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The concept of wage-push inflation: development and policy

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Abstract

Concepts of wage-push inflation and wage–price spirals arose after unions became important economic actors in the 1930s and during World War II. These concepts, although never rigorously defined, became the basis of the Kennedy–Johnson guideposts program. Even after the guideposts collapsed, there were attempts to constrain wage-push directly under Nixon and Carter. Thereafter, when union membership collapsed, concerns about wage-push by aggressive unions became implausible in the USA.

Acknowledgement

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Notes

Notes

1. We thank the staff of the Kennedy Presidential Library in making documents and recordings available including the declassification of several boxes of material. The quotes above are from Hicks, ‘Economic Foundation’, 391; Samuelson and Solow, ‘Analytic Aspects’, 180; and Ackley, Macroeconomic Theory, 440.

2. Phillips, ‘The Relation’.

3. The JSTOR database was used for the professional journals. Note that many current journals that carry macro oriented papers or labor economics papers today did not exist in the early years shown on Table 1.

4. Agell and Ysander. ‘Should Governments’, 306.

5. Porter and Peters, ‘Price Index Drops’.

6. Conner, The National War Labor Board; Rockoff, Drastic Measures, 43–84; Rockoff, ‘Until It's Over’.

7. The preamble includes the statement: ‘The inequality of bargaining power between employees … and employers … tends to aggravate recurrent business depressions, by depressing wage rates and the purchasing power of wage earners in industry …’ (29 U.S.C. §§ 151–69, Section 1 [§151]).

8. Wilcox, Competition and Monopoly.

9. Scoville and Sargent, Fact and Fancy.

10. Galbraith, The Affluent Society; Galbraith, The New Industrial State.

11. Stigler, ‘The Case Against’, 12.

12. Means’ congressional testimony is summarized in Means, Administrative Inflation. See also Means, The Corporate Revolution, which contains some material from the 1930s as well as the author's later thinking.

13. Rockoff, Drastic Measures, 85–176; US National War Labor Board, Termination Report; Manning, The Office of Price Administration.

14. Rockoff, ‘The Response’, esp. 127–8.

15. In a radio address, Truman accused two union officials of threatening starvation in Europe by impeding shipments of postwar food relief as well as undermining the US economy. He threatened to use the military to run the trains. In the midst of a speech to Congress the next day proposing emergency legislation, he was handed a note that the strike had been called off. The radio and congressional speeches are available at http://www.youtube.com/watch?v=kHG821bDNZw, http://www.youtube.com/watch?v=SV7-Mp5IvgI, and http://www.youtube.com/watch?v=KOvAKPIY2GM

16. Lindblom, Unions and Capitalism, 145.

17. Goodwin and Herren, ‘The Truman Administration’, 9–93.

18. Rockoff, Drastic Measures, 177–99.

19. Samuelson, Economics, 818–9.

20. Ibid., 830.

21. Campbell, Economic Power, 187–98.

22. US President, Economic Report of the President, 1954, 39.

23. Ibid., 1956, 23.

24. Ibid., 1958, v.

25. Ibid., 1959, v–vi.

26. Dunlop, ‘Policy Problems’, 148.

27. Samuelson, ‘American Economics’, 47.

28. Freeman, ‘Postwar Monetary Policy’, 88.

29. Hansen, Economic Issues, 37.

30. Clark, The Wage–Price Problem, 61–7.

31. Chamberlin, The Economic Analysis.

32. Ibid., 29.

33. Cagan, Persistent Inflation, 23 (italics added).

34. Heath, John F. Kennedy.

35. Dillon thought he would be the chief financial advisor when Kennedy asked him to serve. He was asked by Kennedy about the appointment of Walter Heller as chair of the CEA but did not know who Heller was. The fact that the CEA under Eisenhower had limited influence may have led Dillon to suppose that the same would be true under Kennedy. See oral history interview of Douglas Dillon by Dixon Donnelly, 30 July 1964, available from Kennedy Presidential Library.

36. Roosa, 'Balance of Payments', esp. 14–5.

37. Oral history interview of Walt W. Rostow by Richard Neustadt, 11 April 1964.

38. The National Archives contains transcripts of Federal Open Market Committee (FOMC) meetings. The statement was made by staff economist Guy E. Noyes at the FOMC meeting of 9 January 1962, 5.

