

labor force. The economy in late 1982 was operating with GNP far below its potential level.

Set against the gloomy production and employment situation, however, was a dramatic improvement in the inflation picture. The deflator for personal consumption expenditures, which had risen 10.3 percent in 1980, rose at an annual rate of only 5.3 percent in the first three quarters of 1982. While some of the improvement may have represented transitory factors such as the appreciation of the dollar and declining commodity prices, a major share probably represented a slowing of the underlying momentum of inflation.

By pointing to the progress against inflation we do not mean to minimize the hardships caused by the recession. In a very real sense, however, the recession was unavoidable. The U.S. entered the 1980s with a dangerously high rate of inflation and with a growing expectation that the rate of price increase would continue to accelerate. Once inflation has persisted long enough it develops a momentum of its own, and