

deficiencies through the managerial price-making process. This thesis is perhaps most clearly borne out by the resumption of a relatively high rate of price inflation from early 1966 forward, when the signs became large and unmistakable that the economy was entering a period of severely reduced real economic growth, and when recession talk was in the air.

In some other areas, such as medical care and housing, and at times in the area of farm prices, rising costs or prices have been due to entirely different factors. In the medical field, there have been shortages of facilities and personnel relative to the real need, engendered by long neglect of adequate public spending for these purposes, such neglect being fomented by the avowed desire to fight inflation. In the area of housing, rising costs have not been due to excessive aggregate demand for housing relative to the Nation's needs, but instead have been due in large measure to the fantastically rising interest rates, again allegedly designed to fight inflation.

The thesis that excessive aggregate demand (which in fact we have not had any time in recent years, when measured against the demand required to sustain optimum economic growth and bring unemployment low enough) explains the inflations during recent years, and particularly during 1967-1968, breaks down at all points. It is further corroded by the special industry studies which I have made from 1952 forward, indicating even more clearly the propensity to increase prices more rapidly during periods of relatively high unused capacity and relatively high unemployment than during periods of relatively less unused capacity and relatively less unemployment.

Analysis of cost-push inflation

Frequently, it is argued that the inflation has been of the cost-push variety, occasioned by wage costs per man-hour rising faster than productivity. Repeatedly and systematically, the CEA has taken this position. But it is completely torpedoed by the empirical evidence.

During 1960-1968, in the total private nonfarm economy, measured appropriately in constant dollars, productivity rose at an average annual rate of 3.1 percent, while hourly wages and salaries rose at an average annual rate of 2.9 percent. It is even more revealing to break this period into two parts. During 1960-1966, productivity rose at an average annual rate of 3.4 percent, while wages and salaries rose at an average annual rate of only 2.7 percent. This was a period when the average annual rate of real economic growth was 5.1 percent. But during 1966-1968, when the average annual rate of real economic growth declined to 3.7 percent, productivity rose at an average annual rate of only 2.2 percent, and wages and salaries at an average annual rate of 3.2 percent.

The trends in manufacturing tell the same story, only more so. During 1960-68, the figures were 3.2 percent for productivity, and 2.2 percent for wages and salaries. During 1960-66, the figures were 3.7 percent for productivity, and 1.9 percent for wages and salaries. During 1966-68, the figures were 1.7 percent for productivity, and 2.9 percent for wages and salaries.

This leads to the implication that the relative trends during 1966-68 exerted cost-push inflation, and thus explained the rapidly accelerating inflationary trends (it should be noted that the "New Economists"