WAGE-PRICE GUIDELINES: WHAT ARE THEY AND WILL THEY WORK?

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INTRODUCTION

"The Congress declares that it is the continuing policy and responsibility of the Federal Government to use all practicable means consistent with its needs and obligations and other essential considerations of national policy, with the assistance and cooperation of industry, agriculture, labor, and state and local governments, to coordinate and utilize all its plans, functions, and resources for the purpose of creating and maintaining, in a manner calculated to foster and promote free competitive enterprise and the general welfare, conditions under which there will be afforded useful employment opportunities, including self-employment, for those able, willing, and seeking to work, and to promote maximum employment, production, and purchasing power."[1]

The philosophy embodied in the above paragraph from the Employment Act of 1946 declared economic stability and balance as a deliberate objective of the federal government. This recognition of the evils of reliance on an automatic market to determine the economic fate of the society led to a positive governmental approach to economic stability. This legislation was an aftermath of the Depression and designed as a partial panacea to help prevent a recurrence of the depths which the automatic market mechanism had led the economy. The concepts of "necessary adjustment," "recession,"

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[1]Economic Report of the President (Washington: U.S. Government Printing Office, 1966), p. 170.

and "downswings" were discredited after the prolongation of the depression, but the means to prevent such phenomena were not universally accepted. The controversy over the adverse or beneficial effects of the New Deal policy was interrupted by World War II.

The Employment Act of 1946 did not make the New Deal mistake of proclaiming public works as the cure for depression. The Act placed responsibility of the President, the Council of Economic Advisors, and the Joint Economic Committee of Congress to analyze the activity or inactivity of the economy. Proper policies to keep the economy operating at a level consistent with the accepted trinity of maximum employment, economic growth, and purchasing power were then to be implemented.

The various tools of monetary and fiscal policy were to be implemented to meet the objectives of this legislation. Initially these policies were biased toward maintaining "full-employment" and adequate economic growth because of the "depression psychosis" that prevailed as the result of the devastating decade of the 1930's. The recession of 1957-58 with its corresponding insufficient demand and failure of governmental action to compensate for this drop in demand led to unemployment rates much higher than acceptable under terms of maximum employment and sufficient growth. The stimulating policies of the government that led to continuing expansion during the Kennedy Administration created a new problem. The problem of maintaining this expansion at maximum employment without adequately devising a policy to correct inflation at less than the full employment level then came into view.

The tendency of prices to rise at less than full employment levels is due to the structural characteristics of the labor and product markets. This tendency was analyzed by the Council of Economic Advisors for the 1956-57 inflation.

The impact of sectoral price increase was to induce wage increases in these industries which set the pattern for wage bargains throughout the economy. The administered pricing in the power sectors caused a general price rise in other industries which were not experiencing excess demand. This wage-price pattern held inflationary consequences that could not be effectively remedied by existing monetary or fiscal policy.

The domestic wage-price instability became more evident as the weakening of the international economic position of the United States caused more concern over the internal wage-price relationships. For political and social reasons, the current account became the center of inquiry in this problem; hence, the cost-push inflationary pressures became more noticeable.

The lack of an effective policy to remedy cost-push inflation and the fears of the balance of payments problem necessitated the search for a public policy that could correct this situation. The center of attention was then shifted from the problems of unemployment to those of price stability. This shift developed an immediate need for some mechanism to pursue the central problem of price instability. The wage-price guideline policy was initiated in 1962 by President Kennedy's Council of Economic Advisors to fill this void.

This policy will be described and analyzed within the scope of this study. The origin and evolution of the policy will first be analyzed to indicate its importance and direction. The second chapter will discuss why the policy was adopted and alternative policies to correct the wage-price problems. The third chapter will review European experiences with wage-price policy and the surrounding circumstances that influenced such a policy. The last chapter will analyze the problems of implementing such a policy in the United States and evaluate the probability of such a policy being successful in correcting the economic ills of the economy.

CHAPTER I

ORIGIN AND DESCRIPTION OF WAGE-PRICE GUIDELINES IN THE UNITED STATES

The origin of wage-price guidelines as a means of governmental policy was officially first introduced in the United States in the 1962 Economic Report of the President. They were introduced as a measure to maintain price stability in the economy while attempting to decrease unemployment and increase the rate of economic growth. The absence of any policy to deal effectively with cost-push inflation, which occurred without excess demand because of the existence of vast power segments in the industrial structure and the corresponding power over wages and prices in the economy by these segments, led to a search for a policy to deal with this problem. The wage-price guidelines were accepted as the most feasible method to cope with this problem. This policy was conceptualized much earlier by academic economists. Several European countries applied similar policies after World War II to solve inflationary problems, but these policies were originated because of the respective countries' reliance on world trade. The second Eisenhower Administration considered these policies to correct inflationary pressure, but did not officially advocate such policies.

The general guidepost for wages is that the annual rate of increase of total employee compensation (wages and fringe benefits) per man-hour worked should equal the national trend rate of increase in output per man-hour.[2] The general guidepost for prices is that prices should remain stable in those industries where the increase in productivity equals the national trend; that prices can appropriately rise in those industries where the increase of productivity is smaller than the national trend; and that prices should fall in those industries where the increase of productivity exceeds the national trend.[3]

This restatement of the guidelines attempts to keep the average unit labor cost in the economy constant by balancing increases in wages for certain groups of workers with reductions to other groups. Industries that are experiencing above-average increases in productivity should decrease their prices to offset increases of prices in industries with productivity gains below the national average. With this procedure the average level of prices and wages would remain stable.

With strict adherence to these guidelines, the owners of labor and capital would share the increases in productivity at the same rate they are now sharing. The short-run swings of the shares of gross income would then be eliminated, and the constant percentage share of this income would not add to the inflation experienced by

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[2]Economic Report of the President (Washington: U.S. Government Printing Office, 1966), p. 89.

[3]Ibid., p. 90.

the wage-price spirals of the past two decades. The distribution of income has not essentially changed since World War II; only the short-run swings with labor's share rising in recession and falling during expansion have occurred.[4]

The structure of some segments of the United States economy into oligopolistic units allows such firms to exercise market power that is not restricted by competitive pricing. The financial power and size of individual firms in some industries affords these firms the power to establish administered prices. The prices so established may be in the economic best interest of these firms, but such a pricing mechanism may not be in the best interests of the public. The private interests of these firms are not always equated with the public interest. The particular problem of this conflict is the effect of administered prices on the national economy.

The organizational power structure of oligopolistic firms and some labor unions allows these units to extract a higher price for their products than they would receive if competition were more rigorous. If this market structure creates a series of price increases that causes price instability throughout the economy, the conflict of private and public interests must be reconciled by public policy. The government authorities have a statutory obligation to promote the objectives of the 1946 Employment Act; hence, the guideline policy was so established to meet this obligation.

The rationale for the implementation of the guidelines is

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[4] Ibid.

that these large segments of the economy that exercise the private power should also exercise private responsibility for the public interest. The philosophy of the guidelines is that if the public is informed of the significance of the major wage bargains and price decisions on the national interest, then they can create an atmosphere in which the parties to such decisions will exercise their powers responsibly.[5]

The guideposts are to be the aids by which the public can evaluate the effects of these decisions on the national interests. If either wage or price decisions exceed the productivity guideposts, then the public can be aware of the effects on the public interest and exert their influence on the participants so that the national interest is served. This approach is designed to strengthen the national economy by indirectly limiting the private power of business and labor to set prices without the use of mandatory controls by government over wage and price decisions. This would leave collective bargaining to determine the wage rate within the legal rules presently established, and to allow each firm to set its price for goods with the informed public to exert its influence on violators of the public interest.

This policy would retain the free market mechanisms to determine the value of goods and the distribution of income to the various factors of production within the framework of the "American tradition" without allowing these instruments of free enterprise to

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[5] Economic Report of the President (Washington: U.S. Government Printing Office, 1964), p. 11.

damage the public interest. The productivity guidelines would then be the "yardstick" of public interest by which the public can determine the effect of these wage or price decisions on the national interest.

The guideposts would be influenced by various types of governmental action to implement these guides without mandatory control. The establishment of an early warning system to keep a close watch on wage and price developments was designed to draw attention to major actions by either business or labor that flout the public interest in noninflationary price and wage standards.[6] Antitrust action and an attempt to resist legalized price-fixing where competition does prevail were further avenues of attracting attention to guidelines violations. Study of special, detailed analyses of price or wage increases in key sectors of the economy would be conducted to determine need for wage or price increases and reporting of findings to the public to substantiate guideline influence. Presidential influence to oppose legislative enactments that threaten to raise costs and prices and to support those that will stabilize or reduce costs and prices was designed to be another incentive to follow the guidelines.[7] Another avenue of the governmental pressure to supplement and strengthen guideposts would be manpower, education, and rehabilitation programs to increase the supply of qualified workers and to increase their productivity. The

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[6] Economic Report of the President (Washington: U.S. Government Printing Office, 1964), p. 11.

[7] Economic Report of the President (Washington: U.S. Government Printing Office, 1965), p. 13.

following measures are also applicable to enhance the guideline policy: manipulation of federal stockpiles to prevent unnecessary shortages; defense procurement, agricultural, and other policies to be adjusted to contribute to stability of prices: and Fair Labor Standards legislation and government pay increases to be consistent with the guideposts.[8] With these influences, the guidelines are to be able to avoid inflation even at full employment without arbitrary controls.

The Council of Economic Advisors recognized that productivity change and determination of which measure to use destroys any absolution in this policy. Secondly, the indeterminate answer as to the best distribution of the total product among labor or nonlabor factors also makes the guidelines in fact a guide rather than a rule. The third reason is that wages and prices among industries are not responsive exclusively to productivity trends.

