The CEA warns that if the labor cost increase in 1967 is large enough to include "a full allowance for productivity" and "to 'compensate' for past increases in living costs, unit labor costs would rise at a rate which would require living costs to continue their rapid rise." (pp. 128–29) I agree that such an increase would probably result in a rise of 4% or more in unit labor costs. But this does not mean a comparable rise in prices. It could be partly met by a cut in profit margins and a reduction in other costs, which means some unemployment. I believe that the 1967 economy will not permit companies to pass on their higher labor costs in full and that large increases in labor costs will result in lower profit margins and some increase in unemployment.

Thus, part of the price of lack of restraint in labor cost increases in 1967 will be unemployment and lower profit margins. The CEA recommends that "producers should absorb cost increases to the maximum extent feasible." (p. 133)

Moreover, 1967 provides an excellent illustration of a year in which real wages should *not* rise as much as output per man-hour because of the large increase required to achieve this objective. The CEA's recommendation for a hold down in total labor costs is a proper objective but it is inconsistent with its basic guidepost approach, namely, that increases "in average hourly earnings and fringes should be steady and smooth, not erratic." (p. 121)

3. *The assumption that reported increases in private output per man-hour indicate what is available for distribution.*—In its establishment of the productivity standard, the CEA utilizes the changes in output per man-hour in the entire private economy. Initially, it referred to long term gains but soon translated long term to mean five years, because it thought such a period "was sufficiently long to induce both the extraordinarily high productivity gains of a year of recovery (1962) and the extraordinarily low productivity gains of a year of recession (1960)." (*Economic Report of the President*, January 1966, p. 92)

In 1966, after five consecutive years of expansion, the CEA abandoned the five year average because it no longer included a recession year and hence reflected "unsustainable productivity gains". Although the CEA didn't identify the years covered, it concluded that "the long term trend, independent of cyclical swings, is slightly over 3 per cent." (*Ibid.*)

The unfortunate use of a five year moving average prior to 1966 placed the CEA in the embarrassing position of being forced to abandon its own arithmetic when it yielded an average of 3.6% for the 1961–65 period instead of 3.2%. (*Ibid.*) If the CEA had stayed with its goal of 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 CEA would then have avoided the situation which increased expectations and may have contributed to the larger increases negotiated later in 1966. The CEA also would have been spared the questions raised about its own integrity.

The shift from agriculture

The changes in output per man-hour for the entire private economy, including agriculture, overstate the average gains that can be attained by workers. Part of the national increase in output per man-hour reflects the shift from agriculture to the non-agricultural economy where the output per man-hour is higher. The shift away from agriculture has been marked. During the period since 1947, agricultural employment has declined by 4 million while non-agricultural employment has increased by some 20 million.

Employment, 1947, 1961, 1966

	Total	Nonagricultural	Agricultural	Percent
	Thousands	*Thousands*	*Thousands*	
1947	57,813	49,557	8,256	14.3
1961	66,796	61,333	5,463	8.2
1966	74,065	69,859	4,206	5.7
Change, 1947–66	16,252	20,302	−4,050	

Since the value of output per manhour in the non-agricultural sector is considerably higher ($4.26 in 1958 dollars in 1965), than in the farm sector ($2.31), this shift contributed to an increase in the average national gain in output per manhour.