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INFLATION: CAN WE BREAK THE MOMENTUM?

These are disturbing times for inflation watchers. Consumer prices rose at an annual rate of 10.8 percent in January, 1979. Between December, 1977, and December, 1978, consumer prices increased 9 percent. These price increases have been exceeded in the post-World War II period only by the double-digit inflation of 1974. As Table 1 indicates, the rate of price increase worsened significantly in 1978. Inflation fell from double-digit levels in 1974 to less than 5 percent in 1976. In 1977 the inflation rate increased 2 percentage points, and it rose another 2.2 percentage points in 1978. This acceleration in prices has occurred while the economy has operated at levels well below its capacity to produce goods and services. There is something more fundamental at work here than "too much money chasing too few goods." It will take innovative policies and political courage to break the momentum of inflation.

As shown in Table 1, much of the movement in the inflation rate is due to the behavior of food and energy prices in recent years. Both commodities were important forces in the inflation of 1973-1974, and food was a major contributor to the inflation rate in 1978. The basic or underlying inflation rate, the prices of all consumer items except food and energy, also increased notably in 1978. After remaining relatively constant at 6.5 percent from 1975 to 1977, the basic inflation rate increased to 7.5 - 8.0 percent in 1978.[1] It was this reacceleration in the basic, underlying inflation rate which prompted the Phase Two anti-inflation initiatives of President Carter on October 24, 1978.

Not surprisingly, the president's anti-inflation program has given rise to widely divergent opinions about the degree of progress that can be expected in the fight against inflation. Optimists focus on the completeness of the program, which promises "voluntary" wage and price restraint, reduction in government-mandated cost increases, fiscal austerity, and monetary restraint. They also point hopefully to moderation in the rate of increase of food and energy prices which have proved to be the shocks from which each new round of inflation has proceeded since 1973.

Pessimists, on the other hand, of whom there is a definite majority, point to rising food and energy prices, a heavy collective-bargaining calendar, hikes in the minimum wage and social security payments, boosts in farm price supports, depreciation of the dollar in foreign exchange markets, decreases in labor productivity, the absence of obvious slack in an economy completing its third year of recovery, and high, if decreasing, federal deficits.

Much of the pessimism toward the Carter anti-inflation program is centered on the conviction that the economy continues to be characterized by "too much money (Continued on page 2)

[1] Due to a revision in the consumer price index, it is impossible to say exactly how much the basic inflation rate increased in 1978. See note 1 of Table 1.

Table 1
CHANGES IN CONSUMER PRICES: ALL ITEMS AND SELECTED COMPONENTS, 1974-1978
(Percent Change)[1]

Component	Relative Importance, December '77 (percent)	1974	1975	1976	1977	1978	
						12 months ending Dec.	3 months ending Dec.[2]
All items	100.0	12.2	7.0	4.8	6.8	9.0	8.3
Food	19.3	12.2	6.5	0.6	8.0	11.7	8.0
Nonfood commodities	42.9	13.2	6.2	5.1	4.9	7.6	10.3
Services	37.8	11.3	8.1	7.3	7.9	9.3	6.1
All items less food and energy	71.5	11.5	6.6	6.1	6.4	8.4	7.9

[1] Change from December to December, not seasonally adjusted. Data for 1978 based on the new consumer price index (CPI-W). For a discussion of the difference between the new and old consumer price index, see "The New Consumer Price Index," *Business in Nebraska,* December, 1978. Some portion of the higher 1978 rate is due to the revisions in these indexes. However, since the old index was discontinued as of June, 1978, it is impossible to say exactly what part of the difference in these rates is due to the revision. Through the first six months of 1978, the old consumer price index for all items less food and energy increased at a 7.7 percent annual rate, compared to 8.8 percent for the new consumer price index. Thus, it is likely that the basic inflation rate in 1978 is 0.5 to 1.0 percentage points lower than that which is shown in this table. In any event, it is clear that the basic inflation rate has increased significantly in 1978.

