

Actual output is shown varying part of the time within this acceptable zone on either side of the potential, sometimes above and sometimes below. Occasionally, output may move completely outside of this tolerance zone. Either it rises too close to capacity, hence, into a seriously inflationary and probably unstable position, or, on the other hand, falls far below the potential as recession and widespread unemployment develop. In terms of the objectives of the Employment Act, the stability goal would be achieved if the economy could remain inside the zone of acceptable variations, as close as practical to the potential line. Over time, to the extent possible, an increase in the ratio of potential output to capacity would be desirable so long as this does not involve either inflation or drastic instability of output and employment. As a practical matter, therefore, the measurement of the potential output of the economy can be an important instrument for analyzing the relation of current economic performance to the objectives of the Employment Act, that is, as to whether or not output and employment are staying as close as reasonable men might require to the standard set up by the Employment Act. It also may be used as a convenient technique for analyzing the current situation of the economy a use to which, in fact, the staff of the Joint Economic Committee has been putting earlier versions.

If an index of capacity for the total economy was available, the problem would reduce to two steps: (1) Analysis of causes of growth of capacity; and (2) analysis of operating characteristics of the economy to discover the optimum operating rates, or ratio of output to capacity. But, economic analysts have debated at length whether or not it is possible to develop an unambiguous concept of capacity for the economy (or even a single industry), much less measure it. To illustrate the point, it may be possible to operate a given plant 24 hours a day, yet under ordinary circumstances the usual practice may be to operate only one or two 8-hour shifts a day. Suppose the plant ordinarily operates on one 8-hour shift per day, what is the practical capacity of the plant? By this standard, capacity would be the amount produced in one 8-hour shift. Obviously, if demands were strong enough it would be possible to operate the plant three shifts, or 24 hours a day—tripling its capacity. Many plants that normally operated one shift or two shifts added shifts during World War II, and plants that normally operated on an around-the-clock, continuous-process basis were run during these war emergency years at increased rates of output through such devices as lengthening the period between maintenance or repair, thus reducing downtime.

In a host of ways, therefore, the maximum output of the economy is flexible over a considerable range, even when each industry or trade is operating at what managements ordinarily would call full capacity rates. No attempt was made, therefore, to measure the ultimate capacity of the economy. It is clear only that it must be much higher than the measure of potential output arrived at in this study. *For each year, the potential output level represents the amount the economy could produce at some stipulated rate of use of the labor force and of capital, and under the assumption that productive resources are used at something approaching the economy's notion of a least-cost combination of inputs.* That is, capacity, however conceived, is being operated so as to produce output at the least cost per unit of output, in