And so last year the Council was looking forward with some pride to reduction in unemployment to 3¾ percent by the end of 1966.

Now the Council has retreated to 4 percent unemployment, expressing like the 1962 Council Report the hope and faith that manpower programs will someday clear the way for further progress. Obviously, the Council was chastened by the 1966 inflation. They say now:

> The experience of 1966 clearly suggests that expanding demand cannot lower the unemployment rate much below the present level without bringing an unacceptable rate of price increase.

The language of the report indicates a greater willingness to accept the risks of a rise in unemployment above 4 percent than those of a rise in prices above 2½ percent yearly. The President said, for example, in his report:

> We *need* no further slow-down; we can *tolerate* no new spurt of demand. [Emphasis added.]

The difference between "need" and "tolerate" is what I was calling attention to. I find this position difficult to reconcile with the Council's own convincing argument that the 1966 inflation was not due so much to the low level of unemployment as to the rapidity with which unemployment was reduced last winter. That is, it wasn't so much that we had unemployment around 4 percent as that we got the 4 percent very, very fast in the winter of 1965–66. They concluded, and I would be inclined to agree, that maintenance and gradual reduction of low unemployment rates need not cause continuing inflation at the rates which were experienced in 1966. Indeed, price pressures did ease in the second half of 1966, even though the unemployment rate remained low, as soon as the pace of the expansion of demand diminished.

I believe quite strongly that further tightening of the labor market can bring considerable economic and social gain, especially in the reduction of Negro unemployment, the expansion of job opportunities for youth, and further reduction of long-term unemployment.

Tightening of the labor market enlists the powerful forces of private enterprise and free markets, and on the side of the war on poverty. But if unemployment rates are allowed to rise, these forces will be working at cross-purposes with the Government's manpower and antipoverty programs.

The main risk on the other side, that is the risk of aiming at too low a rate of unemployment, is the balance of payments. The Council says that our international competitive position was not damaged by our 1966 inflation, but they fear that it might be damaged in the future. Balance-of-payments problems and policies are too large and complex a subject for me to take up now. But I would say that I don't think that the last 10 years entitle us to be optimistic that differential rates of inflation among different countries will easily correct imbalances in international payments.

If they would, our problem would have been solved long since by improvement in our competitive positions that we have gained over these 10 years by having less inflation than our European friends. But anyway, the balance-of-payments gain from a cautious employment policy seems to me too elusive and too speculative to be a decisive consideration.