It should be emphasized that an economy, which achieves full employment and growth steadily thereafter at a rate corresponding to its potential, generates certain anti-inflationary forces which are too often overlooked. Steady growth at full employment levels reduces the ratchet effect which occurs when prices shoot up during periods of recovery and remain rigid during periods of stagnation; it avoids the increase in unit costs which put pressure on prices at low levels of utilization; it encourages a sustained rise of investment in modern machinery; and it makes it possible, as the Council has implied, to devise policies which keep profits at more reasonable and sustained levels.

These and other factors—such as manpower training programs—make it unnecessary to rely upon the rate of unemployment to create a reservoir of jobless human beings as a means of combating inflation.

The objective of full employment is not yet achieved, despite the welcome improvements of the past 3 years. A continued effort is needed to achieve and sustain job opportunities, at decent wages, for all people who are willing and able to work.

THE ECONOMY'S GROWTH POTENTIAL

Related to the CEA's apparent acceptance of a 4-percent unemployment rate, as full employment, is its apparent insistence in the 1967 report that the American economy's growth potential is 4 percent per year. I just question that, and personally I don't buy that estimate at all.

Despite the unquestioned need for all that we can possibly produce in the coming decade, the Council of Economic Advisers apparently has lost its enthusiasm for reducing unemployment below the 4 percent which it once regarded as an interim target. Moreover, it stubbornly insists upon confining its estimates of the Nation's potential capacity for growth to 4 percent—a view which appears to us and to many others as well to be unwarrantly pessimistic, timid, and self-defeating.

In addition to its restrictive definition of full employment, the Council has presented a limited conception of America's economic potential. Like the former, this conception can lead to policies which restrict the expansion of job opportunities and the production of goods and services.

The Council argues that given "a trend rate of increase in output per man-hour in the total economy of just over 2½ percent a year," and an increase in total man-hours of 1½ percent, the Nation can increase its output by only 4 percent a year once it reaches full employment. A number of studies, however, indicate that the Council is selling America short.

The projections recently prepared by the staff of this committee regard an annual growth rate of 4 percent a year as a realistic estimate of America's output potential in the next 10 years—with a 3-percent unemployment rate at 4½-percent real growth per year and a 4-percent unemployment rate at a 4-percent growth rate.

The National Planning Association "projections show a growth rate in real GNP averaging 4½ percent yearly between 1965–76 * * * This result emerges from our analysis of demographic factors, manpower developments, the productivity outlook, and from assumptions about the continued pursuit of Government fiscal policies and programs * * *"