If it is true that "No conceivable increase in the gross national product would stir these backwaters"—meaning, of course, no conceivable reduction of the national unemployment rate—it is true in reverse that an increase of a point or two in that rate is not going to wreck remedial efforts.

That a low overall unemployment rate is no panacea for special situations is illustrated by the experience of the last 3 years. Although this rate averaged 3.7 percent over the period, the rate for nonwhite teenagers (16–19), which was 25.8 percent at the beginning, came down only to 22.2 percent at the end. The effectiveness of special measures, on the other hand (to which some of the reduction just cited is attributable), is shown by the decline of nonwhite teenage unemployment in "urban poverty neighborhood" from 34.3 to 27.3 percent in the course of the 1 year (from the fourth quarter of 1967 to the fourth quarter of 1968).[68]

No one will deny that a relaxation of the general labor market will make the rehabilitation of slumdwellers somewhat more difficult, but to erect this into an impassable barrier to the restraint of inflation is foolish and irresponsible. It is even of doubtful service to the slumdwellers themselves, who not only suffer from inflation, but would suffer also from the economic recession almost certain to come if it is not restrained.

B. WHAT RATE IS ACCEPTABLE?

If we reject this exaggerated obstacle to anti-inflation policy, the question remains what overall unemployment rate is "acceptable." Where, in other words, is the trade-off target?

Of high relevance to the answer is the *pattern*, or *contour*, of the lines of central tendency displayed in chart 2 above (p. 1073). Granted some degree of arbitrariness and discretion in their location, no reasonable variance can alter the central fact that they decline steeply on the left and gradually on the right. The significance of this phenomenon is obvious. At low unemployment rates, further reductions are purchased at the cost of large increases in prices, whereas at higher rates the gains come cheaper. Thus, a reduction in unemployment from 6 to 5 percent steps up the annual inflation rate by less than half a percentage point, while a reduction from 5 to 4 percent raises it by 1.5 points for the larger sample (section A) and by 1.2 for the smaller (section B). A further reduction from 4 to 3.5 percent raises it additionally by 1.2 and 1.1 points, respectively.

If these trade-off curves are anywhere near right, they pose a problem to policymakers for which there is no pleasant or easy solution. Our own view, with which we suspect most economists will agree, is that an inflation rate of 2 percent a year—measured by the GNP deflator—is the outside limit of acceptability.[69] Given this limit, the question then becomes how high a rate of unemployment is necessary to stay within it.

It is interesting to note that the CEA chart to which we referred earlier confirms the results of our own study (p. 1074) that in terms of normal expectancy the rate is between 4.5 and 5 percent. In view of the deviations of individual cases from the norm, there is no point to

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[68] U.S. Department of Labor.

[69] The Consumer Price Index deviates considerably from this measure over short periods—as it did in 1968—but in the long run conforms quite closely.