At the same time, average weekly earnings in all manufacturing have increased from $41.71 to $66.62, or by 59.7 per cent. *Difference* 34.3 per cent.

These wages have, therefore, been increased by 34.3 per cent more than can be paid for out of increased productivity, and this difference must result in an increased cost of what is produced.

The Dominion Bureau of Statistics make each year a careful analysis of the impact of price changes on the gross national expenditure to arrive at an index which reflects, from year to year, the change in purchasing power of the Canadian dollar. These yearly price indices are termed "implicit price indices". According to these indices, prices generally in Canada, increased by 35.8 per cent between 1949 and 1958.

The increase in prices over this period bears a remarkable resemblance to the percentage of 34.3 per cent by which increased wage earnings in all manufacturing have exceeded increased national productivity over the same period.

Chart 1 shows, in graphical form, the increased wages in all manufacturing in relation to increased productivity, year by year, over the period discussed above.

Chart 2 shows, graphically, the close relationship between inflation and excessive wage increases (increases in excess of those justified by increased productivity).

Table 1 gives the figures on which these Charts are based, and the sources of these figures.

What is the outstanding conclusion to be drawn from these Figures and Charts? It is simply this: that, irrespective of the amount in dollars of wage gains won by Unions in negotiations, the real gain cannot—in the long run—be greater than the actual gain in productivity. Over the period we are reviewing, the wage increases of 59.7 per cent have been accompanied by increases in prices of 35.8 per cent, so that the real improvement in wages and salaries has been 23.9 per cent, which is about equal to the increase in productivity of 25.4 per cent. (Since the major part of this increase in productivity is due to the provision by Management of new and improved capital equipment, labour has done very well to take such a lion's share of the improvement in productivity).

You might argue that if the real gain in our standard of living (the purchasing power of our wages) will never be greater than our gains in productivity, then what does it matter if we continue to increase wage and salary levels at a faster rate than we increase productivity. The end result is the same, and our wages will always increase in dollars a little faster than general prices increase, and our net gain will continue to be about equal to our gain in productivity. This is the policy of steady inflation that is preached these days by quite a few people. The great fallacy in this argument lies in the fact that it *ignores the effect of such a policy on the rate at which it is possible to increase productivity,* which is the only effective provider of increased real wages and standard of living.

Productivity (the physical production per man employed) is dependent on three factors:—

(1) The methods and capital equipment furnished the worker for production;

(2) The worker's effort and skill;

(3) The volume of the market available for the product (that is, the amount of the product that can be sold at a price which will cover the cost of producing it).