

*The Secular  
Outlook:*

WAGES  
AND  
PRICES

By JOHN T. DUNLOP

INSTITUTE OF INDUSTRIAL RELATIONS

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# The Secular Outlook: Wages and Prices

*By*

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## FOREWORD

One of the major obligations of the University of California is to foster the dissemination of knowledge, as a contribution to the welfare of the people it was created to serve. As part of this task, the northern and southern divisions of the Institute of Industrial Relations each year jointly conduct a Summer Management Conference at Yosemite National Park.

This year the theme of the conference was "Changing Concepts of Compensation and Recruitment." The topic was particularly timely now that the question of wages, prices, and inflation has once more become a major public issue. It was also indeed fortunate that we were able to present Professor John T. Dunlop of Harvard University, one of the nation's leading economists, to address the conference on this issue. Because of the importance and contemporary interest of his remarks, we are pleased to present his paper, "The Secular Outlook: Wages and Prices," in published form.

GEORGE H. HILDEBRAND, *Director*  
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## THE SECULAR OUTLOOK: WAGES AND PRICES

It is appropriate to start a conference on Changing Concepts of Compensation with a discussion of the long-term trends, the projections of wages and prices, and the structural changes affecting the performance of collective bargaining. After price stability in the years 1953-56, we are again hearing a good deal about wage inflation.<sup>1</sup>

Professor Henry C. Wallich of Yale has stated: "The regular annual rounds of wage increases have been mainly responsible for keeping up the steam under prices. As things look today, wages are the key to the inflation problem." A recent release of the Bureau of Labor Statistics concluded: "... the figures indicate that average hourly compensation in current dollars increased much more than productivity in the postwar period. The former increased by about 61 per cent, the latter by 26 per cent, leading to an increase in employee compensation per dollar of real product of about 28 per cent." The study points out that this 28 per cent increase was "... almost identical with the increase in price between 1947 and 1956." The chairman of the board of the U. S. Steel Corporation discusses "Inflation as a Way of Life," and the editor of *The Journal of Commerce* concludes that "If creeping

<sup>1</sup> See National Industrial Conference Board, *Wage Inflation*, Studies in Business Economics, No. 56, 1957.

<sup>2</sup> "Perils in the Inflation Psychology," *New York Times*, Magazine Section, January 20, 1957, p. 15.

<sup>3</sup> U. S. Department of Labor, Bureau of Labor Statistics, "Productivity, Earnings, Costs and Prices in the Private Nonagricultural Sector of the Economy, 1947-56," May 13, 1957.

<sup>4</sup> Roger M. Blough, *Inflation as a Way of Life*, an address before the National Editorial Association, Chicago, November 9, 1956.

inflation is allowed to continue with or without official blessing, it will ultimately lead to accelerated inflation. . . .”<sup>5</sup>

Nat Weinberg, of the UAW-CIO, has stated: “The existence of the administered price system in crucially important areas of the economy requires all of us to take a fresh look at the problem of inflation. The shibboleths of the free market, competition, supply and demand, no longer have any validity, if they ever did, for those sectors of the economy where prices are now fixed by decisions of a few corporate executives rather than by the impersonal interplay of the forces of the market.”

It is easy to remain confused in the babble of voices. Do wage increases associated with strong unions and collective bargaining really constitute the key to the inflation problem? Do wage rates increase more under collective bargaining than they would in the absence of unions? Do wage increases create price increases or do high profits act as a magnet attracting wage increases? Is continuing high-level employment possible without creeping inflation? Must creeping inflation become a trot and then a gallop? Can there be wage inflation or cost inflation without demand inflation? What are the reasonable prospects for wage and price movements in the long term, say in the period until 1975? These are not simple questions. They can only be answered “yes and no” and “it all depends.” The discussion that follows indicates some of the factors on which the answers may depend and more particularly some of the secular forces which may be significant to the course of wages and prices in the two decades ahead.

