PRIMING THE PROJECTION MACHINERY: CRITICAL ASSUMPTIONS

As has been pointed out, the estimates presented in this study are projections not forecasts. The mechanism of the projection consists of a series of past relationships between various economic variables, together with observable long-term trends. To start up this machinery, one must first prime it with a set of assumptions that appear reasonable and realistic in view of the uses to which the resulting estimates are to be put in the later analysis. In the present case, the machinery was primed by starting off with the following basic assumptions:

(1) The war in Vietnam was assumed to terminate by the end of 1967, or at least cool down enough to allow some reductions in the size of the Armed Forces and the rate of expenditures thereafter.

(2) Two alternative sets of estimates or models are presented in the projections—the A set assumes that the rate of unemployment will average 3 percent of the civilian labor force; the B set is based on a 4-percent rate of unemployment.

(3) Different patterns were assumed for increases in gross national product per man-hour for the two models that were set up. For the A model, output per man-hour in the private sector was assumed to average 3.1 percent per year between 1966 and 1970, and 3.5 percent from 1970 to 1975; for the B model, the average annual gain was assumed to be about 3 percent per year throughout the period from now until 1975.

(4) Projections of the total labor force conform to the latest estimates of the Bureau of Labor Statistics, Department of Labor, a summary of which is provided in the next section of this report.

(5) For both sets of projections, the Armed Forces were assumed to average 2.7 million in 1970—about equal to the 1965 average—and 2.6 million in 1975.

(6) In both sets of projections, it was assumed that the average weekly hours would decline by one-half hour between 1967 and 1970, and an additional reduction of one-half hour between 1970 and 1975—these reductions being roughly comparable to those experienced in the decade of the 1920's when the economy was operating at high employment rates and enjoying rapid growth without inflation.

(7) Overall prices (as measured by the GNP deflator) for the A set were assumed to grow at an annual rate of 2 percent per year; for the B set, the price rise was assumed to be 1.5 percent per year, conforming to the experience of the period from 1959 to early 1965.

(8) Wage rates in both public and private employment were assumed to rise by the average annual gain in output per man-hour in the private economy, plus an allowance for the annual gain in consumer prices. This assumption insured that through the period of the projection the relative income shares of the GNP would be maintained at the fractions experienced at the beginning of the period.