ECONOMICS, LABOR & BUSINESS

Curbing Inflation But Not Growth

"The Great Stagflation Swamp" by Arthur Okun, in *The Brookings Bulletin* (Fall 1977), 1775 Massachusetts Ave. N.W., Washington, D.C. 20036.

Since the early 1970s the United States has suffered from high unemployment and high inflation, a situation new to both American history and economic theory. Successive administrations have responded with traditional monetary and fiscal measures. The failure of these remedies should surprise no one, argues Okun, a Brookings Senior Fellow. "Stagflation"—inflation in a stagnant economy—is not simply a recombination of old, familiar woes; it is a new phenomenon requiring a fresh response.

Changes in the American market for goods and services account for the apparently inexorable climb of costs and prices. In their dealings with customers and employees, businesses have abandoned textbook free-market mechanisms. Pure supply and demand, for example, actually govern prices in only a small sector of the economy. And wages reflect not the size of the available labor force, but employers' desires to keep reliable workers over the long haul. The expectations among labor and management of annual rises of 6 percent in prices (to keep up with the current inflation rate) and 8 percent in wages (to provide a real gain in income) have become firmly established. Recent congressional action raising both social security benefits and the minimum wage reinforces the upward tendency.

Because fiscal and monetary policies cannot affect prices, they take their toll in unemployment and lost production. The only solution, Okun asserts, is a program that fights inflation but not growth. His own proposals: a government commitment to adopt no measures that would increase costs to businesses or prices to consumers; subsidies to states to reduce their sales taxes; and tax rebates to employers and employees who hold wage and price increases below 6 and 4 percent, respectively.

The Japanese Challenge

"Tensions économiques entre le Japon et l'Europe" [Economic tensions between Japan and Europe] by Christian Sautter, in *Défense Nationale* (Oct. 1977), 1, place Joffre, 75700 Paris, France.

It is time for Europe to devise a new response to the Japanese export challenge, writes Sautter, director of social studies at the Ecole des Hautes Etudes in Paris. Western Europe now buys nearly 11 percent of Japan's total exports, while Japan accounts for a mere 5.6 percent of European exports. (The percentages were nearly equal in 1968.) Faced with mounting trade deficits, European governments have reacted by arguing for restrictions on Japanese imports and a boost in European exports to Japan. Neither represents a long-term solution, according to Sautter.

Japanese trade is characterized by two features: (*a*) Europe is the