

Studies by George Perry tend to indicate that, at rates of productivity increase and profits experienced by the American economy during the period since World War II, price increases above those assumed here would accompany the reduction of unemployment to 3 percent.¹³ However, since completing his research, Perry has stated that, "* * * recent wage increases [and hence price increases] have been more modest than one could have predicted from past experience with any of the equations estimated here, or almost certainly with any equation of this general type."¹⁴

During the past year, the increase in the generally used measures of the aggregate price level has been more rapid than can be inferred from Perry's remarks. A number of factors may help to explain the differences.

For example, a part of the current rapid rise in the price level is due to relatively temporary special conditions relating to farm products rather than to demand-pull market conditions. Also, a substantial portion of the price rise is resulting from the sharp acceleration in defense procurement—defense contracts and other "obligations" were one-third higher in the fiscal year 1966 compared to the previous year. The abrupt and substantial shift in resources which this action requires gives rise to wage and other cost increases which would not be present in the period of stable growth envisioned in these projections.

More fundamentally, education, training, and retraining programs are likely to make possible higher labor utilization rates than in the past without generating substantial inflationary pressures.

In general terms the methods which have been used to deal with inflationary questions include: (1) indirect Government actions (fiscal and monetary policies); (2) direct wage and/or price controls; and (3) appeals for wage and price restraints to labor and management alike. Experiences in 1966 seem to indicate that voluntary compliance with wage-price guidelines is more readily secured during a period of price stability than during times of substantial inflation.

Perhaps one of the obstacles to a better understanding of inflation is the differential effects on various groups of the population, indeed the same individual may be affected differently in his various roles as worker, consumer, and investor. For example, as shown in table 13, an individual—in his role as a consumer—may be hurt by inflation as he sees the purchasing power of his money reduced. However, the same individual—as an employee—may find that he is benefited, or at least not hurt, by inflation as his wage payment and other income increase at the same rate, or faster, than the aggregate price level. Simultaneously, as an investor he might be hurt or benefited by a general rise in the price level, depending on whether he has fixed or fluctuating value investments.

¹³ George Perry, "The Determinants of Wage Rate Changes and the Inflation-Unemployment Tradeoff for the United States," *Review of Economic Studies*, October 1964 and "Unemployment, Money Wage Rates and Inflation," MIT Press, 1966.

¹⁴ Perry, *op. cit.*, p. VII.