part thereof on a weighted average basis over established base price for the company:

Product line	Maximum % Increase
Gasoline, commercial	8
Kerosene, commercial	8
Diesel fuel	8
Jet fuel	8
Lubricants and motor oil	8
Asphalt	8
Natural gas liquids (NGL)	8
Other products sales	8
Tires, batteries, and accessories	(*)
Other services	8
Natural gas--intrastate	8
Petrochemicals	8
Fertilizer	8
Other agricultural chems.	8

*Tires, batteries and accessories are restricted to customary percentage markup.

Contracts entered into before August 15, 1971, as defined in Section 300.101 of Price Commissions Regulations, containing fix ed price and/or fixed escalator pricing clauses or flexible are restricted to the contract increase. Contracts containing clauses or flexible pricing arrangements are restricted to either the 8 percent maximum or the cost justifiable increase and require notification on a PC-1 Form and approval of the Price Commission.

This approval supercedes all previously granted price increases.

Bendix Corp (75) (Aerospace Group)	3/31	7.57	6.85*	Non-custom parts, commercially negotiated or offered through catalogues, for technologically advanced aviation products for commercial airline, military, and general aviation markets	.35

*No individual product price increase may exceed 6.85 percent. Additional amount of increase requested was not cost justified.

(Fram Corp)		2.11	2.11*	All domestic products of Divisions specified below:	.10

COMPANY (RANK)	DATE ANNC'D	% INCREASE SOUGHT	% INCREASE APPROVED	PRODUCT LINE	% REVENUE INCREASE FOR FIRM
Bendix (con't)					

*Price increase granted is to be applied in the following manner:

Product line	Av. % Inc.	Max. % Inc.
Automotive Division	2.11	5.00
General Products Div.	2.11	6.00
Industrial Division	2.11	6.00

Increases of up to 6% above the base price may be effected on items accounting for no more than 10% of the total sales volume of the items or services covered by this order.

COMPANY (RANK)	DATE ANNC'D	% INCREASE SOUGHT	% INCREASE APPROVED	PRODUCT LINE	% REVENUE INCREASE FOR FIRM
Consolidated Foods (64) (Coastal Foods, Inc.)	4/5	6.17	6.17* *(not to exceed 6.17)	Canned beans and franks	.0068
		7.86	7.86* *(not to exceed 7.86)	Canned pork and beans	.0142
		1.96	1.96*	Canned soups	.003

*Average price increase.

COMPANY (RANK)	DATE ANNC'D	% INCREASE SOUGHT	% INCREASE APPROVED	PRODUCT LINE	% REVENUE INCREASE FOR FIRM
(Shasta Beverages)	3/29	2.70	2.70* *(not to exceed 5%)	Carbonated beverages	.17
Continental Can (46)	3/29	7.87	7.87* *(not to exceed 7.87)	Processing & sale of lumber	.002
		5.25	5.25* *(not to exceed 5.25)	Can-making equipment & parts, container handling equipment & parts, can closing equipment & parts	.018
	3/31	4.22	4.22*	Manufacture & sale of metal and composite containers & bond crowns	1.971

*Increases in prices are not to exceed 6% for any product within the above product description, with no more than 10% of the sales to be above the weighted average.

COMPANY (RANK)	DATE ANNC'D	% INCREASE SOUGHT	% INCREASE APPROVED	PRODUCT LINE	% REVENUE INCREASE FOR FIRM
Continental Oil (31)	4/5	2.0	2.0* *(wtd. av., 4/1/72--3/31/73)	Product lines specified below:	.50

*The increase granted is to be applied in accordance with the following schedule and made a part thereof on a weighted average basis over established base period prices for the company:

Product line	Max. % Inc.
Chemicals	8.0
Intrastate natural gas	8.0
Liquified petroleum prods.	8.0
Gasoline--commercial	8.0
Kerosene and aviation fuel	8.0
Diesel fuel	8.0
Lubes, greases, and waxes	8.0
Asphalt and coke	8.0
Residual-Bunker-C	8.0
Miscellaneous prods. and services	8.0
Other non-petroleum prods.	8.0

This approval supersedes all previously granted price increases.

COMPANY (RANK)	DATE ANNC'D	% INCREASE SOUGHT	% INCREASE APPROVED	PRODUCT LINE	% REVENUE INCREASE FOR FIRM
Firestone Tire and Rubber (38)	3/29	2.0	2.0* *(av., 4/1/72--3/31/73)	Alldomestic operations	2.0

*The percent increase on any one product shall not exceed 8%.

COMPANY (RANK)	DATE ANNC'D	% INCREASE SOUGHT	% INCREASE APPROVED	PRODUCT LINE	% REVENUE INCREASE FOR FIRM
ITT, Corp (8) (ITT Thermotech)	2/11	3.1	3.1* *(not to exceed 10)	Custom molded industrial prods.	.003
International Harvester (32)	4/6	1.06	.41* (weighted average)	Trucks and parts; farm, industrial, and construction equip.	.27

*Reduced due to lack of productivity data. This approval allows a cumulative weighted average 4.40% above base prices, with no more than 10% of the sales to be above the weighted average.

COMPANY (RANK)	DATE ANNC'D	% INCREASE SOUGHT	% INCREASE APPROVED	PRODUCT LINE	% REVENUE INCREASE FOR FIRM
Litton Industries, Inc. (Eureka X-Ray Tube Division)	4/5	4.30	3.71*	X-Ray tubes & accessories	0.0051

* amount requested modified to reflect projected production gain. Maximum is 3.71 for any product.

COMPANY (RANK)	DATE ANNC'D	% INCREASE SOUGHT	% INCREASE APPROVED	PRODUCT LINE	% REVENUE INCREASE FOR FIRM
Litton Systems, Inc. (Jefferson Electric Division)	4/5	3.00	3.00* *(average increase)	Manufacture and sale of ignition transformers	0.00061

*Price increases are not to exceed 3.26 percent for any product in this product line.

COMPANY (RANK)	DATE ANNC'D	% INCREASE SOUGHT	% INCREASE APPROVED	PRODUCT LINE	% REVENUE INCREASE FOR FIRM
Phillips Petroleum Co. (Wall Tube & Metal Products Company)	4/5	6.13	6.13*	Casual outdoor furniture	0.0013

*Price increases on individual items are limited to 8.25 percent above the base price.

COMPANY (RANK)	DATE ANNC'D	% INCREASE SOUGHT	% INCREASE APPROVED	PRODUCT LINE	% REVENUE INCREASE FOR FIRM
RCA Corp.	12/15	6.0	6.0	Receiver tubes	.09
Standard Oil Co. (Ohio)	4/5	2.0 *(wtd av., 4/1/72-3/31/73)	2.0*	Product lines specified below:	0.59

*Increase is to be applied in accordance with the following schedule and made a part thereof on a weighted average basis over established base prices for the company:

Product Line	Maximum % Inc.
Asphalt	8.0
Natural gas liquids	8.0
Intrastate gas	8.0
Aviation gasoline	8.0
Jet fuel	8.0
Commercial gasoline (Fleet)	8.0
Diesel	8.0
Lube oil	8.0
Coke	8.0
Other petroleum products	8.0
Motor inns and restaurants	8.0

Contracts entered into before August 15, 1972, as defined in Section 300.101 of the Price Commission Regulations, containing fixed price and/or fixed escalator pricing clauses are restricted to the contract increase. Contracts containing escalator clauses or flexible pricing arrangements are restricted to either the 8 per cent maximum or the cost justifiable increase and require notification on a PC-1 Form and approval of the Price Commission.

This approval supersedes all previously granted price increases.

COMPANY (RANK)	DATE ANNC'D	% INCREASE SOUGHT	% INCREASE APPROVED	PRODUCT LINE	% REVENUE INCREASE FOR FIRM
Standard Oil (California)	4/5	2.0 (wtd av., 4/1/72-3/31/73)	2.0	Product lines specified below:	0.47

*Increase is to be applied in accordance with the following schedule and made a part thereof on a weighted basis over established base prices for the company:

Product Line	Max. % Inc.
Asphalt	8
Chemical Products	8
Commercial & aviation gasoline	8
Other distillates -naphha, diesel, kerosene	8
Fuel oil (excluding heating oils and fuel oil sales)	8
Natural gas (non-reg.)	8
Natural gas liquids	8
Other sales & services	8
TBA & other misc. products-	restricted to customary percentage mark-up

COMPANY (RANK)	DATE ANNC'D	% INCREASE SOUGHT	% INCREASE APPROVED	PRODUCT LINE	% REVENUE INCREASE FOR FIRM
Texaco (9)	3/31	2.0 (wtd. av., 3/22/72--3/21/73)	2.0*	Product lines below:	.32

*The increase granted is to be applied in accordance with the following schedule and made a part thereof on a weighted average basis over established base prices for the company:

Product line	max. increase, (%)
Aviation fuel	8%
Gasoline (excludes retail and jobber gasoline)	8%
Lubricants and greases	8%
Middle distillates--diesel	8%
Asphalt	8%
Liquefied petroleum products	8%
Fertilizers	8%
Petrochemicals	8%
Waxes	8%
Natural gas--intrastate	8%
Tires, batteries, and accessories	Restricted to customary % mark-up
Other products and services	8%

This approval supercedes all previously granted price increases.

COMPANY (RANK)	DATE ANNC'D	% INCREASE SOUGHT	% INCREASE APPROVED	PRODUCT LINE	% REVENUE INCREASE FOR FIRM
Uniroyal (76)	3/29	4.71 (weighted average)	4.71*	"V" belts	.015

*Individual price increases are limited to 4.71%, except that increases of up to 5.5% above the base price may be effected on items accounting for no more than 10% of the total sales volume of the items or services covered by this order.

COMPANY (RANK)	DATE ANNC'D	% INCREASE SOUGHT	% INCREASE APPROVED	PRODUCT LINE	% REVENUE INCREASE FOR FIRM
(Consumer Products Div)	4/6	5.00	4.13*	Canvas footwear	.22

*The amount of the increase requested was modified as a result of the Price Commission's use of a greater productivity change for this product line. Not to exceed 6% for items accounting for no more than 10% of the total sales.

COMPANY (RANK)	DATE ANNC'D	% INCREASE SOUGHT	% INCREASE APPROVED	PRODUCT LINE	% REVENUE INCREASE FOR FIRM
United Aircraft (Hamilton Standard Div.)	2/4	6.4	5.3*	Commercial and aircraft products and services	less than .00

*Average price increase. Company requested 6.4% increase for military and commercial aircraft products and services; approval was granted only for the commercial portions, representing a 5.3% increase.

BASIC POSTFREEZE, COST INCREASES FOR A FAMILY OF 4 LIVING ON $12,000 IN WESTCHESTER COUNTY, N.Y.

Budget item	Prefreeze monthly cost	Percent increase	Monthly cost now	Annual increase
Rent	$250.00	(1)	$332.13	$985.44
Food	230.00	2.5	235.75	69.00
Telephone	17.00	26.0	21.42	53.04
Utility	15.00	(2) 5.0	15.75	9.00
Health insurance	21.60	16.9	25.25	43.80
Transportation	17.00	90.0	34.00	193.20
Total				1,353.00

1 Base rent increased 30 percent under rent guidelines plus 2.5 percent annual increase.
2 Soon to be increased by 9 percent.

PENN CENTRAL FARE INCREASE

New Haven Line from Mt. Vernon to Port Chester

One-way Ticket

	Columbus Ave.	Pelham	New Rochelle	Larchmont	Mamaroneck	Harrison	Rye	Port Chester	
Mt. Vernon	$ .34 .60 77% $ .75 120%	$ .34 .60 77% $ .75 120%	$ .34 .60 77% $ .75 120%	$ .34 .75 121% $ .90 165%	$ .40 .75 88% $ .90 125%	$ .52 .75 44% $ .90 73%	$ .68 1.00 47% $1.20 76%	$ .77 1.00 30% $1.20 56%	Fare 12/31/71 Fare 1/1/72 % Increase 20% Increase Total % Increase
Columbus Ave.		$ .34 .60 77% $ .75 120%	$ .34 .60 77% $ .75 120%	$ .34 .75 121% $ .90 165%	$ .39 .75 92% $ .90 131%	$ .50 .75 50% $ .90 80%	$ .60 1.00 67% $1.20 100%	$ .74 1.00 35% $1.20 62%	
Pelham			$ .34 .60 77% $ .75 120%	$ .34 .75 121% $ .90 165%	$ .34 .75 121% $ .90 165%	$ .46 .75 63% $ .90 96%	$ .54 1.00 85% $1.20 122%	$ .68 1.00 47% $1.20 75%	
New Rochelle				$ .34 $ .60 77% $ .75 120%	$ .34 $ .60 77% $ .75 120%	$ .38 $ .60 58% $ .75 97%	$ .47 $ .75 60% $ .90 91%	$ .54 $ .75 39% $ .90 67%	
Larchmont					$ .34 $ .60 77% $ .75 120%	$ .34 $ .60 77% $ .75 120%	$ .38 $ .75 97% $ .90 137%	$ .46 $ .75 63% $ .90 96%	
Mamaroneck						$ .34 $ .60 77% $ .75 120%	$ .34 $ .75 121% $ .90 165%	$ .38 $ .75 97% $ .90 97%	
Harrison							$ .34 $ .60 77% $ .75 120%	$ .34 $ .60 77% $ .75 120%	
Rye								$ .34 $ .60 77% $ .75 120%	

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PENN CENTRAL-NEW HAVEN LINE FARE INCREASES

1-WAY TICKETS BETWEEN NEW YORK CITY AND STATIONS IN WESTCHESTER COUNTY

	Fare Dec. 31, 1971	Fare Jan. 1, 1972	Percent increase	20-percent increase	Percent increase over Dec. 31, 1971
Mount Vernon	$0.87	$1.50	72.0	$1.80	107
Columbus Ave	.89	1.50	69.0	1.80	102
Pelham	.94	1.50	60.0	1.80	91
New Rochelle	1.01	1.50	49.0	1.80	78
Larchmont	1.12	1.75	47.0	2.10	80
Mamaroneck	1.20	1.75	46.0	2.10	75
Harrison	1.30	1.75	35.0	2.10	62
Rye	1.41	2.00	43.0	2.30	63
Port Chester	1.49	2.00	34.0	2.30	64

MONTHLY TICKETS BETWEEN NEW YORK CITY AND STATIONS IN WESTCHESTER COUNTY

Mount Vernon	$29.15	$30.00	3.0	$36.00	23
Columbus Ave	30.40	30.00	−1.0	36.00	15
Pelham	31.25	30.00	−4.0	36.00	15
New Rochelle	32.30	30.00	−7.0	36.00	11
Larchmont	33.90	34.00	.3	41.00	21
Mamaroneck	35.20	24.00	−.3	41.00	16
Harrison	36.30	34.00	−7.0	41.00	13
Rye	37.10	37.00	−3.0	44.50	11
Port Chester	37.90	37.00	−2.0	44.50	12

10-TRIP TICKETS BETWEEN NEW YORK CITY AND STATIONS IN WESTCHESTER COUNTY

Mount Vernon	$7.80	$14.50	85.0	$17.00	118
Columbus Ave	8.10	14.50	79.0	17.00	110
Pelham	8.30	14.50	73.0	17.00	105
New Rochelle	8.55	14.50	70.0	17.00	99
Larchmont	8.95	17.00	90.0	19.00	112
Momaroneck	9.30	17.00	83.0	19.00	104
Harrison	10.05	17.00	69.0	19.00	89
Rye	10.35	18.50	79.0	20.75	100
Port Chester	10.70	18.50	73.0	20.75	94

Representative REID. Let me say at the outset, I would appreciate it if my prepared statement could be included in the record and I will try and just paraphrase very briefly a few of the points.

Chairman PROXMIRE. Without objection, it will be placed at the end of your oral remarks.

Representative REID. First, let me say that the action of the Federal Price Commission relative to the New York Telephone Co. was not an arms length transaction. In my judgment, it was in violation of the guidelines and certainly not consistent with the spirit of the Economic Stabilization Act.

The Chairman of the Federal Price Commission has just testified that the proceedings were normal and essentially procedural in the contract between the Federal Price Commission and the New York Telephone Co. I find, however, to the contrary, and I believe you will see it in the affidavit that there are three points that stand in opposition to Mr. Grayson's testimony.

One, the affidavit of Hervy Froehlich, who is Executive Assistant in the Federal Relations Department.

Chairman PROXMIRE. Is this in your prepared statement?

Representative REID. No, this part is not.

Chairman PROXMIRE. The affidavit?

Representative REID. The affidavit has been supplied in the telephone brief to which I referred a moment ago. Mr. Chairman, Mr. Froehlich points out on January 19, 1972, a meeting was held with

Mr. Edgar Skinner, the Chief of Public Utilities and Regulated Industries section, division 80 of the Price Commission, which has responsibility for public utility rates, and other members of the staff—Price Commission—"to explain the background of the January 17, 1972, order, and the telephone company's urgent need for higher rates to meet the burgeoning demand for telephone service in New York."

In other words, it was not a procedural conversation, it was a substantive one that dealt with the merits of the case before the Commission.

Second, according to Mr. Froehlich, on January 21, 1972, "Mr. Skinner informed me that the Price Commission has made a policy determination that utility rate increases which the regulatory commission having jurisdiction had decided to approve before January 17, 1972, would be subject to the November 17, 1971, rule."

In other words, the telephone company was apprised privately, when Members of Congress who were inquiring on this matter were not so apprised and the public was not so apprised, that the phone company would have the advantage of filing under the old lax regulations rather than new regulations, which were much stricter. Again, not an arm's length proceeding.

Finally, the affidavit points out, "Mr. Skinner also told me that the staff considered the case and recommended that the Price Commission take no action, take no action to prevent the increase from becoming and remaining effective."

Very clearly, therefore, there were certain decisions made privately by the Price Commission and communicated privately to the party to the pending cases. There were no hearings; there were no adversary proceedings; and there was no opportunity for the public to be represented. And, in my judgment Congress was not fully or fairly informed as to what was going on.

Finally on the subject of the phone company, let me note that on March 30, after nearly 3 months of backing and filling, the Price Commission blandly announced it was permitting the New York Telephone Co. to implement an increase of 7.16 percent. In fact, it was an increase of 26 percent. Further, it was very clear that the Federal Price Commission failed to consider the full $350 million increase. It is not correct that the entire amount was held in escrow, because the Price Commission only considered only the smaller portion, the $160 million, and ignored $190 million. Under New York State law, neither could become final until the final action of the State and of the Federal Price Commission. Clearly, I believe that the Federal Price Commission did not proceed properly in this case.

Thank you.

(The prepared statement of Representative Reid follows:)

Prepared Statement of Hon. Ogden R. Reid

Mr. Chairman, I am indeed grateful for this opportunity to discuss with this distinguished committee the progress of the Administration's anti-inflation program and most particularly, the operation of a key part of that program—the Federal Price Commission.

Over the past few days, we have been deluged with theoretical discussions of the mechanics and goals of the programs, discussions larded with references to such arcane subjects as weighted averages, customary initial percentage mark ups, base rents, term-limit pricing; debates as to whether to control more or less; and so on *ad infinitum*. We have been dazzled with regulations and counter-regulations, criteria and procedures. All this makes for interesting theoretical—perhaps better, theological—discussion. But it cannot hide a simple fact that almost any American could express in simple words: Phase II isn't working.

I have been intimately involved with the Price Commission over the past four months in three key areas: utilities, rents and transportation. Based upon that experience, I believe that I can tell you what is wrong in very simple words.

In my opinion, the main reason that the Price Commission has failed is that it has totally ignored the most important factor in the battle against inflation, the consumer. Take the areas with which I have the greatest familiarity, rents and utilities. You can search the regulations in these areas endlessly and find no reference to the consumer. They display a considerable knowledge of, and solicitude for, the problems of the landlord and the corporation, but not one word about the man who has to foot the bill, the average wage earner or small businessman.

The Price Commission has demonstrated no understanding of what its policies are doing to the average American and no concern for his welfare. The complex formulas by which it computes allowable increases in prices may sound fair, but their effect is devastatingly unfair to the individual.

Let's look at the record. Over the past four months we have compiled evidence that thousands—perhaps tens of thousands—of tenants in the New York and New Jersey area have suffered rent increases of up to 20 to 30 per cent under the Commission's rent regulations. In some individual cases there are indications of increases over 100 per cent. We have presented this evidence to the Commission and urged that it take a look at its regulations and do something to protect the average man. The Commission has ignored our pleas and ignored the terrible burden it is placing upon the consumer, many of who are senior citizens living on fixed incomes and unable to pay the increases. The Commission has rejected our evidence—literally hundreds of typical cases—on the grounds that it isn't enough, yet it has apparently refused to use the services of the Internal Revenue Service to develop a more comprehensive picture. I say apparently because Commission representatives have at various times told us that they were going to make such a survey, that they had made such a survey and that they would make such a survey. I have no idea what the truth of the matter is, but the fact as far as the public is concerned is that no such survey has ever been released.

I am submitting for this committee's records a copy of our brief to the Price Commission laying out the sad record of its failure in the area of rents and our recent testimony at the Commission's belated rent hearings.

In the area of transportation we have compiled evidence that fare increases permitted for the New Haven Line of the Penn Central Railroad are imposing fare increases of up to 121 per cent upon commuters. An additional increase now pending will raise some fares by as much as 165 per cent over pre-Phase II levels. I am submitting for this committee's records copies of the charts that show beyond question the unfair and discriminatory effect of these increases. These same charts were made available to the Price Commission which rejected our plea for restraint because a state regulatory agency had approved the increases.

Perhaps the most shocking example of the Price Commission's bias towards economic giants and its total indifference to the problems of the consumer, is the New York Telephone Company Case.

On March 30, after nearly three months of backing and filling the Price Commission blandly announced that it was permitting the New York Telephone Company to implement an increase of 7.16 per cent. This disingenuous announcement concealed one of the most extraordinarily inflationary and discriminatory increases ever granted, even by the Price Commission.

In the first place, the increase they approved actually averaged 26 per cent throughout the state. They reached their 7.16 figure by first ignoring $190 million of the total $350.6 million increase that was approved. They did this on the pretext that $190 million had been approved before the freeze was implemented, totally ignoring state law to the contrary.

The remaining $160.6 million which they approved still averaged out to 9 per cent, for the consumer, but they reduced it by averaging it out over the company's total operations, even those not affected by the increase.

Now, an increase averaging 26 per cent in such an essential service as telephones would be serious enough, and would call into question the sincerity of the Price Commission's efforts to combat inflation. But that was by no means the limit of the damage that was done.

When the case was first brought to the attention of the Price Commission in January, we conducted a survey thorughout the State to determine exactly what the impact of the increase would be on the consumer. I am furnishing this committee with the results of that survey, just as I furnished it to the Price Commission on January 28th. You will see that increases for many consumers range as high as 41.2 per cent for certain popular services and that, in one case, the installation of business extensions, the increase is actually 150 per cent.

In order to demonstrate for you the true inflationary impact of the Price Commission's operations I have constructed a model. It is based upon a family of four, living in one of the low-cost housing developments in the area of New Rochelle, New York, with the husband commuting to a $12,000 a year job in New York City. The figures in this model are neither the highest nor the lowest possible. They fall within the general range of average New Yorkers experience.

You will note that as a result of the legal Price increases permitted by the Price Commission, this family's annual expenses have risen by $1,200 in less than four months. In fact, since the statistics upon which the model is based end with the latest available figures they do not take into account the recent sharp increases in food process and are probably quite conservative.

Assuming that this family gets the maximum wage increase permitted under present guidelines, the most their income could rise in 1972 would be 5.5 per cent or $660, leaving them with a short fall of nearly $600.

In short, while approving generous increases for the economic giant, the Price Commission has mandated what amounts to a 5 per cent cut for a struggling middle income family.

The situation is even worse for low income families and is disastrous for senior citizens living on fixed incomes.

These are not isolated incidents. They are part of a philosophic flaw that mars the entire fabric of the Price Commission as it is presently constituted.

Working within the limitations of a busy Congressional staff, we have prepared some analyses that futher indicate that grave bias of the Price Commission and its blindness to the needs of the average man.

In one typical month, the month of February, the Price Commission approved 367 increases over the guidelines and they averaged 132 per cent over the guidelines. In the same period, the Pay Board permitted only 56 wage increases averaging only 54 percent over their guidelines. Furthermore the Price Commission's approvals affected primarily products that are marketed nationally, so that every consumer felt the bite, while only one-third of the Pay Board's approvals affected more than 1000 workers.

The Price Commission has protested that this statistic is unfair. They say that if you average out the increases, that is, apply them to the corporations total earnings, they all fall within the guidelines. I say that is just the problem. The consumer can't average out the expense. If bread goes up 9.9 per cent in Spokane Washington, that is what the consumer has to pay. It does not help him to know that the increase will only raise ITT's earnings by .77 per cent.

To view our typical month from another point of view, 90 per cent of the individual increases approved by the Price Commission were in excess of guidelines while 70 per cent of the Wage Board approvals were within wage guidelines.

Another study prepared by my staff shows that 85 of the nation's 100 largest corporations have been permitted increases which range as high as 33 per cent for individual products. One company, ITT, has gotten 62 separate price increases affecting a broad range of consumer goods from bread, frozen foods and ice cream to home building, household appliances and hotel rooms. Admittedly, ITT has gotten a disproportionate share of increases, about three times as many as any other company, if you disregard the separate product listing of American Standard, but the picture is nontheless clear.

Wage-Price policy is failing because there is not just one policy, there are two. A policy of stringent restraint for the average wage earner and small businessman and a separate, more generous policy for the economic giant.

Congress must step in.

It must set firm, fair standards and require that they be enforced for all.

It must break up the cozy relationship that now exists between the regulator and the regulated, with *ex parte* communications between the Commission and big business from which the consumer is excluded.

It must establish fair hearing and appeal procedures to which the average man has access, even as big business and big labor do now.

Finally, it must require that the Commission conduct its own surveys and make them public, and not rely upon the doubtful expertise of state agencies and voluntary compliance of business.

The arguments about whether to control more or to start decontrol, whether to draft new regulations, whether to limit percentage increases, are pointless until we start applying what controls we have fairly and firmly.

Thank you.

Chairman PROXMIRE. Congressman Reid, this is an exceptional statement, extraordinary, how you accomplished all of this work. I am very impressed. When we had hearings, we were the only committee that really had continuous hearings on this. Four days after the President announced his economic program, we started our hearings and we had 15 days of hearings. The Congress was in recess. I know of no one who has made this kind of independent and comprehensive, impressive study that you have. It is really a great public service.

Representative REID. I thank you. I am very indebted to my staff. We have worked very hard on it.

Chairman PROXMIRE. The staff and you deserve a great commendation for your energy and effort.

As far as the utility, I wanted to deal with some of the others, but as far as the utility part is concerned, we are just confronted here with a clear contradiction. The other witnesses were not sworn; I understand we have no basis for a perjury charge, although it does seem to be a situation where somebody is not telling the truth.

Mr. Slawson, not Mr. Froehlich—Mr. Slawson, I mean not the counsel you referred to, Mr. Skinner—but Mr. Slawson testified this morning that he made the phone call at the same time, the same day that this was announced publicly. That seems to be in direct contradiction to your testimony that Mr. Skinner had made a private call to inform Mr. Froehlich.

Representative REID. Well, my information is based on two things, Mr. Chairman. One is an affidavit which you have, which was filed in Federal court and is the explicit statement of the New York Telephone Co., and I have no reason to doubt its authenticity.

The second is that I was not apprised, nor so far as I know was anyone on my staff, that some of these decisions had been taken and relayed to the phone company. Personally, on the record, there are obvious errors in some of the testimony I heard this morning. First of all, the Federal Price Commission did not consider the full amount, which is $350 million. They only considered $160 million. There is no question of that. That is a clear matter of fact and the Commission explicitly acknowledged it in their own announcement.

Second, they did not roll the whole thing back temporarily. They did nothing about the $190 million. Furthermore, for about 20 days they did not do anything and people had to pay the regular rates.

Beyond this, in my judgment, there is no excuse for their having permitted the phone company to file under the old regulations rather than the new regulations; this is a matter we are planning to take to Federal court, and the court will have an opportunity to make a judgment.

But leaving aside the credibility of the Commission, it is equally clear that there was no adversary proceedings, there were no hearings on the merits. The hearings of 4 days that were referred to by the previous witness were to consider the general problems of utilities, but the Commission specifically asked witnesses not to deal with any particular case. So there wasn't an adversary situation.

Chairman PROXMIRE. Precisely the point I tried to make. The hearings we had in mind were hearings on specific price increases. As you say, they did not deal with that.

I was astonished, and we were unable to elicit, as you know, from Mr. Grayson, what the percentage increase was. And you say a 26-percent increase?

Representative REID. That is correct. We have provided you with figures.

Chairman PROXMIRE. Can you give me the figures, from what to what?

Representative REID. It is an average of 26 percent across the State of New York and then there are a series of averages, which we have that we supplied the committee ranging in some areas as high as 40 percent. The increase in the Albany area, on the order of 41.2 percent for a popular service. Even more outrageous, installation of business extensions is up 150 percent. We checked all these charges. We got the figures from the New York State Public Service Commission and we worked them out.

Leaving aside all the other irregularities, there is one other incredible fact. The Commission's decision was reached within 3 days of receiving the filing from the New York State Public Service Commission. The New York State Public Service Commission filing did not give any actual information on the increases. They had not yet been worked out. In fact, we had to go to the staff to work with them and get the figures after the Price Commission had apparently decided. When we did that, we sent them over to the Commission. They told us, informally, that they had not intended to look at the matter any deeper initially. If they had stuck to that decision, it would have meant that action would not have been taken on the whole range of utilities.

The reason we were concerned about the phone company was not just its impact on New York. It will set a pattern for the Nation that would cost the American Consumer between $1.5 billion and $2 billion annually if other phones went up in the same magnitude.

Chairman PROXMIRE. I think your testimony this morning, the point you made, is just a brilliant demonstration of one of the things that is wrong when we spoke in generalities in questioning Mr. Grayson. When you do not have adversary proceedings, there is no chance for the consumer's case to be presented. There is no chance for the public to formulate a view, whether it is right or wrong. They may have made some very good decisions, but there is no way the public can be appraised of these unless hearings are reported, public and open.

Let me say our model family, the charts on basic postfreeze cost increases for a family of four living on $12,000 is a real eye opener. You show—in spite of all of the talk about food—you show here, Westchester County, which is certainly a wealthy county, but at the same time, I would think these figures would apply to any other county in the country, that the increase for food was only 2.5 percent, telephone increased 26 percent, and transportation 90 percent.

Representative REID. That is correct.

Chairman PROXMIRE. Now, I think that these figures—this is the kind of thing the Price Commission should be dealing with, letting us know about.

Representative REID. We have sent all of these figures to the Price Commission. We have answered every question of their staff, and there is no question but what the consumer is being clobbered right straight across the board.

Chairman PROXMIRE. That was my next question.

Representative REID. We have sent them everything and further—

Chairman PROXMIRE. Let me just say, we will follow up by asking for the comments from this committee.

Representative REID. Might I make two other comments on this point? One, on the face of it, the Federal Price Commission, in my judgment, acted improperly in making a tentative decision about a very complicated phone rate case in 3 days. There is no way you can analyze all of the figures, I know of, in 3 days.

Second, the commission has indicated to us both privately and to some extent in Q and A, when I appeared before them on the subject, that they do not have the facility or the capacity to look behind State regulatory bodies. The question that we tried to make here today is if they do not have the figures, how can they be sure the policy is correct and don't they have an obligation to get the figures?

Chairman PROXMIRE. Do you have evidence at all there was any intervention by the White House or any agents of the White House?

Representative REID. I have no personal knowledge of that.

Chairman PROXMIRE. Could you explain how rent is controlled? Do the regulations present increases as large as 40 or 50 percent even where there has been no capital improvements?

Representative REID. I appeared before the Rent Commission the other day, chaired by former Congressman Tom Curtis——

Chairman PROXMIRE. He was the former ranking member of this committee.

Representative REID. Specifically, the commission now is operating on a base rent formula for rents that are to be renegotiated for a period longer than 1 month. On this basis, essentially, if you live in an apartment building and one apartment in that building, during a period 3 months previous to price increases had any kind of increase in rent, that is the base on which you would have to look if your rent is being renegotiated tomorrow. So they take—we say a 50 percent figure, which is what that apartment went up, and they add 2.5 percent in maintenance and taxes. We have documented cases across the State of New York.

Point of clarification. I said one apartment would be the basis for the increase. We will say 50 percent if that is what that apartment went up in the 3-month period before the freeze. If there are two, it would be an average of the two. But what we find is the rent did go up quite substantially in this period before the freeze. The one that is 75 percent is Mr. Herbert Robinson, 32 East 57th Street. The old rent, $114; new rent, $200. The increase is 75 percent. We have cross-checked this also against some of Senator Case's figures and Senator Javits' figures. There is no question the formula is inequitable on the face. And Tom Curtis is clear that this is the effect of the formula. What he is not clear about is how many people are being affected and I tried to make the point whether it is 100, a thousand or a billion, the formula should be changed.

Chairman PROXMIRE. Congressman Conable.

Representative CONABLE. Thank you. I would like to welcome my colleague and fellow New Yorker.

Representative REID. Thank you. It is good to be with you.

Representative CONABLE. Mr. Reid, I am sorry to say I am not terrible familiar with this rate case because my area is served largely by an independent company. How long has it been in process before the PSC?

Representative REID. We have provided the committee with a chronology. It started February 16, 1971. We have 20 or 30 entries here.

Representative CONABLE. It is an adversary proceeding before the Public Service Commission, is it not? There are opportunities for people to appear in public hearings?

Representative REID. Well, I think that is subject to some definition. I have talked with Mr. Skinner about this. He feels he has put in, and the Commission, put in a great deal of time. The problem is that they did not look totally at the questions of productivity, in my judgment, or some of the intercorporate relationships. And I think, as a matter of equity, we have got to look at this, because, among other things, the New York Phone Co. is taking out of the State of New York more than 40 percent more in profits than they earn. This is going to Ma Bell. I do not think the New York State PSC looked hard enough at these figures. And in any event, the full amount, in my judgment, should have been reviewed by the Federal Price Commission, not the $160 million.

Representative CONABLE. Would you take a position that all rate cases should be reviewed by the Price Commission as a matter of course? There is a very great difference in rating organizations, of course.

Representative REID. I would not try to prejudge that question, but I would be explicit with regard to the phone company, which is virtually a monopoly situation. And when the New York Phone Co. does it, it sets a pattern for over 80 percent of the telephone users, really, or more, across the country. If this is a $1.5- to $2-billion increase, it is many times the guidelines. If it has clear national impact, then it seems to me that the Federal Price Commission does have an obligation to look at and look at it seriously. If the figures they received are not adequate, they have a responsibility to look behind them.

Representative CONABLE. Am I correct in saying your position is the return for the New York Telephone is much higher than other units in the Bell System?

Representative REID. No, that is not my position. I am saying this increase will set a pattern for the consumer.

Representative CONABLE. Regardless of the level of return on investment?

Representative REID. It will set a pattern, obviously, in terms of the consumer here. When you get into the rates of investment, when you talk about the strength of their bonds, that becomes another question. But my argument very simply is that the increase was too large, that appropriate procedures were not followed, and the senior citizen, the average person, cannot afford an increase ten times the guidelines.

Representative CONABLE. Obviously, an increase does not happen in a vacuum. It starts from a point and goes to a point. Would it be your position the New York Telephone Co.'s situation was comparable to that of all other units in the Bell System and that therefore an increase there becomes a pattern for similar increases elsewhere, regardless of what the rate of return was in the various units?

Representative REID. I believe the former Chairman of A.T. & T. has recently announced a program to seek a rate of return throughout the system of at least 9 percent, a very considerable increase for most companies. Whenever you talk about the cost of doing business in New York, it is somewhat higher for reasons we are familiar with, including the problems in New York City.

Representative CONABLE. Yes, but you don't know generally what their return has been in New York in relation to other units. That is a major element in considering whether or not this is a precedent-setting thing.

Representative REID. Absolutely.

Representative CONABLE. And, of course, there are all of the other companies subject to different rate control organizations, also. What is the major dynamic in the rent increase? Is that local taxes or cost of construction? Which is the most major?

Representative REID. I think the major increment here is the shortage of housing. It is pretty clear in the Northeast, it is relatively few percent. There is some argument about what the New York City vacancy rate is, but one figure is one-tenth of 1 percent. That means when you have vacancy decontrol and a shortage of apartments, there is a tendency to have a very sharp rise.

I estimate, and I think Tom Curtis agrees with this general illustrative figure, we are talking probably about 30 percent of the leased are for more than 1 month. Therefore, they are subject to these kinds of pressures, and the pattern that we have picked up, whether it is Miami, or New Jersey, or other areas of the country, indicate a pattern between about 15 percent and as high, as I said, of 75. I would guess the rent increases average between 20 and 30, but they are a good deal higher than the guidelines.

Representative CONABLE. With the major increase coming in areas of the housing shortage?

Representative REID. Correct.

Representative CONABLE. Then there are some regional bases of controlling rents? Hasn't that been the basic rationale of the rent control apparatus in some areas, controls are not necessary?

Representative REID. Well, I think there have been different views as to whether you should have decontrol in the first place. What are the equities to the landlord and what are the equities to the consumer. But my point is, rather than argue about the figure or the precise causes, that we should not have a formula at the Federal level that is inequitable on its face; and secondly, clearly one that violates the guidelines; and third, one the consumer can in no way pay. I would like for you to read the letters we have gotten from senior citizens. They do not know how on earth to pay a rent increase.

Representative CONABLE. I receive letters sometimes, too.

Representative REID. I know you receive a large volume, but perhaps I have received one or two more, because we have been in this area. But there isn't any answer to the senior citizen on this, except to change the formula.

Representative CONABLE. One last thing. I am sorry I don't know this answer. Have you been involved in the rate problem here before in your area?

Representative REID. Yes.

Representative CONABLE. And did you involve yourself in the State PSC hearings as well?

Representative REID. Yes, since the beginning.

Representative CONABLE. With respect to this particular increase, did you or did you not get involved only after the Federal Government's performance was an issue?

Representative REID. No, we had gotten involved before.

Representative CONABLE. I see.

That is all.

Chairman PROXMIRE. Congressman Reid, thank you very much. You have done a public service in coming before the committee and giving us this information. It is extraordinary that a Member of Congress and his staff would put this kind of detailed documentation together. We need it very badly. Thank you.

Representative REID. Thank you very much.

Chairman PROXMIRE. The committee will stand in recess until tomorrow morning, at which time we will hear George Bolt, Chairman of the Pay Board; William Gullander, president of the Managers Association; and the Honorable Clarence Long, Congressman from Maryland.

(Whereupon, at 12:20 p.m., the committee recessed, to reconvene at 10 a.m., Wednesday, April 12, 1972.)

REVIEW OF PHASE II OF THE NEW ECONOMIC PROGRAM

WEDNESDAY, APRIL 19, 1972

CONGRESS OF THE UNITED STATES,
JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The committee met, pursuant to recess, at 10 a.m., in room 1202, New Senate Office Building, Hon. William Proxmire (chairman of the committee) presiding.

Present: Senators Proxmire, Javits, and Percy; and Representative Brown.

Also present: John R. Stark, executive director; Loughlin F. McHugh, senior economist; John R. Karlik, Richard F. Kaufman, and Courtenay M. Slater, economists; Lucy A. Falcone and Jerry J. Jasinowski, research economists; George D. Krumbhaar, Jr., and Walter B. Laessig, minority counsels; and Leslie J. Bander, minority economist.

OPENING STATEMENT OF CHAIRMAN PROXMIRE

Chairman PROXMIRE. The committee will come to order.

Our first witness this morning is the Chairman of the Pay Board, Judge Boldt.

Judge, we are glad to see you. You and I have become old friends here. We say some kind of tough things. You are used to that from me, so I don't think that will bother you any. You are a decent and good man. You try hard and try to live by the Golden Rule. Morally you are one in a hundred. I say one in a hundred and I mean that as a high compliment. But in my view, those are your only qualifications for Chairman of the Pay Board.

Let's assume there are 100 million adults in this country. If one in a hundred are in the top moral category, what does that mean? It means that there are about 1 million others who are as well qualified to be head of the Pay Board as you are.

We also have labor arbitrators in this country, with a training in the kind of decisions the Pay Board is making, and hundreds of others with highly relevant qualifications.

But it wasn't just your lack of significant qualifications that put me off, but your performance in the 2 months after you were appointed. That was before we acted on your nomination. I won't repeat the arguments I made when I opposed your nomination.

As I pointed out, even the nonlabor members of your Board called the delays and confusions a fiasco. In spite of all this, you won confirmation. I made these arguments against you in the Banking Committee of which I am ranking member, and in which I lost. In the Senate I received one vote, my own. I lost and you won. I was convinced I was right and you were the wrong man for the job until last night. Now I understand my mistake. It takes me a long time to understand things.

The last time we had a staff discussion on this hearing, Mrs. Slater called my attention to the administration's prime tactic of slowing inflation. That tactic explains your appointment.

I had assumed that what the administration wanted was a board that would act fast and provide a prompt end to inflationary wage increases, one that would hold prompt hearings and get machinery and controls in effect fast. I thought speed was the name of the game. The administration was smarter. They didn't want speed, they wanted delay.

As Donald Rumsfeld said, and this was called to my attention, they wanted delay. The idea was to take your time, sit back, slow down, relax, the slower you go and the longer you take for decision, the longer it will be before wage increases are put into effect, the surer we are that we will have inflation slowed down. It was brilliant.

How could I have missed it? If you want a slowdown in anything, where do you go? I can't think of a better place to go than the American court system. There are some slow motion experts in this country, but, undoubtedly, the judges are the champions. Even a speedy Federal judge can take several days to gavel his court to order. The backlog is not days or weeks, but years. Delay is the name of the game. So the administration found their man in you, Judge, and now I see why I lost.

In your prepared statement this morning, Judge, you give a long catalog of actions the Board has taken, presumably to show action and no delay. Of course, the only really significant action the Board can take is to decide on proposed wage increases, not adopted policies. In fairness, you do cite a number of pay decisions you have made.

But the key to this is your prepared statement, where you confess: "Sample cases waiting completion show a substantial number of requests for more than 5.5 percent. This suggests that there may be upward pressure on the average of increases granted."

What does this mean? It means that you have put off the tough cases, the cases that would be likely to push up wages and prices. You have delayed, you have stalled. In fact, I hereby charge, Judge, that delay is a calculated, planned, deliberate tactic of this administration with respect to the Pay Board.

I mentioned Mr. Rumsfeld, the Executive Director of the Cost of Living Council, the administration's principal chief in this area. He said delay is the name of the game of the Pay Board. Delay may temporarily be an effective anti-inflation tool, but it is difficult to imagine a more unjust approach. It is unjust to all workers, particularly the little guy.

As a rule of thumb, the smaller, weaker, less organized you are, the more the program hurts.

Suppose a small employer wants to give his employees a wage increase which deviates in some way from the Pay Board regulations. What must he do? First, file a request for exemption, not with the Pay Board but with the Internal Revenue Service. The Internal

Revenue Service does not have many specialists in wages. Furthermore, the IRS has authority only to deny requests, not to approve them. The request is judged by the IRS on merit and can only be forwarded to the Pay Board staff.

The steps are many and the time is long before these requests even reach you on the Pay Board. Further steps are again many and time consuming after they get there. The chances of favorable action are small, especially for those who do not know their way around Washington, who cannot afford to hire special legal help.

Unlike many Senators, I have always tried to make it clear that I recognize excessive wage increases as an important cause of inflation. Just last week I went before an important group in the AFL–CIO and told them that the slogan "control prices, not wages" doesn't make any sense. You can't have an 8- or 10-percent increase without having inflation. But controls that function by delay, that pick on the little guy, that fall most heavily on the poor are intolerable.

Labor members of the Pay Board obviously found the situation intolerable. It is hard to fault their reason. It is hard to see how the program can possibly work without labor cooperation.

There is just one other point, Judge. We are very concerned about trying to get statements on time. You have a fine prepared statement, a very detailed prepared statement. Obviously, it took a lot of work to put it together. It is very impressive. But I didn't get that prepared statement until this morning. I know the difficulties of even obtaining your testimony are symptomatic, I feel, of why workers become frustrated with the Pay Board.

Again, delay, delay, delay. The committee requested the testimony arrive at noon yesterday. Under the Reorganization Act you are required by law to file your prepared statement 48 hours in advance. We wanted it so we could study it and properly question you. We were then informed that it would be sent to us at 4 p.m. At about 6 p.m., one member of my staff called and said no one could come to the phone because everybody was on the fifth floor preparing the prepared statement. About 6:30, we were told no one could come to the phone because everyone had gone home.

My staff was calling to determine exactly when the testimony would arrive, even during the night, so they could begin analyzing it. It is unfortunate that the prepared statement was late and very puzzling that your staff could not tell us when it would arrive.

It drove home to me how delay has become a tactic. As I said to begin with, Judge, you are a very good man, a very decent man. At the very beginning, when I heard about your qualifications, I was very much opposed and I have continued to be. But I have been won over from the standpoint of the kind of fine, decent person you are.

My opposition certainly cannot be classified as being based on anything except what I think represents a lack of qualifications for this job.

Let me say just one other thing. We do have timers here, as you see. You have been informed about that. Your oral statement will be limited to 15 minutes. There will be a warning buzzer and you will have 2 minutes left. Your entire prepared statement will be printed in full in the record.

STATEMENT OF HON. GEORGE H. BOLDT, CHAIRMAN OF THE PAY BOARD, ACCOMPANIED BY MILLARD CASS, ADMINISTRATIVE DIRECTOR; JACK McGREGOR, GENERAL COUNSEL; ROBERT TIERNAN, EXECUTIVE DIRECTOR; AND DAN MITCHELL, DIRECTOR OF ECONOMIC ANALYSIS

Judge BOLDT. Senator, first, I want to say that the good Lord provided me with a disposition not to hold a grievence. I never have been able to, even though at times I decided I ought. So, insofar as the past is concerned, the past is the past.

Chairman PROXMIRE. Bless you. That is another reason why, as I say, you are one in a hundred.

Judge BOLDT. It isn't any tribute to me. It is just that I was made that way.

The other thing that I must say is that my colleagues on the Pay Board, and particularly those who have departed from our midst, would be amused, I think, to hear you suggest that I, personally, have ever been a party to delay in any manner, shape, or form. Indeed, they have often criticized me for pushing too hard and too fast.

Another thing I want to say is that there is one Federal judge, and I still am a Federal judge, who does not fall into the category of being a delayer. Indeed, if you were to interrogate some of the members of the bar of the various courts that I have presided over throughout the United States, you would find quite to the contrary, that I have never been an exponent of delay. Indeed, I think I am one of the outstanding exponents of removing and eliminating delay. So that is a tender subject with me, but I don't feel any grievance about it because I think you have not inquired in the right places concerning at least one Federal judge, concerning his attitude toward delay.

I think delay in the courts is outrageous, and it is something that should be removed to the utmost extent possible. Had I not taken my present position, I would like to have been in a position of doing something about that, as I have been doing for 19 years.

Finally with respect to the delay in your receiving our prepared statement. I apologize for that and assume responsibility for it in this way: in that I directed our staff, particularly under the guidance of Mr. Millard Cass, our administrative director, that they should make this report to you as truthful, as complete, and up to this date as possible. Perhaps I overimpressed them with the necessity of data up to now. I thought that was what you wanted.

I am sorry that in the gathering of this material, which, as you have already observed, must have taken a very considerable time, there was some delay.

If you would like to inquire further about it, Mr. Cass is here.

Chairman PROXMIRE. I know you are a judge and you have asserted this many times, that you believe in complying fully with the law. The law is explicit and it requires you to submit your prepared statement 24 hours in advance.

Judge BOLDT. Well, I accept responsibility for it and plead nolo contendere, as it were, and offer my apologies and most sincerely.

I have a short oral statement I would like to make in addition to the more lengthy prepared statement that has been filed with the committee.

In developing our policies and procedures we have endeavored to make the maximum contribution toward stemming the terrible tide of inflation which was responsible for the economic stabilization program created both by the Congress and the President.

We have taken very seriously the mandate of the Congress in the Economic Stabilization Act Amendments of 1971 and have promptly revised our policies and regulations to put those mandates into effect.

Here, again, I was constantly pressing forward to have this done at the earliest possible time. The changes ranged from setting new standards for the retroactive payment of wage increases frozen during phase I to the establishment of a considerable series of exceptions and exclusions, some of which are made necessary by reason of the amendments to the act.

We have also been mindful of the need to secure the public support and confidence through fairness and openness in our decisions.

Since it was reconstituted less than a month ago, the Board, without interruption or delay, has continued operation as an all-public body. While we prefer the tripartitism, we can and shall carry out our responsibilities under the economic stabilization program without hesitation or impairment of efficiency.

Our goal is to reduce inflation to between 2 and 3 percent by the end of the year, and we intend to do our utmost to reach that goal.

The Pay Board now has most of its staff aboard, and I believe it is an effective operation. For a vast and complex task of national proportions, we are a very small organization, and we are discharging our duties with the least possible number of persons, less than 180 employees, for this vast project.

It is our aim to be as efficient as possible, but not to expand into a bureaucracy. When all is said and done, the entire economic stabilization program depends upon the confidence and support of the American people. We feel the best way to obtain and keep the confidence of the public is to proceed firmly and fairly.

We also feel that the public will have more faith in our actions if we are open and candid. Therefore, we are making what we do public. We are holding open hearings whenever the cases involved are of sufficient significance to be of public interest. So far, several public hearings have been held in significant cases and another such hearing is scheduled in the next few days.

We are also scheduling public hearings on the proposed recodification of all our regulations. We have recently published proposed regulations for comment by interested persons before they are finally adopted.

We have made the minutes of our meetings public and we have promptly announced all decisions reached by the Board. We have nothing to hide and we hide nothing. Of course, if any trade secrets or restricted financial data are supplied to us by the parties and they request they be kept secret, we shall not reveal them.

However, the parties will have to demonstrate that in fact there is a need for such confidentiality for we believe that public business should be transacted openly.

The Board has now ruled upon all of the major policy questions which are likely to come before the Board, and as of today all implementing regulations have been published in the Federal Register.

In January 1972, the Pay Board delegated to the Chairman and staff the authority to rule on certain types of pay adjustments and the board has established a cases and appeals panel. This panel has met several times and has rendered a substantial number of significant decisions. In general, after the widely publicized increases in the first 3 months of the program, the weighted average of increases granted fell because large numbers of cases within our guidelines were completed by the staff.

The result was a cumulative average for completed category 1 and 2 cases of 4.3 percent through April 7. However, a sample of cases awaiting completion shows a substantial number of requests for more than 5.5 percent. This suggests that there may be upward pressure on the average of increases granted. There have been relatively few cases which were granted increases in the 5.5 to 7 percent exceptions range.

But the profile of pending cases suggests that proportionately more exceptions up to 7 percent may be granted in the near future. There was a dramatic effect on the Board's total caseload when it delegated authority to the Chairman and the staff to decide a wide range of cases; 1,882 category III cases were referred to the Internal Revenue Service for action pursuant to the Board's delegation of authority to IRS to rule on these exception requests.

By April 7, the number of cases decided was 1,328, leaving 1,321 cases now in progress.

There has been a continuing decline in the input-output differential as permanent staffing and increasing expertise permit more expeditious processing of cases. Although the number of cases still pending is approximately 1,300, analysis of the input-output differential curve indicates that great progress is being made in the elimination of these pending cases.

An analysis of all cases received by the Pay Board through April 7 reveals approximately three-fourths of the cases handled have been in the industry-business group. The remainder were in cases involving public education, health services, nonunion construction, and State and local government.

Our weighted average approvals up to this time show the Board has been living within its standards. There have been big increases in some individual cases involving special circumstances but, on average, approvals for category I, which is more than 5,000 employees, and II, over 1,000 employees, have been 4.3 percent for the period November 14 to April 7. These approvals covered more than 6 million workers.

We expect to achieve our objectives and hold the growth of unit labor costs within a 2- to 3-percent range this year since productivity will be rising above 3 percent. We believe that the Price Commission will keep prices in line with unit labor cost.

We are aware that the Bureau of Labor Statistics index of hourly earnings rose at an annual rate of 9.2 percent over the period of November 1971 to March 1972. However, 48 percent of that increase occurred in November–December when deferred increases held up during the freeze were put into effect.

The preliminary figures from the Bureau of National Affairs indicate a slowing of the rate of increase in collective bargaining settlements. The median cents-per-hour increase reported by BNA in all industries except construction was 23.1 cents during the first quarter of 1972. A year ago it was 28.6 cents and during the fourth quarter of 1971 it was 29.9 cents.

Voluntary compliance with the wage stabilization program has been excellent. Judging from the lack of complaints and conversations with persons around the country, both labor and business are aware of the general Pay Board standards and of their obligation to submit wages in excess of the standard for approval before payment.

The resignation of four labor members has as yet had no noticeable effect on the degree of voluntary compliance, and we hope it will not impair the excellent cooperation we have had from the workers and their unions.

Only one phase II wage violation case has been brought to trial in court as of this date. Additional cases raising questions of possible violations are under investigation and, where violations exist, actions will be filed if compliance cannot otherwise be achieved.

In the case of willful violations, penalties may be sought even if an adjustment of the violation is made. Three lawsuits are pending against the Chairman of the Pay Board and the Board. Two involve the Board's decision pertaining to the aerospace industry, and the third involves our decision in the west coast longshore case.

This, gentlemen of the committee, completes my oral statement and I hope and believe that it has given you the highlights of the matters involved in our more lengthy prepared statement.

(The prepared statement of Judge Boldt follows:)

Prepared Statement of Hon. George H. Boldt

INTRODUCTION

I welcome this opportunity to appear once more before the Joint Economic Committee. So much has happened since I was here last November that I would like to report to you and the American people on what we have done and what we anticipate in the months ahead.

In developing our policies and procedures, we have endeavored to make the maximum contribution toward stemming the terrible tide of inflation which was responsible for the Economic Stabilization Program created by the Congress and the President. We have taken very seriously the mandates of the Congress in the Economic Stabilization Act Amendments of 1971. We have also been mindful of the need to ensure public support and confidence through fairness and openness in our decisions.

The Pay Board was, as you all know, a tripartite body. There were many reasons why this format was utilized. One of these was the value of having labor and business represented on the body which makes decisions regarding wages. Another reason was the expressed preference of the Trade Union Movement for this kind of structure. I do not want to rehash the circumstances surrounding the resignation of the four Labor members. I only want to emphasize that having them on the Board was very valuable to us and to the working people of the Nation. I, therefore, regret their absence.

Since it was reconstituted last month, the Board has continued operation as an all-public body. While we prefer tripartitism, we can and shall carry out our responsibilities under the Economic Stabilization Program without interruption or impairment of efficiency.

The Pay Board has most of its staff now, and I believe its operation is effective. We are a very small organization and are discharging our duties with the least possible number of persons (less than 180 employees). It is our aim to be as efficient as possible but not to build up any bureaucracy. A chart showing the organization of the Board staff is attached (Appendix A).

When all is said and done, the entire Economic Stabilization Program depends upon the confidence and support of the American people. This is as true of the wage aspects of the program as it is of the price aspects.

We feel the best way to obtain and keep the confidence of the public is to proceed courageously and fairly. We also feel that the public will have more faith in our actions if we are open and candid. Therefore, we are making what we do public. We are holding open hearings whenever the cases involved are of sufficient significance to be of public interest. So far, public hearings have been held with regard to five cases, and a sixth such hearing is scheduled shortly. We are also scheduling public hearings on the proposed recodification of all of our regulations. We have recently published proposed regulations for comment by interested persons before they are finally adopted. We have made the minutes of our meetings public, and we have promptly announced all decisions reached by the Board. We have nothing to hide, and we hide nothing. Of course, if any trade secrets or restricted financial data are supplied to us by parties, and they request that these be kept secret, we shall not reveal them. However, the parties will have to demonstrate the need for such confidentiality, for we believe that public business should be transacted openly.

POLICY AND CASE DECISIONS

Agreement has been reached on all of the major policy areas which must come before the Board. A summary history of the Pay Board is attached (Appendix B). Thus, the Board has:

Issued regulations containing general wage and salary guidelines.

Delegated authority to the Secretary of the Treasury (Internal Revenue Service) to enforce our regulations.

Delegated authority to the Construction Industry Stabilization Committee to carry out the Board's policies in dealing with the construction industry.

Defined various terms and concepts contained in our regulations and procedures.

Delegated to the Internal Revenue Service authority to process challenges to pay adjustments by parties at interest and to rule on most requests for retroactive pay.

Adopted regulations for the administration of executive compensation and related forms of variable compensation.

Announced criteria permitting exceptions to the general wage and salary standard.

Allowed cost of living adjustments to be calculated as a time-weighted annual average increase.

Issued forms for reporting by Category I and II employers and made them available through local Service and Compliance Centers of the Internal Revenue Service.

Established procedures for handling challenges to deferred pay increases.

Approved rules permitting retroactive payment of increases due during Phase I and defined procedures for retroactive payments.

Delegated to the Chairman of the Pay Board authority to approve Category I pay adjustments within the Board's guidelines and to approve or deny requests for exceptions up to 7 percent in Category II and Category III.

Ruled that pay increases required by the Federal Minimum Wage Law are not subject to the Board's standard during the wage year in which granted.

Announced, jointly with the Construction Industry Stabilization Committee, procedures which will be used by the CISC in carrying out Pay Board policies.

Revised our policy on merit and salary administration plans to make it more equitable.

Required prenotification of deferred increases of more than 7 per cent affecting more than 1,000 workers.

Excluded wage increases in conjunction with employee incentive programs related to employee productivity.

Defined which portions of certain fringe benefits may be excluded from "wages and salaries" under the guidelines.

Conformed its regulations to Federal agencies' wage determination statutes.

Excluded playoff and exhibition earnings of professional athletes from its guidelines.

Extended the expiration date for "catch-up" exceptions to its basic guidelines to June 30, 1972.

We have also decided major cases involving the soft coal industry; the Railroad Signalmen; the aerospace industry; the United Transportation Union; State employees in Ohio; and West Coast longshoremen.

All of these actions were taken before the four Labor Members resigned and the Board was reconstituted. In the course of these and other actions, there were 54 votes taken on major issues by the Board. Of these, 28 were unanimous. In 36 instances Labor voted with the majority; thirteen times Labor was in the minority!

The newly-reconstituted all-public Board has met and continued to carry out the duties vested in it by Executive Order 11660. In two meeting days, the reconstituted Board has:

Released a list of 74 deferred increase contracts that were challenged by the Pay Board.

"Cleaned up" the few outstanding issues with respect to the regulations: computation of exempted fringe benefits; calculation of exceptions pursuant to historical wage differentials based on Federal Agency wage determinations; appropriate control year for newly organized employee units; when allowable retroactive wage increases should be included in the base for calculation of future increases; definition of qualified merit plans and calculation of wage and salary increases pursuant to merit plans.

Considered its relationship to the Construction Industry Stabilization Committee and directed publishing of Amended Pay Board Order No. 2.

Extended the period within which retroactive wage increases could be challenged by Board members.

Adopted a policy with respect to handling of applications for wage increases of non-union employees in the construction industry.

An open hearing on the East and Gulf Coast longshore contract will be held on May 2, 1972.

DELEGATIONS TO CHAIRMAN AND PANEL

In January 1972, the Pay Board delegated to the Chairman and staff the authority to rule on certain types of pay adjustments. These include requests for Category I increases within the general guidelines, all Category II cases, and Category III appeals from Internal Revenue Service decisions. However, there remained other areas in which only the Board had the authority to rule—namely: Category I cases in which the requested increase exceeds Board standards, and challenges to deferred increases under contracts or pay practices which existed prior to November 14, 1971. The Board also desired to provide a final level of appeal from decisions by the Pay Board Chairman and staff.

Consequently, on March 1 the Board created a Cases and Appeals Panel, composed of one member from each of the Board's three sectors. This Panel was authorized to rule on most cases of original and appellate jurisdiction; its decisions becoming final 14 days after issuance, unless during that period members of the Board directed that the full Board review the case. This Panel met on March 29 and 30 and on April 6, and issued decisions in a number of significant cases.

Among them were disapprovals of a 9.3 percent pay raise for Milwaukee policemen and an 11.77 percent increase for Libbey-Owens-Ford employees in Toledo; approval of increases for McDonnell-Douglas employees in St. Louis, California and Oklahoma (8.5 percent) and for commercial service employees in New York City (12.4 percent); approval of a 16.9 percent increase for 38,000 telephone workers in New York; approval of State-mandated minimum pay increases for Ohio teachers and school employees; approval of increases for non-union McDonnel-Douglas employees; and approval of a 14.36 percent increase in wage and fringe benefits for telephone workers in Rochester, New York. The Pay Board agreed to review the Panel's decision on the New York Telephone workers' contract settlement.

Our transformation from a tripartite to an all-public Board suggested certain modifications of the Panel operation. Therefore, on April 13, the Board directed that after considering a case, the Panel issue a recommendation as to disposition, and forward this recommendation to the Chairman of the Board. The Chairman is empowered to accept this recommendation and issue an appropriate Pay Board decision. Alternatively, he may forward the case to the full Board for further consideration. If he does issue a decision, it is final when issued. This procedure permits prompt disposition of major cases and still ensures that decisions issued as a result of Panel activities reflect the views of the Pay Board members.

The Panel also considers every request for review of a Pay Board staff decision, no matter how few employees are involved in the case.

When required, written and oral presentations involving legal and economic analysis are made to the Panel by the staff. When appropriate, parties at interest are invited to present their positions to the Panel as well.

ECONOMIC ANALYSIS OF PAY BOARD DECISIONS

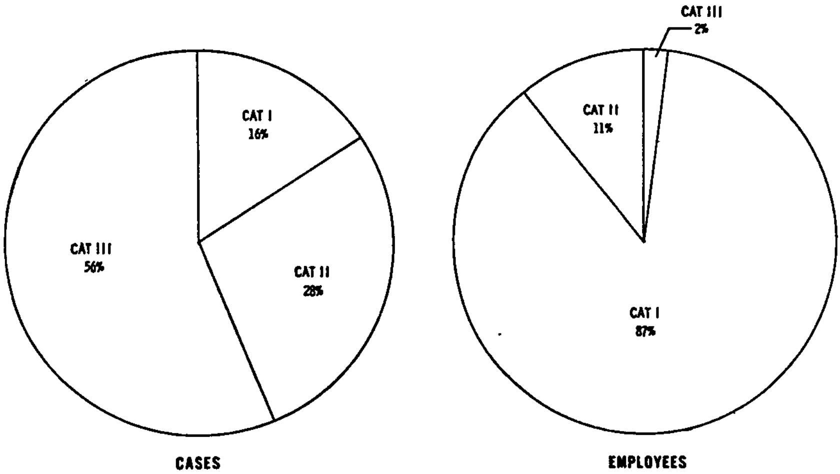
From the beginning of the Stabilization Program through April 7, 1972, the Pay Board has completed and made decisions in 1,328 cases affecting more than 6 million employees.[1] The statistics cited below are based on a computer file of

[1] An estimated 300 thousand of these workers were involved in more than one case. This usually occurred when an employee unit was granted retroactive increases, originally due during the freeze, and subsequently returned for approval of increases due during Phase II.

cases in our data processing system. Since not all completed cases have been inserted into the computer file and fully classified, the statistics are only generally comparable to figures in our weekly releases which reflect a cumulation of weekly calculations.

CHART A

DISTRIBUTION OF COMPLETED CASES BY CATEGORY [1]



[1] Category I employee units have 5,000 or more workers and also include non-union construction situations.
Category II employee units have 1,000 to 4,999 workers.
Category III employee units have less than 1,000 workers.

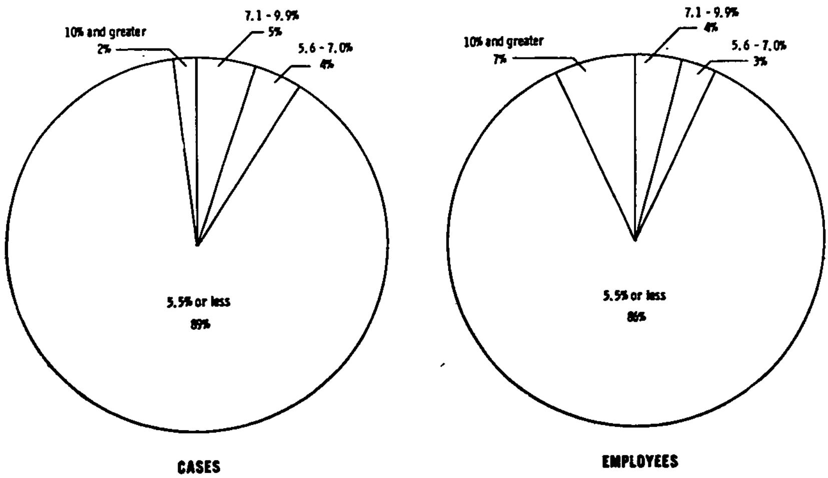
The distribution of completed cases by category is shown in Chart A. Category I employee units, each with 5,000 or more workers, are required to prenotify wage increases, and account for the vast majority of all employees affected by Pay Board decisions to date.

Employee units with less than 1,000 workers (Category III) accounted for over half of the cases completed through April 7. This figure exaggerates the proportion of time that has been and will be spent on smaller firms by the Pay Board for several reasons.

According to the original regulation only small firms seeking wage increases greater than 5.5 percent need have applied to the Pay Board. In fact some small firms seeking increases within guidelines did apply, and consequently some of those firms are reflected in the case figures. Applications within guidelines by Category III firms are now returned with an appropriate note and are not counted in totals of completed cases. The distribution of completed cases in Chart A does not fully reflect the March 10 delegation of authority to IRS for Category III cases. As a result, the share of total completed cases since November 14 represented by Category III cases acted on by the Pay Board should drop steadily.

CHART B

DISTRIBUTION OF COMPLETED CASES BY RATE OF INCREASE GRANTED [1/]



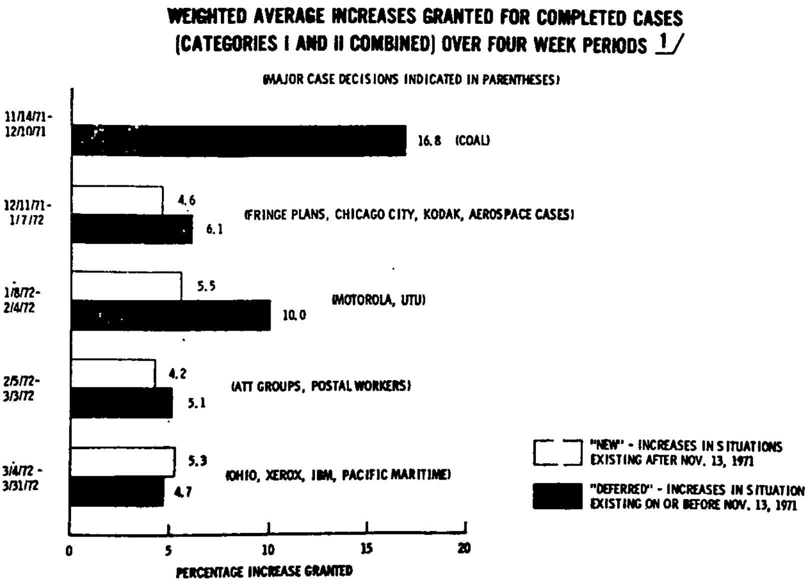
1/ Includes for Category I & II cases only increases going into effect after Nov. 13, 1971.

Chart B shows the distribution of completed cases by rate of increase granted. The distributions do not include cases for retroactive increases and hence show results only for wage increases going into effect after the Pay Board control year which began on November 14, 1971. Our published statistics on average approvals have continued to show a weighted average of approvals which is below 5.5 percent. This is reflected by the Chart in the great preponderance of approvals on both a case and employee basis at 5.5 percent or less. Within the group of cases of approvals at 5.5 percent or less, the average of approvals (weighted by the number of employees affected) was 3.6 percent, but the median was about 4.7 percent. This disparity between average and median reflects the influence of fractional fringe increases to large groups of telephone workers.

Approvals above 5.5 percent can be allowed up to 7 percent under established criteria for exceptions. Relatively few cases and employees have received increases within this exceptions range. The major factor in terms of number of employees affected within this range was the 7 percent allowed to employees of the State of Ohio, on an original request for 10.6 percent.

As for approvals above 7 percent, the major factor in approvals between 7.1 and 9.9 percent was the aerospace settlements entered at 8.3 percent. Disparity between the proportion of cases and of employees is greatest for approvals at 10 percent or greater. This is due to a few cases affecting relatively large numbers of workers in coal, the UTU settlement, and West Coast longshore.

CHART C



1/ EXCLUDES RETROACTIVE INCREASES

The average increases granted by the Pay Board over four-week periods are depicted in Chart C. Key cases are indicated in parentheses. Cases where the Board was directly involved were coal, aerospace cases, United Transportation Union, Ohio, and Pacific Maritime. Cases decided by the Board received considerable publicity, although their relative importance in terms of number of employees directly affected varied depending on the number of employees affected in more routine decisions by delegated authority. Thus in the first four-week period of the program (from November 14 to December 10, 1971) the 16.8 percent decision for Bituminous Coal was virtually the only action taken. In the second four-week period, the 8.3 percent decisions in aerospace cases were offset to some extent by routine approvals such as the City of Chicago.

In the period from January 8 to February 4, 1972, reports of wage increases by Category II firms begin to appear in the statistics. The major deferred increase decision in this period was the 10 percent approved for the United Transportation Union. The number of employees affected by Pay Board decisions increased substantially during the fourth period, February 5 to March 3, 1972. As suggested by the relatively low weighted average increase figures, most of the increases approved during this period were within guidelines. The average of approvals for increases in contracts and pay practices coming into existence after November 13, 1971, moved up substantially in the last four-week period reported on the chart, March 4 to March 31, 1972. The major factors in this increase are the granting of exception increases of 7 percent to more than 56 thousand State employees in Ohio and of 14.9 percent to over 13 thousand West Coast Longshoremen. The statistics shown in Chart C should be considered preliminary and hence it is not possible to draw firm conclusions from the pattern shown. There does seem to be some tendency for the average increase requested and approved under contracts existing on or before November 13, 1971, to exceed the average increase requested in new situations. This suggests that companies, when setting up new practices, exercise some restraint in anticipation of review by the Pay Board.

In general, after the widely publicized increases in the first three months of the program, the weighted average of increases granted fell because large numbers of cases within guidelines were completed by staff. A sample of cases awaiting completion shows a substantial number of requests for more than 5.5 percent.

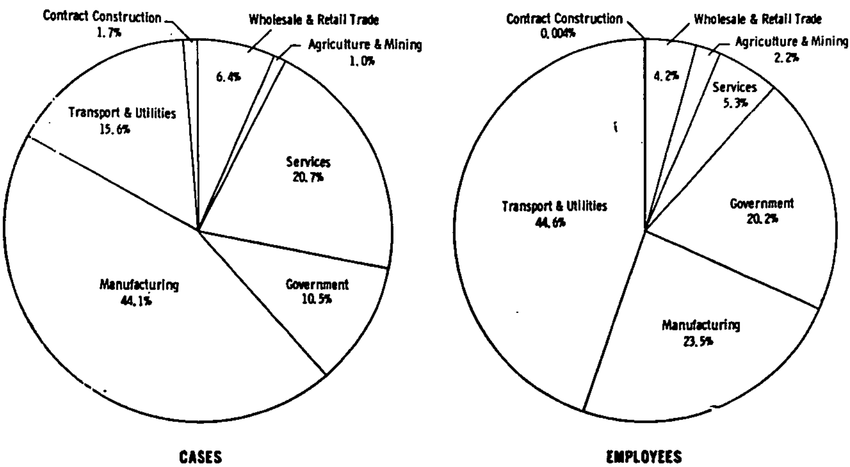
This suggests that there may be upward pressure on the average of increases granted. There have been relatively few cases which were granted increases in the exceptions range (5.6 to 7.0 percent) as indicated in Chart B, but the profile of pending cases suggests that proportionally more exceptions up to 7 percent may be granted in the near future.

The distribution of completed cases by basic industry groups is shown in Chart D in terms of number of cases and number of employees. The results are for Category I and II cases combined. Of course, the distribution of employment will not even approximate the distribution by industry of employees nationwide. First, in the short time of operation to date, the industry composition of Pay Board cases is heavily influenced by the timing of pay practices. Secondly, even if Pay Board records covered a full payment cycle, for any industry the percentage of employees who appear in Pay Board cases will vary directly with the incidence of employee units of a thousand or more workers. Since the delegation of authority for Category III cases to IRS, the Pay Board will, with few exceptions, deal only with employee units in excess of a thousand workers.

The Bituminous Coal case accounts for virtually all Pay Board action in agriculture and mining. In construction, the Pay Board has handled decisions in several nonunion situations (treated under Category I procedures of prenotification) but the impact in employment has been negligible because of the very small size of the units applying. Almost half of Category I and II completed cases are in manufacturing, but they represent less than one-quarter of the employees affected. This relatively low employee impact per case is due to a large number of Category II-size employee units in manufacturing.

CHART D

COMPLETED CASES BY INDUSTRY 1/

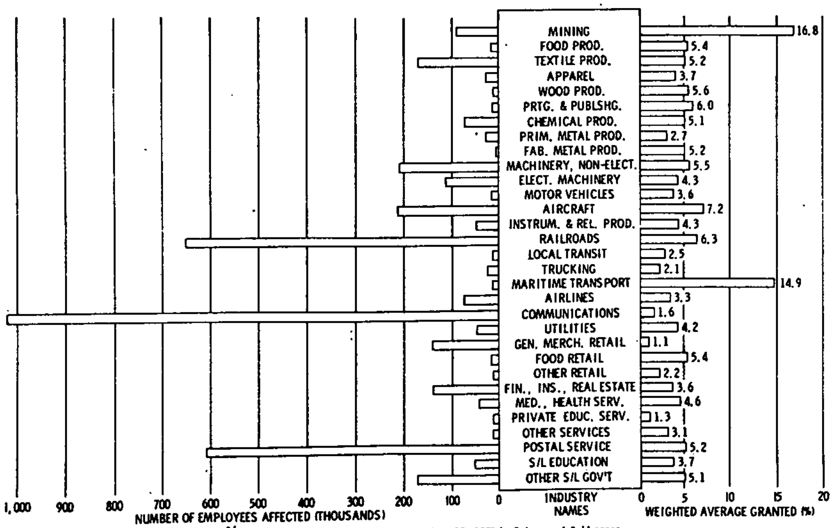


1/ Includes all cases in Categories I & II for increases after November 13, 1971

In transportation and utilities, the number of employees per case is higher than for any of the other sectors shown in Chart D. This high impact is due to a large concentration of workers in very large nationwide railroad bargaining units and a large bargaining unit for a case in telephone as well as large nonunion unit submissions by AT&T. As would be expected, the chart indicates relatively low employee impact per case in trade and services. In Government one very large case of Postal workers is the major factor in a high average of employees per case. All other sectors of the Federal Government are exempt from obligations to report to the Pay Board.

CHART E

COMPLETED CASES BY INDUSTRY 1/



1/ Includes all increases effective after Nov. 13, 1971 in Category I & II cases. Industries where the total of employees in all completed cases is less than 5,000 are not shown.

In Chart E, the weighted average increase granted and number of employees affected is shown by industries (at approximately the two digit level). For the purpose of simplification, industries where the total of employees affected in all cases was less than 5,000 are omitted from the chart. As noted, cases of retroactive increases are not included in the statistics.

The 16.8 average increase in mining reflects exclusively the coal settlement. Similarly, the Pacific Maritime Association is the only case in maritime transportation. The third highest average increase, shown on the chart, occurs for the aircraft industries, influenced by the decision to allow 8.3 percent for aerospace companies which originally requested 12.2 percent.

In railroads, the approval of 10 percent for UTU and approvals of just under 5 percent in deferred increases for other large railroad union groups averages out to 6.3 percent for over 650 thousand workers during the control year beginning November 14, 1971. The very low average of increases granted for over one million workers in communications is due largely to health plan improvements of .7 percent for a large union unit at AT&T.

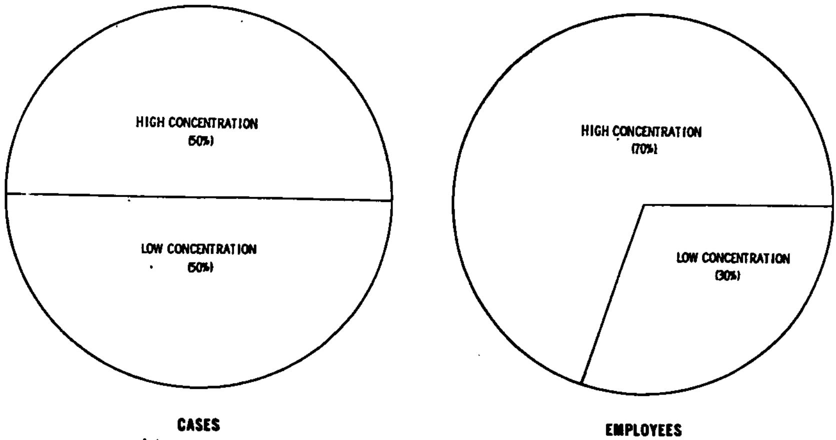
An analysis of Pay Board decisions by industry can be made to determine whether the stabilization program is having an impact on sectors with concentrated market power and administered prices.

