

where a bar over a variable now indicates the manufacturing average. If nothing changed this relation between the periods we are considering, we could compute the ratios as before, eliminate the unknown a_i 's, and expect a relation of the form

$$R_i^W - \frac{\bar{R}^W}{\bar{R}^E} R_i^E = 0$$

However under the guideposts hypothesis being tested, for visible industries we would expect

$$R_i^W - \frac{\bar{R}^W}{\bar{R}^E} R_i^E = d_i > 0$$

since $\bar{R}^W$ is increased less by guideposts than R_i^W ; and for invisible industries we would expect

$$R_i^W - \frac{\bar{R}^W}{\bar{R}^E} R_i^E = d_i < 0$$

since $\bar{R}^W$ is increased more than R_i^W . Thus letting d_V be the expected d_i for visibles and d_I the expected d_i for invisibles, we hypothesize $d_V > d_I$ and, in the strongest form of the test, $d_V > 0$ and $d_I < 0$.

Because the total manufacturing ratios, $\bar{R}^W$ and $\bar{R}^E$, are not merely averages of the R_i^W and R_i^E for the individual industries used here (and because other things may have changed in the relation besides guideposts), the strongest test, requiring both $d_V > 0$ and $d_I < 0$ may well fail for extraneous reasons.⁴ However the weaker test, $d_V > d_I$, should be met if the effectiveness of guideposts can be identified by the differential wage behavior in visible and invisible industries.

Table 4 lists the d_i 's for the individual industries and for the visible and invisible industry subgroups. The hypothesis $d_V > d_I$ is accepted with various levels of confidence for the different subperiods, the one per cent level being reached for the three-year spans if the ordnance and accessories industry is excluded. Guideposts do seem to have slowed wage changes in visible industries relative to invisible industries to a significant degree.

Many questions remain. Accepting all the above results, have guideposts been desirable on balance? Generally we dislike measures that distort relative prices; but what if visible industries in the past distorted wages as markets tightened with the balance ultimately restored at the cost of inflation? And a final caveat. We cannot prove that only guideposts could have caused the wage behavior observed. In particular, my colleague Carlos Diaz suspects that growing import competition may have been as important, an interesting conjecture but hard to test.⁵ On the present evidence, I feel one

⁴ In fact $d_V > 0$ does fail significance tests; $d_I < 0$ is significant at the 1 per cent level using the three-year spans.

⁵ In a study on the guideposts which he is preparing for the Brookings Institution, John Sheahan considers this conjecture and tentatively rejects it.