39. FOMC meeting transcript of 9 January 1962, 47.

40. James Tobin reported that the Labor Department had a structuralist perspective. See Oral History with Walter Heller, Kermit Gordon, James Tobin, Gardner Ackley, and Paul Samuelson by Joseph Pechman, 1 August 1964. Secretary of Labor Arthur Goldberg was reported by his undersecretary to be very concerned about automation and job displacement. See oral history interview with Millard Cass by William W. Moss, 14 July 1970.

41. Memo from Robert Solow to the CEA, 14 March 1961 (Kermit Gordon Box 30, Kennedy Presidential Library).

42. See, for example, the CEA's statement to the US House Subcommittee on Unemployment and the Impact of Automation, 27 April 1961 (Kermit Gordon Box 28, Kennedy Presidential Library).

43. Kennedy was sensitive to Republican charges during the election campaign that he would be fiscally irresponsible. The CEA viewed itself as in the middle between fiscal

conservatives in the administration at the Treasury and old New Dealers who thought any spending was good. See Oral History with Walter Heller, Kermit Gordon, James Tobin, Gardner Ackley, and Paul Samuelson by Joseph Pechman, 1 August 1964.

44. The financial community supported the idea of a tax cut rather than monetary ease. See the address of Charls E. Walker, executive VP of the American Bankers Association of 9 October 1962 (Kermit Gordon box 24, Kennedy Presidential Library).

45. Wilson, Inflation, 1961, esp. 261–75.

46. See also Barber, ‘The Kennedy Years’ and Cochrane, ‘The Johnson Administration’.

47. Address by Goldberg to the White House Conference on National Economic Issues, 21 May 1962 (Kermit Gordon Box 41, Kennedy Presidential Library).

48. Letter of Heller to Meany, 6 October 1961 (Kermit Gordon Box 24, Kennedy Presidential Library).

49. US President, Economic Report of the President, 1962, 186.

50. The added complication that arises when the deflator for wages – typically the Consumer Price Index (CPI) – is not the same as the deflator for output was not discussed at all.

51. US President, Economic Report of the President, 1964, 112–20.

52. FOMC meeting transcript of 3 March 1964, report of staff economist Alfred R. Koch, 50. At a later meeting, William F. Treiber, First Vice President of the Federal Reserve Bank of New York, also fretted that given the AFL-CIO's opposition to the guideposts, a ‘wage–price push’ was threatening. See transcript of meeting of 26 May 1964, 20.

53. Even before the guideposts were officially announced, the CEA viewed the Advisory Committee as a method ‘to promote sound wage and price policies’ (Statement of the CEA to the US Joint Economic Committee, March 6, 1961, Kermit Gordon box 35, Kennedy Presidential Library).

54. Statement of the CEA to the US Joint Economic Committee, 6 March 1961 (CEA Box 1, Kennedy Presidential Library).

55. Remarks of the President to Labor–Management Advisory Committee, 21 March 1961 (AFL-CIO Microfilm Reel 3, Kennedy Presidential Library).

56. The conversations on 9 August 1962 involving Blough appear in Volume I of the Tax Cut Proposal transcripts of White House conversations.

57. Oral interview of Kermit Gordon and Walter W. Heller by Joseph A. Pechman, 20 July 1965, available from the Kennedy Presidential Library.

58. McConnell, Steel and the Presidency – 1962, 86–7.

59. An excerpt from the Kennedy press conference denouncing steel can be seen at http://www.youtube.com/watch?v=aAVAJ6mwBVE

60. Reprinted in Mansfield, Monopoly Power, 87.

61. Hoopes, The Steel Crisis, 189.

62. White House tapes 80, reel 1-3, and 81, reels 1 and 2. A 25-minute excerpt from tape 80, reel 2, is available in three segments at http://www.youtube.com/watch?v=XN-6RmagJtg, http://www.youtube.com/watch?v=ukA84gynI8w, http://www.youtube.com/watch?v=fEMUodE3HEg

63. In the various input–output tables produced by the Department of Commerce between 1947 and 1967, primary metals and fabricated metal products accounted for between 17 and 20 cents of every dollar of output of machinery except electrical, between 11 and 18 cents of each dollar of electrical equipment, 15 and 18 cents of every dollar of transportation equipment and ordnance, and between 15 and 16 cents of each dollar of construction (direct requirements). See US Bureau of the Census, Historical Statistics, Part 1, 272–83. Iron and steel accounted for under 2% of total private payroll employment in 1960 and all of primary metals a bit over 2%. So the direct impact of steel in broad price indexes had to be small. The notion that wage increases in steel would spill over into other industries, however, would enlarge the expected impact of such increases.

