

In view of this identification problem, one must not stretch an analysis based upon simple correlations too far.⁸ In particular, it would not be prudent to assume that increases in output would yield gains in productivity in a period when output was already pressing upon available capacity.

Since the available evidence suggests that considerable underutilization of capital existed during the 1956-57 boom,⁹ and since cross-sectional correlations for both those years reveal a positive relationship between changes in output and changes in productivity, it seems safe to conclude that a further expansion of output would have resulted in productivity gains.

⁸ Another weakness of simple correlation coefficients between output and productivity is due to the correlation of errors of observation in output with errors of observation on productivity. If these observational errors are large relative to the true variance of the series, they will cause biases in the correlation coefficients.

⁹ See staff report, pp. 70-71.