

WAGES, OTHER SHARES, AND PRICES

The distributive effects of inflation on different shares of income depend in part upon the type of inflation that prevails. Indeed, if the current theory of the cost-push explanation of inflation is accepted, then to that extent it may be assumed that wages lead the rise of prices, and to that extent gain at the expense of other shares of the national income. In fact, if we examine the relative movements of prices and wages in the three major wars—the Civil War, World War I, and World War II—we will find a considerable lag of wages in the Civil War, a substantial lead in World War I, and a much greater lead in World War II. This large gain for wages in World War II should be written down to some extent, however, in view of the control of spending and the unavailability of goods.

An examination of recent trade cycles or even a comparison of trade cycles before the war and recent trade cycles does point toward a tendency for prices to decline less and even rise in recession periods, and wages, instead of falling substantially in recession periods, tend to be stabilized and wage rates even rise. Here again we note a tendency for wages to rise even in periods of recession, and even more, of course, in periods of prosperity.

It is clear, of course, that as the economy has grown, real wage rates have increased. Moreover, they have increased more than might be suggested by the rise of product man-hour output or even by the rise of man-hour output corrected for any change in prices. Other costs, however, have also increased per unit of output about as much as wages. In 1948-56 employee compensation per dollar of real product rose by 28 percent, and nonlabor payments per dollar of real product by 27 percent, and though the real product per employee rose by 26 percent, average hourly compensation rose by 61 percent, suggesting an inflationary effect of rising wage rates. As might be expected, consumer prices rose, and actually by 22 percent.

In general, labor gained in the percentage of income, though this gain is to some extent tied to the changing distribution of employment; that is to say, employments where labor's share of total income was large tend to become more important. The increase in the proportion of income going to labor is partly explained by the much larger rise in the supply of capital than of labor.

An examination of the rise of productivity, output, and real wages over a period of 50 years yields some interesting results.

Variations in the rise of productivity are very large, as are those in output. But the differences in real wages are considerably less. What is striking is the lack of any close correlation between the rise of output or productivity and the trend in real hourly earnings. For example, in the electric light and power industry, output rose by 244 times, and output per unit of income by almost 17 times, and yet real hourly earnings only rose by 189 percent and prices actually declined by 38 percent. In contrast, in anthracite coal the rise of output was only 51 percent; of productivity, 47 percent; of prices, 336 percent; and real hourly earnings actually rose by 262 percent. It might be expected, when output rises little, prices would rise a great deal. These figures do suggest that the gains of productivity are distributed over the whole economy and that even industries that do not experience large improvements share in these gains. In the short run, there