

Mr. AUERBACH. I think that is an excellent suggestion, Congressman Reuss. I would like to see Miss Peterson's office move more aggressively into the price area. But this is a difficult area and yet this possibility ought not to be neglected.

Representative REUSS. Thank you. You have certainly given an answer to my "what can we do now" question.

Thank you, Mr. Chairman. That is all.

Chairman PROXMIRE. Thank you very, very much, Professor Auerbach. You have been an excellent witness this morning—most stimulating. You challenged whether I would be saying as nice things about you after you finished as before. I certainly can, and even more so. As Congressman Bolling indicated, you have brought an extremely interesting and constructive suggestion to us.

It is one thing to criticize and it is very helpful, very important. Something else though, it is much harder to make a concrete specific proposal and make it stand up, so I think you have been a very helpful witness, and we are mighty grateful.

Mr. AUERBACH. Thank you, Senator Proxmire.

Chairman PROXMIRE. Our next witness is an old friend of the committee and an extremely competent economist—Dr. Jules Backman, research professor of economics of New York University, who has quite a different view on the subject. It will be a very stimulating morning.

We are very happy to have you, Professor Backman.

TESTIMONY OF JULES BACKMAN, PROFESSOR OF ECONOMICS, NEW YORK UNIVERSITY

Mr. BACKMAN. Thank you, Mr. Chairman. It is always a pleasure to appear before the committee. While the temptation is very great to plunge into the discussion that has already taken place, so that I could register my disagreement with the previous witness on many of the points, I will try first to outline my basic position and then hope these questions will be raised later.

The CEA has made a constructive contribution to public understanding by emphasizing that fringes as well as wages must be considered in measuring worker's gains, and that regardless of the name given to a wage increase, whether it be a cost-of-living adjustment or a productivity increase, it represents a labor cost. However, the CEA presentation does a disservice to economic education when it uses erroneous assumption to supply this policy.

The wage-price guideposts were foredoomed to fail to accomplish the objectives of limiting increases in labor costs and stabilizing the price level. As is shown by the attached conclusions of an analysis I made on February 19, 1962, I do not draw this conclusion from the vantage point of 20-20 hindsight.

There are at least five basic assumptions underlying the guideposts which in my judgment are in error.

1. The assumption there is a direct relationship between unit labor costs and prices.

2. The assumption that productivity (output per man-hour) is the major factor in wage determination.