The first limitation on wage-price guideline policy is the problem of determining productivity. The term "productivity" may be defined as the ratio of output to any or all of the inputs employed in production.[9] Productivity can be increased by technological progress resulting from innovations in the method of organization of production and in improving the quantity and quality of capital available per manhour. This process includes economies of scale which increase output and allow for more specialization which could then reduce the overhead expenses. Technological innovation

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[8]Economic Report of the President (Washington: U.S. Government Printing Office, 1966), p. 12.

[9]John W. Kendrick. "Productivity, Costs and Prices: Concepts and Measures, "Wages, Prices, Profits and Productivity (Harriman, New York: The American Assembly, June 1959), Part II, p. 38.

must be accompanied by a similar change in the quality of labor as new skills demanded for the improved process must be met by corresponding skills of labor. The final determinant is the change in the efficiency with which these resources are utilized.

Since statistical techniques are not adequate to differientiate and identify the effect on output of any of the input variables, the concept of labor productivity is commonly used as the measure of total productivity. Labor productivity relates the total output only to the labor input and measures only quantitative changes in labor input without considering the qualitative changes such as education, training, and health. Labor productivity does not measure changes in productive efficiency generally, since they are influenced by substitution of capital for labor and by savings in materials as well as by technological change.[10]

Although several studies have been directed on the use of total productivity by weighing each input, the productivity index used in the determination of the guidelines is a labor productivity index. The data used to determine productivity changes for the guidelines is the Bureau of Labor Statistics series which measures the labor input in terms of manhours paid for from establishment data. There are three different B.L.S. indexes for determining the labor input: (1) manhours paid for as determined by established data; (2) manhours worked as determined from labor force data gathered by Census Bureau; and (3) number of employed persons as

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[10] *Ibid.*, p. 41.

determined by the Census Bureau.[11] Use of these three unweighted indexes gives a variation in productivity trends depending on the time interval used. The following table shows a comparison of these series with total productivity trends as determined by John W. Kendricks in his study for the National Bureau of Economic Research.

This table shows the variations in productivity trends as the measure of productivity varies. For the last time period the three B.L.S. indexes yield roughly the same results because total manhours paid, total manhours worked, and number of employed persons changed at similar rates, but this does not apply in the other two time periods because of different rates of change among the variables. Kendrick's weighted average gives a lower rate of change because of its attempt to adjust labor input to the changes in quality of labor.

The 1964 Report introduced for the first time the definition of trend productivity. The Council of Economic Advisors defined trend productivity as the average annual percentage change in output per man-hour during the last five years.[12] The estimation of the trend rate was based on the following study conducted by the Council.

From these data the Council of Economic Advisors established the national trend rate of productivity to be 3.2 percent. This established the guideline determination, but the Council chose not

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[11]Abraham L. Gitlow, The National Wage Policy: Antecedents and Application (New York: New York University, 1964), p. 12.

[12]Sheldon W. Stahl, "The Wage-Price Guideposts in Retrospect", Monthly Review, (March-April, 1966), p. 7.

TABLE 1

COMPARISON AMONG INDEXES OF LABOR PRODUCTIVITY*

	Average Annual Percentage Rate Of Growth		
	Total Private Economy		
Labor Productivity Indexes	1947-60	1957-62	1958-63
B.L.S.--Manhours (Establishment)	3.08	3.04	3.24
B.L.S.--Manhours (Labor Force)	3.33	2.83	3.16
B.L.S.--Employees (Labor Force)	2.70	2.57	3.05
Kendrick--Unweighted Manhours	3.18	---e	---e
Kendrick--Weighted Manhours	2.86	---e	---e

(e) Series do not include years 1961-65.

*Abraham L. Gitlow, The National Wage Policy: Antecedents and Application (New York: New York University, 1964), p. 12.

to have this formula be a fixed rule. The five-year average rose from 3.2 to 3.6 percent in 1966, but the Council refused to increase the guidelines because they attributed this gain to be cyclical. This decision shows the difficulty of chosing the appropriate interval and deriving the final measure.

The attitude concerning the distribution of the total product between labor and nonlabor incomes has changed since the initial wage-price policy was stated in 1962. The _1964 Report of the Council of Economic Advisors_ stated that bargaining over the shares of income would be consistent with guideline policy if it were within the bounds of noninflationary price behavior. This statement means that wage or profit shares may increase in an industry or firm so long as the price behavior does not exceed productivity gains. The 1962 statement of the guidelines was prefaced by this statement, "If, as a point of departure, we assume no change in the relative shares of labor and nonlabor incomes in a particular industry, then a general guide may be advanced for noninflationary wage behavior."[13] The 1964 statement relaxes the condition that functional redistribution of income is contrary to a noninflationary price level by stating that the income redistribution must be accompanied by a stable price level. The restatement of the basic policy abolishes the initial assumption that the existing distribution of income is in fact and in justice the optimal one, but at the same time it ignores the fact that wage increases may be passed on in the form of price increases.

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[13]_Economic Report of the President_ (Washington: U.S. Government Printing Office, 1962), pp. 188-89.

TABLE 2

PRODUCTIVITY IN PRIVATE ECONOMY AND PRICES, WAGES, PROFITS IN MANUFACTURING, 1948-63*

Year	Trend Productivity	Manufacturing				
		Total Compensation per man-time	Prices	Corporate Profits after taxes	Capital Consumption Allowances	Profits—Capital Consumption Allowances
		Percentage Change		Percent of Corporate Sales		
1948	---	9.5	6.1	5.7	1.9	7.6
1949	---	4.3	1.6	4.6	2.2	6.8
1950	---	4.9	2.3	5.9	2.0	7.9
1951	---	10.3	8.0	4.2	2.1	6.3
1952	3.6	6.2	1.3	3.4	2.3	5.8
1953	3.8	5.6	2.1	3.5	2.5	6.0
1954	3.5	4.1	1.3	3.4	3.0	6.5
1955	3.0	3.7	1.7	4.3	3.0	7.4
1956	2.5	6.2	4.1	4.1	3.2	7.3
1957	2.8	6.1	3.5	3.7	3.2	6.9
1958	2.5	3.8	.5	2.9	3.4	6.3
1959	2.8	4.1	2.1	3.7	3.2	6.9
1960	2.3	3.9	1.8	3.1	3.3	6.4
1961	3.0	2.9	.4	3.0	3.4	6.4
1962	3.0	3.5	-.3	3.1	3.7	6.8
1963	3.2	3.6	.6	3.2	3.8	7.0

*Economic Report of the President (Washington: U.S. Government Printing Office, 1964), p. 115.

The third reason for using this policy as a guide rather than a rule was the fact that wages and prices among industries should be responsive to forces other than productivity trends. Wage increase in excess of the general guide would be justifiable on the grounds of equity and of effeciency for resource allocation. The equity considerations involved wage increases in excess of guidelines where an industry or occupation had wage rates exceptionally lower than those of comparable types of labor. The resource allocation consideration was to induce labor into an industry with a labor shortage. Wage rate increases less than general guidelines are justifiable if the industry could not find jobs for its entire labor force even at levels of general full employment and where an industry or an occupation had exceptionally high wage rates compared to wage returns to similar labor. Similar modifications were applied to price level responses to the guidelines. Prices could rise more rapidly, or fall more slowly, than guidelines where costs other than labor had risen or if the price increase was necessary to attract capital for needed expansion. Prices would rise more slowly, or fall faster, than the guidelines where profits were higher than ordinary return for a comparable risk.

When fears of inflationary pressure began to grow in 1964, the Council of Economic Advisors restated the modifications more strictly. The revision of their previous modifications stated, "the modifications should apply only to relatively few cases as the most constructive private policy in the great majority of situations would be to arrive at price decisions and wage bargains consistent with the general guideposts."[14]

These restatements changed the role of the guidelines from a guide to a rule. The shift in the nature of the policy was accompanied by numerous informal sanctions to enforce this rule. The nature of this policy assumed a much different character than that announced in the original statement of the policy. The policy threw off this "educational cloak" as the medium of informed public opinion and assumed the new character of formula control over wage and price decisions. The new role as a rule evolved without further perfections in method because of the combination of changing economic and political conditions. The present stage in the evolution of guideline policy is not considered to be its last change. The basic reasons why this evolution has taken place will be examined in the next chapter.

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[14]Economic Report of the President (Washington: U.S. Government Printing Office, 1965), p. 119.

CHAPTER II

REASONS AND RATIONALE FOR GUIDELINE POLICY

The shift of emphasis from full employment to price stability with an adequate level of employment occurred during the second Eisenhower administration. The fear of inflation and the need for price stability replaced the previous goals and policies directed toward full employment. The "new inflation" or cost-push inflation placed new and greater pressures on the government to develop a policy to counteract such price instability.

The inflation that occurred before this period was characterized by an excess demand for goods and services over the amount that could be supplied at the prevailing price level. Established monetary and fiscal policies were adequate to control these pressures by tightening credit, increasing taxes, or decreasing spending.

The cost-push variety of inflation is characterized by the wage-price spiral with wage increases being either an active or passive stimulant for price increases. The activist school contends that wage demands and subsequent increases that exceed increased productivity must raise the price level, which in turn stimulates increased wages because of increased cost of living. Policy measures to control such price instability then lead to unemployment and the conflict between the goals of full employment and price stability.

Research by Paul Samuelson and Robert Solow led to a modified Phillips curve which stated that if wages in the United States increased by only the amount of productivity gain there would be five to six percent unemployment, and that if the economy were to have only three percent unemployment it must accept an inflationary price level of four to five percent.[15]

The power structure in the labor market according to the activist thesis was the cause of the price instability. This thesis concluded that the most effective means to correct such price behavior would be to curb the power of the labor unions to prevent such an initial wage increase.