## I

The discussion of wage-price relations should start by distinguishing among at least four different economic contexts or environments: (a) The postwar type of inflation, as in the years 1946-48 in the United States, started with a vast accumulation, a

<sup>5</sup> *Creeping Inflation, A Debate Between Sumner H. Slichter and Dr. Heinz Luedicke* (reprinted from *The Journal of Commerce*), 1957, p. 32.

<sup>6</sup> AFL-CIO Economic Policy Committee, *Economic Trends and Outlook*, February, 1957, p. 2.

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large pent-up supply, of savings and liquid assets relative to the goods available. (b) The Korean type of inflation, of June, 1950 to the spring of 1951, was characterized by a sharp change in expectations, by a speculative demand for scarce labor and scarce basic materials and finished goods. (c) There may be inflationary periods characterized by the spread or the fanning out of wage and price increases from one sector of the economy—such as steel, construction, or heavy equipment—which has experienced a sharp increase in demand. The inflation is propagated to the whole sensitive system from a few centers of infection. (d) Finally, there is a secular or long-term upward movement in wages and prices.

This classification of economic contexts in which inflationary problems arise is not very elegant nor analytical. A more theoretical statement would refer to the initial stock of goods and money supply, to assumptions about the elasticity of expectations, and to other dimensions of an economic system. But for the present purposes, the distinctions among these economic contexts are adequate to make the point that the interactions of wages and prices can be expected to be different in these various settings. Thus, the immediate postwar or the Korean experience may not be very relevant to the context of the long term, to 1975 to choose a date. It is the secular setting which is the focus of this discussion.

## II

In the secular outlook there are a number of factors and structural changes in the economy whose thrust is likely to be inflationary, tending toward a rise in prices and a greater rise in wage rates and labor compensation. There are also some factors and structural changes which are likely to have a restraining effect, tending to moderate the rise of wages and prices and to keep wage increases closer to the rise in productivity. The merit of a list of factors is that each person can add them up or weigh the separate factors according to his own lights. But any appraisal of the secular outlook for inflation cannot ignore these structural changes likely to be of special importance in the period ahead, say to 1975.

### Inflationary Factors

1. The age distribution of the work force between now and 1975 is likely to create labor shortages in the age groups 25-44 as a consequence of the decline in birth rates which took place in the depression of the 1930's. While projections of the present labor force of almost 70 million suggest figures for the total labor force in the range of 92 or 93 million in 1975, estimates for males in these critical age groups show almost no growth until after 1970.<sup>7</sup> One projection for males shows a total growth of 48 to 60 million from 1955 to 1975, but the number of males in these critical age groups in the labor force is as follows for each five years.

	25 to 34	35 to 44
1955 .....	11.5 million	10.8 million
1960 .....	10.9	11.4
1965 .....	10.8	11.5
1970 .....	12.2	11.0
1975 .....	15.2	10.9

The total labor force will grow as a consequence of more older workers, more women particularly over 35 years of age,\* and an increase in the younger age groups, discounted for the continued expansion in advanced education. The critical age groups are likely to reveal shortages which will exert a marked inflationary pressure on wage rates. Growth companies and occupations are likely to have to bid strongly to attract men in the vital age groups 25-44 in the two decades ahead. Pressures at these points in the wage structure will affect the whole level.

Almost half the total growth of the labor force in the period until 1975 will be comprised of women, although women now constitute only about 30 per cent of the work force. One projection shows a total growth of 24.5 million in the period 1955-75, of which 12.9 million are male and 11.6 million female. Our labor force in peace and war has been remarkably pliable, like an accordion adjusting to demands and income changes, but in the two decades

<sup>7</sup> U. S. Department of Commerce, Bureau of the Census, "Projections of the Labor Force in the United States 1955 to 1975," *Current Population Reports*, Series P-50, No. 69, October, 1956.

<sup>8</sup> See National Manpower Council, *Womanpower* (New York: Columbia University Press, 1957), pp. 110-142.