[2] Annual rate, seasonally adjusted.

Source: *Economic Report of the President,* January, 1978, pp. 143, 318, Department of Labor, Bureau of Labor Statistics.

(Continued from page 1) chasing too few goods." This is the simplest version of a general excess demand for goods and services argument. It (or some variant of it) probably explains the increase in the basic inflation rate, all consumer items less food and energy, from an average of 1.4 percent per year from 1960 to 1965 to 5.0 percent per year during the last half of the 1960s. It is less likely to explain why the underlying rate of inflation increased from 5.0 percent during the latter 1960s to 6 or 6.5 percent in recent years. And it is woefully inadequate as an explanation for the increase of 1.0 to 2.0 percentage points in the inflation rate in 1978.

The reasons for this view are as follows:[2] During the early 1960s, industrial production grew at an average annual rate of 6.6 percent while the basic money supply was growing at 3.5 percent. This was accompanied by a basic inflation rate of 1.4 percent. The inflation rate increased to 5.0 percent during the period 1965-1970 as the money supply grew 5.1 percent per year, or 1.7 percentage points faster than the 3.4 percent annual growth of industrial production. Industrial capacity was utilized at historically high levels during this period, reaching 91.1 percent in 1966.

Since 1970 the economy appears to have operated at levels well below its capacity to produce goods. Except for 1973, the utilization rate has averaged considerably below the 86 to 90 percent utilization rates which characterized the late 1960s. Even after allowance for the obsolescence of facilities due to the explosion in energy prices and environmental regulations, it is difficult to conclude that a general excess demand has characterized the economy in recent years. While monetary growth has, on average, exceeded the growth of production in recent years, that is due largely to the recessions of 1969-1970 and 1973-1975, especially the depth and duration of the latter. The economy is operating closer to its capacity today than it has in several years, and moderate growth of the money supply is indicated for 1979. A careful examination of the economic record, however, does not point to excessive monetary growth as a major force in the inflation of the 1970s.

While excessive growth of the money supply does not explain the inflation in the 1970s, one might nevertheless employ a restrictive monetary policy to arrest the momentum of inflation. This, however, would cost perhaps $200 billion in lost output for each 1.0 percentage point drop in the inflation rate, and would require perhaps two to three years to obtain each one-point reduction.[3] It is doubtful that this is a viable or desirable policy option.

The recent recession of November, 1973, to March, 1975, was the result of a nonaccomodative monetary policy in the face of an explosion of commodity prices, especially food and fuel. It was six months longer and twice as deep as the average postwar recession. It did little to break the momentum of inflation. Indeed, it may have contributed to it. The prices of nonfinancial corporate business rose 0.8 percentage points, or 18.2 percent *faster* in 1976 than they did in 1973, the year preceding the recession. This does not reflect either the pressure of costs on prices or the presence of excess demand in the economy. It reflects an attempt on the part of business to restore capital's share of real income to its pre-1970s level.

Capital's share of real income averaged 24 - 25 percent during the 1960s. It fell to 22 percent during the recession of 1969-1970; was effectively locked into this position during the period of controls from 1971 to 1973, and was further reduced to 20.8 percent during the recession of 1973-1975. By raising prices more than the increases in costs during 1975 and 1976, business was able to restore capital's share of real income to just over 24 percent.

It is doubtful that business would have raised prices so fast if the hourly wage and nonwage benefits of workers had not risen so much, if the productivity of workers had risen faster, or if the recession had not further disturbed relative income shares. There is no sense in looking for a villain here.

We are caught in a vicious circle of rising prices, rising wages, and rising total spending in which each of these is justified because the others are going on. Reducing total spending does not break the momentum, because the rate at which prices and wages are increasing will not fall far enough or fast enough to yield an acceptable level of output and employment, given the lower level of spending. This is the basic flaw in the market system, which was pointed out by J. M. Keynes in 1936. It is responsible for the depression of the 1930s, the stagflation of the 1970s, and the momentum of the current inflation. Either the conditions which impart rigidity to wages and prices must be confronted and eliminated, or wages and prices themselves must become the object of social policy. The latter is perhaps the only realistic alternative open to us.

