

"On the price side, increases in price above the general guidepost standard may occasionally be appropriate (1) to reflect increases in unit material costs, to the extent that such increases are not offset by decreases in other costs and significantly impair gross profit margins on the relevant range of products; or (2) to correct an inability to attract needed capital."³³

II. GUIDEPOSTS EXAMINED

A few comments on this prescription may be in order.

Wage guideposts

As to wage policy, the "general" guidepost adheres to the so-called productivity principle; namely, that the increase in hourly labor compensation should not exceed the overall, or national, increase in man-hour output.³⁴

Since this overall output gain is variable, and unknown currently, for practical reasons the guidepost substitutes as the wage target "the national trend rate of increase," this being determined by reference to past history. (You will recall the famous trend figure of 3.2 percent a year, derived in this fashion.)³⁵ This means, of course, that the "productivity principle" is exactly satisfied only when the current rate of gain coincides with the computed trend rate.

The exceptions to the general wage guidepost, it will be noted, are all on the up side.

Price guideposts

Given its costs, the only way a firm can affect prices is by varying its margin of profit on those costs. It follows that what purport to be guideposts for pricing policy are really guides for profit policy.

Although the CEA did not espouse this concept too explicitly, it appeared to accept it. The real norm of compliance with the general price guidepost is found in the behavior of the profit margin. It calls, in effect, for the maintenance of a stable relative, or percentage, margin on labor costs.

This inference is supported by the Council's repeated efforts to rebut the contention that conformity to the wage guideposts would give labor the total gain from productivity improvement. Note the following:

"Adherence to these standards would mean, that *all* participants in the productive processes—employees and owners of invested capital—would share in the overall gains in productivity * * *. Thus the division of income between labor and capital would remain unchanged."³⁶

While the quoted statement refers to the situation where the wage guideposts are observed, presumably the price guideposts are met by the maintenance of unchanged relative profit margins even when the wage guides are not observed. Presumably also the rule applies to the nonlabor costs mentioned in the exceptions to the general price guideline (material costs, for example). Thus we appear to have a standard

³³ *Ibid.*, p. 91. This too is a "restatement" of the exceptions originally noted in 1962.

³⁴ This principle was not new, of course. It was advanced in the Economic Report of 1950 (p. 101), and reiterated in several subsequent reports. (Note the reference to it in the second quotation from the Eisenhower period, above.)

³⁵ It was originally computed by the CEA as the average of overall productivity gains for the 5-year period 1959–63, Economic Report, 1964, p. 114.

³⁶ Economic Report, 1966, p. 90.