

Dr. McCracken on Price-Wage Controls

Last July 28 *The Washington Post* published an article by Dr. Paul W. McCracken, Chairman of the President's Council of Economic Advisers, entitled "Galbraith and Price-Wage Controls." In that article Dr. McCracken described the economic benefits that result from changes in prices of things in the markets and the undesirable consequences of price and wage controls. The editors of the *Monthly Economic Letter*, which is published by the First National City Bank, wrote that the article "explains clearly and persuasively why the Administration has consistently resisted proposals for price-wage controls, and we feel it merits the attention of our readers." The article was reprinted in the August issue of the *Monthly Economic Letter*.

We, too, believe that Dr. McCracken's article is useful for furthering understanding of the consequences of such controls, and, therefore, on August 20 we requested his permission to reprint it in these reports. He replied that the article "is now so obsolete that I doubt if there is any real point in pursuing the matter further." Although Dr. McCracken has chosen to suppress further dissemination of his comments, we believe that they are important enough to warrant describing them below.

Dr. McCracken began his article by reporting that the noted economist John Kenneth Galbraith recently had advocated, in testimony before the Joint Economic Committee of Congress, the adoption of wage and price controls. Dr. McCracken observed that such advocacy was logical within the limits of Dr. Galbraith's peculiar view of the economic system in the United States. Dr. McCracken noted that Dr. Galbraith has ridiculed for at least two decades the idea that prices indicate to processors what consumers want. The former also noted that, inasmuch as Dr. Galbraith believes that prices are arbitrarily set solely for the purpose of extracting income from consumers, he believes that prices should be controlled.

Dr. McCracken observed that these beliefs about prices and about the means for keeping them from being "too high" are not unusual and are widely held among uneducated persons. He noted that what is unusual is that these beliefs are held by the president-elect of the American Economic Association (Dr. Galbraith). The latter, Dr. McCracken asserted, advocated a wage-price freeze followed by permanent Government control of pricing by large corporations and of union wages.

Although Dr. McCracken described the temptation to undertake such action as great, he wrote that it must be resisted for several reasons, which he listed as follows:

1. Changes in prices in the markets contribute to efficient processing and satisfaction of consumers' desires.

Attempts by U.S. Government authorities to control prices generally during wartime and to a lesser extent in regulated industries have reduced consumer satisfaction. Attempts by authorities of other countries have had a similar result and have led to increased reliance on market prices in some European countries.

2. General control of prices and wages would seriously threaten individual freedom. Many journalists who zealously defend freedom of the press apparently do not recognize the implications of Government control of all incomes in the Nation. Such control might violate the Constitutional prohibition of involuntary servitude.

3. The popular image of wage and price controls is that a small group of dedicated and objective men in Washington would prevent leaders of large corporations and unions from exploiting citizens. The fact is that all citizens would be controlled, not by wise men but by politicians and bureaucrats such as those who operate other Government agencies.

4. The notion that all wages and prices can be frozen is an illusion. Contracts of millions of workers include provisions for future wage increases. Such increases will force many employers to increase prices in order to maintain already small profit margins, which will force further increases in wages governed by escalator clauses. Attempts to establish "equitable" increases in wages and prices may increase, rather than reduce, inflationary expectations.

5. Various kinds of restraint of wages and prices have been proposed together with expansionist policies, such as tax reductions or increased spending, in order to stimulate economic activity. The expansionist policies are easy and popular, but the restraint would be neither. When officials of the Johnson Administration adopted wage-price guideposts for restraint and fiscal policies for expansion, the restraint failed and the expansionary policies overstimulated economic activity.

In concluding his article, Dr. McCracken wrote that he and other Administration officials believe that the relative freedom of the price system was a factor of major importance in the high standard of living in the United States, and that they were determined to preserve this system.

As most people know, the freedom of American citizens to agree on prices of things, including labor, that they exchange in the markets was suspended for 90 days by Presidential decree on August 15. Subsequently, Administration officials, including Dr. McCracken and Secretary of Commerce Maurice H. Stans, implied that some form of control of prices and wages would be continued by the Federal Government after the 90-day

period has elapsed.

Almost exactly a month after describing the advantages of a free price system and the disadvantages of controlling prices and wages, Dr. McCracken pronounced his description "obsolete." In testimony before the Joint Economic Committee of Congress on August 30, he asserted that "I think that some kind of quantitative guidance is productive." He also asserted that some sort of Government control of prices and wages would be continued so that the existing price-wage freeze does not "merely pile up ammunition for an explosion of wages

and prices." We cannot imagine a more candid acknowledgment that the freeze will not solve the problem.