Chart F shows that about half of completed cases in Categories I and II for manufacturing were from industries which could be characterized as highly concentrated, that is, the top four firms accounted for over 50 percent of shipments according to 1967 census data. However, in terms of employment, 70 percent of employees affected by Pay Board cases were from industries with over 50 percent concentration in the top four firms.[2] This difference in distribution of cases and employees affected makes sense if it is true that industries with relatively high concentration tend to have larger sized employee units. A review of the BLS wage calendar shows that in the union sector at least there is a significantly larger number of workers per situation in concentrated industries than in unconcentrated industries.

[2] Concentration ratios are only available at the 4-digit SIC level. We characterized our industry groups, which correspond roughly to the two-digit level and the BLS wage calendar, in terms of high or low concentration by determining whether most of the 4-digit sectors within each of our groups showed more or less than 50 percent of shipments originating in the top four firms according to 1967 census data. Where concentration characteristics were mixed, we designated our case group high or low in concentration based on the 4-digit product line of the companies in the leading cases.

CHART F

DISTRIBUTION OF COMPLETED CASES IN MANUFACTURING BY ECONOMIC CONCENTRATION 1/



1/ Based on Category I & II cases of increases going into effect after November 13, 1971 and on Census data on economic concentration in 1967

Chart F raises some interesting points about the current and future impact of the program. If completed cases from two regulated industries sectors, railroads and communications, are added to the group of cases already designated as having come from concentrated industries, the percentage of *employees* affected by cases from concentrated industries jumps up to almost 90 percent. However, the percentage of *cases* from concentrated industries increases only slightly. The difference in the change affected is due to the very large number of workers represented by a small number of cases in the railroad and telephone sectors.

All this suggests that an analysis of numbers of cases handled does not adequately reflect the impact of the Pay Board on cost-push inflation. Even if it is assumed that the same amount of time was spent on cases for small employee units as on cases for very large units, it does not follow that the effectiveness of the Pay Board in stopping cost-push inflation is hampered by having to spend time on cases for small employee units. In industries where there is commonly cost-push inflation arising out of bargaining between concentrated labor and business groups, the employee units are likely to be large and hence the impact in controlling cost-push inflation of time spent on one case is likely to be large.

In brief, it is administratively easier to deal with cases from industries where cost-push inflation originates, since the employee units are likely to be large and hence one case analyst can have a large impact in stabilizing wages.

Although the investigatory costs per employee in the sectors often cited as wage leaders are lower than in other sectors, it does not follow that Pay Board resources should be shifted from moderate-sized cases to handle the very large situations. The returns from adding substantial numbers of analysts on a single case, large or small, fall rapidly. Hence, we feel that our allocation of staff between different types of cases is about right. A relatively small group of analysts can handle the leading cases. To make sure the pattern set is adopted elsewhere, the remaining staff handles the "followers." The smaller cases, those in Category III, are handled largely by the IRS, and, if the suggestion of the Board's public members is followed, the very small cases will be exempted.

ANALYSIS OF PAY BOARD OPERATIONS

Through April 17, 1972, the Pay Board had received a total of 4,504 cases. Of these, 1,882 Category III cases were referred to the Internal Revenue Service for action pursuant to the Board's delegation of authority to the IRS to rule on Category III exception requests. By April 7, the number of cases decided was 1,328, leaving 1,321 cases in process. Chart G illustrates the dramatic effect on the Board's total caseload of its delegation of authority to the IRS and the sharp increase in cases decided following the January 20, 1972, delegation of authority to the Chairman to decide Category I requests within guidelines and Category II and III exception requests.

CHART G

PAY BOARD CASE LOAD

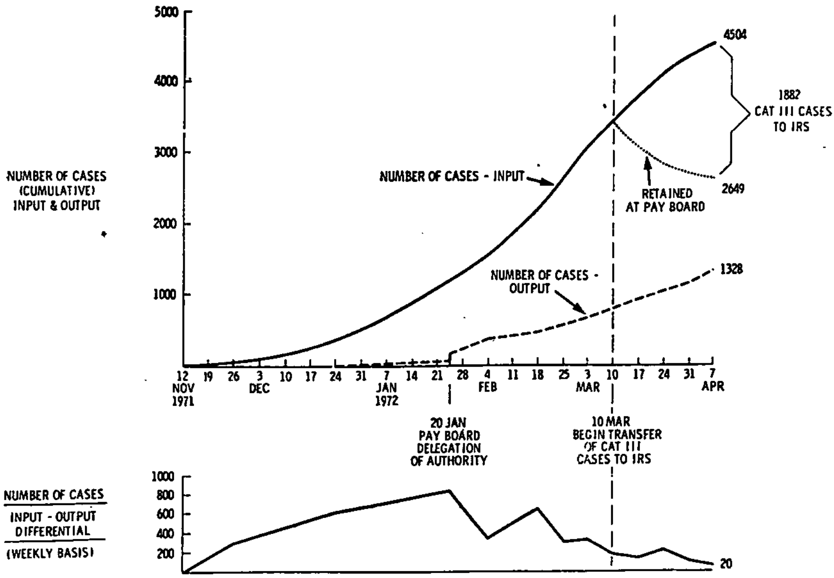


Chart G also shows a continuing decline in the input/ouput differential, as permanent staffing and increasing expertise permit more expeditious processing of cases. Although the number of cases still pending is approximately 1,300, analysis of the input/ouptut differential curve on Chart G indicates that great progress is being made in the elimination of these pending cases. Chart H contrasts in more detail the input and output curves for each of the three categories of cases.

Of the approximately 1,300 cases in process on April 7, 20.9% were pending receipt of additional written information, In 88% of all cases, Pay Board staff had contacted the applicant in writing or orally for information concerning the case (Chart I).

CHART H

PAY BOARD ACTION ON CATEGORY I, II AND III CASES

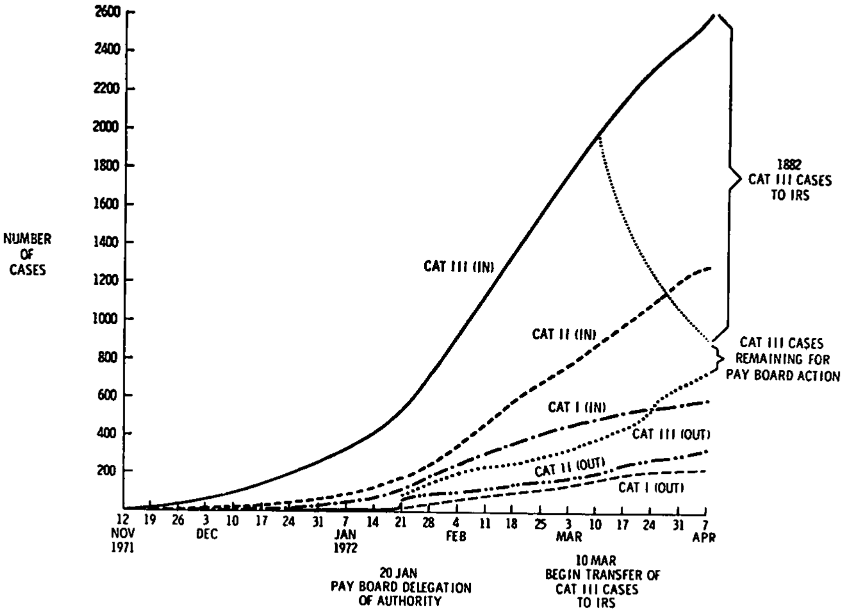
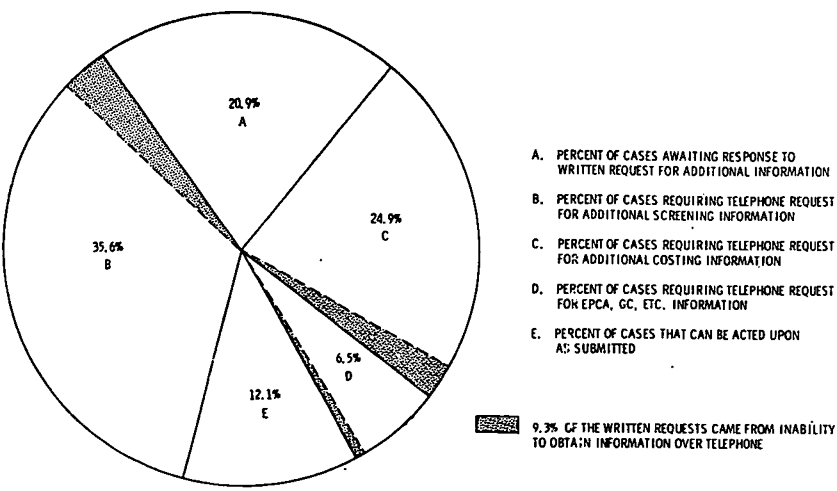


CHART I

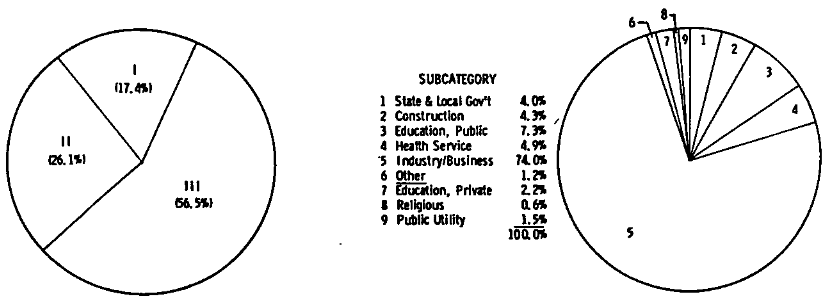
CASES IN PROCESS AS OF 7 APRIL 1972



An analysis of all cases received by the Pay Board through April 7, reveals that 17.4% were Category I cases, 26.1% were Category II, and the remaining 56.5% were Category III. (Chart J) Approximately three-quarters of the cases handled have been in the industry/business group; 7.3% were in the public education field; 4.9% in health services; 4.3% in non-union construction; and 4.0% in State and Local government (Chart J).

CHART J

PAY BOARD – QUANTITY OF CASES THROUGH 7 APRIL 1972



CATEGORY SUB-CATEGORY

Although it is difficult to predict future workload levels, Charts K through N project union contract submissions to the Pay Board during the twelve month period from April 1972 to March 1973. The projections are based primarily upon an analysis of those contracts covering more than 1,000 employees which are filed at the Bureau of Labor Statistics, plus the knowledge of their industry experts. Because files are known to be incomplete (covering only 9.4 million of an estimated 10.6 million workers under such contracts) and the BLS industry specialists are dependent upon incomplete information networks, there may be a low bias in these estimates. The primary source document, the BLS Wage Calendar, was published in December, so effects of contracts signed since then are unknown. Any agreements signed this year may have deferred wage or cost of living adjustments to trigger additional submissions as well. However, the uncertainty about how industry associations will submit probably counteracts these low bias factors since it was assumed that all these types of organizations will file jointly.

Chart K illustrates the total Category I and II initial submissions which may be generated by collective bargaining agreements. Chart L illustrates separately contract expirations and wage reopeners; Chart M summarizes deferred increases; and Chart N summarizes cost of living reviews. To date, non-union cases have amounted to approximately 60% of the case load, so that estimates of total workload, based on these projections of union wage increases, must be increased by a factor of approximately two and one-half.

Chart K

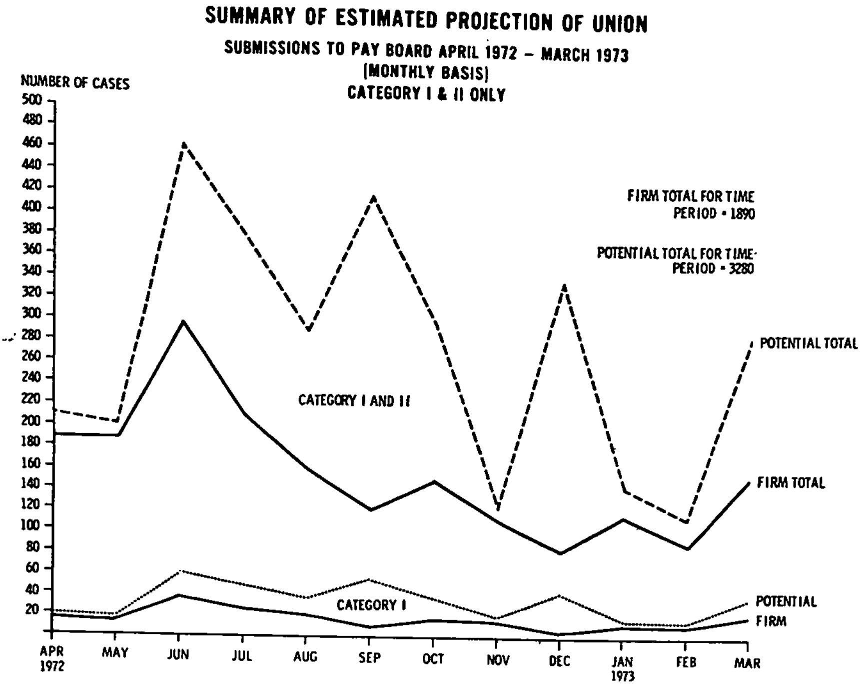


Chart L

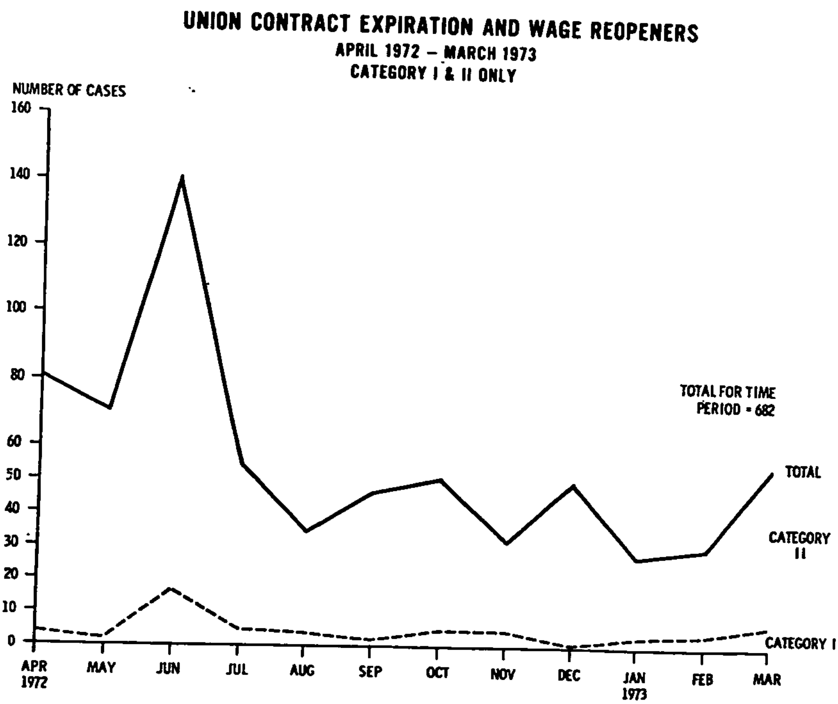


Chart M

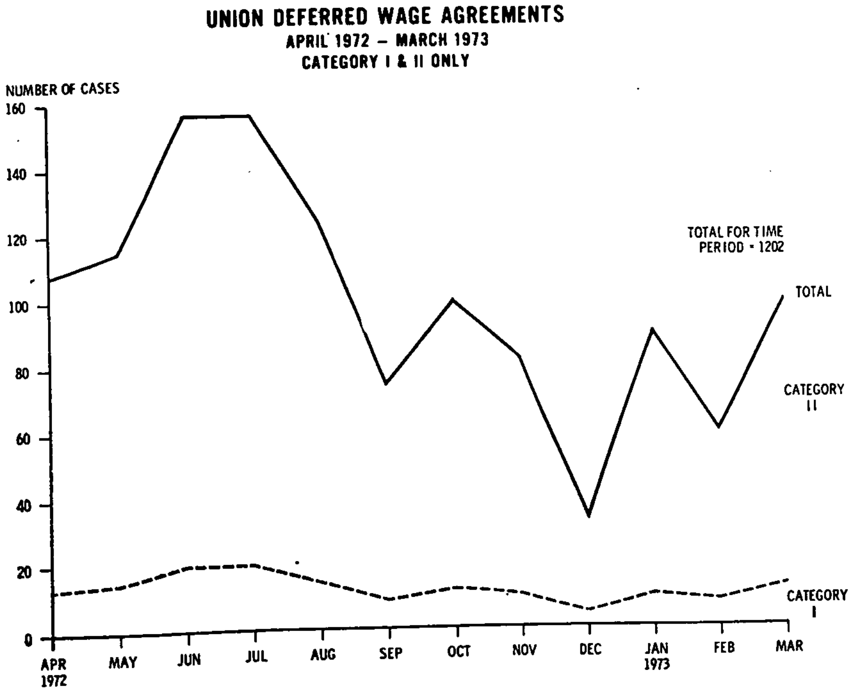
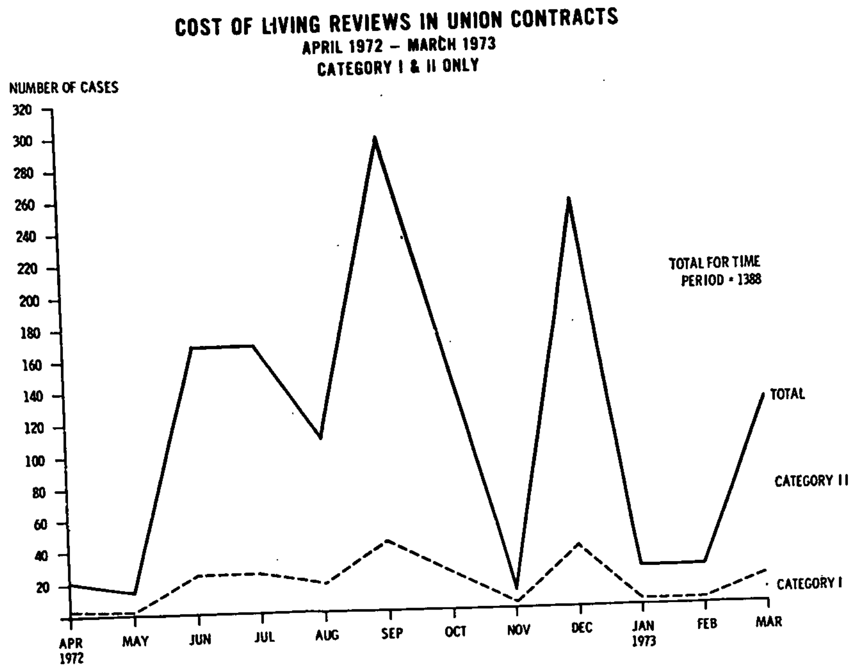


Chart N



IMPLEMENTATION OF STATUTE

As directed by Congress in the Economic Stabilization Act Amendments of 1971, the Pay Board has adopted a broad range of new, and modified, regulations conforming its stabilization program with the mandates of the Act. These changes ranged from setting new standards for the retroactive payment of wage increases frozen during Phase I to the establishment of a series of new exceptions. A complete listing of the statutory directions and the implementing action taken by the Pay Board is attached (Appendix C).

WAGE STATISTICS

Our weighted average approvals show that the Pay Board has been living within its standards. Naturally, there are big increases in certain cases, but on average, approvals for Categories I and II have been 4.3% for the period November 14—April 7. These approvals covered 6,013,427 workers.

We expect to achieve our objectives and hold the growth of unit labor costs within a 2–3% range this year since productivity will be rising above 3%. It will be the responsibility of the Price Commission to keep prices in line with unit labor costs.

We are aware that the Bureau of Labor Statistics' Index of Hourly Earnings rose at an annual rate of 9.2% over the period of November 1971 to March 1972. However, 48% of that increase occurred in November—December when deferred increases held up during the freeze were put into effect. The preliminary figures from the Bureau of National Affairs indicate a slowing of the rate of increase in collective bargaining settlements. The median cents-per-hour increase reported by BNA in all industries except construction was 23.1¢ during the first quarter of 1972. A year ago it was 28.6¢, and during the fourth quarter of 1971 it was 29.9¢.

Voluntary compliance with the wage stabilization program has been excellent. Judging from the lack of complaints of violations and conversations with persons around the country, both labor and business are aware of the general Pay Board standard and of their obligations to submit wages in excess of the standard for approval before payment.

The resignation of four labor members has, as yet, had no noticeable effect on the degree of voluntary compliance, and we hope it will not impair the excellent cooperation we have had from workers and their unions.

Only one Phase II wage violation case has been brought to Court as of this date: *Great Atlantic and Pacific Tea Company* and the *Amalgamated Meat Cutters Union, Local 117, Baltimore, Maryland.* This matter was tried on April 6. No decision has yet been rendered by the Court.

Additional cases, raising questions of possible violations, are under investigation and, where violations exist, actions will be filed if compliance cannot otherwise be achieved. In the case of willful violations, penalties may be sought even if an adjustment of the violation is made.

Three lawsuits are pending against the Chairman of the Pay Board. Two involve the Board's decisions of January 5 and 13 in regard to the aerospace industry. The third involves the March 16 decision in the West Coast longshore case.

CONCLUSION

This is a brief summary of the activities of the Pay Board. Certain materials have been appended which give more detail regarding our operations.

We do not contend that everything we have done is perfect or that we have been entirely successful in achieving our objectives. What we do say, however—and this is what is important—is that we are doing our best under difficult circumstances to achieve an elusive goal—namely, conquering inflation without causing unemployment.

I am pleased to respond to any questions which the Committee may have.

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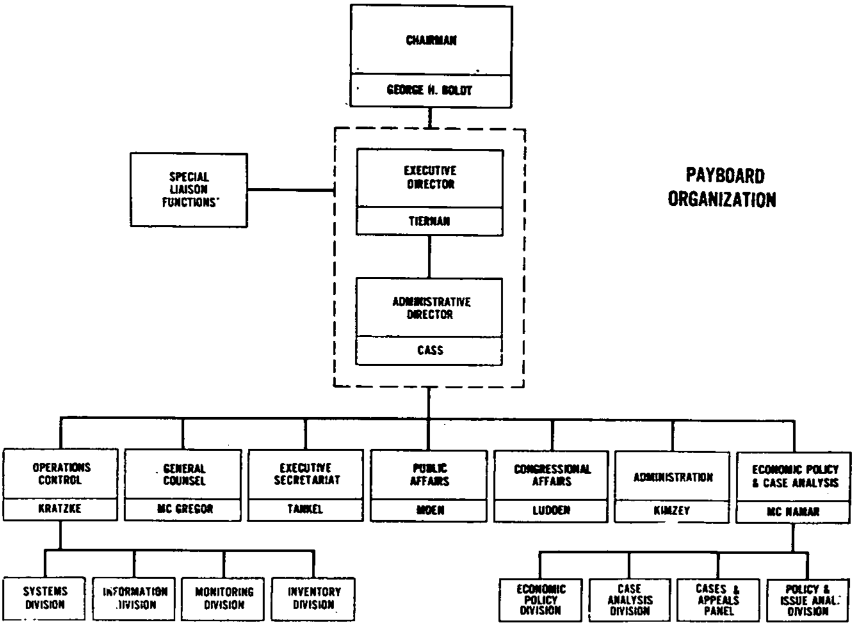
APPENDIX I



APPENDIX II

SUMMARY HISTORY OF THE PAY BOARD

A freeze on wages, prices, rents and salaries for a peiod of 90 days was announced by President Nixon on August 15, 1971, and issued as Executive Order 11615. That initial freeze period became known as Phase I.

On October 7, the President announced plans for Phase II—a more flexible program of economic restraints to follow Phase I. These plans were spelled out in Executive Order 11627 of October 15.

Legislation to implement the executive order was introduced in the House of Representatives on October 19 in the form of a bill to extend and amend the Economic Stabilization Act of 1970 (H.R. 11309). These amendments were signed into law by the President on December 22, 1971.

The Pay Board was established under Executive Order 11627. It was organized as a tripartite board of 15 members—five each from labor, business, and the public sectors. The members were appointed by the President and their names were made public on October 27. Federal District Judge George H. Boldt, the Board Chairman, initially opened his office at the address of the Cost of Living Council at 1717 H Street N.W.

The members of the board were sworn in and held their first meeting at the Executive Office Building on the morning of October 27.

On November 8, the Pay Board adopted policies governing pay adjustments to become effective following expiration of the initial freeze period at midnight November 13. The policy statement and the initial regulations of the board were officially published in the Federal Register Vol. 36, No. 220 on Saturday, November 13.

On November 13, the board issued its Order #1 delegating authority to the Secretary of the Treasury (Internal Revenue Service) to enforce its regulations, and also issued its Order #2 delegating authority to the Construction Industry Stabilization Committee to carry out board policies in dealing with the construction industry.

Also on November 13, the board provided definitions for the terms "appropriate employee unit," "longevity and related wage increases;" established a "base date" of November 13 for determining wage increases; and waived reporting requirements for existing contracts until January 1, 1972.

On November 19, after hearing arguments pertaining to an existing coal contract, the board voted 10–3 to permit the contract to remain in effect for the first year.

Also on November 19, the board provided a definition of "tandem relationships" as applicable to retroactive payments, and authorized additional exceptions to the ban on retroactive payments.

On November 20, the Chairman appeared before the Joint Economic Committee and explained the policies and procedures of the board. On November 23, the board provided a definition of merit plans. It also delegated to the Internal Revenue Service authority to process challenges to contracts by parties at interest, and authority to rule on requests for retroactive pay.

On December 1, board members challenged a labor contract between the Carey Grain Company of Chicago and the International Longshoremen's Union.

On December 2, the board issued its decision on how to calculate the 5.5% standard.

A three-man ad hoc Committee on Executive Compensation was named on December 7.

On the same day, the board formally granted to the Internal Revenue Service authority to determine in certain instances where retroactive pay may be granted.

Also on December 7, representatives of North American Rockwell Corporation and of the International Union, UAW, were invited to appear before the board on December 15 to provide details on recently signed contracts. Several other aerospace firms were subsequently invited to participate in the hearing.

On December 8, Chairman George H. Boldt announced that third parties having direct and financial interest may submit written communications for consideration by the Pay Board relating to collective agreements and pay practices under consideration by the board.

On December 9, the Pay Board approved increases through October 1, 1971, called for in the Railroad Signalmen's agreement but ruled that future increases in the contract would be subject to review.

On December 17, the Construction Industry Stabilization Committee was authorized to act upon appropriate contracts entered into between August 15 and November 14, 1971, where no retroactivity is involved.

Also on December 17, the board adopted a report from its Executive Compensation Committee providing interpretations for administration of executive compensation and related forms of variable compensation.

Criteria permitting exceptions to the general wage and salary standard were also announced on December 17. Increases up to 7%, where any of the exceptions are applicable, will be allowed in the following situations:

Where tandem relationships can be proven to exist.

If they are deemed necessary to attract or retain essential employees in accordance with specific criteria adopted by the board.

In certain instances where pay increases since the beginning of the last prior contract, or in the absence of a contract, the aggregate pay increase during the past 36 months has been less than an annual average of 7%. This exception will expire on March 31, 1972.

Also the board allowed cost of living pay adjustments to be calculated as a weighted annual average increase, as long as the sum of this increase and the remainder of the adjustment does not exceed the general pay standard.

On December 22, Chairman George H. Boldt advised the City of Chicago that proposed pay adjustments for city employees were within Pay Board standards.

On December 27, the board adopted a report from its Executive Compensation Committee relating to ten types of executive compensation.

On December 30, the board announced that forms for reporting by Category I and II employers would be available through local Service and Compliance Centers of the Internal Revenue Service during the week of January 2.

The board disapproved a wage and salary increase of about 12% called for in employment contracts negotiated between two labor unions (representing 150,000 workers) and five aerospace companies in its first session of the new year on January 5.

On January 11, the board established procedures for handling challenges to deferred pay increases by board members and "parties at interest." Board members will submit written challenges to the Chairman while parties at interest will file challenges with the Internal Revenue Service.

On January 13, the board passed a resolution approving wage and salary increases of about 8.3% for the first year of labor agreements and pay practices involving the five aerospace companies whose original agreements were disapproved on January 5.

On that date, the board also approved rules permitting payment of retroactive pay due during Phase I in accordance with the provision of the Economic Stabilization Act, as amended, and defined procedures for retroactive payments.

On January 19, the Pay Board adopted a resolution expressing its sentiment that the $1.90 figure recommended by the Cost of Living Council for wage control exemptions was too low and was inconsistent with the intent of the amendments to the Economic Stabilization Act. Several proposed levels were forwarded to COLC.

The Pay Board delegated broad authority to Chairman George H. Boldt on January 20, to approve Category I pay adjustments within the board's guidelines and to approve or deny requests for exceptions up to 7% in Category II and Category III.

Also on January 20, the board approved a first-year increase of 7.6% for United Aircraft employees, but the board stipulated that future agreements would require specific approval.

On January 25, the board approved portions of a contract for the United Transportation Union containing deferred increases of 10% for 1972 and retroactive pay increases of 9% in 1971.

On January 26, the board ruled that pay increases required by the Federal Minimum Wage Law shall not be subject to the board's standard during the wage year in which the increase is granted.

The Pay Board and the Construction Industry Stabilization Committee announced on January 28 adoption of procedures which will be used by the CISC in carrying out Pay Board policies.

On February 8, the board revised its policy on merit and salary administration plans.

On February 9, the Pay Board approved procedures which require prenotification to the board of deferred pay increases of more than 7% affecting more than 1,000 workers at least 60 days prior to the effective date.

On February 23, the board adopted a resolution exempting from its wage guidelines wage increases paid in conjunction with employee incentive programs related to employee productivity.

Also on February 23, the board devised a formula to define which portions of certain fringe benefits may be excluded from consideration as "wage and salaries" when applying the wage and salary guidelines. This was done in accordance with the amendments to the Economic Stabilization Act.

On March 2, the board adopted a resolution excluding from controls those wage increases required in order to conform to Federal Agency wage determination laws, such as Davis-Bacon, Walsh-Healey, Contract Services, and many others.

This decision completed the board's action on all major broad policy regulations necessary to implement the provisions of the Economic Stabilization Act, as amended.

Also on March 2, the board ruled to exclude playoff and exhibition earnings of professional athletes from its guidelines.

On March 6, the board disapproved a request for a pay increase for State employees in Ohio which was in excess of the board's standards.

On March 14, the Pay Board conducted open hearings in preparation for discussions on a new contract for West Coast longshoremen.

On March 16, the board disapproved an ILWU contract of approximately 20.6%, but allowed a new settlement of 10% in wages and 4.9% in excludable fringe benefits for the first year of the contract.

On March 21, the board resolved to extend the expiration date for the "catch-up" exception to its basic guideline from March 31, 1972, to June 30, 1972.

On March 22, three board members, Floyd Smith, George Meany, and I. W. Abel, who represented the labor sector, resigned from their Pay Board positions. A fourth labor member, Leonard Woodcock, resigned the following day and subsequently these decisions terminated the era of the tripartite Board.

President Nixon announced a reorganization of the Pay Board in Executive Order 11660 on March 23. The revised Pay Board was established as an all public body to consist of seven members including the five original public members along with labor leader, Frank Fitzsimmons, President of the Teamsters Union and business leader, Rocco Siciliano, President of T. I. Corporation.

A cases and appeals panel consisting of three board members began hearing cases on March 29.

On March 31, the Cases and Appeals Panel announced its first decisions. The panel acts with full authority of the Pay Board although its decisions do not become final until the full board has had 14 days to review them. Among the decisions were the disapprovals of a 9.3% pay raise for Milwaukee policemen and an 11.77% increase for Libbey-Owens-Ford employees in Toledo.

The panel approved increases for McDonnell-Douglas employees in St. Louis, California and Oklahoma and for commercial service employees in New York City. These approved increases were 8.5% and 12.4% respectively.

In another major decision the panel approved a 15.3% increase for 38,000 telephone workers in New York.

On April 5, a list of 74 deferred increase contracts that were challenged by the Pay Board was made public.

On April 6, the Pay Board Cases and Appeals Panel approved State mandate minimum pay increases for Ohio teachers and school employees.

Also on that date, the panel allowed increases for non-union McDonnell-Douglas employees and approved a 14.36% increase in wage and fringe benefits for telephone workers in Rochester, N.Y.

On April 13, the Pay Board announced plans for an open hearing on the East Coast Longshore contract settlement. Also on that date, the Pay Board agreed to review the panel's decision on the New York Telephone Workers' contract settlement.

On April 14, the Pay Board announced that it would hold public hearings to obtain public suggestions for the proposed recodification of its regulations.

Appendix III

BOARD ACTION, ECONOMIC STABILIZATION ACT AMENDMENTS OF 1971

Section and subject	Implementation	Current status
203(a). Presidential authority	Not applicable	Not applicable.
203(b). Wage and salary standard and exceptions.	The Board amended its general standard and provided for exceptions and variations on the grounds indicated by the Act PB Nos. 28 and 30, Dec. 17, 1971, Dec. 23, 1971.	Amended secs. 201.10 and 201.11 of the regulations published Dec. 31 1971.
203(c)(1). Deferred increases under pre-August 15 contracts.	Adopted amendments to Board regulations permitting pre-Nov. 14 contracts to operate according to their terms unless challenged as unreasonably inconsistent PB Nos. 48, Feb. 9, 1972.	Amended sec. 201.14(a) published on March 22, 1972.
203(c)(2) and (c)(3). Retroactive and deferred increases in pre-Aug. 15 contracts.	Adopted amendments extending the Board's regulations permitting retroactivity to all cases covered by the new Act PB Nos. 38 Jan. 13, 1972.	Amended sec. 201.13(b) and new sec. 201.15 published Jan. 27, 1972.
203(d). Substandard wages and working poor.	PB No. 39 Jan. 19, 1972	New sec. 201.57(h) published.
203(f)(1). Fair Labor Standards Act exclusion.	Board adopted a policy decision to exclude increases required for FLSA compliance PB No. 44 Jan. 26, 1972.	New sec. 201.57(e) published.
203(f)(2). Federal Agency wage determinations.	Board adopted a policy decision to permit an exception to general standard in order to comply with the wage determinations PB No. 54. Feb. 3, 1972.	New secs. 201.11(a)(b) and 201.57(f) published.
203(f)(3). Productivity incentive plans	Board adopted a policy decision to exclude plans which meet the test of directly reflecting increased productivity PB No. 50, Feb. 23, 1972.	New secs. 201.57(j) and 201.59 published.
203(g). Excluded fringe benefits	Board adopted a policy decision indicating levels at which employer contributions are considered unreasonably inconsistent with standards, provided special exclusions from computations, provided special higher levels for employers with lower existing benefit ratios PB No. 51, Feb. 23, 1972.	New secs. 201.11(a)(7) and 201.57(g) published.

APPENDIX III—Continued

BOARD ACTION, ECONOMIC STABILIZATION ACT AMENDMENTS OF 1971—Continued

Section and subject	Implementation	Current status
203(h). Local rent control	Not applicable (Price Commission)	Not applicable.
203(i). Consultation with National Commission on Productivity.	The Executive Director of the National Commission on Productivity appeared before the Board when the Board was considering implementation of sec. 203(f)(3) and Board staff has also maintained contact with Commission staff, Jan. 26, 1972.	Do.
204. Delegation to pay board	Board chairman has been confirmed by the Senate Feb. 7, 1922. The Board was in compliance with the majority vote requirement at the time of enactment.	Do.
205 Confidentiality of information	Board has been in compliance	Sec. 200.20(b) published Feb. 1, 1972.
206. Subpena power	Procedure and fees established	Sec. 205.8.
207. Administrative procedure	Procedural regulations were published Jan. 21, 1972 and public information regulations on Feb. 1, 1972.	Regulations pts. 205 and 200, subpart B.
208 and 209. Sanctions and injunctive relief	Revision of regulations to provide for violations.	Sec. 201.17 added December 31, 1971.
210. Suits or damage	Not applicable	Not applicable.
211. Judicial review	do	Do.
212. Personnel	The bulk of the Board staff which were on detail status have been transferred and needed positions have been filled.	Do.
213. Experts and consultants	Employment of experts and consultants has been utilized to substantial advantage in the formulation of basic regulations.	Do.
214. Small business	The Board has recently recommended exemption of some small businesses to CLC. In order to expedite the handling of small business matters, the Board has delegated to staff and IRS the authority to act on a number of business requests.	Pay Board Order 3A, February 19, 1972; PB order 4, February 19, 1972; PB order of February 19, 1972 reaffirming and amending PB order No. 1.
215. Mass transit fares	Not applicable (Price Commission)	Not applicable.
216. Reports	Reports transmitted through CLC	Do.
217 through 220. Funding, expiration, ratification, and severability.	Not applicable	Do.

Chairman PROXMIRE. You have been well within your timing and you certainly didn't delay the summary at all.

Judge, let's face it. The reason you are here this morning—the reason we are having these hearings—is because George Meany walked off the Pay Board. That made a whole new ball game in the eyes of many people and had an effect on public confidence. Mr. Meany, some people say, is the second most powerful man in the country.

You refer, in your prepared statement, to the number of Pay Board votes with which labor agreed. Let me read you what George Meany had to say about it. He said:

> The labor members were not split on any Pay Board votes. Of the 36 votes when the labor members were in the majority, almost all were on routine administrative or procedural matters. A few of them represented the lesser evil.
>
> When the labor members were confronted by much worse alternatives, of the 54 votes to which the President refers, only four or so were of major importance to organized labor, which labor members can be said to have won. But the numbers game doesn't matter. The point is that the labor members lost on almost every major issue. They were treated as window dressing. We decided that we would be window dressing no longer.

What do you think of Mr. Meany's statement?

Judge BOLDT. I think it is quite inaccurate. Mr. Meany, Senator, has not been with us on the Pay Board, not 1 minute, since November 8. He did not participate personally in any of the deliberations.

Chairman PROXMIRE. Nat Goldfinger is his top deputy and speaks with complete authority for Mr. Meany.

Judge BOLDT. Of course. There is no question about it. But it is Goldfinger's statement, not Meany's, I am sure, because Mr. Meany wasnt' present.

Chairman PROXMIRE. You don't mean Mr. Meany doesn't subscribe to that.

Judge BOLDT. It may be that he accepts Mr. Goldfinger's view of the matter.

Chairman PROXMIRE. Of course he has.

Judge BOLDT. I would have to sharply disagree, as I have quite a number of times, with Mr. Goldfinger, when it comes to matters of fact.

Chairman PROXMIRE. The key issue we have to discuss and the major reason you have been asked to testify, I think, was brought out very well by Leonard Woodcock, who did make a very reasoned and careful indictment of what he thought was the mistreatment of labor's position on the Board. As you know, Leonard Woodcock is the president of the United Automobile Workers. He said he left because the Board was unfair and ineffective, and backed that allegation up with a specific category of reasons.

Let me go over them one by one to get your side of the story. First, he said the Pay Board has denied elemental due process to the parties before it. Industry and so-called public members have prejudged cases before the Board began consideration of them. Public hearings required by law have not been held.

I am upset by this kind of criticism, Judge, because it is clear that Congress never intended the Economic Stabilization Act to be administered in secrecy. You give a list of seven hearings. I think that is pretty pathetic. Seven hearings certainly isn't what we had in mind.

I was the author of the amendment that required public hearings. I had in mind that you would have hearings on a number of things You have done better than the Price Commission. Yesterday, we had Mr. Grayson before us and he said they hadn't had any. We would expect it on all major decisions that you would have public hearings.

Judge BOLDT. Mr. Chairman, I never in my life have prejudged a case, and I don't propose to start doing that now, at this time in life, when I am so near the end of the road. That is utterly false, the statement that the public members prejudged anything—totally false. Frankly, Mr. Woodcock must know it.

In the Board development of decisions throughout, there has been a constant give and take, a discussion with the labor members, and the business members. The final results in our decisions have often been reached just at the very last hour, as it were, sometimes even a shorter time than that, when a majority were persuaded of a given point of view.

I think it is an outrageous thing to suggest that men of the stature and the character and ability of the public members of the Board, and for that matter, the business members, too, and to me especially—I think it is an outrageous thing to suggest that I would prejudge a case without hearing the evidence.

Chairman PROXMIRE. Judge, I would agree that it is wrong to make a judgment on motivation. What I am talking about is the facts. The fact is you have had five or seven public hearings in the 5 months and in the hundreds of decisions that you have made.

Judge BOLDT. You have given me three things that Mr. Woodcock said, and I am trying to respond to them.

Chairman PROXMIRE. That was one of them.

Judge BOLDT. That was one of them. It is totally false. That we were not giving due process? Ridiculous. If anything, one of the causes of delay is the fact that we have been diligently anxious to allow everyone who has any matter before us all the reasonable time that he wishes. Indeed, in a given case of major proportions recently, we had to postpone the hearing date time after time because the parties failed to submit the information that we needed. We helped them—our staff did. It is a rule with our staff, Senator, that every party is entitled to the full benefit of our provisions and guidelines whether they know about them or not. Indeed, Mr. Bridges himself, and Mr. Flynn, commented rather remarkably, on the record in a public hearing, that they were surprised and delighted to have been received with such fair, thorough, and complete assistance in the making of a case.

I resent this very much. There has never been a failure of due process.

Chairman PROXMIRE. You have addressed yourself to the due process aspect. Now address yourself to the lack of public hearings in conformance with the requirements of the law.

Judge BOLDT. Your statute says that to the maximum extent possible we should conduct formal hearings in cases which may have, or do have, a significantly large impact upon the national economy. Every single case that we have had that could conceivably be thought to fall in this category was held that way.

Chairman PROXMIRE. Five cases in 5 months?

Judge BOLDT. After the adoption of this act. There were two prior to that time. But even in those two prior ones, we had all sorts of people, interested people, including the Governor of a State and various other people, who came and offered whatever they had to present.

Chairman PROXMIRE. This is what I mean by delay. If it takes you that long to have hearings, that is the delay. Courts function in a different way and have to. But in view of the enormous number of pay decisions that have to be made, the backlog is going to increase and increase in the areas where you do have controversy and difficulty, as you say in your prepared statement.

Judge BOLDT. Of course, democratic processes and fair trials do, inevitably and unavoidably, involve some delay. You have to give a defendant an opportunity to be heard, the opportunity to prepare his case and the like, and that causes a little delay—similarly in our situation.

Chairman PROXMIRE. I do hope in the future you can step it up. I do think we had a constructive hearing before the Joint Economic

Committee when you appeared earlier. You pointed out then that your minutes were made available but that was all. I expressed the hope that you would have hearings. You have had them. Now I hope you will recognize that you should do all you can to have as many hearings as often as you can and interpret the statute as liberally as possible.

Judge BOLDT. Be assured, sir, that I will do everything to achieve that end.

Chairman PROXMIRE. The next point Mr. Woodcock makes is this: The Board's unholy coalition of big business and administration puppets has decided actual cases on a political and public relations basis rather than on the facts.

The Board has failed, as required by law, to set out discernible and reasonable grounds for its decisions.

What has the Board done to establish clear guidelines that can be fairly applied to all in order to avoid the appearance and possibility of special favors for particular parties?

Judge BOLDT. We made the most diligent effort in our regulations and in our policies. In everything we have done we have considered the interests of all concerned, the little people, the big people, the in-between people, the general public. We have done this day after day, hour after hour, Senator, sometimes at great inconvenience and long hours—16- and 18-hour days—just to be sure that we do not overlook any facet of a matter that fairly should be considered.

Chairman PROXMIRE. I am talking about clear guidelines that can be easily interpreted.

Judge BOLDT. We have them now and as of today they are all published. Not only that, but now that they are all published, all our major policies are established and all of our implementing regulations are published, now. At the earliest possible date, we are going to have a general public hearing with ample notice to everybody concerned to go back over what we have done and secure the advice and opinion and views of anyone who cares to come. Believe me, whatever their views are they will be considered.

If we find that in some area or another our regulations are not sharp enough or are inaccurate or whatever they may be, you have my word for it, if you think my word is worth anything, that we are holding this not as a pro forma thing or something to comply with this statute but in a genuine way to make our regulations as understandable, as easy for the ordinary fellow to understand without a corps of lawyers, as can possibly be.

But this is a complex society. I knew that to begin with, but I never knew how infinitely that term applies to our society until I took this job.

Chairman PROXMIRE. One more question before I yield. This is a serious charge by Mr. Woodcock. The statements that I made before have been matters of opinion. This is a matter of fact. You are a man of great honor and do your best, as I have indicated. But so is Mr. Woodcock a man of complete integrity.

He makes this statement and I don't know how we resolve it:

> Despite the President's personal written pledge of the Pay Board's autonomy, independence and freedom, the Administration has leaned on the Pay Board with a heavy hand.

How often has Mr. Rumsfeld, for example, advised you on how the Pay Board should operate?

Judge BOLDT. Never; neither he nor any other person in the administration.

Chairman PROXMIRE. How about Peter Flanigan?

Judge BOLDT. Never; not once. In fact, I just barely met the man in an introduction.

Chairman PROXMIRE. Who made the decision on low-wage workers?

Judge BOLDT. We did, the Pay Board members.

Chairman PROXMIRE. Are you sure it wasn't made by the Cost of Living Council?

Judge BOLDT. Not in any extent or degree did they influence our position. They made the final decision. They submitted to the Pay Board, as I am sure you know, a staff paper dealing with the subject and asked our views and we gave them our views after a thorough going over. Not only that, but each segment of the Board, and in one case an individual expressed his view, and that is what we returned. The public members, as I am sure you know, felt that $1.90 was too low, that it should be at least $2.20. The labor members thought it should be $3.50. Some of the business members, one or two—I can't recall now—even went down to a considerable extent below $1.90.

Chairman PROXMIRE. You can be right and Mr. Woodcock can be right. You are on a 15-member Board. You are the Chairman of the Board. You didn't even vote to begin with, as I understand it, in some cases. It is perfectly possible that the White House could have leaned heavily on other members of the Board but not on you.

Why is it that you can speak with such assurance that the White House didn't lean on any of them, especially when one member of the Board speaks out on it? Couldn't they have gone to a majority of the 14 members and gotten their will?

Judge BOLDT. I am authorized to speak on behalf of Kermit Gordon, Neil Jacoby, and the two other public members. Each one has authorized me to say that not a one has ever in any manner, directly or indirectly, had any intimation or suggestion as to what the Board should do or not do.

Chairman PROXMIRE. You refer to only four.

Judge BOLDT. I refer to the public members.

Chairman PROXMIRE. You left out all the business members and the labor members.

Judge BOLDT. That is because I have had no opportunity to confer with them.

Chairman PROXMIRE. It is possible the White House could have leaned on the business members. Conceivably, though I think the reaction would have been the same as Mr. Woodcock's, they could have leaned on labor, too.

Judge BOLDT. It is possible. But in the vast majority of instances the business members' views did not prevail. The public members' views in a large majority of cases prevailed, and particularly those most favorable to the labor point of view. They often joined with the labor members on important points of view and decisions.

Chairman PROXMIRE. My time is up. Senator Javits.

Senator JAVITS. As the Chair has said, there has never been a question of your personal integrity. No one knows better than I because

I carry the same cross, how much it takes to simply turn from what you have been doing and go into government. It will interest you to know that Senator Percy and I are mainly interested in how much you tax yourself over and above your salary that you spend on the job.

Judge BOLDT. I have come to realize that more than ever before. I certainly have an infinite respect and admiration for anyone who takes public office, whether elected or otherwise. You have to go through the ordeal to appreciate what it means.

Senator JAVITS. Nonetheless, it is terribly rewarding. My words are directed to the point that we do appreciate tremendously your laying aside the relative tranquility of the chambers and coming into this stormy post. Anything any of us ask I know you will understand is not a lowering of our feeling of respect and appreciation for you.

Judge BOLDT. Thank you.

Senator JAVITS. The thing about this tripartite Board that Senator Proxmire has been asking you about came up yesterday with Mr. Meany when he testified before a subcommittee of Labor, of which I am the ranking member.

He there said that the public members, and he named them, were not truly public members, that they all had some kind of tie-in to the Government, that they were people doing really what the Government wanted, what the administration wanted. He named them. He named Arnold Weber, Neil Jacoby, and William Caples specifically.

You answered, I think to Senator Proxmire, on that score, but I would like to ask you this: What has it meant, now that the bottom has dropped out of the tripartite thing, and you have neither business nor labor members? What is the changed nature of the Board? What will it mean to the question of wage stabilization?

Judge BOLDT. I think it will not alter or change the course of our decisions and our actions in any significant way. In the first place, I intend through Mr. Fitzsimmons and Mr. Siciliano to ask for the maximum input of the viewpoints of those segments of society in our deliberations. It was vastly valuable during the first period of the Board's existence.

I want to pay tribute to the labor members who have left us. I am sorry they see it as they do, and, frankly, I don't know why. For weeks we had been operating in a genuinely, friendly dialog, vigorously expressing our conflicting views, but never once castigating each other or anything of the kind, such as occurred in those first few horrible weeks when the public members, particularly, were being castigated in every possible way.

Nothing of that kind occurred. We were just making excellent progress. We were at last getting to the point where we could relatively quickly decide matters.

This will continue, but at the same time I recognize that the input of the labor point view and the business point of view is very important in this economic work that we are doing. Without having a good, generous opportunity to know what those points of view are we would not be able to do as good a job. But we are making up for it in the person of the members who remain.

Incidentally, we have already held several meetings with the reconstituted Board, and there is really a very remarkable change in the atmosphere. Every single member, including the business and labor members, appear to be approaching each of our problems in light of our new status as an all-public board. They appear to be concerned with what is right and just and appropriate in a given situation rather than what will be an advantage to labor or business.

Senator JAVITS. Judge Boldt, Mr. Meany also dealt with the fact that labor continues on the Construction Industry Stabilization Committee, whereas it has pulled out of the Pay Board. Wages in the construction industry have been noticeably high in the past several years. Indeed, this has gone hand in hand with considerable diminution in employment in many sectors in that particular industry. Can you tell us what progress you are making in respect to stabilizing wages in construction and how you are working with the CISC?

Judge BOLDT. When I was last here I advised the committee that we were working toward developing a written statement of understanding as to the responsibilities of the Pay Board and the construction committee, how the two were to work together, and a statement of the basic principles upon which we were acting.

That statement finally was developed and unanimously agreed to by all on both the committee and the Board in that it specifically stated that the committee was bound to apply our standards and guidelines with only such exceptions as might be necessary in this rather unique industry. It is unique in many particulars, as, of course, you know.

This, by the way, was during the tripartite period. Our committee was tripartite. Mr. Floyd Smith was a member and Mr. Day, for business, and Mr. Weber, for the public members. They went through a very considerable period of developing this agreement.

One other very important element was the requirement that the committee provide us with reliable facts and figures from which it could be determined what they were doing. In other words, so that we could indeed supervise and keep a constant observation, oversight, as I think you call one of your committees, to be sure that they were indeed following our policies and that we could make an independent judgment about it rather than accepting generalities.

Unfortunately, for reasons that are not entirely clear to me, Senator Javits, as of yet we have not been provided with that kind of information. Indeed, as late as the past week, we made another demand for this type of thing and we got back the customary generalities and the like with no supporting data from which to make a judgment.

We are pursuing that matter and I trust and hope that very promptly we will secure the information we want.

We submitted, incidentally, to Mr. Mitchell, the chief economist on our staff, and to others the information submitted to us to see what they could make from it. They all came forth with the same view, that it was not the kind of data that would give us that information. Of course, without information it is pretty hard to make a judgment. This is what we are now pursuing and we hope that we will be getting it rather promptly now since we have responded as we have.

Senator JAVITS. Judge Boldt, you have superior authority, haven't you, to the committee? That is, the Board has superior authority.

Judge Boldt. As I understand, the chairman of that committee is supposed to report to me.

Senator JAVITS. Are you inclined to exercise that authority?

Judge BOLDT. Yes, indeed. I have written time and again. I have talked to committee members from time to time. We have always been on a very cordial basis so I can't imagine that the failure to give us this information is a personal thing. I repeatedly personally have done this, and, of course, our staff people have been doing it and we don't get the information we need.

Senator JAVITS. Do you contemplate taking over this matter of wages in the construction industry if you don't get the information you are supposed to get?

Judge BOLDT. We will have to stay within our delegation of authority.

Senator JAVITS. Does that exclude construction?

Judge BOLDT. No; it doesn't exclude it. It gives us supervision, overall supervision, but it does not authorize us to take over that committee or assume its function.

Senator JAVITS. So one would say that particular area is in kind of a twilight zone; is that correct?

Judge BOLDT. I think that would be a good statement.

Senator JAVITS. Your exclusive jurisdiction is not clear and neither is theirs?

Judge BOLDT. I think that is a very excellent term. It is not quite so dark that you can't see a little and not light enough to see very much.

Senator JAVITS. Mr. Chairman, my time is up but I have one more question on New York. I will yield to Senator Percy after that.

The Pay Board has agreed to review the panel's decision on the New York Telephone Workers' contract settlement. Do you have any idea when we may expect a decision?

Judge BOLDT. It will be very shortly. I would say within a week or 10 days, something of that kind. It will be very shortly.

Senator JAVITS. Thank you, Judge.

Judge BOLDT. I take it, Senator, that you understand that, when a challenge is submitted for review by the entire panel of the Board, it doesn't indicate that the challenger feels or does not feel that the result should be affirmed, but merely reviewed. For example, in this particular instance, one of the reasons that the panel is going to review the case in toto is that at least two of the members feel that there are policy decisions in that decision that the whole Board should make. Maybe just as the panel did, but in any event, they should not be made by a panel majority of two to one.

Senator JAVITS. Thank you.

Chairman PROXMIRE. Senator Percy.

Senator PERCY. Judge Boldt, I share the opinion of Senator Javits in our appreciation for your taking up this work. But I somewhat disagree with his comment about the peace and tranquillity of a courtroom. We have had Judge Julius Hoffman and the Chicago 7 trial which is more comparable to the experience you are going through now, I think.

Judge BOLDT. I have sat quite a number of times in Chicago, sometimes for several weeks at a time. So I know something about that.

Senator PERCY. You have been well prepared for your present work.

Judge BOLDT. I tried the Seattle 7 and that was not exactly a picnic either.

Senator PERCY. I would like to talk about the subject of productivity because this is a subject of deep interest to members of this committee. Because I find that is it like pushing wet spaghetti to get the executive department to do something embodied in law—I find myself spending about 25 percent of my time to help implement the law as now written in the economic stabilization amendments that Senator Javits, myself, and Senator Proxmire put into that law.

I would like to ask you a question first from the practical and philosophical standpoint. We have had much testimony indicating that the attitude of American business and labor is quite unlike that found in Germany and Japan. There they have differences in opinion, but in those countries they are united on one thing. They are in an economic war. They are going to wage war and win it and they are fighting on the same side of the table to find ways to improve the product, turn out a better product, cut down on unnecessary costs and work together to make the product from Japan, Germany, and so forth, recognized in world markets.

What attitude do you detect between labor and management leadership in this country? Is it a cooperative attitude with a common economic goal, or is there too much emphasis on the antagonistic role that one plays against the other when they do have a difference over, say, wages or working conditions?

Judge BOLDT. If I were to judge solely from my personal experience, the opinion wouldn't be very valuable because it would only reflect what I have seen in the papers and that is not enough experience to express an opinion.

I can say this to you, however, that, as far as the Pay Board is concerned, we are every bit as determined to do whatever we can in the job that we have, which is somewhat limited, to encourage and promote productivity. Indeed, we are taking that factor where it can be identified as being present, which is somewhat difficult, as you know, into account in making our decisions and rulings. Of course, the most noteworthy instance of it was the recent longshore decision.

Senator PERCY. As a matter of fact, the economic stabilization amendments that we introduced are now law and state that rules and regulations of the stabilization program, which will include those promulgated by the Pay Board, should be designed to encourage labor-management cooperation for the purpose of achieving increased national productivity.

It states that the Director of the National Commission on Productivity shall be consulted in the formulation of these rules and regulations.

To what extent has the Pay Board followed this requirement?

Judge BOLDT. We did consult with the Director. I understand he has now resigned or retired. We consulted extensively as to his views. As far as our regulations are concerned, I think you know that we have adopted a regulation on this subject, which we feel, even if not perfect, will be an opening step toward achieving something in the way of encouraging productivity.

Senator PERCY. I have said many times, and it has been reconfirmed by such authorities as Secretary Connally, Secretary Peterson, and others, that this whole exercise in economic control is going to go right down the drain and will be for naught unless we get to the heart of our fundamental problem and find ways to increase productivity, to lower our unit costs of production, and get rid of price increases as a result of productivity increases. Productivity will enable wages to continue going up.

What progress do you see, since you have begun this experience, in furthering productivity in American industry?

Judge BOLDT. Well, of course, I see this notable instance in the longshore situation. Whatever the original purpose and intent was, they greatly increased productivity in that particular industry. Also, we see from time to time in the various cases that come before us instances of where employers and workers alike are joining in various ways to achieve greater productivity. I certainly totally agree that no matter what we do on the Pay Board, the Price Commission or anywhere else, if we can't, one way or another, get America back to what it once was preeminent for in the world—high productivity—we are in a really very bad plight; and no program designed to permanently help the economy is going to get anywhere if it does not include a high degree of improved productivity.

Senator PERCY. I have introduced into the record the first annual report of the Productivity Commission. I suppose you could say that in the first year of anything it hardly gets off the ground. As I see it, they have conducted some studies, they have pushed some papers around. I don't know who is going to read these studies. But there has been no real guts action. I don't see any implementation of a program nationwide.

We took the legislative initiative, and Senator Javits introduced an amendment, overwhelmingly adopted, unanimously, to create productivity councils across the country, department by department, plant by plant, industry by industry, to do what we did in World War II—to really get mobilized for the economic war that we are in.

We provided some $10 million, which is a very minuscule amount, considering a trillion dollar economy, to organize, mobilize, and change attitudes of labor, management, and the public. Yet, I find no real push to get $10 million. I think only $5 million is being asked for. I think some skeptical questions are being raised as to even the need for that.

Can you reaffirm, as the man sitting in the heart of the storm now, the need for a tremendous effort if we are to mobilize in this direction, and use Government as a catalyst to mobilize the resources to change the attitudes of labor and management in this area?

Judge BOLDT. I am, of course, not an economist. But from the experience I have had thus far, nearly 6 months' worth, I can affirm my personal view that there is nothing more important than the increase of productivity to solve our economic ills.

Senator PERCY. I thank you for that statement. I shall repeat it often. Every member of this administration and every member of the Appropriations Committees in the Senate and the House, I hope, should see if we can somehow focus attention on what is really important and get to the heart of the problem. Otherwise, the band-aid approaches that we are using are simply going to be a farce, I think, in a few months, unless we get fundamentally to the heart of the problem.

I am very discouraged that labor, business, and Government are not attacking the heart of the problem. I feel disturbed as a legislator spending as much time as I have been doing on this subject. We have held hearings to try to smoke out how little is being done in this field and reveal it to the public. Month after month will go by and we will have another April 15 crisis and another Nixon doctrine, I suppose, will have to be implemented to try to find a way to bandage up the economic ills we have, unless we get to the heart of the problem.

Your general pay increase standard is 5.5 percent, with 7 percent supposedly being the upper limit on exceptions and exemptions. In your testimony you described some increases allowed in excess of 10 percent. Can you tell us why some of these larger increases were allowed so that the public and we can better understand the reasoning that went into them?

Judge BOLDT. Yes; I can. In each instance where we went beyond 7 percent there was a showing, and a substantial showing, that there were exceptional circumstances; for example in the longshore workers, on the increase in productivity. That was the main point.

We were convinced, after thoroughly going into it. I, for one, during the early debate of the matter, was expressing the view we should stay at the 7. But when we looked into these data, we were convinced that a very dramatic and most remarkable thing had happened out on the west coast. Some part of that remarkable improvement in productivity, and the elimination of featherbedding, should be allowed to the workmen who made it possible. That is what we did.

Senator PERCY. I have heard some criticisms of these decisions, but I have simply said what you have done, in my understanding, is to reaffim what the Congress directed you to do. You are not trying to hold down wages. You have no obligation to hold down a worker's wage. He should be able to get as much as he can earn.

What you are trying to do is hold down cost-and-price increases. The increases that you have granted above 5.5 percent have clearly demonstrated that they are related to productivity increases which then do not mean that prices go up. They will either stay stable or come down. I think what you are doing is carrying out the law.

In the longshoremen increase you disallowed anything above productivity increases. I admire you for doing it. We back you fully, 100 percent, in doing that. But you certainly should provide for and did provide for increases if they showed that it would not increase costs.

Judge BOLDT. In every instance where productivity has been a relevant factor and where it has been definitely demonstrated, we have gone above the line.

Senator PERCY. This aspect of your decisionmaking process is not fully understood. I think this explanation will help clarify it.

Judge BOLDT. I am sure it is not. We spell it out in our press releases but, unfortunately, only a few sentences from those appear in the papers and other media. I am not critical of them in that respect. They can't fill up their pages with all the details of our decisions, unfortunately. It would be better if they could, but I realize they can't. I am not being critical of them, but that is not what gets in the papers.

Chairman PROXMIRE. Congressman Brown.

Representative BROWN. Judge Boldt, I am pleased to see you here. I am sorry I didn't get here in time for your full testimony but it is perhaps unrelated to the questions I wanted to ask anyway.

I would have to suggest to the judge that unlike the courts of law where delay does hurt the cause of justice, that in your particular operation delay may serve the purpose of holding down prices and wages.

But I think it also serves to increase public unhappiness with the whole of Government in this regard and may encourage people to lose patience with the decisions that are made, when they are finally made, in this area.

My question is: Why not just make a broad-gage formula or perhaps even a narrow-gage formula, and decide, and say, "Zap, this is it" in some cases. Can that be done or is it not possible?

Judge BOLDT. To begin with, our problem primarily was the fact that we had a great deal of difficulty in getting sufficient staff initially.

Secondly, that we felt it important to lay down guidelines, policies, and principles, and the development of those policies, principles, and guidelines was not an easy task because we are dealing with a very complex subject matter. We have diligently gone forward with that as the No. 1 priority, meanwhile deciding lots of cases and dealing with especially large ones that seemed especially important.

In the meantime, undoubtedly a great many situations have been allowed to languish. I couldn't be more sensitive to it. But, after all, there are only so many hours in the day and so much that can be done.

Now I am happy to tell you that in the last few weeks we have made dramatic strides toward reducing the caseload.

I would like Mr. Tiernan, my Executive Director, who is primarily responsible for this very fine result, to give you some of the facts and figures on that, if you would like.

Mr. TIERNAN. Congressman Brown, the staff has adopted, and this may be in response to Senator Proxmire, a fair and expeditious treatment of all those matters that come before us.

Representative BROWN. Are you suggesting that it has to be delayed some in order to be fair; that fair and expeditious may be mutually exclusive in some areas?

Mr. TIERNAN. I think that is the case, Congressman.

Representative BROWN. I am not a lawyer so I don't know how quickly justice can be served in some of these areas, but I know that economic justice may be served to some extent by delay.

I am curious to know, though, whether you are equating fair and expeditious as two different things.

Judge BOLDT. Could I interject just to this point? Now that all our policies have been adopted and are published, that factor for delay will be greatly reduced because all we have to do is look at our policies and guidelines, measure the facts presented by the parties and see where they fall.

Representative BROWN. In effect, you waited for some experience before you developed the policies and guidelines, is that what you are saying?

Mr. TIERNAN. It is a combination of things. It is both fair and expeditious, but these will develop both in the sense of getting data from the individuals and in assisting them to present data that will help them and help us understand the situation.

This is increasing both the public understanding of our program and also the expeditious handling that the staff is now engaged in.

We have had an opportunity in the last 5 weeks to go from 100 cases to 190 cases per week in capacity, and our backlog has been reduced in half, from 2,600 to 1,300 in the same period of time. These are the cases that do come in to the Board.

The small employers are the cases that are handled by the IRS. We have approximately 170 people at the Pay Board, while the IRS has the bulk of the stabilization program personnel in the field. We spent at the Pay Board practically all of March on the road in 3-day seminars training IRS personnel across the country for the exclusive purpose of putting them in the position of handling cases expeditiously, uniformly, and fairly for the small employer in category III, under 1,000 employees, by the IRS. We trained over 100 people as specialists in these areas and presented them with manuals, guidance, communications systems which we can update, They, in turn, train their subdistrict people in the 302 subdistricts to again achieve expeditious and uniform treatment.

We feel we are expeditiously handling in the Pay Board the category I and II cases. Also the number of category III cases being handled by IRS is on the upswing.

Representative BROWN. Do you have any way of comparing your performance with the price and wage experience in World War II and the Korean war?

Mr. TIERNAN. There are 4,000 men committed to nonregional approaches to wage stabilization in our program under the 1970 law and 1971 amendments. In the Korea program they had a 19,000-man operation. They had regional offices and they handled this on a much more local fashion.

Representative BROWN. Depending about how you feel about bureaucracy, that is either five times faster or five times slower, isn't it?

Mr. TIERNAN. I don't know how the appellate system worked at that time. Our appellate system could, in the event the individual wished to pursue it, especially the smaller employer, considerably protract the opportunity.

But this was the determination of the Board, to give the small employer as many as possibly five separate opportunities to present his case all the way up to the Board.

Representative BROWN. I would assume that your decisions are based, from what has been said, on some measure of productivity as a test of fairness or equity, and into that goes the question of recent history in that particular industry or of that particular segment of the economy.

Are those essentially the two elements that you are considering?

Mr. TIERNAN. We have three approaches to productivity, Congressman Brown. Two of these are a matter of regulation now. These go to formal incentive plans, productivity opportunities, within a plant or individually. That is the extent to which we have gone at present in terms of formalizing our acknowledgement of productivity opportunities within the particular industry or operation. These are costs or increases that are not chargeable against the 5.5.

Then we have an ad hoc responsibility which we take on in a case-by-case basis. The ILWU embraced the entire coast. In that case there was a productivity consideration based upon a port-by-port operation. It probably would be the same type of computation with the east coast docks.

Representative BROWN. But you are looking at the breadth of an industry in that case, are you not?

Mr. TIERNAN. In the ad hoc situation we will expand from the plantwide or individual productivity approach to perhaps an industry as in the case of the two docks.

Representative BROWN. And the other question I asked about was past inequities in terms of the wage situation. That is given some consideration, as I understand it.

Mr. TIERNAN. Absolutely, sir. We have self-executing opportunities that do present opportunities under tandem and catch-up that deal with a variety of traditional inequities that will arise in some circumstances.

In some of these there is a limitation. However, in one provision of the regulations the Board has the opportunity to consider all the various inequities and has no specific limitation. They do look into those types of situations, gross inequities, hardship and so forth.

Representative BROWN. I am one of the 99 out of 100 who doesn't fully understand all of the economics set forth in my college textbooks. Can you tell me how you assess productivity in a service industry like teaching, for instance?

Mr. TIERNAN. No, sir, I can't.

Representative BROWN. Is the number of students a consideration?

Mr. TIERNAN. I, too, am not an economist. I can turn that very difficult question over to our chief economist, Mr. Mitchell, for an answer.

Mr. MITCHELL. Congressman Brown, what we would do in a case like that is if a State or local government agency came in, with a teacher unit——

Representative BROWN. Let's take Ohio as an example. My time is up, but I want you to get an answer in.

Mr. MITCHELL. What we would look for is an evidence of cost savings. In other words, we wouldn't necessarily try to use some crude ratio of teacher to student or something of this sort, but we would look for evidence that through the effort of the employee unit some saving in cost had resulted. We would present this as part of the staff submission to the Board or panel as part of the case.

Representative BROWN. My time is up. I will come back to this point because I don't see how you assess a saving in education. Thank you.

Chairman PROXMIRE. Yesterday, Mr. Grayson was before the committee and he and you both seem to feel things are going along swimmingly. You have a lot of problems, and it is tough, but you are really succeeding. Just a few minutes ago, evidence came through showing that you are not succeeding, that it is a dismal failure. The first quarter gross national product was released. The change from the fourth quarter of last year to the first of this year, seasonally adjusted, shows that prices are up in the gross national product deflator by 6.2 percent. This is the biggest increase in inflation we have had since the end of 1970. This is all during the period of phase II.

I just don't know how we can possibly come to any other conclusion, except that you are just not making it. Mr. Grayson, yesterday, asserted that prices are controlled more tightly than wages. He pointed to figures which he said clearly refute the suggestion that wages have been held down while prices climbed. He seems to think it is your problem that makes it difficult for him to succeed. Would you care to comment?

Judge BOLDT. All I can say is that our job is to try to enforce——

Chairman PROXMIRE. Let me interrupt to ask what is your answer to the fact that you seem to be losing? The best objective evidence we can get is that prices are rising more rapidly now than before.

Judge BOLDT. Different inferences and conclusions can be drawn from the same statistics and reported information. I am not immediately prepared to question the validity of these figures at all.

Chairman PROXMIRE. They are the administration's figures.

Judge BOLDT. I don't care whose figures they are. I am not prepared to discuss their figures. I am prepared to say that by every standard that we can develop, and goodness knows, that is not completely convincing or satisfactory—I wish it were more so, and Mr. Mitchell, in what few spare moments he has, has been trying to develop a means of getting more reliable information on this subject—the only way we have to judge is from what we have done.

Chairman PROXMIRE. Mr. Stein was the first witness and he said in the first 4 months of this year wages have gone up 9.3 percent—annual rate. This is just as inflationary a factor as you can possibly get. I know you don't control all—you don't have authority over all—wages; many of these are perhaps outside your judgment. There are only certain ones on which you can act. But these are Mr. Stein's figures, not Senator Proxmire's figures. They are Mr. Stein's figures.

Judge BOLDT. I understand. I don't even have control over all the Pay Board members, as you perhaps are aware. I never have had.

Chairman PROXMIRE. I accused Mr. Grayson of being a czar; he has made every decision all by himself. He has not been overruled on any decision. I think that is the wrong way to go. But, somehow, between you and Mr. Grayson there ought to be a happy medium.

Judge BOLDT. I can give you the answer in just a sentence or two. All we can do is to judge by what we have done.

Chairman PROXMIRE. It hasn't worked.

Judge BOLDT. Excuse me. All I can judge by is by what we have done and what we have done today, carefully calculated, indicates that we are well within the 5.5 standard.

Chairman PROXMIRE. But there are several things wrong with that. No. 1 is you say in your prepared statement that you put off the tough decisions. No. 2, when you say you are well within the 5.5, what you are doing is taking all the employees affected by your decisions, and in many cases these are not substantive wage increases but fringe increases. In General Electric they had a fraction of a 1-percent increase. That was figured into your calculations. If you throw those to thousands of workers, of course, you can publicize a meaningless figure of less than 5.5 percent that seems to suggest that you are succeeding. But this is misleading.

Judge BOLDT. If you had allowed me to continue, I would have said much of what you have said, that these are not conclusive but the only way we have to judge. What we are doing is——

Chairman PROXMIRE. You are not going to tell me, Judge, that the figures we get on the GNP deflator, which every economist will agree is an excellent measure of inflation, and some say the very best, that these are not definitive.

Judge BOLDT. I will ask our economist to answer that.

Chairman PROXMIRE. Mr. Mitchell, wouldn't you agree that the GNP deflator is an excellent measure of inflation?

Mr. MITCHELL. We don't have the first quarter GNP deflator available, though it is an excellent indicator.

Chairman PROXMIRE. I just gave you the figure announced this morning by the administration, 6.1-percent annual rate rise in prices, the worst performance in a year, and a far worse performance than when we put this into effect.

Mr. MITCHELL. Let me comment on that, then. The figure of 9.3——

Chairman PROXMIRE. That is Mr. Stein's figure, not mine.

Mr. MITCHELL. About half of that figure results from the November-December increase when pent-up, deferred increases which had been held down by the freeze came into effect. If you look at the figure of December through March, the period when the Pay Board was operating, you come up with around 6 percent at an annual rate.

Chairman PROXMIRE. That is an excellent explanation and I accept it. However, that would apply to the deflator difference between the last quarter 1971 and first quarter 1972.

Mr. MITCHELL. Let me point out another fact. If that 6-percent trend should continue, the 6 percent in labor cost should continue——

Chairman PROXMIRE. This was a 6-percent increase in prices.

Mr. MITCHELL. I understand that. But should the 6-percent figure that I just cited continue and should the expected increase in productivity for this year, roughly 3.5 percent—that is the consensus figure of economists—should that continue, unit labor costs would be well within the target range for achieving 2- to 3-percent inflation.

In that kind of a situation, we would expect, when you added up the year in total, it would come down——

Chairman PROXMIRE. I think the Judge in his prepared statement pointed out that he has put off the toughest decisions and has tended to underline that.

Judge BOLDT. We didn't put them off, Senator.

Chairman PROXMIRE. I don't know how you can interpret your statement otherwise.

Judge BOLDT. They simply fell that way.

Chairman PROXMIRE. All right. I want to know, Judge, if the Pay Board has adopted any conflict-of-interest regulations to prevent members from voting in a case where they have a financial influence?

We know you have very fine members who, of course, have had detailed experience in life and commitments. But we want to know what regulations you have adopted. You are the only one covered by the law. I am sure you are all right. I am talking about the others.

Judge BOLDT. Thank you. We have not adopted any regulations, but we have provided by unanimous consent that any member or his representative shall not participate in any decision in which he has a direct, immediate interest.

Chairman PROXMIRE. The other question I have is as I have said, I have been critical of the fact that you haven't held more public hearings but I notice you have held some. You listed those and that is a better performance than the Price Commission.

Do you interpret section 207(c) of the Stabilization Act as requiring public hearings on specific cases where they significantly affect the economy?

Judge BOLDT. Certainly.

Chairman PROXMIRE. Very good. That is good to hear. Mr. Grayson does not. I think he is wrong. You two are in conflict. I think Mr. Rumsfeld ought to give us an answer on this and I am going to see that we get an answer.

Judge BOLDT. Do what you will, but as far as I am concerned, wherever it appears to me that there is a significant public interest, we will have a public hearing.

Chairman PROXMIRE. Very good.

Senator Javits.

Senator JAVITS. Mr. Chairman, I thoroughly agree with the Chair with respect to public hearings. I am very pleased to hear you back public hearings. We knew what we were doing when we cranked it into the bill. I hope very much that Mr. Grayson will take the same position and face whatever may be the turmoil of public hearings. They are very therapeutic and helpful. I hope very much that whatever instructions need to come from the Cost of Living Council will be forthcoming.

I would like to go again to the productivity issue which Senator Percy explored with you. Do you feel that any outreach by the Pay Board would be desirable in that regard? For example, though Senator Proxmire has characterized your statement from your prepared statement, "But the profile of pending cases suggests that proportionately more exceptions up to 7 percent may be granted in the near future," it is a fact that there is pressure on you, that the pay pressure will be higher. That is very understandable.

As you get over the first glut of cases, you now get into the hard nuts to crack. Would it be feasible, and you need not necessarily agree with me now but I am suggesting this for your thinking, to adopt a posture by the Board which might say, "Look, we can't give you your increase now, but you meet a criterion of productivity and we will give it to you."

In other words, if you cannot decide favorably, at least give the conditions under which you could decide favorably, thereby having the outreach of the possibility of utilizing the provision cranked into the bill in Senator Percy's amendment which permits increases based on productivity.

This might very well help you deal with some of the critical cases and at the same time serve our purpose, which is to gear up the whole productivity level.

Judge BOLDT. Senator Javits, I would say not only can the Board, the staff, myself, all of us, not only can we do that but we should. I am going to encourage our staff to do that. I think they would naturally come by it anyway, because they know this subject as fully as I do, in fact, more fully, and are of the same mind as I am.

As I said earlier in the day, we go over every one of the possible regulations and policies that might be applicable to each party, whether they have mentioned them or not.

In some instances they don't even claim something that they are entitled to claim. We tell them about it. One of those would be increased productivity, because we have a regulation on it. I am sure that that message will be conveyed to every one of the cases from now on.

Senator JAVITS. Have you decided any cases, or do you feel capable because you are not a court, though you are a judge, of deciding cases provisionally? In other words, the big argument made against Government agencies is that they are too wooden.

Judge BOLDT. Actually, we did exactly that thing in the most notable case of the UTU.

