The riddle
of
inflation
—a new answer

JAMES W. KUHN

Inflation will not be stopped, many economic commentators assert, until large corporations and big unions quit pushing up wages and prices. This conventional, Galbraithian explanation assumes that, in an economy at or near full employment, corporate managers encounter little resistance to price rises. Enabled to pass on higher costs, they do not balk at ever larger wage demands made by unionists who seek to outpace the price changes. Thus, the upward spiral of administered prices and negotiated wages generates inflation in the modern industrial state.

The obvious remedy appears to be regulation of the wages and prices of those creating the problem. If public authorities monitor the prices of large corporations and set limits on the wage settlements of industrial unions, inflation can be cured, we are told. Conservatives hope the regulating will be limited in scope and time, while liberals expect it be a more or less permanent feature of American life. Both agree, however, that it is the large corporations and big unions, those which occupy "the commanding heights" of capitalism, that are responsible for perpetuating the inflation and therefore must be subject to control.

The recent bout of inflation in the United States has been the worst since the War period (1940-46), when the consumer price in-
The index rose 39 per cent. Since 1965, the index has gone up 30 per cent. Even after President Nixon took office and moved to slow down the economy, prices continued to rise. Since February 1969, they have risen over 14 per cent, indicating that inflation had not slackened, up to the price freeze in August 1971; it had accelerated, even as the unemployment rate jumped sharply from 3.3 to 6.1 per cent at the time of the freeze. The classic game plan of stopping an inflation by slowing the economy had not worked well. At least it was working too slowly for a president who had to stand for reelection within a year. Dr. Arthur Burns, chairman of the Federal Reserve Board of Governors, ruefully admitted that the old rules did not seem to hold anymore.

What wages have gone up?

The American economy has changed so rapidly over the last decade—indeed, over the last six years—that Dr. Burns and other Administration economists who followed the old economic rules of controlling inflation by monetary policy were sure to be taken unawares; so swiftly have changes come, in fact, that even Professor Galbraith must be surprised. Galbraith's newer rules of wage and price controls may not be better guides to economic policy-making than those followed by the President in the first two and one-half years of his term.

If inflation is fueled by ever increasing wages negotiated by powerful industrial unions, it is in the industrial, corporate sector that we might expect to see wages rise the most. Professor Galbraith, for example, recently indicated that in the present inflation wages of government workers and service employees—such as doctors, nurses, private teachers, house repairmen, dry cleaners, and barbers—at best "keep more or less abreast"1 of those demanded and won by unionized industrial workers.

In the most recent edition of The New Industrial State (1971), he was not even willing to admit that they might keep up. Rather, he wrote, "There are many categories of income recipients—municipal employees, hospital and library and like workers, pensioners of all kinds—whose incomes do not rise appreciably." While such a statement may have been correct in the 1950's, it has little validity in the 1960's and 1970's. The wages of government, service, and trade employees have risen considerably—more than enough to stay abreast

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of industrial workers' wage increases. From 1965 to the second quarter of 1971, the earnings of federal government workers increased 51 per cent! During that period service workers' earnings rose 43 per cent and earnings of workers in wholesale and retail trade increased 41 per cent. In contrast, the average hourly earnings of workers employed in manufacturing and transportation—the corporate, unionized sectors of the economy—went up 37 and 35 per cent respectively.

"Catching ahead"

Comparable data for earnings of state and local government employees are not available, but studies by the Bureau of Labor Statistics indicate that firemen, policemen and public school teachers, among the three largest categories of government workers, have enjoyed far larger wage increases in recent years than those in private industry. Teachers' annual salaries increased almost 43 per cent from 1965-66 to 1970-71, and firefighters and patrolmen saw their salaries rise by 42 to 45 per cent between January 1966 and January 1971. Factory production workers over the same five years received increases in their earnings of only 26 to 33 per cent, depending upon the particular measure used. Since the wage levels of many public employees are as high as or higher than those of private workers in comparable jobs, these increases loom large absolutely as well as relatively. In January 1971 average minimum salaries for firemen were $8,513 and for policemen they were $8,898; their average yearly salaries, of course, are higher. Elementary and secondary teachers averaged an annual salary of $8,840. In contrast, production workers in manufacturing were earning about $7,200 a year in early 1971, while the higher paid transportation and utility workers were averaging about $8,300 a year. In economic impact the public employees' earnings are the more powerful, insofar as they are accompanied by low productivity gains. If there are few or no offsets to the resulting increase in costs, the full amount of wage increases has to be borne by taxpayers. In the private industrial sector, managers may meet at least some of the costs of wage increases out of productivity gains and pass on only a portion to the consumers. Prices of industrial products thus usually rise at a slower rate than the prices of services.

