

It should be noted that even table 10 on page 97 of the CEA Report supports my thesis, at least to the extent of showing no discernable positive correlation between the unemployment rate and the amount of price inflation. For example, during January 1947 to January 1949, the average unemployment rate was 3.8 percent, while the average annual increase in consumer prices was 5.5 percent, and in wholesale prices 5.7 percent. But during September 1950 to November 1953, the average unemployment rate was much lower at 3.2 percent, while the average annual increase in consumer prices was much lower at 3.2 percent, and in wholesale prices much lower at 1.3 percent.

These trends during the past 15 years may not be entirely conclusive. But they are certainly sufficiently conclusive to torpedo the prevalent thesis, which sacrifices a higher rate of economic growth and further reductions in unemployment on the false altar of the insupportable presumption that these essential objectives, if vigorously pursued, would net more price inflation.

The trend indications that higher rates of economic growth and lower levels of unemployment are in fact anti-inflationary have not been fortuitous. There is a ready explanation for them. In an economy characterized in large measure by administered price decisions, there is a pronounced tendency to attempt to compensate for inadequate expansion of volume (i.e. low economic growth) by initiating price increases so as to increase per unit returns. This tendency is accentuated by the profit-maintenance or profit-advance targets which have now become common practice among most key enterprises of very large size. My conclusions in this direction have been strengthened, not only by general economic observation, but by more particularistic examination of relative volume-expansion and price-increase trends in many key industries during the past 15 years.

Some of the other price increases which have been most conspicuous in recent years, such as in medical care and housing costs, have no appreciable relationship to the rate of economic growth or the rate of unemployment. The usually rapid price increase in these areas have been due to deficiencies in aggregate supply and its distribution, which in turn has been due to those very deficiencies in public outlays which have been inflicted in a futile effort to stop inflation thereby.

Another reason why inadequate economic growth exerts upward pressure upon prices is this:

The most recent manifestations of rising prices, according to the Council's analysis, have been mainly of the cost-push rather than the demand-pull type. In this connection, the Council (pp. 111-116) appears almost to exonerate most of the rising industrial prices during 1967, on the ground that rising costs have resulted from the very sharp decline in productivity gains accompanied by maintenance or enlargement of customary wage-rate gains.

But why did the rate of productivity gain fall so dismally in 1967? There was no diminution in technological advance, nor in labor and managerial skills. The rate of productivity gain fell so dismally because of underutilization of employed labor, in consequence of the decline of the real economic growth rate from more than 5 percent to only 2.5 percent.