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Labor History > Volume 49, 2008 - Issue 4

457 3

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**Original Articles** 

## The concept of wage-push inflation: development and policy

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Pages 417-438 | Published online: 01 Oct 2008

⚠ https://doi.org/10.1080/00236560802376789 **66** Cite this article

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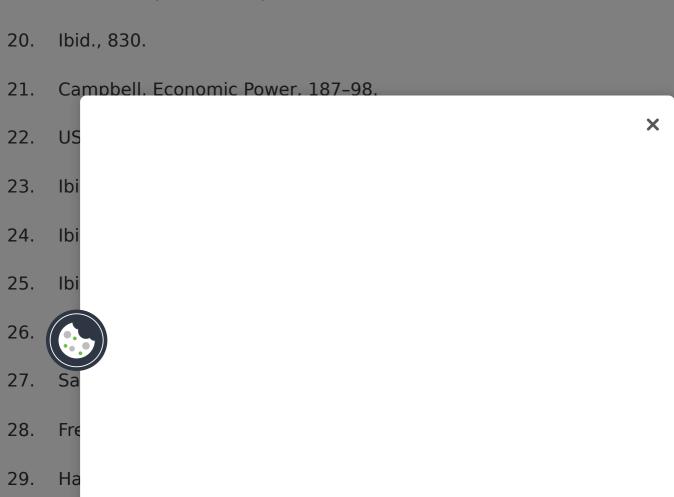
- 1. We thank the staff of the Kennedy Presidential Library in making documents and recordings available including the declassification of several boxes of material. The quotes above are from Hicks, 'Economic Foundation', 391; Samuelson and Solow, 'Analytic Aspects', 180; and Ackley, Macroeconomic Theory,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



- 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 <a href="http://www.youtube.com/watch?v=kHG821bDNZw">http://www.youtube.com/watch?v=kHG821bDNZw</a>, <a href="http://www.youtube.com/watch?v=kOvAKPIY2GM">http://www.youtube.com/watch?v=kOvAKPIY2GM</a>
- 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.

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31. Chamberlin, The Economic Analysis. 32. Ibid., 29. Cagan, Persistent Inflation, 23 (italics added). 33. 34. Heath, John F. Kennedy. Dillon thought he would be the chief financial advisor when Kennedy asked him to 35. 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 X erspective. 40. Jar See Ora kley, and Paul San nur Goldberg and job was repo displace ss, 14 July 1970. 30x 30, Kennea 42. Se e on Unemplo 1 Box 28, Kennedy

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he would be πscally irresponsible. The CEA viewed itself

paign that

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.



- 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 <a href="http://www.youtube.com/watch?v=aAVAJ6mwBVE">http://www.youtube.com/watch?v=aAVAJ6mwBVE</a>
- 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 <a href="http://www.youtube.com/watch?v=XN-6RmagJtg">http://www.youtube.com/watch?v=ukA84gynl8w</a>,

http://www.youtube.com/watch?v=fEMUodE3HEg

In the various input-output tables produced by the Department of Commerce 63. betweer ounted for trical, betweer cents of betweer d 16 cents every do of each ensus, of total Historica private So the dired t wage increase arge the expecte 64. Or August 1964. 65. He

- 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



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. Ibid. 79. Heller, New Dimensions, 47. 80. 81. Solow, 'The Wage-Price Issue', 57-9. Shultz and Aliber, Guidelines. 82. 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. X 84. Me

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discussion of such policies faded. Incomes policy in Sweden, Norway, and Denmark,

where unionization remained comparatively high, persisted in the 1990s. See <a href="http://www.eurofound.europa.eu/emire/SWEDEN/ANCHOR-STATLIGINKOMSTPOLITIK-SE.htm">http://www.eurofound.europa.eu/emire/SWEDEN/ANCHOR-STATLIGINKOMSTPOLITIK-SE.htm</a>, <a href="http://www.eurofound.europa.eu/eiro/2002/09/inbrief/no0209101n.htm">http://www.eurofound.europa.eu/emire/DENMARK/INCOMESPOLICY-DN.htm</a> (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'.

105.

- 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 enga

- 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.
- An anonymous referee for this article raised the question of whether the 111. 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 expressi nd student X ypes were unrest o widespre 112. arket tries to 113. e the set a rea e of target inver P/W) 1 target ratios. A oth target ratios. T ings about and Zaidi, compati 'Internat e was already heory, 457-

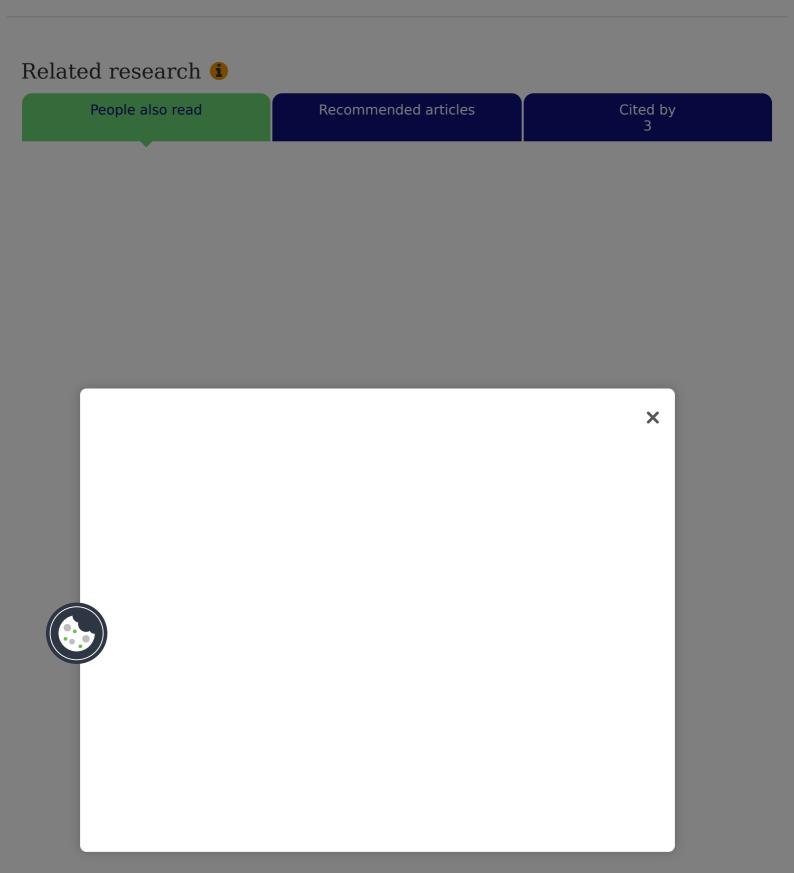
Note that about 4 million union workers in the early 1960s were estimated to be

enunciated.

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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'.



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