We regard Dr. McCracken's abandonment of economic principles expressed so forthrightly only a month before as a shocking compromise of integrity. Such action can be expected by a professional politician whose overriding objective is to remain in office. That it has been taken by an allegedly professional economist, who is the chief economic adviser to the President and who helps to formulate economic policies of the United States, is discouraging and frightening.

Would Government Support Be a 'Booby Trap' for Behavioral Scientists?

By E. C. Harwood and Rollo Handy

The book¹ reviewed here is by The Behavioral and Social Sciences Survey Committee, a group appointed jointly by the National Academy of Sciences and the Social Science Research Council. The number of influential persons associated with the project (see lists of names on pp. 275-79 and pp. vi-viii) suggests that the general point of view expressed in the Report is shared by many contemporary behavioral scientists, possibly a majority of them.

In the first half of the book the authors discuss the field of behavioral inquiry, briefly describe many of the relevant disciplines, review the research methods currently in use, and discuss the social import of behavioral science findings. They recommend the following: the further development, with Congressional support, of a system of social indicators analogous to the President's Council of Economic Advisers' economic indicators; the private (non-governmental) development of an annual Social Report to the nation; the formation of a commission to devise a national data system for behavioral research purposes; the establishment of a federal government group to work on ways of protecting the anonymity of the individuals studied; the creation of graduate schools of applied behavioral science; and an increase in federal support funds for basic and applied behavioral research from between 12 percent and 18 percent per year over the next decade.

The second half of the book contains much useful, detailed information on the following: students and degrees granted in behavioral science fields; Ph.D.-granting departments; the role of behavioral scientists in professional schools; behavioral research institutes; non-university behavioral research; federal and private support of behavioral research; and the situation in countries other than the U.S.A. The factual data are primarily for the 1966-67 academic year; numerous projections are made for 1976-77.

I

Many sections of the Report will not withstand critical inquiry. *At times* the procedures adopted in the Report are unscientific and superficial, the language used is loose, the relevant evidence is only partially mentioned, and controversial issues are slurred over. Some illustrations follow:

(1) The authors say: "The fact that social prediction will always be contingent upon subsequent events, and

hence will always lack complete accuracy, means only that some estimate of the degree of uncertainty must enter into a responsible prediction" (p. 21). But *all* scientific prediction is "contingent upon subsequent events" (e.g., a predicted eclipse of the moon will occur only if something untoward doesn't happen the meantime); social prediction is no different from physical prediction in that respect.

(2) In discussing political science, the authors note the development of the "behavioralist" movement after World War II. They go on to say: "At first, this new approach was resisted by some who held to more classical political theory. Fortunately, the tensions that arose have largely disappeared, and now there is a recognized division of labor between the more classically oriented political theorists and the contemporary quantitatively oriented empiricists" (pp. 38-39). The use of modern scientific methods urged by the behaviorists is so fundamentally opposed to the nonscientific procedures commonly used by the classical political theorists that one wonders how a productive division of labor could be established between the two groups.

(3) In discussing the ways in which Game Theory can "illuminate" many types of group behavior, the authors note that in this nation no political party has been able to maintain a stable level of support much over the 50 percent level for more than a short time, and that in European parliamentary coalitions usually only a small majority is maintained. The authors then say: "Unless we are to attribute these observed facts to coincidence, they must have an explanation somewhere deep in the machinery of democracy. Game theory shows how an explanation of the 'minimum-size principle' can be derived rigorously from simple assumptions. The basic idea is that minimum-size majorities have all the power they need to govern; the price they must pay (in terms of concessions and compromises on issues) to attract or to retain additional adherents will be greater, the theorem shows, than anything the core group can hope to gain from the additional strength" (pp. 79-80). The reader is not told how the Game Theory explanation "illuminates" the "deep" workings of democracies. Nor is the reader given any evidence that Game Theory yields a more useful description of the occurrence of "minimum-size majorities" than a description simply in terms of the group-in-power's unwillingness to make more concessions than necessary to retain power. To translate the latter description into Game Theory notions (even if they "can be derived rigorously from simple assumptions") doesn't improve whatever scientific warrant the description may have.

¹*The Behavioral and Social Sciences: Outlook and Needs*. By The Behavioral and Social Sciences Survey Committee. (Englewood Cliffs, N.J.: Prentice-Hall, 1969), 320 + xv pp., \$7.95.