We made a decision based in considerable degree upon agreed methods of eliminating unnecessary people and increasing productivity. But we put a caveat on it and we said that within 3 months or 4 months we are going to take a look and want a report on whether they have actually put these measures into effect, and what they actually have produced in the way of increased productivity.

We are expecting to have that shortly. So we have already followed that practice, Senator Javits.

Senator JAVITS. I was going to ask you how are you going to supervise, given the oversight?

Judge BOLDT. They are ordered to submit a report to us. When we get it we are going to look at it real close. We are going to check it and make sure that they are not telling us something other than the unvarnished truth.

Senator JAVITS. So we can take it as a matter of policy that the Pay Board is ready to make provisional decisions which have post-operative conditions either based on productivity or any other factor which appeals to them?

Judge BOLDT. We are ready to do that sort of thing.

Senator JAVITS. Thank you very much.

Chairman PROXMIRE. Senator Percy.

Senator PERCY. Mr. Chairman, I didn't hear you announce the increase in GNP in the first quarter. Did you make that announcement?

Chairman PROXMIRE. The increase in——

Senator PERCY. I would like to make that announcement on my time, thank you very much. I would like to announce the doughnut rather than the hole in the doughnut because I think there is some very interesting information that came out of our first quarter figures.

The market value, the increase in gross national product of goods and services produced in the first quarter was an increase of $30.3 billion. That is 11.8 percent. That is a stupendous increase in our gross national product.

Chairman PROXMIRE. Will the Senator yield?

Senator PERCY. No, I will not yield; I will at the end of my comments.

Admittedly, part of this is inflation. But the real increase in growth s 5.3 percent. There is a real reason for the bulge in inflation, I think, in this particular quarter. We are comparing it with a period of freeze. There couln't be any more inequitable thing, unconscionable thing, that we could do than to freeze everything for very long.

The President sustained it for 90 days. Certainly, everyone recognizes the inequity of carrying it on beyond that. Time after time in this committee we were warned and told that there would be a bulge after the freeze was lifted, that the inequities were so great that had accumulated in that 90-day period that we had to have an adjustment. Herb Stein sat there and told us there would be a bulge.

So recognize that there is a 6.2-percent inflationary effect in the first quarter and that is not unusual because you have to compare it with a 1.7-percent increase in prices that we had in the preceding quarter during the period of the immediate aftermath of the freeze.

Averaging those two quarters out, which is far more realistic, it comes to 3.9 percent. Then you can compare that figure logically with a 5.4-percent increase in the first quarter of 1971 and 4.2-percent increase in the second quarter of 1971. A 3.9 percent looks pretty good in that respect.

I don't think we are going to hell in a handbasket as a result of that, and I am not looking with doom and despair on the present situation. I can only think what would it have been if we hadn't gone in the direction that we did and tried to find some temporary means of getting hold of this uncontrollable inflationary increase that we had.

So I think there is good news and we have to look at the doughnut as well as the hole in the doughnut. I will be very happy to yield to my distinguished chairman for any comment or rebuttal he would care to make.

Chairman PROXMIRE. In the first place, we all assumed that the freeze and phase II was going to have some effect. I went on "Meet the Press" on Sunday, August 15, 8 hours before the President made his statement, and I set forth the program the President adopted. He adopted the Proxmire program. It took him only 8 hours to do it.

One of the first proposals that I made was that we not have a 3-month freeze but a 6-month freeze. Of course a freeze works. You can make the argument that there may be a bulge after the freeze, but I don't think anyone would possibly construe the situation to mean that you would have as much inflation if you had a period of freeze and then a period of controls as compared to no freeze and no controls at all.

The freeze has to have some effect. Furthermore, the initial point made by my good friend from Illinois was that we have something to be proud of in the increase in real output.

The administration has made it clear that if we are going to do anything about unemployment we have to have a 6-percent growth in real terms, 9-percent growth overall, with 3-percent inflation. Real output, as Senator Percy has said, was 5.3 percent. Some performance. Certainly nothing to be proud about unless failure makes you proud.

The administration is falling below its own standard and falling well below it.

Senator PERCY. If you reach for a star, you may not get one, but you don't end up with a handful of mud. If you hadn't reached for this 6 percent, how far would you have gotten? The 5.3 percent is, I would say, not bad, considering the closeness of the time we started this program to the present point. It is a whale of a lot better than the 2.1 percentage increase that we have been having in productivity increases, for instance, for the past 3 or 4 years, and virtually stagnant before then.

I tend to think this is not all gloom and doom. Some progress has been made. Considering the minuscule amount of monetary compensation of members of the Cost of Living Commission, the Pay Board, and the Price Commission, I would say there are certain rewards to be achieved in seeing at least some results, and I think there is some progress being made.

Judge Boldt, I have a question on penalties. I asked the question yesterday of Mr. Grayson because I think we have a situation of morality. We are trusting the American public. We are trusting now the American industry. We are trusting American labor.

We are not trying to impose a police state of 50,000 bureaucrats and have everyone checking on everything. We don't want that. We want to stay away from it. I think we should stay away from it.

But if we have breaches and penalties, I hope we have the power to penalize and the willingness to penalize and penalize swiftly. Can you comment beyond the comments you have in your prepared statement as to your attitude toward penalizing offenders?

Sometimes, as in sweetheart contracts, management and labor sometimes collude and work together; labor leadership, that is. Now, there could be quid pro quos and prices and wages could go up and inflation could continue rampant because of someone breaking the law.

Are you prepared to be tough, decisive. and vigorous in enforcement of the law and do you attribute any part of the wage increases that have been made to illegal actions?

Judge BOLDT. I think those who would be best able to answer the substance of your question, Senator Percy, would be the rather considerable number of my alumni who are now residing in public institutions. I not only believe in enforcing the law, but also in imposing penalties where they justly should be imposed; namely, for willful violation.

Senator PERCY. For willful violation, what is the maximum penalty can be given?

Judge BOLDT. $5,000 for anyone who willfully violates. I, for one, would not hesitate in the slightest in prosecuting violators.

Senator PERCY. Have you had instances of willful violations where charges have now been made?

Judge BOLDT. There are charges now pending in some instances of that kind. But I want to hasten to add that, despite those who comment upon my performance, I do have a very heavy feeling of compassion for those who may unwittingly or unintentionally have been in contravention of the myriad of laws and regulations by which we are governed.

I would not want to very heavily penalize for inadvertence or that sort of thing. But where there is a willful effort to evade or violate, in my judgment, there is no other thing that any public official can do, excepting to enforce what Congress has provided. That is my attitude.

Senator PERCY. I believe the chairman has contended that you are really not going after the large power groups which he believes generate most of the inflation we are confronted with. In your prepared statement, you do talk about the number of employees affected by the Pay Board decisions who work in concentrated industries. Does that, in your judgment, tend to answer the chairman's charge?

Judge BOLDT. I think it does. Insofar, incidentally, as enforcement is concerned, if there were an instance of clear and willful violation by a very large concern, in my judgment, it would be a most useful occasion to emphasize the need that everyone in this country is bound to obey the law.

These provisions have the force of law. Whether they are large, small, or in between, they have that obligation. That is an obligation of citizenship.

Senator PERCY. Wages in the construction industry have been noticeably high over the past several years. Can you tell us what progress the Pay Board is making to stabilize wages in this sector of the economy beyond your colloquy with Senator Javits on this particular point?

Judge BOLDT. As I said earlier, I can't give you any information that I consider reliable concerning the construction industry. I regret that. It has not been due to the lack of trying. We are vigorously pursuing the matter with a view of getting that, if need be, by taking more vigorous action than we have taken.

Senator PERCY. Lastly, how many cases decided have been challenged by Board members and returned to the full Board for reconsideration?

Judge BOLDT. One.

Senator PERCY. Can you give us that instance?

Judge BOLDT. New York Telephone.

Senator PERCY. Thank you very much.

Chairman PROXMIRE. Congressman Brown.

Representative BROWN. Judge Boldt, the chairman asked you about conflict of interest among Pay Board members in their work on the Pay Board. Is that why Mr. Meany quit?

Judge BOLDT. I am not privy to Mr. Meany's thinking on that or any other subject so I can't truthfully respond. All I know is that he left us at a time when we were doing the best we had ever done toward achieving our objective.

Representative BROWN. I would think you would be privy to some of his thinking because you worked together closely on the Board for how many months?

Judge BOLDT. From October 22 to November 8.

Representative BROWN. I beg your pardon?

Judge BOLDT. From October 22 to November 8. He has never been at the Board ever after that date. The last time he was there he came up to hand me the letter about his getting a pay raise. That is the last time I have ever seen him at the Board.

Representative BROWN. Did you take up that case?

Judge BOLDT. Not yet.

Representative BROWN. For the matter of delay?

Judge BOLDT. No.

Representative BROWN. Why not?

Judge BOLDT. Because it falls within our executive compensation area. We have now promulgated a policy on that and it will be processed in accordance with our policy. I certainly didn't intend to single out Mr. Meany and deal with his case as a member of the Board prior to our adopting policy on it.

I am sure that he would accept that as the proper thing to do inasmuch as I have never heard from him from that day to this about it.

Representative BROWN. The chairman was, I think, justifiably critical of you for not getting your prepared statement in 48 hours in advance, which is the rule of this committee. I would like to echo that because it is quite an extensive prepared statement, 52 pages in length. It takes even us clever fellows some time to absorb all of this. Particularly it is true when we get here late for the meeting.

Judge BOLDT. Congressman, all I can say it it will never happen again.

Representative BROWN. The reason I bring it up is because I had hoped this morning in my questioning to be able to look at Mr. Meany's prepared statement and ask you some questions about that. But I haven't seen Mr. Meany's prepared statement. I understand he is to appear tomorrow. Do we have it in hand?

Chairman PROXMIRE. I understand it is on its way. It is a violation of the Legislative Reorganization Act but only half as bad a violation as Judge Boldt.

Representative BROWN. I trust we will suitably admonish Mr. Meany tomorrow, Mr. Chairman. I am confident you will take care of that.

I would like to go on and ask, if I could, about the productivity in service industries. How do you judge the increase in productivity of a teacher?

Mr. MITCHELL. We would try to look for evidence of a cost savings accompanied by evidence that teaching quality and so on had not deteriorated.

Representative BROWN. This is more kids-per-teacher?

Mr. MITCHELL. No; it would not be that. I am not in a position of counseling people who are planning to make these cases, but if I were in a position of making a case for a productivity increase among teachers, I would try to estimate whatever cost-savings there had been, and at the same time present evidence that teaching qualities, say measured by reading scores or something of this type, had not deteriorated.

Representative BROWN. It seems to me that the cost-saving would come from a teacher teaching 30 kids rather than 25.

Mr. MITCHELL. It might be.

Representative BROWN. That is a 20-percent increase in productivity.

Mr. MITCHELL. But what you would want to show there is as a result of making that change, presumably the quality of education had not deteriorated. I admit it is a difficult thing to do.

Representative BROWN. It seems to me it might be done by using A.B.-qualified teachers rather than Ph. D.-qualified teachers. But there you do raise more specifically the question of differences in the quality of the teaching method. What else?

Mr. MITCHELL. As I say, it is quite a difficult problem to measure productivity in that kind of a situation.

Representative BROWN. Let me try another one. It seems to me that it is a difficult problem.

I can understand, Judge, why it might take you more than a couple of days to come to a conclusion about the problem, but I would hope it doesn't delay too long or else everyone might walk off the Pay Board and we would have real problems.

Let's take the grocery industry. I notice you have had some settlements here. I have a grocery chain in my part of the country that is awaiting a decision. We are all very impacted by food prices. A lot has been made in this committee of the recent rise in food prices.

How do you determine productivity among grocery workers? Say, meatcutters or checkout girls or counter clerks that stack the cans of soup on the counter?

Mr. MITCHELL. In this kind of instance, I think we would not look for the standard kind of output-per-man measure. But making a hypothetical situation, let's say you had a grocery chain in which there was some work rule which required that there be more packers than perhaps you felt were necessary in a given situation.

Through negotiations, this particular work rule was eliminated.

I think it would be possible in that situation to put a dollar figure on how much was going to be saved.

Representative BROWN. I understand that one of the large supermarkets here in town has an arrangement with its packers that they don't have a separate grocery bagger. The checkout person has to bag the groceries. It is part of the contract. That delays people in the checkout line, maybe providing them with an opportunity to contemplate the rise in food prices.

Suppose we eliminated bagging altogether and said you could check out more people in spite of the fact that you wouldn't have anybody bagging the groceries. The customer would bag his own groceries. Is that a productivity increase?

Mr. MITCHELL. If somebody presented that to us, we would make an estimate of the saving, but the staff would also point out that there had been an apparent decrease in quality as a result.

Representative BROWN. It seems to me it is a difficult area to make a decision in. I am curious to know how you do that. I think it may explain some of the delay. Again, I think the delay is unfortunate.

Judge, what do you think about a 25-percent increase in the minimum wage?

Judge BOLDT. I can't speak for the Board and I can't speak for myself about that.

Representative BROWN. Is there anyone on the panel who would like to comment on that, economist or otherwise?

How would we assess productivity on the 5.5-guideline basis in the face of a 25-percent increase in the minimum wage at this time?

Judge BOLDT. It is my impression, and this is only an impression because, as I have frequently said, I am not an economist, it would have the tendency to raise prices all along the line throughout the economy.

Representative BROWN. Wait a minute. We could avoid that, couldn't we, by getting productivity increases? In other words, you could hold it down to a 5.5-percent increase by minimum-wage-employed persons if you got rid of one out of five people on the payroll.

Judge BOLDT. Yes; but I don't know how the Pay Board would be .ble to achieve that or do anything about it.

Representative BROWN. One of my things in this committee is my current concern over youth unemployment. I just happen to think that an increase in the minimum wage of 25 percent will be very destructive of such employment we now have among young people, white and black, and some other elements of our society who are only able to earn a wage at the minimum level.

It seems to me if you apply productivity increases to industry—let's say the industry traditionally hires all minimum-wage people—then productivity increases to get that down to a 5-percent increase, from 25-percent proposed minimum wage increase, would oblige the industry to fire a lot of people, wouldn't it, or replace them with machines?

Judge BOLDT. The way you put it, it certainly sounds so. But I have no independent knowledge of it. That is all I mean to say, Congressman.

Representative BROWN. Think about it because when we get a little closer to the wire I am probably going to write you a letter and ask an opinion from you on it about what it would do to industries that employ minimum-wage people.

Judge BOLDT. One of the things I have learned to do since I have been here, Congressman Brown, is to respond very promptly to any Member of Congress who wishes our opinion about anything.

Representative BROWN. And one of the things I am going to do is anticipate trouble. I would like to suggest that I think that is anticipation of some trouble for you and also for wage increases in the economy generally.

There, obviously, will be a jump that will follow that right on through industry up to the $7.50 people, is that not right?

Judge BOLDT. It sounds like it will be a real problem for us to respond to.

Representative BROWN. If we should be obliged to freeze prices, say in the food industry, and if we can't get this wage situation under control without a freeze in wages, what might be done with reference to freezing people in the job? Are we also going to abandon the principle that people can move freely in this country from one job to another?

Judge BOLDT. I hope I don't live long enough to see that happen.

Representative BROWN. Would it be a natural follow-on to the formal freezing of wages at a specific level?

Judge BOLDT. I am afraid I can't answer that either. I am not knowledgeable in that particular circumstance.

Representative BROWN. It occurs to me that if a person is frozen into a wage level for which they feel they have superior competence—that is, competence superior to the wage level they are receiving—and if everybody is frozen on what he can make, that then the smart thing for the individual to do would be to move to a somewhat different job for which he feels he may have the competence that would pay more. Isn't that about right?

Judge BOLDT. If I were in that position, I think that is what would occur to me to do.

Representative BROWN. Relatively, that occurs even at this partial freeze level, does it not, the 5.5 percent? A person would be tempted to move to a different job if he thought that without impacting anybody's 5.5-percent increase he could move somewhere else to get more money, but on the job he has now he will only get a 5.5-percent increase?

Judge BOLDT. I am sure it would be so, that everybody would be seeking employment unless what he was doing was so interesting and challenging that he wanted to stay there, which is not a frequent cause of staying. He would want to move to a place where he would get more compensation. It is a basic, human desire.

Representative BROWN. Mr. Chairman, I conclude with the thought that, if this 5.5-percent guideline continues indefinitely, there may be some industries that are hard pressed for employees. A man might improve his own ability to earn by not staying at the job he has but by moving to a job with another industry, thereby creating some labor shortages.

Chairman PROXMIRE. Chairman Boldt, thank you very much for an excellent job. You have done very well. I hope you are not offended by the critical position I have taken.

Judge BOLDT. I just want to ask for one moment longer to say publicly that you have on all occasions when I have had anything to do with you been uniformly courteous, considerate, and fair to me despite the fact you have such a low opinion of my capacity for the job in which I am engaged. I mean that and I wanted to take this opportunity to express that thought.

Chairman PROXMIRE. Judge, I don't have a low opinion of you—your capacity. I just have a conviction that we should appoint somebody to a job who has had experience and training in that particular field.

As I say, you are one in a hundred, and I meant that, as a man, as a human being, as a moral person. That is great. But there are also a million others who are one in a hundred. I think you would agree that that wouldn't qualify them for that particular job.

Judge BOLDT. All I can say is I wish one of the others had the job.

Representative BROWN. Since this was your idea in the first place, Mr. Chairman, maybe we should recommend you for the job.

Chairman PROXMIRE. Well, Judge, thank you very much. That is another one of the nice things that Congressman Brown has done for me. This will put me in a good position for George Meany tomorrow.

(The following information was subsequently supplied for the record by Chairman Proxmire:)

EXECUTIVE OFFICE OF THE PRESIDENT, PAY BOARD,
Washington, D.C., April 27, 1972.

Hon. WILLIAM PROXMIRE,
Chairman, Joint Economic Committee,
Washington, D.C.

DEAR MR. CHAIRMAN: At the time of my recent appearance before the Joint Economic Committee, extreme concern was expressed over the time of arrival of my printed testimony prior to the hearing at 10 a.m. on April 19. Indeed, you indicated that under the Legislative Reorganization Act, testimony is required to be submitted forty-eight hours in advance of appearance; that telephone calls had been placed to the Pay Board at 6 p.m. and later on the night of April 18 without substantive response; and that the testimony was not received until shortly before the hearing began.

Because of my determination that a completely comprehensive presentation should be made to the Committee in response to the invitation to discuss the Pay Board's discharge of responsibilities in the last six months, a number of computations, analyses, and charts were prepared specifically for the Committee.

In view of our efforts to cooperate with the Committee to the fullest extent possible, I would hope that the official record might reflect that your letter to me dated March 30, 1972, extending an invitation to appear before the Committee, stated:

"It would aid the Committee and the working press if we could have 100 copies of your statement by noon, Tuesday, April 18. Please send them to Mr. Hamilton Gewehr, Joint Economic Committee, Room G–133, New Senate Office Building, Washington, D.C. 20510."

In response to this request, a member of my staff, on the afternoon of April 18, advised the Committee that we were unable to meet the noon deadline but would deliver 100 copies to Room G–133, as requested, the afternoon of that date. A mechanical failure in our reproduction machinery caused a further delay, which we reported to the Committee, and the testimony was delivered to Room G–133 at 6:45 P.M. on Tuesday, April 18. Finding the Committee office closed, our messenger placed a note on the door of the designated room, stating that the testimony was left in the room across the hall. Personnel, who were well aware of the status of the testimony, were present on the evening of April 18 long after 7:00 P.M. in my office, the Office of the Executive Director; and the Office of the Executive Secretary of the Pay Board.

Please accept again my apologies for the late arrival of our testimony and my appreciation for your courtesies in connection with the hearing.

Sincerely,

George H. Boldt, *Chairman.*

Chairman Proxmire. Our next witness is the president of the National Association of Manufacturers, Mr. Gullander.

As you know, we do have our timer and we will have to hold you down to 15 minutes.

STATEMENT OF W. P. GULLANDER, PRESIDENT, NATIONAL ASSOCIATION OF MANUFACTURERS

Mr. Gullander. Mr. Chairman, let me steal a couple of seconds of my valuable time to say that Judge Boldt is the fastest judge in the West, with respect to your comments.

I submitted a prepared statement on time, as of noon yesterday. I will only hit the highlights. The major points I have to make are this: A radical reconstruction of the wage-price control system, at this point in time, would be a grave blow to confidence within the business world, and hence to the Nation's prospects for economic recovery and stability.

Even if a better system could be devised—and I see no reason to suppose that is so—the Nation simply cannot afford to go through once again the period of doubt and confusion involved in getting used to any framework of controls.

Repeated experimentation with a succession of different approaches is surely not the way to restore economic stability, to allay fears of inflation, or to create the confidence base necessary for a period of renewed economic expansion.

The present system of wage and price controls has been subjected to a barrage of criticism in recent weeks. It has been pictured as grossly inequitable and completely ineffective. The conclusion drawn, sometimes explicitly and sometimes by implication, is that what has been done so far must be abandoned and a fresh start made.

As far as I can see, criticisms of that nature have been supported mainly by prejudiced rhetoric, rather than by objective analysis. But they have received such prominence in public discussion that I would like to start by commenting on them.

The present wage-price stabilization effort is an attempt to deal with economic problems that had been developing over a long period of years. The inflationary wave we are now contending with had its origins in the mid-1960's, and after a period of quite impressive stability of unit labor costs and prices during the first half of that decade.

Perhaps the public does not adequately understand that many of our present problems stem from a distortion in the relationship between profits and wages in the inflationary period since 1965.

To outline what has happened since that time, I present the following table, based on Department of Commerce figures.

(The table referred to follows:)

[Totals in billions of dollars]

	Gross national product	Corporate profits after taxes	Compensation of employees
1965	$684.9	$46.5	$393.8
1966	749.9	49.9	435.5
1967	793.9	46.6	467.2
1968	864.2	47.8	514.6
1969	929.1	44.5	565.5
1970	974.1	41.2	601.9
1971	1,046.8	47.6	641.9
Percentage increase 1965 to 1971	+53	+2	+63

Mr. GULLANDER. To summarize briefly, during the past 6 years the economy has grown, dollar-wise, by better than 50 percent. Profits increased hardly at all over the same period. Compensation of employees grew at a rate even faster than the overall growth of the economy.

This is the background for the imposition of mandatory controls on August 15, 1971. In the light of that record, it would appear ludicrous to maintain that the primary problem is to restrain the pricing practices of business, lest they earn undue profits. Clearly, the focus of the problem is the increase in employee compensation.

There is no margin to impose a further squeeze on profits as a contribution to the stabilization program.

Despite the histrionics of labor union leaders, the charge that the control system has favored business as against labor is completely contrary to the facts. I can only regard it as an application of the "big lie" technique—rather than as an honest view with which I merely happen to differ.

This is an early stage for appraising the effectiveness of phase II. The 5 months of its existence have largely been occupied with the initial development of operational procedures and regulations.

Passing judgment on the basis of what happened to prices and wages during those 5 months is like appraising the potentiality of a new type naval vessel on the basis of its performance in the shakedown period—

when the crew was learning to handle her, the inevitable initial mistakes were being made and standard operating procedures were being written.

The general price indexes—both wholesale and retail—have been seriously distorted by the peculiar pattern of prices for farm products and foods. Farm prices reached a peak in June of last year and then dropped off sharply during the next 3 months, while prices of most other things were rising.

The steep rise in agricultural prices during the course of phase II in the nature of a rebound from that earlier decline. It looks as though the rebound is just about over.

But even if you disregard farm prices, the wage and price trends of the past 5 months give a misleading picture of the effectiveness of phase II. It is in the very nature of the phase II system that wage and price rises will be much greater in the early months of its life than they will be later on.

The limitations on increases in employee compensation established by the Pay Board apply generally to what may be done over a period of 1 year. It was probably inescapable that a large part of the permitted increases would be crowded into the early part of that 12-month period. This means that employment costs would go up fairly steeply in the early months of phase II. But it also means that there will be that much less that can be granted as phase II goes on.

Since the Price Commission permits—with some restrictions—price increases that are justified by cost increases, it follows that price increases would also tend to be concentrated in the early state of phase II.

With all the difficulties under which the wage-price control system has been laboring during its start-up period, one might have expected its record in restraining price increases to be unimpressive. Instead, we find that there has been a very striking reduction in the rate of rise in the cost of living since last August, as I present in the following table.

(The table referred to follows:)

Year ended:	*Percentage increase in Consumer Price Index, percent*
August 1969	5.6
August 1970	5.6
August 1971	4.4
August 1971 to February 1972 (at annual rate)	2.8

Mr. GULLANDER. The phase II wage-price control system has been subjected to severe criticisms in regard to the choices made as to which types of transactions would be controlled and which exempted. But these criticisms come from two opposite quarters, which seem to contradict each other.

On the one hand, certain labor leaders have condemned the Cost of Living Council for exempting secondhand goods, some small landlords offering rental housing, and small retail outlets. These exemptions, it is said, withdraw price protection from the very types of goods and services that poor people are most likely to buy.

Other critics have taken the opposite tack and found fault with the stabilization agencies for attempting to cover too much of the economy with their regulations.

79-980—72——16

From this point of view, it is argued that the control agencies should concentrate their efforts on restraining wage and price increases in the relatively few situations where substantial "market power" exists. Just how such situations would be defined and identical is not clear.

Facing these two opposite lines of criticism, it is difficult to make any general pronouncement on the coverage of the present control system. The question might be more critical if we were contemplating a permanent framework for governmental wage-price intervention. During the interim period in which we expect controls to last, we anticipate that the control system will be one of rather broad coverage.

On the whole, we believe that the exemptions already granted to secondhand goods, certain rental units, and small retail outlets were wisely chosen. There are probably other opportunities of a similar nature for reducing the burden on the control agencies.

Perhaps the most pressing problem on your minds at this moment is the question of the treatment of raw food prices in the stabilization effort. Since I cannot pretend to expect knowledge about the agricultural sector, I will not comment on that question directly.

However, manufacturers are deeply concerned with suggestions, heard in some quarters, that the Price Commission might attempt to exert indirect pressure on raw agricultural prices by restricting the right of food processors to pass on the full increases in their raw material costs.

I would strongly urge that Government not adopt such a policy of indirect control of agricultural prices. The resulting squeeze on food processors would have seriously harmful economic effects. It would risk creating chaos in the distribution of food products in this country—with the possibility that some types of food might disappear from the market. The food-processing industry would be seriously impaired in its ability to supply products, offer employment, or to grow. The consumer would be the chief sufferer.

We are somewhat surprised, at this point in time, to see suggestions that mandatory controls should be abandoned as soon as possible and replaced by a permanent incomes policy involving voluntary wage-price restraints.

For those who, like the NAM, instinctively dislike the thought of a controlled economy, the term "voluntary incomes policy" has a beguiling attractiveness. A voluntary program might seem less objectionable than a mandatory one.

But in practice we fear that so-called voluntary controls could be worse than the mandatory kind. The term "voluntary incomes policy" seems to denote a free-wheeling system of Government intervention in the marketplace. Government would choose the cases where it would intervene by any criteria that suited it. It would use whatever sanctions seemed most readily at hand. It would apply guideposts that are only vaguely defined.

All this is the opposite of the rule of law, where everyone's obligations are precisely laid out, where the penalities are prescribed, and strict judicial rules must be followed in convicting anyone of violations.

We greatly fear that "voluntary incomes policy" would mean repeated confrontations between business and government—with no legal machinery for resolving the issues.

For reasons already given, I do not see any basis for the claim that a major across-the-board revision of the wage-price control system is needed. I would urge, on the contrary, that the prime need now is to establish, as quickly as possible, firm rules for regulating prices and wages, and to stick to them until the proper time arrives for ending controls.

But even if the present system is left intact in its essentials, repeated changes in its detailed rules and procedures should be avoided. It is not that present rules have attained perfection. But it is easier to live with somewhat imperfect arrangements that remain fixed and are understood, than to adjust to continuous changes in the rules, adopted in the endless quest for perfection.

Although I have urged that no extensive changes be made in the wage-price control program for any light reasons, I do see an important problem ahead which will have to be faced as the program continues. This results from the present requirement in Price Commission regulations that industry absorb increases in labor costs in excess of 5.5 percent. We forsee the possibility that this may become increasingly difficult to live with as time passes.

Whether pay increases greater than 5.5 percent are justified or not in particular cases—and I will not argue that point—when they occur they are increased costs for the employer. I see no reason why such increases should be treated differently from any other cost increases—pay increases of less than 5.5 percent, or increases in raw material prices, for example.

Profit margins of manufacturing corporations in 1970 and 1971 were at the lowest rates recorded at any time since 1950. Certainly, this is not the time to further impair the profitability of industry. Profits are the incentive, and a source of funds, for the expansion of industry—an expansion which is badly needed at present. I therefore suggest that the present policy requiring an absorption of part of labor cost increases be carefully reviewed.

The chief threat to the success of the wage-price stabilization effort is not its own internal shortcomings, real though these may be. It is rather the tide of ill-informed and prejudiced criticism to which the program has been subjected. An attempt to reconstruct the program in wholesale fashion, now in midstream, would be fatal to its chances for success. A shift to a program which would be punitive toward business could stop the present rising economic trend dead in its tracks.

I most earnestly urge that the Joint Economic Committee not lend its authority to the campaign of unsubstantiated disparagement of the present wage-price control system. Instead, I hope you will assist the public by providing the facts they need to form sound judgments.

In recommending against any major reconstruction of the wage-price control system, I do not mean to express an attitude of complacency regarding the danger of further inflation. The continued rise in Federal spending, the successiou of large budget deficits, and the rapid increase in the money supply this year create grave fears on that score. The existing system of controls can be helpful in slowing the momentum of the present inflation.

But neither that system nor any alternative can help much if fiscal and monetary excesses provide the fuel for a new wave of inflation. That possibility should be a subject of close attention by the Joint Economic Committee.

Here I have sat as President of the National Association of Manufacturers advocating a continuation of a control system over wages and prices. Years ago that would be unheard of.

Our basic policy is against that kind of intrusion in the marketplace on the part of the Government.

At the time of the August 15 announcement by the President, the NAM reviewed its policy of many years standing and said we had to face up to a difficult situation, the inflation that could not be controlled and, therefore, reversed our policy on a temporary basis to support this program.

As I have tried to indicate here, it is like a program in industry. You lay your plans and go ahead and there is always something wrong. But it takes the long-term evaluation to decide whether or not this is the way to go. It is somewhat akin to a marketing system. If you are not getting the share of the market you think you deserve, you devise a new system. When you put it in being, the salesmen don't like it, the manager doesn't like it, the customers don't like it. If you let the criticism encourage you to change, that is wrong.

I think the same applies here to phase II. It is too early to judge that it needs scrapping. I think phase II should stay with us until one of two things happen: either it has done its job and we will be happy and it will go away, or it will be impossible for it to do its job.

Thank you.

(The prepared statement of Mr. Gullander follows:)

PREPARED STATEMENT OF W. P. GULLANDER

I appreciate the opportunity of appearing in these hearings, called to examine the present state of the government's wage-price stabilization program. I speak as a representative of the manufacturing sector of the business community.

I do not intend to plead for any special concessions or sympathy for business. My purpose is rather to offer the special insights which business can provide. The success or failure of any economic stabilization program will depend on the ability of enterprises to operate under it—to expand production and to create new jobs while it is in effect. Thus, businessmen are in a strategic position to appraise the likely consequences of any move in the field of wage-price controls.

The major point I have to make is this: *A radical reconstruction of the wage-price control system, at this point in time, would be a grave blow to confidence within the business world, and hence to the nation's prospects for economic recovery and stability.* Even if a better system could be devised—and I see no reason to suppose that is so—the nation simply cannot afford to go through once again the period of doubt and confusion involved in getting used to any framework of controls. Repeated experimentation with a succession of different approaches is surely not the way to restore economic stability, to allay fears of inflation, or to create confidence base necessary for a period of renewed economic expansion.

I have no desire to defend wage and price controls on principle. Business looks forward to the time when we can revert to our usual reliance on free markets. The NAM has supported government wage-price intervention as a useful interim measure under present emergency circumstances. We would like to see wage and price controls terminated as a result of their success, rather than abandoned as a result of their failure.

Also, I would not represent the present system of wage-price intervention as ideal in every respect. Like everyone else, the business community has its complaints in regard to certain aspects of it. Improvements can be made, and we hope they will be. But on the whole, we believe that the framework developed during the five months history of Phase II is reasonably effective, reasonably equitable, and reasonably workable in the real economic world. We would not want to see it scrapped in favor of some alternative system that now exists only on the drawing board, or perhaps only in someone's imagination.

The present system of wage and price controls has been subjected to a barrage of criticism in recent weeks. It has been pictured as grossly inequitable and completely ineffective. The conclusion drawn, sometimes explicitly and sometimes by implication, is that what has been done so far must be abandoned and a fresh start made.

As far as I can see, criticisms of that nature have been supported mainly by prejudiced rhetoric, rather than by objective analysis. But they have received such prominence in public discussion that I would like to start by commenting on them.

"FAIRNESS" OF THE PHASE II PROGRAM

It has been alleged that the procedures and rules developed under Phase II have favored business and been unfair to labor and consumers. This is so contrary to facts that are readily accessible on the statistical record that I am astonished at the wide currency of this myth.

The present wage-price stabilization effort is an attempt to deal with economic problems that had been developing over a long period of years. The inflationary wave we are now contending with had its origins in the mid-1960's, after a period of quite impressive stability of unit labor costs and prices during the first half of that decade. Perhaps the public does not adequately understand that many of our present problems stem from a distortion in the relationship between profits and wages in the inflationary period since 1965.

To outline what has happened since that time I present the following table, based on Department of Commerce figures:

[Total dollar amounts in billions]

	Gross National product	Corporate profits after taxes	Compensation of employees
1965	$684.9	$46.5	$393.8
1966	749.9	49.9	435.5
1967	793.9	46.6	467.2
1968	864.2	47.8	514.6
1969	929.1	44.5	565.5
1970	974.1	41.2	601.9
1971	1,046.8	47.6	641.9
Percentage increase, 1965–71	+53	+2	+63

To summarize briefly: During the past six years the economy has grown, dollarwise, by better than 50 percent. Profits increased hardly at all over the same period. Compensation of employees grew at a rate even faster than the overall growth of the economy.

This is the background for the imposition of mandatory controls on August 15, 1971. In the light of that record it would appear ludicrous to maintain that the primary problem is to restrain the pricing practices of business, lest they earn undue profits. Clearly, the focus of the problem is the increase in employee compensation.

There is no margin to impose a further squeeze on profits as a contribution to the stabilization program. We would wish that the public were more aware of this past record, in drawing conclusions as to the relative severity of price restraints as against wage restraints.

If 1972 profits were to be restored to the same percentage relationship with gross national product as in 1965, they would have to increase by more than 50 percent over their 1971 level. No such increase in profits is going to occur this year and I would not urge that price controls should be designed to permit it to occur. The facts do illustrate the absurdity of the claim that profits are rising to unreasonable levels.

Turning to the month-by-month record of prices and wages since the imposition of controls, the most direct statistical comparisoin we can cite is the ratio of prices to unit labor costs in manufacturing, as published by the U.S. Department of Commerce.

1971:	Ratio: Price to unit labor cost in manufacturing (1967=100)
July	97.7
August	97.6
September	98.2
October	98.0
November	98.2
December	98.1
1972:	
January	98.2
February (prelim.)	98.1

If it were true, as alleged, that prices of finished goods have increased inordinately under controls, while labor costs have been severely held down, we would expect to see this ratio rising sharply during the control period. Instead changes in the ratio since that time have been miniscule, indicating that a close balance between price changes and labor cost changes has been preserved during the control period.

Despite the histrionics of labor union leaders, the charge that the control system has favored business as against labor is completely contrary to the facts. I can only regard it as an application of the "big lie" technique—rather than as an honest view with which I merely happen to differ.

EFFECTIVENESS OF PHASE II

While equity is important in the wage-price control system, even more important is the question of whether the system is an effective instrument for controlling inflation.

Some critics have already rushed in to label it a complete failure. I believe, on the contrary, that an effective and workable set of rules and procedures has been developed that promises to achieve the stated goal of the program—reduction of inflation to an annual rate between 2 percent and 3 percent by the end of the year.

Here too, when one looks at the actual record of price changes since controls were imposed, one is astonished at the inclination to describe them as a complete failure. I will cite that factual record further on but first let me make some background points which I believe are essential to understanding its significance.

This is an early stage for appraising the effectiveness of Phase II. The five months of its existence have largely been occupied with the initial development of operational procedures and regulations. Passing judgment on the basis of what happened to prices and wages during those 5 months is like appraising the potentiality of a new-type naval vessel on the basis of its performance in the shakedown period—when the crew was learning to handle her, the inevitable initial mistakes were being made and standard operating procedures were being written.

Also, we must remember that the wage-price stabilization program is only one part of a national economic policy for dealing with inflation. Fiscal and monetary policy, international economic policy, manpower policy, etc., are all involved in the same objective. Yet a rise in prices is often regarded as specifically a failure of the wage and price control part of the whole complex.

Some of the criticism of Phase II stems from a failure to view it in a sufficiently broad perspective. I believe that the system of wage-price restraints set up in Phase II is more effective than a cursory examination of its results so far would suggest.

The general price indexes—both wholesale and retail—have been seriously distorted by the peculiar pattern of prices for farm products and foods. Farm prices reached a peak in June of last year and then dropped off sharply during the next three months, while prices of most other things were rising. The steep rise in agricultural prices during the course of Phase II is in the nature of a rebound from that earlier decline. It looks as though the rebound is just about over.

Price trends in the agricultural sector are subject to abrupt short-term swings which are almost unrelated to the course of prices generally. When they are measured over a period as short as five months they are practically irrelevant in an appraisal of the extent of continuing inflation in the economy at large.

But even if you disregard farm prices, the wage and price trends of the past five months give a misleading picture of the effectiveness of Phase II. It is in the very nature of the Phase II system that wage and price rises will be much greater in the early months of its life than they will be later on.

The limitations on increases in employee compensation established by the Pay Board apply generally to what may be done *over a period of one year*. It was probably inescapable that a large part of the permitted increases would be crowded into the early part of that 12-month period. This means that employment costs would go up fairly steeply in the early months of Phase II. But it also means that there will be that much less that can be granted as Phase II goes on. Since the Price Commission permits (with some restrictions) price increases that are justified by cost increases, it follows that price increases would also tend to be concentrated in the early stage of Phase II.

(It might seem that this could have been prevented if the Pay Board, instead of imposing an annual limitation, had compelled employers and employees to prorate it over the year. Thus, the Board might have specified that only one-twelfth of the allowable 5.5 percent increase could be taken each month. This sounds good, but it would have been impossible in practice. Adjustments in the wage scale for any employer are not customarily made as a continuous process, but at intervals. The administrative complications would have been insuperable if the Pay Board attempted to police a system of repeated small wage adjustments occurring every month in a large number of companies.)

PRICE TRENDS UNDER CONTROLS—THE FACTUAL RECORD

With all the difficulties under which the wage-price control system has been laboring during its start-up period, one might have expected its record in restraining price increases to be unimpressive. Instead we find that there has been a very striking reduction in the rate of rise in the cost of living since last August, as indicated in the following table:

Year ended:	*Percentage increase in consumer price index*
August 1969	5.6
August 1970	5.6
August 1971	4.4
August 1971 to February 1972 (at annual rate)	2.8

(We believe it is reasonable to combine the record for Phases I and II in appraising the effectiveness of the control system. During the freeze period, August to November, 1971, the price increase was reduced to a low rate that was clearly not sustainable for an idefinite period. But during the early months of Phase II there was a catch-up after the rigid restrictions of Phase I. Thus by combining the two periods we eliminate the two opposite biases and get a realistic figure for price trends under controls.)

The case for the alleged failure of the existing price-wage control system has no support whatever in this factual record. Instead it seems to have been successful to an unexpected degree.

I would not go to the other extreme and argue that in the machinery for Phase II we have found the ideal means for protection against inflation, which we should embrace as a permanent instrument of national economic policy. The history of controls in this and other countries suggests that even the best system of wage-price restrainst breaks down eventually. But as an interim defense against inflation we seem to have found, in Phase II, a reasonably workable and effective system. I do not understand the desire in some quarters to destroy it and start over again.

COVERAGE OF CONTROLS

The Phase II wage-price control system has been subjected to severe criticisms in regard to the choices made as to which types of transactions would be controlled and which exempted. But these criticisms come from two opposite quarters, which seem to contradict each other.

On the one hand, certain labor leaders have condemned the Cost of Living Council for exempting second-hand goods, some small landlords offering rental housing, and small retail outlets. These exemptions, it is said, withdraw price protection from the very types of goods and services tlat poor people are most likely to buy.

Other critics have taken the opposite tack and found fault with the stabilization agencies for attempting to cover too much of the economy with their regulations. From this point of view it is argued that the control agencies should concentrate their efforts on restraining wage and price increases in the relatively few situations where substantial "market power" exists. Just how such situations would be defined and identified is not clear.

Facing these two opposite lines of criticism, it is difficult to make any general pronouncement on the coverage of the present control system. The question might be more critical if we were contemplating a permanent framework for governmental wage-price intervention. During the interim period in which we expect controlls to last, we anticipate that the control system will be one of rather broad coverage. On the whole, we believe that the exemptions already granted to second-hand goods, certain rental units, and small retail outlets were wisely chosen. There are probably other opportunities of a similar nature for reducing the burden on the control agencies.

THE PROBLEM OF FOOD PRICES

Perhaps the most pressing problem on your minds at this moment is the question of the treatment of raw food prices in the stabilization effort. Since I cannot pretend to expert knowledge about the agricultural sector, I will not comment on that question directly. However, manufacturers are deeply concerned with suggestions, heard in some quarters, that the Price Commission might attempt to exert indirect pressure on raw agricultural prices by restricting the right of food processors to pass on the full increases in their raw material costs.

I would strongly urge that government *not* adopt such a policy of indirect control of agricultural prices. The resulting squeeze on food processors would have seriously harmful economic effects. It would risk creating chaos in the distribution of food products in this country—with the possibility that some types of food might disappear from the market. The food-processing industry would be seriously impaired in its ability to supply products, offer employment, or to grow. The consumer would be the chief sufferer.

Historically, the "middle-man" has been an all-purpose whipping-boy in times of economic difficulty. But the middle-man—processor, wholesaler, retailer—performs the essential function of transforming agricultural products on the farm into food on the table. If he is impaired in his ability to carry out that function, consumers would be the prime victims.

Concerned as we all are at the increase in food costs, we must remember that there is one possibility that is even worse—an interruption in the flow of food products to consumers. Such an outcome could be brought about by hasty and ill-advised intervention in the pricing processes of the food industry. That is not merely a theoretical possibility—some of us can remember the disappearance of beef from the American market in 1946 as a result of efforts to control its price.

MANDATORY CONTROLS VS. VOLUNTARY INCOMES POLICY

We are somewhat surprised, at this point in time, to see suggestions that mandatory controls should be abandoned as soon as possible and replaced by a permanent incomes-policy involuntary wage-price restraints.

On August 15, 1971, the President, without prior warning, imposed a rigid system of mandatory wage-price controls on the economy. He chose this course in preference to any one of the various proposals for less formal wage-price interventions that are generally included under the head of "incomes policy." We believe he made a wise choice. We also believe that when the time comes for termination of wage-price controls, the break should be just as clean in the other direction. We do not see any permanent place in the American economy for government intervention in the price and wage making process.

For those who, like the NAM, instinctively dislike the thought of a controlled economy, the term "voluntary incomes-policy" has a beguiling attractiveness. A voluntary program might seem less objectionable than a mandatory one.

But in practice we fear that so-called voluntary controls could be worse than the mandatory kind. The term "voluntary incomes policy," seems to denote a free-wheeling system of government intervention in the market place. Government would choose the cases where it would intervene by any criteria that suited it. It would use whatever sanctions seemed most readily at hand. It would apply guide-posts that are only vaguely defined.

All this is the opposite of the rule of law, where everyone's obligations are precisely laid out, where the penalties are prescribed, and strict judicial rules must be followed in convincing anyone of violations. We greatly fear that "voluntary incomes-policy" would mean repeated confrontations between business and government—with no legal machinery for resolving the issues.

In the rare periods when price-wage intervention by government becomes necessary—the present is one of them—mandatory controls are to be preferred to any so-called voluntary system.

THE NEED FOR FIRM RULES

For reasons already given, I do not see any basis for the claim that a major across-the-board revision of the wage-price control system is needed. I would urge, on the contrary, that the prime need now is to establish, as quickly as possible, firm rules for regulating prices and wages, and to stick to them until the proper time arrives for ending controls.

A large scale revision of stabilization policies across the board would create chaos in the business world and in the economy generally. We have gone through a painful shakedown period and emerged with reasonably workable arrangements. We cannot go through another such period withour risking economic disaster and the complete failure of the stabilization program.

But even if the present system is left intact in its essential, repeated changes in its detailed rules and procedures should be avoided. It is not that present rules have attained perfection. But it is easier to live with somewhat imperfect arrangements that remain fixed and are understood, than to adjust to continuous changes in the rules, adopted in the endless quest for perfection.

THE PROBLEM OF COST ABSORPTION

Although I have urged that no extensive changes be made in the wage-price control program for any light reasons, I do see an important problem ahead which will have to be faced as the program continues. This results from the present requirement in Price Commission regulations that industry absorb increases in labor costs in excess of 5.5 percent. We foresee the possibility that this may become increasingly difficult to live with as time passes.

As things stand, producers are generally permitted to pass-through into price any increases in the cost per unit of product. The major exception is that increases in hourly labor cost, to the extent that they are greater than 5.5 percent, may not be passed on in price.

The Pay Board initially imposed a 5.5 percent limitation on increases in employee compensation. However, its rules have been gradually modified in the direction of permitting greater increases in numerous cases. Also, special situations have arisen in certain industries in which the Pay Board approved increases which seemed to have no relationship whatever with the 5.5 percent guideline.

This may be unfortunate. It would be still more unfortunate if the Price Commission assumed the duty of making up for presumed deficiencies in Pay Board Policy.

Whether pay increases greater than 5.5 percent are justified or not in particular cases—and I will not argue that point—when they occur they are increased costs for the employer. I see no reason why such increases should be treated differently from any other cost increases—pay increases of less than 5.5 percent, or increases in raw material prices for example.

I would not argue this issue on equity considerations alone. A policy which requires cost absorption by producers could seriously impede the recovery of the economy and the reduction of unemployment.

Profit margins of manufacturing corporations in 1970 and 1971 were at the lowest rates recorded at any time since 1950. Certainly this is not the time to further impair the profitability of industry. Profits are the incentive, and a source of funds, for the expansion of industry—an expansion which is badly needed at present. I therefore suggest that the present policy requiring an absorption of part of labor cost increases be carefully reviewed.

At this point there seems to be a disposition to "tighten up" the control system by applying stiffer regulations on the final prices charged by business. We have not observed, during this period when the control system is under fire, any corresponding clamor for applying stronger pressures to hold down the costs paid by business. It is impossible to find any objective reason for this tendency to zero-in on the business community as the scapegoat. I don't know whether the one-sided emphasis is due to misinformation, prejudice or simply the fact that business is the most defenseless target. I do know that it could do grave damage to the economy. Production of goods and services must go on and it can't when the relationship between costs and prices is distorted.

CONCLUSION

The chief threat to the success of the wage-price stablilization effort is not its own internal shortcomings, real though these may be. It is rather the tide of ill-informed and prejudiced criticism to which the program has been subjected. An attempt to reconstruct the program in wholesale fashion, now in midstream, would be fatal to its chances for success. A shift to a program which would be punitive toward business could stop the present rising economic trend dead in its tracks.

For reasons I have given, I find no factual basis for the charge that the program has been biased in favor of business and ineffective in checking inflation. The bombastic attacks on Phase II have been the equivalent of bringing a charge of murder—when there is no *corpus delicti*.

I most earnestly urge that the Joint Economic Committee not lend its authority to the campigan of unsubstantiated disparagement of the present wage-price control system. Instead I hope you will assist the public by providing the facts they need to form sound judgments.

In recommending against any major reconstruction of the wage-price control system, I do not mean to express an attitude of complacency regarding the danger of further inflation. The continued rise in federal spending, the succession of large budget deficits, and the rapid increase in the money supply this year create grave fears on that score. The existing system of controls *can* be helpful in slowing the momentum of the present inflation. But neither that system nor any alternative can help much if fiscal and monetary excesses provide the fuel for a new wave of inflation. That possibility should be a subject of close attention by the Joint Economic Committee.

Chairman PROXMIRE. No. 1, I want to commend you for submitting your prepared statement on time. It was very helpful. It was not quite as early as George Meany's prepared statement in relationship to the committee, but much earlier than Judge Boldt's.

Mr. GULLANDER. It met your requirement.

Chairman PROXMIRE. Yes, indeed. You are in the same position as Mr. Meany. No. 2, I want to commend you on Mr. Hagedorn, your economist. He is one of the best economists in the business. He is a very able man. But what puzzles me about this prepared statement is something that you ended up with. You make a very mild defense for profits.

Yesterday, I pointed out a much stronger position on what has happened to profits in our system was made by the Wall Street Journal, by John O'Reilly's column.

Mr. GULLANDER. A very good column.

Chairman PROXMIRE. You pointed out how GNP was up 53 percent, but what he points out is that the dividend income is up only 30 percent since 1960 and wage-salary income is up 60 percent. He makes a very strong argument that there is no way you can get at inflation by cutting profits.

If you examine it, it takes the General Motors gross income, $28 billion last year, and points out that only $2 billion of that went to any phase of capital reimbursement, including stockholders, depreciation, obsolescence, expansion and modernization. It went almost entirely to suppliers, employers and taxes.

There is just no way, in spite of the rhetoric, that you can hit at profits and help solve the inflation problem.

Nevertheless, this is a very widely held illusion. I have spoken to many constituents who say hold down prices not wages. Well, you can't stop inflation without holding down wages.

What really astonishes me is that of all the defenses, uncritical, overwhelmingly approving controls, the NAM comes up with No. 1. I have never seen a statement more laudatory of wage-price controls.

I am not saying that you love them, but it is next door to loving them. The only major criticism I see is that possibly the Price Commission won't pass through all the costs. Can't you find anything else wrong?

Mr. GULLANDER. We live in a world of reality, as you gentlemen do. We live in an economic world. We have an inflationary situation that none of us can continue to live with. It threatens our society and industry.

So we accepted these controls on a temporary basis with the thought this world break the flywheel effect of this conctinuing inflation. Controls are not loved by anybody and certainly not by industry.

We have many members who are unhappy over the fact they have all kinds of reporting requirements to the Price Commission, problems with the Pay Board. That is inherent. But this is a question of alternatives.

As we see this difficult assignment being done by the board and commission, in a manner that I think calls for commendation, we wish they didn't have to be there. They interfere with our business.

But the alternative we think is another process of going through uncertainty to create another kind of institution to do the same thing.

Chairman PROXMIRE. But on the basis of all of our experience, the only other times we have had wage and price controls was when we had shortages, when we had rationing in World War II and the Korean war, when we were operating close to our capacity, close to 100 percent, or even beyond that in World War II, when we had very little unemployment, as in World War II.

Today we have vast vacant capacity, we have over 5 million people looking for work, an enormous ability to increase supply. The only shortages are in certain very restricted areas like health services. We have peculiar problems in construction. But generally the heart of the over inflation problem is we have an imbalance between great union power and the employer power.

You have administrative price power on the part of some big businesses, and, obviously, administrative power on the part of big unions.

So why don't we just recognize the facts of life and not have controls on the 99 percent in terms of numbers of the businesses that have no ability to determine prices because that is determined in the marketplace on the basis of competition, and confine our controls and make them as brief as we can and temporary as we can, confine all of it to the area that does have the power to determine prices—the steel industry, the automobile industry and a few others?

Mr. GULLANDER. If you are going to get to the fundamentals, of course——

Chairman PROXMIRE. And the big unions.

Mr. GULLANDER (continuing). You have to recognize that where we are today is because you have an inbalance at the bargaining table. The law of supply and demand should function with labor, too. But over the years, the balance of power has shifted to labor and away from management. This is why we have a flywheel effect. Labor has had the capacity and strength to demand wage increases way beyond the productivity increase.

There is nothing magic in this world. You can't create products, goods or services without doing something to create them, which means labor.

To the degree that they get wage increases beyond productivity increases, management has been compelled to raise the prices. We say we bargain for wage increases. Labor unions have such power that management does not have any power to prevent that runaway inflation. One thing that wage-price controls has given to us is a breathing spell where this horrendous pace of increase in wages has at least been slowed down. Hopefully, in the process the labor union members and the labor leaders will recognize the facts of life, as Senator Percy was saying, and as you have indicated yourself.

The answer is not this kind of runaway situation but productivity increases. If there was never again an increase in wages to any one, but prices kept falling and falling because productivity was so great, that would be an increase in the standard of living for everybody.

Chairman PROXMIRE. However, there has been this imbalance. We had a period from 1959 to 1965 when we had stable wage-costs in manufacturing. Productivity and wage increases were precisely parallel. For 6 years we had no increase in wage costs. We were the only country in the industrial world that had that. Obviously, you don't have that where you have an imbalance and very powerful unions and employers that have to cave in all the time.

It was only since 1965 and during that earlier period profits had increased greatly as we all know, and I think it was a good thing, it is the guts of our system, and then the catch up began.

In spite of all that, I don't think you can show that there has been an imbalance. I would agree wholeheartedly you have an imbalance in construction. There is no question about that. You have national unions and no employers that are big. But I don't see how you can argue you have an imbalance in the automobile industry, with GM, and in the steel industry, United States Steel; most of the producers are very powerful. You have unions that have equivalent power.

Mr. GULLANDER. You mentioned the construction industry. At about 1965, there was a tremendous increase in plant construction. Industry was expanding rapidly. There was a great demand for construction labor. You have a national structure for unions and you have many, many very small contractors. Wage rates got completely out of hand. It used to be in the construction industry you worked x number of months a year and then because of bad weather or no work you were off for a period of time. So labor would say they must have a higher hourly rate in order to give them an adequate income for a 12-month period.

As a man, the man who does the same work in the plant working the full 12 months inside the plant would accept a lower wage rate than the man in construction.

Techniques have changed in construction. Today over the United States, work is available over 12 months a year. So the man inside on a factory job, a secure job, was no longer content to get the same wage rate as before when the man outside was making almost twice as much.

When you say General Motors is a powerful organization, General Motors is able to build the automobiles they build because of the investment they have made in machines and tools.

When one segment of our economy, labor, shuts down a plant in which depreciation costs and interest costs are very high, there is a limit to how long you can stand that facility to be idle no matter how large you are. Yet, the labor unions have improved their powerful position not only because they have grown in strength themselves, but now we have laws which give them welfare benefits, unemployment compensation, and sustain them during the period of a strike.

If at the same time you would give General Motors a gross margin on all the automobiles they would have built during that strike, you would have a strike going on forever.

What I am saying is that the power of the unions has increased to the point where General Motors is no longer strong in relation to unions. Until we answer that problem, wage and price controls are a device that help us maintain some sanity in our price structure, which is really what we are after. But we have to go to the fundamentals.

That is where the strength lies that creates this demand for more compensation than you are earning, based on any measuring stick.

Chairman PROXMIRE. My time is up, but before I yield to Congressman Brown, I hate to get into motives, and Judge Boldt properly said we shouldn't and he is right. But I can't understand why the National Association of Manufacturers, of all organizations, should support a control program unless they have a mighty good thing going for themselves.

I don't think you fellows are that selfish, but otherwise, why in the world would you do something that reverses all of the principles for which the business has stood, which is freedom of business, to be free of Government interference, freedom of Government regulation, freedom of Government telling you where to fix your wages and prices.

Mr. GULLANDER. We still stand for that. When the time arrives when we can find stability and the market economy is affected, we will be the strongest voice at this microphone to tell you.

We have to recognize we live in a world economy. We were pricing ourselves out of the world market. You know that better than I do.

Chairman PROXMIRE. Thank you very much. I apologize for leaving. You have presented fine testimony. Congressman Brown will take control of the committee. He has a few questions for you.

Representative BROWN (presiding). I have only one area of testimony I would like to get on the record. That is what would industry do if it was limited to a 2.5-percent price increase and had a higher wage increase than it could sustain, both of these controlled now by the Federal Government?

Would it continue to operate in that product line or would it shift to some other product line where it might be able to get a little bit more money for its product for the same wage contribution?

Mr. GULLANDER. The first thing they have to do is put their cost accountants to work and work it out to see what is involved. I suspect if a company had a well-established product in the marketplace and that kind of a situation brought you down to an almost no profit basis, then the decision the management would have to make is can we afford to go along and carry this merely to maintain our position in the market so that *x* number of months from now when, bless us, wage and price controls are gone, we will still be in the business, have the same customers and serve them adequately, or is the disparity in cost and price so high that we must give up that contact with customers and get out of that business and try to find a substitute line.

It is not always possible to find another substitute product. Or it might mean you go into a business which requires entirely different skills to make up for that business you have lost, which means you hire some new people but you must again lay off some people, which creates a distortion in the labor marketplace.

So that is a question that can only be answered when all the facts are marshaled. The tendency, of course, would be as your margin shrinks you would put your emphasis on the areas of product lines where your margins are better. This happens whether you have wage and price controls or not.

If you are in a variety of lines of business and one becomes so competitive either because of foreign imports or whatever it may be, then you look for opportunities to invest that management and manpower into that line of goods.

But there are these added factors to be placed with that problem.

Representative BROWN. Is there anything in the wage-price law now, the regulations which have been promulgated in connection therewith, which would prevent a company from shifting out of one line into another line that might be more profitable and, in effect, abandoning its production or its sales effort in the lower profit line?

Mr. GULLANDER. I know of none. Of course, really, our economy couldn't live with it. We would have maybe 350 buggy whip manufacturers still in business, if that had been a kind of regulation over the years. I know of no such regulation.

Representative BROWN. Similarly, with reference to labor, then, I suppose the same thing exists on the wage side. If an employee decides that what the Pay Board has permitted in a certain line of work is not satisfactory from the standpoint of his needs, he is likely to shift into an area where he can get a little bit higher income even though that particular line may be granted a percentage of wage increase that would be less than his original employment.

Mr. GULLANDER. Most people who are responsive to incentive would always consider that. At the time we had wage controls during World War II this was one of our problems. You had a man and he was worth more, because he had improved, and your regulations said you couldn't pay him differently.

If you didn't have a job in another classification, he would go to your competitor. You might find yourself finding his counterpart in your competitor because the work had to be done. Even with the wage-price controls this supply and demand exercises its influence, even during World War II's tightest restrictions. That created the black market in World War II. What you say is true. This is one of the risks you have to run, however, one of the uncomfortable things about wage and price controls no matter how well they are administered.

These are some of the bad things, both for management and labor or junior management. It is more apt to happen in the junior management level than in the labor force.

Representative BROWN. The prospect exists similarly for not only shortages of labor but shortages of products in certain lines simply because under a controlled situation, unless you control it completely and require people to continue to do the same thing they have been doing before, there will be a tendency to shift into the lines that are more profitable, the jobs that are more remunerative, and the result will be that we get ourselves into a shortage situation and have further disruptions in the marketplace.

I would hope that point can be made effectively to the administration over the long pull and also to some of my colleagues in the Congress.

It occurs to me that we have in this move taken a rather specific, if necessary, step into a controlled and regimented economy. I would hope that we would be in a position to step back away from that as quickly as we can.

Thank you very much, sir, for your testimony.

The committee will stand in recess until 10 o'clock tomorrow morning.

(Whereupon, at 12:35 p.m., the committee recessed, to reconvene at 10 a.m., Thursday, April 20, 1972.)

REVIEW OF PHASE II OF THE NEW ECONOMIC PROGRAM

THURSDAY, APRIL 20, 1972

CONGRESS OF THE UNITED STATES,
JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The committee met, pursuant to recess, at 10 a.m., in room G–308, New Senate Office Building, Hon. William Proxmire (chairman of the committee) presiding.

Present: Senators Proxmire, Fulbright, Javits, and Percy; and Representatives Conable and Brown.

Also present: John R. Stark, executive director; Loughlin F. McHugh, senior economist; John R. Karlik, Richard F. Kaufman, and Courtenay M. Slater, economists; Lucy A. Falcone, research economist; George D. Krumbhaar, Jr., and Walter B. Laessig, minority counsels; and Leslie J. Bander, minority economist.

OPENING STATEMENT OF CHAIRMAN PROXMIRE

Chairman PROXMIRE. The committee will come to order.

Mr. Meany, you drove a hard bargain before you agreed to serve on the Pay Board. First you insisted that it be tripartite. Many disagreed with you on that and thought a tripartite board would bog down in delay, would invite division and disagreement, and when it would stumble along would only be able to do so by caving into pressure.

It looks like this is exactly what happened to the Board. So those who disagreed with you may have been right. At any rate the Board did delay. It did deadlock. And in my view it did cave in under pressure.

But the tripartite feature was not the administration's idea or Congress' idea. It was your idea. And when you walked off the Board, you killed it. You strangled your own baby.

You also drove another bargain. You insisted that there would be no interference—some might call it coordination—between the Cost of Living Council and the Board.

You insisted that the Board, not the Cost of Living Council, not Secretary Connally, not the administration but the Board, should determine wage policy without interference or veto. You won that battle.

It is true that this victory has been at least partially sabotaged by Cost of Living determination of some policies such as low-income exemption. But the Pay Board sovereignty was again your baby. And

79-980—72——17

as long as you were on the Board it had a fighting chance. Now you have left the Board, and this Senator wouldn't give a nickle for the continuing independence of the Pay Board. Here is a second offspring you have done in.

When you walked off the Board you said you didn't want to be mere window dressing. But while you were on it wour will seemed to prevail on some immensely impressive settlements—coal wages were allowed a 12-percent increase; railroads even more. There were other settlements which seemed inflationary. Frankly, I opposed them, but you seemed to be winning.

Sure you lost some battles, some tough battles, but you seemed to be winning the war. And I don't see how you could possibly have called the overall determinations by the Pay Board just a facade. The results were: One, some enormous breakthroughs for immediate wage gains for labor; and two, some serious setbacks for any effective anti-inflation program.

Now this is all over. You are on the outside. You must carry on your fight for a better break for the working man from the outside.

You are a mighty powerful man. Some say you are the second most powerful man in the country. I would only question why they say second.

I am looking forward to this hearing this morning to see if something better can't come out of this action of yours. You are as devoted as any American to the economic health of this country. You know as well as anyone that inflation can spell disaster for the millions of working men you represent. You have the power to get results, and, as I am sure you recognize, when you walked off that Pay Board you did not walk out on your responsibility to your country.

I stress this point because I am now going to go on to say that, after listening to the administration witnesses, I am not only persuaded that inflation is not being controlled, but that in addition labor may be right in thinking the program will result in serious discrimination against them.

The control of wages has not been very good. Some unions have gotten extraordinarily large settlements approved. The Pay Board estimates of average increases contain so many loopholes that they are hard to interpret. But if the statistics Judge Boldt presented yesterday are even anywhere near correct, wages are being controlled more effectively than prices.

In part this is being done through delay. Some of the Pay Board's most difficult cases are still pending. If decisions can be put off long enough, this will certainly help keep down the average wage increase, but it would be hard to imagine a more unjust way of achieving this objective.

The Price Commission by contrast seems to move with promptness in approving price increases. The statistics presented by Mr. Grayson indicating that 40 percent of the first 129 firms to file complete quarterly reports appeared to have profit margins exceeding the guidelines, certainly suggest that prices have gone up more than they should. I have little hope that Mr. Grayson's fine plans for price roll-backs will come to much. The sheer effort involved in reading and evaluating the reports of 3,000 companies will in itself prevent uniform application of the profit rule.

So I can understand why you think the program will turn out to be systematically discriminatory against labor. Corporate profits represent only about 10 percent of total national income, while wages and salaries represent 75 percent. So a little extra profit may not have a really major impact on prices. But the equity issue involved is very serious. The very notion that excess profits are resulting from this program infuriates the public. They feel they just cannot cooperate. A program which the public sees as unfair cannot help but fail.

My view is that the thing to do with this shambles of a control program is to get rid of it. Limit the controls to the areas of monopoly power and the few areas of supply shortage. Make these limited controls effective while they last. Then get rid of them, too, replacing them with voluntary guidelines. I know my position on this differs from that of the AFL–CIO, and I hope we can later get into some discussion of that.

Mr. Meany, the administration officials we have had testify have made light of the importance of labor participation on the Pay Board. Furthermore, they have flatly denied some of the accusations you and other labor leaders have made. Now it is your turn.

Before you begin, let me say that I appreciate receiving your prepared statement before the close of business yesterday. You are close to winning on that score. I had a little colloquoy with Mr. Brown. He wondered if I would tell George Meany this morning that he was late with his prepared statement. You were late. You violated the Reorganization Act, which requires 48 hours in advance. You were later than the committee instructed. You did a whale of a lot better than anybody except Mr. Gullander, the head of the National Association of Manufacturers.

We are delighted to have had your prepared statement in advance.

STATEMENT OF GEORGE MEANY, PRESIDENT, AMERICAN FEDERATION OF LABOR & CONGRESS OF INDUSTRIAL ORGANIZATIONS

Mr. MEANY. Thank you very much. Before proceeding with my oral statement——

Chairman PROXMIRE. Before you do that, just one other point. Again, I am embarrassed to tell you. You are certainly our principal witness and our most important witness in this hearing. We have followed a policy and I know you want to be treated equally with everybody else. We put a timer up here and limit everybody to 15 minutes. The buzzer goes off at 13 minutes and you have 2 minutes left. Then we will get into the questioning period.

There will be other Senators here, and I know you want as much time for give-and-take as we can have.

Mr. MEANY. Am I permitted to comment?

Chairman PROXMIRE. Yes; without restrictions on your time.

Mr. MEANY. You speak of the battles we won and the victories we won in this whole business. Frankly, I don't want to win any more battles, if we won battles with the administration on this question.

We started back in February 1966 and we said publicly, in a public statement unanimously adopted by our executive council, which received wide publicity, that it was not our decision as to whether or not controls should be used to combat inflation. This was the decision that would have to be made by the President of the United States.

However, if he made that decision, we would cooperate, providing, and I want to stress this, that the controls were fair and equitable, and that they were put on all segments of the economy that had any impact on the question of inflation.

We repeated that again later that year and then in 1967 and in 1968 and in 1970 and again in 1971 we issued that same statement, word for word, that we were ready to surrender some of our freedom in order to make a contribution to fight this battle of inflation.

You say that 70 percent of the workers' wages have an impact on prices and only 10 percent of profits.

Well, I can say to you that we are the first victims of inflation. If you talk to the housewives of America today, and we have a way of talking to them—we have some material which shows what they are up against on the basis of a survey we made—we certainly want to bring prices down. If we brought prices down, it is quite obvious that the pressure for higher wages would be to some extent lessened. When you look at the problem of the housewife with her bills going up and up and up—I happened to talk to the wife of a Republican Congressman that I have known for many years, and she was almost in tears just a few nights ago. She has a large family. I happened to meet her at a social occasion. She said that she shops for her large family, I think once a week, and she keeps a record. Six months ago she was paying $155 for her week's supply for her children, which she buys in the supermarket. Now it is about $198.

I want to say this, that she can afford to pay that, I am quite sure. I know her husband and I know what his background is. In fact, he is a very good friend of mine, despite the fact that he is a Republican Congressman.

She was really indignant about it. This applies to all the housewives of America. Whether they can afford it or not, they don't like to get robbed in the store. So we are the victims.

You talk about the people who get the profits, and so on and so forth. They are the victims, too, but not to the extent that we are, just because of our numbers. So we start out, Senator, by saying that we want to see prices controlled.

What was the attitude of the NAM? What was the attitude of big business? No controls. No controls at all. Controls are undemocratic.

What did the President of the United States say? The President of the United States said controls will not work. They will not work because they are never equitable "And I am completely and unalterably opposed to price controls." This is what Mr. Nixon said.

However, when he became President, we were told that there was going to be a fight on inflation, and with a great deal of fanfare and a great deal of rhetoric from Arthur Burns we were told that the inflation was going to be licked. This was February 1969.

I have in my record, and I put this in the Congressional Record the other day, a letter from Mr. Nixon to me personally in which he said, "We are going to control prices. We are going to bring prices down. And we are going to do it without asking the worker to pay for this control by the loss of his job. In other words, we are going to do it without causing additional unemployment."

What was the system? Monetary fiscal control, squeeze down, cool down the hot economy. This was Arthur Burns' theory, to cool it down. I have known him for years and he sincerely believed this would happen. This was the beginning of phase I, February 1969, the start of phase I, not August 15, 1971.

What happened? Well, they did slow business down a little and they promptly caused unemployment.

Of course, we kept getting a series of statements from the representatives of the executive branch of the Government. They have a way of seeing blue birds flying around every time a statement comes out. They ignore the things that they feel might not be favorable.

But Mr. Walker, the Assistant Secretary of the Treasury, in July 1969, just a few months after the phase I inflationary fight started, pointed to the rapidly rising rate of unemployment and he said, "This proves that President Nixon's plan is working."

Well, he evidently hadn't consulted because President Nixon's plan was to control inflation and not cause more unemployment. So what was the result? More unemployment. And what happened to the inflation? Up, up, up. It was 4.5 percent in February 1969. A year later it was well over 6 percent. It is well over 6 percent today.

What happened to the interest rates? Gentlemen, don't interest rates have something to do with prices? Don't interest rates have something to do with what the consumer pays? Doesn't what the middleman gets for his profit have something to do with the price? Don't profits have something to do with price? Don't dividends that are paid on investment capital have some impact on prices? Or is the workers' wages the only thing that has an impact on prices?

We don't believe that. But we kept hearing that the plan is working, the economic plan is working.

However, I began to have my doubts because just about a year after the plan went into effect Arthur Burns started to make some speeches. He didn't talk about his plan. He didn't say, "Well, it may work a little better." He didn't even mention the plan. He started to say, "Labor is the problem. Labor is the problem." He came out with some new ideas. Congress didn't adopt them. One of his new ideas was to enact compulsory arbitration legislation, to compel workers to work for wages laid down by the Government, to work for the private employer at a wage set by Government fiat.

He had nother idea. The minimum wage law was in the way because, you see, in our unemployment figures—we get an overall figure but then there are a log of figures broken down about how it affects the blacks, how it affects the ghettos, how it affects rural areas, how it affects teenagers, and so forth. The teenage rate is always high and always will be high because the teenagers are added to the labor force when they look for work. They are not working. They have never worked before.

They come into the labor force and until they get a job they are listed as unemployed. Sometimes their rate is as high as 22 percent.

But Arthur had a brilliant idea. The minimum wage law should be amended so that the teenagers can be hired at something below the minimum wage. The fact that this may put the teenager's father out of work never occurred to Arthur Burns, but I suppose if it did his answer would be, "Well the father can always go on welfare."

It is very simple. Tie it all together.

Speaking of welfare, this is one place where we have made great, great progress. We have added almost 5 million people to welfare during the last 3 years. This is great. The ratio between those who work and those who depend and put their hands out for their sustenance from those who work is changing all the time. The number of people that we call the working poor is increasing all the time.

So when you look at this picture you have to look at the general picture. As late as last July, Secretary Connally said, "There will be no change in the President's economic plan." And then they went up on a Friday afternoon, to the eagle's nest in Maryland and they had a conference.

They didn't even bother to bring the Secretary of Labor. He is not one of the eggheads. But they had Arthur Burns and George Shultz, and they had big John Connally there. They sat for several hours. All of a sudden the plan changed and they notified the members of the Cabinet to be at the White House at 4 o'clock Sunday afternoon, the 15th of August. Then the President came on television the 15th of August.

He didn't apologize for the miserable failure of the economic game plan No. 1. He didn't even mention it. Of course, this is something he has borrowed from the Communists. They have a technique. They never defend, they never mention. You can't get a Communist to talk about Czechoslovakia in August 1968. You can't get him to talk about Hungary back in 1956. No; they don't talk about those things. They talk about what is wrong with you, not what is wrong with them.

So the President's education has progressed, I think.

So not a single word about the failure, not a word. And then on the night of August 15 we have the flip-flop. The fellow who was against controls completely came out for controls. And we had a freeze. But we had something more than a freeze. We had $3 billion for industry—$3 billion—a little gift to industry. After all, we can't have all poor people, you have to have some people getting along. So $3 billion for industry in the form of an investment tax credit.

This was on top of $4 billion that he had given industry just a few months previous by the accelerated write-off of their investments. So between those two they had about $7 or $8 billion given to them that night. It was a great night for industry.

And lo and behold the NAM and the Chamber of Commerce were for controls. It was great.

It is like the fellow who is preaching against dictatorships to his friend, and he says to him, "Dictatorships are wrong." He finally convinces him that they are wrong, and then he says, "However, unless you can get one of your own they are wrong."

Here was the NAM and the Chamber, and they had controls. But one of their own was at the helm. Everything was fine, but not a word from the President of the United States.

I remember one of his speeches back in September 1968 when he spoke about the right of the public to know, the right of the public: "The President must let the public know what is going on. He must not only explain what he is going to do, but he must explain what he has done and why he has done it."

But not a single word about phase I.

Chairman PROXMIRE. I would like to interrupt to say that the Chair has put himself into a very difficult dilemma. Let me tell you why.

Mr. MEANY. You started this, Bill.

Chairman PROXMIRE. You bet your life I started it.

Mr. MEANY. I haven't even gotten into the meat of this thing at all.

Chairman PROXMIRE. Yesterday I provoked Judge Boldt and he wanted time.

Mr. MEANY. I am surprised that you provoked Judge Boldt. I didn't think that was possible.

Chairman PROXMIRE. At any rate, I gave Judge Boldt time. He took about a minute and a half before we ran time on him. As I said, we have run time on every witness—Mr. Stein, Mr. Grayson, and Judge Boldt. I want to begin that time but I told you I wouldn't as long as you are responding to my question.

Mr. MEANY. Did you start with every witness the way you started on me?

Chairman PROXMIRE. Even tougher. Let me say I am glad I started this because your response, while your prepared statement is a fine prepared statement, is a great deal better, much better. Nat Goldfinger may have had something to do with your prepared statement. I am sure he agrees.

Let me just say that I think we better start with the time now.

Mr. MEANY. You can start time anytime.

Chairman PROXMIRE. Congressman Brown will be very mad if we don't treat you the same as we did Judge Boldt. Bring out the clock. Start the time.

Mr. MEANY. I hope this time limit won't cut off your questioning when I get through.

So we get to the point of August 15. We have a freeze. We have contracts. Then the job of carrying out the freeze is given to the Cost of Living Council. There is no public representation on the Cost of Living Council. This is all Government. Actually, it was run by a fellow by the name of Weber. Within 12 hours he interpreted the freeze in a great many respects. He said this means that, even if you have a contract which calls for a deferred wage increase in the freeze, that wage increase cannot be paid because the President has spoken.

Of course, I immediately said this reminded me of Peron. Peron used to raise the wages from the balcony. The President makes economic decisions affecting everybody. He makes them over the tube. Then he said another thing, and this was an official ruling.—"Not only can you not get your deferred wage increase, but you are violating the law if you negotiate with your employer to try to get that increase after the freeze is over."

In other words, you couldn't say to the employer after the freeze is over, "You owe each man here $30 and we want to talk to you about it." He would say, "No, I can't do that. I will go to jail. Mr. Weber said so."

So here we had some real dictatorship facing us.

Well, we did the best we could under the freeze. Then they talked about setting up a tripartite system. We talked about the tripartite system. You know the reason we talked about it? Because of our experience, Senator. I spent over 5 years on the War Labor Board and we had a tripartite setup. We had no Government interference whatsoever, not to the slightest degree, at least for the first 3 years.

We came up with the Little Steel Formula, which was limiting on wages. We didn't like it, but we accepted it. We went along because we had something to say when the decision was made.

So when they appointed the so-called neutral members—Judge Boldt, Bill Caples, Neil Jacoby, and Weber—he was neutral? He was the axman for John Connally on the night of October 21, 1971, and on the morning of October 22 he was a "neutral" member of the Pay Board. That is Weber. And they had Kermit Gordon, a conservative economist.

Well, Mr. Jacoby has been for the past 13 years a director of Occidental Petroleum Co. He is still a director, and he is supposed to be neutral. Caples was for many years an executive of Inland Steel Co., a former vice president of the National Association of Manufacturers. He, too, is a neutral member.

Then we have Judge Boldt, who is on the Federal payroll. He is not neutral. He is Government. The judge can be very profound. He is a delightful person. I like him personally very much. He can be very profound. He and I had a little discussion about these contracts.

Incidentally, the contracts were validated by Congress. You know that. You are quite familiar with that. Congress validated them. And Congress validated our deferred-wage increase.

I was talking about the validity of the contract. I was talking about the power of the President to stand up at a rostrum and negate contracts, nullify contracts. I am not a lawyer, but I have read the Constitution and I think I have an advantage over some lawyers because I get closer to earth with people.

