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Volume Author/Editor: Daniel Creamer, assisted by Martin Bernstein

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Chapter Author: Daniel Creamer, Martin Bernstein

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in 3 of the 4 full cycles. In short, there was usually less adjustment in the price of labor than in the price of factory output.

To explore the implications of these differences for business cycle analysis calls for a broader and deeper framework than is appropriate for this Paper.

8 *Average Hourly Earnings in a Postwar Contraction*

From our analysis of the two decades between World War I and II we turn to the brief period following World War II. In this period there has been at least one contraction in general business—in 1948-49.[23] Factory production reached a peak in October 1948 and declined 17 percent to a low in July 1949; factory employment declined 13.5 percent between its high point of January 1948 and its low of November 1949.[24] Average hourly earnings, on the other hand, did not have any sustained decline, remaining, with negligible deviations, upon the plateau they entered in the last quarter of 1948 until the fourth quarter of 1949.

AVERAGE HOURLY EARNINGS, PRODUCTION AND NONSUPERVISORY WORKERS, ALL MANUFACTURING INDUSTRIES

	1948	*1949*	*1950*
January	$1.302	$1.405	$1.418
February	1.308	1.401	1.420
March	1.310	1.400	1.423
April	1.314	1.401	1.434
May	1.324	1.401	1.441
June	1.340	1.405	
July	1.356	1.408	
August	1.373	1.399	
September	1.386	1.407	
October	1.390	1.392	
November	1.397	1.392	
December	1.400	1.408	

Source: *Monthly Labor Review.*

If in measuring average hourly earnings we could take account of the growing importance of 'fringe benefits,' the plateau would probably be replaced by a gently upward slope (App. C). The decline in general business, however, continued only about 9 months, a period that just about equals the average lag of average hourly earnings behind turns in general business (Table 1). Factory employ-

[23] There is some indication of a contraction in 1945-46. We pass over that period because the cyclical movements are ambiguous and their interpretation uncertain owing to continued enforcement of price and other controls.

[24] Based on seasonally adjusted indexes of factory production and employment published in the *Federal Reserve Bulletin.*

ment declined 22 months, a period that greatly exceeds the average lag of average hourly earnings behind turns in employment, although the rate of decrease during 1948 was slight. However, it must be borne in mind that wholesale prices of manufactured goods declined only moderately, 10 percent, during this recession in general business.

Did the movement of average hourly earnings during 1948-49 conform to the prewar pattern? As a partial answer we present the relative declines in average hourly earnings, factory production, and factory employment during contractions beginning with the 1920-21 depression (Table 6). The severe contraction of factory production and employment in 1920-21 was short-lived. The corresponding adjustment in average hourly earnings, though belated, was swift (see Sec. 3). The 1923-24 contraction in employment and production was moderate, yet the decline in average hourly earnings did not exceed 1.5 percent of the peak value and the same rigidity of wage rates accompanied the minor contraction of 1926-27. In the Great Depression the relative decreases in factory production and employment exceeded the comparable decreases in the 1920-21 depression by a half and a third respectively. The relative reduction in average hourly earnings, however, was roughly of the same order of magnitude as in 1920-21 although the earlier contraction lasted 21 months and the Great Depression 38 months. The reaction of average hourly earnings was sluggish in the 1937-38 contraction also. The downward adjustment did not exceed 1 percent, although the curtailment of production and employment was about as sharp and extensive, relatively, as in the 1920-21 depression.

Table 6

Average Hourly Earnings, Employment, and Production All Manufacturing Industries, Relative Declines in Specific Cycle Contractions, 1920-1949

Approxmiate date of contraction	Percentage decline from peak to trough: Average hourly earnings	Employment	Production
1920-21	—21.6	—31.0	—35.4
1923-24	—1.4	—13.7	—18.9
1926-27	—0.9	—5.3	—6.2
1929-33	—24.2	—42.9	—55.7
1937-38	—1.0	—23.1	—35.8
1948-49	negligible	—13.5	—16.8

As we have already noted, the downward adjustment in average hourly earnings during the postwar contraction of 1948-49 was scarcely perceptible despite fairly substantial declines in factory production and employment, declines about equal to those of the contraction of 1923-24. This postwar experience, therefore, is similar to the prewar trend toward greater rigidity of wage rates in business contractions, although to generalize on the basis of a period so brief and current is hazardous at best.

Appendix A

Wage Rate Indexes, with Notes on their Construction, and Average Hourly Earnings in Manufacturing, United States

Wage rate indexes for 9 manufacturing industries from 1919 to 1931 and, in the case of all manufactures, to 1935, are constructed from data published by the Bureau of Labor Statistics in its *Monthly Labor Review*. Between August 1931 and July 1935, when this series was discontinued, data on the percentage change in wage rates for all manufactures only were available.

From 1919 to June 1922 the BLS presented changes in wage rate schedules in narrative form. The following excerpt selected at random is typical (*Monthly Labor Review,* XIV, 3, March 1922, pp. 121-2):

"During the period December 15, 1921 to January 15, 1922 there were wage changes made by some of the establishments in 10 of the 14 industries.

Iron and steel—an increase of 1½ percent was granted to 64 percent of the men in one plant. A reduction of 19 percent was made to 4 percent of the force in one mill, while another mill reduced the wages of 45 percent of the employees 15 percent. Twelve plants reported a decrease of 10 percent affecting all employees. . . ."

The same information was published in tabular form from June 1922 to March 1923. Thereafter until August 1931 the tables included information on the percentage of workers affected by changes in wage rates. Our table, showing the BLS column headings, contains hypothetical data to illustrate our computation. The essential information for the construction of an index of wage rates is given in columns 4 and 7. Thus for industry A the weighted average per-