Since the Cold War ended, U.S. short-range nuclear arms have been cut 90 percent; long-range ones, 50 percent.

Sandia National Laboratories, in Albuquerque, New Mexico. Nuclear weapons, or the knowledge of how to build them, will always exist, as will conflicts among nations. Nuclear weapons, he points out, serve not only to deter a nuclear attack or threat, but to reduce the risk of a conventional war between major powers. "Nuclear deterrence does not ensure peace, but, short of nuclear war, places a limit on the level of violence. In fact, among great powers the nuclear era has been a most peaceful time."

During the 1991 Persian Gulf War, subtle U.S. nuclear threats may have deterred Iraq from using chemical weapons. America's nuclear weapons also enhance its influence in the world, Spulak says. "Diplomacy is always performed against the backdrop of military capability."

Suggestions that the United States is not serious about maintaining its nuclear arsenal—and using it, if need be—can only undermine U.S. influence and might well *increase* the risk of war, Spulak points out. The end of the Cold War has reduced the danger of Armageddon, he says, but it has not altered the grim realities of the nuclear age.

ECONOMICS, LABOR & BUSINESS

Time to Discard the NAIRU Jacket?

A Survey of Recent Articles

When the University of Chicago's Milton Friedman unveiled the concept of the "natural" rate of unemployment, in a 1968 presidential address to the American Economic Association, he let loose a rabbit that economists have been chasing ever since. In a symposium in the *Journal of Economic Perspectives* (Winter 1997), a number of them slow down long enough to consider whether the pursuit is still worthwhile.

NAIRU, as the "natural rate" rabbit has come to be known, is an ugly acronym for "nonaccelerating inflation rate of unemployment"—which means, more simply, the rate of joblessness that is consistent with an unchanging rate of inflation. The assumption is that inflation is largely determined by the labor market and its upward pressure on wages. The implications for monetary policy, not to mention workers, are great. If the Federal Reserve Board wants to maintain a stable rate of inflation, then it should try to keep unemployment at the NAIRU level; if it wants to reduce inflation, then it should maintain unemployment *above* the NAIRU level.

When Friedman first hurled his thunderbolt from what passes among economists as Mount Olympus, it seemed, says Joseph Stiglitz, chairman of the President's Council of Economic Advisers (CEA), as if the natural rate had been established by "royal edict . . . as another one of the universe's invariant constants." For many years, the NAIRU was assumed to be about six percent. Today, however, it is apparent "that if a NAIRU exists, it must be changing over time," Stiglitz observes. Between August 1994 and August 1996, for instance, the unemployment rate was below six percent, so inflation should have risen; instead, as measured by the consumer price index, it fell, dropping from 2.9 to 2.6 percent. NAIRU proponents draw the conclusion that the "natural rate" has declined. Indeed, research at the CEA suggests that it has fallen by about 1.5 percentage points since its peak in the early 1980s. But uncertainties abound, Stiglitz notes.

What brought the NAIRU down? For one thing, Stiglitz says, demographic change, particularly the aging of the baby boomers. Older people are less likely to be unemployed, and so their natural rate of unemployment is lower. Also, after the post-1973 slowdown in productivity growth, workers eventually moderated their demands for increased real wages. Competition in the product and labor markets also held wages down.

The link between the NAIRU and inflation is obviously not a simple one, Stiglitz notes. But that does not mean the concept of NAIRU is worthless, he believes. By the CEA's analysis, unemployment alone accounts for at least 20 percent of the variation in the inflation rate. Policymakers need NAIRU as a guide. "If there is no clear, systematic relation between inflation and unemployment," Stiglitz asks, "why wouldn't policymakers simply keep trying to push unemployment lower and lower?"

That is just what they should do, argues James K. Galbraith, of the University of Texas at Austin. The NAIRU is dubious as theory, the collective attempts to estimate it have become "a professional embarrassment," and there is little empirical support for the proposition that cutting unemployment below the NAIRU promptly sparks inflation. The United States "has not experienced wage-led inflation since the 1950s, except briefly in 1973," he says. "Since 1973, average real wages have by most measures been stable or falling. All accelerations of inflation have been led by commodities, especially oil, or by import prices via devaluation. Why not therefore conclude that the economy has almost always been *above* the NAIRU during this time?"

But Stiglitz contends that the uncertainty about the precise level of the NAIRU does not invalidate its usefulness as a guide. If the Fed action on interest rates turns out to be based on a mistaken estimate of the NAIRU, the consequences are likely to be modest, and the course can be reversed.

So, after nearly 30 years, should economists stop running after the NAIRU rabbit? Not surprisingly, perhaps, the authors of the six articles in the symposium are far from consensus. But the fact that two articles, and, to an extent a third one, are, in Stiglitz's words, "openly hostile" to the concept of NAIRU, suggests, at the very least, a growing impatience with the elusiveness of the quarry.

Labor Turns Left

"The New Left Takes Over American Unions" by Joel Kotkin, in *The American Enterprise* (May–June 1997), 1150 17th St. N.W., Washington, D.C. 20036.

While most New Left radicals of the 1960s had only contempt for organized labor and its conservative, anticommunist leaders, some activists saw the organizing of low-wage workers as the best path to fundamental social change. Today, former student radicals such as David Wilhelm, who directs the Hotel and Restaurant Employees' highly successful Las Vegas operations, are riding high, reports Kotkin, a Fellow at the Pepperdine University Institute for Public Policy and a dues-paying union member.

The ascension of John Sweeney, head of the Service Employees International Union, to the presidency of the American Federation of Labor–Congress of Industrial Organizations (AFL-CIO) last year has brought leftists from the labor movement's fringes into posi-