and, for the average of prices to be stable, the movements of prices should conform to the movements of unit labor costs."[6]

That the movements of prices do conform in this fashion the Council demonstrated by the following table (for the private domestic nonfarm economy):

Period	Percentage change per year[1]	
	Unit labor cost	Index of prices
1947-53	3.0	3.2
1953-59	2.1	2.3
1959-66	1.1	1.3
1947-66	2.0	2.2

[1] Economic Report, 1968, p. 123. Labor compensation in this case includes wages, salaries, and supplements of employees, and imputed labor income of the nonfarm self-employed. The price index is the implicit gross product deflator. The periods were chosen to obtain terminal years of "relatively high employment."

The close relation between price-level and unit-labor-cost increases *over a period of years* is readily apparent. That the former have been slightly higher is explained largely by the rising tax load (Federal, State, and local) per unit of private production. While this trend continues, the unemployment rate consistent with *price* stability may be expected to average somewhat higher than the rate consistent with stable *unit labor costs*.

III. Relation Between Unemployment and Prices

We have already said enough to suggest that even if the relation of wage changes to the unemployment rate were completely regular, the relation of price-level changes to that rate would still be irregular because of two variables between wages and prices: productivity gains and nonlabor costs (including profits). But since the first relation is in fact irregular, as chart 1 attests, we have in the second the combined irregularities of both.

That the relation of the inflation rate to the unemployment rate is a rather loose one has been pointed out by the CEA:

> "The historical relationship has been neither mechanical nor precise. In some periods, the overall price level has been affected by special and erratic factors such as crop failures, shifts in foreign demand, or bottlenecks arising from a spurt of demand in one sector of the economy. Moreover the price performance of any year is influenced by cost developments arising from conditions in prior years."[7]

Notwithstanding such factors, however, the unemployment-inflation relation has been less erratic than might be supposed. Note chart 2 on the preceding page.

[6] *Economic Report*, 1968, p. 122.
[7] *Economic Report*, 1969, p. 94.