The passivist school contended that wage increases were not the primary cause of the price instability, but only an attending factor. This thesis contends that monetary policy to create full employment caused a demand-pulled inflation with wage increases being the passive factor. The wage-price spiral in such circumstances was the resulting effect of the excess expenditure to satiate the demand and not the cause for such price behavior.

Regardless of which school one might choose to accept, the end result was that some level of unemployment must be accepted in order to maintain price stability. The depression psychosis had been overcome by inflation psychosis. The acceptance of unemployment as the pawn for price stability became the dominant theme in policy considerations.

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[15]Neil W. Chamberlain, The Labor Sector (New York: McGraw-Hill Book Company, 1965), p. 678.

The insensitivity of prices and wages to decreases in demand due to the structural nature of the market created policy problems. Because of this insensitivity to moderate changes in demand, the elimination of aggregate excess demand will not substantially choke off inflation without necessarily involving substantial employment.[16] A shift in the composition of demand then leads to a general rise in the price level without an overall increase in demand or an upward push for wages. Since prices and wages are "sticky" as demand decreases, this increase is not offset because the sectoral increase in those expanding industries causes a similar wage increase demand of labor in all other sectors. The other unions follow the pattern set by the excess demand industry; consequently, the costs and prices for all goods are increased even in the face of falling demand. This sectoral phenomenon that causes price instability is a modified combination of both demand-pull and cost-push inflation. The downward inflexibility of prices and wages in the face of decreased demand then set a floor under each successive price increase giving the economy an inflationary bias.

This study of the behavior of prices and costs in the market structure of our economy stresses the importance of the flexibility of prices and wages to changes in demand rather than in actual changes in productivity for price stability. If this down-

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[16]Charles Schultze, Recent Inflation in the United States, Study Paper Number One for the Joint Economic Committee of the 86th Congress in connection with their "Study of Employment, Growth, and Price Levels" (Washington: U.S. Government Printing Office, 1959), p. 1.

ward rigidity can not be alleviated, then unemployment and excess capacity may be required occasionally to halt the price rise.

The cost increases which did occur flow from the sectors in which excess demand was present, but the cost increases did not result from an autonomous wage push.[17] Excess demand in the capital goods industries caused higher prices throughout the economy because of higher material costs and through the mechanisms of rising wage rates in the period from 1955-1957. The increase in demand and output of this selected industry led to wage gains without an excess demand for labor. The following table shows the effect of wage and price changes brought about by this market phenomenon.

This shows that 62 percent of rise in industrial prices occurred in capital goods industries even though wages rose almost as fast in the other industries as the wages in the excess demand industries.

This analysis points out the problems associated with a market structure that does not react according to competitive price theory because of the structural makeup of the markets for both labor and goods. Traditional monetary and fiscal policy can not control these sectoral excesses of demand because restriction of aggregate demand is more likely to raise costs by reducing productivity than it is to lower costs by reducing wages and profit margins.[18] With the realization that a repression of aggregate

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[17] Ibid., p. 121.

[18] Ibid., p. 133.

TABLE 3

PRICES AND HOURLY EARNINGS IN CAPITAL GOODS AND OTHER INDUSTRIES, 1955-57*

Commodity Group	Wt. in W.P.I.	1955-57 Price Increases: Percent Contribution to total change	Increases in average hourly earnings
A. Capital goods and associated commodities	30	15.0	11.7
B. Other industrial goods in W. P. I.	70	4.0	10.1
All industrial commodities	100	7.3	10.5

*Charles Schultze, Recent Inflation in the United States, Study Paper Number One for the Joint Economic Committee of the 86th Congress in connection with their "Study of Employment, Growth, and Price Levels" (Washington: U.S. Government Printing Office, 1959), p. 118.

demand through monetary and fiscal policies can not control the changing composition of demand in a dynamic economy, the two alternatives of either using selective controls over these sectors or accepting a moderate price increase are available.

This dynamic disturbance is accentuated by the fact that competition is not stringent enough to keep prices from rising in absence of excess demand. These market structures allow for prices to be administered rather than determined by price system forces.

This raises two questions that must be considered: first, is inflation evil, and secondly, what policies should be adopted to correct the oligopolistic pricing system that influences this price behavior.

The long run trend of prices for the last one hundred and twenty years has been an average increase of one and one-eighth percent per year according to a study by Simon Kuznets.[19] This rate of price increase is classified as creeping inflation. The Joint Economic Committee of Congress stated that inflation is unjust whether it creeps or gallops.[20] This conclusion was based on the redistribution effect of inflation on income and wealth according to the ability of people to protect themselves against its effects.

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[19] Seymour E. Harris, The Incidence of Inflation: Or Who Gets Hurt, Study Paper Number Seven for the Joint Economic Committee of the 86th Congress in connection with their "Study of Employment, Growth, and Price Levels" (Washington: U.S. Government Printing Office, 1959), p. 91

[20] Staff Report on Employment, Growth, and Price Levels (Washington: U.S. Government Printing Office, 1959), p. 10.

The balance-of-payments problem that occurred at this same time added fuel to the fire evolving around the inflationary bias of the economy. The dollar shortage and gold crisis brought demands for stable prices to retain our international competitiveness and to relieve pressures created by this illiquidity. The net foreign trade advantage fell to a level of 134 million dollars in 1959.[21] This export surplus drop from previous levels also added to the fears of the consequences of our economy's inflationary bias. Fears that wage increases had reduced the competitiveness of our economy called for policies to restrain this trend and to return our international advantage.

The following tables illustrate the international wage and price movements in selected countries at the time of the discussion of the fears of Americans pricing themselves out of the international market. Although these tables do not include changes in the exchange rate, they do show that in general the price history of the United States has been more than satisfactory compared to international price movements.[22]

These comparisons of international price movements seem to show that the urgent need for control over wage and price policy were somewhat overheated. The pleas for the need of stable prices as a prerequisite for adequate economic growth also seem to follow in the path of the inflationary psychosis that prevailed.

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[21]Economic Report of the President (Washington: U. S. Government Printing Office, 1964), p. 297.

[22]Harris, p. 110.

TABLE 4

INDEX OF HOURLY MONEY EARNINGS IN MANUFACTURING IN SELECTED COUNTRIES FROM 1946-1957; 1950=100*

	1946	47	48	49	50	51	52	53	54	55	56	57
France	37	53	81	91	100	120	148	152	162	174	187	202
Italy	--	71	94	99	100	110	115	118	122	129	130	---
Norway	79	87	92	94	100	114	127	133	140	148	159	169
Sweden	74	85	93	96	100	121	144	150	156	168	183	---
United Kingdom	79	87	93	96	100	110	118	125	132	143	155	165
Germany	70	73	82	94	100	113	120	127	130	139	152	166
Holland	81	87	92	92	100	108	110	113	132	136	150	---
U. S.	74	84	92	95	100	108	114	120	123	130	135	141

*Clark Kerr, "The Impact of Unions on the Level of Wages", Wages, Price, Profits and Productivity (Harriman, New York: The American Assembly, June, 1959), Park IV, p. 104.

TABLE 5

COMPARISONS OF DOMESTIC INFLATIONS IN 1957*

	1948=100			1953=100	
	Wholesale Prices	Cost of Living		Wholesale Prices	Cost of Living
Chile	1,880	1,650	Chile	696	636
Argentina	---	590	Brazil	195	212
Indonesia	---	347	Argentina	---	182
Brazil	372	347	Indonesia	---	163
Japan	291	195	Columbia	160	140
Peru	274	209	Peru	136	127
Columbia	---	206	Mexico	135	143
Mexico	205	200	France	119	111
Australia	204	201	Sweden	108	113
France	183	185	Australia	108	113
United Kingdom	159	153	United Kingdom	107	118
Sweden	150	147	Netherlands	107	117
Netherlands	143	152	U. S.	107	106
West Germany	117	117	Belgium	106	109
Canada	115	127	Denmark	105	113
Belgium	113	115	Japan	105	111
U. S.	113	118	West Germany	105	108
India	108	115	Switzerland	105	107
Switzerland	103	111	Italy	103	114
Philippine	103	104	Canada	101	107
Italy	99	132	India	101	106
Venezuela	97	120	Philippine	101	106
Cuba	---	90	Cuba	100	97
			Venezuela	99	102

*Seymour E. Harris, The Incidence of Inflation: Or Who Gets Hurt, Study Paper Number Seven for the Joint Economic Committee of the 86th Congress in connection with their "Study of Employment, Growth and Price Levels" (Washington: U.S. Government Printing Office, 1959), p. 110.

International comparisons that show the price and wage movements of the United States with those of other countries gives added insight into the need for a policy to control these factors. These data show that inflationary pressure is a general phenomenon and that "wage inflation" is general.[23] This does not, however, determine that inflation is evil, but only compares relative movements on the international market.

Whether inflation of the creeping variety is evil or not in part depends upon what form ones income is derived and how one holds his assets. Although this injustice must be recognized, the magnitude of this injustice should not be exaggerated as there are effective means of offsetting these injustices. The attempts to exercise complete price stability may lead to recessions which retard growth and cause unemployment. The price that must be paid for preventing any inflation would be chronic unemployment and government intervention in the collective bargaining process. The monetary policy in the late fifties led to unemployment rates as high as 6.8 percent and restricted technological innovation and growth in the attempt to control inflationary pressures in a time of recession. A high degree of stability in the value of money must be an important consideration of public policy. Yet we are in considerable danger of making a fetish of rigid price stability which could easily become a serious obstacle to optimum expansion and growth.[24]

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[23] Joseph W. Garbarino, "Income Policy and Income Behavior," Employment Policy and the Labor Market, ed. Arthur Ross (Berkeley: University of California Press, 1965), p. 61.

[24] Compendium of Papers Submitted by Panelists Appearing Before the Joint Economic Committee of the 86th Congress (Washington: U.S. Government Printing Office, 1959), p. 71.

