In a section of our policy statement whose implications we regard as most important, the Committee concludes that there is little reason to be concerned with the necessity of trading off some rate of price inflation to obtain tolerable levels of unemployment. Put in yet another way, there is no necessity for accepting a substantial permanent rise in unemployment to attain relative price stability. The analysis in the statement suggests that expanding demand from levels well below the country's potential to produce at stable prices does reduce unemployment. However, as unemployment expands, the economy begins to approach the position where increases in employment become harder and harder to achieve by simply expanding money demand. Potential workers are in the wrong location, have mismatched skills, or skills not particularly relevant to any of the existing demands for labor. Under such conditions, further increases in money demand become increasingly inefficient ways to reduce unemployment and result primarily in increases in the price level. Lasting expansion of employment beyond this "normal" level of unemployment requires specific steps to improve the efficiency of labor markets and cannot be obtained by continued expansion of demand. At the point where expanding demand leads to inflation, further increases in demand have little, if any, lasting effect on employment. Thus, there is little, if any, trade-off between inflation and employment because expanding demand to a level generating inflation brings no lasting rise in employment.

In dealing with the need for price stability, the committee states that the adverse effects of inflation on domestic economic growth, on the distribution of income and wealth, on resource allocations, and on the Nation's competitive position in the world economy are now fully evident. If policy is to be directed at price stability, it is essential that a reliable measure of price movements be the basis for measuring whether this objective is met. The Consumer Price Index is the single most reliable of the major indexes for measuring price stability, and the economy ought to aim for stability in the Consumer Price Index after allowing for inability of this index fully to reflect quality changes in goods and services produced.

The third objective, economic growth, is regarded as a prerequisite for the attainment not only of economic, but of other fundamental goals as well. With increasing levels of output, the standards of living and opportunity of the great majority of Americans rise. At the same time, an expanding economy provides the means to meet the minimum economic needs of all citizens, and to ease the stresses of a variety of current technological, social, and economic changes. For the postwar years, the measured trend rate of increase in productivity per man-hour for the private and public sectors combined has been just over 2.5 percent annually. Adding the growth trend of 1.5 percent in total man-hours worked, the annual rate of exapnsion of potential output has been about 4 percent. The Nation's economic growth objectives should be to maintain a rate of growth in productivity per man-hour at least equal to the 2.5-percent trend, and continuing attempts should be made to improve this performance.

In defining the final objective, equilibrium in the Nation's balance of payments, the committee notes that in nearly every year of the last decade the United States has experienced an annual deficit in the bal-