

increase in the price of labor made it possible for labor's share in the private domestic national economy to rise from 72 percent in 1919 to 79 percent in 1953.⁹⁷

It might be assumed that because wages rise more than prices and more than is justified by the increase in both prices and productivity that wages lead in the rise of prices and are responsible for the inflation. But aside from the problem of prices, which has been discussed briefly before, there are other and related considerations about which we should say a word. Dr. Ruth Mack, of the National Bureau of Economic Research, has put some of these issues very effectively. She shows, for example, that between 1947 and 1956-57 spot market prices fell by 10 percent of the 1947-49 average. Prices of crude materials rose by 16 percent, and prices of all manufactured goods rose by 34 percent. Labor costs increased about 15 percent of the 1947-49 average, or about as much as prices of crude materials. She seems to find a very vigorous response in prosperous periods to rising raw material prices and to the prices of the finished product, and some resistance to any fall in these prices when material prices tend to go downward.

What then is the explanation of the divergent trends? It does not lie primarily, of course, in bulging profits. Rather, must it be found in the increasing amounts of fabrication to which materials are submitted, increased marketing costs, increased administrative costs, costs of research, of insurance, of development. These shifts in productivity and cost structures thrive in the general atmosphere of the times. Many of the emphasized costs are of the overhead or burden type. There is a widespread belief that the strong output trend and demand is truly durable. This weakens usual fears of saddling a business with heavy overhead type costs * * *.⁹⁸

Other studies also show a tendency for employees to obtain a larger share of the national income. For example, the Joint Economic Committee, in one of its studies, shows that compensation for employees rose from 58 percent of national income in 1929 to almost 70 percent by 1956. Once allowances are made for the shifts in the relative importance of industries and legal forms of organization at different labor cost ratios, the rise of labor's share is greatly reduced.

* * * If one excludes the effects of such shifts and limits the comparison to changes in the relative share going to labor (and implicitly to property) within each of the component industries of the economy and different legal forms of organizations (corporate versus noncorporate), then the 12 percentage points increase in the labor share is reduced to less than 3 percentage points.

The Committee also finds that unit property costs rose about three-fourths between 1909 and 1955, as compared with a tripling of prices and an increase in unit labor costs of about $3\frac{3}{4}$ times the 1909 level. Within property costs (before taxes)—

capital consumption per unit rose about 69 percent between 1929 and 1955, compared to 27 percent for profits and other property income per unit, and about 36 percent for total property costs per unit * * *.⁹⁹

⁹⁷ Hearings, "The Relationship of Prices to Economic Stability and Growth," Joint Economic Committee, 1958, p. 99.

⁹⁸ See hearings, "Relationship of Prices and Economic Stability and Growth," pp. 130-131, and "Relationship of Prices and Economic Stability and Growth," compendium, pp. 269-284. Also see R.P. Mack, "Inflation and Quasi-Effective Changes in Costs," *Review of Economics and Statistics*, 1959, pp. 225-231. In his contribution to the same hearings, Professor Ruggles presented a somewhat similar position, particularly on the large rise of overhead and service costs. See hearings, *ibid.*, pp. 134-136.

⁹⁹ "Productivity, Prices and Income," 1957, pp. 10-11.