

Economic growth as an objective of national economic policy, therefore, is an intermediate objective—it is a goal which the Nation can seek in order to provide a material basis for progress or an increase in welfare. If the output of goods and services that results from the increased productive capacity of the economy is used wisely, and in accordance with the desires of individuals and of the community as expressed through community and political channels, it can contribute to welfare and progress. Professor Galbraith has produced perhaps the most familiar recent example of an economic analysis resting on the distinction between progress and growth in capacity to provide material goods and services (12).

Distinction between economic growth and a mere increase in output, either in the aggregate or per capita, is of both practical and theoretical significance. The distinction is between the performance of the economy in any given period of time (output, or increase in output, for example) and its capability. Economic growth refers, of course, to an increase in the capability or productive capacity of the economy while the current performance of the economy is measured by output, employment, the increase in output, output per capita, real income per capita, the amount of leisure (individual), and the stability or instability of output, employment, and prices.

Current economic performance

Performance of the economy is reflected in the Employment Act's description of the other aspects of its ideal of how the economy should operate. As stated above, this means at least the following: (1) a minimum of fluctuations in actual rates of use of labor and capital around the maximum average rate of utilization feasible under existing institutional conditions, managerial skill, and economic knowledge; and (2) reasonable stability of the general level of prices of goods and services.

The first part of this definition of economic performance is generally called economic stability for it means that there is a limited range of fluctuations in the rate at which the Nation uses its economic capacity, human and material. It therefore implies a constantly rising level of employment and of total production of goods and services as the Nation's supply of labor and capital goods increases. In the Employment Act this stability objective, in part, is described as maximum employment and production, referring to that aspect of economic stability which I have just described.

It also includes, of course, the second aspect already noted, stability in the general level of prices of goods and services. In respect to this goal, it is necessary to refer to the fact that the economy should be dynamic, adjusting readily, rapidly, to changing conditions. In such an economy, relative prices must remain free to change, that is each individual price, or the prices of individual goods and services, must be free to change rapidly and in such magnitude as will call forth those changes in outputs, demands, and resource allocations required by changing preferences, incomes, and technological feasibilities. Price stability implies that while the general average of prices is reasonably stable, with no upward or downward drift, each individual price remains free to change relative to the general level so long as the various changes offset each other and leave the general average unchanged.