(4) The authors cite a study of 80 cultures, based on the Human Relations Area Files, showing that in cultures "in which male children were subjected to various sorts of physical stress during the first two years of their lives, the adult males averaged 2.7 inches taller than the adult males in those cultures in which the male infants were not so stressed, even though the racial backgrounds of the cultures were matched as carefully as possible. These somewhat surprising results are being checked by contemporary studies in Africa, for they appear to have implications for childrearing that should not be overlooked. Apparently an appropriate amount of physical stimulation may be a good thing in infancy" (p. 111). As it stands, such a statement (whatever may be in the original research report) strongly suggests a *post hoc, ergo propter hoc* procedure, and seems to assume, without giving evidence, that increasing height is an unqualified "good thing."

(5) In illustrating the benefits students may expect from studying behavioral science materials, the authors say that a student will learn "that mental illness is a product of traumatic relationships between individuals—parent and child, husband and wife, worker and supervisor, and so forth—with perhaps a genetic component as well in some kinds of illness" (p. 262). The emphasis on *individuals* ignores the socio-cultural aspects that many workers believe to be involved, and the passage quoted suggests that traumatic relationships always or often lead to mental illness.

(6) On the last page of the main text, the authors say: "the behavioral and social sciences are *potentially* some of the most revolutionary intellectual enterprises ever conceived by the mind of man. This is true basically because their findings call into question traditional assumptions about the nature of human nature, about the structure of society, and the unfolding of social processes. They challenge the inevitability of business cycles, the instructional and rehabilitative value of punishment, and the superiority of white skin. Psychology has already had a powerful impact on child-rearing and on adults' views of their own sexuality. Economics has shaken traditional faith in the unregulated market and weakened resistance to planned and directed economies" (p. 272). The illustrations given the latter part of the quotation are vague. No evidence is mentioned that psychologists or economists in fact have had the influences stated. Possibly those workers were as much influenced by the social changes vaguely referred to as they influenced those developments. And even if psychologists and economists had the impact suggested, we are given no evidence that their views are scientifically sound.

II

In addition to the criticisms indicated above, naive and sometimes inconsistent remarks are found in the book about the relation of behavioral scientists to the government. The authors give several reasons for urging that the proposed annual Social Report to the nation be "tried out on a private basis," including their fears that a Report sponsored by the government would be caught up in partisan issues and be less objective than a privately sponsored Report (pp. 106-07). Yet they also suggest that the Report might be taken over by government eventually, and in other parts of the book show little awareness of the problems posed by direct governmental sponsorship of behavioral research. The blithe ignoring of such issues seems especially inappropriate for behavioral

scientists, who presumably should have shed their political innocence and should be especially vigilant in defending their freedom of inquiry.

The authors are favorably impressed by the work of the Council of Economic Advisers and suggest the establishment at some future time of a "permanent council of social advisers" (p. 109). Yet as the Council of Economic Advisers now functions, the policy advice it gives can hardly deviate from what the President deems politically expedient. Such an official advisory group is simply not in a position to urge publicly the elimination of unsound economic policies that are strongly supported by the President and the Congress. A group of scientists could report privately to the President without encountering such difficulties. Or a scientific group could be responsible to the general public. But in our political system official public status for an advisory group is a strong guarantee that its policy recommendations will harmonize with the views of the group in power.

Although the authors emphasize how controversial issues in behavioral inquiry can be, they give no indication that such matters have a bearing on increased federal funding. Scientifically warranted assertions and policy recommendations based on those assertions may be so unpalatable to politicians that they will not provide the financial support desired or needed. The lure of large amounts of federal money may lead behavioral scientists into a situation in which they cannot function as scientists but can function only as special pleaders for the politicians in power.

Already apparent is the fact that some existing governments recognize how important the work of behavioral scientists will become. For example: the Communist party in the Soviet Union has taken great pains to control the work of behavioral scientists with a view of ensuring that they serve the interests of those in power; and in the United States during recent years each political party when in office has used some behavioral scientists in ways evidently intended to further the retention of power.

Many people today are so impressed with the benign aspects of democratic or republican forms of government that they forget the lessons of history. The first democratic government in Europe following the French Revolution, which was inspired in part by the American Revolution, beheaded Lavoisier, the father of modern chemistry. On the other hand, much early scientific work in the 17th and 18th centuries was made possible because benevolent despots in various European countries chose to defy some religious leaders and protect a few scientists as well as support their inquiries. More recently, the economic advisers of an American President apparently have endorsed economic action so unsound that, in the words of a distinguished Harvard professor, it should "make every economist blush."

III

In short, an important lesson to be learned from the experiences of history is that scientists should not expect to be assured of unrestricted freedom of inquiry and discussion as the servants of the government, any form of government, nor by any vested interests having special privileges or positions of power that those interests desire to defend and perpetuate. Especially should behavioral scientists be wary of becoming the tool of agencies that may inhibit full freedom of inquiry and discussion, because,

of the three major fields of science—physical, physiological, and behavioral—the last deals almost continuously with controversial matters of consequence to one or another vested interest.

