> constant and there was obvious slack in the economy, consumer prices rose between 1 and 1½ percent each year. Such a moderate rate of price increase, however, does not represent a significant erosion in the purchasing power of the consumer's dollar. This is especially true because improvements in quality and the introduction of new goods add to consumption opportunities even when they are not fully reflected in price indexes as reductions in prices."[60]

This appears to be more in the nature of a reluctant acknowledgment that a zero-change target is impracticable than an espousal of the 1–1.5-percent inflation rate for consumers' prices as a goal of policy. It was not properly a target at all.

Are targets necessary?

One argument for having two targets is that it would accomplish a clarification of the trade-off calculation. For it would permit the comparison of actuals with standards on both sides. Suppose, for example, the inflation target were 1.5 percent a year in the consumers' price index. In 1968 the rise was 4.7 percent. Unemployment, however, averaged 3.6 percent against the standard 4 percent. Obviously, by this showing the economy was farther off course with respect to inflation than with respect to unemployment, suggesting a shift of the trade off in the anti-inflationary direction.

This may have some slight value as an indication of the direction of adjustment, but it sheds little light on its amount. What it really discloses is that the targets themselves are incompatible. For increasing the unemployment rate to 4 percent would not realize the inflation target of 1.5 percent. Of what use are incompatible targets? Obviously, they leave the determination of the optimum trade off up in the air.

We pointed out earlier (p. 1074) that the outgoing Council of Economic Advisers never said in so many words what rate of inflation could be expected to accompany a 4-percent unemployment rate, although a chart displayed in its final report indicates a normal expectancy of around 3.25 percent a year.[61] Never, so far as we know, did the Council claim that this was an acceptable rate of inflation.[62] We can only conjecture whether it found 4-percent unemployment the best trade off obtainable or was restrained in the expression of other views by political inhibitions.

We conclude that it makes no sense to have incompatible unemployment and inflation targets, and that the only valid goal of policy is the optimum trade off itself.

III. The Trade-off Target

Although the statements of its various spokesmen have not been wholly consistent, it appears to be the view of the new administration that some increase in unemployment will be necessary to curb inflation. In his first press conference (January 27), President Nixon observed that, "We are considering what actions can be taken which will not cause an unacceptable rise in unemployment." In his confirmation hearings on the same day, the nominee for Chairman of the CEA, Dr.

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[60] Ibid., 1968, p. 100.
[61] Measured by the GNP deflator. Economic Report, 1969, p. 95.
[62] It once declared an inflation of 1.7 percent in wholesale prices and 3.3 percent in consumers' prices to be "clearly unacceptable." Economic Report, 1967, pp. 74, 79.