I am a plumber by trade and I think plumbers are much more important than lawyers. I said to Judge Boldt, "What about the validity of contracts? What about the sanctity of contracts?" He said, "Mr. Meany, I agree with you on the sanctity of contracts. I think it is tremendously important to uphold the sanctity. But there is a vital principle here." I said, "What is the vital principle?" He said, "We have got to go along with the President."

Then if you got to go along with the President, then I want to say that Congress is ignoring that principle every day of the week. They don't go along with the President. But this was the judge's approach, that we had to go along with the President.

No one in this administration has defended these appointments. No one in this administration from Connally right down the line has defended these appointments or even mentioned these appointments. Despite that, in November we said we will go on this board. We will try to make it work. In other words, we have said we wanted this. We will try to make it work, despite the fact that the dice are loaded. We will see what we can do.

Well, we had some experience and we found out that we were making no impact at all. There was no input from us. The last decision wasn't nearly as bad as people might have thought it was on the question of figures. But the last decision was an insult to the labor members of that Board because they came into the room and the decision had already been processed after a caucus between the business and the so-called public members. The caucuses were a regular thing. In fact, one day we sat over in the old State Department building from 9:30 in the morning to attend a conference which was never held. We were supposed to have a meeting at 11, and from 9:30 in the morning until 4:30 in the afternoon there was a caucus held between the so-called public members and the business members.

They even went out to lunch together and left us sitting there. They finally walked in at 4:30 in the afternoon.

Actually, I think the New York Times described the labor members presence there as degrading. The last decision was worked through the legal department and presented in its final form. It was laid on the table and the Chairman said, "Gentlemen, no use wasting any time. We have 10 votes for this decision." This was sort of the crowning insult to our people there.

When we say, Senator, that we go along with a tripartite setup, let me point out that we are now going along with a tripartite setup. The same people who are members of our council, who voted unanimously to take AFL–CIO people off the Pay Board, are still sitting on a tripartite board which was established by the President of the United States last March. That is the Construction Industry Stabilization Committee. They are still working. So here are the people who voted to cut us off the board, who said: "Off" and they themselves are still on.

What is the difference? The difference is that they have a tripartite board. They have public members and they have no interference. I will tell you how cute this administration is. They have not interfered with the construction board because it is working, and it is working because it is tripartite in nature and it has the cooperation of all the members of that board, including the labor members. They not only have their cooperation in reaching a decision, but they have cooperation in carrying them out. They are carrying out those decisions and they are bringing down what has been admitted to be high wage settlements in the past in the building trades.

I will show you how cute this administration is. This Construction Industry Committee is officially, according to the President's order, under the Pay Board. It is under the Pay Board's rules and regulations, but the Pay Board has never touched it. It has never touched the Committee.

I will tell you why. Because the labor members of this Committee have informed the Pay Board, "If you touch us, we quit."

So we walked off the Pay Board and the decision was made by the unanimous vote of our council on the 22nd of March. Included in that unanimous vote were seven members of the construction industry group that are now sitting and have been sitting since last March on the Construction Industry Committee set up by the President.

On the 23rd of March the labor members of the Construction Industry Committee issued this statement: "That they will continue to serve on the Committee only so long as the Construction Industry Stabilization Committee continues to maintain effectively its separate and autonomous position free from the supervision or control of the Pay Board."

This is a rather odd situation. Officially they are under the control of the Pay Board, but the Pay Board doesn't touch them. It doesn't overlook anything they do. Why? Why did we get off? And why are we staying on that Board?

If our council made a decision on the Construction Industry Committee they would have walked off. If we make a decision tomorrow, they walk. We have no intention of making such a decision.

As far as the Pay Board and the future of the Pay Board, when we walked off the reaction of the administration was somewhat hysterical. Mr. Ziegler said, "This is sabotage." And the President said we were trying to torpedo the Pay Board.

We weren't trying to torpedo the Pay Board. We were trying to live with ourselves. We were trying to live with our membership. We refused to be a facade. We refused to be party to a deception of our own members, that we were having something to do with the decisions when we were having nothing to do with the decisions.

Then Mr. Gray from the Department of Justice compared me to the robber barons of the 19th century. If the Senate confirms him, he will get to know some robber barons of the 20th century over there.

So as far as we are concerned we want this to work. And let me say this, Senator: It can't work any worse for us with us off the Board because actually we might just as well have been off the Board from the start. We had no hand in the decisions. We were unable to get that Board, Senator, to go along with the will of Congress.

The legislation that extended the Economic Stabilization Act gave the administration some instructions, specially about low-paid workers, about people below the poverty level. Well, people below the poverty level are still controlled. Do you know that the Price Commission has decontrolled 85 percent of the retail establishments in this country? I don't mean 85 percent of the business, I mean 85 percent of the number of establishments. And they have said to them, "No control."

We have said to the Price Commission, and we have said to the Pay Board, "If you are going to remove controls from an establishment as to its prices, surely you should remove controls in the establishment as to the wages it pays workers because these are low-paid workers."

No. The Pay Board, itself, refused to accept the $1.90 limit that was placed by the Cost of Living Council so the Cost of Living Council, ignoring Pay Board advice, put it on anyway.

I say when they did this they were thwarting the will of Congress, because your official poverty figure, you know, is well above the $1.90 an hour.

As far as trying to sabotage, we are not trying to sabotage it. We want prices controlled. I say to you very frankly the administration has no intention of changing its approach on price control. Do you know why? The President said he will not create a new bureaucracy. Well, if he is not going to create a new bureaucracy, he is not going to control prices because the people who put these prices on, let me tell you, have no fear of the Internal Revenue Service. I might have some fear, my members might have some fear, but business in this country has no fear of the Internal Revenue Service. They have handled them for many years. I think they have a feeling of contempt for the Internal Revenue Service, based on past experience. They are not going to be scared.

We have all sorts of documents here. I am quite sure I will never be able to read this prepared statement and we can put it into the record. We have documents that we want to put in the record.

Chairman PROXMIRE. Without objection, the entire prepared statement will be printed in full in the record at this point.

(The prepared statement of Mr. Meany follows:)

PREPARED STATEMENT OF GEORGE MEANY

I want to thank Chairman William Proxmire and Vice Chairman Wright Patman, as well as the other members of the Joint Economic Committee for this opportunity to present the AFL–CIO's views on the Administration's current stabilization program.

It is our considered judgment that this so-called anti-inflation program is both ineffective and unfair. The average consumer and worker, particularly those at the lower rungs of the economic ladder, are bearing the brunt of this mess.

Prices are rising, despite the guise of price controls. Exceptions after exemptions have excluded large parts of the cost of living from the control set-up. The President has failed or refused to give the Price Commission the tools and personnel needed to effectively enforce whatever degree of price controls remain on the books.

Profits are free to rise, without even the pretense of controls.

Yet wages are being effectively held down. The employer, who signs the paycheck, provides a built-in effective enforcer of controls on wages. Nothing similar exists to control prices.

Anyone who has done any shopping in recent months knows that the Administration's price control program is hardly more than an empty promise, five months after it officially began on November 14. Food prices have gone through the roof. Other prices and rents are moving up rapidly.

Price Commission Chairman Grayson has presented this Committee with reams of statistics designed to show that price controls are working. He forgot the most important statistic—the price tag. That's what every housewife sees at the checkout counter. It is that statistic which proves price controls are a farce and a sham.

In February, the latest date for available information on living costs, the Consumer Price Index soared at a yearly rate of 6%. In the three months up to February, it rose at an annual rate of 4.9%. This is the record on the period of so-called price controls. But in the three months, from May through July, before the President announced his new economic policy, the rise in the Consumer Price Index had been also at a yearly rate of 4.9%. So consumers are doing as well or as badly with so-called controls as they did without them. The big difference is now, because of wage controls, many workers may be less able to pay the tab.

The story on wholesale prices is not much more encouraging. In the latest three months for which information is available—January through March—the Wholesale Price Index increased at a yearly rate of 5.1%. In the three months up to July, the rise had been at a yearly rate of 3.5%; and in the three months to August, when the new policy was installed, the increase had been at a yearly rate of 5.3%. The record is hardly one to boast about.

While the focus of attention has naturally been on soaring food prices, the prices of many other key products have been rising rapidly.

Wholesale prices of hides shot up nearly 65% in the year up to March, with a 16.7% increase in that one month. Wholesale prices of leather have also risen sharply. In the offing are substantial increases in retail shoe prices for the consumer.

Wholesale prices of lumber and plywood are also shooting up—applying pressures on the prices of homes and furniture.

An additional wide range of important parts of the consumer's cost of living—including rent, utilities and medical care—is rising at a considerably faster pace than the Administration's 2.5% price control standard.

In fact, the over-all record on prices in recent months shows that they are increasing about twice as fast as the 2.5% control standard.

In contrast with this dismal price record, let us look at the trend of the wages of production and nonsupervisory employees in the private non-farm economy. In March, according to the Bureau of Labor Statistics, the average hourly earnings of these 45 million workers were $3.57 an hour—up 2 cents from February and 3 cents from January.

Let us also examine the new wage index, referred to by Dr. Herbert Stein, chairman of the President's Council of Economic Advisers, in his utterly distorted presentation of wage trends, before this Committee several days ago.

The index is far from precise. It tends to overstate increases in wage rates. In its description of the index, BLS admits this. BLS states that "it is not a pure measure of wage rate change, since it is affected by such factors as fluctuations of earnings under incentive plans, changes in the proportion of low- and high-paid workers within establishments, and overtime variations outside of manufacturing."

Nevertheless, let us examine the trend, shown by this overstated index.

During the three-month freeze, from mid-August to mid-November, this index increased five-tenths of 1% or a yearly rate of 2%. In this period, deferred wage increases, under previously negotiated agreements could not be put into effect. Wage increases in newly negotiated settlements also had to be postponed.

In the month following the freeze, both deferred increases and newly negotiated settlements began to go into effect. As a result, the rise in the index from November to December was 1.4% or a yearly rate of 16.8%. This was a one-month wage "bulge," following a three-month freeze.

Since, December, the index shows that wages have actually been held down, within range of the Pay Board's 5.5% wage control standard. In the three months, December 1971 to March 1972, the index increased only 1.5%—a yearly rate of 6%.

This record is sharply different from Dr. Stein's scare story of a 9.3% yearly rate of wage increases. It shows that wages are under strict control.

In the three months, December to March, when wage increases were kept within range of the Pay Board's control standard, the Wholesale Price Index rose at an annual rate of 5.1%, according to the Bureau of Labor Statistics. That is twice as fast as the Administration's 2.5% price increase standard for its so-called price control program. The March figure for the Consumer Price Index is not yet available, but it is likely that the rise of retail prices in those same three months is also about twice as fast as the price control standard.

While increases in workers' wages are being held down, productivity is now rising again at a rapid pace, after a two-year lag during the recession of 1969–1970. Last year's spurt in productivity is probably continuing at a somewhat comparable rate. The rise of unit labor costs, therefore, has been cut down to about one-half or one-third the pace of two and three years ago. But prices continue up rapidly. This is an important factor in the very sharp rise of profits.

Profits have begun to soar, although the levels of sales are disappointing and unemployment remains high. In the second-half of 1971, the Commerce Department reports that after-tax corporate profits were up 19% from the same period of 1970.

The major gains in profits are going to the big banks, corporations and conglomerate giants. The Gallagher President's Report shows that the nation's 100 largest corporations scored a 76% rise in profits last year. If you exclude the special case of General Motors, the record of the other 99 giants was a 70.8% rise in after-tax profits.

Further sharp profit increases are being reported daily, for the first quarter of 1972. In his weekly column in the financial section of The New York Times, Thomas E. Mullaney repoted on April 16:

"Only a small number of major companies have issued their first-quarter earnings statements so far, but the trend is decidely favorable, and the prospects are that the tide will continue.

"Of the first 18 large companies to report, 15 showed gains. Their aggregate net income was $680,292,000—up 19.2 per cent from their total after-tax profits in the first three months of last year . . .

"Investor fears that the economic-control program might inhibit American industry's ability to increase earnings appreciably are vanishing fast."

This lopsided trend has become so clear that the President's Cost of Living Council finally did a spot check of 105 large companies. The Council reported that 24 of them—or more than 24%—"apparently (are) operating at profit margins in excess of those permitted by the regulations."

Donald Rumsfeld, director of the Council, said "these firms run the risk of being found in violation of the stabilization program regulations if they are unable to justify their reports."

However, the Administration has, as yet, only threatened to take action against these companies, whose reported profit margins have already risen above the

Price Commission's very generous standards. Without an effective and consumer-oriented price control structure—and without any profit controls—corporate profits are expected to continue to soar.

The ineffectiveness of the Administration's so-called anti-inflation program—and its favoritism to business, against the interests of the consumer and worker—came as no suprise to the AFL–CIO. We have seen the repeated collapse of the Administration's series of game plans "to combat inflation," since January 1969.

Look at the record of these past 39 months. Unemployment, tax bonanzas to business, persistent economic slack and continuing, huge budget deficits have been added to inflation, which still plagues the American people.

Nobody is more anxious than workers to see inflation stopped, because workers are among the chief victims of inflation. They want a fair, equitable and effective stabilization program. They want economic expansion and full employment.

The AFL–CIO stands on the commitment we have repeated on many occasions since February 1966. We said then and we say now: We are prepared to cooperate with a fair and equitable wage stabilization effort, if it is even-handed and across-the-board, with controls on all prices, costs and incomes—including profits, interest rates and executive compensation. We are prepared to sacrifice as much as anyone else, for as long as anyone else, so long as there is equality of sacrifice.

The AFL–CIO has presented this viewpoint to the Congress for over six years. We reiterate it now.

Unfortunately, the original Economic Stabilization Act provided the President with a blank check. It did not provide adequate safeguards for equality of sacrifice.

The AFL–CIO made this point in presenting its views on amendments to this legislation, to the House Banking and Currency Committee on October 28:

"Since August 15, America has seen the folly of giving the President blank check authority in this field. There is no need to clutter the record with the details of the Administration's disastrous economic policies.

"But an important lesson can—and must—be learned from this experience: that the Congress must be explicit in the authority it grants the President on economic measures.

"It must be clear that equality of sacrifice, not the sacrifice of equality, is the intent of Congress . . .

"The system of checks and balances mandated by the Constitution, and simple, common prudence requires that Congress limit the President to the maximum possible extent.

"Indeed, given the Administration's dismal failures in managing the economy, a vigorous assertion by Congress of its rightful legislative prerogatives is essential if this vital effort is to enjoy the public confidence necessary for its success. The Administration has forfeited its right to that confidence."

We urged the Congress to tighten the substantive provisions of the Act, but not to extend the Act's authority beyond the original termination date of April 30, 1972. Under such circumstances, the Administration would have been compelled to return to the Congress for further authority, after the stabilization program had been in effect for a reasonable length of time. We said that "such a procedure would underline Congress' determination to provide a continuing oversight."

Unfortunately, the Administration's request for an extension of the legislation was granted. The need for a most careful oversight, however, is all too clear, after five months of the Phase II program.

The measures, carried out under this legislation, have been unjust, unfair and unbalanced. They have not achieved the objective of substantially cutting down the rapid increase of living costs. Moreover, the Administration flouted the intent of the Congress, which had limited the President's authority, to a degree.

Congress, for example, clearly stated its intent that low-wage workers be exempt from wage controls. The Administration acted as though the Congress had never spoken.

On January 19, the Cost of Living Council, headed by Secretary of the Treasury Connally and Director Rumsfeld, decontrolled most retail stores and almost half of the nation's rental units—that's on prices and rents but not on the wages of the employees of these establishments. Ten days later, the same Council exempted only wages below $1.90 an hour—less than the amount needed to meet the government-defined poverty-line for an urban family of four.

President Nixon has been widely quoted as saying "inflation is everyone's fight." We agree. And so we ask why the rules adopted by the Price Commission cannot be understood by everyone. There is no need to create a field day for accountants and lawyers.

If inflation is to be everyone's fight, then everyone must know and understand the rules. It seems ludicrous that the Price Commission cannot know if the price increase on a can of beans was legitimate or not until it reads the quarterly corporate report.

This is like playing a game where only the other team knows the rules and the referees are their friends. It just isn't fair.

That's what we want—fairness. And the full record of the Administration's stabilization measures prove we don't have it now. So there must be substantial revision of the Economic Stabilization Act. And, as we have said time and again, there must be an excess profits tax, as an integral part of a fair and effective stabilization effort.

These oversight hearings, Mr. Chairman, are a step in the right direction. However, the AFL–CIO urges you not to drop the matter at the close of these hearings.

The American people need a change in the course of national economic policy.

It is up to the Congress to provide the required leadership and legislation for an effective and equitable, over-all stabilization effort, as well as measures to move the economy to full employment without delay. Certainly, this Committee and the Congress cannot lose sight of the fact—as the Administration often does—that unemployment continues at an unacceptable plateau of close to 6%.

The Administration has proven its incompetence in these areas. It is up to the Congress to restore the confidence of the American people in the American economy.

Mr. MEANY. The additional documents are an analysis of the Price Commission formula for price boosts, and then we have an AFL–CIO comparative price survey made in 13 States and 20 communities. We will submit that for the record.

These show a 7 percent increase, a 34 percent increase, a 33 percent increase, a 20 percent increase—these are surveys made by our people in stores. We name the stores, we give you the location of the stores, we tell you what the cost of a pound of beef liver was. We tell you what the cost of a pound of carrots was. Here is a pound of carrots that went up 67 percent. Coca-Cola went up 10 percent. Thin spaghetti went up 96 percent. Carnation Milk up 33 percent. American processed cheese—you can do something about this, I am sure—went up 11 percent.

Chairman PROXMIRE. I went over that last night and I think you have an excellent documentation.

Without objection, the documents will be placed in the record at this point.

(The information follows:)

STATEMENT BY THE AFL–CIO EXECUTIVE COUNCIL, MARCH 22, 1972

Seven months of the Administration's so-called new economic policy—including four months of Phase II controls—have demonstrated that it is nothing more than a device to make the average worker and consumer both the victim and the goat, while the banks and big business pile up increasing profits.

In the guise of an anti-inflation policy, the American people are being gouged at the supermarket and squeezed in the paycheck. The heaviest burden of this lopsided program is placed on the backs of those at the bottom of the economic ladder, who are least able to protect themselves. Meanwhile, millions of American workers remain unemployed, their wages frozen at zero, with no real prospect of relief.

The continuing, rapid rise of prices—such as February's 8.4% yearly rate of increase in wholesale prices—reveals the emptiness of the price control program.

Retail food prices have gone through the roof and are continuing up—eroding the buying power of American families.

While the Administration permits this rising tide of price increases, its Pay Board persists in holding down workers' wages. Yet profits are free to rise, without even the pretense of controls. Instead of a tax on excess profits, in a period of wage controls, the Administration has provided business with additional billions of dollars of tax bonanzas reducing Federal revenues and further inflating the deficit at the expense of the nation's most pressing needs.

Even the President's Council of Economic Advisers reports that 21% of the Consumer Price Index is not subject to any controls at all. Further exceptions are announced almost weekly and the Price Commission approves price boosts on a wholesale basis.

Interest rates were never controlled. Neither were fresh foods, which are part of the essential expenses of every family.

There are no controls on life insurance premiums, mortgage interest payments and the prices of land and homes. Neither are there controls on used cars, used furniture and other used goods which are bought primarily by the poor. Controls have been lifted from three-quarters of all retail stores and nearly half of all rental units.

Moreover, there is no effective machinery to enforce whatever price and rent controls remain on the books.

In the face of this record on the price-front, the Administration has flouted the intent of the Congress to exempt the working poor and low-wage workers from wage controls. The Administration's Cost of Living Council exempted only wages below $1.90 an hour—less than the amount needed to meet the government-defined poverty-line for an urban family of four.

Wage increases for workers in even the smallest establishments require approval if they exceed the Pay Board's 5.5% guideline, although their employers are not required to file any notification about price or rent increases and may be completely exempt from such controls.

So the worker's wages are regulated and controlled, even when his employer is exempt from controls, while prices continue to "bulge".

As a result, profits have begun to skyrocket, despite the disappointing levels of sales and production, and continued heavy unemployment. In; he second-half of 1971, the after-tax profits of all corporations were up 19% from the same period of 1970—nearly three times faster than the 6.6% increase of total wage and salary payments to all of the nation's employees.

The lion's share of the gain in profits is going to the big corporations and conglomerate giants. Reports indicate that the nation's 100 largest corporations scored a sensational 76% rise in profits last year.

The Bureau of Labor Statistics reported on March 3 that the average hourly earnings of some 47 million production and non-supervisory workers in the private economy remained unchanged between January and February, at $3.54, and were merely 3 cents above December. While prices are going up and profits are soaring, workers' wages have been held down.

The record of flagrant favoritism speaks for itself. The Administration's so-called new economic policy is heavily loaded against the worker and consumer, in favor of the profits of big business and the banks, and is dominated by the view that economic progress begins and ends in the stock market and the corporate financial report.

Slick rhetoric and double-talk cannot hide these self-evident facts from the American people. There is no fairness, no equity, no justice in the Administration's economic program.

THE PAY BOARD

The trade union movement's direct relationship with the Administration's control program has been with the Pay Board.

It is our duty to report, after four months' experience with this Board, that it is merely a direct instrument of the Administration's economic policies, motivated by the Administration's political considerations and the interests of big business.

We joined the Pay Board in good faith, desiring—despite our misgivings—to give it a fair change, and with the hope that we could bring the voice of workers into the decision-making process of an autonomous and genuinely tripartite wage stabilization effort.

A few weeks after the Pay Board was created, we reported to the Ninth Constitutional Convention of the AFL–CIO on November 18: "The trade union movement jointed the Pay Board on the basis of a commitment from the President that it would be tripartite and independent and that the public members would be citizens of high repute, knowledgeability and neutrality. That commitment has not been kept."

The so-called public members are neither neutral nor independent. They are tools of the Administration, and imbued with its viewpoint that all of the nation's economic ills are caused by high wages.

As a result, the Pay Board has been completely dominated and run, from the very start, by a coalition of the business and so-called public members. All major Board decisions have been concocted by this coalition, with its mechanical majority of the votes. The trade union movement's representatives on the Board have been treated as outsiders—merely as a facade to maintain the pretense of a tripartite body.

The Board's business and so-called public member majority has continuously revealed a contempt for free collective bargaining and freely negotiated labor-management agreements. They have shown an utter lack of understanding or sympathy for workers and the realities of industrial life.

In a supposedly free country, in time of peace, with no national emergency defined or like sacrifices required of the affluent elements of society, it is not tolerable to subject free American workers to control at such hands.

The system of wage controls, under the Administration and business-dominated Pay Board, has extended a web of confusion and chaos in labor-management relations across the country. It has been a device to undermine and wreck free collective bargaining.

It is building up inequities, distortions and pressures that can only be suppressed by more and more controls and acts of repression.

Complex and sometimes contradictory regulations and reporting requirements have added confusion. Smaller unions and newly organized groups of workers, in particular, have been vulnerable to the stalling, the mix-ups and confusions.

Responsible collective bargaining agreements have been rejected and the Pay Board majority has been imposing the terms of settlements on the parties.

Equities have been ignored and workers have been denied basic rights.

Whatever small degree of justice has been achieved in the stabilization control program—such as the granting of deferred increases that were due, during the 90-day freeze, under previously negotiated agreements—has been the work of Congressional legislation, imposed on the Pay Board.

Although Administration spokesmen engage in public lectures on the urgent importance of increasing productivity, and provision for the recognition and reward of greater productivity is expressly incorporated in the enabling law, the Pay Board has given this issue short shrift so as to leave the major benefits of productivity gains in the pockets of employers. The rejection of the West Coast longshore agreement, for example, will mean an average loss of about $1,150 for each of the 15,000 workers on the docks in the 18 months of the contract and a $17 million windfall profit for the employers.

The Pay Board is an integral part of the Administrations' effort to place the burden of its failures on the backs of workers, while providing favors and financial gains to those who already have too much.

On November 18, we reported to the AFL–CIO Convention: "There is little hope that economic justice can be achieved by this Board, the majority of whom are guided by the dictates of the Administration or the interests of big business."

We have reviewed the events of the past four months. We have carefully examined the record.

It is our duty to report, now, to the membership of the trade union movement and the American public that we have no hope for fairness, equity or justice in the Pay Board.

The Board is not tripartite. It is not independent and autonomous.

The Pay Board represents government control. It represents political and business interests.

If the wage stabilization program is to be government-controlled, let it be so, openly and clearly. Let the people who are exercising the power take the full responsibility for their decisions—without the facade of labor representation and the pretense of tripartitism.

The AFL–CIO members, therefore, are immediately resigning from the Pay Board.

We will not be a part of the window-dressing for this system of unfair and inequitable government control of wages, for the benefit of business profits.

It is now very clear that the Administration's "new" economic policy is nothing more nor less than a means of shifting to the average working man and his family the burden and the blame for the dismal failure of its former economic policy. It is an effort, at the expense of personal and institutional freedom in this country, to avoid the measures, resisted by big business and other selfish interests—such as constructive tax reform—most needed to correct the consequences of that failure. Having as we do a deep disbelief in and distrust of the aims and purposes of this Administration's economic and social policies, we intend at the least to free representatives of the AFL–CIO from any grounds for the interence of complicity in the formulation or execution of those policies.

A Price Commission Formula for Price Boosts

TERM LIMIT PRICING

"Term Limit Pricing" (TLP) is an optional method of putting price increases into effect, which has been worked out by the Price Commission, specifically for large companies. It is a formula for price and profit boosts.

The essential feature of TLP is that the company is allowed to juggle the prices of particular products as it pleases, provided the overall average of the company's prices does not rise by more than a specified percentage.

Under the latest Commission rules, the TLP agreement is for a 12-month period, the average increase must not exceed 1.8 percent, but the company may increase its price on any one item by as much as 8 percent.

Companies may choose whether to use TLP or to go through the ordinary procedures for obtaining price increases on specific products and lines on the basis of applicable cost increases.

The main advantage of TLP to the companies is the freedom to price particular products according to the market, rather than in accordance with specific product cost increases. If sales of some products are stable or falling, the company may raise prices on other products whose sales are rising, thereby maintaining or improving its profit level.

An early predecessor of TLP was the arrangement worked out by the Price Commission with the U.S. Steel Corporation last December. This agreement called for 8.6 percent on sheet steel products. The company, according to *Business Week* for December 11, was given the option of "juggling prices any way it likes until August 1, as long as the aggregate stays under that figure."

Senator Fred Harris, in a Senate speech on February 22, 1972, commented on the steel industry formula as follows:

". . . At the beginning of Phase II the steel companies applied to the Price Commission for a price increase. The Commission gave the industry an across the board price rise of 3.6%, which each company could allocate as it wished. Typically, virtually the entire increase went into product lines in which the companies face little competition. Prices for cold roll steel—that used to make cars, refrigerators, and such—went up by 7.2%, double the across the board rate approved by the Commission. On the other hand, the prices for structural steel—that used for buildings and bridges—didn't go up at all. It seems that it is in structural steel that American companies face stiff competition.

"Thus, we find that even under wage and price controls, big steel companies can raise their prices at an inflationary rate when they have the market power to do it. And the Price Commission has not stopped them."

The more direct predecessor of TLP was the agreement reached with Dow Chemical, setting a 2 percent company-wide ceiling, in lieu of the 2.5 percent Dow had originally requested. The first public announcement of the TLP procedure, as such, was in a Commission news release of December 21, 1971, with a figure of 2 percent specified for the overall average limit. No specific maximum was mentioned for individual products, but fixed maximums were to be set in each individual agreement. These maximums, according to news reports, were as high as 15% in some agreements and in others the maximum was 8 percent or less.

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In its issue of March 11, 1972, *Business Week*, analyzed the TLP agreements in an article entitled "TLPs may prove a costly idea." The article noted that the companies that have been signing up for TLP are largely those whose overall price averages are unlikely to rise beyond the TLP limit in any event. The companies lose nothing in terms of overall pricing and gain advantageous leeway in pricing particular products. *Business Week* pointed out that of the 109 agreements then in effect, covering nearly $90 billion in sales, 46 covered chemical and allied products, an industry in which prices had actually been dropping. "This suggests that many of the chemical companies on the TLP list have received price flexibility under Phase II in return for a promise to hold price increases to an average of 2%—something that would have been forced by competition anyway."

A total of 54 agreements covered industries in which there had been little previous upward price movement—industries such as paper and allied products; rubber and miscellaneous plastic products; and electrical machinery. Some agreements, however, do cover industries in which price rises had been above average—18 for companies making non-electrical machinery, and five for nonmetallic mineral products.[1]

Business Week put the question as follows: "If . . . the 2% agreements do not represent an over-all restraint on the prices of these companies, the Commission may have given away more than it should for the sake of streamlined administration; it may have allowed too much leeway on pricing of particular products." It also took note of the argument of Gardner Ackley and others that "to get to the 2.5 goal, the TLP companies and other major goods producers should be held to virtually no price increases. They argue that an acceptable average rate of inflation can be achieved only if the higher rates of inflation in service and construction industries are offset by much lower rates in manufacturing."

On March 15, the Price Commission announced new, lower limits on TLPs. New agreements are trimmed to an overall allowable average of 1.8 percent price increase, and the maximum for any individual product or line was formally set at 8 percent. The new rule is not retroactive. Agreements with higher negotiated limits continue in full effect. As of March 27, 1972. the number of agreements under the former 2 percent rule was 147.

Thus it would appear that the TLP procedure has made little if any real contribution toward curbing inflation and probably is contributing to further inflation in markets where strong demand or non-competitive pricing exists.

TLP companies are otherwise held to no sterner standards than other companies in terms of overall rules that permit price increases. Profit margin control is in terms of the best two out of three years preceding August 15, 1971. This normally enables companies to discount the lower 1970 margins and to use the relatively high margin years of 1968 and 1969.

FTC–SEC reports on all manufacturing companies show the following pre-tax profit margins on sales each year 1966 through 1970.

1966	9.3
1967	8.3
1968	8.8
1969	8.4
1970	6.8

For the first three quarters of 1971, the figure was 7.1 percent. Thus considerable upward leeway can occur in prices without hitting the profit margin barrier.

The price control program also permits companies to pass through cost increases on a percentage basis, thus increasing total revenues at each step in the manufacturing and distribution chain, and pyramiding the ultimate cost to the consumer. A serious anti-inflation effort would hold cost pass-throughs to a dollar-for-dollar recovery—certainly for the very largest and most profitable corporations, whether under a TLP agreement or not.

The secrecy of individual corporation price and profit records is as strict for TLP companies as for any others, thus handicapping the participation of the public at whose expense inflation is permitted to continue.

Finally, Price Commission rules permit loss corporations and low margin companies special allowance to increase prices more than is "cost justified" in order to improve their profit position. There is, however, no corresponding pressure on efficient, high-profit companies to curb prices by sbsorbing cost increases. They, like other companies, are permitted to increase prices so as to maintain or rise to base period profit margins, no matter how large such margins may be.

[1] Totals add up to more than 109 since some companies are represented in more than one industry.

AFL–CIO–CSA COMPARATIVE PRICE SURVEY OF SELECTED FOOD ITEMS IN 38 STORES OF 20 COMMUNITIES IN 13 STATES AS OF JANUARY 5 AND MARCH 16, 1972

Locations	*Stores*
California: San Diego	---
Colorado: Denver and Wheat Ridge	---
Hawaii: Honolulu	---
Illinois: Evanston (Chicago)	---
Indiana: Marion and Indianapolis	8
Massachusetts: Fall River	---
Michigan: Grand Rapids	---
Minnesota: Minneapolis	5
Missouri: Kansas	---
Ohio: Cincinnati	---
Pennsylvania: Wilkes-Barre, Harrisburg, Lemoyne, Pittsburgh, and Nanticoke	2
Washington: Tacoma	7
West Virginia: Huntington and Wheeling	---

	Total
States	13
Communities	20
Stores	38

Food price summary

Coverage	13 States, 20 communities, 38 stores. January 5 and March 16, 1972.
Items	32—exempt and not exempt.

Items increasing in cost

Bakery products:	
Bread: white, 20 oz	4 stores or 11 percent of stores surveyed. Range of increase: 7 to 19 percent.
Flour: white, 5 lb	3 stores or 8 percent of stores surveyed. Range of increase: 12 to 33 percent.
Rice: per lb	3 stores or 8 percent of stores surveyed. Range of increase: 19 to 22 percent.
Grits: 24 oz	2 stores or 5 percent of stores surveyed. Range of increase: 7 to 8 percent.
Meats—fish:	
Hamburger per lb	9 stores or 24 percent of stores surveyed. Range of increase: 6 to 29 percent.
Chicken, whole fryer, per lb	10 stores or 26 percent of stores surveyed. Range of increase: 6 to 86 percent.
Chuck Roast per lb	8 stores or 21 percent of stores surveyed. Range of increase: 7 to 44 percent.
Beef-liver per lb	9 stores or 24 percent of stores surveyed. Range of increase: 10 to 68 percent.
Haddock fresh per lb	1 store or 3 percent of stores surveyed. Range of increase: 9 percent.
Dairy:	
Milk (½ gal.)	2 stores or 5 percent of stores surveyed. Range of increase: 4 to 8 percent.
Eggs, grade A, large, per doz	12 stores or 32 percent of stores surveyed. Range of increase: 4 to 33 percent.
Margarine per lb	2 stores or 5 percent of stores surveyed. Range of increase: 9 to 11 percent.
American cheese, processed, 8 oz.	5 stores or 13 percent of stores surveyed. Range of increase: 5 to 10 percent.
Fresh Fruits—Vegetables (exempt):	
Apples, all purpose per lb	6 stores or 16 percent of stores surveyed. Range of increase: 5 to 95 percent.
Potatoes, 10 lbs	9 stores or 24 percent of stores surveyed. Range of increase: 14 to 77 percent.
Carrots, per lb	8 stores or 21 percent of stores surveyed. Range of increase: 7 to 67 percent.

Items increasing in cost

Other foods:	
Tuna, chunk white 6½ oz	6 stores or 16 percent of stores surveyed. Range of increase: 9 to 33 percent.
Coffee, instant, 6 oz	3 stores or 8 percent of stores surveyed. Range of increase: 6 to 18 percent.
Soup, chicken 10½ oz	2 stores or 5 percent of stores surveyed. Range of increase: 7 to 70 percent.
Spaghetti, 15¼ oz	3 stores or 8 percent of stores surveyed. Range of increase: 11 to 16 percent.
Baby foods, 4½ oz	6 stores or 16 percent of stores surveyed. Range of increase: 8 to 75 percent.
Cooking oil, 24 oz	3 stores or 8 percent of stores surveyed. Range of increase: 10 to 12 percent.
Sugar, white, 5 lb	4 stores or 11 percent of stores surveyed. Range of increase: 9 to 14 percent.
Peanut butter, 18 oz	4 stores or 11 percent of stores surveyed. Range of increase: 7 to 21 percent.
Ketchup, 20 oz	2 stores or 5 percent of stores surveyed. Range of increase: 3 to 4 percent.
Spaghetti, thin, per lb	1 store or 3 percent of stores surveyed. Range of increase: 96 percent.
Cola drink	3 stores or 8 percent of stores surveyed. Range of increase: 10 to 50 percent.
Grape jelly, 10 oz	1 store or 3 percent of stores surveyed. Range of increase: 19 percent.
Evaporated milk, 13 oz	4 stores or 11 percent of stores surveyed. Range of increase: 1 to 53 percent.
Miscellaneous:	
Toilet tissue, per roll	1 store or 3 percent of stores surveyed. Range of increase 16 percent.
Toothpaste, 6 oz	1 store or 3 percent of stores surveyed. Range of increase: 15 percent.
Detergent, 3 lbs. 1 oz	2 stores or 5 percent of stores surveyed. Range of increase: 5 to 21 percent.

FOOD BASKET, SAN DIEGO, CALIF.

	Jan. 4	Jan. 18	Percent increase
Chicken, whole fryer	$0.29	$0.31	7
Beef liver, per pound	.68	.72	6
Milk (½-gallon) Lady Lee	.49	.51	4
Eggs, grade A, large per dozen, Lady Lee	.49	.51	4

KING SOOPER'S, WHEATRIDGE (DENVER), COLO.

	Jan. 20	Mar. 15	Percent increase
Hamburger, per pound	$0.59	$0.65	10
Chuck roast, per pound	.71	1.02	44

SAFEWAY NO. 336, DENVER, COLO.

	Jan. 17	Mar. 16	Percent increase
Hamburger, per pound	$0.59	$0.65	10
Chuck roast, per pound	.79	.87	10
Beef liver, per pound	1.00	1.12	12
Eggs, grade A, large	.48	.54	13
Peanut butter, 18-ounce, Nu-Made (Safeway)	.57	.69	21

PARKVIEW—GEM, HONOLULU, HAWAII

	Jan. 5	Mar. 9	Percent increase
Rice, Hinode	1.29	1.54	19
Eggs, grade A, Yee Lum (Island)	.69	.74	7
American cheese, processed, Kraft	.48	.53	10
Apples, per pound (exempt) all purpose	.16	.25	56
Potatoes, 10-pounds, Gem	.99	1.19	20
Tuna, chunk white, Coral, 6½-ounce	.39	.43	10
Baby foods, 4½-ounce, Gerbers	.12	.21	75

DOMINICK'S, EVANSTON, (CHICAGO) ILL.

	Jan. 24	Mar. 6	Percent increase
Haddock, fresh per pound, fillets	$1.09	$1.19	9
Potatoes (exempt) per pound	.59	.88	49

A. & P., 617 WEST 11TH ST., INDIANAPOLIS, IND.

	Jan. 13	Mar. 13	Percent increase
Hamburger, per pound, A. & P	$0.79	$0.83	5
Chicken, A. &. P., whole fryer, per pound	.29	.39	34
Chuck roast, A. & p., per pound	.89	.99	11
Coffee, instant, Maxwell House, 6-ounce	1.10	1.17	6
Cola drink, Coca Cola, 72-ounce carton	.75	.83	11

A. & P., NORA PLAZA, INDIANAPOLIS, IND.

	Feb. 17	Mar. 15	Percent increase
Flour, white, 5-pounds, Pillsbury	$0.49	$0.65	33
Chicken, whole fryer, A. & P	.39	.43	10
Coffee, instant, Maxwell House, 6-ounce	.99	1.17	18

A. & P., 1500 NORTH ALABAMA, INDIANAPOLIS, IND.

	Feb. 16	Mar. 14	Percent increase
Eggs, grade A, large, per dozen, A. & P	$0.49	$0.53	8
Potatoes (exempt) A. & P., Idaho	.89	1.09	22

MARSH NO. 6, INDIANAPOLIS, IND.

	Feb. 3	Mar. 13	Percent increase
Flour, white, 5-pounds, Gold Medal	$0.49	$0.63	29
Grits, 24-ounces, Quaker	.29	.31	7
Eggs, grade A, large, per dozen, Marsh	.43	.57	33
Potatoes, 10-pounds, Big Z pack (exempt)	.79	.99	25
Coffee, Instant Maxwell House, 6-ounce	1.09	1.17	7
Evaporated milk, 13-ounces, Pet	.15	.19	27

STANDARD MARKET, INDIANAPOLIS, IND.

	Jan. 25	Mar. 14	Percent increase
Bread, white, 2-ounce, Wonder	$0.32	$0.38	19
Hamburger, per pound, store brand	.69	.89	29
Eggs, grade A, large dozen, Orchard Pack	.47	.53	13
Margarine, per pound, Blue Bonnet	.35	.39	11
Sugar, white, 5-pound, Domino	.59	.67	14

PRESTONS, INDIANAPOLIS, IND.

	Feb. 9	Mar. 6	Percent increase
Bread, white, 20-ounce, Wonder	$0.32	$0.38	19
Flour, white 5-pounds, E-Z Bake	.49	.55	12
Chuck roast, per pound, Preston's Pride	.89	.99	11
Beef liver, per pound, Preston's Pride	.99	1.09	10
American cheese, 6-ounce, Kraft	.41	.45	10
Sugar, white, 5-pounds, Domino	.65	.71	9

KROGER, INDIANAPOLIS, IND.

	Feb. 2	Mar. 12	Percent increase
Hamburger, per pound, Country Club	$0.69	$0.87	26
Chicken, whole fryer, per pound, Kroger	.29	.35	21
Milk, ½ gallon, homo. Kroger	.53	.57	8
Potatoes, Idaho 10-pounds, (exempt)	.79	1.09	38

DEL FARMS, INDIANAPOLIS, IND.

	Jan. 15	Mar. 13	Percent increase
Hamburger, per pound, store brand	$0.65	$0.79	22
Chicken, whole fryer, per pound, store brand	.39	.43	10
Chuck roast, per pound, store brand	.79	.89	13
Beef liver, per pound, store brand	.59	.99	68
Eggs, grade A, large, store brand	.37	.41	11
Apples (exempt), all purpose, red delicious, per pound	.20	.39	95
Soup, chicken, 10½-ounce, with noodles, Campbells	.10	.17	70
Cooking oil, 24-ounce, Wesson	.63	.69	10
Grape jelly, 10-ounce, Welch	.31	.37	19

STOP 'N SHOP SUPERMARKET, FALL RIVER, MASS.

	Jan. 20	Feb. 11	Percent increase
Chicken, whole fryer, per pound (possible sale)	$0.29	$0.54	86
American cheese, processed, 8 ounce	.37	.39	5

MARSH SUPER MARKET, MARION, IND.

	Feb. 16	Feb. 22	Percent increase
Eggs, grade A, large, per dozen, Marsh	$0.49	$0.55	12
Carrots (exempt), per pound	.17	.25	47

MEIJERS THRIFTY ACRES, GRAND RAPIDS, MICH.

	Jan. 29	Mar. 4	Percent increase
Rice, Food Club	$0.17	$0.19	12
Hamburger, per pound	.65	.69	6
Chicken, whole fryer, per pound	.33	.35	6
Chuck roast, per pound	.89	.95	7
Beef liver, per pound	.63	.69	10
Margarine, Imperial, per pound	.45	.49	9
Potatoes, 10-pounds (exempt), Winner Brand	.59	.69	17
Cooking oil, Crisco	.59	.65	10
Peanut butter, 18-ounce	.61	.67	10
Evaporated milk, 13-ounce	.19	.29	53

RED OWL, BROOKDALE, 5425 XERXES AVE. NORTH, MINNEAPOLIS, MINN.

	Feb. 2	Feb. 29	Percent increase
Eggs, grade A, large, per dozen	$0.41	$0.49	20
American cheese, processed, 8-ounces	.55	.61	11
Potatoes, 10-pounds	.39	.69	77
Peanut butter, 18-ounces, Skippy	.59	.63	7
Ketchup, 20-ounces, Heinz	.38	.51	34
Spaghetti, thin, Red Owl	.27	.53	96
Evaporated milk, 13-ounces, Carnation	.15	.20	33
Detergent, Ajax	.71	.86	21

NATIONAL SUPERMARKET, MINNEAPOLIS, MINN.

	Jan. 22	Mar. 10	Percent increase
Flour, white, 5-pounds, Gold Medal	$0.61	$0.65	7
Chuck roast, per pound	.89	.95	7
Beef liver, per pound	.58	.66	14
Eggs, grade A, large dozen, Orchard Park	.43	.48	12

GLENWOOD SUPER VALUE, MINNEAPOLIS, MINN.

	Feb. 17	Mar. 2	Percent increase
Beef liver, per pound, Super Value	$0.69	$0.79	14
Carrots, per pound, Shirley	.15	.25	67
Cola drink, Shasta Diet	.72	.79	10

RED OWL STORE, 2440 HENNEPIN AVE. SOUTH, MINNEAPOLIS, MINN.

	Feb. 11	Mar. 10	Percent increase
Hamburger, per pound, Red Owl	$0.69	$0.89	29
Chicken, whole fryer, per pound, Red Owl	.33	.49	48
Beef liver, per pound, Red Owl	.52	.69	33
Eggs, grade A, large, per dozen, Farmdale farms	.39	.48	23
Apples, 3 pounds, (exempt) Winesaps	.57	.79	39
Potatoes, 10-pounds (exempt)	.69	.79	14
Tuna, chunk, white, 6½-ounces, Chicken of the Sea	.32	.37	16
Cooking oil, Mazola 24 ounces	.69	.77	12

RED OWL, 1915 CHICAGO AVE., MINNEAPOLIS, MINN.

	Jan. 27	Mar. 9	Percent increase
Eggs, grade A, large, per dozen, Farmdale	$0.41	$0.48	17
Peanut butter, 8-ounce, Skippy	.59	.63	7
Cola drink, carton 72-ounce, diet cola	.48	.72	50
Evaporated milk, 13-ounce, Carnation	.18	.20	11

SAFEWAY STORES, KANSAS CITY, MO.

	Jan. 18	Mar. 11	Percent increase
Hamburger, per pound, Safeway	$0.59	$0.63	7
Chuck roast, per pound, Safeway	.67	.93	39
Potatoes (exempt), 10-pounds	.44	.58	32
Carrots (exempt), per pound	.20	.23	15

KROGERS, CINCINNATI, OHIO

	Jan. 31	Feb. 14	Percent increases
Flour, white, 5 pounds, Gold Medal	$0.55	$0.59	7
Chicken, whole fryer, per pound	.49	.59	20

IGA, NATICOKE (WILKES-BARRE), PA.

	Jan. 13	Mar. 8	Percent increase
Carrots, per 2 pounds	$0.35	$0.39	11
Tuna, white, 6½ ounces, Chicken of Sea	.42	.47	12
Toothpaste, 6 ounces, Ultra Brite	.60	.69	15

ACME, WILKES-BARRE, PA.

	Jan. 13	Mar. 14	Percent increase
Hamburger, per pound, Lancaster	$0.83	$0.89	7
Beef liver, per pound, Lancaster	.63	.69	10
Apples, all purpose, Harold Brace and Co	.20	.25	25

A. & P., WILKES-BARRE, PA.

	Feb. 25	Mar. 7	Percent increase
Spaghetti, Ann Page	$0.21	$0.24	14

KROGER, PITTSBURGH, PA.

	Feb. 1	Mar. 9	Percent increase
Rice, long grain, Kroger	$0.18	$0.22	22
Apples, red delicious	.69	.73	6
Carrots, per pound	.29	.31	7

H. & P. DISCOUNT MART, HARRISBURG, PA.

	Jan. 27	Feb. 15	Percent increase
Soup, Campbell's noodle, 10-ounce	$0.14	$0.15	7

ACME, LEMOYNE (HARRISBURG), PA.

	Jan. 29	Feb. 10	Percent increase
Beef liver, per pound	$0.59	$0.79	34
American cheese, processed, 8-ounce, Mrs. Filbert's	.89	.95	7
Tuna, chunk white, 6½-ounce	.43	.57	33

FOOD KING, 7030 PACIFIC AVE., TACOMA, WASH.

	Feb. 10	Mar. 8	Percent increase
Carrots, per pound, local	$0.23	$0.25	9
Baby foods, 4½-ounce, Gerber	.11	.13	18
Sugar, white, 5-pounds, C. & H	.69	.75	9
Toilet tissue, M.D. (2 rolls)	.25	.29	16

FOOD KING, 1214 6TH AVE., TACOMA, WASH.

	Jan. 27	Mar. 6	Percent increase
Sugar, white, 5-pounds, C. & H	$0.69	$0.75	9

THRIFTCO 5739 NORTH 26TH, TACOMA, WASH.

	Jan. 28	Mar. 8	Percent increase
Carrots, per pound, local	$0.23	$0.26	13
Spaghetti, 15¼-ounce, Thriftco	.19	.21	11
Baby foods, 4½-ounce, Gerber	.12	.13	8

THRIFTCO, VILLA PLAZA SHOP CENTER, TACOMA, WASH.

	Feb. 9	Mar. 8	Percent increase
Spaghetti, 15¼-ounce, Thriftco	$0.19	$0.22	16
Baby foods, 4½-ounce, Gerber	.11	.12	9

LUCKY STORE, TACOMA, WASH.

	Feb. 3	Mar. 4	Percent increase
Chicken, whole fryer, per pound, Washington	$0.34	$0.41	21

SAFEWAY, TACOMA, WASH.

	Feb. 8	Mar. 10	Percent increase
Apples, all purpose, local	$0.20	$0.21	5
Carrots, per pound, local	.23	.25	9

MAY FAIR, TACOMA, WASH.

	Feb. 9	Mar. 4	Percent increase
Grits, 20-ounce, Alber's	$0.25	$0.27	8

B. & B., HUNTINGTON, W. VA.

	Jan. 14	Feb. 11	Percent increase
Hamburger, per pound	$0.73	$0.79	8

KROGER, 29TH ST., WHEELING, W. VA.

	Jan. 18	Mar. 10	Percent increase
Tuna, chunk white, 6½-ounce, Star Kist	$0.45	$0.49	9

KROGER, LEATHERWOOD, WHEELING, W. VA.

	Jan. 18	Mar. 6	Percent increase
Tuna, chunk white, 8-ounce, Star Kist	$0.45	$0.49	9
Detergent, 3-pounds, 1-ounce, Cheer	.79	.83	5

AFL-CIO-CSA SURVEY OF FOOD PRICES IN WASHINGTON, D.C.

Item	Week of Aug. 8, 1971	Week of Feb. 27, 1972
Giant Food:		
Boneless chuck steak	89 cents per pound	99 cents per pound.
Fresh brisket	79 cents per pound	99 cents per pound.
Giant white bread	5 1-lb. loaves $1.00	4 1-lb. loaves $1.00.
Slab bacon	39 cents per pound	59 cents per pound.
Safeway:		
Hawthorne sliced bacon	69 cents per pound	79 cents per pound.
Fryer parts	39 cents per pound	49 cents per pound.
Round steak (boneless)	$1.29 cents per pound	$1.49 pound.
Roast round (boneless)	$1.29 pound	$1.49 pound.
Ground beef	5-lb. package $2.95	5-lb. package $3.15.
Beef steak	99 cents per pound	$1.19 pound.
Beef roast	95 cents per pound	$1.09 pound.
Boneless chuck roast	95 cents per pound	99 cents per pound.
Pork roast (½) rib	69 cents per pound	89 cents per pound.
Pork roast (½) loin	79 cents per pound	99 cents per pound.
Sausage (mild)	2 lbs. 98 cents	2 lbs. $1.19.
Rib steak (7-inch cut)	$1.39 pound	(5 inch cut) $1.69 pound.
'Cure 81' hams	$1.39 pound	$1.59 pound.
Sliced lunch meats	3 6-ounce packages 1.00	3 3-ounce package 89 cents.
Cucumbers	3 for 29 cents	2 for 33 cents.
Gleem 6¾ ounce toothpaste	76 cents	81 cents.
White Magic bleach	39 cents per gallon	27 cents per ½ gallon.
Secret spray deodorant	44 cents per 3-ounces	72 cents per 4-ounce.
A. & P.:		
Boiled ham	99 cents per pound	$1.17 pound.
Tea bags (A&P)	64 for 59 cents	48 for 49 cents.
Fully cooked hams shank	39 cents per pound	48 cents per pound.
Fully cooked hams butt	49 cents per pound	58 cents per pound.
Boneless roasts	99 cents per pound	$1.18 pound.
Pork loin	69 cents per pound	79 cents per pound.
Chuck steaks	89 cents per pound	$1.09 pound.
Grand Union:		
Round roast	99 cents per pound	$1.25 per pound.
All meat franks	69 cents per pound	79 cents per pound.
Sliced bacon	75 cents per pound	89 cents per pound.
American cheese	49 cents per ½ pound	53 cents per ½ pound.
Sweet rolls, 10½ ounces	39 cents	10 ounces 39 cents.
Squash, 2 pounds	49 cents	1 pound 29 cents.
Mrs. Filberts soft margarine	43 cents per pound	47 cents per pound.
Applesauce (can)	18 cents per pound	19 cents per pound.
Stokleys green beans	4 1 pound 1-ounce can, 89 cents. ,	4 1 pound 1-ounce cans $1.
Stokleys golden corn	4 1 pound 1-ounce cans, 89 cents.	4 1 pound 1-ounce cans, $1.

	Week of Aug. 15, 1971	Week of Mar. 5, 1972
Giant:		
Hebrew National knockwurst	12 ounces, 99 cents	$1.09.
Safeway:		
Tomatoes	3 pounds, $1	1 pound 39 cents.
Potatoes	10 pounds, 79 cents	3 pounds, 39 cents.
Grand Union:		
Scope	12-ounces, 89 cents	8 ounces $1.29.
Frozen dinners	11-ounces, 39 cents	11 ounces, 49 cents.
Cantalopes	3 for $1	59 cents each.
Watermelons	23 to 27-lb. average, 98 cents	15 cents per pound.
Holland Hall ice cream	half gallon, 66 cents	69 cents.
Blue Bonnet soft margarine	49 cents per pound	51 cents per pound.
Green beans, 15½-ounce can	7 for $1	5 for $1.
Drug store prices:		
Dart:		
Country Club malt liquor	6 pack, $1.09	$1.19.

Chairman PROXMIRE. Mr. Meany, isn't this what the whole thing really comes down to—and I want to thank you for a very stimulating and interesting and forceful response—that when the big settlements with powerful unions are negotiated, the Board approves even though the settlements are far more than the guidelines? The 80 percent or more of Americans who are not organized find that their employers are the administration enforcement agents because they will fight to keep the wages down, because that is the way they operate, to keep costs down——

Mr. MEANY. Those 80 percent are your responsibility, Senator, not mine. They are not organized. They have no spokesman and they must look to Congress to help them.

Chairman PROXMIRE. The administration has said that you only represent a small fraction of workers and many of those you do represent disagree with you. How about that charge?

Mr. MEANY. If there is any of them that disagree they keep it to themselves because we can't find any disagreement. In fact, we get a lot of mail which criticizes me because I am not militant enough.

Chairman PROXMIRE. They should have been here this morning.

Mr. MEANY. The AFL–CIO is the largest organization of private citizens in this country. They say we represent 20 percent—maybe it is 22 percent of the workers. Who are on the work force? The president of General Motors is on the work force to begin with. The President of the United States is considered on the work force. Everybody is on the work force. Household labor, domestic labor, people in business for themselves, executives of all types. How many of them can be organized. I don't know. But we organize those we think we can help. Who speaks for the 60 million people who are not organized?

Well, I don't know. But I have an idea that while we don't represent them, we speak for them. It is like asking the Consumers Union and the consumer organizations to say who they speak for. Do you say to them they only speak for their members? I don't know any housewives that belong to these organizations; 90 percent of the housewives don't belong to any consumer outfit at all. But I would assume that the consumer organizations, like the Consumers Union, do speak for the housewives. We speak for this other labor group in the force.

After all, in the final analysis what do we want out of this economy? Do we want to change this system? After all, if you get any foreign news, and I am sure Senator Fulbright does, you will find out that that I am a capitalist stooge. Pravda pays a lot of attention to me. I am a capitalist stooge. Well, I suppose I am in a sense because I believe in the capitalist system.

I believe in profits. I believe in management's right to manage. I believe in the return for invested capital because otherwise we can't expand. This is the life blood of capitalism. But what do I disagree with? I disagree with the share of the wealth that is produced that the worker gets. I have the old fashioned idea that this dynamic economy that we like to boast about, and it is the best with all its faults, has been based through our entire history on the amount of purchasing power in the hands of the great mass of the people.

Our job is to try to get that purchasing power in the hands of the great mass of the people.

Look at our 14.5 million members. When their wives come home and complain, and I know they complain about prices going up—and some of the prices are unbelievable—where does that worker go? He is organized. Well, he goes to his organization. How does he compensate for this increase in his living expenses? By looking to his employer and saying, "I need more money." It is as simple as that.

If you kept the cost of living down, I say to you quite frankly you would have less trouble with wage settlements as they come up. But this is a system which has every employer in this country as an enforcer, delighted to be an enforcer—do you know they finally cracked down on a chain store yesterday? The Government finally cracked down on a chain store in Baltimore. In fact, they fined them $2,500. Not for raising prices but for raising wages illegally.

The meatcutters union, they fined them $2,500. They fined the workers in effect so much out of their day's pay. So in that way the corporation will get its $2,500 back quite quickly.

You talk about the longshore case. The longshore case took $17 million out of the pockets of 15,000 housewives at the rate of $15 a week. That was a signed contract. It was signed on the basis of an increase in productivity that was without parallel in that industry or perhaps any other industry. There was a dispute between the two groups as to the percentage. The union said it went up 180 percent in 10 years. The company said it went up 150 percent. Well, somewhere in between that. It went up 33 percent since the last contract was signed. They wanted to get something for it.

The employer was willing to pay them something for it. They were willing to give them something for the money that they saved. They brought down the cost of tonnage. They brought down the amount of time involved and all of these things. What was the result? The Pay Board took $17 million away from them.

I ask you, Senator, and I have asked this in a lot of places—and I haven't yet received an answer, what does the return of that $17 million out of the pockets of the workers and into the treasury of the employer do to bring down prices?

We would have felt better if they said to the employer, "Pass it on to the consumer." But they didn't say that. Or if they even said, "Give it to the Little Sisters of the Poor" we might have felt better. We felt pretty bad to take $17 million out of the pockets of these workers that they felt they had earned, that the employer conceded they earned, take it out of their pocket by Executive fiat and give it to the employer. What did that do to fight prices?

Chairman PROXMIRE. Mr. Meany, let me get back to the issue we are trying to get to this morning. I agree with most of what you have said. I agree that the AFL-CIO does serve the interests of the American people and well, over the years before you were in office and since you have been in office. There is no other organization that has fought as hard for decent opportunities for the American worker, and those associated, organized or unorganized.

But under these circumstances how in the world does your withdrawal from the Pay Board really serve the best interests of the American public?

Mr. MEANY. It is not going to interfere with the Pay Board. The Pay Board is functioning.

Chairman PROXMIRE. It would function better if we had on the Board a group that represented such a broad interest as you spoke about.

Mr. MEANY. I don't think so. They would be functioning under a facade of deceit. They are functioning now for what they are, a Government board.

Chairman PROXMIRE. Doesn't your resignation give the administration a scapegoat?

Mr. MEANY. Senator, we were the scapegoat from the start. As I told you before, when Arthur Burns' ivory tower collapsed, he went out and made antilabor speeches that we had to be controlled.

Chairman PROXMIRE. Consider the dilemma you have put the Congress and the country in. What are we going to do about it?

Mr. MEANY. I will tell you what you should do about it.

Chairman PROXMIRE. Let me finish, Mr. Meany.

Mr. MEANY. It sounds like a meeting of the Foreign Relations Committee.

Chairman PROXMIRE. That is the best compliment I have had today, although it sounds to me more like a meeting of the AFL-CIO executive council.

Mr. MEANY. No. Our meetings are more like prayer meetings.

Chairman PROXMIRE. I just pray to have a chance to get a question in.

Mr. MEANY. We look at the White House and pray for the country.

Chairman PROXMIRE. Many people don't think that compulsory arbitration is a very likely possibility. We have been able to stop it and kill it year after year. But now we are in a dilemma. We are in a real dilemma. I think many people consider, and I consider, too, that the whole anti-inflation program may have been blown out of the waters.

Yesterday, it was indicated that the prices are going up and are now over the 6-percent rate. Your walk-off from the Pay Board really played into the hands of those who want compulsory arbitration.

Mr. MEANY. I don't think we have to play into their hands. If they want compulsory arbitration, they don't need encouragement from me. You ask what can you do? Let the Pay Board alone. The Pay Board is doing its job. It is keeping wages down. Let it alone. It is not going to change. But take care of Mr. Grayson. Let us get some price control because if you are going to control inflation you have to control prices and you are not controlling prices.

So your job is quite obvious. It is right in front of you. Let the Pay Board alone. They will continue their 5.5 percent and after a while we will get used to it. But what about prices? The price control situation, as it is presented to the American people, is an absolute fraud. You are not controlling prices. We had 200,000 people on OPA. You know, Mr. Nixon was one of those 200,000. He worked under Leon Henderson's department in World War II, so he knows what it is all about.

He has said publicly time and again, "I will not create a new bureaucracy." I say to you and I say to him, too, if you don't create a new bureaucracy, you are not going to control prices. It is just as simple as that.

And if you talk about compulsory arbitration, if you mean that as a threat to labor, well, we have been threatened with that time and time again. But let me tell you something. If you inflict compulsory arbitration, if you compel American workers by law to work for the private profit of another individual, you have then taken a long, long step in the direction of destroying our American system.

And let me tell you if I was an employer I would be opposed to compulsory arbitration because history shows that every time you control workers you go a little further down the line. Hitler controlled workers, but then he controlled employers. The Soviet Union controls workers and they destroyed the unions.

Chairman PROXMIRE. I am one of only three Senators who voted against the longshoreman bill—Harris, Weicker, of Connecticut and myself. I will never vote for anything that has any implications of compulsory arbitration.

Mr. MEANY. That bill was an insult to American labor. The President signed it as a warning. He didn't need to sign it. The strike was over. He didn't sign it in the land of the free—he signed it in Peking.

Chairman PROXMIRE. Mr. Meany, I have been on this committee many years, and this is the most stimulating colloquy I have been engaged in but it is also the most frustrating. I have never gone so long trying to ask a question without being able to ask one.

Mr. MEANY. I thought I answered your questions.

Chairman PROXMIRE. I didn't say you didn't answer them, but I didn't get to ask them. I yield to Congressman Conable.

Representative CONABLE. Sometimes it isn't necessary to ask questions.

You have referred to plumbers and lawyers. I suspect I can think of one plumber who couldn't have become a more passionate advocate if he had all the legal training in the world.

Mr. MEANY. When I think of plumbers and lawyers, I think of the large cities. You can have 7 million people in a large city without lawyers, but you couldn't have them without plumbers.

Representative CONABLE. Let me ask about this chart you have. It seems to refer mostly to food price increases. Do you feel we should have control of food prices?

Mr. MEANY. Absolutely.

Representative CONABLE. Do you see any problem——

Mr. MEANY. Leaving food prices out is nonsensical.

Representative CONABLE. Would you impose those before the farmers plant their crops this year or afterwards?

Mr. MEANY. That, of course, is something the administration would have to figure. I am not going to get into details about the farmers planting. I would like to see controls imposed as soon as possible on food prices. Of course, when they imposed the freeze on wages they didn't give us a chance to do any planning of any kind. It was just bang, we were out.

Representative CONABLE. There was some retroactivity later.

Mr. MEANY. We got that from Congress, thanks to Senator Proxmire and a few more of our friends, including Senator Taft, believe it or not, Senator John Tower, those great liberals. We thank them, too.

Representative CONABLE. Do you see any problem of supplies? The allegation has been made that if we control food prices there will be rationing very shortly because the farmers simply won't come forward. They will hold off until they get the price they want.

Mr. MEANY. You are making my point. When you start control, you can't stop. Rationing is a possibility. We had rationing during World War II. We lived through it.

Representative CONABLE. I thought you were advocating controls.

Mr. MEANY. I am advocating controls across the board. I am advocating what I advocated in February of 1966, controls across the board if the President decides they are necessary. They should be equitable and they should call for equal sacrifice on all segments of our society. That is what I am advocating right this minute.

Representative CONABLE. Then you are willing to accept the implications of food price controls if that means rationing?

Mr. MEANY. You bet your life I am, yes, sir. At least it would be some attempt to bring equity into this picture.

Representative CONABLE. You don't see any problem of public support if people walk up to counters that are empty at a time when many people don't feel there is a sufficient national crisis to involve total controls?

Mr. MEANY. My people feel that there is sufficient reason to control food prices and all prices that we have to pay. It is just as simple as that. Our wages are controlled.

Representative CONABLE. Are they advocating the result or the process if they are asking for control of food prices?

Mr. MEANY. They are advocating equity.

Representative CONABLE. Even if that means scarcity?

Mr. MEANY. Possibly. We don't predict what it would mean. We are advocating equity. If it happens to mean scarcity, so be it. We have a President, we have a Congress, to take care of those things.

Representative CONABLE. You are not suggesting that the President and Congress go out and grow food if it is not economic for the farmer to do it?

Mr. MEANY. I don't know. The President and the Congress have stopped farmers from growing food. They might encourage them to grow food. I don't know. You are just begging the whole question.

Representative CONABLE. No; I am not. I am asking how we achieve stabilization of food prices without running the real risk of scarcity.

Mr. MEANY. I will depend on the Congress and the President for that. All I want is some equity. After all, the Agricultural Secretary says we eat too much meat anyway. He may be right.

Representative CONABLE. It is your position, apparently, that the tripartite board did not give adequate influence to labor, or that labor had no influence on the board as it was constituted?

Mr. MEANY. The second statement is a proper one. We had no influence.

Representative CONABLE. How do you explain the large initial pay increases that were approved far beyond the 5.5 percent?

Mr. MEANY. Because they were committed to approve them all. They didn't approve them all. They did not approve them to their full amount that was required. As I say, we had this commitment from the Government to start and they didn't keep it. They kept part of it.

Representative CONABLE. A commitment from the Government? From whom?

Mr. MEANY. Mr. Weber.

Representative CONABLE. That all pay increases wou d be approved?

Mr. MEANY. On the night of November 8, when they came down with their first policy after they were outvoted, we had a discussion and he said, "We will take care of aerospace, we will take care of the steel contract, we will take care of the coalminers, we will take care of the railroads, we will take care of the UTU—United Transport Workers Union—the west coast longshoremen and east coast." They made that commitment. They didn't keep it but they kept part of it.

Representative CONABLE. The west coast longshoremen's strike was not resolved.

Mr. MEANY. No; but the wage thing had been resolved 2 months before the President made his August 15th speech and we were quite familiar with that.

Representative CONABLE. Then you felt it was the White House s job to tell the Pay Board what they should do on those and that you felt you had a commitment from the White House in that respect, is that right?

Mr. MEANY. Yes.

Representative CONABLE. Do you feel there is inadequate White House influence over the Pay Board?

Mr. MEANY. No. I think we had double proof. You see, they made the promise and then the White House changed its mind so they changed their mind. There is no question about that. This was done with everybody present. This was done in the open. You can question anybody who was there on the night of November 8.

Representative CONABLE. You maintain that the early large settlements, then, were not the results of labor's influence?

Mr. MEANY. No. They were a gift from the Great White Father.

Representative CONABLE. And do you expect that kind of gift to continue with labor largely off the Board?

Mr. MEANY. It would depend on circumstances. Yes; that is possible the way this thing is run. You know, this is a Government of change. Things can change quite rapidly.

Representative CONABLE. But you are willing to put yourself in a position of acceptance grace there rather than continuing to try to influence?

Mr. MEANY. We can appear before the Board as advocates of our contracts just the same as we appeared before, but we have dropped the pretense that we have anything to do with the decisions. The problem is not the Pay Board. The Pay Board is going on its way, I am quite sure. While they may use some of the flexibility that they have here and there, the big question is prices. You have wage control. There is no problem in this country, you have wage control. That is what you want and you have it. That is what the President wanted and he has it. We don't argue with that. You are going to continue to have it. It is going to be very, very effectively policed. Now we want price control. That is what we want.

Representative CONABLE. If you could design a system, then, that would be fair at this point, it would involve not any real change on the pay side, except perhaps that you would like to feel that you have some influence there, but on the price side you would like to have a complete setup adequate to control prices in every four corners, wherever they are moving up?

Mr. MEANY. Right.

Representative CONABLE. That is what your primary advocacy would be at this point.

Mr. MEANY. That is our primary problem right now. We are not worried about the Pay Board.

Representative CONABLE. You are still interested in an excess profits tax despite the opposition of one economist?

Mr. MEANY. Yes. Of course, this may affect the GNP, and I will really weep if the GNP goes down. This is really awful.

You know, profits are hitting record heights. Somehow or other the old trickle-down theory isn't working. Maybe it will work after a while, but profits are hitting record heights and we are getting squeezed at the check-out counter in the supermarket.

Representative CONABLE. You want control of prices, then, and primarily food, or at least that is the area of great concern.

Mr. MEANY. I would like to see price control, period.

Representative CONABLE. You would like to see profits controlled.

Mr. MEANY. I didn't say anything about controlling profits.

Representative CONABLE. That is what an excess profits tax is.

Mr. MEANY. Do you mean to get them to bear more of the share? Yes. I would like to see the people getting these profits put a little more into the common till, into the Federal Treasury.

Representative CONABLE. What about interest?

Mr. MEANY. Personally, I would like to see a Federal ceiling on on interest. Of course, I am not a financial expert, but I can't see any reason under the sun why any interest rate anywhere at any time should be over 6 percent.

Representative CONABLE. Is there any other element that you would like to have controlled besides these, to make what you consider to be a fair structure?

Mr. MEANY. You have interest rates, you have rents. Most rents have been decontrolled. I don't know what the Price Commission reason is, but they seem to decontrol more than they control. But I don't think under the present setup you are going to control prices. You have to have more machinery. You have to have more people. It is as simple as that. I don't know the number of retail establishments in this country but they must run into the hundreds of thousands. I don't think anyone can argue that the only thing that goes into the prices is the wages that are paid.

In 1959, getting to the housing industry, everybody was upset by high wages in construction. In 1959, 33 percent for the purchase price paid for homes in America, and this covered the entire country—this was the National Association of Homebuilders, which is a private organization, it has nothing to do with unions—33 percent of the cost that the buyer paid for his home represented onsite labor.

Ten years later, in 1969, when he purchased the home, 18 percent of it represented onsite labor. So the onsite labor cost to the purchaser was cut in half. That didn't mean that the home cost less. The home cost a lot more. The breakdown showed that land costs went up. It showed that lumber costs doubled. It showed that the closing costs doubled.

Perhaps the biggest thing—the cost of hiring the money went up, the cost of financing went up. I think you will find out that this is repeated in many, many areas where, while labor contributes to higher prices, and there is no question about that, it does not play a major role of higher prices in many industries. I don't know what has happened to lumber. I see where the lumber people say that they like the way the controls are working, but my indication is that the price of lumber has doubled in the last 18 months.

Representative CONABLE. My time is up, Mr. Meany.

Chairman PROXMIRE. Senator Fulbright.

Senator FULBRIGHT. Mr. Meany, the news from my State is that lumber is almost unavailable for small manufacturers at any prices. And we are a big producer of lumber.

Mr. Meany, in your prepared statement, you say: "It is our considered judgment that this so-called anti-inflation program is both ineffective and unfair. The average consumer and worker, particularly those at the lower rungs of the economic ladder, are bearing the brunt of this mess. The administration has proved it is incompetent in these areas. It is up to the Congress to restore the confidence of the American people in the American economy."

I cite this merely to lay a groundwork, together with the view you have just expressed—that prices cannot be controlled without creating a full fledged Government organization, comparable, we will say, to the OPA, which had 200,000 people. You also stated that the President is against this.

I have seen very little evidence that there is much prospect of anything similar to OPA being enacted without the President's strong support. You mention that the President has great power and that he has overridden, I believe you said, some of the agreements made by the Price Board.

I have a feeling he has done the same thing with the Constitution in a different field.

I wanted to suggest to you that maybe in view of this, there might be some other thing that the Congress might do, maybe another approach.

I don't profess to be at all an expert in the details of your area—and I wouldn't want to engage you in a colloquy or even a discussion of price controls and their effects because you have already given an ample demonstration of your ability with respect to this subject. However, there is another element that strikes me, that maybe in view of these circumstances we can try to identify the principal cause of our problems.

I think what we have been talking about most is the remedy; that is, trying to deal with a mess, as you call it—and I agree with that, from what I read I certainly agree. I didn't read it for the purpose of disagreeing. I think it is exactly the way you describe it. I would like to suggest another approach. I read a recent statement in the Congressional Record:

> The most positive steps the President could take to strengthen our economy would be to end immediately and completely American involvement in the war in Indochina, cut back military spending on dollar draining military bases in Europe

and elsewhere, and instead of letting the so-called peace dividend be consumed by the Pentagon, use the funds for such purposes as to provide jobs, repair our decaying cities, build low and middle income housing, make mass transit facilities available, deal effectively with drug and pollution problems, and assure our 25.5 million poor people of a guaranteed annual income. But instead of ending the war once and for all and reducing military expenditures, the President and some of his advisers are busy developing the point that our economic problems are the result of the winding down of the war rather than the war itself. George Romney, for example, said recently that if we have peace we are going to have unemployment.

What would be your comment on that? Do you not agree that that is a fundamental cause?

Mr. MEANY. The idea that if we suddenly have peace that all of this money we are now spending for defense would be used for all of these things that you mention I don't buy at all.

Senator FULBRIGHT. Why not?

Mr. MEANY. Because it just wouldn't be done. We would have the economy boys getting the word in—we can't spend this money. When I say it wouldn't be done, it is on the record. It is nice to say wouldn't it be wonderful if we could take all of this money and put it in housing. I say yes, it would be wonderful. But it would also be wonderfully surprising to me if that ever happened.

If Congress were to say, "Well, we are going to do all these things if we have the money" that doesn't happen. We have had a lot of social projects that I think we got the money for. What did we get from the White House? We got a veto on a lot of things, things to help the elderly, child care, things that would help education.

We had a stellar performance on the TV tube a short time ago. I listened and said, "That is great. We are going back. We are going to put in some more money and raise quality education."

When I read the bill he sent over I found there wasn't a nickle in it for additional education. I have no great confidence that this money would be spent the way you say it would be spent.

Senator FULBRIGHT. The reason the President gives for the vetoes is the enormous deficit in our budget. He has used this on a number of occasions. Of course, the principal reason is the spending of these vast amounts on foreign expenditures.

Don't you think there is just as much an opportunity for the Congress to use good judgment in the use of that money as there is to impose a full fledged price control program involving 200,000 or 300,000 people, especially over the opposition of the President? Then you would do nothing about either the cause or the cure. That is what it comes down to, if I understand you correctly.

Mr. MEANY. Of course, I have my own opinion about our defense efforts and our foreign affairs.

I hear a lot of criticism. I have yet to have anyone explain how. People say, "Let's get out now." How do we get out?

Senator FULBRIGHT. This has been going on, this war, for nearly 10 years. You will recall what the President said in the election, that he had a plan to finish it. That is nearly 4 years ago.

Mr. MEANY. He had a plan to bring down American involvement and I am not going to say he didn't bring down American involvement. We had 535,000 people there and he has brought that down to 80,000. We lost 14,000 dead in the last year of Lyndon Johnson. He sure has cut that down. I am not going to put myself in the position of making the decisions in that field, which are primarily his under the Constitution. I am inclined to think he is making decisions that he has to make.

Senator FULBRIGHT. I wasn't really asking you that. Would you or would you not agree that this is not just the war in Vietnam. That is estimated by various people at from $7 to $9 billion by itself.

Overall, they are asking for $83 billion for military affairs. There is a very substantial increase outside of Vietnam. I was not trying to argue about the ongoing question of the wisdom of the war. Under the present conditions, which you have described most effectively, and in a most colorful manner, this is a mess that we find ourselves in. You call it that in your prepared statement—and I don't quarrel with that word. What I am trying to say is in view of this mess and the seriousness of it, and the interest of your people and all people in this country to re-establish not only a more stable economy, with, as you said, a more equitable distribution of what we have, but also to cure some other obvious and serious maladjustments in our society such as the conditions in the cities, mass transit, housing, et cetera—you must decide what comes first? It is a question of priority.

I am not speaking of what Lyndon Johnson did or John Kennedy——

Mr. MEANY. On the question of priority, I will leave that to the President and the Congress. If you are saying wouldn't it be wonderful if we had the money we are shooting overseas to use here domestically, I agree, I think it would be great.

Senator FULBRIGHT. It is not only the money, as such, which is a major part of it, but the direction of our efforts, the attention of the President and the Congress today.

Today, much of the attention of the President and the Congress is given to these other items. The question you are concerned with, and I think rightly so, has a very short shrift. Many items come down low in priorities. You know that at least 60 to 70 percent of the President's attention is devoted to these other matters and he can only give passing attention to the problems we are discussing here this morning. The question of priorities is not just for Congress. After all, you are one of the most powerful men, as the Chairman said, in this country. I agree with him. In many respects more powerful than any individual Member of Congress or anyone else that has to do with this area. You can't just shove it off and say that is Congress duty. Congress can't do it without the support of you and many other people like you—although I can't think of another one like you.

You have obviously the greatest amount of influence in the political scene.

Mr. MEANY. If you keep that up, I won't be able to get my hat back on my head again.

Senator FULBRIGHT. I am trying to suggest to you that your influence in curing these problems is great. You say it would be wonderful. I would like to see you use your influence to bring it about. We don't know whether the Congress would distribute the money in a more equitable way. I think they would, given an opportunity.

Mr. MEANY. You say I am powerful, but I am certainly not too well informed. I get really confused about what our foreign policy is, and I say this very seriously. I have talked to Henry Kissinger, whom I have known for a good many years, and he leaves me completely puzzled at times.

For instance, I still don't know how we got into Pakistan on the side of the murderers. I always like to think when we get into foreign problems we are on the right side. I can't get any explanation from Henry Kissinger on that. I can't get any explanation that would make sense to anybody, really. I can't.

