

inflation we have had in the United States during these 8 years has on net balance done more good or harm, and whether alternative policies which might have been devised to restrain inflation further would on net balance have done more good or harm than has resulted from avoidance of such policies. It is no answer to this criticism to say that it is difficult to make this kind of analysis, for there are many types of economic analysis which are difficult, but which nonetheless must be undertaken instead of following a course without such analysis; and *third*, they have completely misjudged the causes of recent and current inflation, and, therefore, the policies they have adopted to deal with it have both aggravated the inflation and caused other damage far more costly than the inflation itself.

It is highly desirable to consider the problem of inflation in a long-term perspective, rather than to focus excessively upon the admittedly high rate of price inflation during 1967, and especially 1968. In a matter of this kind, short of a runaway inflation which we have not had even during the past 2 years, the longer term averages are in my view far more significant and a better guide to policies addressed to the future than rather extreme aberrations from these longrun averages during a year or two. It is noteworthy that 1967 and 1968 are by no means the first time when such aberrations appeared, nor the first time when the reaction to them was excessive.

Moreover, it would be very unfair for the CEA to claim—and I do not assert that it has claimed—that its large attention to the problem of inflation arose during the past 2 years. Even during 1961–66, when we experienced unusual relative price stability, there were constant alarms about the problem of inflation, especially on the ground that it was a basic cause of our unfavorable balance-of-payments position, in that it put us at a competitive disadvantage in the international exchange of goods and services. Yet the fact of the matter was that we maintained a quite favorable balance in these categories, and our unfavorable balance was due to causes which had very little to do with the American price level, such as our international spending abroad, the flow of American capital to other countries, the withdrawal of foreign capital from the United States, and so forth. Further, some of these unfavorable developments were due to some competitive disadvantage exhibited in the overall performance of the American economy, which in turn was due to some of the repressive measures adopted for the alleged purpose of restraining inflation.

Evaluation of magnitudes of inflationary trends

The average annual increase in consumer prices in the United States was 1.7 percent during 1918–68, 1.8 percent during 1928–68, 3.1 percent during 1938–68 (affected greatly by the reflation after the Great Depression and the World War II era), 1.9 percent during 1948–68, and 1.9 percent during 1958–68. Even during 1960–68, the average annual increase in consumer prices was only 2.0 percent, and during 1960–66 it was much less than that. During 1966–68, the average annual rate was 3.5 percent, and from 1967 to 1968, it was 4.2 percent. My next chart, depicting these trends, also depicts the trends with respect to wholesale prices and industrial prices, but I am not discussing these in detail, because the conclusions I would draw from