For an incomes policy to work, three things are required: first, there must be substantial balance in the distribution of real income between labor and capital at the time such a program is instituted. If not, the program will fail, due to the many legitimate claims for exemptions which will either be granted or taken unilaterally. Second, some mechanism must be found for assuring that relative prices and relative wages can adjust with changes in tastes and techniques, otherwise inefficiency and spot "shortages" will characterize the system. And third, the government must conduct monetary policies in a responsible manner or we will see the emergence of wholesale black markets and the collapse of the incomes policy.

The first of these conditions may well be present in the economy now, at least in the aggregate. The third condition will require a more even-handed year-to-year management of the money supply than has been possible to date. A carefully designed incomes policy may allow for this.

The type of incomes policy described by Gardner Ackley and Arnold Weber is administratively feasible and sufficiently flexible to satisfy the condition of responsiveness to competitive market forces.[4] The essential elements of the program include: (1) a *highly selective* coverage of prices and wages, (2) a legislatively established administrative agency with certain limited powers to require data and delay or prohibit increases that are in violation of the standards, (3) responsibility centered in the White House,

[2] Space limitations preclude publication of the data series upon which the following analysis rests. Interested readers may obtain the data series from the author on request.

[3] George L. Perry, "Slowing the Wage-Price Spiral: The Macroeconomic View," in *Curing Chronic Inflation* (Washington, D.C.: The Brookings Institution, 1978).

[4] For a very readable account of the types of incomes policies currently being discussed in Washington, see the recent Brookings Institution collection, *Curing Chronic Inflation*.

and (4) formal procedures for the involvement of representatives of labor, business, and the public.

The Council on Wage and Price Stability now has a legislative basis and limited powers to obtain data.[5] Its effectiveness under the Carter administration has been limited chiefly by the absence of any significant "legitimacy" in the eyes of business, labor, and the public, an unfortunate focus on individual firms rather than selected markets, and an unwillingness to confront the institutional arrangements which impede the operation of market forces in particular industries.

A permanent wage-price commission with a congressional mandate to review, analyze, and document carefully the operation of market forces in individual industries would overcome these obstacles, provided the full and effective representation of business, labor, and the public can be assured. The latter may be accomplished through a combination of heavy reliance on public hearings and direct representation of all three groups on the commission itself. Full and effective public representation is especially critical to the success of the program since some, perhaps highly visible, prices and wages will have to rise in response to fundamental market conditions despite the exercise of restraint by many. It is absolutely essential that the public understand and accept this.

For many, the establishment of such a commission is viewed with distaste. However, the history of seven administrations indicates that efforts to influence price and wage decisions have become a permanent element of national economic policymaking.[6] It is time to take the necessary steps to legitimatize this activity.

A massive program of structural reform to make the economy operate better would be preferable, if such a program were feasible. The prospects for this seem much dimmer, however, than those for a national incomes policy. Also, the possibility should not be ruled out that a permanent price-wage commission would serve as a catalyst for structural change. Indeed, the establishment of such a commission might usefully be tied to government initiatives to deregulate certain industries, such as airlines, trucking, and the coastal maritime trade.

The administrative efforts of a permanent price-wage commission should be focused on industries whose price and wage decisions have a major impact on household budgets. The commission should be charged with monitoring current and intermediate-term market forces, *not* individual firms' price-wage decisions. Where the latter are demonstrably at odds with the former, a necessary corrective action is to inform buyers (and potential sellers) of these market conditions. This will frequently be sufficient to activate latent market forces and produce competitive price-wage decisions. Where it is not, the commission should identify the institutional arrangements which impede the effective operation of market forces. Limited success with this policy was achieved by the staff of the Council on Wage and Price Stability during the period 1975-1977.

