able under these conditions. The quiet burial of the wage-price guideposts would be equally constructive.

The test of a proper increase in wages and non-wage benefits in any specific negotiation cannot be some "guesstimate" of the average national rise in output per manhour. It is true that the average rise in real labor income for all industries will be close to the average rise in output per manhour for the national economy over a long period of time. But this relationship is neither close nor meaningful on a year to year basis for the entire economy nor for individual companies or industries. The rate of increase for specific industries, companies, or groups of workers will and should vary—often markedly—from the national average. Moreover, increases in money labor costs should not take place annually and if they do they should not be uniform each year. They can be larger in periods of prosperity and smaller or even nothing in periods of recession. They will tend to be greater in periods of inflation and smaller at other times. These variations in the magnitude of changes either annually or periodically are more in accord with the needs of a dynamic economy than any uniform rate of change. It is true that the CEA proposal has an escape hatch which provides for some exceptions to the productivity standard. If the hatch is used, however, the exception will become the rule and the use of the productivity standard the exception. And this is how it should be.

There is no simple wage formula which will yield the right answer for all negotiations in one period or for negotiations of any company or industry over time. The proposal discussed in this paper represents the triumph of the productivity criterion and is based upon the assumption that it will yield a stable price level. However, a proper national wage policy cannot be framed solely with the objective of preventing inflation. It also must consider the demand for labor and hence the impact on the volume of unemployment as well as other factors. If the international balance of payments problem becomes intensified, for example, national policy may have to seek to translate productivity gains into lower prices and an improved competitive position for our products *vis-à-vis* foreign products both here and abroad. Under these circumstances wage increases could be only minimal.

Nor does the proposed policy assure a stable level of prices since price levels are determined by a wide variety of forces of which stability in unit labor costs is far from being the most important. In fact, the whole underlying theory of price determination—namely that prices are determined by unit labor costs—has no basis in fact.

Among the other weaknesses of the proposed guidepost are the following: part of the gains in output per manhour is not available for general increases in wages and non-wage benefits because it is being absorbed by the increase in relative importance of scientific and professional workers and the upgrading in skills of production workers; the stresses created by equal annual rates of increase in labor income when output per manhour changes with great irregularity; the undesirability of freezing labor's share of national income; the varying importance of direct labor costs among different industries with the differing inflationary impact of relatively uniform increases in labor income; and the ineffectiveness of exhortation as the method of implementing the proposal and the undesirability and impossibility of imposing effective wage control.

Finally, it should be emphasized that the proposed guidepost is based on the assumption that gains in output per manhour should be distributed largely in the form of increases in labor income. The needs of an expanding economy, the attainment of high level employment, and our foreign competitive position would be better served if productivity gains were used to a larger extent to reduce prices. Lower prices would increase the real incomes of workers as well as of other groups who contribute directly or indirectly to the increase in output per manhour. Simultaneously, a price reduction would encourage an expanding volume of effective demand for the products directly affected by rising output per manhour. In the absence of a reduction in prices, volume does not expand, fewer workers are required to produce the former volume of output and hence one result is greater unemployment.

By lowering the price it is often possible to assure a prompter use of the released resources. Thus, price reductions help to reduce the threat of technological unemployment at the point of impact by expanding the effective demand