

I turn then to the second point, and that is the question: How much expansion of demand is needed to hold unemployment at current levels, assuming that that is what the administration wants to do?

In 1966 the advance in production exceeded the Council's expectations by $5\frac{1}{2}$ percent instead of the 5 percent which they had expected. But the decline in unemployment fell short of their expectations. The main reason for this was the extraordinary elasticity or responsiveness of labor supply with respect to new job openings. That is, as new jobs became available, they weren't filled just by reduction in the ranks of the unemployed. They were filled by entry of new people into the labor forces.

The labor force grew by 2.3 percent, if you look at the average for 1966 as compared to 1965, and from December 1965 compared to December 1966, it grew by 2.9 percent. These figures are to be compared with an increase in the population of working age of only 1.6 percent per year. What is called the "labor force participation rate" rose.

This experience vindicated the previous claims which had been made throughout the sixties that the low participation rate of the early 1960's reflected lack of job opportunities rather than genuine withdrawals from the potential work force.

We don't really know whether this phenomenon is over or not, I mean the phenomenon of increasing labor force participation in response to more abundant job opportunities. We don't know, in other words, whether further gains in labor force participation are still ahead of us if jobs remain abundant. But as the figures above suggest, the ones that I just gave, the rise in labor force participation was still continuing unabated at the end of 1966. The same is indicated, I think, by the January 1967 Labor Force Survey. Participation rates are still below the peaks that were reached in the mid-1950's boom.

It is also possible that the fruits of the investment boom of the last 2 years will begin to show up in a somewhat improved rate of increase of labor productivity. With these two things together; that is, larger increases in available manpower and in productivity, the economy could be capable of more than a 4-percent increase in production this year, at a constant rate of unemployment.

Accepting the Council's $2\frac{1}{2}$ percent estimated price increase, I wonder whether a $6\frac{1}{2}$ percent increase in total spending would be enough to keep unemployment from rising.

Third, taking their estimate that a $6\frac{1}{2}$ -percent growth of demand is needed, we have the question whether the fiscal and monetary program of the administration is designed to bring it about. While there is a good deal of uncertainty about this, I have a feeling that the program is more likely to fall short of the $6\frac{1}{2}$ percent growth of demand than to exceed it.

I take as given the budget estimates of Federal expenditures, which of course are to rise, largely for defense reasons. The main potential weaknesses then in the Council's account of their projected \$47 billion increase in demand seem to me to be these:

First, even after they assume the proposed 6-percent tax surcharge to be in effect after July 1, the Council is counting on consumer spending for \$30 billion of the \$47 billion, or 64 percent. That is a somewhat higher share of consumption in an increase in the gross national product than we normally have. Evidently, the Council is banking