To be successful, these efforts (Continued on page 6)

[5] The Council on Wage and Price Stability (CWPS) was established by statute on August 24, 1974, and charged with monitoring prices and wages in the private economy and the inflationary impact of government regulations. During the Ford administration a considerable number of market studies were conducted and are in the public domain. The reader may get a fair view of the potential effectiveness of the type of incomes policy discussed here by sampling these efforts. The statutory authority for the CWPS expires September, 1979. Congress must therefore face the issue of what, if any, incomes policy is desirable in the continuing fight against inflation.

[6] An excellent review of administrative efforts to influence wage-price decisions is provided in Craufurd D. Goodwin, ed., *Exhortation and Controls, the Search for a Wage-Price Policy 1945-1971* (Washington, D.C.: The Brookings Institution, 1975).

Table 2
CHANGES IN CONSUMER PRICES: SELECTED SERVICE COMPONENTS, 1974-1978
(Percent Change)[1]

Service Component	Relative Importance, December '77 (percent)	1974	1975	1976	1977	1978	
						12 months ending Dec.	3 months ending Dec.[7]
Services[2]	32.5	12.2	8.6	7.9	8.1	9.6	5.8
Household	18.4	15.0	8.2	6.5	8.8	11.4	3.9
Mortgage interest[3]	6.1	10.5	-3.1	-4.8	1.9	21.2	29.7
Utilities[4]	6.0	16.5	11.1	9.1	8.1	6.0	-0.5
Other[5]	6.2	17.9	16.5	15.0	16.5	6.9	-17.2
Medical	3.7	13.3	10.3	10.5	9.0	9.2	11.3
Transportation	6.5	5.6	11.8	10.8	6.7	5.6	7.4
Other services[6]	3.9	9.0	3.6	9.7	6.2	8.1	8.3

[1] Changes from December to December seasonally adjusted. Data for 1978 based on new consumer price index (CPI-W), not seasonally adjusted.

[2] Services less rent.

[3] Price changes for 1978 calculated by author based on indexes for all items and all items less mortgage interest costs.

[4] Fuel and other utilities.

[5] Composed of taxes and insurance 37.8 percent, home maintenance and repairs 37.2 percent, and other domestic housekeeping services 25.0 percent. Price changes calculated by author as the ratio of the percentage point increase in (household services - mortgage interest - utilities) ÷ relative importance of other household services. The decline in this component in 1978 is due to the sharp decline in property taxes in California which resulted from the passage of Proposition 13.

[6] Includes financial, personal care, and recreational services.

[7] Annual rate, seasonally adjusted.

Source: *Economic Report of the President*, January, 1978, pp. 140, 317, Department of Labor, Bureau of Labor Statistics.

Review and Outlook

Real output in Nebraska dropped slightly in December following a sharp rise in November. The physical volume index for the state fell 0.1 percent during the month, resulting in a value which was 49.8 percent above its 1967 base-period level (see Table 2).[1]

Much of the reduction in state economic activity resulted from declines in the agricultural and construction sectors, where output fell 1.5 percent and 5.2 percent respectively. Nonagricultural output increased slightly in December (+0.2 percent). In addition to the decline in the construction sector, the month-to-month changes for the remaining nonagricultural sectors were: distributive, +0.7 percent; manufacturing, +0.4 percent; and government, -1.1 percent.

Year-to-date data indicate that the Nebraska economy experienced moderate growth in 1978, with most of the growth occurring in the last five months of the year. Following a drop in state economic activity during the first seven months of 1978 (down 5.6 percent from December, 1977), the Nebraska physical volume index increased 7.5 percent between July and December. For the year, however, the index was only 1.2 percent above the level of 1977 (see Table 1). This compares to (Continued on page 5)

[1] Revisions in cash farm marketings for November resulted in substantial revisions in the index of output for the agricultural sector and in the state physical volume index. November's revised agricultural index was 172.9 (down from 181.9), and the revised state physical volume index was 150.0 (down from 151.2).

