

Unemployment is expected to average somewhat higher than in the past best years or about 5 percent. Employment will average, therefore, about 95 percent. Such slack in labor markets is assumed to be accompanied by a slower rate of growth in the labor force as participation rates reflect the lower level of job opportunities.

In line with the degree of slackness in labor markets, average annual hours of work are assumed to decline at an average rate of about 0.6 percent per year. This is about the average over the past half century—an acceleration over the A and B assumptions consistent with past experience that reduction in hours of work are more likely under slack conditions than when labor markets are relatively tight.

The rate of capital accumulation is assumed to be lower as industries are constantly faced with the threat of excess capacity at higher investment rates and labor is freely available to substitute for capital at peak demand periods. This means a rise in gross stocks at about 2.2 percent per year, a low rate compared to past periods of prosperity.

In all three projections the assumed change in the age of the capital stock reflects the corresponding rates of growth of capital stock, though the assumptions may tend to underestimate the rate of decline in the age of the capital stock under the assumed conditions. If this is the case, then a downward bias is imparted to the three projections.

The alternative projections

The alternative projections, derived by inserting the above assumptions in the formula for output derived in chapter III, yield a series of estimates of potential output of GNP in 1954 dollars for the year 1975. The time trend was not varied between the alternative projections and was the same as derived for the period 1909–58. The rates of growth implied by these are summarized in table 3.

TABLE 3.—Selected indicators of economic growth potentials, 1959–75¹

[Percent increase per year²]

Indicator	Rate of growth, 1909–58	Projected potential growth rates, 1959–75		
		A	B	C
Total labor force.....	1.4	1.9	1.7	1.5
Total employment, including the Armed Forces.....	1.4	³ 1.9	⁴ 1.7	⁵ 1.5
Average annual hours of work.....	-.6	-.4	-.5	-.6
Total man-hours.....	.9	1.6	1.2	.9
Stock of private plant and equipment in constant prices.....	2.4	3.2	2.7	2.2
Average age of capital stock.....	.3	-.2	-.1	0
Composition of demand.....	.1	.015	.001	-.005
Gross national product in constant prices.....	2.9			
From 1959, actual (preliminary estimate).....		5.2	4.7	4.2
From 1959 potential.....		4.6	4.0	3.5

¹ Some rates of change in this table vary slightly from those given in the similar table 4-1, p. 101 of the "Staff Report on Employment Growth and Price Levels" because of the incorporation of later data and refinements of analysis not then available.

² Computed by compound interest formula, using initial and terminal years.

³ Assumes 97 percent of the labor force employed in 1975.

⁴ Assumes 96 percent of the labor force employed in 1975.

⁵ Assumes 95 percent of the labor force employed in 1975.

It should be repeated at this point that the projections for the year 1975 do not necessarily assume achievement of maximum economic growth each and every year between now and 1975. It is quite