

$$\dot{W}_t = -4.313 + 0.367\dot{C}_{t-1} + 14.711U_t^{-1} + 0.424R_{t-1} + 0.792\Delta R_t, \quad R^2 = .88,$$

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

where

$\dot{W}$ is the percentage change in straight time hourly earnings over the past year

$\dot{C}$ 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 first difference in R .

For the period starting with the first quarter of 1962, the differences between actual and estimated values of $\dot{W}$ are given in the left column of Table 1 below. The right column gives the same differences based on a similar equation covering only the quarters from 1953 to 1960.¹

The pattern of forecast errors coincides so beautifully with guideposts that the burden of proof regarding their effectiveness would, at least, seem to have shifted a bit. A dummy variable would clearly be significant, more so if it reflected the increasing urgency with which the Administration has embraced guideposts as the years passed and the unemployment rate fell. The historical residuals from the wage equation give no basis for expecting this result. While residuals show some autocorrelation,² during the 1948 to 1960 period the longest run of residuals with the same sign was 6 quarters compared with the 15 successive negative quarters shown in Table 1. Furthermore, there was no suggestion of a negative trend in the wage change variable; if anything, the contrary might have been suspected. Before the run shown in Table 1, the equation had underpredicted wage changes most of the time since 1958 [1, p. 77]. The possibility of a longer trend was checked by using the equation for 1953–1960 to predict the wage changes of the preceding years, 1948 to 1953.³ The equation overpredicted wage changes by an average of 0.84 percentage points [1, p. 75]; underprediction would have been expected if the present results for recent years were the result of a long-term trend.

I find these results highly suggestive. But any good skeptic could suggest plausible reasons other than guideposts for them too. So I have looked for some further evidence from other data.

The best approach is suggested by the criticism that the guideposts are (necessarily) enforced unevenly, some industries and bargains being specially subject to their pressure because they are highly visible. Visibility enters in both because it is infeasible to police every small wage settlement

¹ In this case the equation was

$$\dot{W}_t = -4.712 + 0.680\dot{C}_{t-1} + 18.421U_t^{-1} + 0.360R_{t-1} + 1.244\Delta R_t, \quad R^2 = 0.80.$$

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

² The Durbin-Watson statistic is 1.2 for the wage equation shown.

³ Such a check was suggested by the referee of this paper.