

which would have held down unit labor costs, but of increases in profit rates in steel and automobiles that were out of line with those generally reported in the rest of the group. The greater than average wage gains in these industries were not made at the expense of profits, but were accompanied by increases in the profit margins.

28. The causal link between the factor share distribution and the pace of inflation in manufacturing will not be analyzed in detail here; instead I shall simply outline some of the more apparent relationships. In the nondurables, where price increases were relatively low, the wage share gained at the expense of gross profits. The increase in unit labor costs and the increase in profit margins, which together would be expected to push prices upward, were balanced for most of the period by declining material prices, especially in the food sector. In both consumer durables and producer durables, the unit labor costs appear to have lagged as productivity increases compared more favorably with wage increases. For most of the group, profit margins were also lower than the manufacturing average. But in steel and automobile production, the relatively large wage increases were matched by very high profit margins. Under the double impact, prices in these sectors rose more rapidly than output and, especially in the steel case, reverberated throughout the economy.¹⁰

29. Finally, I will use the detailed wage data in order to answer some questions about the determination of wages in the postwar inflation. What has been said thus far seems to indicate a cost-push phenomenon in which profits and wages in succession, after the recessions of 1949 and 1954 pushed up costs and prices in manufacturing. The push has not been uniform, especially from profits, but the best explanation seems to revolve about the combined behavior of the two income shares. A reasonable analytic scheme, suggested by the aggregate data, might be constructed along the following lines. Assume that wage earners' demands are responsive to changes in the cost of living, the rate of profits, and the increase in output per unit labor. They will resist any reduction in their real wages, but they will also attempt to maintain their share of the total income produced; that is, they will respond to real increases in output per unit labor or to profit rises especially those that are due to price changes in their own products. Assume similarly that entrepreneurs attempt to maintain stable profit margins over direct costs.

30. Let us say that wage earners have a consumer price target toward which they aim. That is, wages are expected to stay in close relationship to rises in the cost-of-living index. Wage changes will respond, with a lag, to negative deviations from the desired relationship. The pace of inflation is determined by the deviations from desired wage-price (or wage-profit) relationships which, in turn, create pressures for greater increases in the succeeding period.¹¹ But

¹⁰ The relationship between steel wages and profits and the postwar inflation is analyzed in detail in Study Paper No. 2, "Steel and the Postwar Inflation," by Otto Eckstein and Gary Fromm. In a simple input-output computation carried out at the Harvard economic research project and quoted by John Dunlop, in "Policy Problems: Choices and Proposals," American Assembly. Wages, Prices, Profits, and Productivity, pp. 151, 153, I suggest some effects of price changes in steel and other major products upon costs throughout the economy. Using a diffusion index ratio of intermediate deliveries of a sector to its total gross output, it was shown that fabricated structural metal products, iron and steel and lumber and wood products, stood among the first 6 out of a total 45, industry table, in their relative ability to spread cost changes through the economy. In terms of their wage costs, in particular, fabricated metal products and iron and steel stood 7th and 13th in relative effects (*potentially*, not in terms of actual relative wage change) upon the consumer index. The Eckstein-Fromm study paper contains a much more detailed input-output analysis of the effects of steel costs upon inflation.

¹¹ Cf. A. J. Brown. "The Great Inflation," 1959-1981.