STUDY PAPER NO. 9

THE SHARE OF WAGES AND SALARIES IN MANUFACTURING INCOMES, 1947–56

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1. This study is concerned with the relative shares of wages and gross profits in manufacturing value added in the period 1947–56. I will first discuss the way in which the shares would be expected to change under each of the main theories of the inflation process. Then I will outline the changes that have occurred in the distribution between wages and nonwage income (1) in the whole economy, (2) in the manufacturing industries as a group, and (3) among manufacturing industries taken singly. Finally, I will use the detailed industry statistics to attempt to test some of the main hypotheses about wage-setting in periods of high-level employment.

2. The relationship between income shares and inflation is not a simple one. The share going to wages depends upon the wage rate, the productivity of labor, and the response of finished product prices to changes in wages and material costs. Each of these, in turn, may depend upon the pressure of demand, the degree of monopoly control, Government policies, and other influences in the economy. Since we are dealing with shortrun changes, I will not consider the major longrun or equilibrium determinants of income shares, such as the marginal productivities of capital and labor inputs.

3. A few years after World War I, John Maynard Keynes pointed out that the social effects of inflation are important—

> only insofar as its incidence is unequal * * * [A] change in prices and rewards, as measured in money, generally affects different classes unequally, transfers wealth from one to another, bestows affluence here and embarrassment there, and redistributes Fortune's favors so as to frustrate design and disappoint expectation.[2]

His description of the process revolves about the relative abilities of the investing class, the entrepreneurial class, and the wage earners in ensuring that their respective incomes at least keep up with and, possibly, move ahead of the prices of the things they buy.

4. There is another aspect of the keeping-up process which may be quantitatively more significant than the social consequences. The speed with which economic groups are able to recoup losses in their respective shares of income is one of the most important determinants

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[2] J. M. Keynes, "Social Consequences of Changes in the Value of Money (1923), in Essays in Persuasion, London, 1957, pp. 80–104.