TABLE 6

CHANGES IN WAGES, PRICES, PRODUCTION, AND AVERAGE UNEMPLOYMENT IN SELECTED COUNTRIES, 1955-62*

(Per Cent)

	Wages	Wages	Consumer Price Index	Unemployment	Unemployment	Industrial Production
	1955-62	1959-62	1955-62	1956-62	1960-62	1955-62
West Germany	8.8	10.5	2.3	2.3	0.9	6.5
France	8.3	7.7	5.3	.9	1.0	6.0
Denmark	7.9	10.0	2.6	6.9	3.8	5.9
Netherlands	7.7	10.4	2.5	1.3	1.0	4.9
Austria	7.2	8.9	2.7	4.1	3.0	5.6
Japan	7.0	9.2	2.6	1.3	1.0	15.7
Norway	6.9	6.9	3.2	1.7	1.4	5.2
Finland	6.7	6.6	5.7	1.9	1.3	5.5
Sweden	6.5	7.0	3.7	1.7	1.3	3.9
Belgium	5.5	5.0	1.6	7.0	6.2	2.6
Italy	5.2	6.8	2.3	5.7	3.5	9.2
Switzerland	4.9	6.2	1.4	---	---	---
United Kingdom	4.9	5.6	3.1	1.7	1.7	2.0
Australia	4.6	5.2	2.5	---	---	---
Canada	3.8	2.8	1.6	5.9	6.7	4.0
U. S.	3.6	3.0	1.7	5.5	6.0	2.9
Average	6.2	7.0	2.8	3.5	2.8	5.7

*Joseph W. Garbarino, "Income Policy and Income Behavior," _Employment Policy and the Labor Market_, ed. Arthur Ross (Berkeley: University of California Press, 1965) Part II, p. 59.

The exercise of market power in the fifties contributed to inflation in the period under study. Market power occurs when one or more organizations acting singly, concurrently, or jointly have the ability through the administration of wages or prices to exact more income for the amount and quality of labor, capital, commodity or service supplied than could be obtained in the absence of such organizational action.[25]

This exercise of market power through administered prices and wages may implement inflation by several ways. The markup process through the stages of distribution pyramid the original cost increases and a multiple of the cost is then reflected in the consumer's price. Pattern setting wage and price negotiations by leading organizations contribute to inflation both laterally and vertically through the distribution process. The final inflationary exercise of market power is the repetitive cycle of wage-price or price-wage increases. Complementing these three factors is the failure of firms to adjust price downward in response to decreases in demand.

There are essentially five types of public policy designed to deal with this problem of inflationary considerations of market power.[26]

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[25]Emmette S. Redford, Potential Public Policies to Deal With Inflation Caused by Market Power, Study Paper Number Ten for the Joint Economic Committee of the 86th Congress in connection with their "Study of Employment, Growth, and Price Levels" (Washington: U.S. Government Printing Office, 1959), p. 2.

[26]These five policies are those discussed by Professor Redford in Potential Public Policies to Deal With Inflation Caused by Market Power cited previously.

The first approach relies on corrective forces within the economy to prevent an inflationary cycle resulting from the market power structure. The first tributary in this stream of thought is the reliance on the conscience and restraint of those organizations that possess this power whether it be in the form of self-instituted public responsibility or legal sanctions buttressed by governmental standards. The force of countervailing power expresses the belief in a check and balance system by forces on opposite sides of the market, but collusion by these forces against the public interest and the limitation in times of high demand of the countervailing consumer power to respond weakens its applicability as public policy. The final corrective force within the economy is the freedom of enterprise. This argument denies the existence of effective market power, and even if it is recognized, the effects of this provide power more desirable than the public power used to correct it.

The second policy approach is to use monetary and fiscal powers to control inflation by controlling demand, but this approach is weak in solving problems created by the existence of market powers. This approach was used during the Eisenhower administration with the result of trading inflationary pressures for a recession.

The next approach is the use of antitrust enforcement to restore the competitive market. Rigorous enforcement to prevent collusion and coercion by firms and to weaken the wage negotiation power of unions were the means devised to restore this competitive milieu. This approach is limited by the effectiveness of antitrust proceedings and the political infeasibility of destroying union power and limiting business concentration.

The withdrawal of government support for market power also has been recommended as a means of restoring competition to the market. These areas include protective tariffs and quotas, resale price maintenance laws, production controls, patent grants, government purchasing and stockpiling measures, public utility regulations that restrict competition and rate reduction, and collective bargaining safeguards. This approach incurs a conflict of public policy objectives as it places inflation control in direct opposition to national security, industrial peace, and many other social injustices that are not necessarily economic objectives. This economic-deterinism is not politically or socially compatible with public opinion or public interest.

The final approach is that of public consideration of wage and price increases. This approach contends that public determination of prices and wages is to be used to prevent inflation, but the severity of such an approach varies from public surveillance to public command. The least severe of these proposals is the requirement of organizations that possess great market power to give notice of intention to raise prices to some public authority. This notification of intent is then followed by hearings or fact-finding commissions to determine the validity of such an increase according to cost and price factors. The transmission of the knowledge of such findings to an informed public would then be one method of forcing public responsibility on these organizations. The power of public opinion is also strengthened by publication of advisory opinions as to the recommended course of action by the organization. A more severe type of public consideration would be the delay or suspension of price or wage increases until proper opinions are devised as to the method of furthering the public interest. The final step in this approach would be the use of utility-type control over some industries or organizations to "freeze" wages or prices at the level that best serves the public interest.

The use of public consideration of price and wage increases has been accepted as the public policy to be used to halt inflation caused by the existing structure of market power in the economy. The wage-price guidelines have been established as the guides for the informed public to judge the public responsibility of such price and wage behavior in these sectors that are characterized by their market power. The probability of their success can best be analyzed after considering their success in other countries and considering the problems of application that they will encounter.

CHAPTER III

SUCCESS OF WAGE-PRICE POLICY IN OTHER COUNTIRES

Several nations in Western Europe have experimented with various types of wage and price control measures to supplement their monetary and fiscal policies. Although these various policies approximate the guidelines of our economy, several precautions must be recognized before drawing comparisons.

The European experiments have had goals similar to our wage-price guidelines, but there are many policy differences. Another important factor is the differences in the social and political environment of the various countries. The difficulty of separating one isolated policy from the entire "box of tools" of economic policy restricts the validity of these international comparisons.

The three leading examples of European wage-price control are Sweden, the Netherlands, and Norway. The individual differences in the policies, environments, and overall economic policies will be noted in the appraisal of these programs in the hope that they may enlighten the prospects for the guideposts as established in the United States.

Norway will be discussed first as it seems to be the most successful applicant of these policies. The dominant union in Norway is the Norwegian Federation of Labor which is closely tied to the

Labor Party which has been in power since the late 1940's. This relationship has led unions to try to correlate their labor relations within the desired goals of the broad national policy. The collective bargaining process is carried on by industry-wide negotiations that are heavily influenced by the centralized federation of labor and the Norwegian Employer's Confederation; compulsory arbitration can be used but is exercised infrequently to solve disputes.

The friendly relationship between the Norwegian Federation of Labor and the government facilitates the coordination of wage and national policy. This coordination has allowed the government to refrain from using direct intervention or control over the wage behavior. Although the dominant theme in this relationship is for the establishment of stabilization by wage restraint, there has been a "wage drift" because of gain in some industry negotiations. This wage drift includes individual wage adjustments, employee overtime and other premiums, and upgrading of workers that increase wage earnings.

The government can regulate the prices and establish the competitive practices, whenever this is considered to be in the public interest.[27] This general control over prices allows the government to coordinate the trend of prices and wages. Although most specific prices are free, the general level is determined by the

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[27]Donald R. Snodgrass, Appendix to Brief Interpretive Survey of Wage-Price Problems in Europe by Mark W. Leiserson for the Joint Economic Committee of the 86th Congress in connection with their "Study of Employment, Growth, and Price Levels" (Washington: U.S. Government Printing Office, 1959), p. 79.

bargaining among the different economic interest groups. The wage-price package is an integral part of the economic planning system that includes trade restrictions, price supports and subsidies, investment control, and profit limitation.

The Norwegian formulation of wage-price decisions has tended to become centralized in an essentially tripartite series of negotiations against the background of the total national economic situation and the whole structure of government economic policy.[28] The trend since 1956 toward greater decentralization brought a complex mixture of central and separate negotiations with a bit of compulsory arbitration, but in essence wage formulation has been quite consistent with national policy.

The Swedish national wage policy today is not as closely tied to the government policy as Norway. The Basic Agreement of 1938 between the employers and the trade union organization, the foundation of the whole system from which all else, including the central wage pact, has followed was only signed under strong pressure from the authorities with the principal motive being to prevent legislation.[29] Although there was governmental pressures in the wage bargains, the nature of the collective bargaining institutions in Sweden made it unnecessary for the government to adopt wage regulation by law. The collective

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[28] Mark W. Leiserson, Brief Interpretive Survey of Wage-Price Problems in Europe, Study Paper Number Eleven for the Joint Economic Committee of the 86th Congress in connection with their "Study of Employment, Growth, and Price Levels" (Washington: U.S. Government Printing Office, 1959), p. 41.

[29] Andrew Shonfield, Modern Capitalism, The Changing Balance of Public and Private Power (New York: Oxford University Press, 1965), p. 199.

bargaining in Sweden is very similar to that of Norway, but the Confederation of Swedish Trade Unions are not as well coordinated as in Norway.