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ahead we face relatively severe shortages of men in the age groups 25-44. While women and both younger and older men will be substituted for men in this age group, the substitution is not likely to be so instantaneous and so complete as to avoid considerable pressures on many wage rates. This impact on wage structures was not present in recent years and is strongly inflationary.

2. The rapidly changing technology appears to be increasing relatively the demand for skilled workers, technicians, and professional and managerial groups. Higher levels of general education have in the past generation probably tended to reduce skilled wage rate differentials by greatly increasing the skilled labor supply, but there are increasing signs that modern technology is now accelerating the demands for specialized skills. The factory and management organization of tomorrow will be required to shift its labor force relatively in these directions. More and more industrial plants are installing full apprentice programs for skilled trades. We are likely to see the growth of new types of occupations between present-day journeymen and professional occupations. Automation, mass handling of data, and other technologies seem to require a new type of work force with a higher proportion of higher skills. These developments, both by creating higher skills with higher compensation and by increasing the demand for given skills, are likely to provide significant upward pressures on wages not present in the recent past.

3. The rise of strong unions in the mass production industries, together with the emergence of wage leadership or pace setting in the most progressive sectors of the economy, is a structural change of the past two decades which has inflationary tendencies for the future. Wage reductions have gone out of fashion, save as special cases in distress or competitive sectors, partly as a consequence of the expansion in the scope of union organization. The location of wage leadership in the automobile, steel, rubber, oil, and electrical manufacturing contours, where there is relative control over price and favorable productivity records (sectors where

high levels of employment and output most lessen resistances to wage increases), is a significant contribution to a higher rate of increase in the money wage level. If the structure of industrial relations and markets resulted in wage leadership and pattern setting in the textile or shoe or even railroad industry, or in one subject to keen foreign competition, the tendency to inflation would probably be less. But it is no accident that wage leadership has been located in sectors which permit larger pace-setting increases.

4. The high value that management and the community have come to place upon labor peace must itself be rated as an inflationary factor. The impatience of customers to wait during a strike, the fear of firms that customers may shift loyalties, the pressure on supplier firms in an assembly or pipe-line type of industry,<sup>9</sup> and the high public relations value placed on labor peace and the stigma placed on labor strife tend to reduce resistance to wage increases. Labor peace comes at a price.

5. Full employment policy is widely cited as a structural change in the economy tending toward inflationary pressures. It is not necessary to adopt an extreme form of the argument, for example, that the government is required to support any level of costs and prices or any structure of relative costs or prices, or that public policy requires an absolute guarantee, or that full employment policy leaves no room for some unemployment, such as 3 or 4 per cent as we currently measure the labor force and unemployment. But the depression following 1929 probably permanently changed the attitudes of the community, and the politicians, toward unemployment. Competition with the Russians for production before the bar of world opinion has probably reinforced this attitude. The effect of the widespread acceptance of policies seeking to maintain high levels of employment is to give more confidence to business and to consumers in committing themselves to plans for expenditures. The planning of plant and equipment expansion three to five years in advance has increasingly become good business prac-

<sup>9</sup> See Leland Hazard, "Wage Theory: A Management View," in *New Concepts in Wage Determination*, George W. Taylor and Frank Pierson, eds. (New York: McGraw-Hill, 1957), pp. 32-50.

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tice,<sup>10</sup> and households are using consumer's credit to enjoy now and pay later to a much greater degree as a consequence of the expectations of fairly steady employment and rising money income. By reducing the risks of serious falls in income, full employment policy operates as a secular factor stimulating demand and pushing up prices.

6. The international situation, even in the absence of small wars or police actions, is likely to be the source of considerable inflationary pressure. The demand of the rest of the world for certain types of American goods and services is likely to increase, particularly among the countries of the world aspiring and striving toward economic development. The so-called underdeveloped countries of Asia, Africa, and the Near East are in ferment, and as economic development gets under way, and as the competition between the "communist" and "democratic" models of economic development becomes keener, between now and 1975 the demand for American machinery, construction equipment, and private and public technical assistance is likely to rise sharply. This development appears to be largely independent of which political party is in power in Washington. A lessening of international tensions and the adoption of practicable disarmament programs in the period before 1975 would reduce military expenditures and ease some manpower shortages, but the drive for economic development is so deep and our involvement is necessarily so widespread that funds for economic aid in one form or another are likely to replace any disarmament slack in the budget.

