

Next a couple from the Eisenhower period:

"Business and labor leadership have the responsibility to reach agreements on wages and other labor benefits that are fair to the rest of the community as well as to those persons immediately involved. Negotiated wage increases and benefits should be consistent with productivity prospects and with the maintenance of a stable dollar. And businesses must recognize the broad public interest in the prices set on their products and services."³⁰

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"Business managements must recognize that price increases that are unwarranted by costs, or that attempt to recapture investment outlays too quickly, not only lower the buying power of the dollar, but also may be self-defeating by causing a restriction of markets, lower output, and a narrowing of the return on capital investment. The leadership of labor must recognize that wage increases that go beyond overall productivity gains are inconsistent with stable prices, and that the resumption of economic growth can be slowed by wage increases that involve either higher prices or a further narrowing of the margin between prices and costs."³¹

The guideposts

We have been savoring a series of pious homilies, moralistic in tone and vague in content. This approach was changed in 1962 with the promulgation of the now-famous "guideposts." These sharpened the criteria of acceptable wage and price behavior and added a new feature, selective intervention by the Government to induce compliance. The official formulation (by the Council of Economic Advisers) is as follows:

"1. The general guidepost for wages is that the annual rate of increase of total employee compensation (wages and fringe benefits) per man-hour worked should equal the national trend rate of increase in output per man-hour.

"2. The general guidepost for prices is that prices should remain stable in those industries where the increase of productivity equals the national trend; that prices can appropriately rise in those industries where the increase of productivity is smaller than the national trend; and that prices should fall in those industries where the increase of productivity exceeds the national trend."³²

The Council explained that these rules are subject to exception in certain cases:

"Wage increases above the general guideposts may be desirable (1) where wage rates are inadequate for an industry to attract its share of the labor force necessary to meet the demands for its products; (2) where wages are particularly low—that is, near the bottom of the economy's wage scales; or (3) where changes in work rules create large gains in productivity and substantial human costs requiring special adjustment of compensation."

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³⁰ Economic Report, 1957, p. 3.

³¹ Economic Report, 1958, p. v.

³² Economic Report, 1966, pp. 89-90. This is a "restatement" of the original formulation of 1962.