1967

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Published In
Monetary problems of the early 1960's: review and appraisal : papers presented at the Third Annual Conference on Economic Affairs, Department of Economics, Georgia State College.

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Allan H. Meltzer

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IS SECULAR INFLATION LIKELY IN THE U. S.?

ALLAN H. MELTZER

A few years ago there was much talk in the financial press, in business periodicals, and in popular magazines about the prospect of long-run secular inflation. Much of this talk died in the United States during the early 1960's. It was replaced by talk of lagging growth rates as the rate of price increase slowed or stopped, depending upon the index chosen to measure inflation. Now that prices have risen again, a few voices have raised the old secular inflation question. Is the long-run prospect for the United States a gradual steady increase in the broad-based measures of prices? Are we likely to experience secular inflation in the U. S.?

Recent experience in the U. S. and other countries suggests that the answer to these questions is yes, most likely there will be secular inflation in the U. S. My reason for giving this answer, however, is not based on the usual charge that labor unions, profiteers, or other malefactors will push up prices. I do not believe that it is useful to talk about inflation induced by union pressure. Further, I do not know any worthwhile evidence that labor unions or business groups have produced inflation of the kind generally known as cost-push. Since I believe it is misleading to talk about cost-push inflation, I cannot look to cost-push as a likely cause of inflation.

Inflation starts as a result of government policy—not private decisions. Consumers and businessmen, workers and union leaders do not produce inflation out of thin air. Inflation is always and everywhere the consequence of government policies that pump up total expenditure. Indeed, we can simplify and say that inflation is the result of the government's monetary policy since, notwithstanding popular opinion to the contrary, there is very little evidence that government budget deficits are inflationary unless they are financed by large additions to the money supply. Or to put the point in another way, businessmen, and others, believe that budget deficits are inflationary because the deficits are financed by increases in the quantity of money. If the quantity of money increased at the
same rate without the deficit, the evidence suggests that we would experience the inflation, though not at the identical rate.

The reason that I expect inflation to occur in the United States—and elsewhere—is that there are a number of popular beliefs that will prevent governments from taking appropriate action in the future, just as they have prevented governments from taking appropriate action to control inflation in the past. Of these, one of the more important is the belief that there is a trade-off between inflation and unemployment. I will comment on that belief in some detail, noting that the argument for a trade-off is undeveloped and that evidence from several countries and from different time periods provides little support for the widely held view. Then I will discuss recent U. S. monetary policy in the light of this argument. Finally, I will conclude that secular inflation is likely because of the belief in the trade-off and because the errors that policymakers will make in the future will differ little from the errors made in the past.

The Trade-Off Between Inflation and Unemployment

The belief in a trade-off between inflation and unemployment suggests to some that policymakers can make explicit choices about the tolerable rate of inflation. The notion is that, in principle, some type of cost-benefit analysis could be applied to weigh the costs of inflation against the gain from reduced unemployment. In practice, policymakers must make the choice using less formal procedures, but the notion is conveyed clearly that a choice of this type can and should be made. In the technical literature, the arguments can be found in any one of several articles about the shape and position of the so-called Phillips’ curve.

I will argue that there is very little reason to expect a trade-off between unemployment and inflation, and very little evidence to suggest that such a trade-off exists. In fact, there appears to be much more evidence pointing in the opposite direction. If I am correct, policymakers who attempt to reduce unemployment by having just a little bit of inflation will succeed in getting the inflation but will reduce unemployment only temporarily.

Let me state my argument in more detail. Suppose we start by thinking about an economy like the U. S. economy, with real G.N.P. growing at 3 per cent per annum and some broad-based index of prices remaining unchanged so that there is no inflation. Suppose
suggests that we would expect a trade-off between inflation and unemployment explicit choices about the costs of inflation. In practice, policymakers may be more willing to accept some degree of inflation to achieve a lower unemployment rate.

Of these, one of the trade-offs is the belief that higher inflation is desirable. Policymakers may decide to accept a higher inflation rate to achieve a lower unemployment rate. This is because of the belief that higher inflation is necessary to achieve full employment. However, this belief is not widely held among policymakers.