64. Oral history interview of Arthur J. Goldberg by Daniel P. Moynihan, 19 August 1964.

65. Heath, Decade of Disillusionment, 105–6.

66. Report to the President of the United States from the Task Force on Programs to Improve the World-Wide Competitiveness of American Business, 14 November 1964 (Jack N. Behrman Box 1, Kennedy Presidential Library).

67. US President, Economic Report of the President, 1965, 108–10.

68. Ibid., 1966, 88–93.

69. FOMC transcript for meeting of 22 March 1966, 33.

70. Ross, ‘Theory and Measurement’; Mitchell, ‘Wage Pressures’.

71. Sheahan, The Wage–Price Guideposts, 57–60.

72. US President, Economic Report of the President, 1967, 77–86, 119–34.

73. FOMC transcript for meeting of 18 July 1967, statement of staff economist Alfred R. Koch, 45.

74. US President, Economic Report of the President, 1968, 119–28.

75. A memo from N.J. Simler of 28 May 1963 to the CEA noted complaints by the AFL-CIO's chief economist that unions felt neglected when CEA members spoke mainly to business groups. Attendance of union officials at the Labor–Management Advisory Committee meetings was apparently tailing off. An earlier memo from Simler to the Council of 8 November 1962 noted explicit friction over the guideposts and over a desire by union officials to concentrate the proposed tax cut on lower-income persons (Kermit Gordon box 37, Kennedy Presidential Library). The CEA took the position that while in Europe incomes policies were really wages policies, in the USA the program was truly balanced (Address by John P. Lewis to Business Research Advisory Council's Seminar on Wage Statistics in the American Economy, 22 May 1963, CEA Box 1, Kennedy Presidential Library). By 1964, the AFL-CIO's Executive Council stated that the guideposts were unfair because they lacked controls of prices and profits. The CEA, in response, pointed to the price side of its guideposts. (The AFL-CIO statement of 19 May 1964 and the CEA's response of the next day can be found in Kermit Gordon Box 41, Kennedy Presidential Library.)

76. Memo from Gardner Ackley to Walter W. Heller, 11 December 1963 (Kermit Gordon box 41, Kennedy Presidential Library).

77. Replies of the CEA to Questions Submitted by the Honorable Thomas B. Curtis,' hearings of the US Joint Economic Committee, 23 January 1964 (CEA Box 1, Kennedy Presidential Library).

78. Galbraith, The New Industrial State, 259.

79. Ibid.

80. Heller, New Dimensions, 47.

81. Solow, 'The Wage–Price Issue', 57–9.

82. Shultz and Aliber, Guidelines.

83. George Meany, president of the AFL-CIO, seemed to blame the CEA for the guideposts and considered his relation with Kennedy to be good. As a senator, Kennedy, from Meany's viewpoint, had been a friend to organized labor during the passage of the Landrum–Griffin Act of 1959 (see oral history interviews of George Meany by Arthur J. Goldberg, 16 July 1964 and 18 August 1964). Both Meany and Goldberg managed to avoid the topic of the guideposts. Meany's positive perspective on Kennedy after the assassination may have been a case of de mortuis nil nisi bonum. Goldberg himself reported that Meany viewed Kennedy as a naïve liberal who relied too much on intellectuals for advice. See Oral history interview of Arthur J. Goldberg by Daniel P. Moynihan, 25 June 1964.

84. Meany et al., Government Wage–Price Guideposts.

85. US President, Economic Report of the President, 1970, 23–5.

86. Nixon's TV announcement of controls can be seen at http://www.youtube.com/watch?v=Wv4gpyfLF3s

87. TV newscasts related to the Carter program can be seen at http://www.youtube.com/watch?v=MRM49pw0xx8

88. Mitchell and Erickson, 'Not Yet Dead at the Fed'.

89. Australia had a long history of wage arbitration courts which evolved into instruments of incomes policy. See Mitchell, 'The Australian Labor Market', 144–91. Institutional changes in the 1990s weakened unions and the courts and Australian discussion of such policies faded. Incomes policy in Sweden, Norway, and Denmark,

where unionization remained comparatively high, persisted in the 1990s. See http://www.eurofound.europa.eu/emire/SWEDEN/ANCHOR-STATLIGINKOMSTPOLITIK-SE.htm, http://www.eurofound.europa.eu/eiro/2002/09/inbrief/no0209101n.htm, and http://www.eurofound.europa.eu/emire/DENMARK/INCOMESPOLICY-DN.htm (accessed 15 December 2007).