7. An inflationary factor may arise from the necessity to resort to higher cost raw materials as lower cost supplies are exhausted in such fields as oil, iron ore, and the metals. The import of foreign supplies generally requires higher transportation costs. The level of costs will depend not merely on technical questions of economic efficiencies and price levels but also on trade policies followed by the exporting and importing countries. The tendency to use mate-

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<sup>10</sup> See "Three Solid Years Ahead," *Business Week*, April 27, 1957, pp. 41-44.

rials at higher real costs may be offset, at least in some degree, by industrial research. But the projected expansion in total demand in the period to 1975, and the costs of research and new plant, suggest that on balance raw materials as a whole are likely to be forthcoming only at some higher real price.<sup>11</sup>

8. Effective demand is likely to be very strong in the two decades ahead as a consequence of the continued expansion of suburbs and communities around metropolitan centers and also as a result of continuing regional shifts in industry and population. The growth in population and family formation at much more rapid rates than were projected even a decade ago will raise substantially effective demand. The movement to the suburbs, and to regions of the West Coast, the Southwest, and Florida, as a response to new patterns of life, higher incomes, changing age distribution, and new means of transportation and centers of industry, will require high levels of private and public expenditures. The point is that a mobile and shifting population will require more expenditures than the same population fixed and rooted to given communities. This must be counted as a relatively inflationary factor.

9. The shifting composition of our gross national product away from goods and toward service industries, entertainment, governmental activities, advertising, finance, and education is frequently said to be a shift away from sectors in which productivity has been increasing approximately 3 per cent per year on the average toward sectors in which productivity does not increase so rapidly. To the extent that this statement is an accurate forecast of the trends of the next two decades, the changing composition of national product may have inflationary consequences. The differences in the trends in productivity in service industries and in those producing goods, however, may be a matter of inadequate statistical measures of productivity and the difficulties of measuring changing qualities

<sup>11</sup> See, however, E. S. Mason, "An American View of Raw Material Problems," in *Economic Concentration and the Monopoly Problem* (Cambridge: Harvard University Press, 1957), pp. 253-275.

of service. Thus, the new drugs and changing medical practices have certainly increased the productivity of hospitals and the medical industry in some meaningful sense. But this service industry may not be typical of all the others. The changing composition of national product may well have some adverse effects upon average rates of increase in productivity.

10. The continued strong political position of the farm bloc in both political parties probably means a continuation of high price supports for farm products and higher food prices than would otherwise be the case. This is not a new factor, but high price supports preclude more of the advances in farm productivity and in the economies of larger-sized farms from being translated into lower retail food prices.

### Restraining Factors

1. There are a number of considerations which may lead to a higher average rate of growth in productivity in the future. Higher average rates of increase in productivity would constitute a moderating influence on inflation, permitting a higher wage level without a corresponding price adjustment. In 1956 and 1957, expenditures for research were at the level of \$6 to \$7 billion a year. The McGraw-Hill survey projects a rise to \$9.3 billion in 1960.<sup>12</sup> These expenditures are highly concentrated in aircraft, electrical equipment, and chemicals; there are many sectors of the economy, particularly outside of manufacturing, which have yet to adopt the research habit. There can be little doubt that private and public research expenditures will grow rapidly in the next two decades, increasing as a proportion of total business expenditures. But how much will these research outlays increase productivity? What is the relation, what is the shape of the function relating research expenditures to increases in productivity? How much in research outlays and scientific manpower would it cost to raise the average rate of increase in productivity from 2.5 to 3 per cent or to 4 per

<sup>12</sup> *Business Week*, April 27, 1957, p. 43; *Economic Report of the President*, January, 1957, p. 60.

cent per year? What would it cost to produce these results in a decade or in a generation? We do not know the answers to such questions, but the impact of research on productivity is most decisive to all projections of the inflationary potential of the next two decades.