Notes for Tables 1 and 2: (1) The "distributive" indicator represents a composite of wholesale and retail trade; transportation, communication and utilities; finance, insurance, and real estate; and selected services. (2) The "physical volume" indicator and its components represent the dollar volume indicator and its components adjusted for price changes using appropriate price indexes—see Table 5, page 5.

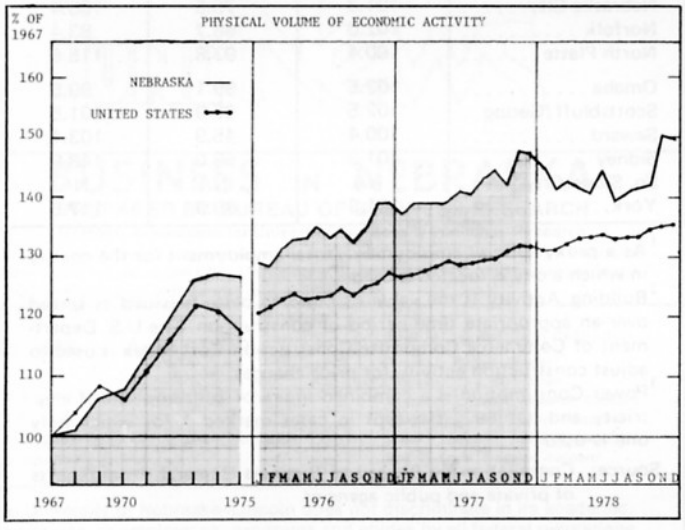
ECONOMIC INDICATORS: NEBRASKA AND UNITED STATES

1. CHANGE FROM PREVIOUS YEAR

December, 1978	Current Month as Percent of Same Month Previous Year		1978 Year to Date as Percent of 1977 Year to Date	
Indicator	Nebraska	U.S.	Nebraska	U.S.
Dollar Volume	112.8	113.0	110.3	111.7
Agricultural	132.9	116.2	117.7	111.7
Nonagricultural	109.3	112.9	109.1	111.7
Construction	99.6	120.1	108.5	116.7
Manufacturing	122.4	114.8	115.3	112.4
Distributive	107.2	112.8	108.1	111.9
Government	102.4	106.8	104.3	107.6
Physical Volume	101.6	103.5	101.2	103.8
Agricultural	107.1	95.0	98.4	97.4
Nonagricultural	100.5	103.8	101.6	104.0
Construction	88.4	106.7	97.2	104.4
Manufacturing	111.6	105.4	106.8	104.6
Distributive	98.3	103.5	100.5	104.0
Government	98.5	101.4	100.9	102.6

2. CHANGE FROM 1967

	Percent of 1967 Average	
Indicator	Nebraska	U.S.
Dollar Volume	314.3	279.9
Agricultural	377.9	274.2
Nonagricultural	303.3	280.1
Construction	300.9	268.0
Manufacturing	351.1	270.5
Distributive	295.2	289.5
Government	271.0	268.3
Physical Volume	149.8	135.7
Agricultural	170.2	122.4
Nonagricultural	146.3	136.1
Construction	120.4	107.2
Manufacturing	162.8	127.6
Distributive	145.5	142.7
Government	135.7	140.1