Unemployment

Suppose we start with a broad-based index of inflation. Suppose that, under these conditions, the unemployment rate remains stable at approximately 4 per cent of the labor force. Policymakers now decide that they will trade-off a bit of unemployment for a bit of inflation and try to obtain a 3.5 per cent unemployment rate by permitting the broad-based price index to rise by 2 per cent a year. To accomplish this, they increase aggregate demand; for example, they raise the growth rate of the money supply by 2 per cent. The initial effect of increased demand on employment and output is exactly as expected. Initially, there is very little effect on the price level. Since the increase in aggregate demand is spread over a large number of commodities, individual sellers cannot be certain whether they are faced with a temporary change arising from their own competitive efforts or the more pervasive effect of expansionist government policy. For them, the two are intertwined and mixed up with the random changes that all producers experience. Once it becomes apparent that the increase in demand is systematic, output expands, the demand for labor increases, prices and wages rise in the now familiar pattern.

Once this process gets underway, consumers and businessmen are confronted with announcements of rising prices much more frequently than they were in the past. Where price changes had been less frequent and more or less evenly distributed between revisions upward and downward, announcements of price increases tend to exceed announcements of price reductions. Others are led to examine the prices they charge for the goods or services they sell and to question whether their prices should be adjusted upward.

The process I have described is one part of the familiar process by which an economy adjusts to an increase in the growth rate of money. A more subtle process, however, accompanies the price adjustment: businessmen and consumers learn to expect price increases. Each new announcement of an increase reinforces those expectations. Where the prevailing belief at the margin was that there would be no inflation, there is now an expectation that prices will rise in the future. The expectation of inflation has supplanted the expectation of price stability.

Individuals and businessmen attempt to protect themselves against the consequences of inflation or to profit from those consequences. They sell bonds and spend money balances to reduce their holdings of claims fixed in terms of money. They seek to borrow to increase their liabilities fixed in terms of money. They switch, at the margin, from assets with face values fixed in terms of money to assets whose
prices will rise with the general price level under the impact of inflation.

All these responses can be summarized by saying that the market rate of interest rises as a result of the expectation of future inflation. Once the market rate of interest rises by an amount equal to the expected rate of change of prices, there is no longer any stimulus to employment if the expected rate of inflation is maintained. To keep the increase in employment induced by the increase in the growth rate of money posited at the outset of this example, the rate of inflation must increase. Maintaining the expected rate of inflation will not maintain the increased demand for labor.

There are a number of ways in which I can state this conclusion to bring out the main points. I will try several:

First, the argument says that the trade-off between inflation and unemployment is not durable. The reduction in the unemployment rate vanishes as soon as the public, at the margin, anticipates the rate at which prices are expected to rise.

Second, the argument says that if the rate of expansion of money (or, if you prefer, of monetary and fiscal policy variables) is maintained at the higher level, the country gets the inflation as a permanent feature but does not reduce the unemployment rate permanently.

Third, the argument says that unanticipated inflation is a tax on wealth. Unanticipated inflation transfers wealth from creditors to debtors. Once the creditors take protective action, there is no longer a gain to debtors from the inflation.

In short, the rise in employment resulting from government policies that pump up aggregate demand cannot be maintained with a steady rate of inflation. However, the contrary belief seems so widespread that it is a main reason for expecting inflation in the future.

Once the economy has adjusted to a 2 per cent inflation, policymakers desirous of maintaining employment must accelerate aggregate demand. In my example, they must increase the growth rate of the money supply. If the higher rate of monetary growth is unanticipated, the unemployment rate is reduced once again. But, again, the rise in employment or reduction in unemployment cannot be maintained without moving to a still higher rate of growth in the money supply and a higher rate of inflation. Each new attempt to force the unemployment rate down by raising the growth rate of money increases the rate of inflation.

Most developed countries can, indeed do, stop inflation before it accelerates. The point of my argument is that if the country is
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committed to a policy of limiting the rate of inflation, there is no
point in choosing a rate of inflation other than a zero rate. Or, to
put the point more directly, there is no gain from having inflation
at all.

Some Evidence

Let us look at various sources of evidence for this proposition.
Consider a country that has experienced a substantial inflation. There
are many countries that one might choose for this purpose. If there
is a trade-off between inflation and growth of real output, we would
expect high rates of inflation to be accompanied by higher rates
of growth in the same country at different points of time. In general,
growth rates of output and rates of inflation are not closely related.
In fact, such countries provide an important additional source of
evidence. When the growth rate of money is reduced, and the rate
of inflation is slowed, the initial effect is almost always a rise in
unemployment. Once the economy has adjusted to the new rate of
monetary expansion, output and industrial production rise and un-
employment is reduced. For example, a reduction in the growth rate
of money that lowers the rate of price increases from 75 per cent
to 50 per cent per annum brings a reduction in output and employ-
ment even though the growth rate of the money supply remains
extremely inflationary. Once the public becomes adjusted to the
slower rate of inflation, output and employment rise and unemploy-
ment falls to about its former level. Additional attempts to reduce
inflation—say from 50 per cent to 25 per cent per annum—have
similar effects on unemployment.