There are other considerations than research expenditures tending to raise average productivity in the long term. We have a better educated, a higher skilled, and a healthier work force than ever before, and the period to 1975 will see further rapid improvements in these respects. All these considerations are operating to increase average productivity and thereby to moderate inflationary pressures.

2. There are some new and stronger competitive elements in the economy which give promise of restraining price increases to a degree. It has been customary for economists to concentrate upon competition among firms within an industry, or within a product group, in appraising the degree of monopoly elements in the system. But in many ways the most effective competition is among products, among firms which are not ordinarily regarded as in the same industry. Structural steel is increasingly feeling the competition of precast and prestressed concrete members in construction; aluminum may make significant inroads into steel in the automobile market. There is growing competition between old goods and new goods and between old methods and processes and new ones.<sup>13</sup> The view that an oligopolistic industry grants wage increases readily because these increases can be promptly passed on in higher prices needs serious qualifications for the long pull. Competition from new products and from industrial groups with a smaller proportion of wage costs to total costs may prove an increasingly effective limitation to wage rate increases at those points in the system which have exercised wage leadership. These points may not be concerned with competition within an industry, if all wages and prices go up together; but increasingly competition

<sup>13</sup> Sumner H. Slichter, "Five Trends Shape Business Future," *Nation's Business*, February, 1957.

from other product groups will make inroads. The growth of industrial research is rapidly extending the scope of interproduct and interindustry competition.

3. There is another way in which the economy is becoming more competitive, thereby exerting a restraining influence on inflationary forces. The domestic market for a wide range of products is extremely large, and this market is growing. Thus, between 1952 and 1956, a period in which prices changed little, the proportion of families with incomes of \$5,000 or more increased from 21 to 35 per cent. A large part of this growth is a consequence of the increase of multiple-worker families as more wives have gone into the labor market. "Never have the prizes for successful innovation been as huge as they are today in the immense American market which accounts for 40 per cent of all the world's consumption."<sup>14</sup> The rewards for cost savings on an existing product are also magnified by the total size of the market. As a total market grows, smaller per unit cost savings can be fruitfully exploited. Adam Smith's concern with the extension of the market is still sound analysis. Our large and growing market, combined with cost-reducing technological changes, creates new restraints on costs.

4. The next two decades will see a further expansion in new institutional forms of savings—pension plans, life insurance, stock purchase plans, supplementary unemployment benefit plans, and plans to save for home purchase and education. There are economists who believe that these new forms of savings will result in an increase in the proportion of total income saved, thereby providing a further restraining influence on inflation, while other economists believe that other types of savings will eventually be reduced and these new forms will not be associated with any net increase of savings in the community.<sup>15</sup> The choice among these

<sup>14</sup> *Ibid.*

<sup>15</sup> See Challis A. Hall, "Retirement Contributions, the Spending Stream, and Growth," in *Federal Policy for Economic Growth and Stability*, Joint Committee on the Economic Report, 84th Cong., 1st sess., November 9, 1955, pp. 786-797; National Bureau of Economic Research, *Suggestions for Research in the Economics of Pensions*, 1957, pp. 27-32.

positions involves complex questions of economic analysis and assumptions about the behavior of households on which little data are available. Among the factors that are likely to be decisive in determining the long-run impact of pension and other plans on the level of savings are the way in which the government reacts to the initial reduction in its income, since pension contributions by companies are tax-deductible costs, and the effects on savings that arise through the redistribution of income among households. My guess is that there will be some net gain in savings as a consequence of these new institutional forms, at least in an initial period, but the magnitude will not be very large. The larger this impact on savings, the greater the immediate restraint on inflation.