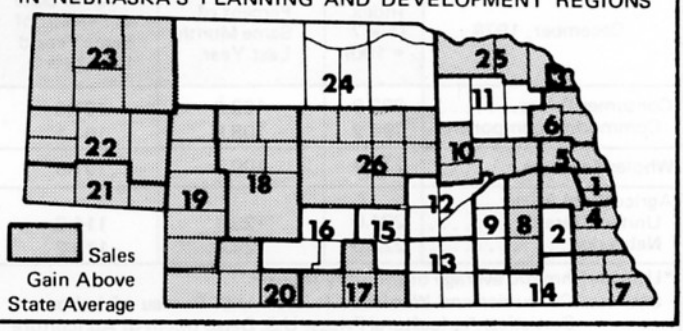


3. NET TAXABLE RETAIL SALES OF NEBRASKA REGIONS AND CITIES (Adjusted for Price Changes)

Region Number[1] and City	City Sales[2]	Sales in Region[2]	
	Dec. 1978 as percent of Dec. 1977	Dec. 1978 as percent of Dec. 1977	Year to date '78 as percent of Year to date '77
The State	108.5	108.8	104.0
1 Omaha	101.4	101.7	104.7
Bellevue	95.6		
2 Lincoln	106.6	105.9	99.9
3 So. Sioux City	110.6	107.3	109.0
4 Nebraska City	106.2	111.8	107.3
5 Fremont	114.7	116.5	104.8
Blair	115.2		
6 West Point	100.4	110.3	107.7
7 Falls City	102.6	113.4	106.3
8 Seward	114.6	109.2	104.2
9 York	123.3	128.5	100.4
10 Columbus	125.6	127.4	105.9
11 Norfolk	108.3	114.6	103.7
12 Grand Island	109.6	111.8	103.9
13 Hastings	109.6	112.7	102.0
14 Beatrice	112.5	112.6	103.7
Fairbury	95.5		
15 Kearney	113.2	116.6	102.1
16 Lexington	106.1	105.7	98.4
17 Holdrege	108.9	113.4	106.1
18 North Platte	109.4	108.5	105.1
19 Ogallala	100.0	101.5	104.4
20 McCook	120.8	115.2	104.6
21 Sidney	119.1	111.5	108.7
Kimball	105.0		
22 Scottsbluff/Gering	106.1	108.0	106.3
23 Alliance	108.1	110.0	111.6
Chadron	116.0		
24 O'Neill	114.7	121.1	100.2
25 Hartington	132.5	125.3	106.9
26 Broken Bow	123.4	120.7	104.2

[1] See region map below.
[2] Sales on which sales taxes are collected by retailers located in the state. Region totals include motor vehicle sales; city totals exclude motor vehicle sales.
Compiled from data provided by Nebraska Department of Revenue.

1978 YEAR TO DATE AS PERCENT OF 1977 YEAR TO DATE IN NEBRASKA'S PLANNING AND DEVELOPMENT REGIONS



(Continued from page 4)

a 3.8 percent rise in the U.S. physical volume index for 1978, and a 5.7 percent growth in Nebraska economic activity in 1977.

Production increases in the Nebraska economy in 1978 were centered in the nonagricultural sectors, with three of the four sectors registering gains. Nonagricultural output was up 1.6 percent during the year, with the following changes in yearly output for the nonagricultural sectors: manufacturing, +6.8 percent; government, +0.9 percent; distributive, +0.5 percent; and construction, -2.8 percent.

Output in the agricultural sector fell 1.6 percent in 1978. Despite this lower output, the purchasing power of farmers increased, since it depends not only on the physical volume of marketings but also on prices received for agricultural products. In 1978, prices increased 19.2 percent, contributing to a 17.7 percent increase in the dollar volume of marketings for 1978 compared to 1977. Much of this increase in dollar volume occurred in the fourth quarter when cash farm marketings (not seasonally adjusted) averaged nearly $600 million per month. November's volume of $673 million was the largest ever recorded.

Growth in manufacturing output was the lone bright spot in the Nebraska economy. The manufacturing sector proved to be a source of strength throughout the year, as output in this sector fell only twice in 1978 and December's index of 162.8 was the highest value for the year. Employment in this sector also increased steadily during the year and recorded a 3.0 percent gain. In December, more than 95,000 workers in the state were employed in manufacturing.

