

acquire a life of their own and are hard to turn around without shock treatment.

There is another point to be made in this connection. While it is understandable that the new administration should seek to minimize the rise in unemployment required to cool the boom, it is clear that to bring the inflation rate down to 2 percent is going to take more of an increase than suggested by the cautious and delicate adjectives now bandied about. A rise to the 4.5-5-percent range is more than "a little," "slight," or "modest"; in relative terms, it is an increase of more than 40 percent.

IV. LONG-RANGE IMPROVEMENT

We pointed out in the second chapter that the overresponsiveness of average hourly compensation to high employment is a fairly recent phenomenon and that it is not necessarily permanent. This appears to be the view also of the outgoing Council of Economic Advisers:

"It is not inevitable that pressures on the labor supply should begin to appear when the unemployment rate falls below 4 percent. It is not inevitable that wage increases should substantially exceed productivity gains, and that prices should begin to rise rapidly, as the economy reaches high employment. It is not inevitable that price stability should be restored only through the wasteful remedy of repeated doses of economic stagnation and high unemployment."⁷⁰

To support this thesis, the Council outlined a number of measures for the improvement of the situation, some of which relate to product markets, others to the labor market. Since we have expressed the view (p. 34) that the rise of labor costs is the heart of the inflation problem, we shall refer only to the labor-market suggestions, and then only to the extent of listing them.

- Improvement of labor mobility, through—
 - Better information on job opportunities.
 - Relocation assistance.
 - Vesting and portability of pension rights.
 - Interstate reciprocity in occupational licensing.
- Improvement of manpower training.
- Removal of discrimination in employment.
- Reduction of seasonality.
- More flexible job requirements.⁷¹

No doubt the pursuit of such measures over a period of years would reduce the extraordinary dispersion of unemployment rates by classes of workers, which we discussed earlier and displayed on page 1083. Insofar, therefore, as the responsiveness of wage rates to high employment is a result of this dispersion, the inflation problem may be relieved. You may recall, however, that we found this factor only a partial explanation of excessive wage responsiveness, and if this conclusion is correct the improvement of the composition of unemployment would be only a partial remedy.

It is interesting that the foregoing list of suggestions contains no measures to abate the market power of organized labor, which the Council has repeatedly identified as a major contributor to inflation.

⁷⁰ Economic Report, 1969, p. 121.

⁷¹ Ibid., p. 99, ff. Our arrangement.