

accompanied by a cut in profit margins and by some increase in unemployment.

Incidentally, 1967 provides an excellent illustration of what is wrong with the guideposts. The assumption that we can increase real living standards by some uniform rate from year to year is one from which the Council departs in this year, and properly so. Historically, living costs, comparative wages, and other factors have been important criteria for wage adjustments. It is a fact that, historically, real wages over long periods of time have gone up as much as productivity. But on the short-term basis, this just has not been the situation at all, as I will indicate in a moment.

There is another assumption which was contained in the CEA's figure of 3.2 percent, namely, that the Council can measure changes in productivity, and then that they use the right numbers.

A year ago the Council was in the embarrassing position of abandoning its own arithmetic. You may recall that when the 5-year average didn't work out, the Council sort of walked away from it and said, "Oh, yes, it may be 3.6 percent, but we really don't think that is important, so we will stick with the 3.2"

If the Council had stayed with its goal of economic education, it necessarily would have stated that changes in output per man-hour cannot be pinpointed, and that only a range of changes could be identified. The Council would then have avoided the situation which increased expectations and may have contributed to the larger increases negotiated later in 1966. The Council also would have been spared the questions raised about its own integrity.

Now why do I raise a question about these figures? Students of the productivity trend are fully aware of certain limitations in terms of their usefulness as a standard for wage increases. For example, about one-half a point of this increase is attributable to the rise in output per man-hour in the agricultural sector. There has been a large shift of manpower from agriculture to industry, and when a worker moves from the farm economy to the nonfarm economy, he slots into the wage level which already is prevailing in the non-agricultural economy; in effect, he gets the gain in productivity.

In other words, the numbers show a gain in productivity, but since we have no composite figure for the economy on wages, there is no wage figure which shows that the average level of wages has gone up because we have more people working at \$2.50 an hour and fewer at \$1 an hour. In other words, the mix in wages has moved in the same direction as productivity.

In addition to that, we have had an important change in the non-agricultural sector. A smaller proportion of the labor force is now production workers, and a higher proportion are scientists, professional workers, and others who get higher wages. This mix uses up part of the gain in productivity, and, in fact, it goes even further when production workers require greater skills in today's technology. As they move up the ladder, they get part of the gains. This is one of the reasons why the use of such numbers is a mistake.

The recent abandonment of the announced guidepost of 3.2 percent was a constructive move. The CEA, of course, hasn't really abandoned the guidepost. It has only abandoned this exercise in economic