percent growth and 4-percent unemployment—close to 4-percent unemployment—without unacceptable inflationary pressures.

I think you are first, or one of the first economists, who has indicated that. And at the same time, you couple this with what I think is a very realistic analysis of our present economic condition; that is, you say it is quite soft and we have to be concerned about it. You oppose a tax increase for this reason.

I would like to call your attention to the fact that the latest Economic Indicators which I just got a minute ago show that in October we had consumer prices at 114.5; November, 114.6; December, 114.7; January, 114.7. Wholesale prices were 106.2 in October, they are 106.2 now. You have referred to the various indicators that are soft. We have unemployment now at 3.7 percent, and we have had unemployment on a stable basis for more than a year. It has been much lower in Europe; it has been much lower in the past in the United States without much inflation—1953 is a good example.

Why do you feel that we can't press a little lower without unacceptable inflation?

Mr. WALLICH. This puts one in a position of seeming to be antisocial and I hope I am not. I don't believe the present lull in prices will last. It is the result of a previous spurt. The demand-pull I think is largely off. We are moving into the phase of the cost-push.

The Council expects 2.5 price increase. I would think we would be lucky to get away with that. Three percent seems more plausible. I base this simply on the assumption that we are going to have 5 to 6 percent wage increases, namely, the normal productivity gains which may well be less in a year of economic flattering out, plus something like the price increase. So we will have 3-percent productivity or less, plus 3-percent price increase, hence wage increase 6-percent. I don't see how that can fail to push prices up some.

Chairman PROXMIRE. But in a cost-push situation, you are arguing that we have to be careful about having excessive demand exert a pressure on prices. You see, it is beyond me to understand how an analysis of the 1966 situation can come to any kind of firm conclusion that we can't get unemployment down much below 4 percent without unacceptable inflationary pressures, in view of the nature of the price increases.

Food was responsible for a great deal of it. Services, and one-third of the increase in services was because of increased mortgage interest cost. Medical costs were another aspect not susceptible to monetary-fiscal restraints. I submit that none of these are very sensitive to the knd of fiscal or monetary policy that would damp down demand, and within the cost-push situation it would seem to me that the argument would be weaker.

Mr. WALLICH. I think you are very sound in arguing that we need not restrain demand in 1967, and that in one reason why I would go slow on the tax increase. But as far as getting little inflation with 4-percent or less unemployment, I would like to go back to some statistics developed by Professor Samuelson and Professor Solow. They computed the trade-off between unemployment and inflation, and they found that, for the pre-World War I and for the 1920's, at something like 4 percent unemployment, we probably had approximate price stability, if my memory serves me.