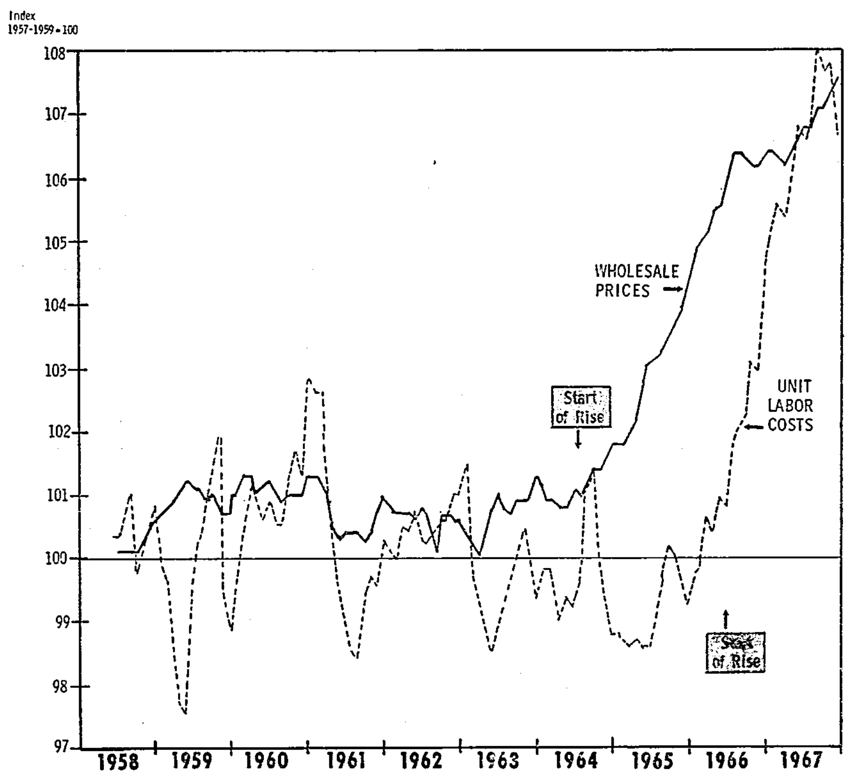
ever, they began to rise more rapidly as workers found it necessary to compensate for rising living costs. Between March 1966 and January 1967, unit labor costs rose 4.9 percent. The rise continued in 1967, but this was in considerable part due to the sharp falling off in the rate of productivity increase resulting from the 1967 economic slowdown.

The picture is remarkably clear. After nearly 6 years of stable prices and actually declining unit labor costs, prices began to rise. The cause certainly was not wages, since unit labor costs had been falling. For more than a year after prices had begun to rise, unit labor costs remained stable, but eventually they also began to rise. Quite clearly, it was not wages that pushed up prices, it was prices that pulled up wages. If the Council of Economic Advisers had been as assiduous in discouraging unnecessary price increases as it has been in discouraging quite justifiable and, in fact, necessary wage increases, the price-wage spiral might never have started on its upward course.

Wholesale Prices of Manufactured Goods and Unit Labor Costs in Manufacturing

July 1958 - December 1967



Data: BLS Handbook of Labor Statistics, 1967;
Bureau of the Census, Business Cycle Developments, January 1968