The separation of the national labor organization from the government does not keep the national union from acting with public responsibility; however, this does not insure a coordination of wage policy and national economic policy. The wage negotiations in Sweden during the war did not keep pace with the rising prices, but wage increases in 1946 and 1947 were directed toward regaining these losses. After these losses were recouped, a wage freeze prevailed from 1948 to 1950, but this restraint was broken by "wage explosions" in 1951 and again in 1955.[30] The Confederation of Swedish Trade Unions was responsible for the periods of restraint, but the explosions were caused by individual union opposition to both the pleas of the Confederation and the government.

This see-saw process of wage freeze followed by an explosion in a country with centralized bargaining does not seem to be a very good guide for keeping wages in line with productivity. The magnitude of the explosion in 1951 can best be realized by a comparison with the 1948 to 1950 freeze. Sector demand for labor caused contractual hourly earnings to increase by 4.5 percent in 1948 and 0.2 percent in 1949 with no change in 1950. The wage drift raised earnings by 3.8 percent in 1948, 2.8 percent in 1949, and 3.9 percent in 1950.[31] This

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[30] Snodgrass, p. 82.

[31] Abraham L. Gitlow, The National Wage Policy: Antecedents And Application (New York: New York University, 1964), p. 25.

era of relative restraint was followed by an increase of contractual earnings of 14.3 percent and a wage drift of 6.4 percent in 1951. The increase in 1955 was approximately 8 percent over the previous year. The slackening of strain on the labor market and the stable price structure accompanied by a moderate trade union restraint resulted in wage increases of 3 percent in the last two years of the decade.

Price control by the government is exercised quite rigorously in most industries. Since 1942 the price control board has established maximum prices for all major commodities to keep the wage-price behavior stable. The economy also is subject to investment control, monopoly regulations, profit taxes, and import restrictions. "The striking fact about Sweden is the tendency for the labor and management organizations to provide the impulse for innovation in the field of public policy which boldly lead, rather than follow public opinion."[32] Perhaps the most striking example of this "mutual advancement society" is the policy of "wage solidarity". This policy is the promotion of killing off the inefficient industries that lag behind the productivity of the national average. In this enlightened program, the trade unions regard competitive pressures as something to be accepted and used, rather than resisted. The unions are determined to ride the market, but not to be driven by it.[33] In this competitive process labor is employed in its most efficient uses;

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[32] Shonfield, p. 200.

[33] *Ibid.*, p. 208.

hence, it can receive a higher real wage as productivity is increased while prices are decreased by this competitive pressure. The uniqueness of this Swedish pattern is the focus of national economic policy on the efficient use of its labor force. The active manpower policy of Sweden designed to increase the size and quality, and to increase mobility of the labor force is indeed the impetus behind the full employment policy; but even in the face of such dedicated and enlightened policy, the problem of wages rising faster than productivity has not been solved.

The Netherlands is the third study of a national economy based on control of wages and price stability by central planning. The Dutch have not been able to cope with the wage drift, even though their wage controllers have statutory powers to control this behavior. The board of government conciliators was established in 1945 with the power to (1) fix general rules and principles of wage determination; (2) set specific wage rates; (3) approve, disapprove, or modify the terms of collective agreements; (4) extend the provisions of contracts to parties outside the bargaining unit; and (5) grant specific exceptions to established wage rates.[34] These centralized powers are not used in practice as the Labor Foundation serves as the focus of national negotiations for wage policy. The Labor Foundation is supplemented by the Social and Economic Council which is composed of representatives of unions, employer's associations, and the government.

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[34]Leiserson, p. 41.

The wage policy mechanism operates within the superstructure of the broad economic plan. The wage policy before 1950 was essentially an escalator clause in labor contracts according to changes in the cost of living index, but this policy had to be abandoned with the coming of the Korean-induced inflation. This inflation was countered by an acceptance of a lower real wage negotiation which brought wage increases amounting to only one half the price increases. After 1954, the general improvement of the economy brought wage increases that exceeded the cost of living increases. Governmental control of prices in the Netherlands is exercised by the mandatory approval by the government of any price increases. This system was instituted in 1954 and reinforced in 1963 as a prerequisite for wage stabilization. The usual policies regarding investment, profits, and monopolization also reinforce the wage stabilization and integrate the wage-price policy into the overall economic plan.

The breakdown of the Dutch system in 1963 as the wage controllers could not contain wage increases to productivity gains as average wages increased 8 percent per year and productivity only 3 percent per year. This activity occurred primarily because the economic improvement in Holland had eased the fears of the people. The postwar era had found the country somewhat unstable and stagnant economically, but the recovery erased the fears of unemployment. With these fears erased, the Dutch demanded wage increases to compensate them for their years of real wage sacrifice for the national interest.

The wage demands brought an increase in average hourly earnings of 16 percent in 1964.[35] These demands were met by the wage

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[35]Shonfield, p. 213.

controllers, as they feared unrest with the entire program of economic planning would accompany a denial of these demands. This wage increase was accompanied by a reinforcement of indirect price controls, designed to force employers to finance greater wage concessions out of profits to halt the wage gains.

The demands for wage increases as national prosperity replaced national emergency brought on a wage formula attempt. This formula of allowing wage increases to be correlated with productivity gains in each industry, and over the entire economy as a whole, did not work out.[36]

The wage drift problem has not been solved in either Norway or Sweden, but Norway has had a slightly lower trend since the war. Wage stabilization accompanied by the wage differential system of the Netherlands was relatively successful with containment of wage drift initially, but this problem has increased since 1958. The following table shows the wage drift in Norway and Sweden in the postwar years.

The experiences of these three countries in devising a wage-price policy have been accompanied by favorable environmental factors. These three societies have been quite cordial to economic control by the government or by dominating private associations. This social acceptance of economic planning has facilitated the acceptance of wage-price guides as a necessary integer for this national objective. Because of this being a national objective, the institutions and people

[36] _Ibid._, p. 215.

TABLE 7

WAGE DRIFT PROBLEMS IN NORWAY AND SWEDEN*

(Percent)

	Norway		Sweden	
	Contractual Rate Change	Wage Drift	Contractual Rate Change	Wage Drift
1948	2.4	2.8	4.5	3.6
1949	1.7	1.7	.2	2.8
1950	5.6	5.0	0.0	3.9
1951	10.7	3.1	14.3	5.5
1952	4.2	2.7	2.6	5.9
1953	0.0	3.7	1.1	2.5
1954	2.7	3.5	1.5	2.9
1955	0.0	5.2	4.3	4.0
1956	---	---	.5	3.5

*Mark W. Leiserson, Brief Interpretive Survey of Wage-Price Problems in Europe, Study Paper Number Eleven for the Joint Economic Committee of the 86th Congress in connection with their "Study of Employment, Growth, and Price Levels" (Washington: U.S. Government Printing Office, 1959), p. 50

that determine the wage-price behavior of the countries have been quite cooperative.

The ideas of laissez-faire and competition have never been entrenched in the minds of the businessmen and labor leaders of these lands. Although these countries have a firm democratic basis, there are many factors which facilitate national acceptance of wage-price controls. The relationship between labor organizations and government is one of close connection. The close ties between the labor organizations and the dominant political party have caused the former to cooperate with the desires of the latter in achieving the national goals as designed in the economic plan. The size of the public sector of these countries also influences wage-price acceptance because of its powers in pattern setting in the role of employer. Another political advantage for these countries is the parliamentary form of government. This system brings closer agreement between the legislative and executive branches on national policy.

The small size of these three countries also facilitates use of wage-price controls, as the number of details and administration is manageable. Perhaps the leading single factor in the favorable environment for these controls is the national unity behind the use of such controls. The factors noted above contribute to this cohesiveness, but the major factor was a unified fear of the future economic condition of the country. The postwar economic conditions of these countries were indeed bleak. The fear of depression, inflation, unemployment, and balance of payments crisis welded public sentiment into the form most conducive to such control. The economic weakness of these countries and the public recognition of this fact created a favorable climate for acceptance of such controls that would enhance their economic future.

Even with these quite favorable factors to ensure the success of a stable wage and price relationship, this success was indeed only temporary and restrictive. The general patterns noted in the experiences in Norway, Sweden, and the Netherlands were to be correlated with the existence of a crisis. Once the crisis had been conquered, the general pattern would be either a wage explosion, substantial wage drifts, and private "irresponsibility" by the people inconsistent with the desired "public goals". The stability of the price structure of these countries is not at all more favorable than the records of countries without such national controls. The wage and price records presented in an earlier section of this paper show that the increase of these factors exceeded the United States' experience substantially.

The existence of increased demand for goods and for labor have brought about increases for these factors that have not been consistent with the national plan. The one factor than can cause such a nationally undesired happening is the contradiction of the national interests and the interests of the private elements in the economy. There must be a high degree of confidence by the worker and the employer in the social, economic, and political objectives of the country.

These experiences indicate three prerequisites for an effective wage-price control: (1) "meshing" of national objectives with private objectives; (2) a coordination of economic interests into an integrated plan; and (3) mutual recognition and cooperation of the representative bodies of business, labor, and government acting in a responsible manner for the public interests.

The experience of these European countries in the use of wage-price controls to establish price stability in a full-employment economy should throw some light on the probability of sucess of such measures in the United States as a method to establish price stability.

CHAPTER IV

PROBLEMS OF APPLICATION AND PROBABILITY OF SUCCESS OF WAGE-PRICE GUIDELINES POLICY

To properly evaluate the desirability of wage-price guidelines, one must first identify the problems that they are designed to cure. The problem of seller's or cost-push inflation is not clearly distinguishable from demand-pull inflation. The interaction of these two concepts makes it difficult to distinguish what is actually causing the price instability. The time sequence of wage and price interactions do not correctly indicate the cause of the instability. The interaction between industries and the general price movements are also deceptive in the total economy because of the dynamics of the economy and the structural relationships between industries. The structure of the market and the practice of administered prices and wages add to the complexity of proper determination of wage-price relationships in practice.

