

accordance with the best practices possible with existing management, capital, and training and knowledge of the labor force. It is, in a word, a measure of what practical man can do under the usual operating conditions maintainable over long periods of time without excess strain or breakdown, on the one hand, or, on the other, excessive, wasteful slack in the system, particularly prolonged, involuntary unemployment of labor.

*The rate of employment*

A key element in the measurement of the potential output is the ratio of employment to the labor force, or, in more familiar form, the percentage of the labor force unemployed. This ratio, the key to debate about Employment Act policies, never has been defined officially, either by the executive branch, the Congress, or any of its committees. Indeed, no such definition could be stated which would be valid for all time, because of two basic facts.

First, measures of employment, labor force, and unemployment, undergo improvements from time to time, with a consequent change in the level of unemployment revealed by the surveys and in the ratio to the labor force. The same degree of tightness in labor markets, for example, might be measured at one time by, let us say, 3½ percent of unemployment, whereas later under a different system of measurement, perhaps using an improved interviewing technique, an enlargement of sample, or other change in the statistical program, the same degree of tightness might be measured by a figure which averaged 4 percent. Does this mean the percentage of unemployment has increased or our objectives have changed? Obviously not. The same degree of tightness or slack in the labor force is revealed each time. It is simply that the measuring device has changed and, presumably, is more efficient than formerly. There is need to be aware constantly of changes or improvements in the system of economic measurement, and, from time to time, redefine, in terms of the changing system of measurements, maximum employment, production, and purchasing power within the meaning of the Employment Act (13).

The second point is that the Nation ought to, and does, strive continually to make improvements in the efficiency with which labor markets operate and in the efficiency with which labor is used. If the efficiency with which shifts of labor from job to job and from industry to industry, is raised and the stability of the economy increased, then we should be able to operate with, let us say, only 3 percent unemployment on the average compared to about 4 to 5 percent unemployment, which seemed to have been achieved, in fact, on the average of the better years, simply because policies could not be designed to do better consistently (14). One path of progress is through learning how to operate with less slack in the labor force—less time spent between jobs, unemployed because labor markets do not operate smoothly in transferring labor from places and industries experiencing declining demand to places and industries with increasing demand.

Even if the efficiency of the economy increases, and the flexibility and speed of operation of labor markets improves, the Nation may be willing to tolerate or even seek a higher level of unemployment than