inflation instead of the flexibility which has characterized our economy in the past.

Changes in real income, 1962–66

Real labor income since 1962 has risen irregularly but has fallen short of the goal of the guideposts. In light of the steady rise in the CPI by a little more than 1% annually in 1962, 1963 and 1964, 1.7% in 1965, and 2.9% in 1966, workers who obtained an average increase of 3.2% in money wages and fringe benefits annually during that period necessarily received a smaller rise in real income.

It must be kept in mind, as the CEA has pointed out from the start, that all labor costs including fringe benefits and social security taxes, must be considered in utilizing the guideposts. For example, the social security tax paid by employers increased from 3% of wages (up to $4,800) in 1961, to 3⅛% in 1962, 3⅝% in 1963 to 1965, and 4.2% (up to $6,600) in 1966. The increase in the social security tax averaged 0.2% of hourly earnings annually from 1961 to 1966.

The changes in money income and in real income are shown in Table 2. The average rise in hourly earnings plus wage supplements[1] in manufacturing in money terms was 3.3% per year from 1961 to 1965. Somewhat larger annual increases were recorded in other sectors of the economy from 1961 to 1965: construction, 3.1%; wholesale and retail trade, 3.9%. (See Table 3) However, after adjustment for the rise in the consumer price index the increase in real terms averaged only about 2% annually in manufacturing and 2.5% for trade or short of the rise postulated in the guideposts.

In interpreting these data, it must be kept in mind that the increases in costs to employers were somewhat higher because these data do not reflect the cost of fringe benefits involving time off with pay. Nevertheless, it is probable that the increases in real earnings were less than the objectives established by the CEA. And this is really unavoidable because as was indicated earlier, the CEA standard is too high.

5. *The assumption that unorganized sectors would follow the leaders.*—From the outset of the guidepost policy in 1962, the CEA has directed its attention primarily to the "important segments of the economy in which large firms or well-organized groups of employees have same discretionary ability to affect the levels of their prices and wages." (p. 120) These may be described as the highly visible unions and industries.

The CEA assumed that "compensation in unorganized sectors would rise at the same average rate, equal to the gain in over-all productivity." (p. 122) Of course, this unorganized sector includes workers affected by federal minimum wages which have risen much more than the guideposts as the CEA recognizes (p. 129) (From $1 in August 1961 to $1.25 in September 1963 and $1.40 in February 1967) But apart from this development it is of interest to note that the largest increases in consumer prices have been in the service sector which is largely populated by unorganized workers.

The CEA assumed that if the highly visible industries conformed to the price guideposts, "the average of prices would also be stable in the other, highly competitive industries (including agriculture and most services) where firms had no discretion." (p. 123) This is a naive view of relationship between prices of agricultural products and services and those for industrial products.

Prices of agricultural products are significantly influenced by supplies here and abroad and historically have fluctuated much more widely than industrial prices both in the long run and in short periods. For example, from 1940 to 1948, agricultural prices rose 184% as compared with the rise of 75% for industrial prices. In 1958, farm product prices rose 4.4% while industrial prices fell by 2%. In 1959, the trends were reversed. Table 4 shows the diverse annual changes since 1939.

Thus, the assumption that prices of farm products, and in turn food, would maintain a fixed relationship to other prices has not worked out nor was there any reason to expect that it would.

Similarly, the prices of services have risen without interruption in the past quarter of a century while the prices of goods in the CPI have recorded declines

[1] Data reported for wage supplements include legally required social security and unemployment compensation taxes and negotiated pension and welfare benefits.