In recent years, the Behavioral Research Council¹ has suggested a code for behavioral scientists analogous to the Hippocratic Oath and the legal code of ethics. It is:

My primary and overriding moral commitment or obligation is to serve as a behavioral scientist for the purpose of seeking solutions for the problems of men in society and publicly informing my fellow citizens as to the results of such scientific research. This implies:

(1) Relying in such inquiries on the methods of modern sciences in their evolutionary development.

¹During the 1950's, George A. Lundberg, Stuart C. Dodd, and E. C. Harwood held conferences with leading behavioral scientists in Claremont, California; Seattle, and New York for the purpose of forming a new organization expected to facilitate cooperation among behavioral scientists in the various fields. Development of common methods, of technical terminology (to the extent practicable) applicable in all the fields of inquiry, and of the cross-fertilization that might be expected to result were to be aims of the new organization. The Behavioral Research Council was formally organized in 1960 at Claremont, California.

The first research project undertaken was a survey of progress in all of the behavioral sciences. The results of this research were published in *A Current Appraisal of the Behavioral Sciences* in 1964. Because this publication has been widely acclaimed by reviewers in many of the scientific journals as the most comprehensive and useful publication of its kind ever published, the Behavioral Research Council is undertaking a revision of the first edition with anticipation of a completed second edition in 1971.

After the President's Council of Economic Advisers was established in 1946, the Institute analyzed the Council's regular reports in some detail for a few years. Early in 1950, we reprinted the analyses made in earlier years and offered suggestions as to reorganization of the Council. The concluding paragraphs follow:

The successful functioning of any group of economic advisers depends initially on having an organization such that members are encouraged to apply the scientific method in the quest for knowledge. The present Council of Economic Advisers is not so situated.

Confidential economic advisory staffs for the President and Congress and a permanent independent economic commission serving as economic adviser to the general public are essential if the best use is to be made of the increasing knowledge resulting from the application of the scientific method to economic problems.

The duties of the commission should include: review and publication of what is known in the field of economics; ascertainment and formulation of existing problems; conducting and encouraging research; and presentation of reports showing the costs and probable outcomes of various alternative courses of action related to specific problems.

After unnumbered centuries of trial and error, mankind has developed in recent centuries an improved and improvable method of acquiring knowledge. For the first time, as far as we now know, men have at last obtained a coherent understanding of knowledge and a dependable means of acquiring more knowledge. This achievement is by far the most valuable heritage of our times. If we make wise use of these means, we or our children may yet succeed in achieving the ideal society envisioned by our forefathers who sought to establish in the New World

(2) Endeavoring continually to improve my own ability as a scientist to develop warranted 'if-then' conclusions or assertions by applying scientific methods and by subordinating any personal biases in order to assure objectivity in my work and findings.

(3) Avoiding all conflicts of interest (such as might result from employment by special interests, etc.) that might inhibit scientific work or bias me in any way tending to pervert scientific inquiry.

(4) Differentiating clearly in all writings and public statements so that those to whom I communicate will understand whether I am speaking or writing in my role as a scientist within my field of competence or am simply urging in my role as a citizen or in some other specified role a course of action that I personally prefer.

(5) Criticizing as unscientific, without fear or favor, all purportedly scientific reports within my field of competence that (in the absence of such criticism) could be expected seriously to mislead my fellow citizens, whom I have chosen to serve.

Does anyone imagine that men who were conscientiously following such a code would choose to be dependent on funds from any government?

Note: The first of the two articles above is reprinted from *Research Reports*, September 13, 1971, published by American Institute for Economic Research; the second is reprinted from *The American Journal of Economics and Sociology*, Vol. 30, New York, N.Y.

equality of opportunity, freedom, and justice.

SUMMARY OF CONCLUSIONS

The analyses presented herein have lead us to conclude that the following questions are in order:

1. If economists desire to have the public's confidence in their professional standing as scientists and their intellectual integrity, do not economists have a moral obligation:

a. to inform the public in clear, unequivocal language that the analyses offered by the President's Council of Economic Advisers do *not* meet the current standards of the profession pertaining to reports on economic inquiries?

b. to explain why the existing organization of the Council is not conducive to the maintenance of scientific standards of economic inquiry? (In this connection, perhaps a public statement of the reasons why several of the Nation's leading economists have declined to serve on the Council would be helpful.)

c. to suggest means by which the public, the Congress, and the President might obtain the best possible advice from the Nation's professional economists?

2. If the economists fail to make known their views, will not the public assume that the reports of the Council of Economic Advisers are accepted by the economic profession as sound conclusions based on scientific inquiry?

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