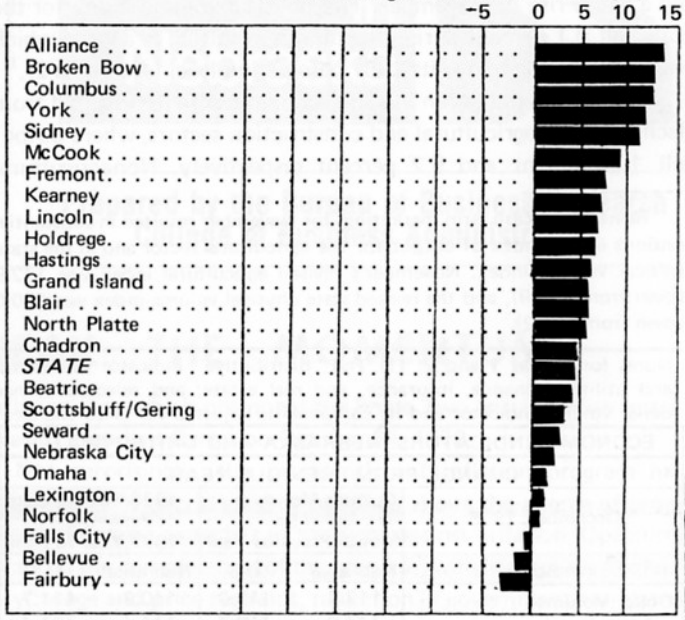
Growth of output in the distributive and government sectors was sluggish and erratic during 1978, with neither sector experiencing more than two consecutive monthly increases in output. Employment in the government sector grew 0.9 percent, and employment in the distributive sector grew 2.4 percent.

The construction sector was the weakest sector in the Nebraska economy in 1978. Seasonally adjusted construction output was strong during the beginning of the year, with the index reaching a yearly high in June. In the last half of the year, however, construction activity fell rapidly. December's index of 120.4 was the lowest value for the year and was 20.3 percent below June's peak.

In December, twenty-two of the twenty-five reporting cities experienced increases in business activity relative to December, 1977. Alliance again posted the largest gain in activity, with an increase of 19.5 percent. Other cities with December-to-December increases of more than 10 percent were Broken Bow, Columbus, York, and Sidney.

J. A. D.

CITY BUSINESS INDEXES
Percent Change Dec. 1977 to Dec. 1978



Source: Table 3 (page 4) and Table 4 below.

4. DECEMBER CITY BUSINESS INDICATORS

The State and Its Trading Centers	Percent of Same Month a Year Ago		
	Employment[1]	Building Activity[2]	Power Consumption[3]
The State	102.9	92.0	101.6
Alliance	132.5	40.5	110.9
Beatrice	102.3	56.3	107.1
Bellevue	102.5	70.6	103.6*
Blair	100.7	71.4	103.8
Broken Bow	101.1	200.0	97.3
Chadron	95.0	87.6	107.7
Columbus	102.9	102.6	106.3
Fairbury	101.7	55.2	104.9*
Falls City	102.2	49.6	106.1
Fremont	103.1	110.1	97.4*
Grand Island	102.0	113.8	101.9
Hastings	101.9	119.5	103.2
Holdrege	101.5	110.3	112.2
Kearney	100.3	105.9	111.6
Lexington	103.3	40.0	113.1
Lincoln	105.7	139.7	98.3
McCook	101.8	94.9	105.6
Nebraska City	101.3	75.5	105.4
Norfolk	102.0	68.7	83.4
North Platte	100.4	93.8	115.6
Omaha	102.5	99.1	99.5
Scottsbluff/Gering	102.5	95.9	101.5
Seward	100.4	45.9	103.4
Sidney	101.3	58.0	148.9
So. Sioux City	NA	NA	NA
York	101.3	89.9	117.5

[1] As a proxy for city employment, total employment for the county in which a city is located is used.

[2] Building Activity is the value of building permits issued as spread over an appropriate time period of construction. The U.S. Department of Commerce Composite Construction Cost Index is used to adjust construction activity for price changes.

[3] Power Consumption is a combined index of consumption of electricity and natural gas except in cases marked * for which only one is used.

Source: Compilation by Bureau of Business Research from reports of private and public agencies.