The established monetary and fiscal policies have proven quite capable of handling the demand-pull variety of inflation, but the problem of cost-push inflation can not be corrected by these standard tools without damaging employment and potential growth. The European program of establishing an active manpower policy to maintain full employment by easing the "bottlenecks" in the economy has been instituted in the United States. This policy attempts to achieve a flexible labor force and economy which in itself solves some of the administered pricing problems. This policy simultaneously attempts to solve all three problems of maximum employment, adequate growth, and price stability, but this program can not be a cure-all for the problem of price stability.

Another partial remedy which may be undertaken by private interests to control this inflation would be to increase productivity of the economy with research and development. This conscious effort to increase productivity of industry and labor would allow for a higher growth rate and an increase in real hourly earnings. This suggestion is consistent with the historical trend of increased productivity and real wages; however, greater efficiency, larger volume of capital per man-hour, and better labor quality must be accompanied by manpower policies that prevent delay and interruption of this increased productivity. The trends in real hourly earnings and output per man-hour have run surprisingly parallel to one another since 1900.[37]

Another panacea often prescribed is the strengthening of competition in American industry.[38] Competition can be strengthened by either direct governmental intervention by anti-trust enforcement and withdrawal of government support of market power or indirectly

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[37]Solomon Fabricant, "Productivity and Wages", Challenge, (November, 1962), p. 35.

[38]Extract from Hearings Before the Joint Economic Committee of the 86th Congress--Statement of American Bankers Associations (Washington: U.S. Government Pringint Office, 1959), Part 9(b), p. 3.

through governmental and public pressure objecting use of market power that is not in the public interest. The wage-price guidelines are in this sense an alternative to actual reduction of size and market power of corporations and labor unions that can influence the market because of their power. This disequilibrium of market power allows administered prices rather than competition on a price basis. Direct government regulation is absent and politically unfeasible in these industries; but even if anti-trust enforcement were possible, the movement toward smaller, more competitive industrial units would be very much against the tides of American thought.

Our society is a corporate society and any movement to decentralize the economic concentration would not be readily accepted. "The conservative academicians think that freedom and greater efficiency would result if the anti-trust laws were applied more vigorously to big business and if a way were found to break the market power of labor unions. Big business and big labor are one in thinking that this 'conservative' solution is far more horrible to contemplate than the guideposts."[39]

Anti-trust policy could presumably prevent further development of market power, but it could not solve the cost-push inflation problem per se without breaking industrial complexes into atomistic units to further competition. The economy seems to be on a precarious perch in relation to wage-price inflation. A movement toward pure competition or a movement toward central planning would

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[39]"Guilding the Nation's Reluctant Tigers", <u>Business Week</u>, (April 23, 1966), p. 162.

theoretically solve this problem, but both of these movements are regarded as unfavorable by most interested parties. Voluntary restraints by those possessing market power would allow the existing market structure to have a more stable wage-price relationships.

The wage-price guidelines would indeed be very helpful as a standard of measurement for such voluntary restraints, but this is analogous to the remark that there is no need for a Minister of Bliss in a State of Bliss.[40] If big corporations and big labor did indeed exercise the omnipotent conscience in conjunction with their countervailing power, there would be no need for concern of wage-price inflation; hence, no need for the guidelines. The contention that the public can better judge the responsibility of business and labor with guideposts is somewhat pretentious considering the public's general understanding of the economic phenomena that caused such price movements. The value judgments concerning the roles played by labor and management would not derive the true relationship between these two conflicting parties and their influence on inflationary pressures in the economy. The collective power of the consumer sector is decidedly weaker than the corporate, labor, or governmental sectors; hence, the consumer sector does not exert a powerful countervailing force to insure a proper working of the "conscience" of the other sectors. Although the attitude of "the public be damned" is no longer prevalent in industrial circles, the conscience of the leaders of corporations and labor are indeed very weak foundations

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[40]John Kenneth Galbraith, American Capitalism (Boston: Houghton Mifflin Company, 1962), p. 28.

to rely on without competitive pressures to keep wages and prices noninflationary.

Business and labor have accepted guidepostism when there has been an indirect threat or possibility of direct formal controls, but only when such a possibility exists do these conflicting sectors accept these measures. In general, both business and labor are opposed to the guidelines because they insist on private decisions to determine wages and prices as dictated by surrounding conditions of their respective industries. The use of the guidelines as clubs in a selective manner as in the steel settlement in September 1965 and the aluminum and copper price rollback in October, 1965, have been very effective. This direct governmental intervention by force of adverse public opinion, government contract "blackmail", and a threat to release stockpiles has been effective in keeping prices down in these industries of imperfect market power structure.

Since the announcement in 1962 of the guidelines as a non-inflationary policy, their success has not been overly impressive. Disregarding the club tactics in steel and aluminum, the guidelines policy has brought some public awareness of wage-price decisions, but the extent of this restraint can not all be attributed to the guidelines. Since 1962, the success of the guidelines may have been in large measure traceable to basic economic conditions which were more or less amenable to satisfactory operation of the guides.[41] With unemployment rather high during this period, wage demands were not excessive. Plant capacity was under-utilized during this period

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[41] Stahl, p. 10.

and there was no pressure for prices to increase. During the period between 1961 and 1965, productivity and output had increased substantially with unit labor costs in manufacturing stable or slightly downward.[42]

The price record from 1960 to 1965 has been spectacular for such an unprecedented growth period. Consumer prices increased at an average annual rate of only 1.2 percent per year, but by 1.7 percent in 1965.[43] Much of this increase in prices was due to an international increase in the price of nonferrous metals; this increase does not affect the competitive position of the nation because of the international nature of the increase. Another factor in the 1965 increase was the rise of food prices which were partly caused by the production cycles in agricultural products.[44]

The following table shows the movement of the wholesale price index during the period from 1961 to 1965. This price record was indeed healthy, but the increase of 2.0 percent from 1964 to 1965 after four years of stability caused worry over price stability. The question that must be answered at this point is whether this increase was of the cost-push variety. The record shows that farm and food products accounted for 53 percent of this increase, but industrial prices moved up by 1.3 percent in 1965 after four years of stability. Increases were found in nonferrous metals, nonelectrical machinery, fabricated structural products, gas fuels and petroleum,

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[42] Ibid.

[43] Economic Report of the President (Washington: U.S. Government Printing Office, 1966), p. 65.

[44] Ibid., p. 67.

TABLE 8

CHANGES IN WHOLESALE PRICES, 1961-65*

Commodity Group	Percentage Changes 1961-65	1964-65	Contribution to Total Change (Percent) 1961-65	1964-65
All Commodities	2.2	2.0	100	100
Farm Produtts	2.5	4.3	12	23
Processed Foods	4.4	4.1	29	30
Industrials	1.7	1.3	59	47
Textile Products and apparel leather	2.1	.6	7	3
Hides, skins, leather and products	2.8	4.4	2	3
Fuels and related products and power	-1.9	1.9	-7	7
Chemicals and allied products	-1.7	.7	-5	2
Rubber and rubber products	-3.3	.4	-2	-
Lumber and wood products	5.4	.5	7	-
Pulp, paper and allied products	1.1	.9	7	2
Metals and metal products	5.0	2.8	31	17
Machinery and automotive products	1.4	.8	12	7
Furniture and household products	-1.5	- .5	-3	-1
Nonmetallic mineral products	- .1	.2	-	-
Tobacco products and bottled beverages	4.4	.3	5	-
Miscellaneous products	6.8	1.6	10	3

*Economic Report of the President (Washington: U.S. Government Printing Office, 1964), p. 66.

lumber, fertilizer materials, hides and skins, and manufactured animal feeds.[45] These sectors of the economy are not those usually characterized by excess market power. These industries were not victims of wage pushes that solely drove the prices of their commodities up, but many were victims of the market. The following table shows the utilization rate of selected industries which may in part explain the price increases in the affected industries. Those industries, characterized by over-utilization of capacity, may be assumed to have increasing cost conditions derived from excessive demand in relation to productive capacity.

Business leaders claim "that workers are entitled to the guidepost wage increase, but business is not entitled to any price advance at all."[46] Although this complaint is essentially true, it is the theoretical basis of the guidepost policy. Although prices would not rise, the profit rate should not fall because productivity should increase by the amount of the wage increase since unit labor costs are stable. Although this objection to the policy is not correct, the emotionalism that it creates and the popular acceptance of the objection raises a barrier to popular acceptance of guideposts as public policy.

Business leaders rightly point out the importance of prices in their role of resource allocators in our market structure and the the weakening of such a structure by "formula" pricing. To freeze

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[45]<u>Ibid</u>., p. 65.

[46]John Maynard Keynes, <u>General Theory of Employment, Interests, and Money</u> (New York: Harcourt, Brace & World, Inc., 1965), p. 374.

TABLE 9

MANUFACTURING CAPACITY UTILIZATION, 1964-65*

Industry	Output as percent of capacity Dec., 1964	Dec., 1965	Preferred rate (percent)
Total manufacturing	88	89	92
Iron and steel	88	75	91
Nonferrous metals	98	103	95
Machinery	87	91	91
Electrical machinery	84	91	93
Autos, trucks, and parts	95	93	96
Other transportation equipment	80	93	88
Fabricated metals and instruments	87	94	92
Stone, clay, and glass	80	85	88
Chemicals	85	85	90
Paper and Pulp	94	93	97
Rubber	96	94	94
Petroleum and coal products	91	91	95
Food and beverages	86	84	86
Textiles	96	98	94
Miscellaneous manufacturing	88	89	94

*<u>Economic Report of the President</u> (Washington: U.S. Government Printing Office, 1966), p. 68.

prices without a comprehensive central plan could indeed reduce, distort, and unbalance production.

