the period 1949–65 there were also 14 years of economic expansion. The average price rise was 2.3 percent for these 14 years, and in only one expansion year (1955) did the price level recede. The average rise in rising years, however, was greater in the 1909–29 period than after 1949. The principal difference between these two periods seems to be the lesser frequency of any price decline at all, during expansion years, in the postwar period. The record does not seem to suggest that the price level now is prone to rise more rapidly during an economic expansion than in our earlier history. If anything it may be less so.

Our experience in the late 1950's was, of course, undeniably disturbing. From mid-1956 to mid-1958 the price-cost level was rising too rapidly, and after mid-1957 it was also a period of subnormal employment. Even that period in retrospect has its extenuating circumstances. Some of the wage adjustments that were pushing our cost level upward were the result of negotiations conducted in the ebullient climate of 1955. Moreover there was a swelling wave of inflation-mindedness. The proportion of people, for example, expecting the price level to continue rising for the long run tripled from 1953 to 1957. Here was a phenomenon of social psychology bearing perhaps some resemblance to the Salem witch hunts or the Communist hunts of the McCarthyism era. In retrospect these ground swells always seem a bit perplexing and inexplicable, but they are real and influential while they last. These expectations of inflation, the inflation-mindedness, considerably overshot the basic facts of economic life, of course, but for a time they were an important force nudging the price-cost level upward. Business response to union demands was in part reflecting these assumptions. Union demands for wage adjustments in turn were responsive to this climate. Each settlement, therefore, was followed by the higher prices that gave another thrust to the rising price level, seemingly confirming the wisdom of making decisions on the assumption that an age of inflation was ahead.

The disinflationary policies of 1957 to 1959 (except for a brief interlude from mid-November 1957 to about July 1958) were probably too severe, but they did perform the desirable function of puncturing this bubble of inflation-mindedness. And the more moderate pace of the price level in recent years dates from mid-1958—not, as all good things in economic policy are sometimes alleged to do, from January 1961.

Even so there probably is an element of the market-power phenomenon in the tendency for our price-cost level to edge higher. Since 1960 the price level has continued to drift upward at the rate of perhaps 1¼ percent per year, and costs per unit of output (in the corporate sector) have shown a comparable rise—even though unemployment averaged 5.8 percent of the labor force. Moreover, the rise in both the price level and costs per unit of output were apparently at a somewhat greater rate in 1965. This is a less impressive performance than, for example, the 1920's (1922 to 1929) when unemployment averaged about 4 percent, and the price level increased at the rate of only 0.2 percent per year.. (The average annual rate of increase in output from 1922 to 1929 of 4.7 percent was also higher than the 4.5 percent average from 1960 to 1965.)

III

What, then, are some of the elements of a price-cost policy for the Nation? Clearly this has become once more an urgent question. The economy by the latter part of last year had regained reasonably full employment, and the tolerances began to narrow sharply. Once again we are in a zone where strengthening the capability of the economy to resist inflation, always desirable, must be given even higher priority.

Measures to avoid a rise in aggregate demand that outruns the economy's productive capability are now, of course, fundamental. Whatever differences may exist about other dimensions of the price-level problem, there would be a wide measure of agreement that inflationary pressures cannot be contained in an overheated economy. The most fundamental and basic requirements for a reasonably stable price level is, therefore, fiscal and monetary policies that do not crowd demand too hard against the economy's capability to produce. This is hardly controversial, in principle, and issues of fiscal and monetary policy have already been discussed, so we can move on to other matters.

There seems to be some measure of agreement that a modern industrial nation should have a wages or incomes policy. In the 1961 O.E.E.C. study on "The Problem of Rising Prices," the panel of distinguished economists agreed that