I ought perhaps to apologize for speaking on this subject at all. It is an area in which I have no special competence. It is perhaps a case of fools rushing in where angels fear to tread. I have puzzled a good deal about this matter and probably the best I can do is to raise some questions in the hope that others will dig into it a bit deeper than has been done so far.

Let me try first to put the jigsaw puzzle together. The 3.2-percent productivity guidepost was derived from the total private GNP. This is very important. This includes services as well as commodities. It implies concern about the Consumer Price Index which includes both services and commodities. It implies that if overall worker compensation—wages, supplements, and fringe benefits—rose by 3.2 percent a year and if overall income distribution—wage versus nonwage groups—remains reasonably undisturbed, then the Consumer Price Index should remain stable, given these assumptions this conclusion is, of course, correct.

But this is not what happened in 1960–65. Market forces and collective bargaining in the overall picture did not follow the guidelines. Instead per worker compensation increased by 4.25 percent per year and the Consumer Price Index rose by 1.2 percent per annum—incidentally, all my data are drawn from the 1966 and 1967 Economic Reports. In the meantime, the all commodities Wholesale Price Index displayed remarkable stability. Unit labor costs in the commodity producing industries remained stable. This implies that the percentage increases in employee compensation were offset by corresponding increases in per employee productivity in these industries.

Why did the Consumer Price Index rise by 1.2 percent while the all commodity index remained stable? The answer is, of course, as we all know, that productivity increases in the services area are meager compared with the remarkable advances made in the commodities area. Forty percent of personal consumption expenditures now go for services. This has been growing. If we apply a weight of 0.60 to commodities and 0.40 to services and if we assign a productivity increase of 4.25 percent to commodities and 1.5 percent to services, we arrive at a weighted average increase in productivity of 3.2 percent. These figures are intended only to be illustrative but they are possibly not too far from the facts, and they conform to the guidelines productivity increase of 3.2 percent for the total private economy, services included.

On balance the country appeared to be reasonably happy over the price developments in 1960 to 1965, despite the fact that the compensation did not correspond to the guidelines. Consumers, of course, grumbled and some journalists fumed about so-called inflation. But in general there was much talk about "reasonable price stability." And about one thing we can be certain: had there been a fall in the all commodities index, which we should have had if the Consumer Price Index had been stable, we should have heard a storm of protest. Falling commodity prices have always been associated with the depression and unemployment. The events of 1960–65 have shown, I believe, that the degree of restraint suggested by the 3.2 figure to some extent was unrealistic. Guidelines based so heavily on productivity increases in the services are bound to be set too low. There is, I believe, general agreement that the appropriate goal to work for is price stability in the all commodity index. This means that we must expect a rise in the consumer index of about 1.2 or 1.5 percent per annum.