Business fears the reduction of profits by guidepost policy. Profits are both the proof and necessary condition of our economic system, but "it is not necessary for the stimulation of these proclivities that the game should be played for such high stakes, as lower stakes will serve the purpose equally well, as soon as the players are accustomed to them."[47] The realization that profits need not be so high as institutionally assumed would indeed help alleviate the pressure on the price level, but profits must be high enough to induce investment to perpetuate the existence of the system. "The guideposts do not encourage either profits or wages to make off with all the excess in an industry of above-average productivity, but this does not mean that prices should fall as profits rise during an upswing--unless the industry's trend productivity gains are above average."[48]

Both business and labor object to the rationality of guidepost policy of "leaping from the aggregate to the individual."[49] The cost-price-profit position of each firm is inherently different and there is no foundation for the belief that national productivity best distributes the "economic pie" in a noninflationary manner.

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[47]John Maynard Keynes, General Theory of Employment, Interests, and Money (New York: Harcourt, Brace & World, Inc., 1965), p. 374.

[48]John P. Lewis, "The Guideposts: Realistic and Needed", Challenge, (July, 1964), p. 40.

[49]Neil W. Chamberlain, "The Productivity Dogma", Challenge, (June, 1964), p. 6.

The individual differences in each economic unit can not be facilitated in an orderly, coherent manner by guidepost modifications. Although the long-run position of the firm or employee may best be served by voluntary restraint in accordance with national productivity trends, the separate economic actors act on the short-run factors that are readily apparent to each. Although profits of a firm may be excessive in the short-run only, the employees will not desire to wait for the long-run effect of price decreases in the particular plant or industry to best serve their welfare. The employees will demand a wage increase at the next bargaining session, which eventually may cause a subsequent price increase in the affected firm or industry when market forces change.

Labor leaders point out that the guidelines have not been followed by the business community. Profits had been allowed to increase since the conception of the guidelines. Profits margins have also increased during this period; return on invested capital after taxes in manufacturing had risen from 10.1 percent in 1961 to 13.8 percent in 1965.[50] This "profit explosion" during the period between 1961 and 1965 has caused profits to climb twice as fast as gross national product, personal income, or wages.[51] This points out the reality that prices have risen more than costs or prices have not been reduced where productivity had reduced costs.

This profit growth has been used by labor unions as their main defense against their acceptance of the guidelines. The unions

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[50]"Everybody's Dividend", Time (May 13, 1966), p. 94.

[51]Ibid.

deem this distribution of wealth to be very inequitable; hence, profits act as a catalyst to start wage increase demands from the unions to restore a more equitable balance of distribution. Labor leaders also protest wage limitations of guidelines while profits, dividends, and executives salaries are allowed to soar. Professional fees and salaries are under no guideline restraints; hence, this huge sector is completely free to increase their incomes at will, even though wage bargains are restricted to productivity trend of the nation.

Both unions and business organizations use the free enterprise and freedom of choice approach to arouse discontent and as a rationale to deviate from the guideposts. The restriction of freedom of individuals and firms by guidepost policy has indeed been a basic rebuttal to governmental warnings of wage and price changes. Although this plea has often been exploited by conservative factions against all attempts of governmental intervention in the economy, the political and emotional reactions that it brings must be considered before guidepost acceptance can be realistically analyzed. The managed economy is not violently objected to unless there is a subsequent loss of freedom, but the loss of freedom in the determination of wages and prices is seen by labor and business leaders as a supreme sacrifice for a rather doubtful public policy. George Meany, President of the AFL-CIO recently said, "The free way of life can't be preserved on the basis of a master-servant relationship."[52] This

[52] Kansas City Times, March 16, 1966, p. 18.

response from labor is echoed in the business community. There is also much debate and dissatisfaction with the statistical measurement and general workability of productivity as a feasible standard for wage and price determination.

The statistical limitation of productivity theory include the conceptual problems of choosing the appropriate time interval and the need to segregate trend movements in productivity from changes in the level of utilization of capacity. Short intervals may give excessive weights to business cycle movements and long intervals may hide significant shifts in productivity trends. The optimal interval and the business cycle movements must be determined and differentiated if wage behavior is to be properly tied to productivity.

The statistical problems involved in determining the productivity trends are increased because of the existence of sampling, procedural, and conceptual errors. The sampling errors are caused by the difficulty of precisely collecting the data that corresponds to the true population. The conceptual errors occur because of the difficulty encountered in including all relevant data with their proper weights, and excluding data that is not precisely relevant to the sector to be determined. These errors include the time interval, cyclical fluctuations, intangible variables, and the break-down into proper component factors and industries. The procedural errors occur in the mathematical methods used to compute the trend rate of productivity once the proper data and productivity indexes have been accurately determined.

Statistical improvements also need to be made in the area of price index determination. There are major gaps in the areas of consumer and business services, producer's goods, new construction, and government procurement items that need to be closed for a realistic statistical analysis concerning noninflationary guidelines.[53] Industrial breakdown of real private national income also would improve the statistical reliability of movements in prices, productivity, costs, and wages. The need for an enlargement of basic data is also needed in order to compile an accurate output index or productivity trend.

Another important consideration is the retention of adequate incentives for employees to gain wage increases that correspond to their increased efficiency or performance without improvements in quality or quantity of capital goods. Other limitations on the applicability of the productivity trend rate to wages are those involving job upgrading, structural shifts, and new entrants.[54] These last three factors must be adjusted into the general guidelines or there will be inflationary pressures. These pressures are created by the flow of employment caused by these three factors going to high productivity sectors of the economy; however, if they are rewarded with their higher real wage differential, these proportions can not be distributed throughout the economy as a general wage increase. The general guidelines must be so adjusted to these wage increases before they can be applied to the entire economy without

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[53] John W. Kendrick, Wages, Prices, Profits and Productivity, Part II, p. 57.

[54] Gitlow, p. 16.

causing inflationary pressures, but no such adjustment has been made in the guideline policy.

The productivity measurement of the efficiency in the use of employed resources has many difficulties in application to maintain a noninflationary price level. The statistical, procedural, and conceptual limitations of productivity measurement have been previously discussed, but other factors that limit the applicability of such measurements must also be noted. "In order to be valid, arguments for the use of a productivity formula for short-term periods must make two interrelated assumptions: (1) that productivity changes constitute a reliable and reasonable criterion for wage increases; and (2) that the measured rate of productivity change is sufficiently stable to provide a dependable basis for wage rate negotiations covering future periods."[55] The latter assumption was noted in the 1964 Economic Report of the President, but there has been no attempt to prove this assumption that national movements of wages and productivity are correlated in the short run.

Perhaps the strongest limitation of productivity as a standard for wage and price determination is the very nature of the United States economy. The dynamic structure of the economy is constantly undergoing change characterized by reallocation of factors from low to high sectors of productivity; this structural shift in employment would then raise the productivity index.[56] This would then cause inflationary pressures or unemployment. The

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[55] Ibid., p. 21.

[56] Ibid., p. 18.

application of productivity standards overrules the market forces which determine wage rates in our society. Supply and demand for labor must determine the distribution of income to labor regardless of productivity changes. The established guideline policy recognizes this fact, but they offer no explanation why the average of all such shifts would be expected to approximate the national average rate of increase in productivity.

"The productivity policy implies that no group has in its power to increase its share of the nation's income by more than it contributes to national production. Such intellectual plausibility derives from the curiously vivid imagery invented by the classical economists--that of a perfectly competitive economy in which the various factors of production are each rewarded to the extent necessary to bring out the marginal contribution required to secure the maximum possible output of goods and services."[57] This blatant contradiction with the structure of our economy shows that the political element must enter into this determination. It is ironic that a policy based on pure competition is attempted to solve a problem created by imperfections of competition.

The next problem of application is the acceptance by the interested parties of the particular productivity measurement that has been chosen by the administration to be the national rule. The rate of productivity increase may vary from two percent to four percent, depending upon the output and input concepts used. The five year moving average, as determined by the Council of Economic

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[57] Shonfield, p. 218.

Advisors increased from 3.2 to 3.6 percent in 1966, but the former rate was arbitarily accepted as the national guideposts. This inconsistency of time periods because of the cyclical movements merely adds increased doubt as to the reliability of the guideposts, regardless of the input-output concepts used.

The use of productivity as a standard for wage determination could cause severe repercussions in the area of collective bargaining. The guidelines can in effect hinder the collective bargaining process if either management or labor use elements of the policy that strengthen their bargaining position; as it tends to increase inflexibility and stubbornness of either side. If the national productivity trend is higher than the economic stituation in this industry or plant warrants, then labor will note the validity of the guidelines policy and demand the national increase. Management would in this situation disavow the guidelines or note the modifications; hence, the end result may be a less flexible bargaining process.

The loudest cry in wage disputes since the guidelines were established has been the complaint that wages are restrained, but excess profits are not regulated. Without wage restraints according to productivity guidelines, the emergence of excess profits called for a demand of wage increases; but wages should not increase unless national productivity also increases, regardless of the amount of profits. Although the Council of Economic Advisors noted that the present distribution of income was not necessarily just or optimal, the guidelines do not attempt to solve this problem. The

Council of Economic Advisors insisted that redistribution of income should take place within the firm or industry, but that prices should not be used to compensate for the redistribution. The policy of voluntary self-denial is not likely to be accepted; hence, extreme pressure is placed upon collective bargaining, the media of distribution alteration.

"Since the fiction of voluntarism would be maintained, governmental pressure would have an uneven impact."[58] The large industries would suffer more heavily from this informal control by government than would the smaller industries, firms, and unions which are out of the "public eye". Government would then have to be a party to all wage and price negotiations which would at best be a troublesome arrangement. Guideposts would also encourage bargaining contracts of shorter duration which could be inflationary because of wage drifts and the elimination of the wage lag throughout the economy.