Another example is much closer to home. A few years ago, the
Canadian and U. S. unemployment rates were approximately the
same, slightly lower in Canada than in the U. S. During the two
years from mid-1964 to mid-1966, the Canadian money supply in-
creased about twice as fast as the U. S. money supply, approximately
12 per cent per annum in Canada, on the average. The unemploy-
ment rate in Canada dropped well below the U. S. unemployment rate
and reached a level of 3.4 per cent in the fourth quarter of 1965, while
the U. S. rate was almost 1 percentage point higher. Canadian un-
employment then began to rise despite higher average rate of
monetary growth that was maintained in early 1966. On my inter-
pretation, the Canadian unemployment rate rose, in part, because
the inflation in Canada was greater than the inflation in the U. S.
and, in part, because the public had learned to expect the higher rate of inflation and was adjusting to it.

Evidence of this kind from country after country that has experienced inflation is contrary to the widely accepted view that we have, within our power, the ability to choose a little more inflation as a way of getting a little more employment. The reason policies based on these notions fail is that they presume ignorance on the part of the public. They assume that the public does not learn to anticipate the rate of inflation and does not take action to protect itself. In fact, the protective action is of two kinds, and both forms are used. First, in the financial markets, interest rates rise for the reason I discussed above. Second, in the markets for goods and services and for labor, prices and wages rise.

When we look into the reasons for the rise in interest rates, prices, and wages we find very similar mechanisms at work. In financial markets lenders observe that there are more borrowers—or, as economists say, demand has increased. Though there are more borrowers, there are fewer lenders willing to make loans at the existing prices. Supply has decreased. It really matters very little whether interest rates rise because the lenders recognize that rising prices have wiped out a large part of the return that they expected to earn from loan contracts made in the past, or whether borrowers recognize that it is now more profitable to buy inventories, real capital, land, and other assets that rise in price during inflation. Both effects work in the same direction, so in either case the result is exactly the same. Lenders are willing to lend less at the prevailing market interest rate because rising prices reduce or eliminate their profits; borrowers wish to borrow more because rising prices have made it more profitable to buy assets that rise in price during inflation and to issue debts (bonds, mortgages, etc.) whose prices do not change. Once businessmen and workers recognize that inflation is occurring, it is to their advantage to borrow money now and repay it when prices are higher. Once the rate of inflation is anticipated, once people believe that prices are going to rise, there is no longer a gain to debtors or a loss to creditors. Market interest rates adjust to reflect the rate of price change, that is, the prevailing rate of inflation. The lender now charges the old interest rate plus compensation for the fact that prices will be higher when the borrower repays the loan.

Similar responses take place in the markets for goods and services. As buyers and sellers become more aware of the inflation, prices rise. Some prices are fixed for relatively long periods of time and
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g periods of time and
cannot respond immediately to the inflation. For example, rents on
buildings and apartments are usually settled annually or at longer
intervals. These prices do not, therefore, rise initially but adjust
over longer periods of time.

An Interpretation of "Cost-Push"

A good deal of misinterpretation and error has resulted from the
failure to recognize that during an inflation all prices do not rise
together. Frequently, this error is propagated under the name "cost-
push" inflation. The notion is that prices rise because unions and
perhaps other sellers such as landlords suddenly decide to ask for
higher wages and prices. These attempts to raise wages undoubtedly
raise costs of production and thus force an increase in prices.

Like most examples of its kind, the argument contains a grain of
truth and a large amount of misinterpretation. The grain of truth
is that wages are a cost of production and that many businessmen,
faced with an increase in demand, raise prices and wages. The mis-
interpretation arises because the rise in wages and prices is both
a response to excess demand and a result of the government's policy
of inflation. They are not separate events, although they may appear
that way to the casual observer or to the businessman.

