reflects the flood of imports, which usually happens when demand becomes excessive and merchandise from abroad pours in to fill the gap.

We are the victims or beneficiaries of the past with respect to the choices that are open to us as we confront this difficult problem of inflation. But our successors will be the victims or beneficiaries of what we do.

We have in this difficult situation three principal alternatives:

1. We could cut back economic expansion severely enough to stop the inflation at once, and keep it at zero until the expectation of no inflation became firmly established. This would probably cause a period of substantial unemployment.

2. We could try to continue the policies of recent years that have produced substantial and accelerating inflation—as measured by the consumer price index, 2.8 percent in 1967, 4.2 percent in 1968, and at a 5 percent rate by the final quarter of 1968. Housing would be severely affected, further serious strains would be imposed on the international economic and financial system, and profound further changes would be apt to occur in the way savers would be willing to make their funds available.

3. Our third alternative would be to embark upon a course of gradually and persistently reducing the rate of inflation and thereby generating the expectation of diminishing rates of inflation in the future.

None of these courses is free of costs or risks. We have inherited a difficult situation. There is no point to pretending that we have a way to escape from this history. However, we believe that considering the national interest in high employment, price stability, and vigorous and on-going expansion, the strategy of moving steadily and gradually to reverse the inflationary trend is indicated.

What would this do to unemployment? This is an urgent question for all concerned Americans. So long as anyone wanting work is unable to find a job, we have unfinished business. These are, however, reasons for hope that the impact would not be large. It is significant that during the last 3 years we gained little on the unemployment front for the ground that we lost on the price level. The unemployment rate was the same in 1967 as in 1966 (3.8 percent), and it was 3.6 percent in 1968; thuogh it is true, of course, that by the end of the year it was 3.3 percent. At the same time no one can assure that the distortions from 3 years of economic overheating and price inflation can be corrected with no effect on unemployment.

THE INSTRUMENTS OF ECONOMIC POLICY

The principal way by which the Government can achieve its objectives for the economy is to influence the rate of growth of total spending for goods and services. This is true whether the chosen strategy is the one we have just suggested or some other. If the objective is to slow down the rate of inflation perceptibly but gradually so as to keep unemployment low, we shall need to slow down the rate of growth of total demand gradually as the means of achieving that objective.

From time to time, in the United States and elsewhere, attempts have been made to promote the achievement of expansion and price stability by recourse to "incomes policy." Essentially this means an attempt by education, persuasion, exhortation, threats, or other means