You are now talking about the whole foreign question. Frankly, I had never thought of this in terms that you put it in this morning, of a term of priorities. I thought we would be able to do both.

Senator FULBRIGHT. So did Lyndon Johnson. That is why we are in the condition we are. Now we are looking for the cure and we are having a great deal of difficulty.

Mr. MEANY. Well, I want to be very frank. I felt that we were on our way out. I felt that until perhaps a month or so ago. It looked like he was reducing the number, that he had a schedule. Knowing him I was quite sure he was going to hit the tube one of these days and reduce it down. By the 7th of November I think we would have been down to zero. I don't think there was any question about his intentions. But now I am not so sure.

Senator FULBRIGHT. Neither am I. My time is up. I hope you will give this some thought.

Chairman PROXMIRE. Congressman Brown.

Representative BROWN. Mr. Meany, I have been pleased to hear your comments and I want you to know that I agree with you about the plumbers and the lawyers, and maybe even about the economists. But I am not sure whether I agree with you or not about what we ought to be doing in this circumstance.

As I understand it, you were originally for controls in the economy to resolve this problem.

Mr. MEANY. I don't think that is a proper statement.

Representative BROWN. Didn't you urge on the Congress——

Mr. MEANY. No, we did not urge controls. We said time and time again if the President of the United States decides that controls are necessary, we will cooperate. I think there is a big difference than saying we were for controls.

Representative BROWN. As I understand, the Congress gave the President the authority——

Mr. MEANY. It gave him that a couple of years back.

Representative BROWN. And the President acted on that authority. Then you state in your prepared statement, "We urge the Congress to tighten the substantive provisions of the act but not to extend the act's authority beyond the original termination date of April 30, 1972."

Mr. MEANY. That is right.

Representative BROWN. That would seem to be a position against controls.

Mr. MEANY. No. What we were saying was you gave the President the power to use these controls and he didn't use them. He said he wasn't going to use them. Then on August 15 he suddenly decided to use them and we didn't like the way he used them. So what we said to Congress was when you extend the controls, extend them only to April 30, 1972, so you can take another look as to how he is using the additional extension.

Representative BROWN. Congress didn't do that. They extended them to April 1973. As I understand from what you told Congressman Conable in his questioning, now what you would like to do is set up this $4 billion bureaucracy between now and April 30, 1973, to control things more tightly, food and other things.

Mr. MEANY. I have not advocated the setting up of a bureaucracy. I say very simply from my experience you will not control prices unless you set up the bureaucracy.

Representative BROWN. I thought you told Congressman Conable that you want food prices controlled?

Mr. MEANY. I want everything controlled that my people have to pay for; yes.

Representative BROWN. So you do want a bureaucracy set up——

Mr. MEANY. I want it in the interest of equity. I will tell you, there is another alternative. Take off controls altogether. We will buy that, too. We will get along.

Representative BROWN. Which would you prefer? I am confused about that.

Mr. MEANY. Either one will do. We would like to see prices come down, so give us full controls and we will go along.

Representative BROWN. If we get the food price controls——

Mr. MEANY. You would have no argument about wages, then.

Representative BROWN (continuing). And if we have shortages, would you favor rationing?

Mr. MEANY. If that was necessary, sir, whatever is necessary to give us equity. We don't have equity in this situation.

Representative BROWN. Let's talk a little bit about the equity. I am concerned about some figures I read and I don't understand this part either. If I am not mistaken in current dollars, hourly earnings for nonfarm production workers in phase II have gone up 9.1 percent. At the same time, the Consumer Price Index on all items went up 4.9 percent. That is just phase II. If you take the whole of phases I and II together, spendable weekly earnings in constant dollars for nonfarm production workers is 5.9 percent, whereas the Consumer Price Index on all items with that tremendous bulge in the food item figure is 3.3 percent.

In terms of those figures what would equity be?

Mr. MEANY. In terms of those figures?

Representative BROWN. Yes. The spendable weekly earnings in constant dollars, August 1971 through February 1972, is 5.9 percent. They have gone up 5.9 percent. The Consumer Price Index on all items during that same period has gone up 3.3 percent. I don't understand what equity would be on the basis of those figures.

Mr. MEANY. Into the earnings figure, of course, goes your increase in productivity. In other words, you are not going to compare the earnings directly with the prices. In the earnings figure you have to allow for increased productivity.

Representative BROWN. What dollar figure would you compare in terms of wage increases?

Mr. MEANY. Our figure that we presented to the Pay Board I think was 6.5, or something like that.

Representative BROWN. And that is made up of what?

Mr. MEANY. It is made up of the cost of living that is normal. After all, there is a normal cost of living increase. We have never been without it for many years—plus an offset for productivity.

Representative BROWN. If you use current dollars the same figure escalates on wage rates because it becomes 8.8 percent.

Mr. MEANY. How do you figure that out?

Representative BROWN. The figure I have for nonfarm production workers, spendable weekly income in current dollars, has increased 8.8 percent since August 1971.

Mr. MEANY. Of course, in there were these retroactive increases, and so on.

Representative BROWN. You made, I thought, a very eloquent presentation. I was pleased to hear it because I think it represents a balanced view about the needs of our economy with reference to profits. The profit figures that Mr. Gullander of NAM presented to us yesterday, admittedly, I assume, were biased in his interest as you are in yours, but that is the way the system works. They would indicate that as a percentage of GNP corporate profits last year were 4.4 percent. Back in the 1930's they were 3.2.

Mr. MEANY. Why as a percentage of GNP?

Representative BROWN. I thought it would be a fair comparison.

Mr. MEANY. Why not what they made the year before? What is wrong with comparing what they made the year before? This business of the numbers game you can play any way you want. I have seen figures come out of the White House just a short time ago which showed that the annual take-home pay of workers was going to increase by 16 percent in a year. They just took 1 month. It is something like the show we saw yesterday, where the crime rate in Washington has gone down.

Representative BROWN. Let's take 1965 to 1971 as a reasonable period. Is that all right?

Mr. MEANY. I don't know whether it is all right. What are you using?

Representative BROWN. The difference between corporate profits between 1965 and 1971 was a 2-percent rise. The Gross National Product in that period of time went up 53 percent. During that period of time the compensation to employees in this country went up 63 percent. What are the figures that are desirable? In 1971 and 1972 we had the lowest percentage of profit return in this country that we have had since 1938.

Mr. MEANY. On the basis of whose figures?

Representative BROWN. On the basis of Federal figures that are presented each year.

Mr. MEANY. I read the Wall Street Journal and I read the figures.

Here is Mr. Joseph Slevin. He is not connected with labor. He is supposed to be a financial writer with the Washington Post. He says, "It now looks as if U.S. corporations will chalk up their first $100 billion year in history." The 100 large corporations went up 76 percent last year.

Representative BROWN. Seventy-six percent compared to the year before.

Mr. MEANY. Yes.

Representative BROWN. The year before was the lowest year since 1938.

Mr. MEANY. The lowest year on what basis?

Representative BROWN. On the basis of the percentage of the GNP.

Mr. MEANY. That don't mean anything to me at all, the GNP percentage. Listen, the GNP has gone up to record heights. We have 5 million people out of work. Welfare roles are going up. Food prices are going up. Rents are going up. And the GNP is going up. Goody, goody for the GNP. But that isn't doing anything for my people.

Representative BROWN. Let me tell you what has happened in terms of percentages.

Mr. MEANY. I will tell you what has happened to my people.

Representative BROWN. May I ask a question, please, Mr. Meany? I have a limited amount of time. In terms of the percentage of return out of our economy of wages for individual employees, in 1930 it was 52 percent, in 1950 it was 54, in 1960 it was 50 percent of the GNP, and in 1971 it was 61 percent. That seems to me to be a reasonable growth of the return that labor receives. I don't know how we can compare these figures to get on some kind of an equal basis. What is the comparison?

Mr. MEANY. You can't compare them unless you get into the question of what we can do with our money.

Representative BROWN. The figures I gave you were in terms of constant dollars.

Mr. MEANY. Do you mean pre-Connally dollars?

Representative BROWN. Constant dollars, based on the growth between August and February, 5.9 percent.

Mr. MEANY. What does that mean at the supermarket counter?

Representative BROWN. This is the increase in real earnings.

Mr. MEANY. What does that mean?

Representative BROWN. The 5.9-percent increase compares to a 3.3-percent increase in the Consumer Price Index for all items.

Mr. MEANY. All items? What about all these price increases that we have that we can give you affidavits on, we have the people and so forth, from all over the country? This is the present day problem.

Representative BROWN. I am sorry I don't have a chance to answer that question because my time is up.

Chairman PROXMIRE. Senator Javits.

Senator JAVITS. I must apologize to the chairman and to Mr. Meany for my absence this morning, but I was attending another committee meeting during this time.

Mr. Chairman, I find that the conflict on the basic facts is so sharp that I think it is my duty as a member of the committee to do my utmost to resolve the bigger question. If, in fact, the points implied by Mr. Gullander and other witnesses that the rate of profit in the American industrial scheme is a reasonable one compared to the rate of wage and salary increases, that places a totally different question before us.

As I understand it, Mr. Meany, it is a fact that you are challenging this wage-price new economic policy on the ground that it is biased in favor of management and capital. Is that correct?

Mr. MEANY. Yes.

Senator JAVITS. Therefore, the fact of these figures becomes the all important question.

Mr. MEANY. What our people have to pay in order to live is important.

Senator JAVITS. There is no question about that.

Mr. MEANY. You bring in figures, corporation figures and profits. You get into an area that I am sure the housewives have difficulty understanding. You get fast writeoffs and all this sort of thing, and cash flow and everythig else.

Where does it all come in, I don't know. You see, we are very practical. Maybe we are a little bit stupid, but we still insist on saying we pay our prices to the landlord and to the supermarket and to the people who collect interest. We have millions of people who are now paying 7.5 and 8.5 percent interest on their homes, which is something that it took a lot of doing to bring about, but Arthur Burns managed to bring it about.

Senator JAVITS. Mr. Meany, in saying "you," I assume you mean the editorial you. I haven't done anything yet. I am trying to point out to you what is the point of difference. The point of difference is that it is a fact that profits are out of hand and wages are being controlled in such a way as to disadvantage the worker and the housewife.

Your answer to that, I gather, is yes. I heard it very clearly.

Mr. MEANY. Let me try to simplify it.

Senator JAVITS. I have it very simple, Mr. Meany. These minutes run against both of us, so give me a chance to get to my basic point. The point I would like to ask you is this: Isn't it right for us, in trying to come to some judgment about this, to look at both sides of the ledger? In other words, neither side is absolute.

The figures on compensation increases should be as important to us and rank equally with the figures on what you charge to be runaway profits. I would like to know that basic principle.

Mr. MEANY. The basic principle is quite simple. You are controlling wages very effectively. While that is somewhat distasteful, we have said time and time again we will accept that. We accept it now. But we always made a proviso: We would accept it provided there was equal sacrifice throughout the rest of the economy, that all forms of income would be controlled and regulated.

It is quite obvious that other things go into the final price the consumer pays outside of wages. So we are saying as a matter of equity that all forms of income should be controlled. It is just as simple as that. If that includes profits, includes managerial salaries, if it means a reduction for some corporate executive who is getting $800,000 a year, that is too bad.

But as a matter equity and fair play, just common fair play—well, you say the President has said that the creation of a bureaucracy to control prices is unthinkable. Well, that may be all right, but he has millions of people who are controlling wages and think that they are performing a patriotic service. Every employer in America is an enforcer of the President's wage policy. And still with all that, Senator, we say we will buy that.

Let the Pay Board go on. But we say for God's sake, give us the rest of the deal. Give us the side where we are boing hurt. Control the prices. That is what we are saying. What goes into prices? Don't interest rates go into prices? Don't mortgage rates go into prices? Do rents go into prices? Do profits go into prices? Do dividends go into prices? Of course they do. All those things go into prices.

So we say simply even though the President thinks it is unthinkable, you should try to control prices.

Senator JAVITS. I think I understand you very well, Mr. Meany. I was trying to get the point from you if you believe that wages and salaries are under strict control and couldn't be any stricter, but prices are not. So you want the controls on prices as on wages. You say the latter control already exists.

We have two questions to decide: One, are the controls as tight on prices as they are on wages and salaries; and two, is there a major disproportion being created between the two? Is that it?

Mr. MEANY. Yes, sir.

Senator JAVITS. Thank you so much.

Chairman PROXMIRE. Both you and Leonard Woodcock gave some specific reasons for leaving the Pay Board. Some of them I thought were persuasive. I questioned both Mr. Stein and Judge Boldt on these points. They flatly denied some of your accusations.

I want to give you the chance to reply. Judge Boldt, in the first place, denied that there was any interference with Pay Board operations by the Cost of Living Council.

Mr. MEANY. I don't think the judge would know. We spent 3 weeks with that fellow and he never answered a single question. This man has absolutely no experience in labor-management fields. He had one labor-management case where he made a decision and he was reversed by the Supreme Court. For 3 weeks, Senator, we spoke to him as the chairman and he looked at us blankly and Arnie Weber answered.

Chairman PROXMIRE. Mr. Meany, as I say, I was the only Senator to vote against him in committee. I opposed him on the floor and got one vote, my own, against him. He was confirmed.

You haven't answered the question. My question is can you detail the instances where the Pay Board was influenced or overruled by the Cost of Living Council?

Mr. MEANY. On the night of November 8, we had a commitment from Mr. Weber who represented the administration. Mr. Weber had been an employee of the executive branch of the Government since Mr. Nixon became President. He was with the Labor Department. He went over to the White House as an assistant to George Shultz. He went to the Cost of Living Council when it was created. He was the man who made the decisions. He was the man who made the pronouncements and so on and so forth.

On the night of October 21, he was still the executive secretary of the Cost of Living Council, which is an exclusive Government operation.

On the morning of the 22d of October, he was the impartial, neutral member of the Pay Board.

Chairman PROXMIRE. Let me ask you another specific question. Boldt insisted it was the Pay Board that decided the question of defining low-wage workers, contrary to the widespread impression that it was the Cost of Living Council?

Mr. MEANY. No, sir. When that question came to the Pay Board, the Pay Board said $1.90 an hour was too low. They sent it back to the Cost of Living Council and the Cost of Living Council in a couple of days came out with its decision, $1.90. The judge should look that up in the record.

Chairman PROXMIRE. The judge referred to the demeanor and actions of the public members on the Board and he said that he and other public members of the Board have never prejudged a case before Board. That statement was flatly contradicted by your testimony about the dockworkers settlement. How do you account for that contradiction?

Mr. MEANY. I don't know. I have some witnesses if you want. I have one sitting right here who attended every session. I didn't attend all the sessions. I had other things to do and I was ill for a while. Mr. Goldfinger was there.

Chairman PROXMIRE. Let me ask you another one.

Mr. MEANY. For instance, they brought in the dock workers settlement. It was not brought in for discussion. It had been through the legal department and was in its final legal form and they said, "Here it is and we don't want to waste your time. We will let you know now we have 10 votes."

Chairman PROXMIRE. I asked Judge Boldt whether the White House had leaned on the Pay Board in any respect with regard to the decisions. I asked him whether Peter Flanigan at any time intervened and used his influence, which is very great, with members of the Pay Board.

Judge Boldt said absolutely not, under no circumstances.

Mr. MEANY. I contend that the Judge wouldn't know. All that had to happen was somebody talked to Arnie Weber, most likely John Connally. My guess would be Connally. It was quite obvious that Arnie Weber was making the decisions and Arnie Weber represented the White House. He came out of the White House. That is where he lived. I am sure he wouldn't enlighten the judge on things like that. I don't think he would disturb the old fellow.

Chairman PROXMIRE. You make the point in your prepared statement that the law authorizing phase II has many defects. I think that is correct. Even so, as you point out, the administration has not even complied with the spirit of the law.

You mentioned the decision on low-wage workers as one example of the failure to comply with the law. Aren't there some others? For example, the Price Commission certainly has not held hearings on specific cases which I feel the law requires. It was my amendment. I put it in. I know what my intent was. I prevailed. We fought in the committee and lost but we won on the floor. It was held in conference. They haven't held one single hearing. They have hearings as to whether they ought to have rent or food control but no hearing on a specific price increase, which is what we had in mind.

Mr. MEANY. They approved them in bulk.

Chairman PROXMIRE. They approved them all by Mr. Grayson and he has never been overruled once by members of the Board and has never held a hearing on one increase.

Mr. MEANY. Looking at the makeup of the Price Commission, in fairness, shouldn't there be someone there representing consumers? The whole Commission has a corporate background.

Chairman PROXMIRE. Let me ask you about that question. You knew, didn't you, when you went on the Board, who the other members of the Board would be?

Mr. MEANY. Yes.

Chairman PROXMIRE. Why did you go on? You knew who these fellows were.

Mr. MEANY. We had a meeting among ourselves and we went on. We said, "Well, we have to see if we can try to make this go." We made a statement to that effect, that we were going to try to see if we could make it work. We thought possibly we could make it work.

I think if they had let us alone, we might have made it work.

Chairman PROXMIRE. Mr. Meany, this has been, as I said, one of the best hearings I have been in, but I don't think we have gotten to the kind of specific and constructive suggestions that I think you may have in mind.

Mr. MEANY. There is the suggestion I gave to Senator Javits. Wages are controlled, for God's sake, control prices. That is what I am saying.

Chairman PROXMIRE. How?

Mr. MEANY. That is up to you and the President. That is up to you and the President. The President says it is unthinkable. I think the Congress might have a right to say to the President, "You better think about it in the interest of fairness and justice and decency and fair play to the American people."

Chairman PROXMIRE. Let me ask you this: Would you go back to precisely the kind of system we had in World War II?

Mr. MEANY. If that was what was needed, yes. At least, it was fair.

Chairman PROXMIRE. What is your judgment now? Is it needed or not?

Mr. MEANY. I don't know. You see, all through this I have insisted that the President make the decision, and he on the 15th of August, made this decision. I didn't make it.

Chairman PROXMIRE. Let's get to the area where you and I sharply divide. I have argued that controls should be confined to the big unions and the big business. I say that because the overwhelming majority of our economy is in a competitive situation where the "mom and pop" store couldn't raise prices if they wanted to, but big businesses do. Steel does. One big company does and within 24 hours every big steel company follows suit.

Mr. MEANY. Don't you think we might have some thoughts on that?

Chairman PROXMIRE. That is why I asked you the question. What are they?

Mr. MEANY. Nobody from the executive branch asked us on August 15. We weren't consulted on that. You weren't consulted. The Secretary of Labor wasn't consulted.

Chairman PROXMIRE. Now you have a chance to say what your position would be on that. What do you think?

Mr. MEANY. Do you mean if they are going to use that system? I would be delighted to talk to representatives of Congress or the executive branch and put whatever thoughts we had into that question. But I certainly am not going to give you my ideas in a vacuum. Are they ready to do this? Is the executive branch ready to make a change?

Chairman PROXMIRE. Let me tell you they certainly won't be willing to make a change. I know there is no question they don't agree with you on many things.

Mr. MEANY. Why don't they sit down and talk with me? If I don't agree with a person, I like to talk to them. They don't talk to me and they don't talk to you, either.

Chairman PROXMIRE. This is a congressional committee. We are Members of Congress. We have some voice in these policies. We want to hear you.

Mr. MEANY. We testified when you extended the act last fall. One of the things we advised was don't give them this blank check. You didn't take that advice. You followed your own inclination.

Chairman PROXMIRE. I took the advice. I voted against the whole bill.

Mr. MEANY. We said don't give them a blank check. Give them an extension until April 30 so they will have to come in and let you know what they are doing. But you gave them an extension to 1973.

Chairman PROXMIRE. I voted against the extension but it was a lonely fight and I lost.

Congressman Conable.

Representative CONABLE. Have the inhibitions on you before this committee prevented you from expressing anything you would further like to express? Is there anything that you would like to say that we haven't let you say?

Chairman PROXMIRE. He is the one witness we will ever have before this committee that wouldn't be bashful.

Mr. MEANY. I gabbed so much I didn't have a chance to read my prepared statement.

Representative CONABLE. I thought you might want a little bit of free time.

Chairman PROXMIRE. Before I yield to Congressman Brown, let me announce that there have been some perfectly enormous increases in salaries between 1970 and 1971. James Kerr, from $120,000 to $214,000; Paul Fontaine, of Bendix, $121,000 to $280,000; Fred Borsch, of General Electric, from $320,000 to $485,000. These are annual salaries.

This may or may not involve any violation of the law, because, of course, it is from 1970 to 1971 and the whole year was involved. We are asking and we are getting Mr. Tim McNamara, director of the economic analysis, and Mr. Whortney of the office of compensation, to come before the committee tomorrow to discuss these with us.

If Congressman Brown would permit on my time, and I don't think I have used all my time, I would like any observations you may have on this, Mr. Meany. It was under the jurisdiction of the Pay Board, but I understand it was delegated to a separate executive committee, the committee on executive pay.

Mr. MEANY. These large salaries are not disturbing. I don't think they have any great effect. Even a fellow who gets $700,000 a year, if you were to cut him down to $500,000, you would save $250,000, and if you applied that to the price of the product his company made it might make a difference of a half cent.

In the automobile business, it might reduce the automobile price a half dollar, I don't know.

Chairman PROXMIRE. That is the first time I have been surprised at a response from you.

Mr. MEANY. I haven't finished.

I think, however, that another phase of it is that every worker in this country knows he is under control. Then when he looks at these big fellows, and then looks not only at their salary but the stock options that they have and so on and so forth, and you get the impression more and more that it is not a Government for all the people. It is only a Government that takes care of certain people. It is sort of an insult to the individual.

But as far as the practical effect on prices it would be very, very small.

I heard this morning that the Gallagher report takes the average of the large corporations of America and said $346,000 is the average pay.

Chairman PROXMIRE. This year around the country the chairmen of boards got increases of 12.5 percent to an average of $346,000; presidents got increases of 17.6 percent, to $288,000; vice presidents got increases of 13.3 percent to $242,000.

This is not my description but the Gallagher Service. They say Hungry Hal Geneen for the second year in a row was the highest paid executive earning $812,000. Of this total, $430,000 represented incentive payments.

Mr. MEANY. I am at a disadvantage in discussing this because I sat on two commissions, two governmental commissions, having to do with executive salaries, salaries of Cabinet officers, salaries of Congressmen, of the Speaker of the House, and so forth, and I recommended very large increases for them.

Chairman PROXMIRE. A recommendation by your organization was that you get a salary increase from $70,000 to $90,000. I don't recall whether you accepted that or not.

Mr. MEANY. I didn't get it. I had to stick with the Pay Board rules.

Chairman PROXMIRE. That was within the guidelines.

Mr. MEANY. Yes. Actually, you see, they weren't increasing my salary. They were increasing the salary of the position. Wait a minute. When President Nixon came into the White House, they didn't increase his salary. They didn't increase President Nixon's salary. But they increased the compensation for the position and they increased it 100 percent, if I remember.

Chairman PROXMIRE. You may be right, but try to tell that to the guy who gets out of work at Allis Chalmers in Milwaukee and earns not $90,000 but $9,000.

Mr. MEANY. Well, of course, he would assume that after they increased his salary I would most likely get elected, and he is right.

Representative BROWN. I don't suppose you heard from any of those guys at Allis Chalmers, did you?

Mr. MEANY. No. They are worried about their own salary. I think I get paid too much, anyway.

Representative BROWN. I think Members of Congress get paid too much but I am glad to know who was responsible for their increase.

Mr. MEANY. That is true. I was on two of those commissions. I even recommended higher wages than they gave.

Representative BROWN. You did?

Mr. MEANY. Yes.

Representative BROWN. What did you recommend?

Mr. MEANY. $50,000, something like that. If it was up to me, you fellows would be getting more money right now.

Representative CONABLE. It wasn't because there was a pattern set, is it?

Mr. MEANY. We were looking at outside executive salaries and trying to make a comparison.

Representative BROWN. Let's get back to some more salary or wage increases. What about the dock workers' wage increases? I don't think you discussed that this morning, although I think you have covered almost everything else. As I recall, that was a settlement for 22 percent.

Mr. MEANY. Twenty percent, of which 5 and some fraction were fringe benefits.

Representative BROWN. Is it your contention that fringe benefits don't count?

Mr. MEANY. What do you mean don't count?

Representative BROWN. Are you suggesting——

Mr. MEANY. I am not suggesting anything. You are talking.

Representative BROWN. Whenever I get the opportunity.

Mr. MEANY. I was trying to break down the 20 percent. You said 20 percent. It was 20.8.

Representative BROWN. The 20.8-percent increase was knocked down to 14.9. At that time you left the Pay Board.

Mr. MEANY. That is right.

Representative BROWN. Was it over that issue? Were you unhappy with the 14.9?

Mr. MEANY. If we had been consulted, if we felt that we had a hand in reaching that decision, if we felt that our ideas on this were being considered by the Pay Board, I think we might have stayed. This was the decision that they sent through the legal department and laid it on the table and said, "Gentlemen, don't waste time, we have 10 votes." In other words, our further participation would have been degrading.

Representative BROWN. May I ask the question, had you stayed to vote, how would you have voted?

Mr. MEANY. We would have voted for the full increase because they had the full increase coming to them on the question of productivity. If you look in the record of the extension of the legislation, the Pay Board was instructed to take into consideration questions of productivity. Here the employers came in with 150 percent, admitted 150 percent, increase in productivity in 10 years, 33 percent in the last year or so. They came in and they are giving the worker a portion of that, not giving it all to them, but a portion.

On that basis, and on the basis of the congressional intent, they were entitled to all of that.

Representative BROWN. Is it your contention that the productivity increase ought to all go to the wage earner?

Mr. MEANY. No; by no means.

Representative BROWN. How should it be divided?

Mr. MEANY. I think you should try to give some to the consumer.

Representative BROWN. By what method?

Mr. MEANY. That is up to the corporation. But the wage earner only has one place to get his share and that is at the collective bargaining table.

Representative BROWN. What was the amount of the productivity increase which justified a 21-percent wage increase? How much was the productivity increase?

Mr. MEANY. The union claimed 180 percent in the last 10 years and the industry people said it was only a 150-percent increase in productivity.

Representative BROWN. The 21 percent was to cover the 10-year period?

Mr. MEANY. No; the last 5-year period.

Representative BROWN. What was the comparable figure for a 5-year period?

Mr. MEANY. About 78 percent, I think. It was what they call a catch-up, which is not uncommon in collective bargaining.

Representative BROWN. That is what I wanted to get to. Is the only place where a catch-up is appropriate in wage rates, or is it appropriate in prices?

Mr. MEANY. The only place where we need it is at the collective bargaining table, and that is in wage rates. You know, industry has consistently refused to allow us to talk prices. They won't let us talk prices at the bargaining table.

Representative BROWN. Is there any appropriateness in catch-up in prices?

Mr. MEANY. Of course there is.

Representative BROWN. So you would accept some catch-up?

Mr. MEANY. No question about it. But we don't get any chance to have anything to say about it. Industry has consistently said that prices are their business, not ours.

Representative BROWN. Let me ask a question——

Mr. MEANY. I can remember when the auto workers went so far some 10 years ago of saying that they would bargain on the basis of a price reduction for automobiles and take less wages for it. They got an absolute——

Representative BROWN. What was that caused by, foreign imports?

Mr. MEANY. No. This was with GM.

Representative BROWN. Can I ask you about an area that bothers me about controls? If we get into very strict wage and price controls with a bureaucracy that would have to enforce it, the Leon Henderson-OPA version, would it be your contention that people should be frozen into their jobs and not be able to move from one job to another?

Mr. MEANY. Of course not.

Representative BROWN. Then if a man wanted a salary increase, the only way he could get more money would be to move from one job to another——

Mr. MEANY. That is what he would do. I would hope that this would still be America. You know what I mean.

Representative BROWN. Then we would develop labor shortages in certain areas where the pay rate was lower.

Mr. MEANY. You are really looking for the dark side of the picture.

Representative BROWN. I am trying to look at the realistic side of what controls mean. As I recall, the AFL–CIO was one of the leaders after World War II in saying, "Let's take off controls so we can get meat into the marketplace because we are tired of not being able to buy it as a result of shortages, and we are willing to pay the price." Is that fair?

Mr. MEANY. That is what we said then, yes; that is right. That is true.

Representative BROWN. Now the position has kind of changed and what we really need here is controls because——

Mr. MEANY. Everything we say here is based on the idea that the President of the United States made the decision he wanted controls. We didn't make that decision. He made it.

Representative BROWN. I thought you were recommending controls.

Mr. MEANY. No; we were not. I answered that before, Mr. Brown, that we at no time recommended controls. We said always if the President of the United States feels that the inflation picture calls for controls, and we said that when Lyndon Johnson was President, and we said it three or four times, we said it every year that Mr. Nixon was President—if the President decides, we will cooperate, provided the controls are across the board and call for equal sacrifice by all segments of our society. That is the simple position we took.

Representative BROWN. You would rather argue about their position than your position?

Mr. MEANY. What do you mean?

Representative BROWN. You would rather let them take the step.

Mr. MEANY. It was my theory that the only one who could call for this was the President.

Representative BROWN. But you are not now calling for stringent controls? I am still confused about that.

Mr. MEANY. I am saying we want stringent controls on prices unless you want to drop the whole business. We say we will take what we have in the wage picture if you control prices. We think you should control prices. You are not controlling prices now. Or we say if you want to drop the whole business and let the forces in the free market take place, we will buy that, too.

Representative BROWN. Either total control or no control?

Mr. MEANY. That is right.

Chairman PROXMIRE. Senator Javits.

Senator JAVITS. Mr. Meany, if you would bear with me, I would like to ask one question, but I would like to lay a basis for it. I would like to ask you about the AFL-CIO's attitude toward what I believe is an impending productivity drive.

As a basis for the question, I would like to read to you a statement from a Washington Post editorial which reads as follows:

> We found the most striking evidence of frustration, anger, rebellion and disenchantment which affects such basic questions as productivity, pride in craft, the ability to remain competitive, and a willingness to accept the goals and standards set by both unions and the companies.

That is one statement.

The other is one made a year ago by Frank Pollara, assistant research director of your federation.

> Motivation is an abstract concept that has very little relevance, very little pertinence, very little meaning to the industrial worker in the industrial world today.

Has the AFL–CIO developed an attitude toward an increase in productivity? Does it believe we ought to have some major effort to increase productivity? What are its concrete suggestions?

Mr. MEANY. Very simple. We have never stood in the way of increased productivity. We are for it but we want to get a share of the fruits.

Senator JAVITS. Does the Federation have any proposals or plan which could help us as we dig into this? You will remember we authorized the Productivity Council by statute.

Mr. MEANY. And all we got from the Productivity Council was rhetoric. We were told productivity should be reflected in all elements, including wages. But we found out that that wasn't so.

Senator JAVITS. Mr. Meany——

Mr. MEANY. I can't divorce the Productivity Commission from the Pay Board, the Price Control Board, the Cost of Living Council. They are all run right into the White House and are run by the White House. You can't give me one policy on one and tell me that it is raining over here but the sun is out over here. I don't buy that.

Senator JAVITS. Could we ask your help in getting the AFL–CIO recommendations as to what this Productivity Council ought to do? Would you be good enough to give us that? We can get it later and put it in the record, if it is agreeable with you.

Mr. MEANY. Let me think about that. I have resigned from the Productivity Council and I would feel a little silly telling them what they ought to do.

Senator JAVITS. You would be telling us, not them.

Mr. MEANY. Maybe the Productivity Council should be reorganized so it would reflect the thinking of the people who really produced, the people at the workbench.

Senator JAVITS. You are telling us, not them, and at my request. I would greatly appreciate it if that could be done. I am deeply interested. I think it would be helpful to get labor's viewpoint. Thank you.

Mr. MEANY. All right.

Chairman PROXMIRE. Thank you, Mr. Meany, for not only an excellent presentation but an entertaining and enjoyable morning.

Our next witness is the distinguished Congressman from Maryland, Mr. Long.

Congressman Long, I want to apologize to you for yesterday's fiasco but it was entirely my fault. I didn't realize it would be so long and I had to leave.

STATEMENT OF HON. CLARENCE D. LONG, A REPRESENTATIVE IN CONGRESS FROM THE SECOND CONGRESSIONAL DISTRICT OF THE STATE OF MARYLAND

Representative LONG. That is quite all right, Mr. Chairman.

Mr. Chairman, I am pleased to appear before the Joint Economic Committee to present my views and those of my constituents in Maryland's Second Congressional District on the results of the economic stabilization program.

The Bureau of Labor Statistics reports that wages and prices are continuing to increase—and that service prices are increasing more rapidly than other prices.

But my constituents do not need to look at the official statistics to see that inflation continues and that the economic stabilization program has not beat the high cost of living.

I recently polled my district on the effect of the stabilization program. A sample drawn from more than 5,000 responses shows that 96 percent have not experienced a halt to high costs; more than 84 percent said their income had not kept pace with rising costs; over 40 percent reported that local stores were not complying with the freeze; 41 percent said they had consulted price lists in stores; and 10 percent said they had complained of freeze violations, but only one in 11 of those who had complained said he had received a satisfactory response to his complaint.

Overall, 44 percent said the impact of the President's program was bad, 40 percent reported no impact, 12 percent reported a good impact, and 4 percent did not answer the question.

In addition, more of my constituents complained about increases in food prices than about any other price increases. They have more day-to-day experience with food prices than with other prices.

The next category about which complaints were received was medical costs, followed by property taxes, utilities, clothing expenses, car expenses, and rent.

Returned questionnaires have been accompanied by bitter complaints of higher food costs, price variations from store to store, difficulty in interpreting the ambiguous, long-winded economic stabilization regulations; increasing Blue Cross-Blue Shield costs; and fruitless attempts to obtain assistance from the Baltimore district office of the Internal Revenue Service.

Here is what they told me:

1. Mr. L.:

> Using the price lists is a waste of time. If you complain to the store manager he has a glib cut-and-dried excuse, such as the wholesaler charges him more or his labor has gone up. The customer cannot win * * * I complained about a legitimate case of a violation * * * to the Internal Revenue Service * * * after being relayed to four different people and repeating my complaint to each of them, I was given another number to call. After dialing this number for half an hour, I was told that he knew nothing of such matters. I got nowhere and finally gave up in disgust.

2. A Baltimore area resident reported a 9.2-percent rent increase:

> When I complained to him that this was far in excess of the 2.5 to 3.5 percent maximum permissible under current rent regulations, he said, "Pay or get out." When I reported the matter to the local Economic Stabilization Program Office, instead of taking punitive action against the landloard for openly violating the law, they suggested that I have a talk with him. If we are ever to control inflation we need regulations with teeth in them and administrators who will use every legal means to force compliance from people who have no respect for and completely disregard all principles of law and order.

3. Another constituent wrote:

> The IRS suggested the solution [to our threatened rent increase] was to file a formal complaint. Recalling some action taken under the old OPA and the unpleasantness to all concerned that developed, up to this time I have resisted

this action. An attorney from one of the large, reputable Baltimore law firms has been engaged. Evidently as qualified as he is, considerable difficulty is being experienced in interpreting the regulations. Generally speaking, it appears many of the regulations are subject to individual interpretation depending upon the side taken.

Admittedly and perhaps morally, the landlord is entitled to increased rental. Incidentally, after placing his interpretation upon Phase II regulations, a second proposal, later withdrawn, raised the rental almost 40 percent. There also have been threats of eviction if we did not comply with his interpretation * * * considerably different than our lawyer's interpretation.

After receiving these complaints, and many, many others, I decided to send a member of my staff to survey the Baltimore IRS office. He found the following shortcomings in enforcement of the program:

SURVEY OF OPERATION OF THE DISTRICT STABILIZATION MANAGER, BALTIMORE DISTRICT OFFICE, INTERNAL REVENUE SERVICE

Based on interview with Mr. Gordon Stone, District Chief in Charge of Stabilization, and Mr. Plitt, Acting Director, Baltimore District Office, IRS, with a representative of Congressman Clarence D. Long.

Mr. Stone has 30 full-time employees—of whom eight are clerical. Although their office is exempt from the President's 5 percent cut in Federal employees, the office staff has not been increased during phase II, and they have not put in overtime, although they are authorized to work overtime.

When needed, there are revenue agents, tax experts, and other specialized personnel whose services are available to conduct their surveys and investigations. It is difficult, however, to determine how frequently these people are used.

During phase II, the stabilization office reports the following activity:

INQUIRIES, COMPLAINTS, APPEALS, AND SPOT CHECKS CONDUCTED, NOV. 15, 1971, TO APR. 14, 1972

Activity	Wages	Prices	Rents	Total
Verbal inquiries	7,166	9,349	30,773	47,288
Written inquiries (interpretations, factual information requested)	709	454	881	2,044
Written complaints of violations	64	960	1,594	2,618
Number of appeals	18	3	6	27
Spot checks (to note posting of base prices, and so forth)	1,543	7,040	853	9,436

SHORTCOMINGS

1. The Baltimore IRS officials have no record of the number of notices of violation of the stabilization program they have sent out, nor do they know how many have been sent to rental management companies, to retail establishments, nor to any other activity subject to economic stabilization program regulations. No records.

2. An individual or organization has 48 hours in which to appeal a notice of violation. If the appeal is unsuccessful, the alleged violator can seek relief in the U.S. District Court. But the IRS office does not know how many have sought this relief.

3. The Baltiomore IRS office has filed 14 suits in District Court, Baltimore, against stabilization program violators. They consider this a good record because only 120 suits have been filed nationwide, they told my staff.

4. As a result of action by the Baltimore IRS office, only one refund has been granted—a total of 20 cents was refunded to a man who paid too much for Uncle George's Wild Bird Seed at a local drugstore!

5. The Baltimore IRS office was asked: (1) Is its staff capable of checking larger stores such as major food chains for violations? Answer: No, staff is not capable.

(2) Were any spot checks made? Answer: No.

(3) Are they auditing the major stores? Admission: Since November 15, they had not completed a single audit of a single major store.

6. The only indication that the IRS could have of the level of compliance is from the number of violations that are turned up in the spot check procedure. However, under questioning they admitted that they could not tell how many violations appeared during their spot checks—therefore, they have no indication of the level of compliance.

7. Last week, on "Face the Nation," Price Commission Chairman Jackson Grayson said that the stabilization program depends on voluntary compliance. We all know that any program that depends on voluntary compliance has to have a powerful deterrent to breaking the law. From all indications, this program has little, if any, deterrent effect.

We found that if a store has been overcharging a customer since November 15 and is caught, management is merely told by IRS to rollback prices and to conform. If management conforms, that is the end of it.

The rub is that the consumer has suffered these higher prices since November 15 and nothing has happened to punish the violation. What kind of deterrent is this?

It is a little like saying every time you caught a burglar, "All right, put the merchandise back and we will let you go." You can imagine what kind of deterrent that is.

My staff assistant's report points out one of the gravest failures of this program: The failure to enforce it, and failure to protect the average man. Let me give you an example. Late last year, Blue Cross-Blue Shield announced a 45-percent increase in premiums for Federal Government employees. Blue Cross did not receive approval of the Price Commission before announcing this increase. And the Price Commission did not look into the size of the increase until an investigation was suggested to Chairman Grayson at a House committee hearing.

Subsequently, Federal Insurance Administrator Bernstein told Price Commission Chairman Grayson on December 14 that "We [Federal Insurance Administration] must conclude that the proposed high-option rate-increase of 34.1 percent is unjustified * * * we estimate that no more than a 10-to-15-percent increase is justified."

Yet, the Price Commission finally settled on a 22-percent increase. And subsequently, without prior approval by the Price Commission, Blue Cross cut some of the benefits Federal employees received.

Another serious problem with the stabilization program is the large number of exemptions—raw agricultural products, certain insurance premiums, property taxes—and for all intents and purposes, corporate salaries. When I learned that Henry Ford had been paid $689,000 in 1971—an increase of $189,000 over his 1970 income from the Ford

Motor Company—and that some of the other company officials had received even more substantial increases—I examined the Pay Board's regulations for executive salaries.

These regulations mean everything and nothing—they could be used to justify anything—upon careful reading no one could tell what restrictions accompany payment of executive compensation. Although I understand the Pay Board began an investgation of Mr. Ford's income on April 10, who can be confident about the results?

In conclusion, Mr. Chairman, I want to say that if the administration is not prepared to make this stabilization program effective—embracing all prices, salaries, wages, and rents—applying it to the rich as well as the poor, and enforcing it with real teeth, it should be abandoned altogether. As it operates now, the nice guys obey, the chiselers have a field day, and the consumer is becoming increasingly disillusioned.

Thank you.

Chairman PROXMIRE. Congressman Long, this is an interesting statement. Your background as an expert economist is certainly great.

Representative LONG. I have had 10 years in Congress to forget my economics, Mr. Chairman.

Chairman PROXMIRE. I think you are the only professional economist now in the Congress, though there may be one other. There is none in the Senate. Paul Douglas, of course, was a great economist. I don't know why you are not on this committee.

Representative LONG. The Congress works in mysterious ways, its wonders to perform.

Chairman PROXMIRE. It is especially helpful. You wrote a statement that most of us who are not professional economists as you are would not associate with economics. That is why it is so effective. It is just a report as a Congressman on the difficulties your constituents are having.

We haven't had this sort of thing. It gives us the opportunity to see this price control program you indict far more effectively.

I think you have in case after case demonstrated that it does not work, regardless of the marvelous man they have heading it, a terrific salesman. It is just not working.

Representative LONG. There is no attempt to make it work. That is more significant.

Chairman PROXMIRE. The response I have just received to my questionnaire bears this out completely. I think it would startle people. Where many think it is not working, more think that the price part is not working than the wage part is not working.

Let me ask you about one other thing. We are having tomorrow, as I announced earlier, representatives of the Executive Pay Commission. On the basis of the Gallagher report issued yesterday, it shows a sensational increase. It may not be a violation of the law, as these fellows are very careful. But it is certainly an enormous violation of the spirit of the law.

This week, Ezra Solomon, a member of the Council of Economic Advisers, suggested that the administration will not have to ask for renewal of the wage-price authority because the controls will no longer be needed by April 1973.

Representative LONG. By that time the election will be over, Mr. Chairman; the so-called wage-price control will have fulfilled its purpose.

Chairman PROXMIRE. That is right. I wonder if you think he is being unduly optimistic. If more rigid controls, as you seem to advocate, were adopted, how long would we have to retain them? They may be adopted.

Representative LONG. I voted originally against giving the President this authority because I thought we were giving him too much power without sufficient controls by Congress. We were turning over a very large part of our power.

But once the President received this power, what he has done makes no sense at all. I don't contemplate by next year that you are going to have an end to inflation. So far as I can see, it is continuing. The inequities will continue and probably will worsen. By next April the election will be over and it will be quite possible to dispense with this program. But, economically, if there was ever any justification for this wage-price control, you will still find the economic justification by next April.

Chairman PROXMIRE. Let's assume it is over April 30th of next year. Do you favor a permanent voluntary incomes policy or what kind of apparatus would you suggest?

Representative LONG. I am a strong believer in a free market. I have grave reservations about the operation of some system which is really based more on exortation than on anything else. I am afraid that an incomes policy is not going to work much better than that.

What we have to do is put our fiscal house in order and do the kind of things that remove the real economic causes of the inflation. This inflation got started because of the war in Vietnam. It got out of control because, with winding down the war, we in Congress refused to recognize that we don't have the resources to do everything at once. We refused to face the necessity for setting up priorities and deciding which things we can do now and which things we have to let go.

One of the greatest offenders in this respect has been the military establishment. I certainly agree with some of the things the chairman has been bringing out in that connection.

Until we solve our fiscal problems and settle on our priorities and do the things any prudent householder has to do to keep from going heavily in debt and so on, we will continue to have these inflationary pressures.

I don't think an incomes policy in the end will work much better than what we have here. About the only consolation we have is that inflation is a world-wide phenomenon. Once we are out of the Vietnam war situation, my guess is we are probably not going to have quite as bad inflation as most of the other countries of the world.

So our longrun position with respect to the rest of the world will not be too bad. I am optimistic in that regard. But I see inflation pretty much as a continuing thing. I really don't see any end to it. Our whole society as well as the Congress is organized continually to feed the fires of inflation.

Chairman PROXMIRE. I would like very much to follow this up. Unfortunately, once again, I have to leave. Mr. Conable will take control of the committee. He has a few questions for you.

Again, I want to apologize for our rudeness yesterday.

Representative LONG. Not at all. I had some other things to do and I did them. Thank you, Mr. Chairman.

Representative CONABLE (presiding). I would like to welcome my colleague before the committee and thank him for his testimony.

As a professional economist, do you feel that control of food prices is a reasonably achievable goal without risking serious shortages, possibly, at the consumer level?

Representative LONG. By that, do you mean keeping every food price from exceeding certain guidelines?

Representative CONABLE. Isn't food particularly susceptible to market influences? Aren't we likely to have shortages? Therefore, unless we permit a fairly free movement of food prices, might there be problems?

Representative LONG. I think there is much to what you say. Where we run into real shortages and where we have restrictions on imports from other countries, those restrictions can be relaxed.

Representative CONABLE. You are referring to meat there, I take it?

Representative LONG. Yes.

The coffee agreement, for example, holds coffee prices up. Our sugar agreements with sugar providing countries hold up the price of sugar.

Representative CONABLE. There are some things subject to quota that could give us a little more flexibility with respect to supplies in relation to domestically produced food.

Representative LONG. Yes.

Representative CONABLE. I think a great deal of the public dismay about the rising cost of living stems from food prices.

Representative LONG. That is the experience that most people have every day in the cost of living. It isn't really the biggest problem of inflation. I don't need to tell you the biggest problem is in services, particularly medical services, as well as in property taxes. But the average person goes into the store every day and sees something going up. It is a constant reminder.

Representative CONABLE. It seems to be the point of greatest pressure as far as the typical consumer is concerned because of the prevalence of eating among Americans.

Representative LONG. It is a good habit.

Representative CONABLE. For this reason I am somewhat concerned about how we can persuade people—even if the controls are working—that they are. I see some risk in constantly calling for more rigid controls and particularly when the area most people think of when they think of controls is food.

Representative LONG. Exactly. I want to point this out in all fairness to the people who have the difficult job of controlling the cost of living: People would believe that we had an inflation underway even if there were no inflation.

Representative CONABLE. Nobody ever has as much money as he wants.

Representative LONG. That is correct, and the standard of living is continuously rising. One's neighbors are living a little better. The innumerable things one wants to do with one's income always makes one feel pinched. People tend to confuse inflation, which, strictly speaking, is a rise in the average price of certain fixed market baskets of commodities with general pressures on their budget. The standard of living is also rising. Take meat, for example. Meat may be higher in price but it is also true that meat is coming in fancier packages, with all kinds of services that you never got when I was a boy. Somebody just brought a slab of meat out on a butcher block, slammed away, and handed to you your order of meat.

We are really buying more than the meat. We are buying a lot of other services along with it but we are calling it an increase in the price of meat.

Representative CONABLE. Are we going to have very effective margin control under any kind of a price control setup?

Representative LONG. Not without an enormous bureaucracy. That is why I objected to this whole thing. I remember World War II and I know what fantastic bureaucracies were required to get even a minimum enforcement of wage-price controls.

Before I went in the Navy I was in the Office of War Production Board, and I met a friend, a fellow economist from Princeton. I asked him why he was downcast, and he said he had been put in charge of controlling rubber prices in the Office of Price Administration. He just learned that there were 17,000 different rubber products. He said, "If I worked for the rest of my life, I wouldn't know the names of all of them, but I have to fix prices on them."

Representative CONABLE. I understand your frustrations. I do think your check of the Baltimore IRS raises serious questions about the program. I don't know what conclusions you can come to short of bureaucratic expansion, if you are going to have this sort of effort.

Thank you very much for appearing before the committee today, sir. I know the chairman was very upset not to be able to hear you yesterday. Thank you for your testimony today.

Representative LONG. Thank you, Mr Conable.

Representative CONABLE. The committee will be in recess until 10 o'clock tomorrow morning.

(Whereupon, at 12:40 p.m., the committee recessed, to reconvene at 10 a.m., Friday, April 21, 1972.)

REVIEW OF PHASE II OF THE NEW ECONOMIC PROGRAM

FRIDAY, APRIL 21, 1972

CONGRESS OF THE UNITED STATES,
JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The committee met, pursuant to recess, at 10 a.m., in room 1202, New Senate Office Building, Hon. William Proxmire (chairman of the committee) presiding.

Present: Senator Proxmire and Representative Widnall.

Also present: John R. Stark, executive director; Loughlin F. McHugh, senior economist; John R. Karlik, Richard F. Kaufman, and Courtenay M. Slater, economists; Lucy A. Falcone and Jerry J. Jasinowski, research economists; George D. Krumbhaar, Jr., and Walter B. Laessig, minority counsels; and Leslie J. Bander, minority economist.

OPENING STATEMENT OF CHAIRMAN PROXMIRE

Chairman PROXMIRE. The committee will come to order.

Our first witnesses this morning are Richard T. McNamar, director, Economic Policy and Case Analysis, Pay Board; and Martin Wertlieb, director, Office of Executive Compensation, Pay Board. With them will be John Nevins, assistant general counsel. They will be followed by Martin Aranow, president, New Jersey Tenants Organization, and Leon Sanders, president, Texas Consumers Association.

Gentlemen, I want to thank you very much for appearing on such short notice. There is a legislative reorganization rule that requires prepared statements to be submitted 48 hours in advance. I can hardly hold you to that since you were notified 20 hours ago that we wanted you to appear. You did get your fine and terse prepared statement to us this morning. I know it has put a lot of pressure on you. We are delighted to get it.

This hearing, I think, is most appropriate because it is very difficult to get effective control over executive salaries. We have a natural setup in this country where employers have to keep down the costs of their employees. That is the name of the game, the way you make money, the way you make profit. That is the big cost, so that is their mission. So the Government has enforcers when it comes to rank-and-file labor wages. Those are the employers.

On the Pay Board you have a kind of balance with the labor members attending with the business members, labor members wanting higher pay and the business members wanting to hold it down. But when it comes to executives, it is quite a different story, as we found from Mr. Meany yesterday. Mr. Meany is an executive, too. Everybody connected with the Payboard operation is an executive. It is natural for them to be soft on executive compensation. It is a matter of who takes care of the caretaker's daughter when the caretaker is busy taking care. Nobody is in a position to crack down on big salaries.

We decided to ask you to come in on such short notice because just yesterday the Gallagher Report released some sensational data. The data were particularly impressive because in a year, 1971, when general wages were going up at around a 7-percent rate, when everybody was complaining about how inflationary that was, and when in the middle of the year we imposed a wage-price control system, the Gallagher Report indicates that the chairmen of the boards of corporations—well, four out of five executives got increases of 14 percent in 1970–1971, or twice the rate of the workers.

I don't think anybody would argue that the executives needed it as much. As a matter of fact, the chairmen got increases of 12.5 percent, to an average of $346,000 each per year. Presidents of corporations got increases of 17 percent, 17.6 percent, to $288,000 per year. Vice presidents got increases of 13.3 percent, to $243,000 per year. One executive, Mr. Geneen, of I.T. & T., got a compensation of $812,000.

I might point out that some of the individual increases were particularly shocking or surprising. I notice, for example, that the chairman of the Bendix Corp. received a 130-percent increase, not the 5.5 guideline, not 7 percent, as the average person got in 971, but a 130-percent increase, from $121,000 to $280,000. The President of Avco got an 80-percent increase, from $120,000 to $214,000. The chairman of General Electric got a 80-percent increase, from $320,000 to $485,000. These are 1971 figures.

The Pay Board, as I said, was not in existence during most of 1971. However, there was a wage-price freeze starting August 15 and phase II followed it. There was a severe inflationary problem throughout 1971. These corporate executives who have accepted such large pay increases could scarcely have been unaware of the difficulties faced by the administration in controlling inflation. They could scarcely have been unaware that several million people have been put out of work as a result of the efforts to slow down the economy and halt inflation.

These executives evidently did not feel any responsibility to set an example of restraint. This year we do have a Pay Board. Among its duties it is charged with controlling executive salaries. A committee has been set up and regulations issued. This morning we want to examine both the nature of those regulations and the steps that will be taken to be sure they are observed.

I do not for a minute suppose that executive salaries by themselves are a major factor in contributing to inflation. You can argue that it wouldn't matter whether you paid the people $1 million a year because there were relatively few top executives and the amount involved, of course, compared to the tens of billions of dollars in wages is not great.

But the vital issue is just plain justice, equity and fairness. The average wage and salary earner is limited to a 5.5-percent wage increase. Many get less. How does he feel when someone who is already earning $400,000 a year or more gets a 50-percent increase? The question answers itself. Equity is the missing ingredient in phase II. Either we give this program some equity or we ought to abandon the program entirely.

As a matter of fact, I have advocated abandoning most of the controls. If we are going to continue, they must be made more equitable than they have been.

Mr. McNamar, I understand you have a brief statement. We will set the timer for 15 minutes, though probably your statement is less than that. We will give you a 2-minute notice when the time is up.

STATEMENT OF RICHARD T. McNAMAR, DIRECTOR, OFFICE OF ECONOMIC POLICY AND CASE ANALYSIS, PAY BOARD, ACCOMPANIED BY MARTIN WERTLIEB, DIRECTOR, OFFICE OF EXECUTIVE COMPENSATION; AND JOHN NEVINS, ASSISTANT GENERAL COUNSEL

Mr. McNAMAR. Accompanying me is Mr. Wertlieb, the Director of the Office of Executive Compensation, and Mr. John Nevins, assistant general counsel. I would like to proceed however you wish.

Chairman PROXMIRE. You may proceed as you wish. If you have a prepared statement and do not read it, we will place the entire prepared statement into the record.

Mr. McNAMAR. We would just as soon do that, if it is satisfactory to you.

Chairman PROXMIRE. Fine, we will place it in the record at this point.

(The prepared statement of Mr. McNamar follows:)

PREPARED STATEMENT OF RICHARD T. McNAMAR

I welcome this opportunity to appear before the Joint Economic Committee on behalf of the Pay Board Staff to explain our Executive and Variable Compensation Regulations. From the previous testimony before the Committee and some of the apparent confusion in the press about these Regulations, it is apparent that a fuller explanation of the development; intent and operation; and equitable nature would assist the committee in its consideration of this topic. Accordingly, I shall address myself to each of these matters.

DEVELOPMENT

Recognizing the complexities of Executive Compensation, the Pay Board appointed an *ad hoc* committee to recommend to the Pay Board a policy on Executive and other forms of Variable Compensation. This was done by Chairman George H. Boldt on December 7, 1971.

The committee was a tripartite group composed of former Commissioner of Internal Revenue, Sheldon Cohen, representing the Public Members; A. B. Slaybaugh, Vice President of the Continental Oil Company, representing the Business Members; and Abraham Weiss, Director of Research for the International Brotherhood of Teamsters, representing the Labor Members. On December 16, 1971, the Board considered and unanimously adopted the report of the Committee. A summary of the report was announced to the Public in a Press Release on December 17, 1971; the final text of the report, edited by the staff pursuant to the direction of the Board, was issued as a Press Release on December 27, 1971.

Subsequently, the Regulations implementing this policy decision were published in the *Federal Register* as Subpart D—Executive and Variable Compensation, Section 201.71–201.80 of the Economic Stabilization Act of 1971 as amended.

INTENT AND OPERATION

Executive salary and job perquisites are subject to the general wage and salary standard and applicable exceptions to that standard. This is consistent with the treatment given all other employee groups. An additional control imposed on executive salaries, however, requires that salary payments deferred to later years are charged as wages and salaries in the year earned.

The executive and variable compensation regulations specifically addressed forms of remuneration that normally are paid to top executives. While they cover a wide spectrum of variable pay plans (including executive, commission sales, and production incentive plans), the major focus of the regulations is on the more prevalent forms of compensation devices used for management executives, especially incentive bonus plans and stock options.

INCENTIVE PLANS

Incentive Plans, whether formalized or not, are generally treated in the same manner. Formalized bonus plans may continue to operate if: (1) at least one payment was made under the plan in one of the last three years ending before November 14, 1971; and (2) the administration of the plan continues in good faith. An informal practice may continue to operate if: (1) awards were made in two of the last three years; and (2) the administration is unchanged; and the practice operates in good faith.

The computation of the allowable awards under incentive compensation plans is key to the treatment of these forms of incentive payments. In essence, the regulations establish an allowable amount which may be paid the covered employees as a bonus. This is the amount paid in any one of the last three years, plus 5.5%. The regulations permit the payment of bonuses in excess of the allowable amount. However, such excess is then charged against the general 5.5% standard allowable for all other forms of pay. If pay increases totalling 5.5% have been granted, no excess is possible.

Just as there is a provision for excess, there is an allowance of a credit toward the permissible base salary increase. If a bonus plan produces an amount less than the allowable amount, some portion of this "shortfall" can be credited to the amount allowable for other forms of wages and salaries. This credited amount, however, is not includable in the wage and salary base for determining subsequent years' allowances.

STOCK OPTIONS

Turning to the area of stock options, the regulations provide for an entirely different treatment from that of incentive bonus plans. This was done to reflect the fact that executive incentive plans and stock options not only provide for awards that may differ in kind but are administered in dramatically different ways by companies employing these compensation devices.

Stock options granted before December 17, 1971, under an option plan which existed before November 14, 1971, may be exercised by the awardee according to the terms of the plan. New stock options granted after that date under plans in existence before November 14, 1971, are regulated as follows:

1. For plans which are (a) approved by the stockholders within 12 months of its adoption; (b) specify a maximum number of shares for which options may be granted; and (c) provide for an option price of 100% of fair market value when granted—then new options may be granted under the plan for a total number of shares equal to the average number of shares granted over the last three fiscal years of the employer.

(Special rules are also provided for existing stock option plans under which no shares were granted within the past three years, for plans in existence more than one but less than three fiscal years, and plans in existence less than a full fiscal year.)

2. For plans which do not meet the above criteria, new options are treated as wages and salaries and valued at 25% of the fair market value of the stock at time of grant. If the option is granted below the fair market value, there is an additional charge against the applicable wage and salary standard equal to the amount of the discount over the price of the stock.

VARIABLE SALES AND PRODUCTION COMPENSATION PLANS

Special regulations were also required for sales, commission and production incentive pay plans. This is because such plans may, by design, result in increases in aggregate wages in excess of the general pay standard—increases which are attributed to increases in individual effort rather than through increases in the employees' rates of pay.

In general, the regulations provide that variable sales and production pay plans which were established before November 14, 1971, may continue to operate where they directly reflect the employees' performance in the form of sales or production output. If, however, these types of plans are changed to produce increased earnings, without a commensurate increased performance, the amount of increase is chargeable against the otherwise allowable increase for wages and salaries.

NEW OR REVISED PLANS

The executive and variable compensation regulations also cover new or revised plans or practices. A plan that has expired exclusively through the passage of time may be replaced by an essentially similar plan without Pay Board approval if, given the same performance, the new plan does not produce greater aggregate earnings potential than the old plan. Similarly, an existing plan may be modified or revised without Pay Board approval if the modifications or revisions do not increase the aggregate amount of compensation. Hence, a variable compensation plan may be redesigned and installed to increase individual motivation and productivity without Pay Board approval so long as the total amount paid out to all the employees under the plan does not exceed the aggregate allowed.

If the aggregate would be exceeded, the prior approval of the Pay Board is necessary. In addition, such approval is also needed before any new plan can be implemented when none previously existed.

In order to establish control over newly formed or changed organizations, the regulations require that they must report their executive and variable compensation programs to the Pay Board within 90 days after organization or change. Modification or additions to these programs made after 90 days require Pay Board approval.

In summary form, this describes the Pay Board's regulations covering executive and variable forms of compensation.

STATEMENT OF OPINION

Both the tripartite Executive Compensation Subcommittee and the Pay Board believe the regulations for Executive and Variable Compensation are equitable and just.

I fully concur. In my opinion, these regulations neither discriminate in favor of individuals receiving incentive or variable compensation payments nor do they subject these individuals to a more rigorous standard of compensation controls than is applied to all other employees covered by the Economic Stabilization Program. The regulations are specifically separated and different than other regulations because they relate to different forms of compensation. This action was necessary in order to establish the controls which reflect the nature and complexity of executive and variable compensation.

As you are aware, the Pay Board has announced in the Federal Register on April 15 that it will be holding public hearings on all of its regulations prior to a general recodification in the near future. If, prior to, or at that time, specific instances are found where the Executive and Variable Compensation Regulations are not operating consistent with the intent of Congress as expressed in the Economic Stabilization Act, every effort will be made to ensure that they are amended.

I thank you for the opportunity to appear before you today and am pleased to respond to any of the Committee's questions.

Chairman PROXMIRE Have you a summary you would like to make?

Mr. McNAMAR. No, sir. I will answer any questions you have or explain the regulations.

Chairman PROXMIRE. The first thing that struck me in reading your prepared statement was how you detail how you figure this compensation. You say in your prepared statement: "The computation of the allowable awards under incentive compensation plans is key to the treatment of these forms of incentive payments. In essence, the regulations establish an allowable amount which may be paid the covered employees as a bonus. This is the amount paid in any of one the last 3 years, plus 5.5 percent."

In view of the variation in executives pay, and we know it goes all over the place, depending on whether they have good or bad years in the corporation, this gives them a very big, happy break. The year 1970 was not a good year; 1968 and 1969 were very good years, especially 1968. So in going back 3 years, don't you really set a base which is most advantageous and really means the sky is the limit?

Isn't that one of the weaknesses in this? Why did the regulation fix on a best of 3 years average. You don't do that for the average working stiff, do you? He is limited to 5.5 percent more than what he got this year. Is that right?

Mr. MCNAMAR. That is right.

Chairman PROXMIRE. Why this preference for executives?

Mr. MCNAMAR. The Executives Compensation Subcommittee picked the 3-year basis——

Chairman PROXMIRE. I meant to say the best of the last 3 years. That was my point. He can pick up his highest year as his base.

Mr. MCNAMAR. That is correct.

Chairman PROXMIRE. So in 1970 if he made less, which most of them probably did because of the way bonuses fluctuate, he can pick either 1968 or 1969 and then he can go 5.5 percent above that. So as far as 1970 is concerned, that 5.5 percent doesn't mean anything; is that right?

Mr. MCNAMAR. As far as it relates to 1970. The aggregate amount paid can be the highest in any one of the last 3 years. The Executive Compensation Subcommittee which recommended to the Board a 3-year period did it for a number of reasons. Among them were a concern for those people who had no payout in their plans during any one of the last year or 2 years, 1970 or 1969. So they went back an additional year.

As you are well aware, if a 1-year base, the 1970 base, for example, were taken, there would be many companies where no payout would be permitted if you added the 5.5 percent standard to a zero payout.

The concern of the committee was that those industries where executive bonus plans comprise a very high percentage——

Chairman PROXMIRE. Do you mean there were executives who in 1970 got no pay at all?

Mr. MCNAMAR. Received no incentive compensation under their incentive plan.

Chairman PROXMIRE. You are not saying they didn't get any pay. They got some compensation.

Mr. MCNAMAR. That is correct. They received salaries but no incentive payments.

Chairman PROXMIRE. In view of the averages which Gallagher discloses—and it surprised the dickens out of me. I knew executives did well but I had no idea they were this high. The chairmen got up to an average of $246,000, meaning they got an average of $300,000 in 1970. These fellows aren't going to starve if they are held to a 5.5 percent increase on that $300,000.

Mr. McNAMAR. If I may, sir, the Gallagher figures do not break out the percentage of compensation received from incentives versus salary.

Chairman PROXMIRE. I get your point. You are saying that in 1970, because it was a bad year, or for whatever reason, they got a straight salary. But they didn't get their bonus. They didn't get whatever other incentive, the stock option opportunities. Is that right?

Mr. McNAMAR. They may or may not have gotten stock options. Incentive plans are normally administered on a year-to-year basis based on the performance of the company.

Chairman PROXMIRE. So if we followed the same rule for executives as you follow for everybody else, it would have meant that in many cases you have no effective incentive program; is that right?

Mr. McNAMAR. It would have meant that those companies who had not had a payout during 1970 would not have been able to receive any payout generally.

Chairman PROXMIRE. They would have had a payout in straight salary.

Mr. McNAMAR. That is correct. That would have been an inequity vis-a-vis those executives who happened to be in a company who did have a payout in 1970.

Chairman PROXMIRE. You have a clear explanation of it. You didn't determine the policy but are administering it. It seems to me in view of the fact that we want equality of sacrifice, with public cooperation, this has been a terribly serious mistake.

If they recognized the importance of getting incentives, in view of the enormous salaries, very little sacrifice is being made. You should hold them to the exact rule you hold every body else to. A 5.5-percent increase over 1970 would have been a much wiser and fairer decision. The people who make the decisions are the people who benefit.

Mr. McNAMAR. There is another distinction. As you are well aware, wages and salaries, executive salaries included, tend to grow over time. They go up each year. Executive compensation payments to executives do not.

If you look at the American Management Association's report and you look at a 10-year history of executive bonuses as a percentage of total cash compensation in the nondurable goods manufacturing section, you will find in 1961 they were 26.1 percent of total compensation. In 1971 they had dropped to 22.3 percent. If you look at all durable goods manufactured, in 1961 they represented 24.9 percent and they dropped to 23.8 percent in 1971.

Chairman PROXMIRE. I miss your point.

Mr. McNAMAR. The point is that the amount of money being paid out as a percentage of total compensation through executive incentive plans has not been growing as a percentage, whereas salaries have been growing.

The point is when you pick the 1970 base for the general wage and salary standard, to which the executives are also subject, you are probably——

Chairman PROXMIRE. The compensation of specific executives has been growing enormously. The question that would come to the minds of many people is in view of the fact that these men are the best paid in our system, benefit more from the American system than anybody else, they ought to have the patriotic fervor that would enable them to recognize that they ought to make a sacrifice.

I don't see why executives shouldn't take a cut in pay or have their pay frozen or take the low last 3 years of the base. The President said we have an economic crisis.

Mr. McNAMAR. The executive salaries are subject to the general 5.5. percent wage standard plus the applicable exceptions.

Chairman PROXMIRE. What they are concerned about is their total compensation. As Gallagher's report indicates, in the case of a president they had a 17-percent increase in their compensation last year.

Mr. McNAMAR. If I may respond to that specific figure, sir, that includes promotion increases, which, as you well know, are exempted from the program for contract, noncontract and executive personnel.

Chairman PROXMIRE. These were overall for presidents. The presidents increases——

Mr. McNAMAR. That would include the new presidents who went from vice president or executive vice president to president that year. For example, Mr. Iacocca, I believe, became a president at Ford Motor Co. during the year. I don't know what his previous salary was but the largest proportion of whatever increases he had was undoubtedly due to a promotional increase that reflected the increased responsibilities which he now has.

Chairman PROXMIRE. You and I know that for years he has been running the Ford Motor Co. in the same position. Henry Ford has the overall policy responsibility, but Mr. Iacocco's responsibility hasn't changed in the years. He may have a different title, but that is a facade. He has been the on-the-job boss at Ford and nobody else has been, I guess, since McNamara was in control.

You state this, but I would like to repeat it, "There are no members of the Pay Board on the subcommittee dealing with executive pay." Is that right?

Mr. McNAMAR. The subcommittee is Al Weiss from the Teamsters——

Chairman PROXMIRE. Mr. Fitzsimmons is the Teamster man on the Pay Board. Weiss is his representative?

Mr. McNAMAR. That is correct.

Chairman PROXMIRE. Each man has a representative?

Mr. McNAMAR. That is correct. Mr. Slaybaugh is the representative of Mr. Siciliano.

Chairman PROXMIRE. Roughly, how many decisions have been made?

Mr. McNAMAR. Roughly, how many plans have come into the Pay Board to be approved?

Chairman PROXMIRE. Yes.

Mr. McNAMAR. About 31 that have been completed.

Chairman PROXMIRE. Has the full Board reversed the subcommittee?

Mr. McNAMAR. No, there have been no executive compensation cases that have gone to the Pay Board as yet.

Chairman PROXMIRE. Can you tell us briefly what the typical issues are?

Mr. MCNAMAR. I would just as soon refer that to Mr. Wertlieb, who, I believe, can give you a more accurate answer since he has been reviewing these cases.

Mr. WERTLIEB. We receive requests for approval of new executive compensation plans or requests for exceptions from our regulations. To date the majority of those that we have acted on are requests for approval of new stock option plans. In many cases these are also employee stock purchase plans which apply to all employees, not just executives. To date, we have acted on 31. Twenty of those were stock option plans. The other 10 were incentive compensation plans.

Chairman PROXMIRE. I have given the figures for 1971. You haven't disputed them, although you have given a different interpretation. Can you tell me what the typical increases have been since phase II has gone into operation? The Pay Board, according to Judge Boldt, has been able to hold down increases to below the 5.5-percent standard, though that has been disputed by many, including myself.

How about in your case? Can you give us the figure?

Mr. MCNAMAR. We can't give you a figure and the reason we can't is because the incentive plans, for example, will operate throughout the year 1972. Until the 1972 operating results of these companies are known, there will actually be no payouts.

Chairman PROXMIRE. Is it possible under this plan, and I don't see why it wouldn't be in view of the 3-year base, that you could have a 50-percent or a 100-percent increase in executives pay in 1971 under the rules you are operating?

Mr. MCNAMAR. 1972 versus 1971?

Chairman PROXMIRE. Yes. You could have that?

Mr. MCNAMAR. If the base year that they chose was high enough and the proportion of total compensation represented by incentive payments was high enough, and the company's performance this year generated a large enough amount, tlat would be possible.

Chairman PROXMIRE. So you won't really know what the effect of this has been until about a year from now; is that right?

Mr. MCNAMAR. In the executive incentive area, yes, that is correct. What we will know is the plans that we have approved and we will know the amounts in the aggregate, which, as you know, is what we are concerned about, that can be generated under any modified or new plan that is installed.

Chairman PROXMIRE. What kind of reporting is there on this? How is the public let in? The only information we have had so far has been Gallagher. There hasn't been anything from your organization, as far as I know.

Have you ever had public hearings or releases? Have you released the plans in any way so that the press and the public and the Congress can know how this is working?

Mr. MCNAMAR. We have not released the plans and decisions. As you know, they are a matter of public record once the Pay Board has decided them. As I mentioned before, there have been no executive compensation cases which have gone to the Pay Board so there has been no opportunity for a public hearing on a particular case.

We will be looking at the executive and variable compensation area when we have our recodification hearings.

Chairman PROXMIRE. Would it be possible, Mr. McNamar, for you to make a study or analysis, or have one made, to determine at least on a spot basis how this is working, in two ways? No. 1, how big a percentage increase executive compensation represents now over the last year, the annual rate, and how big a dollar increase this is. We have these figures that are so sensational from Gallagher's. Many people say is that one thing this program has to have is public confidence that it is fair.

I think by far the most vulnerable, with all respect to Mr. Meany, the most vulnerable part is not profits but executive compensation. This is what people, I think, just can't understand. When they see one man making $10,000 a week and they are struggling like the dickens to get along on $100 a week, it makes them pretty bitter.

Is it possible you can make a study of this?

Mr. McNAMAR. At this time any type of a study we would make, I think, would be inconclusive. That will be possible when the 1972 proxy statements are compared with the 1971 proxy statements and the various public executive compensation studies that are made by various consulting firms are ready. That will be 1973.

Chairman PROXMIRE. By then the expectation is, based on the testimony yesterday, that this law will not be renewed. That means it will expire in April 1973. So a year from now there is a good possibility, at least, you won't have regulations. By then the horse is stolen and there is no use locking the barn door. If you are going to have anything of any use, it has to come before that.

Mr. McNAMAR. The things that would come before that would be our compliance monitoring and spot checking.

Chairman PROXMIRE. Would you be able to give us a report on that within the next month or so, or as soon as possible?

Mr. McNAMAR. There are plans formulated at the present time for compliance monitoring and spot-checking and it is my understanding that executive compensation is included among them. That is, those companies that would be monitored by the Internal Revenue Service would have their executive and variable compensation checked just as they will have all other forms of compensation checked.

Chairman PROXMIRE. What does this mean in terms of getting information in a timely way? Would you have that in May?

Mr. McNAMAR. I am not privy to all of the plans and the time schedule on them.

Chairman PROXMIRE. Would you try to find out and let us know for the record?

Mr. McNAMAR. I can try and find out; yes, sir.

Chairman PROXMIRE. To the extent that you have any influence, I would hope that you would do your best to get this information in as timely a way as possible. I am not being destructive. I think this is the most positive and effective way you will have a program that will work. If the public knows about what the score is, maybe we can find that Gallagher's estimates are exaggerations.

(The following information was subsequently supplied for the record:)

EXECUTIVE OFFICE OF THE PRESIDENT,
PAY BOARD,
Washington, D.C., May 12, 1972.

Hon. WILLIAM PROXMIRE,
Chairman, Joint Economic Committee,
U.S. Senate, Washington, D.C.

DEAR SENATOR PROXMIRE: As you requested, I have reviewed the increases in executive compensation reported in the Gallagher Presidents' Report, dated April 19, 1972. This letter presents the results of my review.

After carefully reviewing this Report, I am convinced that the statistics in the Gallagher Presidents' Report do not reflect the effectiveness of the Pay Board's controls on executive compensation. This conclusion is based upon my personal review of the individual salary history for the last three years of all 92 executives listed in the Report.

My conclusions are summarized as follows:

1. The Report covers only 92 executives in 47 manufacturing companies. Our understanding is that these were the earliest proxy statements that were available from major companies, not a representative sample of all American private industry. Therefore, any conclusions that are drawn from the Report reflect its statistically small sample. In fact, a recent McGraw-Hill survey, published in the May 6, 1972, issue of *Business Week*, covered a larger group of 383 executives in 126 companies and 29 industries. It concluded that, in 1971, salaries for top executives in the largest U.S. corporations increased 7 percent versus a 3.5 percent salary increase in 1970. "Overall compensation—including bonuses, incentive payments, and profit sharing—rose by 9.3 percent in 1971."

2. The Gallagher Presidents' Report does not deal with increases for the regulated unit ("appropriate employee unit," 6 CFR 201.3), but only with increases received by between one to four executives within each of the 47 companies listed. As you know, the Pay Board regulations apply to the aggregate received by the unit, not to individual increases. Therefore, standing alone, this information does not indicate any violation of Pay Board regulations.

3. The Gallagher Presidents' Report does not appear to include in its averages those executives who received either *no* increases or *reductions* in their compensation from the previous year. By contrast, the *Business Week* Report shows decreases to top executives' compensation in 87 of 383 executives surveyed and no changes in 39 of all the executives whose compensation is listed.

4. The Gallagher Presidents' Report does not specifically indicate pay adjustments made since November 14, 1971, the start of Phase II, but rather indicates total changes made throughout all of 1971 over the total remuneration received in 1970. Hence, it is impossible to tell from the Gallagher Presidents' Report what proportion of the total compensation was a 1971 salary adjustment instituted prior to Phase I or II, and what was a 1971 incentive plan award made at the end of 1971 when most incentive plan awards are made.

5. The Gallagher Presidents' Report does not indicate the nature of any executive's pay adjustments; therefore, increases which are not subject to control—either by Pay Board Regulations (6 CFR 201.14 and 201.15) or by legislative mandate (P.L. 92–210, Section 203(c))—are included in its statistics.

6. The Gallagher Presidents' Report does not include the value of deferred payments earned in 1971 by a number of the executives listed in the Report but does include such amounts earned in prior years but paid in 1971. Awards earned *are* included in our definition of wages and salaries subject to control. However, the deferred payments awarded in previous years and actually received during 1971 would have been awarded prior to January 1, 1971 (but only now reported in the 1972 proxy statements), and are not included in our definition of wages and salaries.

The Gallagher Presidents' Report states that "four of five Executives increased compensation by average 14.4 percent over year ago." Our analysis shows that when the compensation of the entire group—not just "four of five" executives—is measured in accordance with our regulations, the increase is *only 2* percent. These calculations are shown in Attachment I.

This significant difference between 14.4 percent and 2.0 percent is explained by the following factors:

1. The Economic Stabilization Act, as amended, authorized the President to stabilize salaries at levels *not less than* those prevailing on May 25, 1970. The Gallagher Presidents' Report uses December 31, 1970, as its base for measuring increases. Thirty executives—or almost one out of three of those referenced in the Report—had lower total compensation levels on December 31, 1970, than on May 25, 1970.

In our analysis, we used the higher of these two dates for measuring increases since this is the mandate of the Economic Stabilization Act.

2. Wage controls for Phase II went into effect on November 14, 1971. Data included in the Report from eight companies covered fiscal years which ended prior to the start of Phase II. Accordingly, we excluded increases in compensation received by the fourteen executives in these companies from our analysis. We felt this appropriate, because their 1972 proxies are reporting compensation earned entirely during a pre-Phase II period.

