

"When demand outruns the growth of productive resources, prices and wages will rise even in the most highly competitive markets. (Indeed, they may rise faster and farther than where large firms and long-term labor contracts give some degree of stability.) That kind of 'demand-pull' inflation can be held in check by fiscal and monetary policies which keep demand in line with productive capabilities. If labor markets are efficient, control of demand-pull inflation will not require restraints on demand that would lead to a high unemployment rate.

"But businesses and unions can push prices up even when resources are not fully utilized. That kind of 'cost-push' inflation, too, can be controlled by lowering demand, but only at the cost of an unacceptable degree of economic slack. * * *" ²⁰

What the Council seems to have said here is that except in very tight labor markets, when wages in the unorganized sector rise spontaneously (and perhaps even faster than collectively bargained wages), the leadership comes from the organized sector. Save for such "demand-pull" situations, the limitation of wage increases to the general rise in productivity (and hence their compatibility with price stability) depends on restraint in that sector. "Cost-push" wage inflation is a phenomenon of collective bargaining.

So much for theoretical *opinions* on the issue. We turn now to the second part of our inquiry, the nature of the *statistical evidence*.

B. STATISTICAL EVIDENCE

While the leadership of collectively bargained wages (except in the case of "demand-pull" inflation) is a plausible hypothesis, it is not easy to prove statistically.

In part this is due to lack of data. There are no comprehensive historical series for union and nonunion wages as such; all we can do is classify *industries* as heavily unionized or lightly unionized and compare the wage movements of *all* workers employed therein. The first group includes mining, manufacturing, construction, transportation, and public utilities, with over 85 percent of all union members (exclusive of Government) and an average unionization ratio of 55 percent; the second, trade, services, finance, insurance, and real estate, with less than 15 percent of all union members and an average ratio under 10 percent. The chart on the preceding page gives the picture for the postwar period.

This shows clearly (1) a consistent and substantial lead of the heavily organized industries during the early postwar years (through 1952); (2) an extended period thereafter (1953 through 1964) when gains in the two areas were generally similar; and (3) a recent period (1965-68) when the lightly organized sector made the larger gains.

The recent period

The recent period is of special importance for the theory of union wage leadership, for it is the one in which the currently troublesome inflationary pressures have developed. It may be well, therefore, to take a closer look at it.

²⁰ *Economic Report*, 1967, p. 119.