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A BRIEF INTERPRETIVE SURVEY OF WAGE-PRICE PROBLEMS IN WESTERN EUROPE

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I. Introduction

A characteristic of recent discussions of inflation is the emphasis upon the structure and operation of labor and product markets in the inflationary process. A common theme in the arguments of those who interpret the price increases of the past few years as evidence of a new-style inflation is the assertion that traditional theories of inflation stated in terms of excessive aggregate demand or too much money fail to take into account the inflationary potential inherent in the economic power of business and labor groups operating in imperfectly competitive markets. Frequently, the existence of this power is identified as an independent source or cause of inflation, producing what is labeled generally as cost-push inflation. The accompanying implication as far as public policy is concerned is that anti-inflationary action should take the form of governmental measures to limit directly the power of private economic organizations—whether business or labor—to make inflationary wage and price decisions, since, at high levels of employment, the ordinary competitive pressures of the market are judged to be insufficient to accomplish the required economic discipline.

A variety of proposals have been offered regarding the form this direct governmental intervention in wage-price setting might take. Some have been as drastic as a prohibition of collective bargaining organizations beyond the confines of a single plant or firm. Others have been as mild as the systematic use of moral suasion by public authorities in key sectors to make wage-price decisions more responsible to the public interest in noninflationary settlements. All these suggestions, however, rest upon the basic proposition that Government economic policy to control inflation cannot rely only upon general fiscal and monetary measures, that, in an economy where the Government undertakes to maintain full employment and economic growth, price stability requires increased supervision of the structure and operation of private systems of wage-price determination.

There are probably few who would dispute the validity of this proposition as stated. But there is continuing, even bitter controversy about the extent to which the Government should attempt to control levels of employment and economic growth and about the degree of direct intervention into economic processes judged necessary or desirable for successful achievement of such overall policy objectives.