90. Mason, Economic Concentration, 176, 195.

91. Reynolds, Labor Economics, 433–7; Reynolds, ‘Wage-push and All That’.

92. Adelman, ‘Steel, Administered’.

93. Gallaway, ‘The Wage-push’.

94. Bronfenbrenner and Holtzman, ‘Survey of Inflation Theory’.

95. Schultze, ‘Recent Inflation’; Bowen and Masters, ‘Shifts in the Composition’.

96. Cartter and Marshall, Labor Economics, 377. A popular theory of rigidity on the price side was a kinked demand curve created by oligopoly. The kinked demand curve developed in the 1930s along with other aspects of the administered price concept (Sweezy, ‘Demand Conditions’). One criticism of the kinked demand curve idea was that it could be overridden if an industry simply developed a process of price leadership (or engaged in other tacit or not-so-tacit) collusion. See Stigler, ‘The Kinky Oligopoly’.

97. Kuhn, ‘Market Structures’.

98. Samuelson and Solow, ‘Analytical Aspects’.

99. Perry, Unemployment.

100. Bowen, The Wage–Price Issue, 224.

101. Kuh, ‘A Productivity Theory’.

102. Bodkin, The Wage–Price–Productivity Nexis.

103. Eckstein and Fromm, ‘The Price Equation’.

104. Rees and Hamilton, ‘The Wage–Price–Productivity Perplex’.

105. Eckstein and Wilson, ‘The Determination’.

106. Later work suggested that the seeming uniformity of wage settlements within the key sector was a result of similar profit movements that sector (Ripley, 'An Analysis').

107. Perry, 'Wages and the Guideposts'.

108. Anderson, 'Wages and the Guideposts: Comment'; Throop, 'The Union–Nonunion'; Wachter, 'Wages and the Guideposts: Comment'.

109. Perry, 'Wages and the Guideposts: Reply'.

110. See the oral interview of Kermit Gordon and Walter W. Heller by Larry J. Hackman and Joseph A. Pechman, 14 September 1972. Heller was chair of the CEA when the guideposts were formulated. It is notable that Secretary of the Treasury Dillon, who tended to view the CEA as composed of overly-theoretical academics, believed that the guideposts had restrained both wages and prices. See oral history interview with Douglas Dillon by Seymour Harris, 18 August 1964.

111. An anonymous referee for this article raised the question of whether the guideposts might have contributed to wildcat strikes and dissent within the union sector, presumably by limiting wage settlements. We have seen no research on this question. It is worth noting that union members were not alone in the late 1960s in expressing dissent. They were accompanied by participants in urban riots and student unrest on college campuses. Challenges to institutions and authority of all types were widespread.

112. Milton, 'The Role of Monetary Policy'.

113. In essence, if unions try to set the real wage W/P and the product market tries to set a real markup over costs, in the aggregate P/W, one target ratio must be the inverse of the other target ratio for stability (Target W/P must be the inverse of target P/W). A strong economy (with a low unemployment rate) tends to raise both target ratios. A weak economy (with a high unemployment rate) tends to reduce both target ratios. There will thus be a unique unemployment rate – the NAIRU – that brings about compatibility in the sense that both markets achieve their targets (Mitchell and Zaidi, 'International Pressures'). The notion of potential incompatibility of this type was already around in the 1950s and early 1960s, e.g. Ackley, Macroeconomic Theory, 457–9, but it had not been tied to the natural rate concept which had yet to be enunciated. Note that about 4 million union workers in the early 1960s were estimated to be

covered by escalator clauses linked to the CPI (US Joint Economic Committee, Government Price Statistics, 26) Thus, for that segment of the union sector, the real wage was at least partly protected (escalators often did not provide 100% inflation protection, depending on the precise formula used).

114. Mitchell, ‘Union Wage Determination’, 579–80.

115. Mitchell and Erickson, ‘Not Yet Dead at the Fed’.