figure. It means that over the entire period prices rose by over 7 percentage points more than unit labor costs. The BLS release from which the data were taken shows that for the period, while unit labor costs rose only 45 percent, unit nonlabor costs, including profits and interest, rose by 65.5 percent—almost half again as fast. As a result, prices as measured by the GNP deflator rose 52.1 percent.

Of the nine industry divisions shown in the Council's table—in five, prices rose faster than unit labor costs for the entire period; in two more, prices rose even though unit labor costs fell; in one, prices rose at the same average rate as unit labor costs; and in one, prices rose a little more slowly than unit labor costs.

Since there were nine major industry divisions and three subperiods, there were industry data for a total of 27 subperiods. In six subperiods, prices rose even though unit labor costs fell; in one, prices averaged no change while unit labor costs fell; in 10, both rose, but prices rose faster; in one, both fell, but unit labor costs fell faster. Prices either rose faster or failed to fall as fast as the movement of unit labor costs would have justified. In two more, both rose at the same rate, and in seven, unit labor costs rose faster than prices.

Nothing in these data suggests that, if unit labor costs had remained stable, prices would also have achieved an equal stability, or that, in industries where unit labor costs fall, price reductions can also be counted on.

PRICE BOOSTS PRECEDED LABOR COST INCREASES

A unique opportunity to determine whether it is prices or wages that initiate the upward movement of a price-wage spiral is to be found in the relationship between wholesale prices of manufactured goods and unit labor costs in manufacturing over the past several years, because the upward movement of prices which began to accelerate early in 1965 did so from a condition of almost complete and long-sustained price and labor costs stability.

As shown in the chart on the following page, from the middle of 1958 through August 1964, both prices and unit labor costs were remarkably stable. During this period, wholesale prices of manufactured goods rose only 0.9 percent, from an index of 100.1 (1957–59=100) in July 1958 to 101 in August 1964. Prices had in fact been relatively stable even prior to July 1958, but unit labor costs had shown some fluctuation due to the adverse effects of the 1957–58 recession on productivity. By July 1958, however, these fluctuations had diminished, and between July 1958 and August 1964, while more volatile than prices—because of both statistical error and productivity changes associated with changes in volume and rates of capacity utilization—unit labor costs fell by 0.6 percent, from 100.3 (also 1957–59=100) at the beginning of the period to 99.7 in August 1964, and during this time fluctuated only between a low of 97.5 and a high of 102.8.

After August 1964, however, the picture changed drastically. Prices began to rise, slowly at first, then more rapidly. By July 1966 prices had reached 106.4, an increase of 5.3 percent.

Unit labor costs, however, continued to remain stable, and even to fall farther for a time. In July 1965 they stood at 98.6, 1.1 percent below the August 1964 level. By March 1966 they were still only at 99.9, only two-tenths of 1 percent above August 1964. After that, how-