A Test for the Presence of Cost Inflation in the United States 1955-57

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Many economists maintain that labor unions in this country have exerted increasing pressure upon wage costs and prices, and between 1955 and 1957 this pressure resulted in a wage push or cost inflation. In this essay empirical methods are proposed and applied in an effort to determine whether there was any more wage push during the 1955-57 inflation than in the earlier postwar inflations.

I. The Meaning of Cost Inflation and the Wage-Push Question

Before the empirical analysis is considered, the difference we see them, between traditional demand-pull inflation and wage-push inflation will be examined. These questions of definition are interesting in their own right, and with some definitions in hand the scope of this study can be more clearly set forth.

A. Operational Definitions

The cost inflation hypotheses and the demand inflation hypotheses are meaningful alternatives only if they carry different implications for the behavior of the economy, under hypothetical conditions if not in practice. What difference does it make for the rate of growth, unemployment, and other variables of economic significance if we have a 4 per cent rate of cost inflation or a 4 per cent rate of demand inflation? What does the type of inflation experienced have upon the effects of fiscal, monetary, commercial and antitrust policies, any of which might be employed to combat inflation or achieve other important goals? If the answers to these questions were that it made no difference, then the hypotheses are not be substantive alternatives. We could fairly say, in this event, that every inflation in history has been a "demand inflation" or a "cost inflation," whichever term we prefer.

To demonstrate that any proposition is potentially refutable, thus operationally meaningful, requires the adoption of some model or theory from which it may be deduced how the world would differ were the proposition true. Our models of cost inflation and demand inflation are not explanatory of present conditions but rather, are devices to test empirically the cost inflation hypothesis.