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Executive Office of the President
Council of Economic Advisers

6/21/65

GARDNER ACKLEY

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See pg. 3,
endorsing using
guideposts to
stop inflation

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To: Bill Moyers

Attached is a memorandum by Otto
x Eckstein that you might find useful as
background for tomorrow's meeting on
guideposts.

x

Gardner Ackley

Distribution:

- Secretary Fowler
- Secretary Connor
- Secretary Wirtz

UNITED STATES GOVERNMENT

Memorandum

Gardner Ackley

DATE: June 19, 1965

FROM : Otto Eckstein

SUBJECT: Background memorandum for Meeting on Guideposts

The Facts on Prices and Wages

1. The Price Indexes are moving up, mainly because of food prices. These increases are likely to continue for the next few months and will produce a public reaction and new fears of inflation.
2. Industrial prices are inching upward, by 1.2% over the last 12 months, by 0.3% in the last three months. Industrial increases are still concentrated in nonferrous metals, recently also in paper and rubber. These material price increases so far have led to only small increases in finished goods.
- ✓ 3. The Consumer Price Index was up 1.4% in April over a year earlier, still within the narrow 1.2 to 1.5% range of the last seven years. But the rise of food prices could edge the 12-month comparisons a bit above that range for May and June. There will be a small feedback on wages through escalator clauses.
- ⌋ 4. Total employee compensation is still generally moving within productivity trends, with a gradual shift from wages to fringes. Many recent collective bargaining settlements have been within guideposts, including rubber, telephones, can, New York newspapers and California metal trades. Others have exceeded guideposts: glass containers, textiles, clothing, aluminum and longshore. The auto settlement of September 1964 -- 4.3% plus cost of living -- did not become the pattern. Even this year's major above-guidepost settlements fell far short of that.

Settlements in the construction trades are very high, ranging from 4 to 8%, but reported average hourly earnings show more moderate increases.

Buy U.S. Savings Bonds Regularly on the Payroll Savings Plan

5. Outlook on Industrial Prices

Demand in the major industries remains well within the supply capabilities. The number of months of backlogs of unfilled orders in manufacturing has seen no major changes in this entire expansion, and is far below the figures in 1955-57 or the Korean War.

Operating rates in industry remain below preferred rates. The manufacturing average is about 88% in May, down a fraction from the first quarter. These rates will probably drift slightly lower the rest of this year.

Material costs for durable manufacturing are up a point this year mainly because of rising nonferrous metals prices. Nondurable manufacturing and construction have virtually stable material costs.

Labor costs per unit of output in manufacturing were still moving down in April, 1.6% below a year earlier. With slower expansion, labor costs are likely to rise a bit, but should be lower for the year 1965 than they were in 1964.

This evidence points to continued general industrial ^{price} stability.

II. The possible problem spots in the coming months are

1. Food prices, especially meats and vegetables
2. Steel prices
3. Further increases in nonferrous metals
4. Auto prices
5. A further drift of key wage settlements above guideposts, especially in steel
6. Scare buying of materials in response to Vietnam situation (no sign of this now).

Rel. price up 7 p

III. Need for stronger Guidepost policy

1. We are still close to price stability -- hence guideposts stand a chance to be effective. ✓
2. The steel situation is ahead.
3. Balanced expansion, less likely into 1966 if we do not fight inflation now. If prices are rising substantially by next Winter, the budget will have to be more restrictive, with a higher full employment surplus, and money will continue to tighten. ✓

The meaning for unemployment, profits, investment and further growth is clear.

4. It is especially important now to leave the Administration firmly on the record and visibly fighting any inflation -- and by means other than tight money or restrictive budgets. ✓
5. Guideposts focus attention on the cost-push element in inflation -- the ability of some unions and companies to raise wages and prices when demand does not outrun supply.
6. Guideposts help put some of the blame for inflation where it belongs. There are always plenty of people trying to put it all on the government. ✓

IV. Possible improvements of Guidepost Policy

How can guideposts be brought into specific situations more quickly and effectively?

A. Wages

1. Specific situations: What is the outlook on maritime, aerospace and steel negotiations?
2. Should we establish a better information system so that the White House, CEA and others will know ahead of time what is coming up and the state of developments on negotiations?

3. Should we establish a more systematic and more public costing out of settlements? (Recent announcements by the parties have exaggerated the percent increase of settlements.)
4. How can the burden of keeping guideposts in the negotiations be taken off the shoulders of the peace-making Mediation Service?

B. Prices

1. How can we further slow the rise of metals prices? Copper, steel, aluminum, others? Stockpile policy, informal communication, import quotas, coinage policy, others.
2. How can government register its concern on prices before they are raised?
3. How can government better identify the industries where we should look for price reduction?
4. How can government encourage price reduction once the big situations are identified?

C. Better Data

We need better price, wage, productivity, and cost information to diagnose the outlook correctly and formulate policies. Should we form technical interagency working party to

- review available data
- examine possibility of better data
- strengthen analytical techniques

Particular interest attaches to further work on industry productivity, labor cost, and material costs.

V. Building Public Understanding and Support

1. Can the Labor-Management Advisory Committee make a constructive contribution? How can the Committee be kept up-to-date?
2. Should the President find a good opportunity to speak out on price-wage stability?
3. Should the President -- or Connor, Wirtz, and Ackley -- hold meetings with the Business Council leadership and the AFL-CIO executive committee to discuss the economic outlook, policy and guideposts?

4. Should we be geared up to do reports on specific industries, as in steel?
5. What other steps could be taken?

VI. Alternatives to Guideposts

1. Should we reduce the need for guideposts by improving the competitiveness of labor and product markets?

We are doing a lot now through anti-trust, manpower policies, SBA, and other policies.

But should we focus these policies -- at least as one of several objectives -- on reducing any inflationary bias in the economy?

2. This would involve such fields as

- easing entry into the construction trades and other unions with highly restricted entry
- a more vigorous anti-trust policy, with cases at least in part selected for their economic importance, especially their effect on price stability
- other highly unpopular measures

cc: AO
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