Council's twisted treatment of productivity issue

The Council's belated recognition that producitvity gains in the private economy during 1961–66 averaged annually 3.5 percent, and even averaged annually 3.8 percent during 1961–64, vindicates fully the position which I have taken throughout the years that this high rate of productivity growth was in process. But the Council appears by now to have become congenitally unable to look at the productivity facts when it seeks to determine policies (such as the guideposts) or to set goals (such as the current 4 percent economic growth goal). For taking into account a labor force growth factor of even 1.5 percent, and without regard to reducing unemployment, the 4 percent economic growth goal must assume a prospective productivity growth rate of only about 2½ percent annually.

How the Council attempts to support a productivity growth rate figure only somewhere in the neighborhood of 2½ percent as a factor in its economic growth rate objective is not made clear because it cannot be made clear. If the 2½ percent productivity factor is derived from data indicating that the productivity growth rate during 1964–66 was very much lower than the 1961–66 annual average, then the Council cannot explain why it has shifted from a "moving average" to a 1- or 2-year figure in estimating productivity gains for purposes of policy. Besides, the very most recent productivity estimates are preliminary and subject to many uncertainties.

I do not agree at all with the Council's view that a higher productivity rate is feasible when the economy is moving from very slack resource use to somewhat slack resource use than when the economy is moving under conditions of somewhat slack resource use or the maximum resource use intended by the Employment Act. Substantial economic slack militates against efficient use of the employed labor force; a more healthy economy, as experience demonstrates, should improve efficiency and productivity. The reason why the economic growth-rate potential is higher when there is large economic slack is because there are more unused resources to draw upon, not because the productivity growth potential is higher when there is large economic slack. I believe that the decline in the productivity growth rate to just under 3 percent during 1965–66, if verified by the final date, vindicates my position, because that decline occurred during a period of slowdown in the rate of economic growth accompanied by a slackening of capacity use in some important sectors.

As I have insisted many times before this committee and elsewhere, the economic growth rate goal should factor in the potential productivity growth rate and the potential growth rate in the civilian labor force as these would be called forth by optimum demand. To relate the ecnomic growth rate objective to the repressed productivity growth rate and to the repressed growth rate in the civilian labor force as affected by inadequate demand is to aggravate the difficulty of moving to overcome it.

The Council's statement as to the gap between actual and potential GNP from 1958 to 1965 is a gross understatement. (1) because it is predicated upon a productivity growth factor which is much too low, and a labor force growth rate factor which is also too low, and (2) because the base year should be 1953 rather than 1958 (because the pattern of inadequate growth started with 1953, not with 1957–58),