5. Finally, our experience with inflation should improve our skills and the public and private tools used to restrain inflation. In the past twenty-five years we think we have learned a good deal about mitigating depressions, and there have been numerous institutional changes in the public and private economy designed to make the system less vulnerable to contraction. In the next twenty years we should learn something more about restraining inflation. We sometimes forget that one of the major structural changes of the past two decades has been the improvement in the quality and the availability of economic indicators; these improvements should continue. The growth of the habit of long-term planning should reduce the short-term variability of the system. We should become more skilled and selective in the application of monetary and fiscal controls to problems of secular inflation.

### III

Ten factors or structural changes making for inflation and five moderating factors have now been noted which are expected to be operative in the period ahead to 1975. This listing does not mean that inflationary pressures are necessarily twice as strong as the restraining factors. Moreover, the course of prices as far ahead as 1975 is not now predetermined. Public and private policies in a wide variety of ways can make a difference. While there are likely



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to be wide differences of opinion as to the individual effects of these separate factors and as to their net impact, my conclusion is that the inflationary forces outweigh the moderating factors. The reasonable expectation is for a period of moderate secular inflation.

But the pivotal question is how much inflation. What are likely to be the annual average rates of increase of wages and prices? A 1 per cent per year cumulative rise in prices for 18 years would mean almost a 20 per cent higher price level, while a 5 per cent per year cumulative rise would yield a 141 per cent higher price level in 18 years. At a rate of increase of 1 per cent per year prices would require 70 years to double, but at a rate of increase of 5 per cent per year they would double in a little more than 14 years.

It is the magnitude of price and wage rate changes over the period to 1975 that is significant. The following table projects various annual average rates of increase in productivity, compensation per hour, and price increases to 1975. If wages rose no faster than productivity it is presumed prices would remain constant.

Average annual rate of increase in productivity	Average annual rate of increase in wages, compensation per hour	Average annual increase in prices	Cumulative price increase to 1975
2.5%	2.5%	0 %	0 %
2.5	3.0	.5	9.4
2.5	4.0	1.5	30.7
2.5	5.0	2.5	56.0
2.5	6.0	3.5	85.7
3.0	4.0	1.0	19.6
3.0	5.0	2.0	42.8
3.0	6.0	3.0	70.2

In the past nine years (the data are for 1947-56), the annual average cumulated rate of increase in average hourly compensation was 5.5 per cent; the annual average cumulated rate of increase in real product per employee-hour was over 2.6 per cent; and the annual average cumulated rise in the consumer price index was 2.2 per cent (2.8 per cent in the implicit price change index). This period included the Korean war when wages and consumer

prices both rose approximately 8 or 9 per cent in the one year 1950-51.<sup>16</sup>

If the various factors noted earlier, tending toward inflation and moderation, are appraised in the context of this record of the past decade, the following predictions may be made in my judgment. If by 1975 price increases over current levels are confined to 30 per cent, I believe the record should be marked as excellent. If price levels are more than 70 per cent higher than at present, I would now regard that record as quite unsatisfactory. It is within this range that policies are likely to have their effects. What can be done to raise average rates of increase in productivity to 3.0 per year, and what can be done to keep increases in compensation per hour within 5 per cent per year? These figures would yield a 42.8 per cent price rise in the 18 years, or 2.0 per cent per year.

Let it be clear that this result is not being advocated; it is not being accepted in complacency; it simply would not be a surprise in the light of the factors outlined earlier.

It should probably be made explicit that these projections are based upon the absence of any drastic or sudden change in the international situation. A continuation of the cold war at present relative levels of defense expenditures or some moderation in tensions would not be expected to alter the projections very much. But a major war or a series of substantial police actions would have substantial inflationary effects.

#### IV

"Inflation control is the ultimate test of the power of the general interest against the special interest."<sup>17</sup> The ability of the community to restrict the price rise between now and 1975 to 30 per cent, say, basically depends upon how much or how high a price

<sup>16</sup> See U. S. Department of Labor, Bureau of Labor Statistics, "Productivity, Earnings, Costs and Prices in the Private Nonagricultural Sector of the Economy, 1947-56," May 13, 1957; *Trends in Output per Man-Hour and Man-Hours per Unit of Output, Manufacturing, 1939-53*, B.L.S. Report No. 100.