This time dimension could cause various difficulties in rigorous application of the guideline policy. Unions will protect a wage lag behind productivity increases. Management would protest paying a wage increase equal to long-run productivity increase when market forces do not allow for wage increases. If wage increases that were skipped in bad years are to be reimbursed in good years, inflationary pressures would then be exerted at a time when public policy should be combating such action.

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[58] Philip Taft, "Can Guidelines Solve the Problem?", Challenge, (April, 1963), p. 10.

The market influences of wages and prices are somewhat neglected by guideline policy. Although the 1964 Economic Report of the President listed modifications of guideline policy, "these modifications are intended to apply to a relatively few cases." The market structure essentially is then subservient to the formula of the guideposts. The Council of Economic Advisors has not established a cohesive link between these separate forces; subsequently, the problems of time dimensions, collective bargaining, and individual price movements are very much unsolved if any sector, industry, or individual does not respond to the guideline policy.

These problems of application of a rigorous guideline policy must be solved before there can be widespread acceptance. Perhaps the biggest problem that must be solved is convincing businessmen and labor leaders to abandon their primary functions of obtaining higher profits and wages. These convictions of the leaders are institutional phenomena, and if a new set of institutional values are not developed, either informal or formal controls must be implemented before the prescribed policy would be effective. The vague sanctions of public opinion do not seem to be powerful enough to force noninflationary behavior of those factors that control wages and prices.

The political problems attendant to governmental intervention in wage and price determination could also be monumental. The gamut of interests, organizational pressures, and political pressures that bear upon decision-making may indeed overrule any theoretical economic advantages of guidepost policy. A recent study of European wage-price determination reported, "what once could reasonably be thought an economic issue, to be worked out among managements, unions, and individual workers on the basis of respective sanctions available to them at the time of the negotiations has become a pawn of political interactions, diplomatic developments, and interlocking organizational interests that have long-range status and implications."[59] The public exhortation by the government to restrain wage and price instability serves as a political weapon for the group in power. This exhortation rather than command assures the anxious public that the administration is attempting to correct an unstable situation, but that the ultimate decision is actually a private one. This symbolic gesture can be used as a political tool to the disadvantage of those affected by such exhortations. Business or labor could be pointed out as being the source of inflationary pressures when in actuality it is caused by irresponsible governmental monetary or fiscal policy. The political weapon could also be used against either labor or business as an election promise and payment. Such a possibility scares both the business and labor sectors into opposition of such a policy that could bring such political and economic consequences.

The wage-price guideline policy extended throughout the economy is a vivid mixture of free enterprise and quasi-economic plan. The informal or formal control depending upon the sanctions of the government is essentially an attempt to get the "best of both worlds". Noninflationary guidepost policy is an attempt to ensure

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[59]Murray Edelman and R.W. Fleming, "Unemployment and Wage-Price Politics", Employment Policy and the Labor Market, ed. Arthur Ross (Berkeley: University of California Press, 1965), p. 90.

the continuation of prosperity without disruptive side effects of instability, but private ownership or production is to be preserved within a revised market system. The ideological aspects of planning can not be considered if such a policy is to be adapted by the United States. The pragmatic approach to prosperity must be engrained into our society if such a progressive policy is to be adapted. The problem of managing prosperity has replaced the problem of reaching prosperity. The obstacles that Keynesian economics and the New Deal had to overcome to be accepted must be overcome again if this policy is to become the dominant means of maintaining prosperity.

The crisis of the Depression paved the way for the New Deal and later Keynesian policy, but the price record of the United States economy during the unprecedented growth period of 1961 to 1966 offers no such crisis to pave the way for acceptance of the guideposts. European experience with guideline policy has one unique characteristic throughout--the acceptance of these controls and the success of such policy being accompanied by a crisis situation. Once the crisis was overcome, price stability of the country was no longer the central objective of the economic parties. Price and wage increases were demanded once the crisis was passed as the private economic interests became more important than the national economic objectives.

The public interest was the goal of private interests during a period of crisis, but after the crisis the private economic actors felt the public interest was subservient to their own respective self-interests. This situation caused price increases, wage explosions or drifts, and private "irresponsibility" because of the universal pursuit of private interests rather than the public interest.

European experience also shows that their price record was less favorable than that of the United States, but attending economic conditions in the respective countries must be recognized with such a comparison. The noted favorable environmental factors of the European countries were much more favorable to a national wage-price policy than those that exist in the United States today. The laissez-faire myth is much stronger in the United States than it was in the European countries. The lack of this ideological barrier greatly enhanced acceptance of such a national policy in these countries as did other environmental factors.

The political associations and structure of these countries also were much more conducive to acceptance of this policy than are similar conditions in the United States. The separation of branches of government in the United States and the lack of agreement concerning the policy between the business and labor sectors with the government creates a much less favorable environment for a united effort than that which existed in Europe. These political factors must be carefully considered before assessing the probability of acceptance of such a policy. Our economy is essentially a political economy and any economic policy must be viewed in this perspective.[60] The productivity rule as a standard for wage-price decisions may be operationally meaningful, but not operationally feasible because of the political factors that influence its operation.

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[60]Emmette S. Redford, American Government and the Economy (New York: Macmillan Company, 1965), p. 639.

The political effects on the economic policy of guidelines must not be considered lightly. "This policy implies the equivalent of a new Social Contract: it presupposes a society in which the different interest groups have marked out a sufficient area of agreement about the present distribution of wealth to deny themselves the right to try, in the future, to obtain certain advantages at each other's expense."[61] This new Social Contract is evidently not accepted by the society of the United States at this time. This more intimate relationship, between public and private power, is the political meaning of planning in a mixed economy of the modern capitalist type.[62] Even though the objective of guideline price stability is not pursued at expense of business profits, businessmen view this policy as "an extention of traditional warfare between the merchants and the prince who tries to force them to disgorge their gains".[63] The political reality is that businessmen in the United States have yet to accept the role of government in the economy created during the depression and are not benevolent toward any policy that increases this role of the government.

Labor leaders have taken a fervent stand against the policy of guidepost determination. The opposition to voluntary restraints by both business and labor would be magnified if the guidepost policy were given formal sanctions. Without the occurrence of major economic crisis, these factions will not accept this new

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[61] Shonfield, p. 219.

[62] _Ibid_., p. 33.

[63] _Ibid_., p. 268.

Social Contract, but the political hope of obtaining formal sanctions to enforce guidepost policy must be dimly viewed. Only a major crisis of the magnitude of the Great Depression could cause the political and ideological shift necessary to achieve such a policy.

In conclusion, the wage-price guidepost policy to be effective must be essentially a central wage and price policy to cover the entire economy. The market power structure that causes the inflationary problems is corrected only by revising the entire wage-price policies of the economy. This policy within the structure of the present society is analogous to Jonathan Swift's Modest Proposal; the social cost of the policy is regarded as being too expensive to cure the economic malody of price instability attributable to cost-push inflation. The guideline policy as an educational device for public information of private actions, as originally postulated, is politically and economically acceptable, but the use of such a policy as a rule for wage and price decisions is not acceptable. This policy without sanctions is not sufficient to solve the problem of price instability, and the continuing attempt to apply this policy, instead of developing an operational policy, only adds to the problem of managing prosperity.

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WAGE-PRICE GUIDELINES: WHAT ARE THEY AND WILL THEY WORK?

by

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AN ABSTRACT OF A MASTER'S REPORT

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The problem of cost-push inflation has been recognized as a threat to price stability in the economy for several decades, but orthodox monetary and fiscal policy has not been able to cure this ill without damaging the level of employment and growth. Wage-price guideline policy has been advocated to cure this price instability. Guideline policy is marginal productivity theory applied on a national basis; the basic principle being that wage increases should be directly related to the national productivity trend. With this productivity-wage relationship, prices will not be "pushed" up by wage increases; the unit labor cost will remain stable and prices can be stable. The theoretical basis of this policy is marginalism based on perfect competition, but the nature of the problem of cost-push inflation is the imperfect competitive structure of the economy.

Guideline policy was officially advocated by the United States government in 1962. Guidelines in the original policy statement were to be an educational device to alert the public of wage-price behavior that would be inflationary. Voluntary restraint by those factors possessing market power was then to be influenced by this alerted public opinion, but subsequent policy restatements and modifications have developed powerful informal controls.

Wage-price policies have been used in several European countries with varying, but questionable success despite very favorable environmental factors. Although Walter Heller imported guideline policy from these countries after a review of their application and success, the social milieu in the United States does not seem favorable to their acceptance in the United States. The wage-price record of the United States during the period of inflation psychosis was much healthier than that of the countries with national wage and price policies. The nature of the inflationary pressures, structure of the economy, and size of the United States economy are completely different and less adaptable to such a policy than were these factors in the European countries.

The statistical measurement of productivity trends has not been developed to a high enough degree to determine all wages and prices. Use of the productivity concept as a basis for wage-price determination can also be attacked. The market mechanism would be subservient to the productivity formula in guideline policy, but replacement of the market mechanism would hinder the allocation mechanism without offering a suitable alternative. Economic planning and more direct governmental control of all wage-price decisions would have to accompany a workable guideline policy. Unless more governmental intervention occurred in the collective bargaining process, the guidelines could indeed be inflationary if the opposing interests used the policy as a bargaining factor.

The political probability of popular acceptance of guideline policy is very minimal. This formula pricing policy is antithetical to the popular conceptions of free enterprise and equal opportunity. The strong opposition of the policy by both business and labor destroys the veil of voluntarism and necessitates direct intervention in wage-price decisions if the policy is to be successful. Only if price instability threatens the material welfare of the society will this policy be accepted and applicable. Price and wage freedom will not be traded for a formula based on crude principles that do not solve the problem of market power imbalance.