As an illustration of the process, let us consider the behavior of
wages in 1966 and their expected pattern for 1967. Unionized work-
ers in the U. S. received an average wage increase slightly less than
4 per cent in 1966. Prices rose by the same percentage, so unionized
workers, on the average, were no better off at the end of the
year than at the beginning. They had lost, or not gained, the reward
for higher productivity. In the sectors such as wholesale and retail
trade where about 95 per cent of the workers are not unionized,
the average wage increase in 1966 was about 1 per cent higher.
Workers in other nonunion sectors had similar or better experience.

On the average, nonunion workers were compensated for the loss
in purchasing power due to rising prices and received, in addition,
all or part of the return from higher productivity.

What do these facts show? Why did the nonunion workers fare
much better than the union workers in the inflation of 1966? On one
interpretation, the figures reveal the statesmanship of organized labor
and its reluctance to violate the government's wage-price guide-
posts. The problem with this interpretation is that unionized and
nonunionized workers have similar experience in the early stages of other inflations when there were no wage-price guideposts. The wages of union workers almost always rise more slowly than nonunion workers in the early stage of an inflation. We can therefore dismiss increased labor statesmanship as a special factor in 1966. Our previous interpretation fits the facts much better. The unionized workers are under contract; the nonunionized workers generally are not. There is no reason to believe that one or the other of these groups learns about the inflation faster than the other. The effect of increased aggregate demand is spread over much of the economy without regard to degree of unionism and appears as an increase in the demand for labor. In the nonunionized sector, the contract wage is paid to workers with less skill and lower productivity. Unions that have their contracts reopened during the year are able to raise wages. Other unions must wait until contract time comes around.

This pattern became quite clear in U. S. labor negotiations when several unions demanded “cost of living” adjustments and for the first time in many years asked for escalator clauses to protect them against inflation. Although unionized workers as a group lost purchasing power in 1966, unionized workers whose contracts were renewed in 1966 did at least as well as the nonunion workers. The others will try to get compensation when their contracts become negotiable in 1967 or in later years.

If you think about the process I have just described, you will see why the effect of increased aggregate demand on prices is spread through time and will recognize that the effect of increased demand on prices should not be expected to occur all at once. Indeed, it is to be expected that the process will be spread through time because some contracts are fixed, because information does not reach all individuals at the same time, and because rising aggregate demand does not affect all sectors simultaneously.

It is not at all surprising, therefore, that when there are sudden shifts in monetary policy from very expansive to very contractive as in 1966, the response of prices to the inflationary policy may continue long after the expansive policy has stopped. This is our current situation. Output in many sectors declined in the first quarter of this year in response to the overly restrictive policy of the last part of 1966; some prices are responding to the inflationary monetary policy early this year; some are responding to the very expansive monetary and fiscal policies now in effect.
ience in the early stages of inflation. Wage-price guideposts. These more slowly than non-inflation. We can therefore see a special factor in 1966. such better. The unionized workers generally are one or the other of these than the other. The effect over much of the economy appears as an increase in sector, the contract wage over productivity. Unions the year are able to raise act time comes around.

The mechanism I have used to illustrate the way in which the economy adjusts to inflation also explains why there is no reason to believe in a trade-off between inflation and unemployment. Just as individuals, businessmen, and unions learn gradually that prices are rising, they learn to expect them to rise in the future and take action to adjust current and future prices to the expected rate of demand. To maintain a higher level of demand, the government must increase the rate of price change—that is, it must accelerate the inflation. Such action imposes a new burden of adjusting and sets off a new wave of inflation, but it cannot lead to a higher maintained rate of employment.

Recent U. S. Monetary Policy

A third source of evidence suggesting the absence of a trade-off between inflation and employment is provided by the behavior of the U. S. economy in recent years and its response to Federal Reserve monetary policy. I will first consider the monetary policy pursued in the U. S., then I will comment on some of its effects.

Like the long-term record of which it is a part, the experience of the past ten years shows periods in which money increased too much, followed by periods in which it increased too little to maintain the fullest use of resources without inflation. These alternating periods of over- and under-expansion of money are often connected by sudden, sharp changes in the direction of policy, so that excessive increases in the stock of money were followed by excessive contractions of the stock and later by periods of insufficient growth of money. Moreover, the periods of over- and under-expansion are themselves a sequence of large and small increases and decreases that on the average produced the high or low rates of monetary growth.
There is very little indication in any recent (or more distant peace-time) period that a consistent steady monetary policy has been pursued. From 1956 through the middle of 1957, changes in money (currency and demand deposits) rose and fell intermittently. On the average, the growth rate of money declined. At the peak of the expansion in the economy's output, August 1957, money grew at an annual rate of 1 per cent, far below the level required to maintain the expansion. During the fall of 1957, the growth rate declined further and the money supply fell, despite clear recognition by the Federal Reserve that a recession had started.