<sup>17</sup> John Kenneth Galbraith, "Are Living Costs Out of Control?" *Atlantic Monthly*, February, 1957, p. 41.

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the community is willing to pay for relative price stability. The community has some hard choices to make.<sup>18</sup>

1. How high a price is the community willing to pay for stability in terms of more labor strife? A lesser rate of wage increase—and a lesser rate of price increase—probably requires more strikes. If managements are to secure settlements in the range of 4 to 5 per cent on the average, or currently at 8 to 10 cents per year total package, there will probably have to be more strikes over wages at contract renewal times. But is there much disposition on the part of management to take a strike over another 2 or 3 cents when profits are high, when relations have become friendly, and when a strike may cause a search for alternate sources of supply on the part of customers? It is not the preachment on the part of the employer associations against “inflationary” wage increases that counts, nor the urging on of another firm to take the lead; it is what the firm actually does at five minutes before midnight when it must balance a further wage increase or a strike against the complaints of customers and potential loss of accounts. It is on such occasions that the price of stability is tested.

2. How high a price is the community willing to pay for stability in terms of more unemployment? It is technically possible to enhance wage and price stability by creating a higher average level of unemployment. In recent years unemployment has been running on the average slightly below 4 per cent of the work force. Is the community prepared to increase this figure to 5 or 6 per cent to achieve more stability? Or is the community’s desire for goods, fear of unemployment, and concern with comparative production records of the Russians such that it would be unwilling to trade more unemployment for additional price stability? It is easy to want both higher levels of employment and stability. But in the hard choices the community makes is revealed the price it is willing to pay for stability.

<sup>18</sup> The present analysis rejects the conclusions of Neil H. Jacoby, “Thinking Ahead: The Threat of Inflation,” *Harvard Business Review*, May-June, 1957, p. 15.

3. How high a price is the community willing to pay for stability in terms of a wider range and greater use of government controls? The community eventually comes to see that any system of controls over inflation has its limitations and can be pushed only so far, and that each control device has some drawbacks. While direct wage and price controls are likely to be most effective in stopping a sharp upward movement, the community most distrusts this device. Every schoolboy can tell of the evils of bureaucracy and the effects of direct controls on the distortion of the most effective allocation of resources. But monetary and fiscal controls also have their limitations. Small businesses, home builders, farmers, state and municipal governments, and other types of borrowers of capital may be relatively disadvantaged by stringent monetary controls. A larger proportion of capital may go to established borrowers or to those who can finance from within than may prove desirable to the community. The bite of monetary controls may be cruel and objectionable on many grounds of public policy. Our monetary controls are not sufficiently selective. A system of fiscal controls for combating long-run inflation has not been designed. Would Congress be willing to delegate within limits the necessary changes in tax rates to make a system of fiscal controls work more effectively? Would such a grant to a bureaucracy be any less subject to criticism than direct controls? In the willingness to accept further controls—direct, monetary, or fiscal—is to be seen the price the community is willing to pay for stability.

4. The relative evaluation the community, and particularly the work force, places on income or leisure will affect wage and price stability in the long-term period ahead. If further leisure is rated highly, resulting in shorter hours at higher rates of pay to maintain take-home pay, then inflationary pressures will be increased under high-level employment conditions projected ahead. If additional income is more highly valued than further leisure, then the pressures arising from the highly employed work force on wages and prices will not be as great as if hours had been re-

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duced. It is probably true that under present conditions the work force tends to value additional income higher than additional leisure. The price of stability will depend in part upon the choices made between additional income and leisure in collective bargaining.

The price that the community is willing to pay for stability may change as a consequence of its experience with further inflation. A measure of its present valuation of stability is seen in its willingness, or lack of willingness, to achieve greater stability by accepting more labor strife, more unemployment, more economic controls, and foregoing demands for additional leisure. There is not much evidence to indicate that the community is now willing to barter for more stability.

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