4. *Other policies for price stability* can also contribute to the objective of reducing the inflation rate, in addition to the aggregative effects from fiscal and monetary restraint. Chapter 3 of the Annual Report of the CEA contains a discussion of the effect on price levels of wage rates, labor efficiency and mobility, utilization rates of plant capacity, and competitive pricing policies. We endorse the perceptive analysis of the Council in that discussion, and feel that the suggestions put forward by the Council deserve the careful consideration of business and labor groups as well as the Congress. Improvements in the areas described in that chapter should also be pursued in the search for price stability consistent with high levels of employment of manpower and utilization of productive capacity.

The Question of Unemployment

The Economic Report expresses the fear that "an overdose of fiscal and monetary restraint" might bring on a recession with rising unemployment and growing social unrest. The life insurance business shares the concern over the economic waste and the damage to family stability and individual dignity that would result from deliberate policies to increase unemployment as a means of halting price inflation. It is for these reasons that we urge gradual and persistent policies of restraint that will permit adjustments in production and labor markets without the violent disruptions that an economic downturn would bring.

Recent discussion of these questions has centered on the "trade-off" or choice between inflation and unemployment. According to this argument, in the short run, unemployment can be reduced to nominal levels if demand is allowed to expand rapidly, at the cost of upward pressure on wages and prices; conversely, if demand is restrained to curb inflation, unemployment may increase. In our view, this argument overlooks the fact that unsustainable growth rates lead to distortions in the economy which can bring on extremely painful downward adjustments with a steep rise in the unemployment rate. In a longer run analysis, an overheated economy that produces inflation will lead to higher unemployment in the subsequent economic downturn which follows as a corrective aftermath of unsustainable growth.

The present 3.3 percent unemployment rate represents the lowest level in recent years. However, the social consequences of even this degree of unemployment should not be ignored. A great part of the present joblessness reflects the problem of "unemployables" who lack skills or training, as well as pockets of structural unemployment in certain urban or rural poverty areas. However, this type of unemployment does not respond readily to variations in aggregate demands. The social and economic problem of the "unemployables" should be attacked through redoubled efforts to bring this group into the labor force through programs of job training and relocation. Similarly, hard-core unemployment among minority groups in urban ghetto areas should be approached not through pressing harder on total demand but through direct programs for providing new skills and new job opportunities for these workers.

It should also be recognized that inflation exacts a heavy toll on the meager living standards of the jobless and the low-income family