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Pay increases for municipal employees have been so large in recent years that, in most of 11 large cities so far studied, city government workers in clerical, data processing, and maintenance-custodial jobs now hold pay advantages over their counterparts in private industry and the federal government. The advantages are often substantial. Philadelphia pays its clerical employees a third more than the average paid in private industry, and in both Houston and Buffalo clerks' pay is a fifth larger; municipal data processors earn salaries about a fifth larger than those employed by private firms in Philadelphia, Newark, and Los Angeles; and maintenance workers in New York and Newark average 42 per cent larger salaries than those in private industry. 3

Over the last six years, government workers have received larger wage increases than either factory workers or white-collar employees in private industry. One can hardly explain their gains, or those won by workers in the service and trade industries, as merely attempts to stay abreast, let alone catch up. Wage data indicate that causal relationships more probably ran the other way. Workers and employees in big industries—manufacturing and transportation particularly—have sought wage increases to meet the soaring cost of living and to help them pay ever higher state and local taxes, both of which were pushed up by the rising prices of services. Social security taxes paid by the average production worker, for example, more than doubled in 1965-70, offsetting some or all of the federal income tax cuts.

This conclusion, of course, flies in the face of "common knowledge" about the fantastic wage increases unions have been negotiating in recent years. Each new settlement brings headline reports of the highest rates ever sought by unions and the highest ever granted by employers. 4 In 1965, union leaders were negotiating wage packages with annual increases (over the life of contracts) of 3.3 per cent. By 1968 these hovered around six per cent; and by 1970 they were nearly nine per cent. Since union negotiators want to convince their constituents that they have brought home

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4 While some unions have undoubtedly secured large enough gains over the last two years to improve their situation, not all workers by any means have won such sizable increases. In any one year, only a portion of the unionized workers negotiate new contracts. In 1970, for example, about a fifth (roughly five million) received raises under newly negotiated contracts, and another fifth received smaller deferred wage increases. Many received no increases at all. The average wage increase in any period, therefore, is much less than those that make the news.
the bacon, first year raises are usually the highest, and most newsworthy. It was the accelerating increases of these front-loaded settlements that received public attention. We read of four per cent raises in 1965 growing to seven per cent in 1968, and swelling to an average over 14 per cent in the second quarter of 1970 and the third quarter of 1971.

Yet rising taxes and prices have eaten away the gains even faster than many workers could secure them. Real spendable weekly earnings for production workers (with three dependents) in manufacturing were lower in the second quarter of 1971 than in 1965—$101.87 now compared with $102.41 six years ago. Recent gains in 1971 allowed production workers to register a little improvement in real spendable earnings, though they are still a dollar a week below those of 1965. Try as they will, industrial unions have not been able to outtrace tax and price increases. And rising taxes and prices primarily reflect the great increase in the cost of public and private services, which has been the most important inflationary force in the economy.

The governmental economy—beyond the industrial state

The American economy is amazingly dynamic; its contours constantly change as new industries emerge and old ones fall behind. No one has ignored the major, long-term shifts such as the decline of farm jobs. At the end of World War II, more than one out of every eight persons in the civilian labor force still worked in agriculture; today fewer than one out of 20 do. In 1956, for the first time in our history white-collar workers outnumbered blue-collar workers, the consequence of a slightly faster rate of growth for the former that can be traced back at least to the turn of the century. Today almost half the employed hold white-collar jobs, and the nation provides a larger share of jobs for professionals and technical personnel alone—one of every seven jobs—than it did for agricultural workers in 1947. Most people are also well aware that far larger numbers of women now work than ever before. Less than a third held jobs in 1947, but today 43 per cent do, with over half of all women working or looking for work at some time during the year.