At the beginning of 1958, monetary policy changed direction and, in a series of erratic moves, the annual growth rate of the money supply reached 5 per cent by the end of the year. A year later, the growth rate was back to zero and, at the peak of the aborted expansion in May 1960, the money supply was falling at a rate of 2 per cent per year.

For the next two years, the annual growth rate of the money supply rose and fell. An indication of the difference in monetary policy between 1959 and 1961 as compared to 1961-63 is given by the fact that in 1961 the monthly money supply figures were often below the levels of two years earlier while 1963 generally showed an increase of $7 to $8 billion (4.5 to 5 per cent) over 1961.

The alternating periods of monetary expansion and contraction, and of high and low growth rates of money, leave a clear imprint on the movements of output during the period. Each period of sustained growth in the stock of money is followed by sustained growth in output, and each period of low growth or decline in money is followed by a recession or low growth in output. The very low growth rate of money in the early 'sixties is reflected in a low growth rate of output that gave rise to widespread fear that the U. S. was unlikely to experience—and unable to achieve—full employment. This is the so-called lagging growth argument of the Kennedy campaign. Once the rate of monetary growth increased, these fears began to dissipate.

From late 1962 to the spring of 1966, the money supply grew at one of the highest average rates of growth in any peacetime period in U. S. history. The $25 billion expansion in currency and demand deposits in the three and one-half years from September 1962 to April 1966 is larger than the increase in money during the preceding ten years. Once again, a sustained expansion in output followed the high average rate of monetary growth. And, contrary to popular
y recent (or more distant) monetary policy has been recognized by policy makers. From the middle of 1957, changes in monetary policy rose and fell intermittently. At the peak of August 1957, money grew above the level required to maintain high growth rates. The growth rate declined to a clear recognition by policy makers. Policy changed direction and, the growth rate of the money supply fell at a rate of the money growth rate of the money supply. The difference in monetary policy compared to 1961-63 is given by supply figures were often above average rates during the year. A year later, the peak of the aborted expansion was falling at a rate of growth and a more expansive fiscal policy combined to raise further the rate of expansion of output. Employment continued to rise and it was quite likely that the attempt to maintain the expansive monetary and fiscal policies would produce inflation.

In late 1964 and early 1965, the Federal Reserve decreased the average rate at which it supplied bank reserves and currency. As a result, the rate of monetary growth declined during the winter of 1965. Although monetary policy remained overly expansive and prices began to rise, the Federal Reserve was moving in the appropriate direction. Unfortunately, the direction of policy reversed again in the fall of 1965, and bank reserves and currency were supplied by the Federal Reserve at a substantially higher rate. Increasingly, the Federal Reserve and other government agencies resorted to exhortation or to mild anti-inflationary actions (such as the rise in the discount rate in December 1965) that were insufficient to counter the excessively expansive rate at which the Federal Reserve supplied base money. A further stimulus to expansion was provided later in 1966 by the government’s fiscal policy.

One often repeated and widely accepted view of policy in 1966 is that the Federal Reserve was attempting to restrain inflation but was unable to counter the pressures arising from the government’s budget and from the private sector. This interpretation fits the facts badly. From December 1965 to April 1966, the seasonally adjusted money supply grew at a rate 30 per cent higher than the rate in the preceding five months.

It was not until the summer of 1966 that the Federal Reserve undertook anti-inflationary action. In early July, it raised the reserve requirements at member banks. Unfortunately, the airplane strike that started in July led to a very large increase in float, temporarily thwarting the Federal Reserve’s purposes. When the strike ended, the volume of bank reserves and currency contracted sharply and the money supply started to decline. The second rise in reserve requirements in September, and the effect of open market operations during the fall, contributed to the continued decline in the money supply during the fall.
The Effect of Recent Policy

To understand the effects of these recent policies, we have to separate changes in prices from changes in output and discuss the way in which changes in money affect both prices and output. Inflation and deflation are descriptive of changes in a broad-based index of prices; expansions and recessions refer to changes in the rate at which goods and services are produced. There is nothing contradictory or surprising if various combinations of changes in price and output occur together for a time. Inflation may take place during a recession or during an expansion; prices may fall or rise when output and production are falling or rising. Monetary policy in 1956-1958 produced rising prices during the 1957-58 recession; the monetary policy of 1965-1967 will have a similar effect throughout much of 1967.

