ing. Where shortages prevail, a reduction in price is exactly the wrong prescription and will tend to result in a less efficient use of resources.

Regarding the assumption that productivity (output per man-hour) is the major factor in wage determination. The CEA states "The only valid and noninflationary standard for wage advances is the productivity principle." For some key industries, the rate of change in output per man-hour nationally is one factor considered in collective bargaining.

The guideposts attempt to convert a long-term truism, namely, that the level of living can only increase as the quantity of goods goes up, into a policy which is effective on a year-to-year basis. Productivity is considered by negotiators in some industries, but it is neither the only factor nor the most important one. Other factors include the general state of the economy, the growth rates of specific companies and industries, changes in the Consumer Price Index, rival union leadership, comparative wages and profitability.

In the real world, wage relationships are of critical importance both to the firm that seeks to hire labor and to the union leadership which must produce results for its members. It is true, as the CEA notes, that proper comparisons often are difficult to make. But each party is more skillful at countering the claims of the other than the CEA seems willing to recognize so that neither party can arbitrarily select only comparisons favorable to itself and make them stick.

In discussing prospective settlements, the CEA states that "many wage settlements in 1967 will exceed the trend increase of productivity." In effect, it treats changes to compensate for rising living costs as "an additional margin" beyond the productivity total. The reality of collective bargaining will be just the reverse.

The first factor considered by negotiators during periods of rising living costs is what increase is required to restore real wages to the level prevailing when the previous contract was negotiated. Then, consideration is given to how much more the adjustment should be to compensate either for anticipated further rises in living costs or to increase real earnings.

The Council has said, and I heard it repeated here this morning, that first we get the increase in productivity and then we hope to get back part of the loss of the cost of living. What really happens in collective bargaining is the reverse. First they negotiate whether to restore the living standards which are eroded by a rise in living costs, and after they have agreed or disagreed upon that point, then they negotiate upon how much more should be given in a particular negotiation. In other words, the first test in a period of rising living costs is what has been happening to the Consumer Price Index.

I agree with the Council that, if in 1967 labor should attempt to obtain an increase in wages and other fringe benefits equal to the combined effect of the rise in living costs and the so-called productivity standard, we would have very great pressure on prices. I do not agree that this large increase in unit labor costs, which will aggregate this year at least 4 percent and possibly a little higher, will be translated into any automatic increases in prices. On the contrary, I am convinced that in 1967 these increases in unit labor costs will be ac-