

The first step in the analysis tries to reconstruct how average wages (straight time hourly earnings) in manufacturing would have behaved during recent years in the absence of guideposts; that is, how postwar wage history would have led us to expect wages to behave under the economic conditions that prevailed. The actual course of wages during the guidepost years is then compared with this expected course to see if any change has occurred.

The expected course of wages is reconstructed using four determinants of wage changes whose significance and relative importance had been estimated econometrically with data for the 1947 to 1960 period. These determinants were the unemployment rate, the percentage change in the consumer price index, the rate of profit on equity capital in manufacturing, and the change in this profit rate. Together they explained the percentage change in straight time hourly wages in manufacturing quite well over the period. Estimates of their impact showed wages rose more rapidly the lower the unemployment rate, the higher the profit rate, the larger the increase in profit rates and the larger past increases in living costs. The actual equation estimated between these determinants and wage changes is given in table 1. A similar equation based on just the 1953 to 1960 period is also shown there.

TABLE 1.—ACTUAL MINUS ESTIMATED PERCENTAGE WAGE RATE CHANGES

W is the percentage change in straight time hourly earnings over the past year; C is the percentage change in the Consumer Price Index over the year; U^{-1} is the reciprocal of the percentage unemployment rate over the year; R is the average profit rate in manufacturing over the year (after tax profits as a percentage of equity); ΔR is the quarterly 1st difference in R ; standard errors of coefficient estimates appear in parentheses]

Year and quarter	From 1947 to 1960 equation ¹	From 1953 to 1960 equation ²
1962 1st.....	0.84	0.74
2d.....	.07	.08
3d.....	-.52	-.59
4th.....	-.71	-.71
1963 1st.....	-.97	-.96
2d.....	-.37	-.48
3d.....	-.19	-.22
4th.....	-.18	-.31
1964 1st.....	-.27	-.53
2d.....	-.77	-.97
3d.....	-.73	-.95
4th.....	-1.72	-1.77
1965 1st.....	-1.68	-1.82
2d.....	-1.63	-1.75
3d.....	-2.11	-2.35
4th.....	-1.61	-1.89
1966 1st.....	-2.36	-2.68
2d.....	-2.75	-3.27
3d.....	-2.63	-3.22
4th.....	-2.89	-3.10
1967 1st.....	-1.55	-2.18
2d.....	-.94	-2.18
3d.....	-.51	-.88
4th.....		

¹ See the following equation:

$$W_t = -4.313 + 0.367C_{t-1} + 14.711U_{t-1}^{-1} + 0.424R_{t-1} + 0.792\Delta R_t, R^2=0.88$$

(0.054) (2.188) (0.068) (0.176)

² See the following equation:

$$W_t = -4.712 + 0.680C_{t-1} + 18.421U_{t-1}^{-1} + 0.360R_{t-1} + 1.244\Delta R_t, R^2=0.80$$

(0.132) (3.050) (0.120) (0.300)

For the first couple of years after 1960, no systematic error was apparent in the predictions of wage changes given by the historic equations. After the guideposts were introduced in 1962, however,