

half of the workers in nonunion factories received wage rate increases in both 1965 and 1966, where the previous experience was that they usually received rate increases about once every 2 years.

Labor cost developments in 1967 will be affected by the usual collective bargaining forces; the increase in the minimum wage under the Fair Labor Standards Act and the extension of this act to additional groups of workers; an expected smaller rise in the CPI during 1967 than during 1966; the fact that deferred increases under long-term contracts will be somewhat smaller on the average this year than they were in 1966; and the social security tax increase which became effective at the beginning of the year (but which represents a smaller change than did the 1966 increase).

The most clearly identifiable factor is the extension of the Fair Labor Standards Act and the increase there results in the increase in the hourly labor cost of the economy as a whole.

It is estimated that the direct effect of the increase in minimum wage rates under the Fair Labor Standards Act and its extension to additional groups of workers will be to increase the hourly labor costs for the economy as a whole by approximately three-tenths of 1 percent. The effect in certain industries will, of course, be larger.

PRODUCTIVITY

In both 1965 and 1966, productivity in the private economy rose at a rate of about 2.8 percent, compared with the long-term (postwar) trend of 3.2 percent, and with a 3.5-percent average annual rate during the most recent 5-year period (tables 4 and 5, p. 249).

Usually, some slowing down in the large rate of increase in output—such as is anticipated in 1967—is accompanied by a decline in the rate of productivity growth. Other factors in the economy may tend, however, to run counter to this pattern and stimulate rather than retard productivity growth. Foremost among these factors is the high level of investment in new plant and equipment which has been growing at an unprecedented rate since 1963. In each of the last 3 years, non-residential fixed investment rose by at least 10 percent. Just as investment in capital which incorporates technological innovations serves to stimulate productivity growth, investment in human resources, through the manpower development programs and other training programs, will also serve to stimulate productivity growth.

Unit labor costs in the private economy rose by 3.7 percent in 1966. This was the largest increase in over a decade and was twice the average annual rise for the entire postwar period (tables 6 and 7). This increase represented a sharp break in the pattern, which had developed since the beginning of the current expansion, of unit labor cost increases averaging about one-half of 1 percent per year from 1960 to 1965 and with only small year-to-year fluctuations.