# DETERMINANTS OF WAGE INCREASES AND INFLATION IN THE USA (1955—1972)

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One of the most persistent, pervasive and troubling aspects of all advanced economies in recent years has been the problem of inflation. In the United States, the current, seemingly unmanageable, escalation of wages and prices has become disturbing enough to have become a major political issue and to have elicited for the first time in peacetime history direct government controls on wages and prices. For economists, the current inflation has been particularly unsettling--for the disheartening failures to predict, control, or even to agree after the fact on any explanation as to the basic causes of the new inflation has cast serious doubt as to the validity and usefulness of economic theory.

This paper proposes a new approach to the theory of inflation, and validates this theory against 18 years of U.S. history. Variations in the growth rate of money wages are explained as being due principally to changes in the relative scarcity of labor as measured by the average duration of job vacancies--with the long term trend depending importantly on the growth rate of productivity. A theory is developed which success-fully predicts the wage rate over 18 years to within two percent.