3. Based on our analysis, we found that the data on eight executives clearly reflected promotion increases of about 40 percent. Since such increases are exempt from wage controls, we excluded them from the analysis.

Obviously, without a detailed investigation of each company, it would be impossible to determine whether these promotions were "bona fide" under our regulations. To estimate the impact of these increases, we calculated the aggregate and treated these increases as straight merit increases. By including them, the percentage increase over the base year would still only be 5.0 percent.

4. Consistent with our definition of Wages and Salaries, deferred payments that could be clearly identified as earned in 1971 were included in our analysis. Since we were unable to identify all deferred payments from prior years in the data available to us, the actual aggregate percentage increase, measured by Pay Board Regulations, is probably somewhat overstated.

From this analysis, we do not conclude that any of the companies we analyzed are, or are not, incompliance with our regulations. Compliance will be determined through the regular IRS compliance monitoring and spot check efforts that cover executive and variable compensation.

The Pay Board staff has worked closely with the Internal Revenue Service and Cost of Living Council to ensure that Executive Compensation receives the close scrutiny it needs to ensure the success of the Economic Stabilization Program. We are satisfied that by drawing on their own experts in pension trusts, stock option, audit, training, and benefits areas combined with Pay Board staff, the IRS audit teams are well equipped to evaluate whether a company is complying with the Pay Board Executive and variable compensation regulations. By way of illustration, the Pay Board staff is conducting a training program for the IRS audit team managers next week. At this session we will cover compensation practices in professional firms; i.e., law, accounting, architecture, consulting, and engineering. The objective is to better equip the audit team to examine all the pay practices in the first wave of professional firms that are going to be monitored.

In conclusion, I assure you that we are concerned about possible violations of our regulations in the executive compensation area. As you indicated, public confidence must be ensured, and we agree that one way of achieving it is through equal, fair treatment of all groups of wage earners. As you can see from the attached copy of the article in the current issue of *Industry Week*, the Pay Board's regulations on executive and variable compensation have been strongly criticized as too restrictive by some of the nation's leading executive compensation specialists. We disagree with them, and in fact, feel that the regulations are reasonable, being fairly applied, and as vigorously enforced as any of our regulations. You may rest assured that we will continue to focus the necessary attention on the highly visible and controlled area of executive and variable compensation.

Respectively submitted.

RICHARD T. MCNAMAR.

(Enclosures.)

COMPARISON OF EXECUTIVE COMPENSATION LEVELS—GALLAGHER PRESIDENT'S REPORT

Position	Comparison [1] Year	Number of executives	Average total compensation [2] Comparison year	1971	Percent change
	1970	14	$371,295	$399,136	+7.5
	1969	13	424,614	415,564	−2.1
Chairmen	1970/1969	27	396,967	407,046	+2.5
	1970	16	265,335	284,507	+7.2
	1969	5	385,461	390,889	+1.4
Presidents	1970/1969	21	293,936	309,836	+5.4
	1970	8	256,903	274,135	+6.7
	1969	8	294,155	263,190	−10.5
Vice presidents	1970/1969	16	275,529	270,625	−1.8
	1970	1	225,000	225,000	0.0
	1969	4	432,727	442,204	−2.5
Miscellaneous	1970/1969	5	391,182	382,763	−2.1
All executives	1970/1969	69	337,031	343,612	+2.0

[1] The amount of executive compensation increases are measured from the higher of the levels prevailing at May 25, 1970 or Dec. 31, 1970.
[2] Total compensation includes 1971 salary and 1971 bonus payments plus the value of deferred awards earned for 1971 but which will not actually be paid until some future date.

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[From Industry Week, May 8, 1972]

Is Phase 2 Unfair to Executives?

Executive compensation has become a ticklish subject in this year of wage and salary controls —and electioneering.

Recent publicity about executive bonus payments has generated a wave of indignation. And the Pay Board has directed the Internal Revenue Service (IRS), its enforcement arm, to conduct a "fact-finding" investigation of executive compensation—including perquisites ("extras" such as cars and club memberships).

Nonetheless, R. T. McNamar, director of the Pay Board's Office of Economic Policy & Case Analysis, claims much of the furor stems from "erroneous conclusions" reached during a cursory examination of corporate proxy statements.

Proxy statements, he notes, reflect bonus increases given prior to the imposition of controls on Nov. 14, 1971, as well as "deferred" payments of bonuses earned in previous years. "And the proxy statements make no distinction between salary increases and promotion increases, which are exempt from the [5.5%] wage and salary standards . . . for any workingman, be he the president of a giant corporation or an hourly paid worker."

Mr. McNamar contends that executive compensation is under control and that the rules governing it are fair—in line, that is, with the rules for everybody else.

Which puts him on a middle ground—between vociferous laborites on one side and some management consultants on the other—who contend that Pay Board regulations discriminate against executives.

Bonus problems—One focal point of concern and controversy is incentive compensation, which fluctuates widely and involves some risk on the part of the executive.

The Pay Board's basic rule on profit-related bonuses is that a company may use the best of the three preceding years as its base period—and add a maximum of 5.5% to the amount spent on its incentive plan that year, says Mr. McNamar. He estimates that 40 to 50% of all manufacturing firms have some form of incentive plan.

"It is possible," he admits, "that an executive's bonus might have gone up 100% in 1971, compared with 1970, but you have to look at what happened in the preceding years. It might have been four times as large in 1969 as it was in 1970."

Mr. McNamar cited an American Management Assn. survey of 3,441 companies which showed that executive bonuses in 1969 were, on the average, 7.9% above the level achieved in 1970.

McKinsey & Co., New York-based management consultants, conducted its own survey and found that the compensation of chief executives of 577 of the nation's largest firms increased by only 0.6% from 1969 to 1970. "That's hardly inflationary, compared with what was happening among the lower-level employees," asserts George H. Foote, a McKinsey director.

Executive discrimination—The notion that Pay Board rules favor top executives is ridiculous, he says. "If anything, the regulations discriminate against executives as a group."

He points out that Pay Board guidelines affix no limit to possible earnings under incentive plans for salesmen or production workers, as long as the terms of the plan or commission rates aren't inflated more than 5.5%. Yet, executive bonuses (for an established payroll "unit") cannot exceed the base year by more than 5.5%. "But it can go down to zero. It's a one-way street," he argues.

Echoing that sentiment is William A. Jaffee, consultant with the Cleveland office of Towers, Perrin, Forster & Crosby (TPF/C). He also emphasizes that Pay Board rules make no provision for increasing the total dollar amount of a bonus plan to cover new participants. "If you paid out $100,000 last year, then this year you can't pay more than $105,500—even though you might have acquired a subsidiary and added 20 or 30 people to the program."

TPF/C Vice President Graef S. Crystal, in a 16-page letter to the Pay Board, cited the "risk-reward" principle and argued that it makes little sense from the standpoint of equity to "subject an individual to the possibility of a zero bonus in a bad year . . . while simultaneously offering the possibility of only a 5.5% increase in total cash compensation in the event of a greatly improved year"

Bad effects—Mr. Crystal also warned of the possible negative effects of limiting executive incentive plans:

Increased mobility—executives switching companies solely for compensation purposes. "We may be about to witness a resumption of the game of executive musical chairs that was played with considerable finesse during the economic controls of the Korean War," he said.

Diminished management incentive to perform at maximum efficiency.

Penalizing companies which have shown a steady record of profit growth. "Companies in this category—the best-managed, most productive companies in America—will suffer the most. One wonders if this is the way to fight inflation and accomplish the President's other demanding [economic] goals," he stated.

Mr. Foote also voices concern about the possible stimulus to mobility and inequities between companies. "Executive compensation is a finely tuned instrument. If you start to tamper with it when you don't understand the impact of the moves that are made, you can quickly get the attunement out of balance," he feels.

Mr. Jaffee notes that TPF/C has urged client companies to write to congressmen and the Pay Board about the inequities. "But they're reluctant to stick their necks out," he says. "They may have to ask for a price increase . . . and they don't want to get IRS on their backs."

The enforcement agency, he adds, is now using audit forms to check compliance in the area of executive perquisites. "Some companies, trying to get around the 5.5% limit, have been giving company cars or club memberships—and IRS is trying to police [that situation]."

Mr. McNamar. Could I comment on two things? First of all, I don't have a great deal of faith in the Gallagher figures for the point you are making.

Chairman Proxmire. If you could go after those in any way you want, the platform is yours. You just go ahead and knock them down to the best of your ability, to find out what is wrong.

Mr. McNamar. I am sure they are very accurate. What I would like to do is perhaps elaborate on them so that we can look at them in a more meaningful way. First of all, they do contain any promotion increases. A number of major corporations in America have promotion increases at the executive level.

Chairman PROXMIRE. We discussed Mr. Iococca and found in my view it was a facade and didn't apply to that. Would you agree with that, that he is not doing anything differently?

Mr. MCNAMAR. If we found out that he was, it would raise a question in our mind as to whether it was a promotion.

Chairman PROXMIRE. You might find out there were promotions, but it is very hard, unless you have a thorough study and then you have to make a subjective judgment, to determine whether that promotion was to an entirely different function of a higher order and merits a different kind of pay, or whether it is simply a new name.

Mr. MCNAMAR. That is correct.

The second point I would make on the Gallagher figures is that they include the deferred payments earned in previous years that were actually paid in 1971. For example, if someone had earned a bonus of $500,000 in 1969, and it was paid out in three equal installments, let's say, that portion that was actually paid in 1971 would be included in these figures.

So they go back to the years 1968 and 1969, for example, which as you correctly pointed out, were higher years in terms of most executive incentive plan payouts. So those figures would inflate the payments in 1971. If you subtracted those you would get down to the real increase which took place.

Since we just heard about the Gallagher report for the first time yesterday, we haven't had the time to look at those increases and to analyze them thoroughly.

Chairman PROXMIRE. Look at those increases of the Gallagher report in the next 2 or 3 days and give us your considered comment on them.

Mr. MCNAMAR. Certainly. For the record, I might mention that when instances have come to our attention which indicate there might be a potential noncompliance situation, we have directed the IRS to make a specific investigation.

Chairman PROXMIRE. What is that situation where you have a potential noncompliance?

Mr. MCNAMAR. When I say an appearance of potential noncompliance, for example, a question came up concerning Ford Motor Co. when in the April 9 or 10 Wall Street Journal and New York Times there was a report that there were increases in incentive compensation payments. The IRS was directed to make a factfinding investigation to ascertain compliance and that is underway.

Chairman PROXMIRE. So there may be noncompliance by the Ford Motor Co.?

Mr. MCNAMAR. I didn't say that. We have no facts that indicate there was noncompliance by the Ford Motor Co.

Chairman PROXMIRE. You have been very guarded in your statement. You wouldn't even take potential. You said potential something else noncompliance——

Mr. MCNAMAR. Well, I have no facts.

Chairman PROXMIRE. At any rate, you are talking about Ford?

Mr. MCNAMAR. Yes. There is an IRS investigation of the Ford Motor Co.

Chairman PROXMIRE. Let me ask one other thing. One of the parts that many of us missed in this pay operation is that it is perfectly possible to increase somebody's pay now by 25 or 50 percent.

What you cannot do, as I understand, is to raise the average pay of an entire group by more than 5.5 percent. So if an executive is operating in a group in which there are nine others, he can have a 55-percent pay increase if the nine others get no pay increases; is that correct?

Mr. McNAMAR. One man can receive the entire amount. That is true not just at the executive level, but that is true of the entire general wage and salary standard.

Chairman PROXMIRE. That might be another explanation for the individual increases. But when you get to the overall increases, Gallagher reports a 17-percent increase for all vice presidents.

Mr. McNAMAR. I believe that was all vice presidents across a number of companies. The Gallagher reports and percentages which come from them do not address the question of the appropriate employer unit within any one of the individual companies or what the aggregate increase was in that unit, nor whether those increases were governed by the freeze or by phase II regulations.

Chairman PROXMIRE. I want to thank you, Mr. McNamar, and gentlemen, for a very, very responsive and helpful testimony this morning.

We would appreciate it if you would get the other information to us as soon as you can.

Mr. McNAMAR. Thank you.

Chairman PROXMIRE. Mr. Aranow and Mr. Sanders, please come forward.

So far in these hearings we have heard testimony from key public officials, Congressmen and the president of the AFL–CIO. Now we are going to have a chance to hear from representatives of the average citizen consumers who are really affected by this program.

The Price Commission and the Pay Board, especially the Price Commission, have shown an absolute disregard for the views of ordinary private citizens. Hearings have not been held, mail has not been answered, complaints have been ignored, everything possible has been done to discourage the consumer from trying to monitor the effectiveness of the controls. Despite this, consumers are doing a valiant job. One of the most scandalous aspects of the entire program is rent control.

Our next witness, Mr. Aranow, represents a grassroots organization which has been trying to do something about rents.

We are eager to hear of his experience.

Mr. Aranow will be followed by Mr. Leon Sanders, president of the Texas Consumers Association, who will present the consumer's viewpoint.

STATEMENT OF MARTIN ARANOW, PRESIDENT, NEW JERSEY TENANTS ORGANIZATION

Mr. ARANOW. Senator, I would like for my entire prepared statement to be entered into the record.

Chairman PROXMIRE. Without objection, we will be happy to do that; it will be placed at the end of your oral statement.

Mr. ARANOW. A 69-year-old woman in River Edge, N.J., called the other day. Her rent had been raised from $170 to $230 per month. She called the Internal Revenue Service and they told her it was legal, it was within the Federal guidelines. She wanted to know what she should do, where she should go.

A man from New Milford, N.J., called and his rent was raised from $125 to $165 a month. He called the IRS. The IRS contacted his landlord and his landlord gave him a notice to vacate the premises within 30 days.

These are just two, but there are thousands of examples of similar types of problems we are having. The problem is, we are not talking about facts and figures but we are talking about people, people who look to the Price Commission for help and all we have gotten is confusion, insecurity, and fear.

Senator, by design or error, the Federal rent guidelines are a total and complete failure. The guidelines don't guide, the controls don't control, and the enforcement machinery doesn't enforce.

I can think of no greater portion of the Economic Stabilization Act that affects the people, a large portion of the American public, than rents. When we hear about rolling back profits of corporations 10 percent, that doesn't have as much meaning to an individual as having their rent raised from $135 to $185. That is his reality. That is money he has to lay out. He has to feed his family, he has to put his children through school. It is a reality of now.

The Federal rent guidelines now, and all the rhetoric which accompanied them, have really created an all-pervasive cynicism of the entire political system. Two years before August 15 when controls were enacted, almost every month we heard the President say, "We are turning the corner on inflation. Inflation is under control." Every month we had to get a score card to see who was interpreting the numbers. All of a sudden on August 15 we find out the economy changed. For two years it has been out of sight and now we are "turning the corner."

Now the President and the Secretary of Treasury are saying, "Inflation is coming under control. Our policy is working." To the person who gets a 25- or 35-percent rent increase, that is utter nonsense. We can't believe anymore.

The Price Commission has put the Federal stamp of approval on rent gouging. It permits it primarily because it is based on a theory called the catch-up theory. That is, that landlords have increased costs during the years prior to enactment of controls and it is only fair to let them catch up on their costs.

In addition, the guidelines provide for practically no Federal enforcement. In New Jersey, according to the Newark Internal Revenue Service, there were 2,400 complaints that were processed there over a period of 2 months. We have one case of a landlord being prosecuted.

The reform regulations that I have recommended in my prepared statement are just common sense: fixed ceiling percentages, rollbacks to the August 15 level. These and other recommendations would help people. But at this particular point I am so frustrated, going to local legislators, to the Congress, and every time I hear there is nothing we can do—the Price Commission. The Price Commission is not responsive or responsible to the American public.

As a result, they live in a shielded atmosphere. Senator, we need help now, not in a month. As our rents are going up, and all the talk in going on about the economy, people are getting hurt. We need legislation.

The Congress gave the President the authority to create the Price Commission. We need help from the Congress to take it back. They have not done their job, they have not curbed inflation.

I would prefer to see as drastic a step as rolling back all wages, all prices, all rents, back to August 15 and start all over again.

The Price Commission hopefully learn from their mistakes. But if they age going to propose new guidelines, the Congress must serve as a watchdog committee. Unfortunately, these people cannot be trusted because people are being hurt. We need help and we hope that you would recommend to the Congress some action. Thank you.

(The prepared statement of Mr. Aranow follows:)

Prepared Statement of Martin Aranow

Gentlemen, my name is Martin Aranow. I am President of the New Jersey Tenants Organization, a statewide tenants association of over 500,000 members that encompasses all racial, ethnic, age, and economic backgrounds, and that in the period of 2½ years has transformed archaic landlord tenant relationships in New Jersey into one approximating equality.

Probably no portion of the Economic Stabilization Act have as much direct and immediate effect on the lives of a large segment of the American public than that of rents. When public figures talk in terms of millions of dollars in excess profits and expenses, that does not have as much meaning to the average tenant than having his rent raised from $135.00 to $185.00 per month. The rent increase is reality to him. It is a reality now. It is what he must deal with tomorrow.

When the President invoked federal controls, many people breathed a sigh of relief and looked to the newly created Price Commission for help. What they received instead is confusion and insecurity. The rent guidelines have created a distrust of government and an all pervading cynicism over our entire political system.

The reason is simple. The President and the Secretary of the Treasury keep telling us that inflation is coming under control and that their economic policy is working. Yet, at the same time the Administration is telling us that the program is working, many tenants are having rent increases of 10, 20, 30, 40 and 50 per cent. The hypocracy between what we are told about inflation, and the reality of our rent increases is overbearing.

It is immoral and unjust to tell many working men and women that their wages will be frozen by governmental fiat at 5.5%, and that their rents could be raised virtually without limit.

Unfortunately, tenants have no nationwide lobby to fight for them. They do not have access to national media so that their side of the "controlling inflation story" can be told. Tenants are the people who have poured thousands of complaints into Internal Revenue Service offices during the last 5 months and watched in disbelief as fewer than a dozen cases of violations or abuse were prosecuted.

Gentlemen, I have stated whenever and whereever I could be heard, whether by design or error, after the initial 90 day freeze, the rent regulations have been a total and complete failure. The guidelines do not guide, the controls do not control, and the enforcement machinery does not enforce. Why? Hopefully I can attempt to explain the guidelines so that you will see that my criticism is justified.

INTERIM RENT REGULATIONS, NOVEMBER 13–DECEMBER 29

Under these guidelines which took effect after the 90 day freeze, tenants were classified into two categories. The first were people who were month to month or shorter term tenants. These people do not have any written lease or contract for a period over one month. These tenants theoretically do not have to pay any rent increases greater than 2.5% more than they were paying on September 1, 1971, plus any increased taxes, plus any increases due to capital improvements. (The taxes of course are local property taxes and municipal fees). Quite honestly, if this proposal worked, and if rental rates were the only consideration, I would consider this a reasonable guideline. However, it doesn't work often and I will describe why later.

The second category created by the guidelines are those tenants who have tenancies greater than one month. These are usually middle class people. Under these guidelines the landlord can raise their rents to the highest amount paid by 10% of the people (in similar apartments relative to size), who signed leases between July 16, 1971 and August 15, 1971. This now meant (I say "now" because the interpretation has been changed at least twice since the regulation was promulgated), that one tenant could determine what percentage increase, or what the rental amount would be for 1,000 tenants. For example, there could be a 1,000 unit development of 1 bedroom apartments paying $100.00 per month rent on July 1, 1971. Three leases expire and one tenant signs a lease on July 20, 1971 at a new rental of $200.00 per month. Thus, since one out of three (more than 10%) paid $200.00 per month, all other tenants could now be raised to $200.00 per month when their lease expires during the year.

PHASE 2 GUIDELINES—CURRENTLY IN EFFECT

Under the Phase 2 guidelines, the month to month tenants are treated the same as under the interim regulations. New exemptions were created. Tenants who pay rental over $500.00 per month are now exempt as well as owner occupied dwellings of 4 units or less.

Tenants with leases, again these are usually middle class people, have a new formula to compute rental increases called *Average Transaction Percent*. Since it is far too complicated to try and describe the formula, an example will be utilized. Tenant A signs a new lease between July 16, 1971 and August 15, 1971. His rent is increased from $100.00 to $200.00 per month or 100%. Tenant B signs a new lease during the same period and his rent increases from $100.00 to $150.00 per month or a 50% rent increase. The average percentage increase of the two is 75%. Added to that is an automatic 2.5% for operating costs to bring the percentage increase to 77.5%. In addition, the landlord may pass on increases in taxes and municipal services plus the cost of capital improvements.

COMMENTS ON GUIDELINES

Rent increase formula.—As I mentioned earlier it is immoral and unjust to limit a man's wages to 5.5% and allow his rents to go up to 45%. In addition, the guidelines discriminate between tenants with leases and tenants without leases. Allowing rentals to skyrocket is inflationary and a mockery of the very controls that have been enacted. Is there any wonder why our citizens are losing their faith in government? What is incredible is the fact that the guidelines allow a single transaction to determine (possibly determine) the rent increases of all tenants. Probably the most aggravating part of the rental guidelines is the interpretation. Not only do tenants not understand, not only do landlords not understand, but the Internal Revenue Service cannot even agree on the meaning. These guidelines make the tenant, the one who is least able to afford the time and expense, prove that a landlord is entitled to the increase he is requesting.

Taxes.—The tenant is responsible for paying a pro-rated share of any increases in municipal property taxes. Yet equity would dictate that in the unlikely event property taxes are reduced the tenant would receive the benefit of the reduction. In addition, after the landlord passes on the increased rental to the tenant due to tax increases, if he makes an appeal and subsequently has his taxes reduced, he maintains the rent at the higher level. The tenant loses and cannot win.

Productivity.—There is absolutely no provision for a tenant to appeal and receive a reduction in rent because a landlord has reduced maintenance and services in an effort to cut costs. If landlords are allowed a basic 2.5% rent increase to cover increased operating costs, equity dictates that the tenant be able to reduce rents when basic services are reduced or eliminated.

Rental cut off.—To those upper income tenants in luxury buildings we ask why should they be exempt from controls if their rent is over $500,00 per month? Why not $400.00? Why not $200.00? Aside from the fact that this is probably illegal, the cut off figure is arbitrary. A man is a citizen regardless of the rental he pays. The Rent Advisory Board utilizes Orwellian logic e.g. all tenants are equal but some are more equal than others.

Retaliation and enforcement.—There has been virtually no protection granted to the tenant from the landlord who threatens eviction and coerces a tenant to pay a higher rental than allowed. We have seen numerous cases where tenants complained to the IRS about rent irregularities, or what they thought were rent irregularities, and the landlord has either refused to renew their lease or given them a 30 day notice to vacate the premises. The IRS has not been able to respond in time and by the time they get around to investigating, if they do investigate, the tenant has been brought to a County Court and evicted. Without enforcement there can be no viable rent regulation. The U.S. Attorney's Office will only prosecute when it receives a complaint from the IRS. Yet, to the best of my knowledge less than a dozen cases have been prosecuted nationally.

GENERAL COMMENTS

It seems to be only common sense that one would realize that any program open to a variety of interpretations will lead to confusion. In addition, it is only naieve to believe that a "voluntary" program will work when there is virtually no enforcement procedures. With all deference to the Internal Revenue Service, how much experience do their clerks have in the emotionalism of landlord tenant relationships? How much experience do they have in interpreting the ghastly guidelines published in the Federal Register? It is my sincere opinion that any program that is subject to a variety of interpretations and does not have strong enforcement and protection machinery is a bad program that should be scrapped. In addition, any program that does not combat inflation makes a mockery of the Economic Stabilization Act and should be replaced by a program that does combat inflation.

RECOMMENDATIONS

The recommendations I am making are not intended to swing the pendulum from the landlord to the tenant, but merely to establish equitie to both parties. These recommendations are solely to protect people and to carry out the purposes of the Economic Stabilization Act—to curb inflation.

RENT INCREASES

There must be a fixed percentage increase formula for three categories of tenants. First the month to month or shorter tenant. Secondly, the tenant greater than one month and up to 12 months. Third, the tenant who has a lease that has been in effect for any period of time greater than one year. For simplicity, the month to month tenant will continue under the present program except for the changes outlined later. The basis for increasing rents will be the rent actually paid on September 1, 1971. Any tenant who had a 12 month lease expiring on August 31, 1971 will receive no rent increase above 2½%. Any tenant who had a lease of longer duration that expired on August 31, 1971 will pay a maximum rent increase of 5%. Any tenant that is paying a rental in excess of these figures will be rolled back to the above levels. In addition, rebates will be given against future rentals to any tenants who have paid in excess of these amounts.

There is no question in my mind that the Rent Guidelines have given landlords the federal stamp of approval to rent gouge. Fixed percentage increases are not subject to a variety of interpretations. This interpretation is simple, to the point and will eliminate 90% of the workload of the IRS. In addition, it will remove the burden from the tenants of proving whether or not the landlord has violated the guidelines.

TAXES

Increased taxes are a reasonable expense to pass on to the tenant. However, equity dictates that in the unlikely event taxes are reduced, the tenant should have a reduction in rent since the savings should be passed on to him.

PRODUCTIVITY

In the event that a landlord reduces services or maintenance in an effort to reduce his costs and increase profitability, the tenant must have the right to reduce his rents accordingly.

REPRISALS AND COERCION

Reprisals and coercion cover many possibilities. These are from outright eviction to enforcement of obscure lease provisions and a general harrassment of the tenant. The regulations must make it a defense in eviction proceedings for the tenant to claim a reprisal is occurring. In order to protect himself the tenant may merely refuse to comply with the terms of his tenancy "if altered substantially by the landlord." When the landlord brings the tenant to court for refusing to comply, and the tenant raises "reprisal" as a defense, a rebuttable presumption is created. Unless the landlord can prove that it is not a reprisal, the case will be dismissed. Both tenants and the Government must have the right to sue for damages if it is determined that a reprisal has in fact occurred. The rebuttable presumption has been found constitutional in New Jersey law and is the only way to protect against all forms of reprisal. Without strong protection for tenants from retaliation, any regulation and guideline is totally and completely worthless.

ELIMINATE TENANT EXEMPTIONS

All tenants regardless of the rental they pay should be covered under the federal rent guidelines.

APPEAL PROCEDURES

It is entirely conceivable that by establishing the fixed percentage ceilings, there may be a few landlords that truly can not survive. This landlord must be protected since no one wishes him to lose his building. At the same time, the tenant must be assured that the landlord is receiving the additional rental because he truly needs it. In each regional office of the IRS, a panel consisting of two IRS agents and a Deputy U.S. Attorney could serve as hearing examiners. Either tenant or landlord may appeal, and each side will be given a fair hearing before a final determination is made. Landlords wishing additional hardship increases will furnish their books so that an evaluation of their profit and loss can be made.

Although the form of a panel and the functions of such a panel can be worked out in the future, it is important for both sides to be aware of and work with this appeal mechanism. The point is that we are looking to be equitable to both sides. We will be able to do this because the heavy administrative burden will be removed from the IRS when we remove the rent formula that is subject to a variety of interpretations possible under the current formula.

CONCLUSION

Gentlemen, I would like to conclude by requesting that you carefully examine my recommendations. I urge you to view these proposals not in terms of facts and figures, but in terms of people. People who have been asked to weed through a landlord's books, interpret complicated leases, and decipher complex rent formulas. People who overcame a fear of eviction to register complaints. People who stood on lines outside the IRS office or who heard the busy signal on the IRS telephone. People who wrote their Congressmen and Senators and were advised that there was nothing they could do.

In short, if the Price Commission is above the Congress of the United States, what chance do we the people have. I can not and will not believe that an Administrative body that is not responsible to the people, can continue to permit thousands of families to be hurt while our elected officials' only response is "there is nothing we can do." I therefore urge you to recommend that remedial legislation to correct the errors promulgated by the Price Commission be enacted by the Congress.

Chairman PROXMIRE. Please proceed, Mr. Sanders.

STATEMENT OF LEON B. SANDERS, PRESIDENT, TEXAS CONSUMERS ASSOCIATION

Mr. SANDERS. I would be glad to submit my prepared statement for the record.

Chairman PROXMIRE. That will be fine; it will be placed at the end of your oral statement.

Mr. SANDERS. One of the things I am concerned about is food prices. Just the day before yesterday an Assistant Secretary of Agriculture released a statement saying that food prices are below 16 percent of the average income and could fall below 10 percent. I am curious to know on what kind of income they figure these prices.

In Shelby County, where I live, in Texas, the average income is $6,000 to $7,000 per household. Many people make $60 a week or less. I have some figures based on $75. The take-home pay would be $70.20. Ten percent of that would be $7.02. Sixteen percent would be $10.63.

You can obviously see that you couldn't feed a family of four on that kind of wage for less than 10 percent or even less than 16 percent of your salary.

If we move this up to a $150 salary, 10 percent of the take-home pay for a family of four would be $12.89 and 16 percent would be $20.62. Most people have to spend something like $35 or $40 a week for their groceries. These prices don't seem applicable to the statistical figures.

I believe they overlook the actual facts or particularly the actual income. Many people in my area are on fixed incomes. The Price Commission guidelines on salaries have little effect. They would be more concerned about what the minimum wage is or what the social security benefits are because they have a fixed income and only that income to live on. These people are being priced out of the market in the grocery stores. Our complaint to the Department of Agriculture gets a reply that they have good stamp programs and commodity distribution programs to take care of people in low-income brackets, but this doesn't answer the question about the high price of food.

We have another example of a 45.8-percent increase in rural telephone rates. This is for a four-party line. This was already approved by the Price Commission before the customers knew that a price increase was being contemplated. There is no other regulatory authority in Texas over rural telephone rates since we have no statewide commission.

I have been declined permission to testify at the Price Commission utility rate hearings which they announced in February. In addition to that 45.8 percent, there is another rate increase pending for 25 percent, which a Bell Telephone spokesman says is well below the Price Commission guidelines.

Just last night I heard that the Virginia Power & Light have requested the biggest rate increase in the history of that State. Obviously, the Price Commission guidelines are not working for utility rates either. Thank you.

(The prepared statement of Mr. Sanders follows:)

Prepared Statement of Leon B. Sanders

My name is Leon B. Sanders. I am President of Texas Consumer Association, a statewide organization representing the consumers of Texas. By profession, I am News Director of Radio Station KDET in Center, Texas, holder of the Texas Association of Broadcasters Best Editorial Award for the past two consecutive years, and current recipient of United Press International's Wendall Mayes Memorial Award for Public Service, and UPI's Elkins Award for Outstanding Service to Education.

From the consumer's standpoint, the present federal efforts to halt rising prices and control inflation are simply not working.

While the Price Commission's own press releases talk about allowing increases of 3% or 4% to pass along increased costs, I have evidence of an actual 45.8% increase in rural telephone rates, which were already approved by the Price Commission before the customers affected knew that a rate increase was even contemplated, and which were subject to no other regulatory authority. This spectacular increase was by Continental Telephone Company and was brought to by attention by Mayor George Bowers of Tenaha, Texas. Further investigation revealed that it also affected rural areas served by more than 100 other Continental exchanges!

This rate increase of 45.8% was from $6.00 to $8.75 for a four-party rural line. In the same Shelby County, Texas, Southwestern Bell Telephone Company now charges only $4.00 for the same four-party service with a proposed rate increase to $4.25. A third telephone company, East Texas Telephone, still charges $6.00, the same as Continental's former rate before the 45.8% increase. East Texas Telephone has no plans for a four-party rate increase, but proposes first class, single-party service for $7.50. East Texas offers a bonus through toll-free service to Center and Shelbyville, which Continental does not offer. There is obviously no way that Continental can justify their spectacular increase by local standards, and no way the Price Commission can justify its approval.

At the same time, Southwestern Bell is seeking increased rates throughout Texas, including a 25% increase in Orange, Texas which Bell assured the city council was "well below" the Price Commission guidelines.

Price Commission Chairman C. Jackson Grayson, Jr. personally rejected my request, on behalf of Texas Consumer Association, to be allowed to present a witness at the Price Commission's utility rate hearings announced in February, thus denying Texas consumers a chance to object to the utility increases his Commission is allowing in Texas. So far as I know, no other Texas witness appeared either, although we have a unique situation since Texas is the only state without state regulation of utilities.

Other spectacular increases are occurring in insurance rates. There is now a proposal before the Texas State Board of Insurance, which even its Chairman admits is industry dominated, to increase apartment insurance 67%, which would obviously be passed along in higher rent prices. While the Price Commission stood idly by and expressed no concern, the United States Justice Department intervened. It is interesting to note that the Justice Department by-passed the Price Commission and went directly to Internal Revenue Service, threatening direct action by the Justice Department if Internal Revenue failed to act!

Not only the Price Commission, but the entire federal government, sometimes fails to realize that man is not a statistical being, and thus fails to take everyday human needs and problems into consideration.

The overall economic conditions reflected in government figures do not take into account that millions of Americans do not share in the much publicized prosperity; nor do they reflect the immediate pressures of necessities which cannot be postponed, such as food, utilities and insurance, which are possibly the weakest part of the price control program. We may be able to postpone the purchase of a new car or color tv, and do without a bottle of expensive perfume, but we must eat every day or so, and there is no quicker way to hear from the bank or finance company than by cancelling our insurance.

The low income consumer is not impressed by various figures which show that he spends "less than 10%" or "only 16.6%" of his income for food. A grocer in my home town estimates that his customers spend about 35% of their income for food, and 10% of my own salary would just barely pay for the milk and bread used by my family of four.

Nor are we impressed by a scholarly explanation of the difference in a "beef-pork spiral" and "supply and demand" when complaining to the Price Commission about food prices which we simply cannot afford.

I do not blame the farmer for the high retail prices of food, although some government farm programs must be blamed for some of the shortages by encouraging nonproduction instead of production.

The Wall Street Journal recently pointed out the gross inefficiency of the distribution system in which food changes hands six times between the farm and the consumer, and pointed out that even a small price increase at each step along the line amounts to a whopping retail price increase to the consumer. The present system of price increase allowances seems to be designed to reward and encourage this inefficiency, and to perpetuate an inefficient system, rather than to see that the American people are well fed.

The claims by retailers and wholesale manufacturers, processors and distributors of profits of less than 1% should be regarded as pure hogwash. They arrive at these figures by their own systems of accounting, designed to serve their own purposes.

For example, Southland Corporation, which operates more than four thousand drive-in food stores, including the 7-Eleven stores in Texas, has topped the Billion Dollar mark for the first time this year, and showed net profits up 19½% while gross revenues were up only ten percent.

The ways corporations can juggle figures to make their books show whatever suits their purpose at the moment are almost unlimited with reserves and contingency funds, subsidiaries, phantom corporations, and control of amortization and depreciation factors.

Even a single proprietorship can do the same, since the firm's net earnings do not reflect the owner's salary set by himself, nor does the net earnings figure reflect that the proprietor may not be operating with his own capital and may have acquired a substantial amount of increased equity in the business from the firms own earnings.

In one such single proprietorship retail establishment that I know of, the accounting statement reflects 4.3% earnings on a capitalization of $100,000 which makes it appear that the owner made only $4,300 and could have done better by putting his money in the bank, and many businesses, in fact, actually make this claim. But the owner also paid himself a $12,000 salary and acquired $5,000 additional equity from earnings. So if we eliminate the ficticious distinction between the live owner and his firm he really made at least $21,300 from his business instead of just $4,300, and the net earnings is totally meaningless.

I suggest that this Joint Economic Committee should conduct full scale investigations into the accounting practices of American business, not only in connection with prices, but also in connection with taxes, stock dividends, labor, and all other aspects of business. There is something wrong with the accounting system when the giant U.S. Steel Company pays no taxes whatever, and when the American food industry is starving the people with extortionate food prices and claiming profits of only one percent, and presumably paying taxes on only one percent if they pay any taxes at all. I fear that the entire American economy is in danger of corporate domination that approaches fascism. This is a serious charge, and I do not make it lightly.

Federal programs which claim to help the consumer often become instruments of consumer abuse, and the HUD Federal Housing Administration program is a prime example. The proclaimed low rates of interest are turned into a hoax by the permissible discounts allowed, and Texas Consumer Association has asked the Federal Bureau of Investigation to investigate our charge that this has created a system of two prices on HUD financed housing which we believe to be in violation of Title 18, Section 1010 USCA.

Although federal law prohibits these discounts being paid by the purchaser, the costs are obivously passed along to the purchaser in the form of a higher price for the home. The example I bring with me reflects a discount fee of $1,237.50 on a transaction involving a total of $16,500. Such an increased cost or expense, when added to the total purchase price, has a cumulative snow-ball effect by increasing other costs correspondingly, including taxes, the real estate broker's fee, the title insurance and all other costs based on the purchase price or total stated value. This brings the total buyers and sellers cost on the $16,500 transaction to $2,846.64. This is absolutely ridiculous and should cause every member of the United States Congress to hang his head in shame.

These costs are in addition to the stated permissible interest rates which may be more than the total purchase price of the home. As a major step in controlling inflation, I suggest that Congress take a hard look at its own inflationary programs, including abolition of the discount points.

In addition to making it difficult to buy a home, these discount points and pre-payment penalties make it difficult or impossible to sell one, since these charges could easily exceed the owner's equity. This probably accounts for virtually all the defaults under financing with federal participation.

The federal government seems more concerned with rising wages than with rising prices, rising interest, and rising corporate profits. This again ignores the plight of millions of Americans who had little prospect of a wage increase before any controls were imposed; those whose infrequent increases are always modest; and those with no jobs who must live within the fixed income of savings, retirement, Social Security or welfare. Many hardworking Americans who were happy with their jobs and incomes are finding it difficult to live on the best salary they are capable of earning. The grim spectre of poverty creeps higher and higher into middle income brackets.

Congress seems to assume that higher wages are responsible for rising costs, and apparently ignores the possibility that rising costs are what make increased wage demands necessary. This may seem like a chicken-or-the-egg question, but rather than limit production by excessive costs and artificial shortages, American Industry should be encouraged to simply meet the increased demand at fair prices.

If you really want to know why we have such high prescription drug prices, look first into your own mirror and ask why HEW pays several dollars for welfare prescription drugs that cost less than one dollar; ask why prescriptions cannot be obtained by generic name at the best price; ask why price information in this captive market is concealed from the consumer to keep him from making a wise choice.

The same food industry that is robbing us blind at the cash register is also starving us through diminished food value. The same food industry that robs us with excessive prices, denies us convenience in price comparison such as adequate labeling, plain language dates, and unit pricing, and throws every obstacle to price comparison and value comparison they can devise. The commercial food industry is perhaps the worst enemy of the American Public.

The time is close at hand when Congress must make the decision whether the American economic system is to serve the needs of the people of this country, or whether the economy is to be run for the sole benefit of a few greedy corporations run by the pirates of American Industry.

Chairman PROXMIRE. Thank you very much, Mr. Sanders.

Mr. Aranow, you have described the failure of the Price Commission to respond, as well as what you feel is the fact that they haven't succeeded in holding down prices, and especially rents.

Will you describe the steps you have taken to make your views known to the Internal Revenue Service and Price Commission and the response you have gotten?

Mr. ARANOW. Initially we had complaints filed to the Internal Revenue Service. The tenants received form letters back that they were looking into the situation. We started complaining but we couldn't get any place because there was no enforcement, there was not enough staff.

At the next point we wrote to the Rent Advisory Board. Senators Case and Javits have been trying to effect some change. We had over 500 letters and telegrams sent to Senator Case. We asked that anyone write and send a telegram showing increases over 5.5 percent. The 500 letters and telegrams represented anywhere from 1,000 to 5,000 people.

These were turned over by Senators Case and Javits to the Rent Advisory Board who indicated that they would check it out. I then met with the Executive Secretary of the Rent Advisory Board and explained the situation.

When I described the examples of the high rent increases, he said, "Well, when you have any change, there are always a few horror stories." This is what some members of the Advisory Board mentioned. Last week they held public hearings. I don't know the purpose of it, if they are going to make changes, but we appeared at the Rent Advisory Board hearings. That is what we have done and there has still been no change.

Chairman PROXMIRE. I have a letter from the River Edge Gardens Association in River Edge, N.J., one of your group. That is in the congressional district of the distinguished ranking member of this committee, Mr. Widnall. The permissible rent increases for these apartments was 37.5 percent, based on rent increases averaging 35 percent for apartments changing hands in June and July, plus the 2.5 percent that is automatically allowable.

This group has written to the Internal Revenue Service, also to a number of Congressmen and to both New Jersey Senators. They have sent me copies of the replies they received. Several Members of Congress have indicated that they have communicated with the Price

Commission on this matter. There is no evidence of any response from the Price Commission to the material sent me dated April 4.

Do you happen to know, Mr. Aranow, if this group has gotten a meaningful response from the Price Commission either directly or indirectly?

Mr. ARANOW. They have received absolutely no response and no relief from anyone.

Chairman PROXMIRE. And this is your own constituent group?

Mr. ARANOW. Yes.

Chairman PROXMIRE. Mr. Aranow, one of the things I like very much about your prepared statement is that it not only describes the problem, it is not only critical, but it makes constructive recommendations as to what to do about it.

What you recommend, as I understand it, is fixed percentage rent increases which would be allowed uniformly. That sounds like a nice and simple thing, but the question is will it work.

The fact that rents have gone up so much in New York and New Jersey would suggest that there is a housing shortage. When anything is in short supply economic theory tells us that the price will rise. If we interfere with the price mechanism through controls we have to have rationing. How will we ration housing?

Mr. ARANOW. Senator, in the first place, anyone who is involved with a real estate interest in any State or in any city that wants to fight any local rent control legislation consistently states, "You cannot control one sector of the economy without controlling the other." They accept that theory.

We now have theoretically total controls over the entire economy, except we are giving the landlords license to raise the rents. Where you have a short supply, say in the Northeast, and you have a soft housing market in other sections of the Nation, it may not be adequate to control the entire Nation, but you don't have a uniform nation. So what I am suggesting is during the period that we have the total wage-price-rent freeze, where we have a critical housing shortage and as a result the prices will skyrocket, I think we can control the rents a little bit better based on the supply.

Does that answer the question, Senator?

Chairman PROXMIRE. What had puzzled me about it is that New York for many years has had rent controls and they have a fierce housing situation, maybe the worst in the country. There isn't an incentive. It is too bad we have it this way, it is a matter of great inequity, but with rent controls there just is no incentive for building new apartments.

I guess what they do is when you construct a new apartment building or new home that is out from under the controls, is that right?

Mr. ARANOW. Yes, sir.

Chairman PROXMIRE. That might take care of part of the problem. But it still seems to me that rent controls are very, very difficult to work because of this rationing problem.

Mr. ARANOW. Senator, I have to take issue because I believe that the story about New York City is just nothing more than a myth. We are told, and I have been led to believe and believed it up to maybe a year ago, that rent control in New York City caused abandonment and decay of urban housing. But we don't have rent control in Los Angeles, we don't have rent control in Chicago, we don't have rent control in our urban centers. We have abandonment. We have a critical housing shortage.

What I am saying is that we have all been led to believe that rent control was a problem of urban housing failures. We have been led to believe this because there have been no vocal tenants to say it is not true. I don't know if it is true or not, but I do know that when I see the real estate interests in this Nation say, "This is the reason for housing decay," I have to start wondering.

Is this the truth or is it fact or fiction? I don't really buy the argument that rent control in New York City is a cause of New York City's urban blight.

Chairman PROXMIRE. What would have happened to rents in New Jersey if there had been no control program at all? Would they have gone up more, less, about the same? I am very sympathetic to your feeling about the controls. I think the regulations are ridiculous. They reward rent gouging by permitting more of it. At the same time I think we must recognize that controls are not your basic problem.

Mr. ARANOW. Correct.

Chairman PROXMIRE. Something needs to be done to create a better balance between supply and demand. Is there a housing shortage in New Jersey? If so, why, and what should be done about it?

Mr. ARANOW. Senator, there is a tremendous shortage in the State of New Jersey. We need more housing. The Federal Government has to give more housing. We have problems with zoning. But the fact remains that under the Economic Stabilization Act our concern is not with housing at this time.

In the final analysis, that is need. It seems wrong to me to limit a man's wages to 5.5 percent, allow his rent to go up 35 to 40 percent, and then turn around saying, "We recognize that is a problem, but we have to build more housing." We can't say to the man, "We will hold your wages but the rent will go up." You can't do it. It is not fair.

Chairman PROXMIRE. I think you have made a very fine case, Mr. Aranow, I think we can all agree, especially on your point of the lack of responsiveness by the Price Commission, the lack of effectiveness, the fact that this is up to them to find solutions, and, as you say, it puts the tenant in an absolutely impossible position. He is held down in his income to 5.5 percent. A large segment of the income must go for shelter. He has to have housing. Where will he get the money?

Mr. Sanders, I want to be sure that I have the facts straight on the telephone increase. The 46-percent increase was approved by the Price Commission, is that correct?

Mr. SANDERS. That is correct.

Chairman PROXMIRE. Did the Price Commission offer any answer for granting such a large increase?

Mr. SANDERS. I have a statement that was sent to the subscribers and I have a notarized statement by the mayor of Tenaha, Tex. The first word of the rate increase said:

> DEAR CUSTOMER: You will notice that a rate increase has been added to this month's billing. This is in compliance with the rules and regulations, Section 300.016, set forth by the Price Commission, and Section 7701 (a) 33 of the Internal

Revenue Code of 1954, stating that we may charge a price, rate or tariff in excess of the base price if such increase has been approved by a regulatory agency. These new rates have been reviewed and accepted by the Price Commission. These rates are necessary in order to continue improving your telephone service.

This is signed, "Manager," with no one's name signed to it.

I have this notarized statement of the mayor certifying that this is a certified copy of the telephone rate increase received by the rural tenants of Tenaha.

Chairman PROXMIRE. In yielding to Mr. Widnall, I would like to say that he is not only your Congressman, Mr. Aranow, and the ranking member of this committee, but he is the outstanding authority of both parties in the Congress of the United States on housing. He knows more about housing than anybody in the Congress. He has done more constructive work to get housing than anybody. We are very fortunate to have him with us and very happy that he can be here this morning.

Representative WIDNALL. Thank you, Mr. Chairman.

Mr. Aranow, I am very pleased that you came down here as a witness today.

You, Mr. Sanders, have contributed considerably to the knowledge of the committee.

Mr. Chairman, Mr. Aranow has been very active in working with tenants for some time. He took up the cudgels a few years back and actively has gone throughout the State in promoting the interests of the tenants and trying to get a fair shake for them. I think he has been making a fine contribution so far in bringing to light a lot of conditions that are unwholesome and wrong, and in pointing the way to new and creative legislation that will be helpful.

I would like to make one correction for the record, River Edge is in my district, but I have just been redistricted out.

Mr. Aranow, would you say that the problems you described in your prepared statement are national in scope or are these problems of high rent increases limited to certain areas?

Mr. ARANOW. I think the problems exist wherever there is a housing shortage. I don't have the experience to know the vacancy rate of housing throughout the Nation. I know that in the Northeast it is rather critical. I just don't know about the rest of the Nation.

Representative WIDNALL. You say you have 500,000 members in your organization. How many tenants are there in the State of New Jersey?

Mr. ARANOW. The last estimate was about 3.2 million.

Representative WIDNALL. You have one out of six.

Mr. ARANOW. We will try harder next year.

Representative WIDNALL. Have you any estimates of how many people are affected by rent increases of the large sizes which you have described?

Mr. ARANOW. The guidelines, the way they are presently constituted, primarily adversely affect tenants with leases, which are usually middle-class people. The month-to-month tenants are shorter tenancies and have a fixed percentage increase of 2.5 percent. The difficulty with that is that if a landlord goes over that 2.5 percent and tells a tenant to either pay it or move, the tenant has to pay it.

To come back to your question, I don't have any idea of what percentage of middle-class tenants have leases. The Price Commission has said that 30 percent of the tenants in the United States have leases. I don't buy that figure. I don't know where they got it from, but this would affect 35 percent of the tenant polulation in the Nation.

Representative WIDALL. Do you have any figures that have been put together by your organization indicating how many of these rent increases occurred after change of ownership?

Mr. ARANOW. No, we don't, sir. But they are going on with old ownership also. I don't have the figures.

Representative WIDNALL. I notice there have been a considerable number of changes in title to premises, and immediately after such change the tenants have gotten a broad rent increase, in many cases an unconscionable increase, which I don't believe was justified by increases in cost. I do think that up our way, the area where I live and where you live, the owners have been subjected to very substantial tax increases for their properties. This is something that they cannot lower by negotiation. I think in all fairness they can be expected to pass that on in some way to the tenants. But above and beyond that I have had notice of many instances where the increases have truly been unconscionable and outrageous. I certainly want to try to do my part to find a better approach to this problem.

I understand that the Rent Advisory Board of the Price Commission held hearings on this last Friday. Were you there at that time?

Mr. ARANOW. Yes, sir.

Representative WIDNALL. Was there any indication that those hearings will precipitate a change in the regulations?

Mr. ARANOW. No, sir. As a matter of fact, nobody knows what the Rent Advisory Board, or for that matter the Price Commission, are doing. They get the soundness of their proposal from some mythical area that nobody knows. I don't know what they are doing, and I question if they know what they are doing.

Representative WIDNALL. What do you advocate to immediately give relief to the people who have received the unconscionable increases?

Mr. ARANOW. I think the fairest thing to do is to keep within the intent of the Economic Stabilization Act or to keep within your 2.5-percent ceiling. To any lease that expired after a tenant had a lease for 12 months, after August 15, the landlord should have a 2.5-percent increase. All rents should be rolled back to August 15.

If a tenant comes off of lease over 2 years the landlord should have as much as 5-percent increase. If he still needs more, if it is still a hardship, then I think he should have the right to appeal and open his books to find out after the tax write offs, depreciation advantages, if he is going to lose more or lose the building. I think he should be entitled to that.

The point is we have to roll the rents back. For tenants to pay 35- and 40-percent-rent increases is just not fair. I think that is the only solution, Congressman.

Representative WIDALL. I certainly appreciate your coming down here to enlighten us, and I know we would be grateful for any further information you can supply the committee from time to time. I know you have formed firm opinions about what we should do.

Mr. ARANOW. I will.

Chairman PROXMIRE. Mr. Sanders, I am very impressed by the fact that you work for an award winning radio station and you are news director. I think the reason they won their award was in part at least because of your work as director.

Mr. SANDERS. Yes, sir.

Chairman PROXMIRE. What is your salary?

Mr. SANDERS. $140 a week.

Chairman PROXMIRE. $140 a week?

Mr. SANDERS. Yes, sir.

Chairman PROXMIRE. How do you feel about Mr. Borch getting an increase in salary of over 50 percent, to over $400,000?

Mr. SANDERS. It is sort of out of perspective.

Chairman PROXMIRE. I wonder if he is that much better than you are.

Mr. SANDERS. He possibly might be if he can command that sort of salary.

Chairman PROXMIRE. He is a good man. I like him very much. At any rate, the $400,000 increase seems to me to be shocking and appalling. It seems to me the fact that a man with as fine a record as you have, who earns $140 a week, presents quite a contrast.

Representative WIDNALL. Mr. Chairman, I appreciate your calling attention of everybody to the contrast, but I wish you would say how much of the increase he got was take-home pay and how much goes to the Federal Government by way of income tax. In the bracket he is in I would imagine 80 to 90 percent.

Chairman PROXMIRE. As you know, the marginal tax limit is 70 percent under the present law. In the second place, Mr. Borch, like everyone else with a high income, has excellent tax lawyers, and he can easily reduce this burden. The third thing is studies show that at those high incomes the very wealthy begin to pay at rates nearly the same as low incomes. There were three people with over $1 million a year income last year who didn't pay income tax, and a whole series of over $150,000 a year who didn't pay. I don't know what Mr. Borch's other income was.

But on this particular compensation, which is visible, clear, he would pay no more than 70 percent tax on it and probably a lot less.

Nevertheless, Mr. Sanders has to pay a tax, too. It is not as high, but it is a tax.

I would agree this doesn't have anything to do with inflation because the number of executives is relatively small. But in terms of equity, in making this program work, how in the world can you expect the program to work when you have this enormous disparity in justice? It seems to me a man with Borch's income would be in a position to have no increase. I have no criticism of Mr. Borch. As I say, he is an enormously able man and I am sure he is worth every nickle he gets.

When I was questioning you, I wanted to ask you this: You asked to testify before the Price Commission on this increase at their hearing on utility rates but your request was rejected.

Mr. SANDERS. Yes, sir.

Chairman PROXMIRE. What reason did Mr. Grayson give for rejecting your request?

Mr. SANDERS. He said time didn't permit and perhaps some other witness would express views similar to mine.

Chairman PROXMIRE. In this case, a lot of people don't have much sympathy. They say it is a utility and they have their own regulatory agency. Is there any agency in Texas that regulates the rural telephones?

Mr. SANDERS. We have no statewide regulation of utilities in Texas. Within the municipalities it is done by the city council. In this case, Continental has bypassed all city councils.

Chairman PROXMIRE. So here is a utility which has, of course, a monopoly. In our system we have always had regulatory agencies which, because there are franchised monopolies, fix the price they can charge and give them a reasonable rate of return. In this case, however, there was no regulatory agency to determine the justice of that enormous increase; is that right?

Mr. SANDERS. That is correct.

Chairman PROXMIRE. Your only recourse was the Price Commission?

Mr. SANDERS. Yes, sir.

Chairman PROXMIRE. And the Price Commission would not permit you to appear?

Mr. SANDERS. That is right. I didn't know about this rate increase at the time I asked to speak. I was concerned with some lower rate increases in utilities that I was protesting at the time.

Chairman PROXMIRE. Have you written to the Price Commission on other matters?

Mr. SANDERS. Quite a few matters.

Chairman PROXMIRE. What were they?

Mr. SANDERS. One was a 20-percent increase in retail record albums. Another was food prices; various utility rates.

Chairman PROXMIRE. What responses have you gotten?

Mr. SANDERS. Generally a courteous response. On the food price increase I got a statement back from Mr. Grayson that he didn't have time to make an economist out of everyone who wrote him. He explained that the current situation was a supply and demand, whereas the beef rise back in 1962 was a beef-pork spiral, which I don't think explained anything and didn't help us understand why food prices were so high at the retail level.

Chairman PROXMIRE. Have you had any experience with filing complaints with the Internal Revenue Service?

Mr. SANDERS. Yes. Each price complaint that I have made to the Price Commission has also been sent to the Internal Revenue Service.

Chairman PROXMIRE. Have they responded?

Mr. SANDERS. I have received only one response, in connection with the retail phonograph records.

Chairman PROXMIRE. In the other cases there was no response at all? You wrote and complained and got no answer?

Mr. SANDERS. That is correct. I had one response and it was just a notification that was forwarded to the New Orleans office.

Chairman PROXMIRE. Will you provide for the committee your letters to Mr. Grayson and his responses and any other pertinent data so we will have that for the record?

Mr. SANDERS. Yes.

(The following information was subsequently supplied for the record:)

EXECUTIVE OFFICE OF THE PRESIDENT,
PRICE COMMISSION,
Washington, D.C., February 24, 1972.

Mr. LEON SANDERS,
President, Texas Consumer Association,
Austin, Texas.

DEAR MR. SANDERS: Thank you for your interest in the Economic Stabilization Program, as expressed in your request to make an oral presentation at the public utility hearings currently being conducted by the Price Commission.

We were unable to schedule you for an oral presentation because of the limited time allotted for the hearings, but we believe we have made every effort to provide representation at the hearings to a broad cross section of interested parties, including those which may share your position.

You are encouraged to submit your views in written form. All comments received on or before March 1, 1972, will be considered by the Commission in its reassessment of the public utilities regulations.

Sincerely,

C. JACKSON GRAYSON, Jr.,
Chairman.

ECONOMIC STABILIZATION PROGRAM,
THE PRICE COMMISSION,
Washington, D.C., March 3, 1972.

Mr. LEON SANDERS,
President, Texas Consumer Association,
Austin, Texas.

DEAR MR. SANDERS: Chairman Grayson has asked me to reply to your letter of January 30, 1972, concerning rate increases by the Southwestern Bell Telephone Company.

On February 10, 1972, the Price Commission announced a temporary suspension of rate increases for privately-owned utilities and scheduled its first public hearings. Enclosed is a copy of Price Commission News Release Number 55 which pertains to the announcement. We hope this information will be helpful to you.

We have forwarded your letter to the Utility Division of this Office for action.

We appreciate your views and all efforts to curtail inflation.

Sincerely,

DON E. MILLER,
Special Assistant to the
Director of Program Operations.

EXECUTIVE OFFICE OF THE PRESIDENT,
PRICE COMMISSION,
Washington, D.C., March 27, 1972.

Mr. LEON SANDERS,
President, Texas Consumer Association, Austin, Tex.

DEAR MR. SANDERS: Chairman Grayson has asked me to respond to your letter of March 16, 1972, relating to prices of phonograph records.

While not every price increase is in violation of Price Commission guidelines, as you indicate, the retail price increases of phonograph records proposed by Stan's Record Service could indicate a possible violation. If, when any seller increases prices and a satisfactory explanation of the price increase can not be obtained, consumers are encouraged to submit a complaint to the Internal Revenue Service in his own district. The Internal Revenue Service is charged with processing, investigating, and evaluating complaints as to possible Economic Stabilization Program violations.

Thank you for your interest in the economic stabilization program.

Sincerely,

CARLETON S. JONES,
Acting Deputy General Counsel.

EXECUTIVE OFFICE OF THE PRESIDENT,
PRICE COMMISSION,
Washington, D.C., March 27, 1972.

Mr. LEON SANDERS,
President, Texas Consumer Association, Austin, Tex.

DEAR MR. SANDERS: Thank you for your letter and shopping list of March 5, 1972.

The Price Commission has no control over the variance in prices from city to city. Under the Economic Stabilization Act, Congress established that no manufacturer, retailer or wholesaler can be forced to sell his product for less than the base period price. Thus, the Price Commission's program is based on controlling price increases above the base period price. Price variance due to location is a reflection of the differences in base period prices and allowable costs that justify price increases which can also vary from city to city.

For these reasons, I strongly urge the Texas Consumer Association, as well as all other consumer organizations, to help their members shop discriminately. Such selective shopping should be geared toward patronizing stores which sell items at prices below or closest to the base period prices.

In addition, consumer organizations should encourage their members to participate in the supply and demand of the marketplace. The consumer must be made aware of his active choice in the market and his ability to affect prices by decreasing demand for an item.

Sincerely,

C. JACKSON GRAYSON, Jr.,
Chairman, Price Commission.

EXECUTIVE OFFICE OF THE PRESIDENT,
PRICE COMMISSION,
Washington, D.C., March 28, 1972.

Mr. LEON SANDERS,
President, Texas Consumer Association, Austin, Tex.

DEAR MR. SANDERS: My role here in Washington is not one of making Economists out of every consumer or consumer group that contacts me, however, if I can in some small measure show you the reasons for some of my proposed programs, I feel I have and will accomplish much.

You are correct that cattle prices were higher in 1952 ana that retail prices were lower. However, this is what is known as the beef and pork spiral. At the present time what we have is the law of supply and demand working and beef is much in demand. I have learned that hogs which were selling for $29.00 per hundred weight are now $23.00, so pork prices should now be coming down. As the demand for beef lessens, and other items are used in its place temporarily, these prices will also lessen.

Rest assured I am taking seriously my job to lick inflation and that I will continue to do so as long as I serve as Chairman of the Price Commission.

Sincerely,

C. JACKSON GRAYSON, Jr.,
Chairman, Price Commission.

DEPARTMENT OF THE TREASURY,
DISTRICT DIRECTOR, INTERNAL REVENUE SERVICE,
Austin, Tex., April 5, 1972.

Mr. LEON SANDERS,
President, Texas Consumer Association, Austin, Tex.

DEAR MR. SANDERS: May we again thank you for your continued interest in the vital program and its success of economic stabilization.

The United Press Articles which you forwarded, together with your comments concerning rate increase in property insurance premiums for State of Texas, have been received and will receive our immediate attention.

You may be interested in knowing that an insurance company proposing a rate increase which will affect $1 million or more in aggregate annualized premiums under the existing rate must prenotify by a written notice to the appropriate State regulatory agency. On approval or disapproval by the State Insurance Board, such certifications will be submitted to the Price Commission who will act on all such certifications.

Please let us know whenever we may be of assistance.

Sincerely,

D. S. McKay, Jr.
Chief, Information and Services Branch.

Department of the Treasury,
District Director, Internal Revenue Service,
Austin, Tex., April 10, 1972.

Mr. Leon Sanders,
Texas Consumer Association,
Austin, Texas.

Dear Mr. Sanders: We have a copy of your letter addressed to Mr. Ronnie Lewis of Shreveport, Louisiana, dated April 1, 1972, with a footnote to the attention of the Internal Revenue Service.

An Alleged Violation Report, Form S-7, was prepared at this office on Stan's Record Service, Shreveport, Louisiana, and forwarded to the New Orleans District Office on March 30, 1972. You will receive an acknowledgement from the Economic Stabilization Office in New Orleans concerning this complaint.

Thank you for your interest in the Economic Stabilization Program. If we can be of further service to you, please let us know.

Sincerely,

D. S. McKay, Jr.
Chief, Information and Services Branch.

Texas Consumer Association,
Austin, Tex., April 10, 1972.

Hon. C. Jackson Grayson, Jr.,
Chairman,
Price Commission, Washington, D.C.

Dear Mr. Grayson: Once again, Texas Consumer Association protests the more than liberal price and rate increases being given the blessings of the Price Commission, as illustrated by the 45.8% rate increase described in the accompanying material.

This, and other rate increases, were apparently already approved by the Price Commission before the people affected were even told that a rate increase was being considered, and no public hearings were ever held for the people affected.

You may recall, or find a copy of my letter in which I asked to be allowed to be a witness at your Utility Rate hearings, and this permission was denied by you.

However, I have been invited to testify at the hearing of the Joint Economic Committee of the Congress on April 21 on the effectiveness or lack of effectiveness of the Price Commission and other price controls.

Yours truly,

Leon Sanders, *President.*

Executive Office of the President,
Price Commission,
Washington, D.C., April 13, 1972.

Mr. Leon Sanders,
President,
Texas Consumer Association,
Austin, Texas.

Dear Mr. Sanders: Thank you for bringing me up to date on the activities of the Texas Consumer Association.

I was alerted to the complexities of the economic situation of the food industry by public witnesses at Price Commission hearings last month. Your survey has provided us with part of the information we need to assess the phenomenon of rising food prices. I have my hope that the April 12 food hearings here in Washington will lead to agreement on a course of action. I will be expecting to receive the petitions you have circulated asking for relief from using food prices.

Thank you very much for your active interest.

Sincerely,

C. JACKSON GRAYSON, Jr.
Chairman.

PRESTON SMITH,
GOVERNOR OF TEXAS,
February 10, 1972.

Mr. LEON SANDERS,
President, Texas Consumer Association,
Austin, Texas.

DEAR LEON: Thank you very much for your letter of January 31, 1971 concerning your request to the Price Commission and urging me to open up the call of the next special session of the legislature to consideration of telephone regulation.

As you know, proposals to establish a telephone or a utilities regulation commission in Texas have consistently been turned down by the legislature. The primary task confronting the upcoming special session of the legislature will be the appropriation of funds for the second half of the biennium. I have, however, expressed my willingness to consider opening the call to additional matters if time permits upon the completion of our primary task.

I hope that you will contact members of the legislature who are interested in greater utilities regulation in order that they may be aware of your organization's desire to have action taken on this matter during the next special session.

Sincerely,

PRESTON SMITH,
Governor of Texas.

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
Washington, D.C., February 16, 1972.

Mr. LEON SANDERS,
President, Texas Consumer Association,
Austin, Tex.

DEAR MR. SANDERS: Thank you for your very informative letter in response to my request for a full scale investigation of food price increases.

It is very difficult to fight the Administration's bureaucracy, with its teams of economists, statisticians and clever pressmen, but continue to fight I will until we can see some results for the consumer in the President's wage-price restraint program.

I hope that you have also written to your Representative and Senators to urge them to join the fight against this unfair treatment of the working men and women of our country.

Sincerely,

WILLIAM R. COTTER,
Member of Congress.

AMERICAN GENERAL
LIFE INSURANCE COMPANY,
Houston, Tex., April 17, 1972.

DEAR POLICYHOLDER: On August 2, 1971, we announced to you that an increase in rates on your hospitalization policy was necessary because of increasing doctor's fees and hospital charges. The President announced the Wage and Price Freeze, which was effective August 15, 1971, and we at American General cooperated by not proceeding with the announced increase in premium rates for your health insurance policy with our company.

Hospital charges and doctors' fees had been increasing at annual rates of 10 to 15 percent per year, which is quite a bit faster than the rate of inflation in other areas of consumer services. Because of this ever-increasing trend in the cost of medical care, we have reluctantly decided that it will be necessary to proceed with the increase of premium rates for your health insurance policy. The amount of the new premium and the effective date of the change is enclosed with this letter.

The increase in rates is being applied uniformly to all policies similar to your own, and it has not been affected in any way by the amount of any claims you may have submitted to us in the past.

This is the first time that the premium rates have been increased on your policy since it was issued. We will guarantee you that the rates will not be increased again for at least twelve months after the effective date of the current change. We are hopeful, of course, that it will not be necessary to raise the rates again for some time after that date.

If you have any questions about this change, please see your American General agent or write to our Policyowner Service Department, P.O. Box 1931, Houston, Texas, 77001.

We appreciate the confidence you have placed in American General, and we look forward to continuing to serve your insurance needs.

Sincerely,

PAUL B. PENNINGTON.

CONTINENTAL TELEPHONE CO.

DEAR CUSTOMER: You will notice a rate increase has been added to this month's billing.

This increase in rates is in compliance with the rules and regulations (Section 300.016) set forth by the Price Commission. Section 7701(a)(33) of the Internal Revenue Code of 1954 states that we may charge a price, rate or tariff in excess of the base price if such increases have been approved by a regulatory agency. These new rates have been reviewed and accepted by the Price Commission.

These rates were necessary in order to continue improving your telephone service.

Manager.

I, George Bowers, Mayor of Tenaha, certify that this is an authentic copy of a telephone rate increase notice received by the rural residents of Tenaha in their April billing from Continental Telephone Company.

GEORGE BOWERS, *Mayor.*

STATE OF TEXAS,
COUNTY OF SHELBY,

Subscribed and sworn to before me a Notary Public, in and for Shelby County, Texas, this 10th day of April 1972.

[Seal]

DOROTHY SMITH,
Notary Public, Shelby County, Texas.

Chairman PROXMIRE. Did the nature of the responses you have received from the Price Commission or other bodies change since your name was announced as a witness in these hearings?

Mr. SANDERS. Yes. I got a letter dated April 13, saying: "Thank you for bringing me up to date on the activities of the Texas Consumers Association. I was alerted to the complexities of the food industry by public witnesses last month. Your survey has provided us with part of the information we need to assess the phenomenal food prices. I hope that the April 12 will lead to agreement on a course of action. I will be expecting to receive the petition you circulated asking for relief from rising food prices. Thank you very much for your interest." It is signed by Mr. Grayson, the Chairman.

Chairman PROXMIRE. What sort of economic conditions prevail in your part of Texas? Is it a wealthy area?

Mr. SANDERS. We are primarily a low-income area. Most people are older people, many retired under social security, and quite a few welfare cases.

Chairman PROXMIRE. What would you say is the average wage?

Mr. SANDERS. $6,000 to $7,000 per family. That is the only figure I have. A man who works in a service station, worked for the same service station for over 20 years——

Chairman PROXMIRE. Mr. Aranow talked about the difficulty of a person with a 5.5-percent wage increase paying a 35-percent increase in his rent. In this case, did the wages in your area increase 5.5 percent or more?

Mr. SANDERS. Not that I know of. One man that worked for the same service station for over 20 years told me his salary is $60 a week. I know another man whose salary is $67 a week. These are hard-working people who work hard to make a living and support their family.

Chairman PROXMIRE. And his telephone bill is up 50 percent.

Mr. SANDERS. If he lives in this particular part of the county. We have several different rates. We don't have so much of a rent problem in our area. Many people do own their own homes. But the problem of buying the homes is becoming increasingly difficult, one of which is the fact that the discount fees are apparently passed along to the purchasers. We have very few people who take advantage of the Federal Housing Administration program.

I have evidence with me today of a transaction with a discount fee of $1,237.50 on a $16,500 home. The total buyer's and seller's costs amount to $2,846.64, nearly $3,000 on a $16,000 home. This is something that I think someone needs to do something about, whether it is this committee, the Price Commission, or whoever might be involved. But these discount points seem to be the factor here.

Chairman PROXMIRE. I asked about wages in your area going up and you say they have not gone up. Is that because of the Pay Board regulations, or just economic reasons?

Mr. SANDERS. I don't think the Pay Board has anything to do with it. I think most people are earning the most salary they can earn at the present time. If the price control were affected——

Chairman PROXMIRE. So your controls are really pernicious. As a matter of fact, wages are not rising at all.

Mr. SANDERS. Our people would be glad to get wages increased.

Chairman PROXMIRE. But prices keep going up with the controls.

Mr. SANDERS. Yes.

Chairman PROXMIRE. And without any relationship to any guideline, 2 percent or 5 percent or anything else.

Mr. SANDERS. Prices keep going up on everything—groceries, utilities, and the fixed costs such as insurance. These are things people cannot postpone. They can put off buying a new car.

In fact, a number of people I know used to trade cars every year or so, including myself but now they have been buying used cars or keeping the same car for a considerable length of time. Announcers in our radio station used to be able to buy new cars each year, but most people in radio stations now have a used car or an old car. They are not able to afford the prices that have gone up dramatically more than salaries have.

Chairman PROXMIRE. Gentlemen, I want to thank both of you very much. As I said to begin with, we have had public officials and those responsible for the program, and now we have those who represent the people this is supposed to benefit. I think you have made a powerful case that the program is not working. We have to work on it hard and fast.

The committee will stand recessed until Monday morning next at 10 o'clock.

(Whereupon, at 11:15 a.m., the committee recessed, to reconvene at 10 a.m., Monday, April 24, 1972.)

REVIEW OF PHASE II OF THE NEW ECONOMIC PROGRAM

MONDAY, APRIL 24, 1972

CONGRESS OF THE UNITED STATES,
JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The committee met, pursuant to recess, at 10 a.m., in room 1202, New Senate Office Building, Hon. William Proxmire (chairman of the committee) presiding.

Present: Senator Proxmire and Representative Reuss.

Also present: John R. Stark, executive director; Loughlin F. McHugh, senior economist; Courtenay M. Slater, economist; Lucy A. Falcone, research economist; George D. Krumbhaar, Jr., and Walter B. Laessig, minority counsels; and Leslie J. Bander, minority economist.

OPENING STATEMENT OF CHAIRMAN PROXMIRE

Chairman PROXMIRE. One subject to which we will turn our attention this morning will be food prices. The recent furor over food prices illustrates, perhaps better than anything else, the difficulties which are inherent in an attempt to impose a system of total control on the economy. Raw food prices are not controlled. Retail food prices of most foods are controlled, but if the price to the farmer goes up, some increase in the price at retail must also eventually be allowed.

Food prices have gone up sharply since phase II began. Consumers are outraged, and understandably so. The solution that instinctively appeals to the consumer is to impose controls on the price received by the farmer.

If there is one industry in this country where supply is not short it is in food. Food surpluses are coming out of our ears. We are paying hundreds of millions of dollars in storage costs for surplus food. We have far more than we can possibly use. Except for Government supports, the food prices would drop 10 percent or more. You might ask what would be so wrong about that. What is wrong is that it would mean a 25-percent fall in farm income, which is already shamefully low.

Further the Federal Government is big enough already. We don't need to enlarge it by adding to the existing set of programs designed to support farm prices another set designed to hold them down.

To the extent that recent increases in the price of food at the retail level are truly the result of higher prices to the farmer, the honest thing to tell the consumer is that this is the price they must pay if they want the abundant supplies of high quality foods to which we are accustomed in this country.

79-980—72——23

Also are most increases in retail food prices due to increases in the prices paid the farmer? I doubt it. Some are due to cost increases at various stages of processing. To some extent these, too, are inevitable—at least if consumers wish to continue to purchase their food in the highly processed form which many seem to prefer.

Some increases may be due to excess profits at some stage in the marketing process. But we should not kid ourselves that this is the major cause. That greedy middleman we have been looking for lately is elusive because for the most part he does not exist.

To the extent that excess profits are being made at some stage of food processing, I have no real hope that this will be discovered by the Price Commission. The Price Commission is not likely to get around even to reading more than a tiny fraction of those 3,000 quarterly reports on the profits of tier I and tier II firms.

Competition is far from perfect in the food industry, just as it is far from perfect elsewhere in our economy. Even so, I have more faith in competition than I do in the Price Commission. As I have said repeatedly, I am not for controlling farm prices. Quite the contrary I am for decontrolling everything except the big unions and the huge firms which have significant monopoly power. I would apply this standard to the food industry just as to any other.

I am not convinced that we have any serious food shortages—of beef or anything else—but if we do, the answer is not controls. The answer is to begin unwinding some of the supply restrictions which presently exist. It makes no sense to talk about price controls for commodities whose supply is restricted through import controls, acreage limitations on feed grains, and so forth. If there is to be Government action, start with action to relax import quotas and to reduce price supports before we start talking about price controls.

I am not advocating that, as I said before, we should approach that kind of way of getting at food prices with our eyes wide open. If any action of this kind will reduce farm income then I will oppose it. Economic justice should be the prime purpose of any economic policy in this country and low farm income is a shameful injustice in our system.

Our witnesses this morning are Joseph Beirne, president Communication Workers of America and Tony Dechant, president of the National Farmers Union. We are most grateful to both of you gentlemen for your willingness to be here this morning and to give us your evaluation of the anti-inflation program.

I am going to ask each of you to present your opening statements and then we will return to questions. The committee has asked that all statements be limited to 10 minutes and to enforce that rule we have two timers. The first will sound a warning, 2 minutes before your time is up. We do this to all of our witnesses. We had a little trouble with George Meany the other day, not a little trouble but a little fun with him, but we enforced it against him and Boldt, Grayson, and Stein and everybody else who appeared.

All of our members are restricted to a strict 10-minute time rule on their questioning.

Mr. Beirne will you lead off.

STATEMENT OF JOSEPH A. BEIRNE, PRESIDENT, COMMUNICATIONS WORKERS OF AMERICA

Mr. BEIRNE. Mr. Chairman, I learned of your 10-minute rule and timer on my way over here and my prepared statement happens to be about 14 minutes, so with your indulgence I will lay that aside and stay within your 10 minutes.

Chairman PROXMIRE. The full 14-minute prepared statement will be printed in full in the record at the end of your oral statement.

Mr. BEIRNE. I will submit the whole prepared statement for the record.

First, Mr. Chairman, this is my first time before your committee, and I do want to express my compliments to you very sincerely and very honestly for the kind of work you do year after year with this committee. It is of great value to those of us who have to work in the vineyard, you might say, where the relations between economic notions and actual happenings in our economy are of great importance to us as we do our work. This committee has performed a very valuable function for the people of the United States, in our judgment, and I commend you for it.

Now, I hesitate to get into a lot of statistics before this committee. After reading many of the statements presented to you, I am sure you and your staff have the statistics coming out your ears.

I would like to concentrate for a few minutes on another aspect which I have not discussed before this committee, and this is the tragedy of what the ups and downs of the last few years has done to people.

I am finding out that good, solid members of our unions, good, solid Americans, are getting more and more disillusioned with the games that seem to be played on them. I doubt if enough attention has been given to the story made public only in one media, to my knowledge, some months ago, of the men who are qualified engineers, men who most likely earned their way through college, getting their degree and entering into the work force, intending a lifetime of working, finding themselves 45, 46 years old in the year 1970 without a job. They are too proud to go and get on the welfare lines, not knowing much about how you do it, and they windup getting jobs wherever they can, including janitorial jobs, scrubbing floors, and then finally they go on welfare.

In those cases where our own people, among others, have talked to some of these men, you find the demeaning effects on them of this lack of attention to the economy of the United States. Here is a man, here are men, and there are thousands of them, some 60,000 in the area of the space industry alone, according to what we have looked at in our community services work, with families whose children are about getting to the age of being ready to go to college who now find themselves unemployed. What this does to such a family, what this does to such a man, I think cannot be measured in anything this committee may look at, or in light of any of the economic standards, or any of the men who know economics can measure.

This is an immeasurable loss and one that should give concern to the Congress of the United States.

We add to this kind of America the boy in the ghetto, the man in the ghetto, black, Puerto Rican, a decent guy, who is looking for a job and can't find one. Also the young men coming out of school, can't find a job, remain unemployed, and they may or may not be showing up in the statistics. Of course, if that individual does read the paper, if he has read what this administration is doing, for example, since it took office, if he read President Nixon—who said in 1969, we are going to make a dent in the unemployment and we are going to control inflation without increasing the number of unemployed, or if he listened to Arthur Burns a year or so ago as he gave his optimistic report that we would have an upturn and that we were seeing the bottom of this inflationary pressure and the unemployment numbers, and the kid in the ghetto if he had read the newspapers and saw the rosy picture like the one that Hoover gave to the American people, and if be was still looking for a job and couldn't find one, then there would be no reason for him to think that this America of ours is a great land of the free and the land of opportunity.

