

Mr. McCracken. Or formal escalation. That is if you tie wage rates to the cost-of-living index and excise taxes are in the cost-of-living index, it practically eliminates a rise in excise taxes as a major means of exercising restraint in the economy or financing expenditures because it is at least one step further toward tripping off the wage escalator.

But even income taxes have somewhat the same effects. As you say, there is the pressure to maintain take-home pay even when income taxes rise.

Chairman PROXMIRE. Professor Hansen, I would like to ask one final question. It is my understanding that the Council has projected a growth rate of 4 percent with present fiscal policy, and an unemployment level of 4 percent.

In view of your long experience with these problems, do you consider this to be an adequate target, or do you think that they should work toward a lower unemployment rate, and if so, would you care to indicate what you think would be an appropriate target, and is our growth rate as projected by them adequate in your judgment?

Mr. HANSEN. I think a reasonable target for the United States would be 3 percent.

Chairman PROXMIRE. 3 percent?

Mr. HANSEN. 3 percent unemployment; yes. It has been estimated that the way the British calculate unemployment rates and the way we calculate them, a 3-percent rate in the United States would be equivalent to a 2-percent rate as the British calculate unemployment.

Now, 2 percent is regarded in European countries, as I am sure we all know, as a very high rate of unemployment. The rates have been way below that in many countries, down to 1 percent, and sometimes even below 1 percent. So that it seems to me a perfectly reasonable goal now, an intermediate goal maybe, would be 3-percent unemployment.

We have been going down a little bit below 4 percent in some of the months in recent years, and I wouldn't suggest that we immediately aim at 3 percent, but it should be a near-term goal in my judgment, 3 percent unemployment.

Chairman PROXMIRE. This is very encouraging. I want to call on Professor McCracken. Before I do, I want to say there is a rollcall vote that started about 3 minutes ago, and I have to get to the floor to vote on it, so I am going to ask Congressman Reuss to take the chair. Unfortunately, I will have to depart.

I want to thank both of you gentlemen for an excellent job. I think Professor McCracken wanted to respond to that last question.

Mr. McCracken. A 4-percent rate of growth will not enable the economy to keep unemployment even as low as 4 percent in this decade.

In a study with which I was associated some 2 years ago, published by the National Industrial Conference Board, we concluded that for the period ahead, the growth rate would have to be about 4.35 percent. That doesn't sound perhaps as if it is far away from 4 percent, but small differences compounded are fairly important.

I don't think a 4-percent growth rate, even if you start off with 4 percent unemployment, will enable you to hold at 4 percent unemployment. I think the unemployment rate would tend to rise.

Representative REUSS (presiding). Congressman Widnall?