5. PRICE INDEXES

December, 1978	Index (1967 = 100)	Percent of Same Month Last Year	Year to Date as Percent of Same Period Last Year*
Consumer Prices	202.9	109.0	107.6
Commodity component	194.2	108.9	107.1
Wholesale Prices	217.4	109.7	107.8
Agricultural Prices			
United States	224.0	122.4	114.6
Nebraska	222.0	124.0	119.2

*Using arithmetic average of monthly indexes.
Sources: Consumer and Wholesale Prices: U.S. Bureau of Labor Statistics; Agricultural Prices: U.S. Department of Agriculture.

(Continued from page 3)

must be highly selective and limited initially to those industries which have a substantial prior record of noncompetitive behavior. The industries which typically have been the focus of presidential jawboning (industrial oligopolies) will almost certainly qualify, as will a number of key industries in the food and service sectors of the economy. The latter are surrounded by various degrees of regulation and ceremonial mystique, and may be particularly worthy of the commission's attention in light of the behavior of their prices in recent years.

Table 2 (p. 3) shows the inflation in service prices since 1974. The prices of all consumer services have remained at the 8 to 9 percent level since 1974, with double-digit inflation characterizing one or more of the major industries in this sector throughout the period 1974-1978.

The primary service industries are: Banking, Finance, Insurance, Medical Care, and the Gas, Electric, and Telephone Utilities. Collectively, these industries account for more than 61 percent of household service expenditures. In addition to the direct contribution each of these makes to the inflation rate, there are substantial indirect effects which are difficult to quantify, for example, the provision for medical care services in the total compensation package of industrial workers, or the impact of rising interest rates on the cost of carrying business inventories.

The need for limited power to delay or prohibit price-wage increases in the service industries is likely to be greater than in the case of industrial oligopolies. Monopoly pricing power is prevalent in the service industries, and prices are frequently allowed to move in a manner which is demonstrably inconsistent with prevailing and near-term market forces. The existence of a national price-wage commission with a mandate to document market forces and the institutional arrangements which support them is an important step toward reasserting the primacy of the market in the service sector of the economy.

The establishment of a permanent price-wage commission does not solve the problem of inflation. It should help to focus our attention on the basic structural and institutional conditions which contribute to the momentum of inflation. And that should help us get a grip on the momentum of inflation once it enters the system. A price-wage commission should not be viewed as a substitute for fiscal and monetary responsibilities or as an alternative to other government initiatives which may be expected to further the objective of price stability. The role of social security and sales taxes, minimum wage legislation, government regulation concerning health, safety and the environment, import restrictions, and government initiatives to support farm income all need to be reexamined as part of a broader program aimed at price-wage moderation.[7]

ROBERT F. ALLEN*

[7] For a recent attempt to quantify the impact of these factors on the inflation rate, see Robert W. Crandall, "Federal Government initiatives to Reduce the Price Level," in *Curing Chronic Inflation* (Washington, D.C.: The Brookings Institution, 1978).

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NEBRASKA ECONOMICS AND BUSINESS ASSOCIATION

The Nebraska Economics and Business Association (NEBA) is an organization whose members have a common interest in economic issues and the economic progress of Nebraska. Members from the business and financial community, from government, and from the academic institutions of Nebraska meet at least once each year to discuss issues of current significance, to participate in a program with theoretical, applied, and professional elements, and to become better acquainted.

The NEBA meeting for 1979 is scheduled for October 19 in Hastings, Nebraska, beginning at noon with lunch and a speaker. After lunch, each participant may choose a small group session whose papers and discussion are of interest. The day is capped by a social period and featured dinner speaker. The NEBA meetings run concurrently with the Nebraska Council on Economic Education sessions.

Membership and meeting attendance are open to all persons interested in business and economic issues. Dues are $3.00 annually. To join, write the current president: Professor Roger Doerr, Business Administration/Economics, Hastings College, Hastings, Nebraska 68901.

Professor Doerr is currently accepting abstracts and papers for consideration by the Executive Committee for presentation at the October meeting. Anyone wishing to present an approximately twenty-minute paper of theoretical, applied, or professional interest is invited to submit it in complete or abstract form by May 10, 1979, to Professor Doerr.

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