living wage escalation has been made many times. It is enough for purposes of this statement to quote one leading industrialist and one outstanding economist. The late C. E. Wilson, who subsequently became Secretary of Defense under President Eisenhower, and who, as president of General Motors, pioneered with the UAW in establishing the escalator-improvement factor wage formula, was quite sure that he was not, by so doing, establishing an engine of inflation. Indeed, adressing the National Press Club on June 8, 1950, and discussing the new five-year agreement signed with the UAW he said: "The cost-of-living formula by which wages are adjusted every three months is a continuation of the same principle used in the 1948 agreement, applied in the same way. This provision protects our employees against inflation *but in itself is neither inflationary nor deflationary*, but follows what other pressures have forced on the national economy." (emphasis added)

In much the same vein he wrote in *Reader's Digest* for September 1952: "I contend that we should not say '*wage*-price spiral'. We should say 'the *price*-wage spiral'. For it is not primarily wages that push up prices. It is primarily prices that *pull* up wages." [emphasis in the original]

A much more recent defense of the escalator principle was made by one of America's great economists, Professor Alvin H. Hansen of Harvard University, in the magazine *Challenge*, November–December, 1966.

What he had to say on the subject is well worth quoting at length:

"Inflation-proof arrangements need not necessarily exert an upward push on costs. Escalator wage contracts prevent *inmmediate* wage demands based on anticipated cost-of-living increases.

"Such arrangements redistribute rather than add to aggregate income. By and large, they take income from the inflation-advantaged group and give it to the inflation-disadvantaged group. But these measures are not inflationary per se. And they will become increasingly necessary in a high-pressure, full-employment economy.

"Living, as the whole Western world does, in an age of creeping inflation, the impact of this fact upon expectations becomes obviously a crucial matter. As I have already noted, there appears to be no evidence in advanced countries that creeping inflation necessarily leads to runaway inflation. How can one account for this fact?

"In a perfectly fluid free market we should expect a rapid escalation of any inflationary movement. But the price system, fortunately, is not perfectly fluid. If it were, any movement away from equilibrium would rapidly cumulate. Not only is the system far from being fluid, it is in fact a network of contracts, partly legal and partly behavioristic. Inertia plays a big role. Any movement away from equilibrium makes headway against a sticky mass. The result, fortunately, is a lagged adjustment to change.

"What implications do these considerations have for the commonly held view that cost-of-living escalator clauses in collective bargaining contracts tend to accelerate creeping inflation? In my opinion, this view is a mistaken one.

"Take the recent abortive contract (the one turned down by the membership) between the airlines and the machinists union. Aware of the continuous, though moderate, upward trend of consumer prices throughout the past 18 years, the union demanded a cost-of-living escalator clause. The airlines stood firm against this. The union, fearful that a consumer price rise of, say, 2.5 per cent or more, might largely nullify any intended increase in real wages, demanded, and was granted, still higher wages as compensation for surrendering the escalator clause. The revised (and finally accepted) contract was far more generous than the first. It provided both higher wage rates *and* an escalator clause, and crashed right through the Administration's wage guideposts. Thus, with or without the escalator clause, the expectation of creeping inflation affected the proposed settlement.

"Higher wages, paid in *anticipation* of price increases, come immediately into play, and so at once operate to intensify inflationary pressures. *Future* wage increases, paid in accordance with an escalator clause, come *after* consumer prices have risen. Escalation validates a price increase that has already taken place, but is not the *cause* of the price increase that has already occurred.

"The lag is highly important. Stability in a market economy is largely a function of lagged adjustments. At all events, there is no escape from the perfectly reasonable demand of workers that the Consumer Price Index must somehow be taken account of in wage contracts. It makes more sense to make the adjustment *after* the event than to force the issue before the event.