

being more precise. Somewhere within this range is the trade-off point that satisfies the stipulation.

This is not, of course, an ideal solution. An inflation rate of even 2 percent a year is deplorable, to be accepted only with the greatest reluctance. But so long as we have the present responsiveness of wages to low unemployment rates, we must, in our opinion, take something close to this figure. The unemployment rate required for a complete stabilization of the price level—over 6 percent—is politically, economically, and socially unacceptable.

Others, of course, can fix the trade off elsewhere. Thus if 3 percent a year is the inflation limit, the unemployment rate can be around 4 percent. But there is no escaping the painful choice: a gain on one side is purchased with a loss on the other.

III. UNWINDING THE BOOM

We are presently in an inflationary boom that must be cooled off by some means or other. The universal desire is to accomplish this gradually and easily simply by slowing up the growth rate of the economy until it attains a more relaxed condition. This is obviously the proper strategy, though history offers little encouragement for its success. Previous booms of comparable magnitude and character have been cooled by recessions. There are, therefore, few if any precedents to go by.

The time factor

An interesting question presented by this strategy is how long it will take to work the inflation rate down from almost 4 percent a year to the 2 percent we have characterized as the upper limit of acceptability. Basically, this is the question of how long it will take to work down the rate of increase in average hourly compensation from its recent (1968) rate of more than 7 percent a year to something under 5 percent.

Let us state the problem in a different way. Granted that an unemployment rate of 4.5 to 5 percent will hold the inflation rate at or below the 2-percent limit once the latter is attained, how long will it take, starting from where we are now, to attain that limit? This is the sum of (1) the time required for unemployment to expand from its present rate—3.3 percent—to the 4.5–5-percent range, and (2) the time required to bring down the growth of average hourly compensation from its then-attained rate to the required level. We know very little about what to expect for either of these stages. The first might require a year or more, the second considerably longer. It is obvious, in any case, that the cooling-off-without-recession strategy, if successfully executed, will involve a very slow return to the 2-percent inflation rate, and if a more exacting standard is set will require longer still.

Will it work?

Granted that the correction will be slow, it is by no means certain that it will develop as planned. As noted, earlier wage spirals have been broken by recessions, and it remains to be seen whether the present one can be eased off by the mild and gradual relaxation of the labor market contemplated in the official strategy. Such spirals tend to