

CHAPTER IV. POTENTIAL GROWTH: PROSPECTS AND PROBLEMS

The preceding chapters have reviewed the relationship of potential output to the goals of the Employment Act; the problem of analyzing output in terms of an aggregate production function; and derived statistically the coefficients for such a function. In the present chapter, attention turns to the future. How fast could the American economy's output grow over the next decade or two if the full production potential for growth which is inherent in the structure of the economy is achieved? What are the implications for policy of different assumptions as to the underlying factors influencing our economic growth? What range of possibilities can we reasonably contemplate as a basis for discussion of the issues of public and private economic policy?

At the outset it must be recognized that the further ahead we attempt to project our potential for economic growth the more uncertain are the resulting estimates and the less likely it is that we can really effectively apply the results. On the other hand, too short a period would not allow time for underlying forces to work out their longer term consequences. After a review of the various considerations it was decided that the year 1975 would be the terminal date for these projections. It is to be understood that the projections for the year 1975 are an average of expectations for several years centered at 1975.

The preparation and analysis of potentials for future growth of the U.S. economy proceeds below in three stages: (1) the alternative assumptions corresponding to high, medium, and low projections will be reviewed; (2) the projections themselves will be presented together with analysis of the reasons for deviations, if any, of the future potentials from past trends; and (3) the implications of future potential growth rates will be explored, particularly in respect to policy issues which may be associated with them.

Alternative assumptions: 1959-75

Three alternative projections of potential output and of its rate of growth to 1975 were prepared; high (labeled A), medium (B), and low (C). These projections reflect trends of population, participation in the labor force, unemployment, hours of work, changes in the capital stock, and the average level of prosperity. These projections, which, of course, are subject to some error, are designed to indicate a realistic range of potential growth rates that our economy might experience over the next decade. Table 3, page 40, summarizes these projections.

The projections of population and labor force used in the three alternative projections to 1975 are derived from those prepared by the Bureau of the Census, U.S. Department of Commerce (48) and the Bureau of Labor Statistics, Department of Labor (49). These were modified slightly to maintain consistency with the other assumptions of the three projections.