Along with these massive, slower-moving changes there have been other, more rapid adjustments that tend to catch Americans unaware. One is the reappearance of state and local governments as important centers of public activity after a thirty-year eclipse. Until
1941, their annual expenditures always surpassed those of the federal government (except in wartime). From World War II on, however, federal expenditures dominated, with continued support of defense contractors and both the Korean and the Vietnam war providing reason to keep them large. But in 1965, for the first time in nearly a generation, state and local expenditures topped those of the federal government—by nearly $3 billion. Heavy war purchasing kept federal buying higher through 1967; but since 1968, state and local governments have increased their purchases of goods and services enormously, while the federal government has actually cut back its expenditures. By 1971, state and local governments were spending nearly 40 per cent more than the federal government ($135 billion to $98 billion).

The federal government has done much to encourage expansive, inflationary state and city programs. Since 1965, grants-in-aid to state and local governments have increased almost two and one-half times, from $11 billion to an estimated $30.3 billion in 1971. Cost-sharing programs, of which there are now 1,089, will require $34.3 billion of federal funds and between $13 and $15 billion in state money for 1972. A sizable portion of these federal funds has been supplied to support educational activities. Total grants for such purposes have nearly tripled, from $3.4 billion in 1965 to $9.6 billion in 1971. The federal government has also helped states and cities improve their police forces, build urban housing, provide health care, and construct roads and highways; it has supplied funds to begin attacks upon pollution and snarls in mass transportation.

City, county, and state payrolls reflect the largesse with which affluent Americans have recently endowed state and local government. Since 1965, employment has increased by a third, adding 2.6 million more workers to the 7.7 million then employed. As a proportion of all wage and salary workers, government employees at all levels now account for over 18 per cent, or almost a fifth. Employment in the service industries has grown almost as much as it has among state and local governments (31 per cent). It now accounts for 17 per cent of all non-farm payroll workers. The number of jobs in finance has also grown rapidly, increasing by 26 per cent in the last six years. The trade sector has added to its employment, showing a 19 per cent increase. Adding up the workers in the non-industrial sectors—government, wholesale-retail trade, finance, and services—gives a total of 62 per cent, not far from two thirds of all non-farm payroll employment.
On doing good badly

The rapid growth of the services and the swelling payrolls in state and local governments—accompanied, one hopes, by more activity—have caused problems. Complaints of waste and misdirected effort are common. Nevertheless, the changes indicate a responsive society. Racked by dissension, civil disorder, protests, and riots in the 1960's, the nation responded by changing national priorities and programs. Critics continually condemn Americans for ignoring the needs of the disadvantaged and denounce political leaders for moving too slowly to meet the requirements of the dispossessed. The nation and its leaders, however, did take notice of social grievances and did attempt to deal with them. Indeed, legislators approved too quickly the hastily-devised and not-well-thought-out programs of government experts; they appropriated funds faster than they could be effectively or efficiently used to mobilize resources. As a consequence, once the huge deficits for war expenditures of fiscal 1967 and 1968—nearly $19 billion—let loose the inflationary forces, the United States found itself contending with a continuing, growing rise in prices.

Many people are unhappy with the inflation and point out that our new, costly government programs need better structuring and managing as well as careful evaluation. Some argue that the programs have to be cut back, and others that they were ill-conceived from the start and should be ended. Undoubtedly they all can be run better. We need every bit of increased productivity we can secure from every sector of the economy, but especially from government and the service industries.

By every measure and for every period, productivity in the service sector shows itself to be from 30 to 50 per cent below that for the goods sector. The few available measures of government productivity indicate as low or lower a rate. Employment in the Post Office, for example, increased by 22 per cent during 1965-70, while output per manhour crept upward at a rate of only 0.3 per cent a year—one tenth the rate of increase for farms, mines, and factories. State and local governments probably would show as sorry a record if we had the data to reveal it. Unless the service and government sectors begin to offset more of their wage costs by using labor more efficiently, the burden they impose on taxpayers and consumers will become intolerably heavy.

But whatever the problems they now pose for us, it would be wise to remember that the nation approved the new programs and promoted the burgeoning services as answers to acute social prob-
lems. Those problems remain with us, for most are far from being solved. Legislators may change and adjust, but they hardly can eliminate the programs outright; taxpayers may balk, but they can seldom refuse for long to fund the programs. Society has changed too much over the past six years to go back to where we were in health care, education, and welfare, for example. In the process of trying to solve our social problems, we have transformed the economy as well as society.

