

Mr. BACKMAN. I happen to agree it is a good idea to discourage labor cost increases of that magnitude. However, I will merely say what will happen in terms of the realities of collective bargaining, not theory.

There isn't an arbitration board, nor a fact finding board that won't start with a consideration of the deterioration in living levels resulting from the rise in the Consumer Price Index. They haven't ignored this factor in the last 20 years. And they won't start now.

We can improvise, we can issue numbers in Washington. The pressure on the union leaders from their membership, the desire on the part of industry to do what industrialists think may be right will all start with what is required to make their workers whole, and that is the expression that is used. What is required to restore the position to where they were.

I just participated in the hearings before the fact finding board in New York involving New York City and the policemen and firemen, and this was a critical factor. They want increases much beyond that amount. But the first point was "Look how much we have lost." And this is exactly what will be stated in negotiations throughout the country.

Chairman PROXMIRE. That is what you want to turn around. That is what I have been trying to get away from.

Mr. BACKMAN. But you can't turn it around.

Chairman PROXMIRE. You indicated that the Council of Economic Advisers have put all their emphasis on wage-price guideposts and have ignored these other factors. I quote to you a statement on page 119 when they say:

When demand outruns the growth of productive resources, prices and wages will rise, even in the most highly competitive markets. Indeed they may rise faster and farther than where large firms and long-term labor contracts give some degree of stability. That kind of demand-pull inflation can be held in check by fiscal and monetary policies which keep demand in line with productive capabilities. If labor markets are efficient, control of demand-pull inflation will not require restraints in demand that will lead to a high unemployment rate.

They always say monetary and fiscal are the most important elements of stabilization policy, but they do put emphasis on these relatively few industries but extremely important industries. What I would like to call your attention to are two things.

No. 1. What happened in this very period that you cite, the most important and interesting period, when you say that from 1959 to 1964 or 1965, when one company, the big company, would increase prices, the little boy didn't always follow and the big boy would rescind prices. Well, from 1962, 1963, and 1964, which is the period that I remember this taking place, it was because the Government followed a vigorous policy—

Mr. BACKMAN. Oh, no.

Chairman PROXMIRE (continuing). Of going after the big boy when he couldn't justify his price increase. The most spectacular example was in 1962 when Mr. Blough came to the White House and told the President he was going to increase steel by \$6 a ton, and the President used all the power he had to discourage him and won out.

I submit that that historic action by President Kennedy had a very profound effect on the relative price stability we had between 1961 and