

General Discussion of 'Wage-Price Spirals: What is the Historical Evidence?'

The session commenced with a discussion of how wage-price spirals should be defined. One participant suggested that it should specifically refer to episodes where nominal wage growth caused price inflation to increase. Other participants were more comfortable with a broader definition that encompassed any situation where wages and prices were rising at the same time over a sustained period (i.e. the causal effect of one variable on the other need not be readily identified).

The presentation had described the typical trajectory of a large sample of wage-price spirals in recent decades. It was noted that it would be valuable to understand the underlying mechanisms driving those episodes, particularly initial and responsive monetary and fiscal policy settings. It was quite possible that wages and prices rising at the same time might both be driven by some other factor. One participant cautioned that it was sometimes difficult to assign causality in this case as well; for example, there was some historical evidence that interest rates had tended to rise during inflationary episodes, but it was not always the case that this could be ascribed to a monetary policy response.

The discussion progressed to the importance of understanding country-specific factors that drive wage-price dynamics and how these evolve over time. Participants generally agreed that the evolution of the industrial relations landscape (such as rules governing enterprise bargaining, administered wage setting and industrial disputes) was likely to strongly influence feedback mechanisms between wages and prices. Participants also noted that the starting point of a given country prior to a wage-price spiral breaking out was important; for example, whether the country had been operating closer or farther from full capacity and how tight the labour market had been. Other important country-specific factors might include: the level of income support and savings buffers, as these might impact the ability of some workers to bargain for wages; and the prevalence of job mobility across sectors, which would influence whether wage pressures in one sector of the economy were likely to spill over to others.