

Some of the inequities which developed under the guideposts, and the process by which they developed, are described below. In certain instances, the second quarter of 1960 will be compared with the second quarter of 1966. The second quarter of 1960 was chosen because it represented the peak of the previous business cycle, so that the comparisons are between two periods of relative prosperity. The second quarter of 1966 was chosen because subsequently the pressure of rising living costs finally broke the dams and forced wages up at a faster pace. The essential points are that (a) it was a *prior* increase in living costs for which wage increases were not responsible which finally compelled money wages to begin rising faster than the rate of productivity advance and (b) the faster pace of wage increase was required to correct the income distortions and inequities that had developed.

1. Compensation per employee man-hour has closely paralleled productivity

In a statement presented by the Council of Economic Advisers to a Subcommittee of the House on September 12, 1966, productivity in the total private economy was shown to have increased at an annual rate of 3.8 percent from 1960 to 1965 (Table A of the statement) while total compensation per employee man-hour, including overtime, in the private economy was shown to have increased during the same period at an annual rate of 3.7 percent (Table 1 of the same statement)—or less than the increased in productivity.¹

2. Thus, increases in employee compensation per man-hour cannot be said to have contributed to upward pressure on the price level

Since hourly employee compensation rose at approximately the same rate as productivity, it obviously was not the cause of increases in the general price level. Given the fact that corporate market power had been used to maintain some prices at excessive levels at the beginning of the 1960-65 period, the close tracking of productivity by hourly employee compensation would have permitted some reduction of the general price level.

3. Nevertheless, prices rose

The Consumer Price Index increased by 6.6 percent from 1960 to 1965, an average rate of 1.3 percent annually.

4. Real hourly compensation, in consequence, lagged far behind increases in productivity

The rise in real total compensation per employee man-hour from 1960 to 1965 was in the neighborhood of 2.4 percent annually—two-thirds as fast as the increase in productivity. Wage and salary earners were deprived of a third of their proportionate share of the gains from increased productivity.

5. As a result, the distribution of the national income was distorted in favor of property income to the disadvantage of employment income

	Percent increase	
	1960 to 1965	II-1960 to II-1966
Employment income:		
Total employee compensation	33.5	45.1
Employee compensation in the private economy	31.3	42.5
Property income:		
Corporate profits before taxes	52.3	59.8
Corporate profits after taxes	66.7	75.2
Dividends	43.3	56.3
Personal interest income	64.1	81.5

¹ The productivity figure was subsequently revised by BLS to 3.6 percent because of an upward adjustment in the man-hours figures; comparable revised employee compensation data have not yet been published. It is evident, however, that hourly employee compensation closely paralleled productivity. Differences between the two sets of data might be accounted for entirely by statistical error. It is known that there are important errors of understatement in the productivity index which probably significantly outweigh the fewer and generally less serious errors in the opposite direction.