There are two main reasons that inflation is likely to continue during at least part of this year. First, the average rate of growth of the money supply was maintained at a high rate for too long in 1965-66. As always, the initial effects of this high monetary growth rate were felt in the credit markets and later on output. It is not until sales and output increase that businessmen and workers begin to believe that they can raise the prices at which they supply goods and services. At this point, past changes in the money supply begin to influence price changes, and prices begin to rise following the pattern previously described. Second, as prices rise, the public becomes convinced that prices will continue to rise and acts on this expectation. Both workers and businessmen attempt to protect themselves against expected future increases in prices by adjusting upward the prices at which they supply goods and services when contracts are due for renewal.

The pattern just described is typical of the behavior in periods of economic expansion when, as is often the case, the growth rate of the money supply remains too high for too long a time. Once formed, the expectations of further price increases are not easily removed. They persist even if monetary and fiscal policies have moved in a contractive or anti-inflationary direction. It is partly for this reason that prices continued to rise while output fell sharply in the recession of 1957-58. The expectations of rising prices and the past rate of monetary expansion continued to influence prices even though the policy in 1957 had produced a fall in output. The sudden reversal of policy in 1958 came before the full effect of the previous
at policies, we have to output and discuss the prices and output. In- changes in a broad-based refer to changes in the iced. There is nothing nations of changes in inflation may take place prices may fall or rise rising. Monetary policy the 1957-58 recession; similar effect through- is likely to continue average rate of growth high rate for too long of this high monetary and later on output. It businessmen and workers at which they supply prices rise, the public to rise and acts on this attempt to protect themselves by adjusting upward services when contracts become behavior in periods case, the growth rate too long a time. Once increases are not easily for inflationary expectations. Had the Federal Reserve persisted in the policy that reduced the growth rate of the money supply in early 1965, expectations of inflation would not have been as widespread. By pursuing an inflationary policy in late 1965 and 1966, the Federal Reserve has reduced the chance of maintaining full employment without inflation.

The fact that the change in the growth rate of the money supply last summer was both large and sudden—changing from an expansion of 6 per cent to a contraction of 2 per cent or 3 per cent is a large change—has important consequences for the future. It means that the expansive influence of money on output was replaced by a sharply contractive influence. This caused a sudden decline in the growth rate of output, although prices continued to rise under the influence of widely held expectations of rising prices induced by the previously high rate of monetary expansion.

An anti-inflation policy starts as an anti-expansion policy. This is only another way of saying that to prevent further inflation, the Federal Reserve will first produce a decline in output or in its growth rate. If it does not do the latter, it is unlikely to do the former. Or, to put the same point in still another way, if monetary policy affected prices first and output later, there is little reason to believe that it would have much effect on output at all. Changes in output are a most important step in the process by which changes in money produce rising or falling prices.

Conclusion

Let me return to my main theme, the prospect for secular inflation. I have emphasized one part of the problem: the belief in a trade-off between inflation and unemployment. I do not expect, however, that this belief will lead to an acceleration of price changes. Whenever inflation takes hold, policymakers react to the inflation by
reducing the rate of increase in the money supply or, all too frequently, reducing the money supply.

The effect of these actions is that output or the growth rate of output declines. Unemployment starts to rise. The demand to "do something" about unemployment mounts. Once the rate of price increase slows, policymakers begin to combat rising unemployment. They increase or accelerate the rate of monetary expansion.

A main result is that the expectations of inflation are not eliminated, they are reinforced. Instead of periods of rising and falling prices that average out to about zero rate of change, we have periods of rising prices and no periods of falling prices that average out to a positive rate of change of prices. As in past peacetime periods, businessmen and consumers learn to expect prices to rise. Recent history generally supports this expectation. The "stop and go" policy in Britain and the postwar experience in Western Europe are, broadly speaking, examples of this kind. The main counter examples are the experience of the U. S. from 1958 to 1961, and Canada during a similar period, when a very slow average rate of monetary expansion eliminated the expectation of inflation for a time. I do not expect this experience to be repeated. As a consequence, I expect that, on the average, prices will rise and that the U. S. will experience secular inflation.