So swiftly has the economy changed, in less than a decade, that many economists and government policy-makers have failed to note what has happened. They may still imagine the economy as it was in the mid-1950's. Then, the new industrial state, with its core of large corporations and mass unions, employed nearly half of the labor force. The industrial unions and big corporations clearly were setting the pace in wages and prices, benefiting themselves at the expense of consumers, pensioners, and the unorganized. Their days of overweening economic influence were limited, though, by the changing pattern of public demands. The number of manufacturing jobs has increased by only 10 per cent since 1955 and by not even three per cent since 1965.

Americans in large numbers have not only turned to foreign goods rather than to the high-priced, all-too-often badly-assembled cars and television sets of domestic producers; they have also made the individual and collective decision to buy more services, such as schooling, medical care, and vacation trips. The governmental economy has attempted to provide them with what they want, but at a cost of higher prices, for higher wages were needed to attract increasing numbers of persons to the newly opening jobs. The result is a transformed economy, badly explained by older economic theories and poorly served by methods of regulation and control devised in the 1940's and 1950's.

New tools for stabilizing wages and prices

Though they have contrived clumsy and less than effective procedures to reduce inflationary pressures in Phase II of the New Economic Policy, President Nixon's advisers knew that they needed to moderate the price and wage push in more than the industrial, corporate sectors of the economy. They have announced stringent price controls on the 1,300 corporations with sales of $100 million or more. These firms must notify the Price Commission before raising their prices; another 1,100 firms with sales between $50 and $100
million are to report all price adjustments. These 2,400 companies account for roughly half the nation's sales volume. The other half is shared by about 10 million companies, who are not required to report price changes. They only have to keep adequate records.

The number of companies the Price Commission is expected to watch, with small staff and few enforcement personnel, is large. It is far more than the 750 largest companies whose performance is reported annually by *Fortune*. The regulated companies will be far smaller, for example, than Deltown Foods of Yonkers, New York, with 917 employees or Reading Industries of Fort Lee, New Jersey, with 700 employees. Such companies, far down or below *Fortune's* list of the "Second 500 Industrial Corporations," can hardly be considered by anyone as examples of concentrated economic power.

The Administration has been even more ambitious in its attempts to regulate wage increases. The Pay Board has required the 500 largest collective bargaining units, with 5,000 or more employees, to seek advanced approval of pay raises; the next 4,000 largest units, with from 1,000 to 5,000 workers, must report whatever wage changes they make. Though it has thus sought more or less to control quite small companies, it covers (according to Donald Rumsfeld, director of the Cost-of-Living Council) no more than 17 per cent of the work force. Employees in the other 83 per cent are subject to spot checks by agents of the Internal Revenue Service.

Administration officials have attempted through the Pay Board and Price Commission to regulate wages and prices in more than just the few giant corporations and largest unions, but they must realize that important sectors are left unobserved and unregulated, outside the wide ambit of their direct controls. The President, therefore, appointed a committee on the health services industry to advise the Cost-of-Living Council on ways of applying the wage and price standards in this area, and to enlist voluntary restraint in keeping costs down. The price of health care has been a large—and a rapidly rising—component of the consumer price index, increasing by over 50 per cent since 1965. In mid-December the Price Commission set a goal of cutting in half the 12.9 per cent rate of inflation for hospital care during 1970-71. Physicians' fees had gone up 6.8 per cent in the same period, and overall health costs had climbed 6.7 per cent. Any further price increases exceeding six per cent must now be approved in advance, and doctors cannot raise fees more than 2.5 per cent without special permission.

The inflation in health services began with and has been sustained
by the extremely rapid push which Congress and HEW gave to the new medical care program for the poor and the aged. In 1965, when medicare and medicaid were initiated, the nation's expenditures for personal health care were $35 billion; three years later, the total had swelled to $50 billion, of which the federal government was providing $10 billion annually. The funds flowed far faster than doctors, hospital staffs, and other medical personnel could adjust. Though many persons benefited from the programs, their purposes were not always well served. The quantity and quality of services for the poor and medically indigent did not match the hopes and promises of the sponsors or administrators. Those with the lowest incomes were rationed out of the market as wages and prices in health services jumped upward in a classic inflationary response. It was a case of too much money chasing too few goods and services, and the federal government itself unintentionally brought about this major contribution to national inflation. Until it controls its spending on health care and improves utilization of medical manpower and facilities, the inflationary force will continue to be felt.

