What these various observations imply is that a given overall unemployment rate represents a tighter labor market today than it did in the twenties. No doubt there is a good deal to this contention. No doubt it explains in part the apparently lower wage responsiveness of the earlier period. But it can hardly be more than a partial explanation. The gap seems too wide. If, as the figures suggest, an overall unemployment rate of 3.5 percent was then associated with a rise in the wage level of only 2 to 2.5 percent a year, and is now associated with more than 7 percent, something else must be involved than the change in the composition of unemployment.

III. Conclusion

If the foregoing observations have any validity, there is no clear, simple, and conclusive answer to the question, "How did we get that way?"

Certainly *something* has happened since the twenties to increase wage dynamism, and since the changed composition of unemployment appears to be only a partial explanation, we are thrown back on the theory discussed earlier, that the principal factor is the increased prevalence of collective bargaining and in the postwar era and the altered pattern of labor-market behavior and expectations that it has developed. In view, however, of the inconclusiveness of the statistical evidence of union wage leadership since 1952, and the impossibility of arriving at a judgmental consensus on just *how* important the effect of collective bargaining has been, it is pertinent to ask why the issue has to be resolved at all. Is it essential for the purpose of anti-inflation policy?

We shall anticipate the results of later discussion by saying that in our opinion the answer to this question is negative. It is *not* necessary, in coping with our present predicament, to determine the precise role of collective bargaining in wage dynamism. Over the long run, it may be important, but for the near term *the remedy is the same whether that role is great or small.*

Chapter 3

SALVATION BY EXHORTATION

Whatever the causes of the wage dynamism that now afflicts the American economy, few will deny that so long as it persists we confront the painful trade-off between unemployment and inflation described earlier. This raises with great urgency the question whether, and by what means, the terms of the trade-off can be improved. How can we reduce the responsiveness of labor compensation to low unemployment rates?

Controls

There is one approach to the solution of this problem that we shall not even discuss: direct controls. Anyone who thinks that general wage and price controls (price control is inevitably wedded to wage control for political, if not for economic, reasons) can be successfully maintained in time of peace must go elsewhere for enlightenment. On this point we agree fully with the Council of Economic Advisers: