GUIDELINES

AND THE INFLATION PROBLEM**

1. SEVERAL ANTECEDENTS


An economic history of an early attempt to implement thorough-going wage and price controls. The Edict listed maximum prices for over nine hundred commodities and wage ceilings for some one hundred grades of labor. These ceilings were identical throughout the entire Roman Empire of the early fourth century A.D. They failed to hold down prices, partly because of administrative problems and partly because of an overly easy monetary policy pursued by the central government.


A history of price controls in World War II and a discussion of conditions under which such controls are likely to be effective. Galbraith argues that the imperfect nature of product markets in America made price controls both helpful and easy to administer during this period. Controls are also seen as useful in providing signals to the market to shift resources to industries in which government seeks to expand war production.

2. U.S. WAGE-PRICE GUIDELINES: GENERAL DISCUSSIONS


The 1962 Report provides the statement of the “Guidelines for non-inflationary wage and price behavior,” pp. 185-190. This initial formulation stressed that productivity should be a guide rather than a rule for wage settlements. It set the groundwork for future discussion about

* Prepared by Daniel S. Hamermesh, Assistant Professor of Economics.
** Items from this list should be ordered directly from the publisher. Addresses are given in connection with each reference.
appropriate productivity figures and possible allowable exceptions to the
guidelines. The 1967 Report, in effect, abandons the guidelines by
recognizing and approving the incorporation of past cost-of-living in-
creases in newly-negotiated wages.

$6.75 cloth; $2.50 paper.
The only complete study of the United States experience with wage-
price guideposts. The book summarizes the objectives and early for-
mulation of the guideposts, presents case histories of experience with their
implementation and analyzes the results of incomes policies in foreign
countries. It then provides a theoretical consideration of cases in which
guideposts will have varied effectiveness and their implications for ef-
iciency and equity. Finally, it discusses alternative policies which might
be more desirable in achieving wage-price stability.

3. CAN GUIDELINES WORK? ARE THEY BENEFICIAL?

Meany, George, Roger M. Blough and Neil H. Jacoby. Government
wage-price guideposts in the American economy. New York, N.Y.
82 pp. $4.50.
Organized labor's view of guideposts is presented by AFL-CIO Presi-
dent George Meany who maintains that guideposts are likely to be in-
equitable because they freeze the distribution of income as well as being
unworkable in practice. Roger Blough of the United States Steel Cor-
poration argues that the guidelines are a useful tool to hold down ex-
cessive wage increases, but states that their interference with product
pricing could lead to substantial economic inefficiency. Neil Jacoby pre-
sents an academic view, finding that while the guideposts may have
been useful as an educational tool in the first two years of their existence,
they later proved to be detrimental to the economy.

Phillips, Almarin and Oliver E. Williamson, editors. Prices; issues in
In "Requiem for a lightweight: a critical historical sketch," Myron
Joseph argues that while guideposts are a lightweight policy, they pro-
vide a needed and effective alternative to more stringent wage and price
controls. He faults them only for their inflexibility. Sidney Weintraub,
"In defense of wage-price guideposts . . . plus," contends that guideposts
are an essential policy in improving the trade-off between inflation and
unemployment. Rather than disbanding them, he proposes stricter en-
forcement by threats to corporations of increases in the corporate income
tax and to labor of possible withdrawal of recognition under the National
Labor Relations Act.
This book is an out-growth of a symposium held in the Spring of 1966 on guidelines, both domestic and in the area of international trade. The articles by Milton Friedman "What price guideposts," and Robert M. Solow "The case against the case against the guideposts," are the leading academic articles on the subject. The former argues that wage-price guidelines merely suppress inflation and lead to distortion of the pricing mechanism. The latter suggests that guideposts can be useful in preventing premature inflation and discusses some problems associated with the setting of actual guidepost standards.


Paul McCracken of the Council of Economic Advisers argues that it is very difficult to set appropriate guidepost standards and that stabilization must rely on fiscal and monetary policy. Arthur Okun, former Chairman of the Council, presents his belief in the efficiency of "jawboning" in preventing inflation. Richard Landry of the Chamber of Commerce rejects administrative measures to control wages and prices and suggests that the Federal government create a climate for effective monetary policy by keeping its budget in surplus.

4. Were the U.S. Guidelines Successful?


A compact discussion of the first and most famous confrontation between government and business over the wage-price guideposts. McConnell does not offer any suggestions about the company's motives for breaking its implicit bargain with the President. The author believes, however, that Kennedy's motive was simply that of maintaining the power of the Presidency. The book is an excellent illustration of the political aspects of an economic measure.


Perry's discussion set off a substantial academic debate over whether the wage-price guidelines had any economic effect. Using his wage equation based on the experience from 1947-60, Perry found that wages from 1962 through 1966 were understated by approximately 1.5 percent per year. He attributes this effect to the guideposts. Paul T. Anderson, Michael L. Wachter and Adrian W. Throop comment on the Perry paper in the June 1969 issue of the American Economic Review, pp. 351-365. A rebuttal by Perry follows on pp. 365-369.

$2.50.

The authors argue that previous studies of the wage-unemployment relation are based on an incorrect series of data for unemployment. They construct a series on unemployment which accounts for cyclical differences in labor force participation. Using this series and an equation similar to that of Perry, they find that wage changes in 1962-1966 were under-predicted by only .5 percent per year.


$2.00.

The author proposes that employee pressure causes union leaders to seek wage increases which respond proportionately more to changes in the cost of living when the latter are greater than when they are smaller. When this threshold effect of price inflation on negotiated wage changes is considered, it accounts for most of the underprediction of wages in the period 1962-1967.

5. **Recent Foreign Experience With Guidelines and Controls**


This study discusses the politics of incomes policies and the effects these policies had on the political life of countries in which they were implemented. Detailed discussions of the administrative and political problems of controls in Italy, Germany, Great Britain and the Netherlands are presented. In the concluding chapters the authors discuss the implications of the foreign experience for American efforts at wage-price restraint and argue that government incomes policies are important for social as well as economic stability.


Possible goals of incomes policies are price stability, balance of payments equilibrium and more rapid economic growth. Ulman stresses the need for sound government fiscal and monetary policy in order to ensure union and management cooperation with guidelines. The main responsibility for the success of incomes policy is seen to lie with management, for it can both be strengthened to resist union wage demands and be induced to avoid discretionary price increases.