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 only major market from which Japan buys manufactured "primary" goods such as textiles and chemicals—thus making European exports highly vulnerable to Japan's protectionist forces; and (*b*) the Japanese need for a balance-of-payments surplus to pay for their oil imports—between 1973 and 1976, annual Japanese outlays for Middle Eastern oil climbed by $13.8 billion.

Japan's success in the competitive struggle unleashed by the oil crisis is due above all to its vigorous private sector, observes Sautter. Although its population is one-half and its GNP ($492 billion) one-third that of Europe, it nonetheless boasts 44 more major corporations than Europe (compared to four fewer than Europe as recently as 1975).

Japan follows intensive initial capital investment with sharp price-cutting, a process that eliminates all but the most efficient firms. This "industrial Darwinism" is kept within politically acceptable limits by the MITI (Japan's powerful ministry of industry and commerce). Sautter argues that European industry, plagued by union and government restrictions, must encourage a similar pattern. This strategy could be regulated by a European equivalent of MITI.

Such a comprehensive approach, Sautter warns, will depend largely on West Germany's participation. With a trade surplus of $54 billion in 1973–76 (versus Japan's $17 billion for the same period), Bonn could either decide that its long-term interests are tied to the rest of Europe —or decide to go it alone.

SOCIETY

The Social Costs of Early Death

"Early Death: An American Tragedy" by James W. Vaupel, in *Law and Contemporary Problems* (Autumn 1977), Duke University Press, Box 6697, College Station, Durham, N.C. 77708.

In devising policy on health and safety, Federal planners should not consider death rates per se but the years of useful life lost due to death, writes Vaupel, professor of public affairs at Duke University. Out of a total of 2 million deaths of Americans in 1974, 700,000 were before age 65. Such early deaths deprive the individual and society of far more years of useful activity than late death; losses should thus not be measured in numbers of deaths but in "quality-adjusted life-years" lost—a figure reached by assuming that quality of life remains constant until age 65, when it declines rapidly.

The likelihood of "early death" in the United States—28 percent at birth—is higher than in other Western countries. (Sweden's rate is under 19 percent.) Furthermore, early death in America tends to strike nonwhites disproportionately (39 percent). Little attention has been focused on such "life-span inequality." The main causes, all found to a