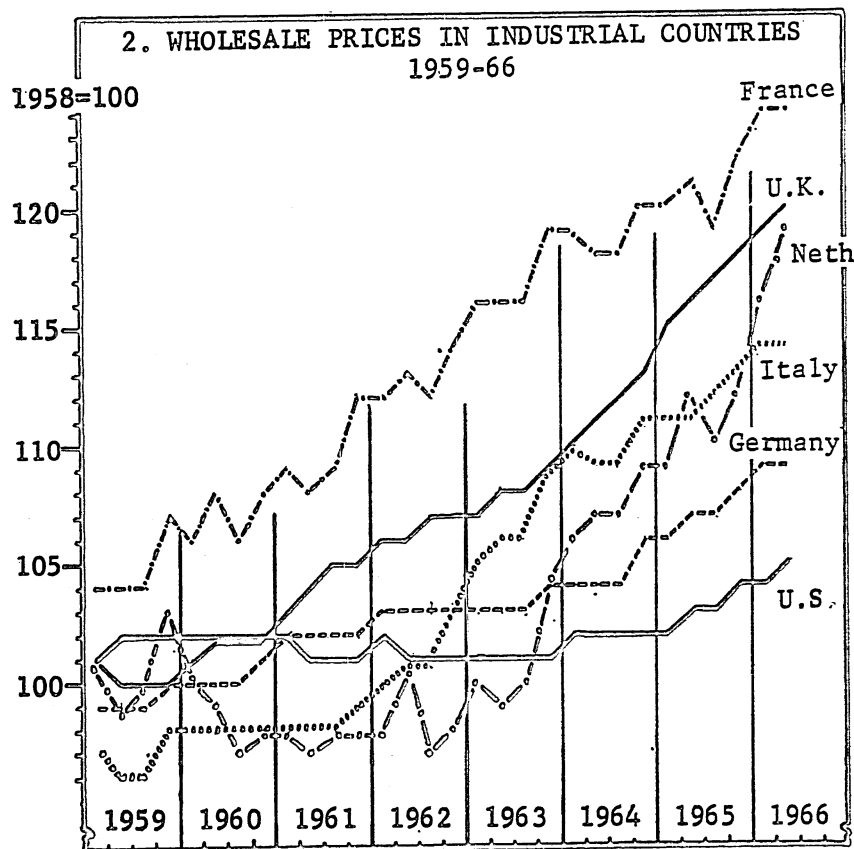




prices in the United States in the postwar period rose until 1957, this was mainly the consequence of the activation of the excess liquidity built up during the great depression and the war. Once this excess liquidity was eliminated, the inflationary pressure on prices was removed and the United States had the greatest record of price stability, from 1957 to 1964, in its entire history. No country in Europe has been so successful in stabilizing prices. Unfortunately, the emergence of excess demand in 1965 and 1966 has brought a renewed rise in prices. Even so, the rise has been much less than in other large industrial countries. Nevertheless, with its payments problem, the United States cannot risk the impairment of its competitive position through a further rise in prices and costs.

Fortunately, the inflation of the past 18 months has not as yet become embodied in the cost structure. From 1951 to 1958, average hourly earnings in manufacturing in the United States increased more than the increase in output per man-hour. As a consequence, the labor cost of producing a unit of manufactured goods rose. Since 1958, however, average hourly earnings in manufacturing have increased somewhat less than the increase in output per man-hour. The United States is almost unique in having maintained complete stability of the labor cost per unit of output in manufacturing over the entire period from 1958 to August 1966. That stability is now threatened by inflated domestic demand. The United States has been slow in taking measures to protect the price and cost stability it has so successfully achieved in recent years. Now that it has begun to act, it may be expected that it will take whatever fiscal and credit measures are necessary to halt the inflation of prices and costs.

The entire financial world recognizes the central role of the United States in world monetary stability. The monetary authorities of every country, and there