

steel price increase in 1957 of \$6 a ton. I reached the conclusion that that had less effect upon the Consumer Price Index than either a 1-cent increase in the price of bread or a 1-cent increase in a package of cigarettes or a 1-cent increase in a gallon of gasoline or a 1-cent increase in a quart of milk.

At the same time, the Commissioner of Labor Statistics, after analyzing the same increase, announced that its impact upon the Consumer Price Index was, and I use his word "negligible," which, of course, was accurate. I think we have to recognize the nature of this Consumer Price Index.

The overall areas where steel or other products can have an effect are rather small. I agree with you that there may be some psychological effects. I wouldn't argue whether the overall Wholesale Price Index might have been up another point or so in the absence of the guideposts. I don't think it would have gone up much beyond that amount. But I do not agree that there would have been any perceptible effect upon the Consumer Price Index. I am not so sure about the restraint to which you refer in connection with the labor unions.

It seems to me that the 5-percent figure that emerged in the latter part of 1966 emerged despite the guideposts, and may I call attention to what is a fact; namely, that the largest departures from the guideposts took place not among the big unions, but by the relatively smaller unions. The building trades were a conspicuous illustration, despite various remonstrations from Washington and elsewhere. It continued to be an exception. And this I think is always the case.

There is an assumption inherent in the guidepost that if you hold Mr. Big either on the union line or on the price line, this automatically holds others. This is highly unrealistic.

Chairman PROXMIRE. I would certainly agree that it has only a partial effect, a limited effect. The effect on the Consumer Price Index you can show technically that that immediate increase in steel would not have been significant.

Mr. BACKMAN. That is right.

Chairman PROXMIRE. But on the other hand you can certainly also argue that this effect has a rippling effect, that when steel prices go up, appliance prices go up, automobile prices go up, and ultimately and eventually if you follow it through far enough, even if you disregard psychological and pattern price increases throughout the economy, disregarding that, it would seem to me logical that you could expect some significant increase in the cost of living.

Mr. BACKMAN. But let's take a look at that. The steel industry, to use that illustration, accounts for about 2 percent of the economy. Let's say we have a 5-percent increase in steel prices. I haven't heard an increase of that amount proposed, but let's assume it is. A 5-percent increase is equal to one-tenth of 1 percent of the economy. Now, what do you want to do, double, triple, or quadruple its effects?

Chairman PROXMIRE. No, I think it would increase many, many times more than that before the effect is ultimately felt throughout, when you consider the add-ons and the percentage. My own experience in business was that we always determined our prices on the basis of cost.