He would be disillusioned, I would think, and again I think he has been lost as a number, because he quit looking for work, and once he quit looking for work then he no longer is on that list that the Department of Labor puts out and then interprets. It is noteworthy also how these statistics, as interpreted by the administration are never said to be as bad as they truthfully are.

So, Mr. Chairman, as you look at the economic problems today, we have the wage-price freeze, even though just a few weeks before August 15, 1971, the game plan, whichever number it was, was working, according to those who spoke for the administration. Then low and behold, on Sunday, August 15, we all listened to the television and a wage-price freeze was imposed. You know that the wage part of it was complete. That was a freeze. Employers have seen to that. Prices, however, have not been, and I don't want to add to that long list of people who, I think including Grayson himself, had to acknowledge that the price end of this operation is not working. ‘We are watching the interest rates rise again. We are watching the unemployment grow some more. We are watching prices rising, and this happened only Saturday on television, and I happened to catch it and here was a former adviser of the Nixon administration, Piene Rinfret, an economist, and he clearly and unequivocally gave advice to the administration. He is doing it now publically. He used to be one of the ones, who did it at 1600 Pennsylvania, or he so advertises. I don't know whether he did or not. But clearly and unequivocally, Mr. Rinfret, friend of the President, adviser to the President, 1968–69, said on television that there would be an absolute freeze on prices, on all prices, and he went on to suggest in the few minutes he was on there the profits had gotten so wildly out of hand, that they are so great that only an absolute freeze on prices would bring this whole picture back into focus.

And so I would sort of join the President's advisers in this area of bringing some of the balance and emphasizing some of the things that are out of whack, but looking at the human element, where I think America is suffering its greatest loss by disillusioned men, families, who are square and who can be considered the backbone of the American way, as the men on the platform would describe the American backbone.

So, Mr. Chairman, I think I heard a bell, I don't know whether——

Chairman PROXMIRE. That was the 2-minute warning. You have about 30 seconds.

Mr. BEIRNE. I would just as well close on this note.

Chairman PROXMIRE. Very good.

Thank you very much, Mr. Beirne.

(The prepared statement of Mr. Beirne follows:)

PREPARED STATEMENT OF JOSEPH A. BEIRNE

PHASE II INFLATION CONTROL PROGRAM

Mr. Chairman, first of all I would like to commend you for holding these hearings. We consider this a highly effective way to continue the oversight role of Congress with reference to the Administration's economic policies.

The American worker has been the number one victim of the economic mismanagement that has marked this Administration. For 40 months now, since President Nixon assumed office in January 1969, he and his economic soothsayers have promised that prosperity is just around the corner. Despite the glowing rhetoric and the rosy forecasts, the average American remains tightly caught between the twin pincers of inflation and recession, while corporations continue to prosper.

This is not the result of an economic accident, but is rather the inevitable consequence of the Administration's flagrant favoritism shown in behalf of the profits of big business, an attitude that measures economic progress within the narrow confines of stock prices and corporate financial reports. The fallout of that attitude has been disastrous for those at or near the bottom of the economic ladder, who have been forced to bear the heaviest burden of the "new economic policy" proclaimed by the White House.

The glaring reality is that we are now suffering through about Phase V of the Administration's groping effort to stimulate the economy. The President's notion that we are now in Phase II conveniently overlooks a series of ill-conceived and futile earlier game plans.

For America's hard-pressed wage earners, Phase I really started more than three years ago, in February 1969, shortly after Mr. Nixon became President. At that time he stated: "We think we can . . . control inflation without an increase in unemployment." Secretary of Labor George Shultz, testifying before this very Committee, told you, Mr. Chairman, in that same month of 1969 that there was "substantial evidence" that inflation could be reduced without large increases in unemployment.

Late in 1969 the President patted himself on the back, stating that his anti-inflation policies were "beginning to work" and that "anybody who bets on a continuing inflation will lose that bet." I wish now I had wagered with him then.

In July 1970 Dr. Arthur Burns, the architect of the Administration's first economic game plan, stated before this Committee that the economy's downturn was near the bottom. He predicted that full employment, by which he meant an unemployment rate of four percent, would be restored during 1971. At those same hearings Dr. Paul McCracken asserted that the economic slump was "about over."

Later in 1970 the ever-present Mr. Shultz again sought to soothe the furrowed brow of the average American who was still being squeezed in the wallet and fleeced in the supermarket, by claiming that consumer prices would drop by the end of the year. President Nixon joined in the chorus line, telling us that his policies had "taken the fire out of inflation" and assuring us that he also expected consumer prices to level off before the end of t970.

In 1971 Dr. Burns, then Chairman of the Federal Reserve Board, told this Committee during February that there were signs that the economy was heading toward a "real recovery."

Two months later, in April 1971, the President advised us, through a news conference, that "we are in the midst of a strong economic upturn." He also said, in addressing the U.S. Chamber of Commerce, that "we are winning the fight against rising prices." He added: "The worst of inflation is behind us."

So here we are today. We have been promised that inflation would be cooled and that unemployment would decline. Neither one of these promises was fulfilled- The sad fact is that during the past three years, despite the litany of optimism from the White House, we have seen the worst combination of inflation and unemployment in U.S. history.

Look at the facts of inflation first. Despite the ritual trumpeting, the wall of inflation failed to come tumbling down. The most recent cost-of-living figures are grim evidence of Mr. Nixon's failures. The dramatic increase in the Consumer Price Index in February 1972 to an annual rate of six percent is the highest since the summer of 1971.

The cost of groceries to the American family rose in February at the highest monthly rate since 1958.

The Wholesale Price Index in February reflected a rise to an annual rate of 8.4 percent, an almost certain indication that additional increases are due on the consumer front. The most stunning fact concerning the Wholesale Price Index is that the rate of inflation as measured by the index *was higher from December through February* than during the six months before the freeze. In fact, this was pointed out earlier this month by Dr. Robert F. Lanzilotti, Dean of the College of Business Administration at the University of Florida and a member of the President's Price Commission.

In the four months of Phase II, living costs advanced at an annual rate of 4.9 percent, a much higher rate than the 4.1 percent recorded in the six months preceding the new economic program.

Despite all the Presidential talk about equality of sacrifice under his new economic plan, the period of the economic stabilization program has been marked by soaring corporation profits accompanied by meager improvements in wages.

For example, in the second half of 1971 corporate profits after taxes were up 18 percent from the same period in 1970, compared to a 6.5 percent increase in total wage and salary payments to employees. The nation's 100 largest corporations racked up a 76 percent rise in profits last year.

Contrast the largesse enjoyed by business with the crumbs handed down to labor. For example, the Cost of Living Council has ruled that only workers making less than $1.90 an hour—that's less than $4,000 in annual pay, assuming a worker can stay employed for a full year—would be exempt from the 5.5 percent wage increase limit established for most workers by the Pay Board.

This decision of the Council violates the spirit if not the letter of the Economic Stabilization Act Amendments of 1971, which exempted from controls "any individual * * * who is amongst the working poor." Congress intended that the term "working poor" be defined as families with an income less than $6,900, the Bureau of Labor Statistics minimum budget for a family of four in an urban area.

But the real tragedy of the miserable economic mismanagement of President Nixon and his advisers is reflected in the tragic waste of human resources as measured by the nearly five million Americans pounding the pavements in search of jobs plus heaven knows how many others who have given up hope and drifted into the backwaters of American society. This is the real duplicity of the Administration at work. The Administration has placed profits before people, an intolerable mixup in our national priorities.

The Administration speaks of achieving an acceptable goal of five percent unemployment this year and four percent later. I say to you that there is no acceptable level of unemployment in a nation as rich and as powerful as ours with a GNP of approximately a trillion dollars. It is a strain on our national conscience that such a situation should persist.

In the core areas of most of our major cities, the average unemployment for blacks in certain categories today exceeds the average for the overall work force during the depression four decades ago, in excess of 25 percent.

But let's go behind the numbers and look closely at some of the unemployed Americans who make up the six percent unemployment figure, a lifeless statistic that fails to communicate the feelings of failure, torment and shock that haunt the daily lives of millions of jobless Americans.

There is the middle-aged unemployed, aerospace engineer, sitting alone in his home in California, a model citizen, a pillar of his church, a good father. A man whose pride wouldn't permit him to stand in line and get on welfare at the beginning but who now worries where the money will come from to meet such expenses as a college education for his children. He is not a number, but a real person, a reflection of countless others like him.

There's the teenage boy who was called on to serve his country and served honorably, crawling through the mud in Vietnam, seeing his friends killed, learning how to die himself, and then returning home, first to encounter disgrace for having done his duty as a good soldier and then to be relegated to the status of a second-class citizen in search of a job, after putting his life on the line for his country. He's more than a statistic. He's part of that six percent, but rather than a cold number on a page, he's an American tragedy.

And then there's the black man in the ghetto who wants to go straight, who wants to succeed within the system, who knows he's capable of doing a good day's work at a decent job, but who is jobless and wonders where he fits into American society.

Multiply these cases by millions and you get a pretty good idea of what it's really like to be jobless and feel forgotten in America.

So what's the solution? What do we do about it? How do we get the economy going again?

The first thing that we need is authentic tax reform that would close the loopholes, the yawning escape hatches, through which millions of dollars are kept from the federal treasury and in the bank accounts of rich corporations and individuals. For too long the United States Government has been playing the role of Robin Hood in reverse, practicing welfare socialism for the rich through subsidies and tax gimmicks, and 1892 robber baron capitalism for the poor through regressive taxes.

Tax reform would serve two objects. First, it would place the burden of financing government operations where it belongs by reverting to the principle of ability to pay. Second, it would bring into the public treasury billions of dollars needed for public services.

But while I'm saying this, President Nixon is flirting with the idea of a value-added tax which would fall most heavily on the sagging shoulders of the poor American. Imposing a value-added tax is not tax reform. It is tax corruption.

To supplement tax reform, we need a program of public service jobs to take up the slack in the market economy and to provide meaningful employment for millions of capable but now jobless Americans. Congress should enact public service job legislation such as that introduced by Representative Henry Reuss of this Committee, which would provide employment for a half-million Americans.

Finally, we need evenhanded enforcement of wage and price controls, enforcement that does not favor big corporations at the expense of the average American. We have witnessed almost overwhelming concern for the problems of industrial giants and landlords, but little compassion for the average wage earner or the small businessman.

While the Administration continues to assure the American people that its economic game plan is right on target, millions of wage earners suffer from the consequences of mismanagement of our nation's economy. Until authentic reforms are implemented, with American workers and consumers rather than landlords and big business as the chief beneficiaries, our nation will remain mired in economic misery.

Chairman PROXMIRE. Mr. Dechant, you have the same limitation. I am sure you understand.

STATEMENT OF TONY T. DECHANT, PRESIDENT, NATIONAL FARMERS UNION, ACCOMPANIED BY WELDON BARTON

Mr. DECHANT. Thank you, Mr. Chairman; Congressman Reuss.

I am pleased to testify today on the Nixon administration's economic stabilization program.

In examining the administration's economic program, I focus most of my remarks on food prices, especially meat prices. In concluding the statement, I will comment upon the stabilization program generally.

The economic stabilization program has been and continues to be correct in one respect; that is, the exempting raw agricultural products from price controls.

Raw products from the farm are generally established by impersonal competitive forces in the free market. Although such items as beef and pork are characterized by cyclical production curves and thus may fluctuate widely in price over the short run, they do not contribute to administered price inflation.

This Joint Economic Committee, in your recently released annual study of the President's Economic Report, concluded that phase II controls should not be directed at competitive sectors of the economy. Instead, the majority of your committee recommended that there should be decontrol of most of the economy, while clamping down on concentrations of economic power—that is, on those sectors of the economy characterized by definite market power. We heartily concur.

The economic program as it has been applied to concentrations of economic power in the food industry—that is, to food processors and retail chains—has been a failure. This part of the administration's program has been worse than no regulations at all, because it has been an open invitation to the food chains to shirk any responsibility as a short-run stabilizing force across the fluctuating price cycles that occur in livestock and other farm products.

The so-called volative pricing rule followed by the Price Commission is behind the failure of this aspect of the economic program.

The rule on volatile pricing states that any firm engaged in the manufacturing of processing of food (or any other product) and that has annual sales of $100 million or more "that has customarily priced an item in a manner immediately responsive to frequent and customary market price fluctuations of the raw materials or partially processed products which it uses in that item, may, when and to the extent authorized by the Price Commission, increase the price of that item to the extent of any significant market price increases of those raw materials or partially processed products."

In other words, after a food processing firm convinces the Price Commission that it immediately adjusts its selling price to chain stores in response to changes in prices paid to farmers and ranchers so as to maintain the same percent markup, the firm is then authorized by the Price Commission to increase its prices whenever necessary to maintain the same margin of markup that it enjoyed during the 90-day freeze period.

This rule for processors assures that any increase in raw agricultural products will also be passed along in the form of price increases by the retail food chains, since they are also authorized to maintain their freeze-period margins.

Apparently, all of the major meat packers (Swift, Armour, Wilson, and so on) and other food processors have qualified automatically to adjust their prices upward under the volatile pricing rule. How they qualified remains a mystery to the public. Although I have tried with some persistence to obtain access to the data on the basis of which specific firms or groups of firms proved to the Price Commission's satisfaction that they have been "immediately responsive to . . . market price fluctuations of the raw agricultural prices" in their own pricing, I am informed by the staff of the Price Commission that this information is classified and unavailable to the public.

The fact is that the statistical evidence does not substantiate the pattern of behavior by food marketing firms that would qualify them for automatic price hikes under the volatile pricing rule. Consider, for example, what happened to the carcass value of pork during February–December 1970, when the price of live hogs dropped from 27.4 cents/pound in February to 15.1 cents/pound in December.

The figures in Table 1 of my prepared statement indicate that, while the price to the farmer for the hog carcass dropped 45 percent over the

10 months, processors reduced their wholesale prices for pork by only 21 percent, and retail prices came down only 16 percent. Certainly, this is not "immediate" responsiveness to farm price fluctuations.

This is not an isolated instance. Statistics collected by the Economic Research Service of the Department of Agriculture show that without exception since the statistical series was begun in 1949, retail food chains have lagged in cutting their beef prices in times of decreasing livestock prices, thus reaping windfall gains when prices to the farmer were falling. Conversely, the food retailers have, with only one exception since 1949, absorbed into their margins a portion of price increases in times of increasing livestock prices.

The one exception in this pattern since 1949 is the period October 1971–February 1972 (roughly the period of phase II) during which the food chains increased the carcass-retail price spread on beef by 2.3 cents per pound.

The point is clear: the volatile pricing rule provided the food chain with a justification for deviating from their customary practice of absorbing a part of the increases in livestock in the short run and allowed them actually to push up their margins even higher than they had been.

It remains to be seen whether it and when raw agricultural prices decrease, the food chains will cut their prices in the full amount of reductions in raw agricultural products, as required by Price Commission regulations:

> Each firm that increases a price on an item pursuant to an authorization granted under [the volatile pricing rule] shall reduce that price to the extent of any later decrease in the cost of the raw material or apartially processed product upon which the price increase was based . . .

Regardless of the distortions in pricing that have resulted from the volatile pricing rule, as long as it opens the way to price hikes by processors and retailers, in times of increasing farm prices, it certainly should continue to operate conversely as and if farm prices drop.

I might say I am not one of those who think the farmers is being adequately compensated for his meat. We are a long way from 100 percent of parity. The highest meat prices, not where the farmer was concerned, was somewhere between 88 and 90 percent apparently.

In closing my remarks I would like to quote from a comment from the National Farmers News letter of August 27, 1971, relating to the announcement of phase I of the administration's so-called economic policy. I think it is still relevant and I quote:

> Perhaps the most astounding shortcoming of the President's plan is that it does not try to deal with the very situation that made it necessary-concentration of ownership and control of the American economy. This is what made traditional efforts to deal with inflation completely ineffective.
>
> "Thus, while unemployment increased and spendable earnings declined, prices actually rose. The monopolies merely raised prices in order to make up for lower volume. The old rules of "competition" don't work. The corporate giants have reduced it to the point of non-existence. An example of this is the ever-widening margin between what the farmer gets for his commodities and the prices paid by consumers.

There appears to be only one way to curb inflationary pricing by middlemen in the food industry, namely, by enforcement of antitrust laws against the handful of firms and chains that dominate food processing and marketing. Unless we use antitrust policy to break up the economic concentrations in food marketing and introduce real competition among processors and retailers, the quasi-monopolies will probably remain one step ahead of any Government regulations.

Thank you.

(The prepared statement of Mr. Dechant follows:)

PREPARED STATEMENT OF TONY T. DECHANT

Mr. Chairman, Members of the Committee, I am Tony T. Dechant, President of National Farmers Union. I am pleased to testify today on the Nixon Administration's economic stabilization program.

In examining the Administration's economic program, I focus most of my remarks on food prices, expecially meat prices. In concluding the statement, I will comment upon the stabilization program generally.

The economic stabilization program has been and continues to be correct in one respect: that is, in exempting raw agricultural products from price controls.

Raw products from the farm are generally established by impersonal, competitive forces in the free market. Although such items as beef and pork are characterized by cyclical production curves and thus may fluctuate widely in price over the short run, they do not contribute to "administered price" inflation.

This Joint Economic Committee, in your recently-released annual study of the President's Economic Report, concluded that "Phase II" controls should not be directed at competitive sectors of the economy. Instead, the majority of your Committee recommended that there should be decontrol of most of the economy, while clamping down on concentrations of economic power—i.e. on those sectors of the economy characterized by definite market power. We heartily concur.

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The so-called "volatile pricing" rule followed by the Price Commission is behind the failure of this aspect of the economic program.

The rule on volatile pricing states that any firm engaged in the manufacturing or processing of food (or any other product) and that has annual sales of $100 million or more "that has customarily priced an item in a manner immediately responsive to frequent and customary market price fluctuations of the raw materials or partially processed products which it uses in that item, may, when and to the extent authorized by the Price Commission, increase the price of that item to the extent of any significant market price increases of those raw materials or partially processed products."*

In other words, after a food processing firm convinces the Price Commission that it immediately adjusts its selling price to chain stores in response to changes in prices paid to farmers and ranchers so as to maintain the same percent mark-up, the firm is then authorized by the Price Commission to increase its prices whenever necessary to maintain the same margin of markup that it enjoyed during the 90-day freeze period.

This rule for processors assures that any increase in raw agricultural products will also be passed along in the form of price increases by the retail food chains, since they are also authorized to maintain their freeze-period margins.

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The fact is that the statistical evidence does not substantiate the pattern of behavior by food marketing firms that would qualify them for automatic price hikes under the volatile pricing rule. Consider, for example, what happened to the carcass value of pork during February–December, 1970, when the price of live hogs dropped from 27.4¢/pound in February to 15.1¢/pound in December:

*Code of Federal Regulations: 6—Economic Stabilization, revised March 1, 1972, p. 72.

TABLE 1.—PORK: RETAIL PRICE, WHOLESALE VALUE, FARM VALUE, FEBRUARY-DECEMBER 1970, BY MONTHS

[In cents]

Month	Retail price per pound	Wholesale value	Net farm value
February	81.8	65.2	50.0
March	81.4	63.0	45.7
April	79.9	60.3	42.0
May	80.0	60.3	41.4
June	80.0	61.3	42.3
July	80.6	61.8	44.6
August	79.7	57.2	39.0
September	76.7	55.1	35.5
October	74.6	52.5	30.8
November	70.8	50.6	27.1
December	68.4	51.3	27.3
Price decrease over 10 months	[1] 13.4	[2] 13.9	[3] 22.7

[1] 16.3 percent.
[2] 21.3 percent.
[3] 45.4 percent.

Source: Economic Research Service, U.S. Department of Agriculture.

The figures indicate that, while the price to the farmer for the hog carcass dropped 45 percent over the ten months, processors reduced their wholesale prices for pork by only 21 percent, and retail prices came down only 16 percent. Certainly, this is not "immediate" responsiveness to farm price fluctuations.

This is not an isolated instance. Statistics collected by the Economic Research Service of the Department of Agriculture show that, without exception since the statistical series was begun in 1949, retail food chains have lagged in cutting their beef prices in times of decreasing livestock prices, thus reaping windfall gains when prices to the farmer were falling. Conversely, the food retailers have, with only one exception since 1949, absorbed into their margins a portion of price increases in times of increasing livestock prices.

TABLE 2.—BEEF CHOICE: CHANGES IN CARCASS VALUE AND CONCURRENT CHANGES IN MARKETING SPREADS 1949–72

[In cents]

Period	Change in carcass value	Change in carcass-retail spread
Carcass value increasing:		
February 1949 to September 1949	15.3	−4.7
March 1950 to May 1951	20.9	−1.6
June 1953 to September 1953	9.8	−5.8
March 1954 to January 1955	9.8	−7.0
March 1956 to September 1956	18.4	−6.9
February 1957 to May 1958	16.9	−1.1
August 1958 to April 1959	7.4	−4.8
December 1959 to April 1960	5.5	−4.8
October 1960 to January 1961	5.5	−3.0
July 1961 to September 1962	13.7	−4.3
May 1964 to September 1964	9.1	−2.4
February 1965 to June 1965	8.7	−2.0
November 1965 to March 1966	5.5	−3.3
March 1967 to June 1969	22.4	−1.2
November 1969 to July 1970	8.5	−4.3
December 1970 to May 1971	14.1	−5.8
October 1971 to February 1972	8.4	+2.3
Carcass value decreasing:		
September 1949 to March 1950	−7.6	4.8
May 1951 to June 1953	−27.4	6.4
September 1953 to March 1954	−8.7	5.0
January 1955 to March 1956	−15.6	6.4
September 1956 to February 1957	−14.9	9.1
May 1958 to August 1958	−6.2	4.4
April 1959 to December 1959	−8.3	6.9
April 1960 to October 1960	−6.7	3.7
January 1961 to July 1961	−9.5	3.2
September 1962 to May 1964	−17.0	5.5
September 1964 to February 1965	−4.3	.4
June 1965 to November 1965	−4.7	3.7
March 1966 to March 1967	−7.9	4.6
June 1969 to November 1969	−13.7	8.3
July 1970 to December 1970	−9.0	4.8
May 1971 to October 1971	−3.3	3.6

Source: Farm-Retail Spreads for Food Products, Economic Research Service, U.S. Department of Agriculture, Publication No. 741, p. 28, with 1971–72 data added.

The one exception in this pattern since 1949 is the period October 1971–February 1972 (roughly the period of Phase II) *during which the food chains increased the carcass-retail price spread on beef by 2.3¢ per pound.*

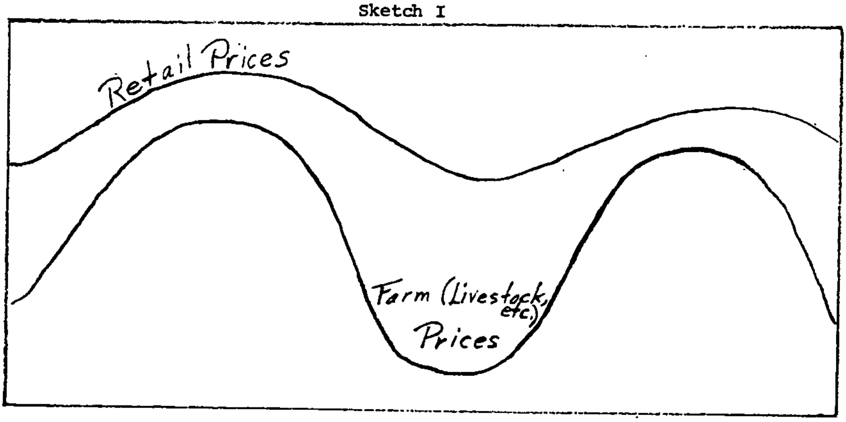
The increase in price spread is made possible by the Price Commission's rule which allows the food middlemen to maintain their profit margins as the same percentage of sales. For example, if the raw agricultural component of an item goes up from $1.00 to $1.10 and the item had been selling retail for $2.00, the retailer is allowed to charge $2.20, thus retaining his 100 percent mark-up. The price spread in *cash* terms has increased from $1.00 to $1.10.

The point is clear: the volatile pricing rule provided the food chain with a justification for deviating from their customary practice of absorbing a part of the increases in livestock in the short run (in the assurance that they could more than make up for this through excessive profits when livestock prices began to fall), and allowed them actually to push up their margins even higher than they had been.

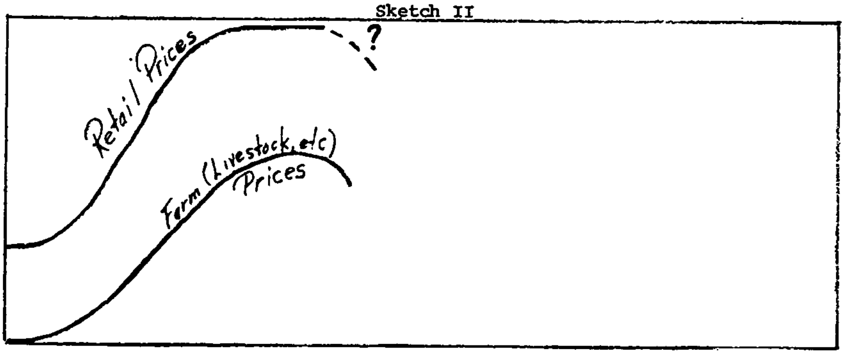
Of course, the volatile pricing rule has basically the same effect in the entire agricultural area, although the cyclical effect tends to be greatest in livestock and certain perishable crops.

The following sketches depict in a rough way how chain store pricing tended to mitigate fluctuations in livestock prices prior to the "new economic policy" (Sketch I); and how this partial stabilizing effect of retail pricing has been eliminated under the "Phase II" volatile pricing rule (Sketch II):

Sketch I



Sketch II



It remains to be seen whether, when raw agricultural prices *decrease,* the food chains will *cut* their prices in the full amount of reductions in raw agricultural products, as required by Price Commission regulations:

"Each firm that increases a price on an item pursuant to an authorization granted under [the volatile pricing rule] shall reduce that price to the extent of any later decrease in the cost of the raw material or partially processed product upon which the price increase was based . . ."*

Regardless of the distortions in pricing that have resulted from the volatile pricing rule, as long as it opens the way to price *hikes* by processors and retailers, in times of increasing farm prices, it certainly should continue to operate conversely as farm prices drop.

If the behavior of the processors and chain stores during the above three stages of food pricing is indicative of what we can expect under the reverse of the volatile pricing rule, then the chain stores will again require prodding by consumers and others to force cuts in retail prices corresponding to reductions in prices of raw agricultural products.

One thing is clear from the economic stabilization program as it has applied to food prices throughout the three stages described above: The large, corporate chain stores have been able to stay at least one step ahead of the Price Commission and the consumer in manipulating the regulatory rules so as to maximize their profits. Certainly, the Commission has never gotten on top of the inflationary pricing policies of the middlemen in the food industry.

What should be done now? I think a comment from National Farmers Union's *Washington Newsletter* of August 27, 1971, on the announcement of "Phase I" of the Administration's so-called "new economic policy" is still relevant:

"Perhaps the most astounding shortcoming of the President's plan is that it does not try to deal with the very situation that made it necessary—concentration of ownership and control of the American economy. This is what made traditional efforts to deal with inflation completely ineffective. Thus, while unemployment increased and spendable earnings declined, prices actually rose. The monopolies merely raised prices in order to make up for lower volume. The old rules of "com petition" don't work. The corporate giants have reduced it to the point of non-existence. An example of this is the ever-widening margin between what the farmer gets for his commodities and the prices paid by consumers."

There appears to be only one way to curb inflationary pricing by middlemen in the food industry, namely, by enforcement of antitrust laws against the handful of oligopolistic firms and chains that dominate food processing and marketing. Unless we use antitrust policy to break up the economic concentrations in food marketing and introduce real competition among processors and retailers, the quasi-monopolies will probably remain one step ahead of any government regulations.

The alternative to strong antitrust enforcement, and in the absence of sufficient staff in the Price Commission to monitor pricing by the food middlemen on a product-by-product and continuing basis, is that the Price Commission may continue to add fuel to the concentration of corporate power with ineffective, cartel-tightening stipulations such as the volatile pricing rule.

Of course, food processing and retailing is not the only area of the economy in which the Price Commission has not scrutinized carefully monopolistic pricing practices. It has been brought to my attention that the Pioneer Natural Gas Company in Texas has imposed a large price increase upon the irrigation farmers of the Panhandle and the South Plains of Texas, which is probably in violation of guide lines of the Price Commission.

In correspondence to the Price Commission on January 7, the Plains Irrigation Gas Users Association stated:

"Pioneer has studiously avoided any type of interstate activity which would make the price charged for irrigation gas subject to regulation by the Federal Power Commission and have succeeded in avoiding regulation of price of irrigation gas by the Texas Railroad Commission and consequently Pioneer has been able to charge the farmers in the Panhandle and the South Plains of Texas any price they desired and can raise that price at any time without resort to any regulatory agency and the farmers have no recourse but to pay the price asked or have their gas cut off."

I am submitting a copy of the full text of the letter of January 7, for the information of your Committee and for publication in the record of these hearings if you so desire.

This concludes my prepared statement, Mr. Chairman. I will be pleased to respond to questions from you or other members of the Committee.

Chairman PROXMIRE. Thank you, Mr. Dechant.

*Code of Federal Regulations: 6—Economic Stabilization, revised March 1, 1972, p. 72.

Mr. Beirne, you did something I think that was most useful for this committee, something that hadn't been done before and should have been done. We have had hearings on unemployment, as you know, every month for the last 13 months.

Whenever the unemployment statistics come out we have had a hearing on that. We have done that because the Bureau of Labor Statistics have canceled their press conferences. In all of these hearings we have had nobody has done what you have done this morning, which is to give us a feeling of the plight of the individual who is out of work. We have had a hearing in which we had unemployed people come before us and you have done the same kind of thing this morning to stress that individual tragedy. The picture you have painted of the 46-year-old engineer who has worked as hard as he can and the only thing he can get is mopping floors, and only goes on welfare as a last resort, I think gives us a very vivid picture, and of the Puerto Rican black person who wants work so badly and relies on the rosey prediction and then becomes finally discouraged and, doesn't even count as part of the work force, he throws in the sponge.

Can you give us any statistics, any facts on what has happened to the unemployment among the highly skilled engineers, for example? We had the impression, because it was so heavily stressed about a year and a half ago, that it may have improved some. Is that wrong? Is it as bad as it was? What is the situation?

Mr. BEIRNE. Well, from the information we receive, and I don't think anyone is keeping any figures or any studies or tracing through what happened to it, it was emphasized a year and a half ago on the west coast. There are places beside the west coast. That was the sort of the glamour picture because of the Lockheed and SST.

Chairman PROXMIRE. I am very much aware of that.

Mr. BEIRNE. And the west coast men were sort of looked at, at that time. Nobody to my knowledge has kept any followthrough on what happened to them or what happened to others in other parts of the country.

Chairman PROXMIRE. We have been trying to get that. We have been urging Commissioner Moore to develop statistics like that and to keep on top of it. He has given us something of that kind.

Then you are right, there are some statistics, but they are too general to be as useful as they should be.

Mr. BEIRNE. Well, from what followup we had of that particular thing, because it was of interest to us, it is one of the aspects of what is happening in the country, that nobody is making real studies about, and I think it is the core of a lot of the antiestablishment thing, of being hit hard by people who you would not expect to be disillusioned with the system, becoming disillustioned.

Chairman PROXMIRE. One of the difficulties here, you see, and it looks as it might get tougher, I think there is a feeling on the part of some people, regardless of unemployment—they don't pay much attention to that—the economy is reassuring. As you have indicated, profits are up, production is up, the economy seems to be in the recovery stage. All of the attention is on combating inflation.

What do you propose that we do to provide not only an effective limitation on prices? There you propose, as I understand, a freeze, the kind of thing Mr. Rinfret did, a total freeze, he didn't say for how long, he didn't say when to put it into effect, and you didn't say what you would do at that time to provide jobs, and you started off with such a persuasive emphasis on the tragedy of unemployment. I wonder if you could tie these things together.

Mr. BEIRNE. Yes; I can try. I will begin by saying, Mr. Chairman, that the Congress has a problem and I think the Congress should get the administration to first do what the Congress said should be done in this field. Congress, when it passed its stabilization law a year or so ago, sort of emphasized who should not be caught in any of the things provided in the law, and along comes John Connally, Chairman of the Cost of Living Council, and with fine rhetoric that we are used to, he suggested why only those earning less than $1.90 an hour should be exempt from those controls when it seemed to us the Congress was quite clear that those who should be exempt would be those making less than the poverty level established by the figure of the U.S. Government which is somewhere up in the neighborhood of $6,400 a year.

I heard nobody, except ourselves in the labor movement, make any kind of statement when Connally says, gentlemen, everybody will get above $1.90 an hour in the program and they are stuck to the same as anyone else. That caught a lot of people in the freeze.

Chairman PROXMIRE. I want to tell you this committee has been raising the dickens about that. We called that to the attention of the witness who appeared for the administration before this committee in the past week.

Mr. BEIRNE. No. 1 would be for Congress to make the administration follow its intent.

Chairman PROXMIRE. I have read, the witnesses have read, that part of the law that was passed on substandard wages and we have expressed our outrage at the $1.90 limitation and I have said that we want economic justice and they in response have said this isn't a program for economic justice, it is a program to control prices. If any program stands in the way of justice it will have to step aside as far as I am concerned.

I am delighted to hear you stress that. You are the first witness who has done that.

Mr. BEIRNE. To me it is a No. 1 thing. It is quite appalling to try and keep up with the expressions of the administration and it has been true for the last couple of years in the economic field. As you listen one day to the Burns and McCrackens and even Stein, although he wasn't quite as bad before your committee a week or so ago, he was more on the cautious side than anything else, but those fellows who preceded him were looking around the corner as Herbert Hoover had, and I am a product of that generation. Looking around the corner for prosperity to come was a pretty senseless job back in those days.

But this is what we have, and here comes the disillusionment. Congress says something and the administration doesn't follow it out, and so we get the rhetoric that things look good. But, secondly, I don't know whether we have reached a point or not because it is hard again for me, not an economist, to really interpret the figures. I don't know whether we have reached the point where controls are no longer needed or if we need the kind of limited controls that some suggest. I do know that what has occurred since August the 15th or November 12 rather is in imbalance, that wages are frozen, that the emphasis in the price field is how many can be exempt.

Chairman PROXMIRE. Well, now, I am going to go to Mr. Dechant. Let me come back to you later.

You raised a point that does seem to contradict a lot of the facts that we have had before us and you seem to express the position that Mr. Meany expressed and labor has expressed consistently, but I would be inclined to challenge that. How can we be so sure wages have been controlled? I agree with you and I have said again and again you have the employer working to control wages and you don't have any comparable limitation on prices, but there have been a number of very large settlements approved by the Pay Board. Average hourly earnings have been rising at a 9 percent rate during phase II. There is a telephone workers case, and you are more familiar with that than anybody perhaps in the country, pending before the Pay Board, which would provide a 17-percent earnings increase. Is that noninflationary, can we say that indicates that as you say, wages are doing fine but prices are the only thing out of line?

Mr. BEIRNE. OK, let me comment first upon the one I am most familiar with, the New York Telephone case. Whoever came up with the 17 percent? That is a new figure.

Chairman PROXMIRE. What is your figure?

Mr. BEIRNE. It is about 15.2.

Chairman PROXMIRE. OK.

Mr. BEIRNE. This is the one that was established. This one was established in July of 1971 when there was a nationwide strike resolved within 9 or 10 days. We took from July until August 14 to have our referendum of our own members. It was accepted in all of our bargaining units except the New York plant, and we counted our votes at 3 o'clock in the afternoon of August 14 and, of course, we all know what happened at 9 p.m. August 15. Well everyone in our industry was out from under that freeze because it was a consummated agreement before Nixon took his action, except for New York. They were on strike until February, 7 months, and what is before the Pay Board is essentially the same as the 450,000 other people got in July.

Chairman PROXMIRE. No matter how you explain, I think you explained it very well, it is inflationary when you have three times the guideline. Isn't a 15 percent wage increase bound to be inflationary? Half of that would be inflationary.

Mr. BEIRNE. The guideline was established, you know, somewhere in the month of I think it was about September. The agreement we reached in July of 1971 was a catch up among other things, on the preceeding 3 years. We had been locked into a 3-year contract. If you take a look at our rates of pay and take a look at how much we earned with this great big 15-percent increase and compare it to whatever everyone compares it, and I don't care with whom and even what figures you use, as long as they are reasonsably acceptable you will find that the telephone workers have still a lot of catching up to do.

Remember, we are working in an industry which only now the Federal Government is beginning to find out what we have been saying for years, and trying to do something about; we are dealing with an industry that not only has race problems in its philosophy but sex problems. It pays women whatever they can catch them for, and we have been fighting that fight damn near alone until now we have a law, EEDC. We were were able to get the raise but the biggest hunk of the 15 percent went to the female who has been underpaid for years and years and years. That has been a tough battle with a highly sophisticated automated industry. You hear about the powerful unions.

I heard that one slip in once before. These powerful unions. Well here we are 550,000 strong, one of the big powerful ones; we are dealing largely with the communications industry, A.T. & T., General Telephone, ITT. Down here they are just finding out about Geneen of ITT. We have lived with him for years and years.

But here is this industry, automated, built on automation. The beginning of the computer was the switch in the telephone and everybody now is getting up with computers and automation and we have lived with this all of our lives. We know what it means. What it does mean as we carry out our functions in the trade unions is when we get to the ultimate, as in 1971, when we feel we have to strike, what we are doing is telling you fellows and the public, "Look, we have something we can't live with."

We are not taking that industry down. It works. The computer keeps it going. You have replaced the operators so we do our own dialing, and that goes for long distance, international dialing now. You can do that right now if you want to. And so we protest and we go on strike. Sometimes we have long strikes, as in New York. But anyway, we protest to the public, and it doesn't give a damn. Our political leaders don't give a damn. They just wonder why we are on strike. We should be, because among other things, we were protesting low wages and in those low wages we were protesting the low wages paid through discrimination against females. Congress worked out on that one and passed a low a year or so ago and you have an agency, EEOC. EEOC went before the FCC with a big case. Bell said give us a chance to answer it, and they said so in 20,000 pages, just the way they stopped the Senate of the United States in the 1930's when the Senate was going to take a look at the A.T. & T. They sent down four boxcars of papers and they said you can look at all of this stuff you want to look at. They had stopped the Congress of the United States. They are stopping the Federal Establishment when it runs into their business.

Here comes the powerful union. Once in a while we score. In 1971 we had a score. But for the first time now comes the *New York* case. We finally get the strike ended, people voted to end it, with a lot of bitterness there because the wages are still low. The wages of the top craft telephoneman dealing in highly sophisticated electronic work are less than the garbage collectors of New York City.

You don't have to live with this. It becomes a philosophical thing until you sit with the guy who requires 8 or 9 years of electronic training to do his job in this highly sophisticated electronic field and try to get him to accept it. You ought to try it. We do this from time to time in this union.

Chairman PROXMIRE. My time is up. I yield to Congressman Reuss. Before I do that I want to say that was a terrific answer and I am glad that you hit it. I still don't think it was responsive to the fundamental problem I have with my question but I will come back to that. It is a very fine answer in many other respects.

Representative REUSS. I agree, and you may have asked our chairman, who just agreed with you, that $1.90 an hour was an inequitable poverty maximum, you may have asked him whether he would sit still, as I am sure he would, for say, $2.25 an hour for poverty-level workers, which would have been 15 percent, like your ladies, who aren't getting rich.

I think both of your prepared statements were excellent.

Mr. Dechant, you hold out the wistful hope that the Price Commission will do its duty if raw agricultural prices go down and enforce the law that says that each firm that increases a price on an item pursuant to authorization granted under the control shall reduce that price to the extent of any later decrease in the cost of the raw material. I certainly share your hope. However, a little incident that happened here last week makes me less than completely hopeful. Just a week ago we had Mr. Grayson, the Price Commission Chairman, before us, and in the course of a colloquy I had with him in which it was agreed that as many as 20 percent of the 3,000 largest firms in this country, the tier I and tier II firms, could well be violating the provision which said that where profit increases after a given price increase have been greater than the norm, then there has to be a price decrease. I put it to Chairman Grayson that that should mean that in hundreds and hundreds of cases involving the largest corporations in this country, there ought to be, one, a rollback of prices because profits in the last quarter have been excessive, and second, there ought to be a refund of the interim of charges to the consumers, and, third, that where you can't find the consumer then the overcharge ought to be refunded to the Treasury, which needs the money too.

In the morning Chairman Grayson completely agreed with me and said yes, they were going to do all of those things vigorously and I congratulated him. By afternoon, by 3 hours later, his staff was calling this committee asking that the testimony be corrected and they didn't really intend to do those things. So for one brief shining moment we had price control. But it didn't last, and I hope you are right in thinking that something is going to be done about cutting back on excessive markups on agricultural materials, but I doubt it.

Mr. DECHANT. Congressman, I am not one who is predicting or hoping that the raw material costs will go down except in cyclical periods, because I submit that we are a long way from getting the kind of income on the farm front that we need. Some weeks ago when the first full page ads ran here in Washington advising consumers against buying red meat, I called on both the administration and the Congress to investigate chainstore profits and processing profits. For 20 years we have been saying let's take a look at the spread from the farm gate to the consumer's basket. Mostly it has been talk. In the 1960's we had several marketing studies, food and fiber commissions. The reports are gathering dust. I would like to suggest that we update them, and take a hard look at where the profits are. This is the time to really find out who is getting what.

Representative REUSS. You would favor something like a revived TNEC examination? That was an inquiry conducted in the early 1940's into monopolies.

Mr. DECHANT. And I would hope that it wouldn't be so time consuming, that something would happen once we get the facts in hand.

I think it was Babson's Report out of Boston, in analyzing part of the President's message to the Congress for the year ending December 31, 1970, showed processors and chainstores with profits on their investments in excess of 22 percent. At that time, return on investment for the farmer was 1.1. It is this area that I would like to see the Congress investigate.

Representative REUSS. Thank you.

Mr. Beirne, I like very much your constructive proposal for doing something about the economy and about unemployment. In a nutshell, what you say is we ought to have a massive public service employment program to put the unemployed to work, and we ought to pay for it by plugging tax loopholes. I subscribe to that 100 percent. I think you said it all.

In discussing tax reform you said that it would serve two objectives. First, it would impose a tax burden based on ability to pay, and second, it would bring into the public treasury some of the revenues we need to do the things that need to be done. That is a very good statement of two main points in favor of tax reform.

I wonder if there isn't a third reason for plugging at least some of the loopholes that exist in the present system, that third reason being to make jobs or to prevent loss of jobs. For example, one of the features of our tax system which I regard as a loophole is that which says that if a U.S. company makes products in the United States it pays a tax on every penny of the income it makes as soon as it is made, but if the choice is to go abroad and make the products through a subsidiary then it has the income tax deferred as long as the money isn't brought home, which gives a false tax incentive to export jobs. Plugging that loophole, therefore, would not only accomplish your points 1 and 2, bring in revenues and increase equity, but would actually increase jobs at home in a perfectly fair and free trade kind of way, would it not?

Mr. BEIRNE. I subscribe to that third point without any reservations whatsoever and would emphasize this, and I know you, Congressman Reuss, have taken some action to really focus attention on getting for want of a better time, what we said back in the Productivity Commission days of the Kennedy Administration, that the Government becomes the employer of last resort. Here is a person who is willing and able to work, can't find a job, and the Government provides a job for him. And we have talked about this for 10 years and someone said the Congress takes 10 years to act on an idea when it is given to them. This idea was given to them in the 1930's, WPA and a lot of other things that were done in those days. So I would subscribe to what you said.

As far as another area of closing loopholes, bringing in revenue, creating jobs, and with an emphasis on with what we have here today, what seems to have been here for years, this is what is overlooked. There are an awful lot of young people for years and years and years now having difficulty getting permanent jobs. They are sort of drifting, and you have an age group now that is up in their late thirties but now who are what we use to call drifters, rolling stones. They never had anything much. And this is our fault. We haven't emphasized intent. The President, for instance, on Labor Day, 1971, emphasized the work ethic. I thought that was disgraceful. The President of the United States on Labor Day talking about how we should put our shoulders to the wheel and get profits up, and here are millions of people out of a job and can't get a job and the same man in the position to do something about it to get up and put fire under somebody, to create some public employment, doesn't say a word about that.

Representative REUSS. You would say that the best way to develop a work ethic is to provide some work?

Mr. BEIRNE. Right, give them the jobs and they will gladly go and do it and I am sure they will sweat the same as we had back in the 1930's with the same kind of water coming out and they will leave it, but they have to have some place to apply their effort.

Representative REUSS. Thank you.

Chairman PROXMIRE. I am going to be blunt with you before I lay the groundwork frankly by asking Mr. Dechant a question.

Mr. Dechant, the limit which the administration has set on wages, which are so low that they will be allowed to exceed the 5½ percent guideline, is $1.90 an hour. How many farmers—I am not talking about farmworkers, I am talking about farmers—what proportion of them do you think earn $1.90 an hour?

Mr. DECHANT. The individual owner operators that I represent in the Farmers Union, some quarter of a million of them, aren't in that category.

Chairman PROXMIRE. Well that is right. I would estimate in my State of Wisconsin that not 10 percent of the farmers earn $1.90 an hour or anywhere near it. As a matter of fact, the latest I have seen is they earn $1 an hour. They work their tail off working 7 days a week, 10 or 12 hours a day. Not only do they put their wives and kids working on the farm, they still have a family income that is only two/thirds of that off the farm. So they certainly have a catch up argument that goes a long long way, do they not?

Mr. DECHANT. Mr. Chairman, my concern is not to pull anyone down——

Chairman PROXMIRE. I am not asking about that.

Mr. DECHANT. My concern is to start moving farm people up.

Chairman PROXMIRE. My concern isn't to pull anyone down either. I think Mr. Beirne has done a marvelous job with the telephone workers. We have a lot of them in the State of Wisconsin and they are wonderful people. They are not getting a fair break. Mr. Beirne has made a perfectly honest and fair analysis of that. But the trouble is, if you are going to have a program of this kind, I don't see how you can possibly argue that with the telephone workers, whose wages certainly are above $1.90 an hour, or it is more than 30 percent higher than that, much more, how you can argue that their 15.2 percent wage increase under those circumstances is not inflationary.

Now, give me your answer.

Mr. BEIRNE. Well, I couldn't give you the answer in the time allowed. I am not going to do that.

Chairman PROXMIRE. You have already——

Mr. BEIRNE. What do you call inflation and is inflation bad? I have heard people say inflation is terrible. I don't know whether that is a valid conclusion or not. I happen to have a little bit of experience with many workers in Latin America for a long period of years.

Chairman PROXMIRE. There are things a lot worse than inflation. Unemployment is a whale of a lot worse.

Mr. BEIRNE. When we get talking about inflation——

Chairman PROXMIRE. That wasn't my question. My question is not what is the worse thing you can do, my question is, is it possible for telephone workers who are not in the very low income categories farmers are, for telephone workers to justify a 15 percent increase in 1 year and possible call that as non-inflationary?

Mr. BEIRNE. Yes, you can justify it.

Chairman PROXMIRE. Justify it. It is non-inflationary?

Mr. BEIRNE. It is non-inflationary.

First, I am with the ultraconservative economist from the University of Chicago who says that anybody who says wage increases cause inflation, or even are a major factor in the inflationary process, doesn't know much about the United States. This is Barry Goldwater's economist.

Chairman PROXMIRE. That doesn't make it right.

Mr. BEIRNE. No; but I say I subscribe to that particular view. So I answer your question, there is nothing that says that a 15-percent increase as we have, to go back to the real——

Chairman PROXMIRE. I used your 15 percent. That is the Beirne number.

Mr. BEIRNE. I would quickly say 15 percent doesn't contribute to inflation. That was the question.

It is wrong for us to have farmers who have to work their butts off and can't make $1.90 an hour in today's life in America. That is wrong. That is where somebody should address their thinking and maybe somebody will say that it is inflation.

Chairman PROXMIRE. When we had Mr. Grayson in he was followed by Congressman Reid of New York. Congressman Reid made the charge that New York had just permitted and the Price Commission had concurred in it and let it go through, a 26-percent rate increase. Now if t at isn't inflationary I don't know the meaning of the word, a 26-percent rate increase, an increase in prices in 1 year of 26 percent.

Now, I presume that you can argue that wages didn't have anything at all to do with that, but I think if you are going to justify these things you have to do it on the basic cost, the principal cost, and in most cases, maybe not in this case, but in most cases the principal cost is wages. It is about 70 percent of the cost of any kind of operation. Mr. Friedman may have argued that wages have nothing to do with inflation, are not inflationary, well, if he did, he's wrong. Wages represent 70 percent of cost. That is like saying costs may have nothing to do with increasing prices. But you can't increase your costs without increasing your prices unless you are not going to stay in business. That is inevitable, isn't it?

Mr. BEIRNE. I think you are saying something there that was sort of debunked by F. W. Woolworth many years ago, I am not sure. You can increase your profits without increasing your costs and you can increase your costs through wages without increasing the price and still make large profits.

Chairman PROXMIRE. You can do that, yes?

Mr. BEIRNE. Woolworth sort of proved that.

Chairman PROXMIRE. You made a very good point when you were talking about the enormous amount of productivity increase in the telephone industry, fantastic, it is hard to believe it. I understand if we had women doing the kind of work now they did 30 years ago in the telephone industry we would need every single woman in the country.

Mr. BEIRNE. There would not be enough.

Chairman PROXMIRE. Doing nothing but acting as telephone operators.

Mr. BEIRNE. That is how enormously improved our industry has been. But the point is you cannot have wages increase as the productivity in that particular industry does. If you do you have those workers who happen to be fortunate enough to work in a productive industry getting enormous wages and those who work in industries where productivity increases has been average or below average getting very little; that just isn't economic justice. We use no arguments about our increase in 1971 being needed based upon our productivity increase. What you say before productivity increases indicates an industry is absolutely correct, some 36 percent increase over. We didn't use those arguments. We used the cold, hard argument what other workers receive for an hour of labor and said——

Chairman PROXMIRE. Let me try to put it another way. Your solution to this problem, as I understand it following Rinfret's proposal, was a freeze, further freeze on prices. Do you apply that freeze to wages too, including wages of the telephone company?

Mr. BEIRNE. I think they are pretty well frozen because, you see, the New York thing we talked about, the capper on that one is while a mini board said OK, two guys including Judge Boldt said we want to take a look at this. So nothing has been approved yet in the New York thing which we used as one of the examples.

I think wages are pretty well frozen at a 5.5 level. We are out meeting employers——

Chairman PROXMIRE. You propose we can go back, as I understand it to the policy we had August 15 to November 15, of frozen prices. My question is: Would you apply that not 5.5 percent increase in the wages but freeze on wages?

Mr. BEIRNE. No; I do not. I think——

Chairman PROXMIRE. So you would permit a 5.5-percent rise in wages but no increase in prices?

Mr. BEIRNE. Frankly, Senator, I am opposed to the whole damn idea, on more than one account; namely, that it wouldn't work and enough time hasn't gone by yet, let us say, but certainly the imbalances that our people can see in the whole thing are still there. And so while I certainly shared in and participated in the decision of the labor movement, OK, if somebody really wants to go out and control inflation let's have some real control, evenhanded controls, evenhanded controls across the board, if it is needed. Somebody has to make that judgment. OK, that judgment was made. But, hell it hasn't been evenhanded and I don't think it is going to work and I certainly am not in favor of continuing this. I am fearful of the built-in laziness that will come. Controls are an easy thing, you get use to them and there are people around who would like to control us. Yet controls of this economy are really needed. We will have people there who will volunteer to exercise those controls, and I think that is the death knell.

Chairman PROXMIRE. Well, I think you are entirely right on that. I couldn't agree more, we have to get rid of controls as fast as we can. I think we ought to get rid of controls immediately, everything except in the monopoly area. I think where you have the United States Steel Corp., General Motors, these concentrates of terrific economic power, where you have administrative prices they can fix their prices without respect to supply and demand. There I think we need some degree of controls for awhile until we can work up some other kind of system that is going to be effective.

Let me ask you, Mr. Dechant, I thought you made an excellent point and I am very happy to see it documented as you have done it, that the Price Commission won't tell the basis on which processors change prices in response to farm price fluctuations. You said that the Price Commission told you this was classified; is that correct?

Mr. DECHANT. That is correct.

Chairman PROXMIRE. Will you give us a copy of your correspondence for the record and let the committee follow up on it, because I think this is outrageous. I think the whole purpose of this—in the first place it can't succeed unless you have consumer confidence. How can the consumer be confident if he doesn't have the basis for determining how the big food corporations can increase their prices?

Mr. DECHANT. Well, indeed my associate, Mr. Weldon Barton has been deep in the middle of this subject for the last month and he was one who specifically has been working with the Price Commission trying to get the information. We will give you our material.

Mr. BARTON. Mr. Chairman, we never wrote a letter to the Commission. We had tried to get this information. We set up a press conference. Mr. Dechant had a press conference on this whole question about two and a half or 3 weeks ago and I can give you the name of the people that I talked with in the Commission that assured me this was classified information, that we couldn't have it. I called him back on the telephone and told him to doublecheck because it was information that we certainly wanted for the press conference if it could be made available.

Chairman PROXMIRE. For the record, give us all of the details you possible can.

Mr. BARTON. I certainly will.

(The following information was subsequently supplied for the record:)

National Farmers Union did not write a letter requesting the information referred to, for there was insufficient time. President Dechant had scheduled a press conference on the farm-retail price spread in food prices for March 23 at the National Press Building in Washington, D.C., and he wanted the information for use during the press conference.

The day before, March 22, I called the Price Commission, requesting the information referred to in our statement—on how specific firms were certified by the Price Commission under the volatile pricing rule.

After talking with several of the staff of the Commission, I was referred to Mr. Donald E. Miller, Special Assistant to the Director of Program Operations and (at that time) head of the Interface and Coordination Branch. Mr. Miller agreed to supply to us a copy of the criteria applied by the Price Commission in deciding whether individual firms should qualify under the volatile pricing rule, but he indicated that the data on the actual past behavior of the firms which demonstrated to the Commission that the firms had satisfied the criteria was classified and unavailable to me. Of course, this is the information that we most desired, for our own information (as presented in our statement today) indicated that the firms did *not* act in the past so as to qualify under the rule.

When Mr. Miller indicated that the information could not be made available to us, I asked him to double-check, since we wanted to say publicly that this was the case. He said, in response, that he could say assuredly that the information that I was requesting could not be made public.

Chairman PROXMIRE. I would like to have both of you gentlemen give us the benefit of your expertise and your experience.

I would like to have you give us your prediction, Mr. Beirne, on the inflation rate and I would like to have you, Mr. Dechant, tell us about livestock supplies and the prospects for a continuation of the price increases in meat and in other products, if you can.

The administration prediction is that the inflation rate will average only about 3¼ percent this year and be at the rate of less than 3 percent by the end of the year. Is this accurate, do you think, and if not what is your prediction?

Mr. BEIRNE. Well, I first have to say I find it difficult to believe this administration when it begins using figures.

Maybe that is a blot on my character. They have been all over, explaining their figures.

Chairman PROXMIRE. I don't think it is a blot on your character, I think it is a tribute to your intelligence.

Mr. BEIRNE. To the point where I have followed and even developed a file there at one time in 1969 and 1970 on contradictions in statements coming out of the top echelon of the present administration, so ridiculous that it is really disturbing.

Chairman PROXMIRE. It had to be very helpful. Give us that for the record when you correct your remarks. Give us as much of that as you can, the record that you have been keeping, showing where they have been off base. It will be very helpful.

Mr. BEIRNE. I have included some of the information in the prepared statement I submitted for the record.

Because it is quite a scenario. I was surprised the Democrats haven't come across it already and blasted it on the front page.

Chairman PROXMIRE. Here is a Democrat who would like to use it.

Mr. BEIRNE. But, anyway, I do not believe that the administration will achieve 3½ percent inflation by the end of this year. And second, when at least in my judgment, again a nonexpert in the economic field, when you control inflation at the price of people being unemployed to greater numbers than they now are, this is not a price that I would be willing to pay, yet that is exactly some of the stuff that we have been doing for the last 2 years, at least, and that is one price I won't want to pay.

Chairman PROXMIRE. We all thought when the administration made their new economic policy announcement on August 15 this was a signal to end that kind of policy, but they were confessing if not overtly confessing their past policies were a failure and the nation you could stop price rises by letting the economy drift downward until there was such a pressure on the labor force that wages would stop increasing as much and, therefore, prices would stop increasing as much. Well, that didn't work. It failed. But then they moved in with a new control basis, and you say that they haven't given up on their old plan. They are persisting in that as well as controls, and both of them together are not working; is that correct?

Mr. BEIRNE. I believe so and neither of them are working.

Chairman PROXMIRE. Mr. Dechant, how about the supply outlook for livestock in the rest of the year and the price of meat in the grocery store?

Mr. DECHANT. Mr. Chairman, the drop, the recent small drop in livestock is largely, I think, because of the jawboning that the Secretary of Treasury engaged in.

Chairman PROXMIRE. Secretary of the Treasury or Secretary of Agriculture?

Mr. DECHANT. Secretary of the Treasury, Mr. Connally. He brought the chainstores in Washington and had a jawboning session and they promised they would go home and lower the prices. This had the effect of artificially depressing prices to the farmer.

You understand there is a drought in the Southwest, for example. I had that in mind that might tighten the supplies and push up prices. There is a buildup going on out in the country because of the excess surpluses we have in corn. I remember well the evening you and I walked out of the Capitol following the vote in the Senate on the 1970 Farm Act which we lost that evening by seven votes, seven votes which would have changed the ticket. That was when farm prices were frozen for a 3-year period. With the enactment of the 1970 Farm Act, wheat and feed grain prices were in effect frozen and by the time the conference committees were through, we enacted the set-aside program, and it has brought chaos to Agriculture and we are in deep trouble because we have 800 million bushels of corn without a home, we have 200 million bushels of grain sorghum, and historically and traditionally in this country cheap feed has also meant cheap stock. So when you take a look at what the future holds, if we, this year, and I think we will, in spite of what Secretary Butz says, I think we are going to be adding to, I think we are going to be increasing the surplus here in 1972.

Chairman PROXMIRE. That should mean logically lower food prices. Does it mean that?

Mr. DECHANT. It is going to bust farmers; we are going to have an abundance of livestock.

I would like to join Mr. Beirne concerning the rhetoric that comes from the top of the administration. Here we have a spectable in the last couple of months of Mr. Grayson, the Commissioner, saying that he may have to apply ceilings on farm commodities, a statement Mr. Butz is going out to the farm front and saying that he will not let them do it. It is setting up a strawman, two highly placed officials in the same administration, both responsible to the President, out fussing with one another and a lot of the heat that is and has been generated in recent months has come because of the rhetoric between the administration not being able to make its mind up.

Chairman PROXMIRE. So you think the administration might figure that the farmers will vote for Mr. Nixon because he appointed Mr. Butz who is now friendly to them, and the consumers will vote for Mr. Nixon because he appointed Mr. Connally and Mr. Connally is on their side? He has them coming and going.

Mr. DECHANT. The best of both worlds.

Chairman PROXMIRE. It is possible it might work the other way, isn't it?

Mr. DECHANT. It is.

Chairman PROXMIRE. If it doesn't we are not doing our job as Democrats. I don't mean this is to be a partisan hearing, it is not, of course.

Mr. DECHANT. To specifically answer your question that you posed to both Mr. Beirne and myself, I do not believe that the administration will achieve its target on rate of inflation. I think that we are going to run at a higher rate and I am a little reluctant——

Chairman PROXMIRE. The one area where you have particular expertise is in the food area. You seemed to indicate you think food prices are likely not to go up because you say the supplies are going to increase, there is going to be increased surpluses, the farmers are going to suffer, and this can only mean it seems to me, regardless of what the middleman does he is not under these circumstances going to push prices up, at least, in all likelihood, so why wouldn't it mean that this very important part of the price picture will improve for the consumer? If that is the case, why couldn't the administration reach its goal?

Mr. DECHANT. Well I don't look for this. We are talking about 1972.

Chairman PROXMIRE. That is right.

Mr. DECHANT. The delayed time bomb that I was talking about in terms of agriculture surpluses in grain; I had reference to 1972.

Chairman PROXMIRE. I see. Well, of course, that is what is the trouble with the political timeclock. I also think in terms of the next election, you know. In terms of the next election you are not talking about that you are going to have a shortage before the end, a surplus before the end of this year, excessive surplus. That is going to build up into 1973.

Mr. DECHANT. Yes, and the tragedy for 1973, what could lie ahead, if we had the surpluses this year, is that this will mean thousands more dispossessed farm families and continuation of the senseless migrations to the larger cities and the problems we compound in this way. This is why we are terribly concerned on the farm front, Mr. Chairman, you come from a great dairy State and I can remember last September the President addressing dairy farmers in Chicago in which he applauded the American farmers for the greatest increased productivity in this Nation over 200 percent in a 20-year period, and still we are low man on the totem pole. We are caught now in this rhetoric between Mr. Grayson and Mr. Butz on who is to blame, and the finger is being pointed at the American farmer and I resent it. I have said so publicly. This is the time to take a look at the processor and chainstore profits. And farmers have nothing to hide; let them come and take a look at how well we are going.

Chairman PROXMIRE. Very good.

Mr. BARTON. I think we would say in addition to that that even if the administration is effective in appealing to both the farmers and the consumer, the rhetoric that Secretary Butz is using is really counter productive from the perspective of the farmer. Secretary Butz is doing harm and not good to the farmers' cause because we think it is not just the jawboning by Secretary Connally but the jawboning or whatever you call it by Secretary Butz in going around the country and in fanning the issue that has created a——

Chairman PROXMIRE. Be a little more specific on that, what statement Butz has made?

Mr. DECHANT. I am simply referring to the statements, I think you called attention to Secretary Butz' statements to the effect that he would fight like a wounded steer in speech after speech he has made, statements of this kind, around the country.

Now, what we are saying is the very fact that these speeches have been made, and they have been made primarily to the farmers, they haven't been made essentially to consumers, has called attention to this issue, has created more of a furor over beef prices than there should be, and indeed we think that rather than making this kind of speech to farm audiences that the Secretary should be explaining the cyclical nature of farm prices, and particularly of livestock prices, to consumers in forums such as his appearance before this committee, and, of course, this is where we get back to the idea of volatile pricing.

Chairman PROXMIRE. Do you agree with what he said but he is saying it to the wrong audiences when he says he opposes lifting import quotas on beef, for example, you agree with that position, you say if he is going to do it he ought to explain to the consumer why it is against the national interest and why it is unjust and unfair to do it, he shouldn't go to the farmers who already know it is.

Mr. DECHANT. That is correct, Mr. Chairman, and we are saying beyond that that if we didn't have the volatile price rule that in the past the retail food chains and processors and would absorb some of the increase in farm prices and livestock prices in the short run. And if we still have this kind of situation, then we wouldn't have as much concern about increasing beef prices. So we think the problem is not increased beef prices, certainly not to the farmers, but the problem is some way to level out to some degree the cyclical nature of prices and the wide fluctuation in prices. It is when prices change quickly in the short run that we need to have some way of leveling them out and this is the thing that food chains, let's face it, have done to some degree in the past.

Chairman PROXMIRE. Well, gentlemen, I want to thank all of you. You end this on a very constructive note. I think Mr. Beirne and Mr. Dechant have been tremendously helpful to us this morning because you underline the problem here. You gentlemen very vigorously and effectively represent your viewpoint and the viewpoint of your particular constituents. Nobody can sell me on the notion that you can have increased farm prices without the consumer paying more, but as I have said, we ought to honestly admit that and say it is in the interest of economic justice. To the extent that you can do the same thing with the working man, fine, but I think we ought to honestly admit when you have a substantial, increase in wages it is going to mean higher prices, and maybe that is the price you have to pay. I think if nothing else has come out of these hearings, and I think a great deal has, the administration appearance and the appearance of you and other experts, it is that we certainly need to end the secrecy that we have at this time. There just is no excuse for it. It undermines public confidence. Without it we cannot have an effective price control or wage control system. It is unnecessary, doesn't serve any purpose, and it is absolutely essential that we have public confidence if we are going to have a successful program.

In the second place it would seem that the administration should bite the bullet and be more honest when they do make predictions. They should honestly face up to the fact we face a terrifically difficult problem in holding down prices and they should also do their best to try to integrate their purposes in holding down prices with growth in the economy, so that the economy can expand. As Mr. Beirne has persuasively argued here, that unemployment is much more damaging than the higher prices which burden all of us.

Well, gentlemen, once again thank you very much.

The committee will stand adjourned.

(Whereupon, at 11:30 a.m., the committee adjourned, to reconvene subject to the call of the Chair.)

APPENDIX

Additional Comments of the Communications Workers of America

The Economic Stabilization Act Amendments (PL 92–210) passed by Congress in 1971 contained certain stipulations placed in them by Congress as a means of allowing the delivery of at least a certain amount of equity in economic controls. We do not believe the Administration has followed those stipulations, and we do not believe that the Administration has entertained even the consideration of equity in its implementation of the powers it got in PL 92–210.

An abyss has developed between what the Congress requested and what the Administration has delivered.

We recall that Section 203 discussed widnfall profits. These were profits that industry could expect from the hold-down of wages and other expenses, even without raising prices. Congress intended that such profits be translated into price decreases, so that inflation could be held to a 2–3 percent rate.

But we have found that the Administration's enforcement machinery is no longer even talking about preventing windfall profits—despite blatant evidence that corporations are making inordinate profits. Belatedly, we are told that some price reductions will be coming the public's way soon, but the Administration's veracity factor on issues such as this surely has convinced most Americans to "believe it when you see it."

The stipulations concerning wage standards is worth the Committee's deepest scrutiny. These stipulations said wages should be generally fair and equitable. and also said standards on wages should permit exceptions and variations so that severe inequities and hardships do not occur.

CWA can cite its situation with its members in New York as a glaring example of total disregard for the act on the part of the Pay Board.

This situation began on February 17, 1972. After a seven-month strike ended, the Union, together with the New York Telephone Company, jointly asked the Pay Board to approve an agreement which basically followed the pattern set nationally for telephone workers after a short strike in the summer of 1971.

The New York agreement was approved by a mini-board, and both sides then proceeded as though final approval would be forthcoming. But, at the instigation of one of the Board's least understanding personages, Neil Jacoby, Board Chairman George Boldt joined Jacoby in blocking the approval and the issue is going to have to be determined by the full Board.

How anyone can object to a settlement which conforms to the characteristics established by Congress, such as the standards which we have cited, is beyond human comprehension, until we begin to understand that the Administration machinery is not in the least geared to what Congress determined should be the conditions for the enforcement of controls.

Certainly, when it comes to wage controls, lawlessness, not observance of the law, is the hallmark of the Administration.

We are not affected by the Congressional intent concerning substandard wages, but as members of the American labor movement we wish to remind the Committee of how the Administration has treated these low-income Americans who are not organized and are not equipped to seek justice from Congress. The Administration merely established a false figure as representing a substandard wage, and therefore, in effect, money that should have gone for wage increases to low income workers instead became a gift to corporations.

We also hope that the Committee will review the individual views by Senators Proxmire, Williams and Mondale, concerning the possible ultimate effect of controls on the Nation. The individual views noted that Dr. Arthur Burns called such controls "dictatorial" when he testified on a previous extension of the Stabilization Act, and that he recommended only short extensions.

CWA also called for extension of controls until the end of 1972, so that Congress could evaluate both how well and justly the Administration implimented them, and how effective they were. Our statement, which was submitted to both House and Senate Committees considering the extension amendments, is attached.

STATEMENT OF THE COMMUNICATIONS WORKERS OF AMERICA, NOVEMBER 1, 1971, ON THE ECONOMIC STABILIZATION ACT

The Economic Stabilization Act of 1970, which is due to expire on April 30, 1972, should be extended in its present form, and should not be expanded as proposed by the Nixon Administration.

There are three major reasons for this.

Phase Two should be allowed to function for a period of time before Congress gives the Administration additional power to control the economy, so that the Nation can see if the Administration's claims for its Phase Two program are successful.

Nothing in the proposed legislation is needed to make Phase Two work, as Treasury officials have admitted.

Expanding the economic powers which Congress has already given to the Administration would bring us closer to a corporate state condition than we are now, and we are dangerously close.

Additionally, and perhaps equally important, is the very strong possibility that Congress—already considered subservient to the Administration in many vital areas of national life—will find itself relinquishing its decision making power on the economy and unable to retrieve it.

Congress could find that power is like prices—power goes away easily and prices go up easily. But getting power back once it has been relinquished, or getting prices down once they have gone up, is much more difficult.

Already, the collective bargaining procedure in the country has been stifled. Contracts mean nothing. People—millions of American workers in unions and non-union—have found that life is more difficult for them now, and it was not easy before.

They have one less thing to believe in—a contract.

Every day, more and more working Americans are seeing that innate distrust of government is justified. Their wages are frozen. Their contract pay increases are not forthcoming. But their bills are higher. They are paying more for everything they need. How can they trust their government?

Additionally, all of the breaks are going to business, which was to be expected when always influential corporate power is given a chance to actually control the economy. The concept of equity has been eradicated.

Already, the Internal Revenue Service has ruled that businesses will not have to pay the accumulated earnings tax on the retained money which they would have paid out as dividends during the freeze.

And business pressure has also resulted in a Cost of Living Council decision postponing, probably indefinitely, the requirement that retailers post price lists showing maximum charges during the freeze.

Price freeze enforcement, unlike wage freeze enforcement, is notoriously weak. If price lists reflecting the correct prices of articles were posted, the consumer would have some protection against overchrages. But with this Administration, business convenience ranks higher than the consumer.

This will become even more clear under Phase Two, when the Price Commission begins acting on price increase requests. Experts on the auto industry have predicted that price increases of two to three percent will be requested by the car makers. The reaction of the Price Commission to this request from an industry which is already profit-fat will give American workers an indication of the sentiments of the Price Commission.

The decisions of the so-called public members of the Wage Board will be of interest to workers also.

The Administration had agreed that government would not be represented on the Pay Board—it would be made up of representatives of labor, business and the public.

Arnold Weber's resignation from the Cost of Living Council, and his appointment to the Pay Board do not at all make him a public member, in actuality. He is plainly the Administration's spokesman on the Pay Board, and the Administration's blatant and deceitful ploy can be considered typical.

It is precisely actions on the part of the Administration such as the appointment of Mr. Weber as a public member which should serve as red flags warning Congress that it is dangerous to give the Administration more economic power than it already has.

If additional warnings are needed, they are more than evident in the Administration's determination to factionalize the economy. Existing language in the Economic Stabilization Act states that before a particular segment of the economy or a specific industry can be singled out for treatment which is different from other industries, the President must take into account all of the vital economic factors concerning that segment or industry. Now, the Administration wants that protection removed, and, at the same time, the Administration—with nothing in the law approving it—wants different treatment for different types of industries.

These determinations are supposed to be the Pay Board's to make, along with the crucial decisions on retroactivity of frozen wages, inception of already contracted pay increases, and whether to set guidelines or operate on a case-by-case basis.

But the Administration has already made it clear to the Pay Board that it wants pre-notification of proposed wage or price increases from some industries, post-notification from others, and no notification from still others.

Three workers, living in adjoining houses on the same street, and working in three different industries, could expect different treatment under the Administration's proposal.

The resulting public attitude would be damaging to the Nation for a long time, and makes it even more imperative that no additional power be given to the Administration.

Also glaring out of the Administration's request is politics.

The Administration asked for standby interest and dividend controls. Now, under the Credit Control Act, it has all of the power it needs to control interest. Industry has agreed to control dividends itself, and has already been given a tax break on excess retained earnings. There is obviously no need for these new controls, but the Administration wants them simply for the sake of election year rhetoric.

The Administration wants to talk about freezing—or to use its word "stabilizing"—not just wages and prices, but also interest and dividends. It wants to be able to throw those words, "interest" and "dividends," in with wages and prices in an attempt to gull voters into thinking that there was equity in the Administration's actions.

The Congress should not give this advertising agency oriented Administration that sort of political ammunition.

It should only extend the existing liegislation until Dec. 31, 1972.

Meanwhile, Congress should give the most intense scrutiny it can not only to the effects of Phase Two, but to the Administration's proposed tax legislation, and to the annual Economic Report, which will be forthcoming early next year.

While dealing with these matters, Congress should be aware of the social effects of the actions the Administration proposes. The Administration has demonstrated that its basic motivation is political, and that it is capable of zig-zagging all over the economic terrain.

Unfortunately for working Americans, the Administration game plans have zigged when they should have zagged. Congress must not let the Administration deliver increased unemployment and increased inflation to the American people any more.

NATIONAL ASSOCIATION OF ENROLLED FEDERAL TAX ACCOUNTANTS,
Chicago, Ill., April 1, 1972.

Hon. WILLIAM PROXMIRE,
Senate Office Building, Senate-House Economic Committee, Washington, D.C.

DEAR SENATOR PROXMIRE: We have just learned about the Hearings your Committee will start on April 14, 1972, and hope it is not too late to be scheduled to testify. Please advise us. We desire to enter into the Hearings Records the enclosed article: ACCOUNTANTS STIR THE CLC TO ACTION, from the March 18, 1972 issue of BUSINESS WEEK magazine. Incidently, the "issue", as of this date, has not been resolved to our satisfaction, but we have been assured that a couple of "officials" are leaning toward our position. Please check this out further for us. Please let us hear from you soon.

Cordially,

S. A. Rish,
EFTA Executive Secretary.

Accountants Stir the CLC to Action

An obscure goof by Washington's wage-price controls administrators came to light this week as they apparently moved to reverse a decision they made back in January.

It has to do with who can—or, more important, who cannot—plead wage-price stabilization cases before the Internal Revenue Service, the Phase II enforcement agency.

On Jan. 21, Seymour A. Rish, executive secretary of a Chicago organization representing 500 to the 9,000 enrolled federal tax accountants, got word from IRS headquarters in Washington that henceforth only lawyers and certified public accountants could deal with the IRS on stabilization matters. EFTAs, who are qualified to deal with IRS on tax matters, were incensed. "We know as much about economic stabilization matters as any lawyer or CPA does at this stage," says Rish.

Clarification. Rish called the Chicago IRS office for clarification. "They told me . . . it was inadvertent," he says. But from Washington he heard "the omission was not inadvertent."

Rish says it is hard to tell now just how much is at stake for his members, who mostly work with small businesses. But he says EFTAs could lose considerable business if the rule stands. It may not. In Washington, Richard Murray, assistant general counsel of the Cost of Living Council, says: "The issue is under consideration. We are studying it right now." There is even a suggestion that CLC will ask the IRS to open up proceedings even more—to labor economists, for example.

Test. The IRS has devised a test to determine whether accountants are qualified to act before it on tax matters, but nobody knows how to set up a similar test on stabilization matters. Besides, says one CLC official, "if there was one, the lawyers around here probably couldn't pass it."

Rish says that Washington has responded to his questions only with "mumbo jumbo." The reason for this, according to one Washington official, probably is that the decision to allow only CPAs and lawyers to plead Phase II matters was not thought through.

IRS will continue to try to assure that unqualified practitioners do not sell Phase II expertise they do not have. But it looks now as if Rish's members will be able to argue wage-price cases before the IRS.

Statement of the National League of Insured Savings Associations on Developments in Phase II of the President's Economic Program, May 3, 1972

My name is Edwin G. Alexander. I am President of Majestic Savings and Loan Association of Denver, Colorado and Chairman of the Committee on Legislation of the National League of Insured Savings Associations. The National League is a nationwide trade association composed of members in and affiliated with the savings and loan industry.

Because the major portion of savings and loan investment portfolios consists of residential mortgage loans, we appreciate the opportunity to comment on developments in Phase II of the President's Economic Program as they relate to interest rates on residential mortgage loans.

For the record, such interest rates were not placed under Federal control when the August freeze descended upon the land. The Secretary of the Treasury exhorted lenders to keep interest rates low as a matter of voluntary action, stating that the President believed they would do so. Phase II of controls saw authority granted to the Committee on Interest and Dividends to "formulate and execute a program for obtaining voluntary restraints on interest rates and dividends." (Section 9, Executive Order No. 11627 of October 15, 1971 and Executive Order No. 11640 of January 26, 1972).

Residential mortgage rates have declined since the imposition of mandatory controls on prices and wages on August 15, 1971.