The President has also appointed a committee on state and local government cooperation, with the responsibility to advise the Council and to assist both the Commission and the Board. Its primary duty is to stimulate cooperation among the lesser governmental units to hold down wage increases. With 50 state governments to oversee and over 81,000 local governments to enlist, the committee has more than enough work. If it is unsuccessful in moderating wage increases for state and local employees, who are one out of every seven workers, inflationary pressures will continue. Perhaps the increasing reluctance among voters to approve more taxes for higher government pay, along with rising unemployment among government workers (up about 27 per cent from a year ago), will assist the committee more than any efforts of its own.

**Anyone is strong with government support**

Within the corporate, unionized sector of the economy, one industry has stood out as a major and continuing source of inflation. In two of the three inflation alerts, the Council of Economic Advisers pointed to construction workers' wages as a special problem. Between 1965 and the second quarter of 1971, they rose 52 per cent, topping even those of federal government employees. Though construction workers account for less than five per cent of all non-
agricultural employees, their widespread distribution and spectacular wage gains make them a conspicuous, well-publicized group. In only 12 months (1970-71) the rate of compensation for union members in the industry increased by amounts ranging from 10.4 per cent for carpenters to 15.4 per cent for plumbers. In mid-1971, building laborers were receiving $5.36 an hour and bricklayers, $7.79 an hour. Here apparently, is evidence that powerful unions can demand almost any wage increase they want and get it.

There is no doubt that the building trades unions exercise powerful influence over wages and that they have used it to raise rates far above any other industry's. The results do not indicate the source of that power, however. It does not flow primarily from an inherently strong bargaining position vis-à-vis employers; the political influence of the unions, though, has won extraordinarily powerful government support through the Davis-Bacon Act. Under its provisions all except small government contractors must pay construction workers "the prevailing wage." In practice the Secretary of Labor usually designates the union rate as "prevailing," sometimes over an area of several states. As a consequence, the unions need only secure an increase in a few locations where their control of the labor supply may be firm, or where employers are temporarily caught in a poor bargaining position, and under the law the government extends the wage gain far and wide. The prevailing rate is not always the highest, but the unions can use it as a floor upon which they may build. It is an upwardly flexible, beneficially high minimum wage.

The Act is far reaching, for more than half a hundred other federal laws tie into it, as do similar laws in most of the industrial states. Further, government expenditures finance a large share of all construction in the United States, year after year. Through the 1960's they accounted for roughly a third of the total. Over the last year, 1970-71, federal, state, and local governments have supplied nearly $31 billion for new construction, about one quarter of the nation's total ($122 billion).

In late March 1971, President Nixon established the Construction Industry Stabilization Committee under the adroit chairmanship of Dr. John T. Dunlop of Harvard. The President forced the unions

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^Many building workers, of course, do not benefit as much as the rates indicate. Along with their high rates goes high unemployment. Average yearly income for those exposed to seasonal fluctuations remains modest.
to accept the Committee by suspending Davis-Bacon for a month. Alarm
ed and threatened by loss of their main wage support, the unions reluc-
antly agreed to work with the Committee to moderate wage increases. Had
the federal government acted sooner and been more careful in its con-
struction spending, it might have helped hold down the inflationary wage
gains in construction much earlier.

**Industrial unions do count— but they're overrated**

Public attention has focused on the Phase II drama of George Meany's antics and his calculated display of discontent with a Republican President's attempt to control union wages. It has been years since any old-time labor leader has had the spotlight of national publicity shining on him—and it is Mr. Meany's first time. Union leaders all intend to make the most of it. It strengthens the conceit that they represent the working man and protect the laboring class. In fact, they bargain for less than a quarter of the labor force and represent the well-paid, skilled, and semi-skilled industrial workers far better than they serve the working poor and minorities.

The sound and fury of union leaders' battles with the Wage Board, Secretary Connally, and the President do not signify as much as unionists would like the public to believe. Nevertheless, an effective program of wage control will have to regulate the terms of collective bargaining agreements. In their attempts to raise and keep take-home pay above 1965 levels, union members have gotten used to exceedingly large money raises—large by historical standards. If these were allowed to continue while the government checked price increases, the settlements would not merely keep up with the prices of services and with taxes, but would become increasingly powerful inflationary stimulants.

