

growth was only 0.2 percent, and unemployment averaged 5.1 percent. During 1958–60, the average annual rate of consumer price inflation fell back to 1.2 percent, while the average annual rate of real economic growth was 4.3 percent, and unemployment averaged 6 percent. During 1960–68, the average annual rate of real economic growth rose to 4.8 percent, and the average annual increase in consumer prices was only 2 percent. Unemployment averaged 4.9 percent, but was reduced greatly to 2.6 percent by 1968. During 1960–66, the average annual increase in consumer prices was only 1.6 percent, while the real rate of economic growth averaged 5.1 percent. Unemployment averaged 5.3 percent, but was reduced to 3.8 percent by 1966. During 1966–68, the average annual rate of increase in consumer prices was 3.7 percent, although the average annual rate of real economic growth fell to 3.5 percent. Unemployment averaged 3.7 percent, or almost the same as the 1966 level. The trends in wholesale prices and industrial prices are shown on the same chart, but I do not analyze them in detail because they tell basically the same story.

Certainly, these trends in the main indicate an inverse or negative rather than a positive correlation between the rate of real economic growth and the rate of price inflation. Nor do they indicate in the main that a movement toward reduction in unemployment promotes an increase in price inflation.

But it may be argued that, while a higher rate of real economic growth or a lower level of unemployment does not in itself promote inflationary tendencies, inflation is nonetheless promoted by an economy *moving to reasonably full or optimum resource use*. However, this thesis is also discredited by the trends depicted above. For example, during 1956–58, with unemployment averaging 5.1 percent, and with the sharpest recession since 1952 occurring within that period, the average annual rate of consumer price inflation of 3.1 percent was about twice as fast as the 1.6-percent average during 1960–66 when unemployment averaged 5.3 percent, or about the same. From 1966 to 1967, the price inflation was 2.8 percent, and unemployment stood at 3.8 percent.

The analysis could be further complicated, and my conclusions might be somewhat modified, by the introduction of time-lag factors and some others. But I submit that my analysis and conclusions are in the main sustainable, and most assuredly do not justify the unalloyed position of the CEA which is at times deliberately sought to generate excessive deviations from optimum real economic growth, and at least to tolerate excessive unemployment, in the pursuit of a unsustainable proposition bearing upon the relationship between price trends and these other factors.¹⁷

My thesis with respect to recent and current inflation

My own explanation of inflationary trends—which I commenced to set forth in the mid-1950's before future experience lent much further support to my position—runs as follows: In an economy characterized so largely by administered prices, and inadequate volume of real economic activity and insufficient employment, or even the clear prospect of these, tend to generate protective efforts to compensate for these

¹⁷ See again chart 16, following text.