Federal Home Loan Bank Board records show the following comparisons: "The average effective interest rate charged borrowers purchasing newly-built homes with conventional mortgages was 7.73 percent in August, 7 basis points more than in July and 26 basis points more than this year's low reached in April.—The effective interest cost to borrowers purchasing previously occupied homes with conventional mortgages averaged 7.71 percent in August, 8 basis points more than in July and 26 basis points more than the recent low." (Federal Home Loan Bank Board News Release dated September 23, 1971) (Underlining added for emphasis).

Rates on home mortgages averaged 8.5 percent per annum in 1970, according to the Cost of Living Council Release dated December 22, 1971.

By comparison, the: "effective interest rate charged borrowers purchasing newly built, single-family homes with conventional mortgages averaged 7.52 percent in March, 9 basis points less than in February.—Effective interest rates charged borrowers purchasing previously occupied homes with conventional mortgages declined 4 basis points from February to March, averaging 7.44 percent in the latter month. At this level, rates on existing home loans closed were slightly below last year's low of 7.45 percent, and consequently, the lowest since early 1969." (Federal Home Loan Bank Board News Release dated April 20, 1972).

In summary, it is interesting to note that without mandatory controls, interest rates on conventional home mortgages decreased 21 basis points on new homes between August 1971 and March 1972, and decreased 27 basis points on previously occupied homes over that same period. Therefore, since a basis point equals 1/100 of 1%, the overall decline in conventional home mortgage interest rates has been in the neighborhood of 1/4 of 1% per annum at a time when other components of the economy were experiencing varied results in trying to contain rising prices by means of mandatory controls.

Yet this commendable downtrend has occurred despite the fact that the demand for residential finance is at record highs.

In 1971, private housing starts exceeded 2 million units for the first time in history, according to the Federal Reserve Bulletin for March 1972 at page 210. That source noted that the figure for private housing starts was as much as 600,000 units above the average for the preceding two years and was 7 percent above the previous high in 1950.

The Bureau of the Census statistics indicate that in the month of August 1971, new housing starts were running at an annual rate of 2.219 million units and that for January 1972 that rate had increased by 330,000 units to 2.549 million. (Federal Reserve Bulletin, March 1973, page A65—Table: New Housing Units)

More recent data released by the Bureau under date of May 1, 1972 show that: "Construction of new private residential buildings including farm during the month of March 1972 was at a seasonally adjusted annual rate of $53.0 billion, 2 percent more than the revised estimate for February 1972. During the 3 months ending March 1972, construction of new private residential buildings including farm was at a seasonally adjusted annual rate of $51.5 billion, 41 percent greater than the annual rate for the 3 months ending March 1971." (Release CB 72–115 dated May 1, 1972, pages 1 and 2).

In the face of this record demand for residential financing, what accounts for a decrease in interest rates charged on residential mortgage loans? One factor surely is the helpful increase in savings capital available to all savings and loan associations in the United States. That savings capital amounted to $165.6 billion in August 1971 and increased to $177.7 billion in January 1972. (Federal Rederve Bulletin, March 1972, page A40, Table: Savings and Loan Associations) In March 1972 that total had increased further for FSLIC-insured savings and loan associations to $179.1 billion, compared to the $172.2 billion total for such insured institutions in January 1972, although the flood of savings to savings and loan associations during the first quarter of 1972 had ebbed slightly in March 1972, according to Federal Home Loan Bank Board Chairman Preston Martin. (Federal Home Loan Bank Board News Release dated April 27, 1972, page 1 and Table 3)

But the facts speak for themselves. The inflow of savings capital to the savings and loan industry helped it to carry out its major function of financing residential housing while offering lower mortgage interest rates to borrowers.

The statistics cited should also refute implications made by some that savings dollars were sterile dollars. The record shows that these savings dollars provided a major thrust to the national economy in the field of residential finance. A quota-tion from the Federal Reserve Bulletin for March 1972 states the case quite succinctly as follows:

"Among the major types of lenders, savings and loan associations—long the dominant group in the home mortgage market—led the expansion in mortgage debt, not just in the home sector but in the multifamily category as well. Altogether, the associations expanded their mortgage portfolios almost as much in 1971 as in the preceding 2½ years combined." (Federal Reserve Bulletin, March 1972, page 208.)

Yet they did all of this financing at generally declining mortgage interest rates and without mandatory Federal controls on mortgage interest rates.

By way of contrast, the efforts of some States to impose submarket interest rate ceilings on mortgage lenders during recent periods of tight money succeeded only in drying up sources of mortgage loans to be secured by property within their States.

National League statements to Congressional committees have previously noted that movements of mortgage interest rate levels tend to be lethargic not because of arbitrary decisions on the part of lenders, but rather because the interest rate constitutes only one of several adjustables in a mortgage loan transaction. Among other adjustables are the amount of down payment, the length of maturity and the credit standing of potential borrowers. Alterations tend to occur in these other adjustable items before changes in interest rate levels occur. Indeed, if interest rates were to be fixed at a single level, greater compensating changes could be expected in these other items as long as a total mortgage transaction can be made economically viable by these means.

Indeed, it seems worthwhile to reflect upon the following statement from a basic economic text by respected authors to the effect that laws intended to restrict the rise of interest rates are both futile and injurious:

"The basic cause of the condition cannot be removed by arbitrarily relieving present debtors of a part of their interest costs. What is needed is renewed inducement to savings and investment. Usury laws, by depriving savers of a part of their inducement to save and by injecting into the loan market the incalculable element of political interference, tend to perpetuate the evil which lies at the root of the protest—a paucity of loan funds. Not only the individual who is attempting to carry on productive enterprise under the handicap of small capital supply, but the entire community which shares in the benefit of the capitalistic process, is benefitted by allowing the interest rate to fluctuate freely in accordance with the forces of demand and supply." (Volume II, Elementary Economics (1928) Fairchild, Furniss and Buck, page 201.)

In the spirit of that philosophy, it is respectfully submitted that the results of the laboratory test of mortgage interest rates not subjected to mandatory Federal controls exhibit a decrease in the interest rate level, while other segments of the national economy placed under mandatory Federal controls at best results in continuous efforts to keep prices from rising. We conclude that the present policy with reference to mortgage interest rates is working well and should not be tampered with.

Statement of Capt. John J. O'Donnell, President, Air Line Pilots Association, April 26, 1972

I am Captain John J. O'Donnell, president of the Air Line Pilots Association. In that capacity I represent the professional interests of 46,000 pilots and flight attendents flying for the nation's airlines.

In the past months since the establishment of the Pay Board we at the Air Line Pilots Association have been attempting to obtain from it certain information that would assist us with our negotiations and administration. We have approached the Pay Board, and asked its assistance in a spirit of cooperation, and been met with distrust, delays and non-cooperation. We are well aware of the severe work load the Pay Board has in accomplishing its tasks, but we also feel that much of this could be alleviated if its efforts at cooperation were increased.

For it is a fact that the Air Line Pilots Association is being repeatedly kept in the dark by the Pay Board in matters of general interest to our members and to the public at large. Whether inadvertently or as a matter of policy, the Pay Board has succeeded in keeping the most rudimentary wage computation guidelines hidden. On countless occasions our Association has attempted to obtain specific guidelines from the Pay Board, to let our negotiators know where the board stands. Through delays, hesitation and inaction, however, the Pay Board has made it impossible for us to learn details of its decision orders or even its own computation methodology.

Let me be more specific:

We have asked the Pay Board on numerous occasion for firm, general guidelines for wage and fringe-benefit computation. We have asked for firm definitions on includable and excludable fringe benefits. Yet, in each instance we are answered with evasion and delay, if we are answered at all.

We have asked the Pay Board for copies of its decision orders—basic documents that we need to avoid misunderstanding and confusion in the future by examining the decisions of the past. We have asked the Pay Board for specifics, such as instances where exceptions to guidelines were granted, and why they were granted. Yet the Pay Board has seemingly invoked blanket refusal to divulge anything but the most basic and unuseful information. We have been told that the release of any more information than the name of the company, percentage in pay increase and number of employees affected is prevented by fear of releasing trade secrets. We do not see how this decision of the Pay Board can fall under these provisions, and in fact believe the Freedom of Information Act requires that more specifics be given out. We are not asking for trade secrets, but simply a greater information base from which we may proceed. Rather than the balnket restrictions invoked by the Pay Board, we feel that a more enlightened policy is needed.

After months of requests from ALPA and other interested organizations, the Pay Board finally published partial guidelines for wage computation in the Federal Register, a process that we have been told will continue in coming weeks. Until this time, we have been forced to make our assumptions as to Pay Board guidelines from nonspecific data or incomplete summaries in Pay Board news releases. When we ask for specifics, we get delays and generalities, or we are ignored. We can only assume that the Pay Board is attempting to withhold these guidelines from us and the public.

Even in a matter that directly concerns this Association, the Pay Board examiner's study of the Braniff-ALPA stewardess contract, little was done to keep us informed. We were not notified which contract was to be examined, nor were we told how and where the examination would take place. Although the examiner has agreed to consider letters detailing our position, this appears more an individual concession than a codified Pay Board operation. We believe a firm policy of notification and revision procedures should be established.

In short, Mr. Chairman, the Air Line Pilots Association is most anxious to cooperate with the Pay Board, but we have been unable to do so to the fullest extent because of delays, inaction and a seeming reluctance by the board to have anything to do with us. We are forced into a position of guessing, surmising and trying to predict the Pay Board's actions and decisions rather than having concrete guidelines to work from. This results in duplication of effort, wasted energy and a definite sense that something is amiss. We feel that it would be in the best interests of all concerned if the Pay Board were encouraged to seek newer roads of cooperation. We believe that the Pay Board should take the time and effort to decide, spell out and inform the interested patries and the general public of its intentions. We need to know what wage computation methods should be used, what exceptions to policy have been granted and what specific guidelines to use.

We would encourage this Committee to use its influence to hasten the advancement of this vital information.

Statement of Esther Peterson, Consumer Adviser to the President of Giant Food, Inc., May 2, 1972

I wish to commend the joint committee for initiating the inquiry into the causes of the rise in living costs. I appreciate your asking my views on the current situation.

Your task is not easy. While the consumer price index has been increasing steadily since the August wage-price freeze began, the only thing consumers know for certain is that it costs more today to buy the goods and services they want and need than it did last month, or six months ago, or a year ago. I hear this every day from consumers. We all know that price increases hit low-income consumers especially hard. One thing that had prompted me to assist people to make their grocery dollar go further was the conversation I had in our supermarkets with people who are living on very small and limited incomes—our working poor, our elderly and our too many citizens who have a hard time making ends meet under the best of circumstances.

As a consumer advocate, I feel my responsibility is to advise consumers, no matter where they shop, how to make the best purchasing decisions. When we ran our recent advertisement about meat prices, the best advice I could give was to say that meat prices were high, that cattle had been selling at the highest level since the Korean War, and that the only tool the consumer had was to buy less meat, buy something else, use other forms of protein.

It was the same suggestion, in fact, that the Secretary of Agriculture made in saying that consumer demand was at fault for higher prices; the only difference is that I suggested what consumers could do about it.

Since that time, the level of confusion has not decreased, nor has the cost of food. The cost of food is continuing to increase, although the consumer price index for March which was released recently shows that food prices rose only 0.2 percent—or 2.4 percent at an annual rate.

There was both good news and bad news within that increase, with beef prices continuing to go up along with eggs and veal (although beef prices have come down since the CPI was taken); on the other hand, pork prices dropped slightly as did the cost of fresh vegetables. This is a welcome trend, but only in relation to the events which have transpired since November.

Judging from the response I get from consumers in the stores and on the street, people are confused. Consumers are not the least bit interested in finding scapegoats or sacrificial lambs. What we really want is for the price of food to come down, and we are willing to do what we can to help the trend along. We also want to know what we can do to accomplish this goal. The barrage of conflicting statements and policies make it difficult and confusing for the alert consumer.

I, for one, intend to do what I can to provide solid information which consumers can use to make their food dollar stretch further. Positive information programs include: Unit Pricing, that is giving the cost of an item by the point, the quart, the count or square foot; Ingredient Labeling; Nutritional Information—i.e., posting nutritional content and suggesting alternatives, and Open Dating.

These are all new tools which give the consumer information to make choices in the marketplace that fit his or her pocketbook. I would like to feel we have helped the consumer and have helped to moderate the rise in food prices.

If we have, then we have demonstrated that one answer to the inflationary spiral is consumer action. If consumer action can be a positive force, then I hope this committee would take steps to help the consumer become even more effective as a voice to be heeded in the councils of business, labor and government.

The committee has asked me to comment on and respond to the testimony of an earlier witness, Mr. Tony Dechant, President of the National Farmers Union. While I am pleased to have the opportunity to be of assistance to the committee in any way, I must observe in fairness to the committee that I am not a supermarketing technician, and I do not feel competent to debate Mr. Dechant in his field of expertise. Furthermore, I do not believe that the experience of my company, Giant Food, Inc., is necessarily representative of supermarkets generally. The committee would probably get a better insight into the workings of the retail food industry by talking to a representative of the National Association of Food Chains or, at minimum, a representative of one of the large national chains. Nevertheless, I shall be pleased to respond as best as I can to Mr. Dechant, quoting from testimony submitted by Joseph B. Danzansky, President of Giant Food, Inc., to the House Agriculture Committee, Subcommittee on Livestock and Grains.

Mr. Dechant charges that during Phase II, food chains increased the carcass-retail spread on beef by 2.3 cents a pound. In this connection, Mr. Danzansky said, "The facts are that our margins on beef, already low when the freeze began, plummeted when the freeze was imposed, and remained significantly lower than before the freeze throughout the months of January and February. In other words, we were not passing through all the cost increases we received from our suppliers. While our meat costs went up 11 percent, our retail prices went up only nine percent. We were, in fact, subsidizing lower meat prices for consumers."

Mr. Danzansky also gave some statistics to explain the retail-wholesale price spread. He states, "In response to questions about our spread between our wholesale costs and retail prices, we have prepared the following chart. To be conservative, we are figuring only a seven-day time lag from purchase to sale. In practice, aging of hindquarters results in a substantially larger time lag. In addition, we have not included prices for primal cuts, although we do not limit purchases to carcass beef. Again, we do this to give every benefit to our critics."

CATTLE COST, PER POUND [1]

Week ending—	
Aug. 14	$56.00
Aug. 21	55.90
Aug. 28	56.10
Sept. 4	55.70
Sept. 11	55.50
Sept. 18	55.40
Sept. 25	54.20
Oct. 2	54.10
Oct. 9	53.70
Oct. 16	53.00
Oct. 23	53.30
Oct. 30	54.10
Nov. 6	54.40
Nov. 13	55.00
Nov. 20	55.70
Nov. 27	57.30
Dec. 4	57.70
Dec. 11	57.00
Dec. 18	57.90
Dec. 25	58.20
Jan. 1, 1972	59.50
Jan. 8	58.20
Jan. 15	59.00
Jan. 22	59.80
Jan. 29	60.30
Feb. 5	60.20
Feb. 12	59.80
Feb. 19	60.40
Feb. 26	60.40
Mar. 4	58.60
Mar. 11	58.90
Mar. 18	58.20
Mar. 25	57.10
Apr. 1	56.30
Apr. 8	54.80
4-week average July 24 to Aug. 14, 1971	55.10

CATTLE RETAIL, PER POUND [2]

Week ending—	
Aug. 21	$63.37
Aug. 28	62.41
Sept. 4	64.12
Sept. 11	64.11
Sept. 18	62.36
Sept. 25	63.59
Oct. 2	62.35
Oct. 9	64.11
Oct. 16	62.30
Oct. 23	62.26
Oct. 30	62.31
Nov. 6	64.07
Nov. 13	62.33
Nov. 20	62.31
Nov. 27	64.06
Dec. 4	62.31
Dec. 11	64.10
Dec. 18	63.47
Dec. 25	64.10
Jan. 1, 1972	63.48
Jan. 8,	63.52
Jan. 15	65.80
Jan. 22	64.92
Jan. 29	66.20
Feb. 5	66.56
Feb. 12	68.66
Feb. 19	67.53
Feb. 26	68.48
Mar. 4	68.28
Mar. 11	69.51
Mar. 18	68.05
Mar. 25	67.59
Apr. 1	65.04
Apr. 8	64.83
Apr. 15	62.20
4-week average (July 24 to Aug. 14, 1971	63.62

[1] This is our average weekly delivered cost on carcass beef.
[2] Average weekly cents per pound return on carcass (including bone and fat).

Retail prices have always reflected the cost as related to the time lag. We have not changed our merchandising and pricing practices since the beginning of Phase II. Giant still is absorbing a part of the cost increases in livestock in the short run, as is customary. There has been no attempt to shirk our responsibility as a stabilizing force in the fluctuating price cycles of livestock and raw agriculture products.

I think the final quote from Mr. Danzansky best sums up my feelings and the feelings of my company:

"The price of meat is a complicated question, and it is neither fair nor accurate to point fingers at any segment of our economy as the culprits.

"No single element in our economy, be it farmers, processors, labor, retailers, consumers or government, is solely to blame for high meat prices, and no single element can bring those prices down by itself. The solution to high meat prices—or to any high prices for that matter—is a stable economy, and a sound economic policy. That requires concerted and cooperative action by all Americans and our government."

It is my fond hope that the committee can help us all to move a bit further along that rocky road.

AMERICA NEEDS A NEW ECONOMIC POLICY NOW

A Proposal
by

Harold W. Bangert
Alan E. Sapiro
Henry L. McIntyre
Patricia Hetter
Louis O. Kelso
111 Pine Street
San Francisco, California 94111

AMERICA NEEDS A NEW ECONOMIC POLICY NOW

INTRODUCTION

The Presidential Executive Order calling for a wage and price freeze is both strong evidence of the unworkability of the U.S. economic policy of full employment, as heretofore interpreted, and dramatic evidence of the President's determination to arrest the deterioration of the economy. Implicit in the idea of a "temporary freeze," of course, is the nature of the economic policy to follow the 90-day period.

-- Will it be permanent price control? This has never been palatable to Americans, and the President himself has many times expressed his strong disapproval of a regulated economy.

-- Will it be an "incomes policy" under which the distribution of wealth will be politically allocated by government rather than on the basis of participation in production? This is about as much out of tune with the American tradition of freedom as one can get. It would be the initiation of an age of perpetual inter-group strife that could end only in a totalitarian state.

-- Will it be a fundamental change in economic policy that cures structural defects and exploits to the fullest this great opportunity to lay down a new policy consistent with the logic of business and technology and with the historic values of the American people? It seems apparent to many thoughtful leaders of American business that the time has come for us to formulate a plan to accelerate the growth of the economy while simultaneously broadening the ownership of its productive capital, so as to build the working population's future income increases on capital incomes (which do not raise prices) rather than upon increased pay for the same (or less) work input -- the very essence of cost-push inflation.

Short of erecting permanent tariff walls around our economy, this alternative would appear to be the only way to enable American industry to undersell foreign competitors, while still enabling the American worker to enjoy a rising standard of living, increased economic security, and freedom from semi-dependency on welfare.

Technological advances are as accessible to our competitors as they are to us. Thus, higher labor costs in the United States automatically mean higher product and service costs for the output of our industries -- unless U.S. workers begin to get their incomes from two sources: <u>their capital and their labor</u>.

Similarly, within the logic of our economy and within the logic of our morality, full employment in the production of goods and services relevant to the needs of the poor can only be based upon raising legitimate incomes of consumers. There is no way to achieve this except by making the ownership of capital accessible to the approximately 95% of the population who do not own it today, on the same terms that business has historically regarded as minimal: access to investments that normally will <u>pay for themselves</u>. This proposal describes how this can be done through the genius of American business and finance and in ways that are consistent with the protection of private property.

The American economic dream is, and has always been, the opportunity to get "a piece of the action." The earliest settlers realized this dream directly through the open frontier. The hope of acquiring their own land was what brought most of them to this country. In the agrarian economy that took the place of the unbroken wilderness, Americans were enabled once again to realize their original dream -- this time through the Homestead Acts. Appropriately enough for 1971, this was the "New Economic Policy" of 100 years ago. Abraham Lincoln based his first campaign on the Homestead proposal. The Homestead Bill itself was the first law he signed.

The Homestead laws were responsible for putting the American people behind private-property, free enterprise capitalism. They stabilized our economy for over half a century. Today when "populism" means redistribution from the haves to the have-nots, it might be useful to remember the wholesome Populism of the last century that gave us the economic foundation of the country: Populism based on making haves (capital owners) out of have-nots (non-capital owners) without making have-nots out of the haves.

When the frontier ran out, the possibility of realizing America's historic dream seemed to run out with it. But the current crisis provides us the opportunity to renew the American commitment to private property for every family and individual. It is time for an Industrial Homestead Act. Such a plan actually exists. It has been developed by a group of business and financial leaders for the purpose of broadening capital ownership in the process of financing corporate growth. The plan describes how employees can be enabled to increase their purchasing power in a way that is non-inflationary, while simultaneously acquiring "a piece of the action" in the form of stock ownership in the companies they work for. It is a step-by-step policy to be implemented by business, labor and government. An additional virtue of this plan is that it could bring business and labor together in a creative way that would be good for their separate constituencies and for the country.

It is time to discuss this new economic policy on every level of our society. If the feeling that it is sound spreads from us to enough others, then it is time to adjust our business and labor strategy accordingly, and to enlarge our national economic policy to recognize both factors of production -- labor and capital.

Respectfully submitted,

Harold Bangert
Harold W. Bangert

Alan E. Sapiro
Alan E. Sapiro

Henry L. McIntyre

Patricia Hetter
Patricia Hetter

Louis O. Kelso
Louis O. Kelso

September 3, 1971

AMERICA NEEDS A NEW ECONOMIC POLICY NOW

RATIONALE:

1. In America today, approximately 90% of our productive input comes from capital (land, structures, machines, working capital) and 10% from the input of labor. This estimate is based on a judgment as to what the relative value of capital and labor input would be if each were competitively evaluated through free market forces.

2. Ownership of this capital is concentrated in approximately 5% of American families. The shareholdings of most of the thirty million American stockholders are of negligible income significance.

3. Approximately 95% of our people -- those who have only their labor to offer -- are perennially short of purchasing power even though they need and want many things and services that industry could easily provide. The affluent capital-owning 5%, on the other hand, cannot support mass production. Our factories habitually run at 80% of capacity or less, even though a significant percentage of American families live in poverty, or near poverty.

4. Our past economic thinking has generally recognized only one factor of production -- labor. Ever since the Employment Act of 1946, government policies have been forced more and more to distort the economic facts and redistribute purchasing power -- not 90% to capital and 10% to labor (as their relative inputs would justify), but more like 22% to capital and 78% to labor and the unemployed, through "make work" programs, welfare, ever higher wages for fewer hours of work, etc.

5. This road has led to crisis measures. Those announced on August 15th are merely the first.

6. Nor does the answer lie in redistributing our existing capital from the 5% to the 95%, as socialism does, or as the "new populism" demands. There is a better alternative. It involves methods of financing future growth -- a significant and progressively greater proportion of each year's new capital formation -- so that the net increase will be bought and owned by new owners representing the 95% of our population who now own little or no income-producing property. In time, the number of non-capital owners would be reduced from 95% of families to 70%, to 30%, and eventually to zero.

   As stockholders, all Americans would receive purchasing power from their capital holdings as well as from their labor. In ten years, perhaps $500 billion of newly formed capital would be owned (in moderate-sized holdings) by individuals and families who today own little or nothing and have no hope of ever acquiring "a piece of the action." Capital ownership to the employees of American industry will increase the purchasing power of the employees and motivate them to greater productivity and thereby lower costs. And this can be done without touching the capital ownership of the 5% who own 100% of the action today.

Some may be surprised to learn of such a possibility, but not those who are familiar with the traditional investment logic used by well-managed corporate enterprise everywhere. Business invests in productive assets that pay for themselves within a reasonable period of time -- normally within three to five years. The essence of the proposed new economic policy* is to enable an expanding number and ultimately all U.S. families to use that same traditional investment logic of business -- to make investments, on non-personal recourse credit, in new assets that will pay for themselves within reasonable periods of years.

The modifications of Federal tax laws hereinafter suggested will accelerate and assure the expansion of American enterprise to the point where it can satisfy American needs, at prices that will make it difficult, if not impossible, for most foreign enterprise to compete.

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* See Appendix I for a proposed legislative restatement of the national economic policy.

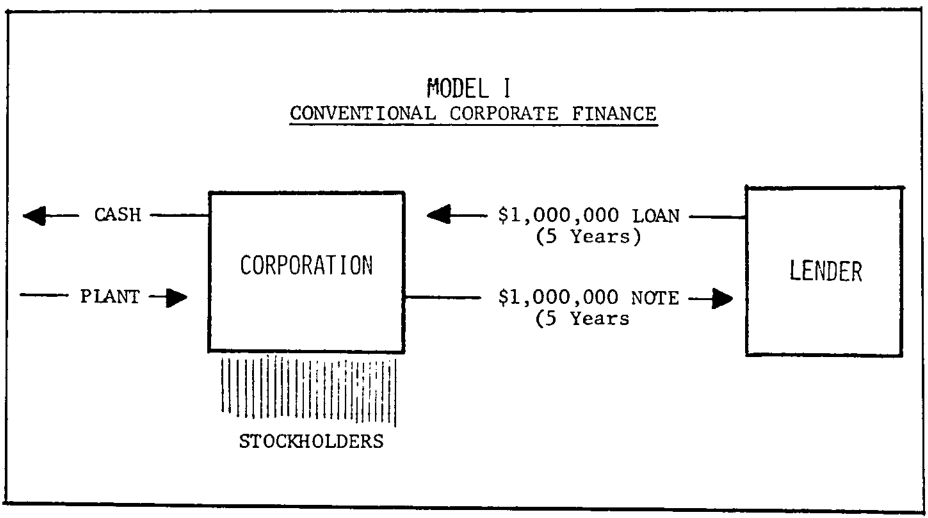
Included also are suggestions for additional legislative and administrative steps which can extend this new policy of broad private capital ownership to our own public sector and, as a cornerstone of a new foreign policy, to developing countries around the globe.

THE PLAN FOR INDUSTRY.

Because most of the goods and services turned out by the private economy are produced by corporations, the key financing tool for the implementation of the proposed new economic policy is based upon a marriage of conventional corporate financing techniques to certain varieties of employee deferred compensation trusts that now can be qualified under §401(a) of the Internal Revenue Code and corresponding state laws.

The difference between conventional financing techniques, which concentrate the ownership of capital, and the Employee Stock Ownership method, which broadens the ownership of newly formed capital, can be briefly illustrated.

In each of the following examples, the corporation has determined to invest one million dollars for new plant. The corporation has convinced its bank or other lendor of the feasibility of the project and the necessary funds are available through a loan repayable in installments over five years.



MODEL I
CONVENTIONAL CORPORATE FINANCE

This technique has the following major consequences:

-- When the loan is paid off, incremental productive power equivalent to $1,000,000 of additional plant has been built into the same stationary stockholder base. One stockholder may of course sell his shares to another who has the capital to buy the stock, but no <u>new capital owners</u> are created in the process.

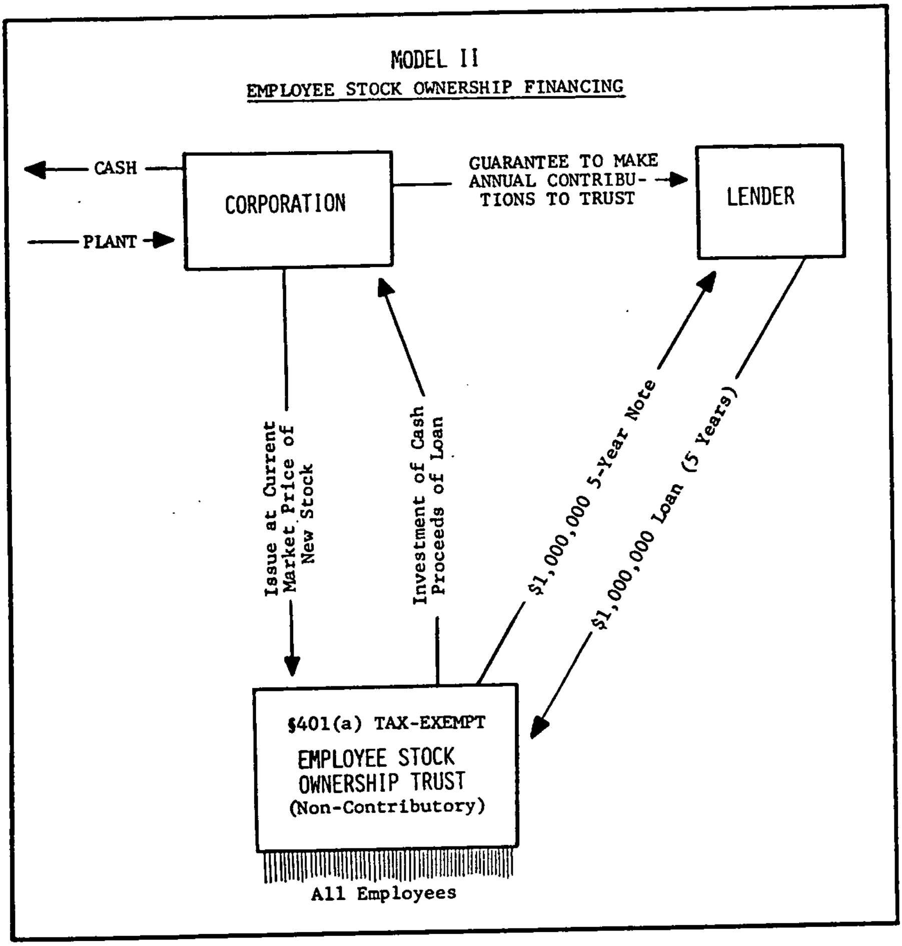
-- Other principal methods for financing new capital formation involve the use of internal cash flow, such as retained earnings, investment credits, depletion, accelerated depreciation, etc. All of these have the same ownership concentrating effect.

-- In the aggregate, all of the conventional techniques of finance above mentioned accounted for over 98% of new capital formation during the past decade.

-- The remaining conventional financing method, the sale of new equities to the public for cash, has the same concentrating effect: the new stock is sold to those with capital who can pay for it.

-- In short, the logic used by business in making investment -- the logic of investing in things that will pay for themselves -- is not available to the 95% of Americans born without family capital ownership. As the non-human factor increases in relative productive power, its ownership remains in a stationary fraction of the population. With rare exceptions, employees, even executive employees, do not own functionally significant amounts of productive capital. As a result, they generally feel both financially and emotionally alienated from those who do own capital.

The following diagram illustrates the basic building block of Employee Stock Ownership financing. It has many possible variations. Using the assumptions referred to in the above discussion of conventional corporate finance, the technique is as follows:



The function of the Employee Stock Ownership Trust is to purchase newly issued stock from a corporation when the corporation needs new capital for expansion. The trust acquires the funds to pay for the new stock by borrowing (with a guarantee of the corporation) from a commercial bank or other lending source. Each year the corporation makes contributions to the trust to cover the payments the trust must make to the lendor for both principal and interest amortization. In addition, it would be desirable to encourage corporations to make further contributions to the trust to be distributed currently to employee beneficiaries of the trust in order to increase their incomes.

Under the Employee Stock Ownership Trust, employees immediately acquire beneficial interests in newly issued shares of the corporation, subject only to the obligation of the trust to repay borrowed funds. Employee participants under the trust are entitled to distributions paid into the trust by the corporation as reflected in their shares accounts and, as provided in each specific trust agreement, the right to acquire the corporate shares directly over a period of time. Each employee participates in the stock ownership trust in relation to his or her annual income from the corporation.

The ideal Employee Stock Ownership Trust is designed so that, while stock is being paid for, some portion of dividend or other income is currently passed through the trust as a "second income" to each employee. After a particular block of stock is fully paid for, all yield on that stock would be currently passed through the trust, thus raising employee incomes without raising corporate costs. The positive effect on employee motivation would be a significant additional benefit.

Important features of this type of financing are:

-- Low-cost capital, since the <u>principal</u> as well as the interest on the loan, both paid by annual contributions by the corporation to the trust (in economic effect, preferential dividends), are deductible for corporate income tax purposes.

-- When the financing is completed, ownership of the newly formed capital is built, proportionately to relative incomes, into the employees of the corporation without deduction from their paychecks or investment of their savings.

-- As owners, employees now tend to be more concerned with the competitive success of the corporation, with a resultant reduction in alienation, and improved morale and sense of commitment to the enterprise.

Other comparisons of conventional finance with Employee Stock Ownership financing are set forth in Appendix II attached hereto.

Essentially, the plan for industry consists of proposals intended to make the use of Employee Stock Ownership financing more attractive than it currently is to corporations, to employees, and to labor unions as the representatives of their constituents.

IMPLEMENTATION OF THE PLAN FOR INDUSTRY.

While the use of Employee Stock Ownership financing is possible and beneficial to both corporations and employees today under existing legislation, there is no question that it could be made substantially more attractive to both business and labor by certain Congressional enactments. We propose suggested amendments to the Internal Revenue Code and certain other legislation. The states should be encouraged to conform their tax laws to the Federal law. The following are some of the changes we would recommend:

(1) Modify the Internal Revenue Code to provide that where funds are borrowed by a qualified trust for the purpose of purchasing the stock of the employer, the deduction to the corporation under §404(a) of the Internal Revenue Code will be the amount contributed to the trust but not less than the sum of:

- 100% of the interest paid from such contribution by the trust to its lendor, and
- 150% of the annual principal amortization payments made by the trust from such contribution to the lendor.

However, in order to obtain this additional deduction, the corporation should be required simultaneously to make a Supplemental Contribution to the trust of a sum equal to not less than 5% nor more than 10% of the aggregate covered payroll of all participants in the trust, which contribution would have to be distributed currently by the trust to the participants. A deduction to the corporation in computing its corporate income tax of 200% of such Supplemental Contribution should be allowed.

The aggregate deduction for all contributions made by a corporation to Qualified Trusts in a tax year should not exceed 50% of the covered payroll for all participants. The provisions would modify the deduction provisions of present §404(a)(1) and §404(a)(7) of the Code.

(2) One hundred percent of all dividends on common or preferred stock of a corporation paid into any Qualified Trust and distributed by such trust to its participants during the current fiscal year should be made deductible in computing the corporation's income tax.

(3) The Internal Revenue Code should be amended in order to make contributions to Qualified Trusts, within liberalized limits to be determined by Congress, deductible by individuals in computing their personal income tax and the Federal estate and gift taxes in the same manner as contributions to charitable organizations under §501(c)(3).

Such amendments would encourage affluent taxpayers to make gifts, which they might otherwise make to tax-exempt foundations, to Qualified Employee Trusts in order to reconnect the ownership of capital with private individuals. Such amendments to the Internal Revenue Code would increase the Federal and state revenues, because the end result would be to build capital ownership and increased incomes into employees covered by such Qualified Trusts and plans. On the other hand, no loss of revenue to the Federal or state governments would be incurred, since such contributions made to charitable organizations are already exempt from taxation.

(4) Congress should consider legislation establishing a governmental insurance agency, which might be known as the Capital Diffusion Insurance Corporation. Its purpose would be to insure banks, insurance companies, and other lendors, who make loan financing to Employee Stock Ownership Trusts designed to broaden the private ownership of productive capital in the course of financing the expansion of business, much as the Federal Housing Insurance Agency insures banks which make consumer loans on home financing and certain other types of loans.

Such an insurance company would facilitate and encourage the readiness of banks to make such loans, and it could serve, along with the Federal Reserve Board, as a regulatory mechanism for phasing the new economic policy into the economy. The methods used in establishing the Federal Housing Insurance Agency could approximately be followed in establishing the Capital Diffusion Insurance Corporation. Private insurance companies, or combinations of private insurance companies, could well be encouraged to sell similar insurance.

(5) Legislation might be recommended to Congress to enable banks, insurance agencies, and other qualified lendors (perhaps even savings and loan associations) to discount loan paper insured by the Capital Diffusion Insurance Corporation with the Federal Reserve Bank. This would amount, in effect, to a process for monetizing newly formed capital and is the antithesis of inflationary financing. This is so because it takes place under conditions where the individual corporations, as well as their immediate lendors, have determined that the proposed new capital formation will pay for itself within a reasonable period of years.

The ultimate effect of widespread Employee Stock Ownership financing would be deflationary. This is so because once the newly formed capital has paid for itself, and the credit advanced has been reversed, the newly formed capital continues to throw off goods and services virtually indefinitely, its productive power being restored and protected by depreciation procedures that set aside, before net profits are computed, sufficient funds for this purpose.

(6) To provide an opportunity for careful reflection upon the new policy in connection with labor relations controversies, and to relieve the economy from the enormous damage done by strikes and lockouts, the coercive tools used today in seeking or resisting the inflation-forcing demands for more pay in return for the same (or even less) work input, additional legislation should be adopted. It should give the President power, in all instances involving interstate commerce, to suspend the use of strikes and lockouts for a reasonable period of time while the parties involved investigate the possibility that the use of Employee Stock Ownership financing might reconcile their differences in a manner consistent with the public interest. Such techniques normally benefit both the corporation, by giving it access to lower-cost capital, and the union, by building the ownership of productive capital in its members at unprecedented speed. The end result is to raise employee incomes without raising business costs and without raising the price the public pays for the company's products, all of which are in the public interest.

EXTENSION OF THE PLAN FOR INDUSTRY.

In addition to these specific proposals, there are a number of other areas in which the Administration might take the initiative in accelerating the process of building ever-expanding numbers of capital owners.

(1) Steps should be taken to formulate a policy, within the Antitrust Division of the Department of Justice, with implementing legislation, if necessary, to assure that in all divestitures,primary emphasis is placed on sale, where this is financially feasible, of divested assets, through Employee Stock Ownership financing techniques, to employees in the subsidiaries or divisions being divested, where this is financially feasible. This procedure should include consideration of installment payout arrangements to the seller, partial payment through the issuance of subordinated debentures to the seller, and possibly governmental financing assistance through insurance or otherwise where adequate financing under prevailing market conditions is not available.

(2) Steps should be taken to establish a policy within the Interstate Commerce Commission, the Federal Aviation Administration, the Federal Power Commission, and within other appropriate Federal regulatory agencies to use their powers, where the best interests of the regulated industries and of their employees can thereby be promoted, to encourage the use of Employee Stock Ownership financing to rapidly build significant capital ownership into such employees.

It is clear that if employees of transportation and other regulated enterprises progressively demand more pay in return for diminished work input -- as they must to maintain or improve their standards of living if they have no access to the ownership of capital, the other factor of production -- and the regulatory bodies do not automatically permit these increases to be charged to shippers, passengers, and other users of the services of such regulated industries, the transportation enterprises or other industries will sooner or later collapse.

This has already happened in the case of the largest railroad in the United States. A dozen others may not be far from the same eventuality.

Most urban transit systems are suffering from the same problems.

Virtually every airline is in financial trouble today.

(3) Consideration should be given to tax and other measures which would encourage conglomerates seeking voluntarily to divest themselves of subsidiaries or divisions or other assets to use Employee Stock Ownership financing techniques to sell these assets to employees of the entities which will ultimately operate after divestiture.

(4) Studies should be made of the extent to which Federal leadership, cooperating with the appropriate regulatory bodies of the states, can encourage public utilities to finance a major portion of their expansion through a combination of Employee Stock Ownership financing techniques and techniques that build ownership into the customers of public utilities in order to raise the power of the public to pay for the services.

In the light of the American Dream that every family and individual hopes to acquire an independent source of income through the private ownership of a significant holding of productive capital, it seems illogical to grant monopoly franchises to corporations without requiring them to finance a major part, if not all, of their expansion in ways which would build second sources of income into their employees and that would build partial ownership into their customers so as to raise their power to buy the service which such monopolies are designed to provide.

(5) In the case of sale by the U.S. Government Atomic Energy Commission of atomic fuel plants to private enterprise, studies should be made of the means of selling a major part of the equity to employees of such resulting enterprises, and of other means of broadening the ownership base of the resulting new companies.

THE PLAN FOR THE PUBLIC SECTOR.

(1) In order to relieve the Federal Government, the states, cities, towns, and other municipal corporations, school districts, college districts, universities, and various quasi-public corporations of multitudinous debt and tax burdens, Federal and state legislation should be drafted to encourage the privatization of facilities now owned and operated by such governmental entities and quasi-public corporations. This legislation might be modeled upon the Eisenhower Post Office Law, which was designed to encourage private construction and ownership of post office buildings provided to the Federal Government through lease arrangements.

Rather than to encourage the highly concentrated private ownership of such facilities, however, they should be owned by the employees who work for the governmental agencies and quasi-public corporations involved. Such employees can be made the employees of the respective facilities' corporations, with arrangements for the "leasing" of the employees to the governmental agency at cost, and the leasing of facilities at fair market value. The end result would be the building of private capital ownership into civil servants and other governmental and quasi-public corporation employees so as to give them private security and second sources of income.

Other advantages of this program would be to relieve the burden upon taxpayers at every level of government, to diminish or eliminate the need for rising wages and salaries as a means of achieving increased incomes for such employees, the eventual elimination of the feeling of economic alienation of such employees, who know they have no chance to own a piece of the action, and a vastly healthier economy in general.

(2) A governmental policy should be adopted for the privatization of all publicly owned assets where the ownership of such assets can be acquired by employees of entities operating such assets through the use of Employee Stock Ownership financing. Each step in such privatization will reduce the public payrolls and at the same time raise the tax base and the private incomes of the employees involved. The motivational implications in raising the efficiency of the economy and the power of American workers to buy and enjoy the output of business and industry should be desirable by-products of such steps.

(3) The Administration should propose the Congressional or administrative study of the use of Employee Stock Ownership financing in connection with the building of new towns. Each new town represents a vast new collection of capital instruments. If those capital instruments become owned by the top 5% of wealthholders, following the patterns of the past, the new towns will quickly reach the state of economic stagnation characteristic of all old towns and cities today. To bring into existence vast amounts of productive capital without commensurately raising the power of the people affected to engage in production through the ownership of the newly formed capital, as well as through their employment, is to invite the repetition of the crushing problems which we now face at every level of the economy.

(4) Legislation should be adopted to require the Federal Power Commission, which has options under the Federal Power Act to purchase some 270 used hydro-electric plants at prices which represent a fraction of their current fair market value, to assure that such plants are purchased by employees and by propertyless people who are

now deprived of an opportunity to be economically productive. It is virtually certain that these assets can be purchased on terms where they will pay for themselves. Such a policy would help raise the productive power of thousands of unproductive and under-productive citizens, disalienating them, raising the government's tax base, and carrying out the spirit of the New Industrial Homestead Act.

THE PLAN FOR FOREIGN POLICY.

The formulation and refinement of legislation pertaining to the foreign economic policy of the United States should be undertaken.

The power of business and government of the United States, through the use of Employee Stock Ownership financing techniques and related means, to show the developing economies how to make "haves" (that is, capital owners) out of the "have-nots," without taking from the present haves, should be the Number One instrument of foreign policy of the United States. This is an awesome power capable of relegating coercion to a secondary role in international relations. It would be a positive means of making America again a symbol of goodwill in the world. There would appear to be no other way for U.S. corporations to build their stockholder constituencies abroad to the degree necessary to enable the citizens of the host economies to consume the goods and services which they wish to produce and sell in those economies. In no other way can U.S. managerial talents, merchandising knowhow, and financial statesmanship be sold year in and year out to friendly nations to the mutual profit of all.

CONCLUSION.

It is recognized that the implementation of the steps recommended in this plan would have to be synchronized with the other elements in the government's comprehensive economic program. While broadening capital ownership through the steps outlined above represents no panacea, it seems clear now that it must be the foundation for any overall program to regain the American economic dream.

It would appear that in the absence of such a program, there is no effective way of countering growing inflation, erosion of the dollar, increasing welfare, alienation and other deepening cracks in our economic structure. This plan is submitted with full recognition of the constructive forces others are bringing to bear on our economic problems, as well as with the recognition that once the full significance of building capital ownership into expanding numbers of citizens is appreciated, those same forces can be mobilized to develop even more effective ways of achieving the goal of giving every American a chance for "a piece of the action."

The current crisis provides an historic moment for business, labor and government to work together to begin developing the broad capital ownership base which is essential for the health of our economy and the strength of our political democracy.

Respectfully submitted,

HAROLD W. BANGERT

ALAN E. SAPIRO

HENRY L. McINTYRE

PATRICIA HETTER

LOUIS O. KELSO

September 3, 1971

APPENDIX I

THE FULL PRODUCTION ACT OF 1971

The Employment Act of 1946 Restated to Encompass Both Factors of Production

EXPLANATORY NOTE

The proposed Full Production Act of 1971 has been designed to broaden United States economic policy -- now based solely on jobs -- to encompass the other factor of production, capital.

If the function of technology is to shift the burden of production from labor to capital instruments -- that is, to substitute capital input for labor input; and if the great bulk of our wealth is already produced by things instead of by people -- and this is now a self-evident fact -- then full employment, even if it were attainable, can never close the purchasing power gap. No household can reach maximum economic productiveness (regardless of how many members are fully employed), nor can it have an opportunity to enjoy personal leisure and income security without an opportunity to acquire, in ways consistent with morality and good business practice, a reasonable holding of productive capital. Today this opportunity does not exist for the 95% of families not already substantial capital owners.

The Full Production Act retains the spirit of the Employment Act of 1946, namely, that every household should have the opportunity to produce the wealth it reasonably desires to consume. Morally, this goal is beyond dispute. The question is simply one of means. If labor were the only factor of production, then people could produce income legitimately only through their labor. But if there are two factors of production, labor and capital, and if technology improves the productivity of only one of them, capital, then equality of economic opportunity clearly means more than the opportunity to obtain a job. Also, being fully productive means more than full employment of one's labor. This is the ethical meaning of the Full Production Act of 1971. It defines economic opportunity as the right to be productive -- either through employment, where the economy still requires it, or vicariously through private ownership of the non-human factor of production, capital; or through a combination of the two.

A large part of the goal of the proposed Full Production Act of 1971 can be accomplished without any new laws. It is already possible for corporations to broaden their stockholder constituency to include employees, without diminishing takehome pay or invading their savings. These techniques provide lower cost capital for corporate growth and are beneficial to banks, insurance companies, and other lendors. They protect the equities of existing stockholders. (See Appendix II.) But a New Economic Policy is needed to focus the attention of business, labor and government on <u>both</u> factors of production. Supplementary legislation could greatly accelerate the proposed solution to our most pressing economic problems.

THE FULL PRODUCTION ACT OF 1971 *

An Act to declare a national policy (1) on facilitating the full employment (as herein defined) of all able-bodied and competent persons, (2) on the full participation in the production of economic goods by all consumer units in the economy, (3) on the protection of private property in individual labor power and in the ownership of capital as the factors of economic production, and for other purposes . . .

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

Short Title:

SECTION 1. This Act may be cited as *The Full Production Act of 19——.*

Declaration of Policy:

SECTION 2. Congress declares it is the continuing policy and responsibility of the Federal Government to recognize, and to encourage the citizens of the United States to recognize that:

A. Man is born a creative entity combining the physical attributes of an animal with the spirit and soul of a human being.

B. Man's creativeness imposes upon him the duty and obligation to engage in creative work from his maturity and the completion of his formal education until the cessation of his creative capacity through death or disability, subject only to reasonable respite for rest and recreation, and that one who so engages in such creative work is "fully employed" within the contemplation of this Act.

* Reproduced by permission from the Appendix to TWO-FACTOR THEORY: THE ECONOMICS OF REALITY, by Louis O. Kelso and Patricia Hetter (Vintage Press, N.Y. 1968).

C. The creative work of man is of two kinds, corresponding in general to the two aspects of man, animal and spiritual: one of these is the work of producing economic goods and services to satisfy man's need for creature comforts and economic security, and the other is the work of producing the goods of civilization which administer primarily to the mind and spirit of man, including the arts, the sciences, religion, education, philosophy, statesmanship, and the like.

D. There are two factors or instrumentalities which engage, or may be engaged, in the production of economic goods. These are the human factor (which is commonly called "labor") and the nonhuman factor (which is commonly called "capital"); that capital consists of all those things which are external to man, are privately ownable under the prevailing system of laws, and which are capable of being engaged in production.

E. The nonhuman factor, as the result of technological advance (including automation), plays (and increasingly since the beginnings of the industrial revolution has played) an expanding role in the production of economic goods and services, while the human factor plays (and presumably will always play) the dominant and unlimited role in the production of the goods of civilization. The purpose and end of all productive activity, both economic and of the goods of civilization, is the consumption and enjoyment of such goods by man.

F. It is the policy of the laws of the United States to assure and protect the integrity of private ownership of the factors of production by the individual citizens of this nation and by others; that in the case of the production of economic goods and services, the functional essence of such private ownership lies in the right and privilege of the individual owner of each productive factor so engaged in production to receive, *as a matter of right,* the entire net product of the thing owned; that this principle of private property is equally applicable to the income or wealth produced by the labor power privately owned by the worker (the human factor) and to the income or wealth produced by the non-human factor owned by the capital owner; that the right and privilege of private property in the means of production is meaningless in a free economy and free society unless the *value* of the income or wealth produced by a factor of production is (except in the case of legally authorized and regulated monopolies) freely and impartially determined by the forces of supply and demand in workably free, competitive markets; that this principle of private property in the means of production is embodied in the principle of distribution of economic goods and services (or their purchasing power equivalent), of the private-property, free-market economy of the United States, which is "from each according to what he produces, to each according to what he produces."

G. The nature and function of technology is to provide the means by which man subdues nature and makes her perform for him the work of producing economic goods and services; that through progress in technology, man transfers the burden of economic production from the human factor (labor) to the nonhuman factor (capital); that the promise implicit in technology is the release of man from the obligation to toil for the production of economic goods and services, and thus to free him to devote ever more fully his energies to the advancement of his civilization through the more disciplined and difficult work of producing the goods of civilization, so that the full employment of man's creative energies must consist increasingly, as technological progress moves forward, in his devoting his energies, efforts, and powers to the production of the goods of civilization.

H. The freedom and dignity of each consumer unit (household) within the American economy, whether it be comprised of an individual or of two or more individuals, requires that each such consumer unit produce, and that it constantly have the power and opportunity to *produce*, within the limits of the overall capacity of the economy the purchasing power equivalent of the economic goods and services which it reasonably desires to consume; that the recognition of this right on the part of each household imposes upon the government of the United States and upon the governments of the several states of the Union, to the extent they shall by appropriate legislation concur herein, a social responsiblity to foster the institutions under which citizens may produce the economic goods and services, and may acquire the private ownership of the means of producing the economic goods and services necessary to provide themselves with individual economic wellbeing and security and to render unnecessary any citizen's being or becoming an object of economic distribution based upon need in any form.

I. The production of wealth (i.e., economic goods and services) is a means to an end, and is not an end in itself; that the human factor of production (labor) should never be considered a "resource" to be "fully employed" in the production of economic goods and services if those economic goods and services can be produced by the nonhuman factor of production; that the end to which the production of wealth is a means is the living of a good, comfortable, secure, creative and law-abiding life for individual citizens.

J. The market value of the economic goods and services produced by a free-market economy within a given period of time is approximately equal to the aggregate purchasing power distributed as a direct result of the productive process to those who participate, either through employment of their privately-owned labor power or their privately-owned capital, or both, in the process of economic production.

K. Any consumer unit of this economy that consistently produces, either through its privately-owned labor power, its privately-owned capital, or both, wealth and income in excess of what it reasonably desires to consume and reasonably needs to provide it with economic security, under conditions wherein any other consumer units in the economy are consistently deprived of the opportunity to produce sufficient economic goods and services or the purchasing power equivalent thereto equal to what they reasonably desire to consume and to provide themselves with economic security, is thereby seeking to excessively concentrate its ownership of personal economic power to produce wealth and thus to indulge its greed; that it is the policy of the United States to discourage and prevent greed where it interferes with the individual economic productive rights of citizens of the United States.

L. Unlike the production and employment of economic goods and services, the production and enjoyment of the goods of civilization is an end in itself, and the need of society for the goods of civilization is unlimited; that the ultimate goal of a free society is to maximize the production and enjoyment of the goods of civilization, not for economic reward, for they are things that are inherently desirable and that ideally would not be produced for economic reward but for their intrinsic value, for the contributions to society and humanity which they comprise, and for the achievement involved in their creation and contribution.

M. Assuming the availability of land and natural resources, each mature individual other than those who suffer physical or mental infirmity is born with the private ownership of the means (his labor power) to contribute, in a pre-industrial, pre-automated economy, to the production of economic goods and services for the satisfaction of his creature needs and desires; that as technological change moves through the advanced stages of automation, the burden of production of economic goods and services falls increasingly upon the nonhuman factor of production, thus reducing and in some cases destroying the economic productiveness of the human factor of production; that under these conditions, the freedom, dignity and general affluence of individuals requires that the Government of the United States and the governments of the several states of the Union, to the extent that each of them, by appropriate legislation, shall concur herein, promote and foster the institutions under which citizens may maintain and increase their economic productiveness through their lawful and orderly acquisition of increasing quantities of the private and individual ownership of the nonhuman factor of production.

SECTION 3. The Congress declares that it is the continuing policy and responsibility of the Federal Government to use all practicable means consistent with its needs and obligations and other essential considerations of national policy, with the assistance and cooperation of industry, banking, finance, agriculture, labor and State and local governments, to coordinate and utilize all its plans, functions and resources for the purpose of creating and maintaining, in a manner calculated to foster and promote free competitive enterprise and broad, effective, individually-owned, private property in capital, and the institutions and agencies necessary thereunto, and the general welfare, conditions under which there will be afforded full opportunity for every household, comprised of one or more individuals, able, willing and seeking to produce the wealth (income) which its member or members reasonably desire to consume, to produce such wealth and income either through useful employment, including self-employment, or through the private ownership of interests in productive capital, or through a combination of the two, and to promote the maximum production of wealth and income for all households in the economy with a minimum of personal toil and drudgery.

SECTION 4. Economic Report of the President.

A. The President shall transmit to the Congress not later than January 20th of each year an economic report (hereinafter called the "Economic Report") setting forth:

1. The rate of production of economic goods and services, the levels of participation in economic production by the households of the economy, the extent to

which such production is being achieved respectively through the human factor, and through the privately-owned nonhuman factor, the levels of purchasing power of the households of the economy and the extent to which they result from employment, the private ownership of the nonhuman factor, and from other sources, and the levels and composition of production needed to carry out the policies declared in Sections 2 and 3 hereof;

2. Current and foreseeable trends in the rate of production of economic goods and services, the levels of participation in economic production by the households of the economy, the levels of employment, the levels of capital ownership, and the levels of purchasing power of the households of the economy resulting respectively from participation in production through employment, through the private ownership of the nonhuman factor, and from other sources;

3. The degree to which the value of labor and the value of the nonhuman factor of production are determined by the forces of supply and demand in workably free competitive markets or are administered, manipulated or controlled by private persons, by private corporation, or by public agencies, or otherwise;

4. The extent to which goods and services are being produced by government or government-owned agencies or entities or by nonprofit corporations;

5. The levels of concentration of the ownership of the nonhuman factor of production, and the extent to which greed in connection therewith may be impairing the right of all households within the economy to produce the wealth or income which they reasonably desire to consume;

6. The availability and adequacy of private and/or governmental institutions or agencies for facilitating by financing and by other lawful means the purchase or acquisition of capital equities by households with sub-viable capital holdings;

7. The levels of idleness or failure to engage in creative work within the society, and current and foreseeable trends therein;

8. The extent to which the economically available creative talents and energies of the citizens are fully engaged in contributing to the work of civilization, including the arts, the sciences, religion, education, philosophy, statesmanship, etc., the current and foreseeable trends therein and recommendations for changes or improvements therein;

9. The degree of effectiveness of the laws, both Federal and of the several states, providing for the protection and integrity of private property in the ownership of each of the factors of production;

10. The levels of technological improvement, and the adequacy thereof, under the prevailing state of development in the physical sciences and in engineering to maximize the production of goods and services within the economy with a minimum input of human toil and drudgery;

11. The extent to which wealth and income may be distributed within the economy on the basis of need rather than on the basis of contribution to production, and of current and reasonably foreseeable trends therein and recommendations for the minimization thereof;

12. The levels of technological advance within the various industries, and the current and foreseeable trends therein, and recommendations for the acceleration and improvement thereof;

13. A review of the economic programs of the Federal Government and of the several state governments relating to each of the foregoing during the preceding year and of their effect upon the production of goods and services, the production of the goods of civilization, the minimization of toil, the private ownership of the means of production, the existence of workable and free competition within the markets of

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the economy, and upon the existence and extent of idleness or the failure to fully employ the creative talents and energies of the people of the United States, and of the means available for the minimization and elimination of such idleness;

14. A program for carrying out the policy declared in Sections 2 and 3, together with such recommendations for legislation as he may deem necessary or desirable.

B. The President may transmit from time to time to the Congress reports supplementary to the Economic Report, each of which shall include such supplementary or revised recommendations as he may deem necessary or desirable to achieve the policy declared in Sections 2 and 3.

C. The Economic Report, and all supplementary reports transmitted under subsection B of this Section shall, when transmitted to Congress, be referred to the Joint Committee created by Section 6.

SECTION 5. *Council of Economic Advisers.*

A. The Council of Economic Advisers (hereinafter called the "Council") created in the Executive Office of the President by the Employment Act of 1946 is hereby designated as the Council of Economic Advisers under and for the purposes of this Act. The Council shall continue to be composed of three members who shall be appointed by the President by and with the advice and consent of the Senate, and each of whom shall be a person who, as a result of his training, experience and attainments, is exceptionally qualified to analyze programs and activities of the Government in the light of the policy declared in Sections 2 and 3 of this Act and to formulate and recommend national economic policy to promote full participation in the production of economic goods by all households in the economy, broader and more effective private capital ownership, production, the expansion of privately-owned competitive enterprise, the full utilization of the creative energies and talents of all citizens and residents of the United States and its territories, and the minimization of human idleness. The President shall designate one of the members of the Council as Chairman and one as Vice Chairman, who shall act as Chairman in the absence of the Chairman. The incumbents of the Council of Economic Advisers established by the Employment Act of 1946 holding office on the effective date of this Act shall hold such offices in the Council of Economic Advisers hereunder, subject to the provisions of this Act.

B. Employment of Specialists, Experts and Other Personnel.

The Council is authorized to employ, and fix the compensation of, such specialists and other experts as may be necessary for the carrying out of its functions under this chapter, without regard to the civil-service laws, and is authorized, subject to the civil-service laws, to employ such other officers and employees as may be necessary for carrying out its functions under this chapter.

C. Duties.

It shall be the duty and function of the Council:

1. To assist and advise the President in the preparation of the Economic Report;

2. To gather timely and authoritative information concerning economic development and economic trends, both current and prospective, to analyze and interpret such information in the light of the policy declared in Sections 2 and 3 of this Act for the purpose of determining whether such developments and trends are interfering, or are likely to interfere, with the achievement of such policy, and to compile and submit to the President studies relating to such developments and trends;

3. To appraise the various programs and activities of the Federal Government in the light of the policy declared in Sections 2 and 3 of this Act for the purpose of determining the extent to which such programs and

activities are contributing, and the extent to which they are not contributing, to the achievement of such policy, and to make recommendations to the President with respect thereto;

4. To develop and recommend to the President national economic policies to foster and promote free competitive enterprise, full and effective private ownership of capital, rapid growth in the number and proportion of households owning viable capital estates as a means of increasing their economic productiveness, avoidance of economic fluctuations or diminution of the effects thereof, and to maintain the maximum economic productiveness of all households within the economy of the United States either through employment, the private ownership of the nonhuman factor of production, or a combination of the two, as the current state of technology may determine, and thus to promote the growth and expansion of the purchasing power of the households of the economy;

5. Continuously to study and from time to time to formulate and to recommend to the President means for determining:

(a) the actual needs of the civilian economy for employment of the human factor of production after the elimination of all pretended or false employment, featherbedding, or employment which has been governmentally or privately synthesized for the sake of effecting a laboristic distribution of wealth rather than to fulfill an actual need for such employment under the prevailing state of technology;

(b) the size (by dollar value) of capital estate (herein called a "viable capital estate), generally capable, if owned by households of various sizes, of enabling such households to participate in the production of economic goods and services sufficiently to provide a reasonable degree of affluence and private economic security within the capability of the economy as a whole, which determinations shall be for the purpose of fixing from time to time the minimum goal of capital ownership for all households of the economy which it is the policy of this Congress to encourage;

(c) the size (by dollar value) of capital estate (herein called a "monopolistic capital estate"), which, if owned by households of various sizes, would tend to enable them continuously to participate in the production of economic goods and services in excess of a level necessary to provide a reasonable degree of affluence and private economic security and thus necessarily to deprive other households of the opportunity to participate in the production of economic goods and services sufficiently to provide a reasonable degree of affluence and security within the capacity of the economy as a whole.

6. Continuously to study and from time to time to formulate and recommend to the President means for implementing the policy of the United States to foster the institutions and conditions under which households of the economy can build their privately-owned economic power to enjoy a reasonable degree of affluence as a result of their participation in production through their private ownership of one or both of the factors engaged in production, and thereby to minimize the extent to which such households need rely upon any form of social security or socially distributed welfare within the economy.

7. To make and furnish such studies, reports thereon, and recommendations with respect to matters of Federal economic policy and legislation as the President may request.

D. Annual Report.

The Council shall make an annual report to the President in December of each year.

E. Consultation with Other Groups and Agencies;

Utilization of Governmental Services and Private Research Agencies.

1. In exercising its powers, functions and duties under this chapter:

(a) the Council may constitute such advisory committees and may consult with such representatives of industry, banking, finance, science, agriculture, labor, consumers, state and local governments, and other groups as it deems advisable;

(b) the Council shall, to the fullest extent possible, utilize the services, facilities and information (including statistical information) of other Government agencies as well as of private research agencies, in order that duplication of effort and expense may be avoided.

F. Appropriations.

To enable the Council to exercise its powers, functions and duties under this chapter, there are authorized to be appropriated such sums as may be necessary.

SECTION 6. Joint Economic Committee.

A. The Joint Economic Committee, created by the Employment Act of 1946, is hereby designated as the Joint Economic Committee under and for the purposes of this Act. It shall be composed of seven Members of the Senate, to be appointed by the President of the Senate, and seven Members of the House of Representatives, to be appointed by the Speaker of the House of Representatives. The party representation on the Joint Committee shall, as nearly as may be feasible, reflect the relative membership of the majority and minority parties in the Senate and House of Representatives.

B. Duties.

It shall be the duty and function of the Joint Economic Committee:

1. To make a continuing study of matters relating to the Economic Report;

2. To study means of coordinating programs in order to further the policy of this Act;

3. As a guide to the several committees of the Congress dealing with legislation relating to the Economic Report, not later than March 1 of each year (beginning with the year —) to file a report with the Senate and the House of Representatives containing its findings and recommendations with respect to each of the main recommendations made by the President in the Economic Report, and from time to time to make other reports and recommendations to the Senate and House of Representatives as it deems advisable.

4. Continuously to study, formulate and recommend to the Congress means for raising the economic productive power of those households of the economy that are not already affluent, in order thereby to raise their economic power to consume, including, but without being limited to, the following:

(a) promotion of the acceleration of technological progress in the means of producing increased quantities and improved quality of goods and services and the minimization of the use of human toil required for such production;

(b) simultaneously increasing the rate of new capital formation within the civilian economy of the United States and the rate of production and consumption therein of consumer goods and services;

(c) developing means of extending private ownership of capital to a rapidly expanding number and proportion of the households of the economy:

i) through improved and/or new methods of financing the acquisition of equity capital ownership through the use of pure credit in such manner as to create future savings by households devoid of present or past savings, as well as out of current and past savings;

ii) through modifications of the estate and gift tax laws and through discouraging or prohibiting the use of gifts, testamentary or otherwise, or of other practices or devices, to unreasonably concentrate the ownership of capital within particular households;

iii) through methods of financing new capital formation in commerce and industry in ways which enable workers having sub-viable capital estates to purchase and pay for additional capital interests and through promoting reasonable and adequate diversification in such holdings;

iv) through coordination of antitrust policy and the policies hereby declared, including means of financing the purchase by households having sub-viable capital estates of assets of corporations subjected to divestiture decrees pursuant to the antitrust laws of the United States;

v) through facilitating the establishment and financing of new enterprises and the ownership of such enterprises by a maximum number of households theretofore owning sub-viable capital estates;

vi) through the development of a system of investment preferences on newly issued securities of high investment quality for those households which have sub-viable capital estates;

vii) through such other tax, credit, and other devices or institutions as will be effective for that purpose within the policies hereby declared, together with appropriate restrictions on the use of such devices for speculative purposes or to create concentrated or monopolistic capital holdings;

viii) through the primary use of the credit system to promote new capital formation under the ownership of households having sub-viable capital estates, and through a diminishing use of credit to support the purchase of consumer goods and services as the increased participation in production by all households of the economy through increased capital ownership is achieved.

(d) ascertaining and recommending to the Congress the elimination of governmental practices which encourage the concentration of the ownership of the nonhuman factor of production.

5. Continuously to study and formulate means for making effective in both the legal and economic sense the laws of private property as they apply to the human factor and the nonhuman factor of production, including, but not limited to the following:

(a) the elimination, over a reasonable transition period, of the corporate income tax and other taxes which are levied in such manner as to intercept the income arising from production by the nonhuman factor before it reaches the hands of the individual owners thereof, together with adjustments in the personal income tax laws so as to prevent them from raising more than the necessary revenues required by government;

(b) the formulation of legislation designed to encourage or require mature corporations (corporations having reasonable access to market sources of financing new capital formation) to pay out to their stockholders 100% of their net earnings, after setting aside only reasonable operating reserves;

(c) the development and encouragement of freely competitive markets within which the value of the factors of production, both human and nonhuman, is determined, provided, however, that the necessity of maintaining a general high level of purchasing power should take precedence over a competitive decline in the value of the human factor of production where it is not substantially offset by an increased participation of the households involved in the production of goods and services through ownership of the nonhuman factor of production.

6. Continuously to study, and from time to time to formulate and to recommend to the Congress means for facilitating the full employment of all able-bodied and competent persons:

(a) to the extent necessary, under the prevailing state of technology, in the production of economic goods and services sufficient to provide a generally affluent economy; and

(b) to the extent that the production of a high and adequate level of production of economic goods and services can be maintained through the full and effective employment of the nonhuman factor of production and the freeing of a maximum number of individuals from the necessity of performing toil in economic production, in the production of the goods of civilization, including the arts, the sciences, religion, education, philosophy, statesmanship, and the like.

7. Continuously to study and from time to time to formulate and to recommend to the Congress means for extending and deepening the understanding on the part of all citizens of the meaning and implications of the policies hereby declared and adopted.

C. Vacancies.

Vacancies in the membership of the Joint Committee shall not affect the power of the remaining members to execute the functions of the Joint Committee, and shall be filled in the same manner as in the case of the original selection. The Joint Committee shall select a Chairman and a Vice Chairman from among its members. The members of the Joint Economic Committee created by the Employment Act of 1946 who are holding office thereon at the effective date of this Act, shall hold such offices on the Joint Economic Committee hereunder, subject to the provisions of this Act.

D. Hearings.

The Joint Committee, or any duly authorized subcommittee thereof, is authorized to hold such hearings as it deems advisable, and, within the limitations of its appropriations, the Joint Committee is empowered to appoint and fix the compensation of such experts, consultants, technicians, and clerical and stenographic assistants to procure such printing and binding, and to make such expenditures, as it deems necessary and advisable. The Joint Committee is authorized to utilize the services, information, and facilities of the departments and establishments of the Government, and also of private research agencies.

E. Appropriations.

There is authorized to be appropriated for each fiscal year, the sum of $5,000,000, or so much thereof as may be necessary, to carry out the provisions of this Act, to be disbursed by the Secretary of the Senate on vouchers signed by the Chairman or Vice Chairman.

SECTION 7. The Employment Act of 1946 is hereby repealed.

APPENDIX II

	CORPORATE GROWTH FINANCED * IN CONVENTIONAL WAYS	CORPORATE GROWTH FINANCED * THROUGH EMPLOYEE STOCK OWNERSHIP TRUSTS
TAX TREATMENT OF INTEREST	Interest deductible for corporate income tax purposes as such.	Interest deductible for corporate income tax purposes as a contribution to a qualified trust.
TAX TREATMENT OF PRINCIPAL	Repayment of the principal, which is not deductible for corporate income tax purposes, requires $2.3 million pre-tax dollars.	Repayment of principal, which is deductible for corporate income tax purposes, requires only $1 million pre tax.
WHO OWNS THE STOCK WHEN IT HAS PAID FOR ITSELF	When the financing is paid off, the employees have acquired no capital ownership. Having no other means of making productive input aside from their labor power, in order to keep up with rising costs of living and rising taxes, they must demand ever higher compensation for the same or a diminished work input.	When the employee stock ownership financing is paid off, the employees, including executive employees, each in proportion to his relative income from the corporation, have purchased through their trust, on installment credit that is non-recourse as to them, newly issued stock, under conditions where the proceeds to the corporation are invested in new tools, and where the employees, in economic theory (as distinguished from tax theory) are entitled to receive a preferential dividend representing the "full wages" of their new capital to enable them to pay for it.
CORPORATE STRATEGY IMPLICATIONS	The corporation, by leaving employees in a position where they have no means for engaging in production except through their work, forces employees to progressively demand more pay for the same (or even less) work input, thus forcing up costs without raising output, in order to keep up with rising living costs, rising taxes, and some portion of rising expectations.	The corporation, by financing its expansion on terms that are not only more favorable to it but which also build equity ownership into employees without diminishing takehome pay or invading their savings, puts employees in a position to build a capital estate without reducing spendable income and within a few years to add a growing second income to their wage or salary.
INTERNATIONAL COMPETITIVE ADVANTAGE TO U.S. BUSINESS	Because the corporation cannot provide better increasing economic security or increased incomes to its employees except by increasing its costs, its only hope, vis-a-vis foreign competitors, is that they suffer the same or a worse fate.	Because the corporation can provide increasing economic security and, after the stock has in effect paid for itself, increasing income for its employees without increasing its costs, it puts itself progressively in a better position vis-a-vis its competitors, domestic and foreign.
ECONOMIC ALIENATION	The natural antipathy between owners (who generally do not work in the corporation) and workers, who own no part of the corporation, grows, and reflects itself in alienation of the workers, lack of common goals, decline of craftsmanship, high turnover, waste, social unrest, and, in extreme cases, even sabotage.	There is a growing unity of interest between owners and employees, as employees become equity owners through their tax-exempt, in-house mutual fund, the ESO Trust, having been given the opportunity to invest on the same terms the corporation traditionally insists upon for itself when it makes an investment -- that it pay for itself.

* Comparison based upon an assumption that a corporation has determined to invest $1 million in new plant, and has persuaded its bank to loan that amount on a five-year installment payout basis.

	CORPORATE GROWTH FINANCED IN CONVENTIONAL WAYS	CORPORATE GROWTH FINANCED THROUGH EMPLOYEE STOCK OWNERSHIP TRUSTS
GOING PUBLIC vs. GOING PRIVATE	Close holding stockholders may remain in a position where either they or the corporation, or both, will at some future time be required to make an expensive public sale of stock to establish its market value to provide valuation and liquidity to handle estate tax problems.	The ESO Trust itself can buy close-held stock, on pre-corporate income tax dollars, and solve normal estate tax problems and return the full fair market value of the stock to the selling stockholders, without subjecting either the corporation or its stockholders to the vagaries of the public stock market, while building equity ownership into corporate employees in the meanwhile.
RETIREMENT SECURITY AS AN OPPRESSIVE BUSINESS COST OR AS A SOURCE OF NEW CAPITAL FORMATION?	No anxiety of the American working man or woman could be better founded than the concern for income after retirement. Most corporate and public employers have policies of mandatory retirement at 65 or less. Unless the typical employee reduces his current standard of living (and his potency as a customer for business) sufficiently during his life to accumulate a fund to provide 1/3 to 1/2 his income throughout his retirement, even with pensions and Social Security, his income drops to the poverty level on retirement. Nevertheless, inadequate as governmental, union, and corporate pensions are, they are a devastating cost to corporations and taxpayers. The reason is quite apparent: the funds so accumulated are mostly invested in outstanding pieces of paper (stocks or bonds) at yields that assure that the investments will <u>never</u>, if the market cost of money is considered, pay for themselves. Corporations for their own accounts, would never knowingly or intentionally make investments that will never pay for themselves, but for their conventional pension and profit sharing trusts, they, like governments and unions, almost invariably do! So year after year, the corporate, union, and governmental costs of pensions go up. Year after year their inflationary impact pushes up the cost of living, for they contribute nothing to the output of goods and services to offset their costs. In other words, the sums invested do not go directly into new capital formation. Year after year the functional inadequacy of retirement plans in the face of rising costs of living and rising taxes brings grief, privation and frustration to those who have looked forward to depending upon them. At the same time, many corporations would be insolvent or stripped of most of their equity, if their retirement plans were currently fully funded. Their stocks would plummet in the market place.	In terms of accumulation for retirement of corporate or governmental employees who participate in Employee Stock Ownership Trusts, it is realistic (and theoretically sound) to look at payments made by the employers into the trust as part of the yield (along with dividends) on the trusts' original investments. Thus in economic theory (as distinguished from tax theory), the contribution is simply the preferential dividend that enables the investment on non-recourse credit (as to the employee) to pay for itself in pre-tax corporate income dollars. It amounts to a relatively full payout of the "wages" of capital to enable the new beneficial owners (the employees) to pay for their new capital out of what it produces. Since the average pre-tax yield on invested capital for U.S. corporations is, and for many years has been, 20% per annum and better, the potency of ESO Trust financing per dollar invested by the employer in building capital ownership in the employee is 400% to 600% greater than conventional corporate, union, or governmental retirement plans <u>and it is not a corporate cost</u>, for corporate growth financed in the conventional way would cost as much or more! Employee Stock Ownership financing can be adapted both to governmental and union use, and is currently being employed by a growing number of corporations.

	CORPORATE GROWTH FINANCED IN CONVENTIONAL WAYS	CORPORATE GROWTH FINANCED THROUGH EMPLOYEE STOCK OWNERSHIP TRUSTS
LABOR-BUSINESS STRIFE OR LABOR-BUSINESS PEACE?	The employees are gradually conditioned to think in terms of the permanent employee-management warfare, using raw coercion and the threat of coercion to extract more pay from the employer in return for the same or a diminished work input. The "economic solution through coercion" syndrome involves maximizing inconvenience to trade, business, the economy and the public as a means of making coercion of the employer more effective. Income, in the mind of the worker, becomes more a function of coercive power than of quality and quantity of productive input, so coercion grows, and the quantity and quality of goods and services shrinks.	The employees are gradually conditioned to think like owners because they become owners. As the reality and awareness of ownership grows, the identity of interest between stockholders, management and employees grows. So does their interest in underselling competitors, domestic and foreign, their pride in quality, their resentment of waste, their solicitude for public goodwill. Pay for non-production equally hurts the property and income of the employee, the manager, and the stockholder.
CONFORMITY TO ECONOMIC REALITY	Although the objective of traditional economic policy is to solve the income distribution problem solely through full employment, every technological advance diminishes the relative input of labor and increases the relative input of capital per unit of output in all areas of economic production. Thus pure science, applied science, engineering, and management -- the disciplines involved in economic production -- work for disemployment, the exact opposite of the national economic policy. The concentration of ownership of capital expands the productive power of those without needs or wants. The non-ownership of capital by 95% of U.S. families with vast unsatisfied needs and wants prevents their legitimately (i.e., other than through coercion) increasing their productive input and thereby enlarging their incomes and their consumption of goods and services. This failure to broaden ownership of capital becomes a main cause of unemployment, which can then only be alleviated by governmental boondoggle and make-work producing non-consumer goods and services.	This financing technique provides the missing link in corporate strategy. It raises the power of corporate employees with unsatisfied needs and wants to consume as it expands the power of the corporation to produce. Its effect in raising employee purchasing power is real for the only way for a mature employee to become more productive is for him to acquire ownership of productive capital. An employee is not made more productive in any real sense by coercing higher pay for the same or less work input when there is a labor surplus. When workers legitimately acquire capital ownership as the corporation expands, their personally owned productive power grows simultaneously with the corporation's ability to produce goods and services. Their increased incomes do not result in increased costs, but increased output. This is the reverse effect of conventional financing, which forces employees to demand more pay without more productive input -- a direct source of cost-push inflation.
INFLATIONARY OR ANTI-INFLATIONARY?	Because this technique of finance leaves employees no choice but to demand more pay without more work input, it amounts to packing the wage base of every employee with personal welfare and forcing the corporation to use the price system to tax the public for the cost. Soon after, the employees rediscover that they are the public. Their gains are cancelled by their rising living costs. The process starts again. It is the engine of inflation itself.	Because this technique depends upon the business logic of self-liquidating investment, it is not only not inflationary; it is deflationary.