Industrial unions and the large corporations have contributed their fair share to inflation all along. That share is notably smaller today, however, than at the 1955 zenith of industrial union influence. The well-organized goods producers have increasingly had to share their economic influence with the rapidly growing providers of services, as the former's relative portion of employment and contribution to national output has declined. The goods producers' portion of Gross National Product is nine per cent less than in 1955, while the service producers' portion has increased by more than 25 per cent. Thus, any given amount of inflationary force generated by the industrial, corporate sector has less effect upon the total economy today than it had in the recent past.
Nevertheless, large corporations and industrial unions remain important contributors to inflation. Insofar as productivity gains do not offset the rising costs of labor, and corporate managers continue to pass on their higher costs by charging higher prices, the two parties add to the inflationary pressures generated by the programs that pushed wages and prices upward in the governmental, service, construction, and trade sectors of the economy. In the last 24 to 30 months, wholesale prices of motor vehicles, machinery, metals, and chemicals, for example, have risen very rapidly, catching up with and then helping to sustain, or even increase, the pace of the current inflation.

Will the government put its house in order?

The main battle against inflation will not be won—and it can be lost—if the government attempts to control only union wages of industrial workers and if it tries to hold down merely the prices of big business firms. Success depends, most of all, upon moderating the rapid rise in wages of those sectors most significantly influenced by federal, state, and local government expenditures—government itself, services (chiefly schooling and health), construction, and defense production (if Congress appropriates the added billions the Administration has requested). The regulating boards may achieve this simply by limiting or postponing pay increases; they may also attempt to stimulate increased productivity in these sectors by encouraging better use of the resources involved.

Holding down the wages of government workers may be no easy job. Though state, local, and federal government hiring in 1971 dropped to about half the rate for 1965-70, there are other powerful forces pushing for higher wages. Membership in employee associations, such as the National Education Association, as well as enrollment in regular, recognized unions of government workers, has increased rapidly throughout the 1960's. By 1970, 52 per cent of all federal employees belonged to unions or employee associations, and over 27 per cent of all state and local government employees had joined such organizations. These are sizable portions of the government workforce. By comparison, less than 48 percent of all manufacturing workers and only 24 per cent of non-manufacturing workers currently hold membership in unions and employee associations.

The organized government employees have demonstrated both their willingness and ability to conduct strikes and to bargain
effectively for improved wages, hours, and conditions of work. The unprecedented strike of the postal workers last year is still fresh in the minds of politicians, and citizens across the country are familiar with strikes, sick-ins, and slowdowns by police, teachers, public hospital attendants, and sanitation workers. Moreover, government employees can not only threaten work stoppages, but also inflict political retribution upon office holders who do not respond to their demands. Unlike workers in private industry, those in government sit on both sides of the bargaining table. Through their unions and associations they can press their managers for increased wages, and as voters they can threaten ungenerous officials. In cities such as New York taxpayers have already learned the high cost to them of a Police Benevolent Association and a Uniform Firefighters Association. Annual salaries and fringe benefits may cost the city more than $25,000 per employee! New York City's municipal employees, 400,000 strong, are an electorate of such size and organization that political candidates in both the city and state must reckon with them.

At the national level, Congress has shown itself reluctant to check federal pay increases in recent years, though earnings have been outpacing all except construction wages at least since 1968. In attempting to control the wages of state and local government employees, federal authorities run up against constitutional and political difficulties. In an election year neither Congress nor the President is eager to cut local programs or to trim grants to potential voters and supporters. In addition, important administrative obstacles have to be surmounted: The employing units and agencies are scattered, authority is decentralized, and standards are varied. Monitoring wage adjustments in such service industries as health, private education, entertainment, and household maintenance is exceedingly difficult. The employing firms, schools, hospitals, or laboratories are small compared to industrial corporations; many are unorganized, determine their wage rates and fix fringe benefits through no regular procedures, and are completely unstandardized with regard to data records, occupational classifications, and personnel policies. If the federal authorities try to encourage officials of local and state government and managers in the service industries to concern themselves with raising productivity, they face the same, if not worse problems. Providing incentives for efficient operation is probably a long-term task that will contribute little to the present joust with inflation.

Certainly, in the future government officials in both the legislative
and executive branches will have to become more sensitive to the inflationary impact of the programs they devise and the expenditures they make. With government purchases of goods and services now reaching the rate of $233 billion a year—22 per cent of Gross National Product—their inflationary potential is too great for anyone to ignore. Instead of blaming big business and big industrial labor, as some economists suggest, government officials are going to have to recognize their own responsibility for a major share of our economic difficulties.