ing for the strength and durability of the 6-year-old economic advance. This experience stands in sharp contrast to earlier postwar expansions; in those instances, sharply rising unit labor costs are generally viewed as having been important factors in stopping expansions.

The reasons for this are not difficult to identify. Rising unit labor costs, if absorbed by industry, reduce profit margins and diminish the attractiveness of new investment in plant and equipment; this curtails aggregate demand in the short run and economic growth in the long run. Rising unit labor costs can be fully passed on to customers only if Federal economic policies (fiscal and monetary) facilitate an increase in aggregate demand for the products of industry as a whole.

But this latter approach means more inflation, which not only results in the inequities noted earlier but tends to reinforce the wage-cost-price spiral and intensify the problem of stabilizing such costs. This is because the demand-pull pressures of an overheated economy are the basic cause of excessive wage settlements. Demand-pull pressures break out in inflation when labor becomes relatively scarce; additional overheating, therefore, simply adds to pressures in labor markets as business firms bid for additional workers in order to increase output and meet rising demand for their products. In addition, the accompanying rise in consumer prices encourages unions to strive for wage increases which, in addition to covering national productivity gains, offset at least in part the shrinking purchasing power of their workers' take-home dollars. Indeed, with rising consumer prices, the national productivity trend is likely to become a floor to which cost-of-living increases are added for obtaining, in labor's view, equitable wage settlements.

THE WAGE-PRICE GUIDEPOSTS

Before turning to comments on economic policies for 1967, it should be noted that the wage guideposts have proved ineffective, if not perverse, as an approach to "incomes policy" in an overheated economy. They have been largely ineffective because market pressures in a fully employed economy are simply too strong to be overcome by exhortation A perverse impact may have occurred if, as seems likely, reliance on the guideposts helped to delay the administration's shift toward economic restraint in 1965 and 1966. What may be more important in the long run is that, to be effective, wage as well as price guideposts must be implemented through some sort of de facto control such as the use (or threat of use) of Executive power. Surely this type of approach works against the strength and viability of a market economy. From a longrun standpoint, it would be far preferable to concentrate on creating an adequate and workable degree of competition in both labor and product markets.

Also important from a longrun standpoint are the efforts to reduce structural unemployment and improve the performance of labor markets in general. The Council's discussion of this problem (pages 100–113) is highly constructive. But until these longer run measures can take effect, the administration should continue to view 4-percent unemployment not only as an interim target but also as probably the lowest level to which unemployment can now be pushed without stimulating strong inflationary pressures. Experience in recent years indicates that average levels of unemployment of 4¼ to 4½ percent may be closer to the equilibrium level. To advocate recognition of