Representative GRIFFITHS. I mean hunting up all these people—those that the unemployment security people in all these States are now ignoring.

Mr. WALLICH. If by full employment, you mean that we really solve the problem of these pockets of unemployment, knowing that some European countries did and go to a one-half of 1 percent unemployment rate, then it is very clear that by trying to do the same we would go up in rapid inflation. It does not help to say, let us use fiscal policy to stop that inflation, because fiscal policy and monetary policy pull on the same string. They both work an aggregate demand.

There are no known instruments that really work that will accomplish what you would like to accomplish, short of tight controls on prices and wages. I do not believe those will work in peacetime, because it is basically the Congress that would feel the pressures to break these contracts—and I think they would be broken.

Now, there is one piece of very cold comfort. If a 2-percent unemployment rate is inflationary, we do not really have the choice of saying let us accept that inflation. If the inflation is 3 percent, let us live with it and if it is 8 pecent, let us live with it, too. There is every reason to believe that this inflation would accelerate. At a 2-percent unemployment rate, labor will not be satisfied with a real wage increase of 3 percent, which productivity permits, but they may want, let us say, 6. The economy cannot give 6 percent. If wage settlement such as are now made at a 6-percent rate, inflation will occur that reduces the nominal 6 back to a real 3 percent. When labor observes that, they will have to add that inflation into the next wage demand and will ask for a higher rate. That will give a still higher rate of inflation. In the next round thereafter, labor will again have to escalate its demand. Business, also counting on inflation, will always be willing to grant it.

Representative GRIFFITHS. Because they are escalating, too. I observed the other day one of the drug companies in this town on a 17-percent increase in sales got a 61-percent increase in profit.

Mr. WALLICH. Business can take care of itself. If labor asks for 7 percent instead of 3, business raises prices by 4. Labor asks for 11; business takes care of that by moving inflation up yet again.

Representative GRIFFITHS. Now, may I ask you, when we are talking about stability and trying to create it in the economy with monetary and fiscal controls, what we really are talking about is stabilizing it at the status quo. If you could fight your way into the economy stream, we may accept you, but we are not going to do anything under our stability policy that really puts any pressure on them to take in new people. Is that not really right?

Mr. WALLICH. The means to that, I think, are different. We have to recognize that aggregate demand policy will only carry us so far. But there is a vast range of other policies that we can pursue—job training, increasing mobility, tax incentives to business. We have not even begun to scratch the surface of what can be done to reduce the equilibrium level of unemployment.

Mr. MODIGLIANI. I would like to comment. Mr Wallich has used this sort of mysterious sentence of equilibrium level of unemployment, which is sort of economic jargon. What we ought to say is that we should at all times aim at the lowest level of unemployment that is consistent with stability, and at the same time try to lower that minimum level that is consistent with stability.