WHY LOOK SO FAR AHEAD?

Since it is so difficult to analyze the economic outlook for even 6 months or a year ahead, why spend the time and resources necessary for a projection into the future for as long as a decade? The answer to this question is threefold.

First, it is actually easier to detect longrun enduring trends and structural relationships in the economy than it is to discover procedures for forecasting short-term fluctuations. In the long run, the more enduring structural characteristics of the economy dominate. The broad tides of change are so overpowering that they may in the short run produce unpredictable shifts in the outlook. In the short run, temporary changes in budget policies, military emergencies, weather cycles and agriculture, temporary speculative moods in the business world, and various events abroad may have sharp repercussions for a few months or even a year or two. Many of these forces affecting the short run are noneconomic in character; others are psychological; still others arise from temporary mistakes in public and private policies that wash out in the long run. To forecast this complex of forces and how they will affect the short-term outlook is extremely difficult, particularly for periods ranging from 6 months to 1½ or 2 years. (It should be noted however, that economists are achieving considerable success for periods up to 6 months.) Tests of longer run projections, however, uniformly show them to be more accurate than short-run projections or forecasts. Furthermore, the long-term projection is not really a forecast—it is an extension of the past into the future to see whether past structures and policies will produce longrun equilibrium and what policy issues are raised by any probable departures in the future from equilibrium. Thus the purpose of the exercise is more analytical than predictive.

Second, longrun projections provide a frame of analysis that enables us to reason in orderly fashion about the more enduring structural and persistent tendencies in the economy which dominate in the long run. As we come to understand better these long-term forces and how they operate, we improve our knowledge of the sources of temporary short-term departures from these longer run trends. Thus in a way the longer run exercise is of greater assistance in understanding and analyzing short-term events. It enables us to put them in better perspective.

Third, policy actions taken in response to short-range developments have a tendency to produce persistent and enduring effects for many years into the future. A thorough understanding of the longer run tendencies and the problems of maintaining the upward thrust of the economy over long periods are an essential precondition to correct decisionmaking in the short run. In private business, longer run projections are needed to aid management in deciding capital budget, long-range financing programs, changes in sales development programs that require long periods to accomplish, location of new facilities, product change or diversification, and similar questions which