

and there is probably, as you say, no conceptual reason why the other deposits should be larger.

Chairman PROXMIRE. Well, I am relieved.

Then I just have one final question, and that is with regard to the high employment surplus concept, which, I agree, has been enormously useful and is a new concept. I assume that one reason why it has kind of disappeared in discussion and dialog in the last year or two is because we have been at a level which the administration wanted to find as high employment.

Isn't 4 percent considered a high employment level at the present time, 4.1, 3.9 percent? It has varied around 4 percent for almost a year now. So that the high employment surplus figure would be close to the actual surplus figure; would it not?

Mr. STEIN. Well, maybe I am a little more cynical. There is another problem, you see, in defining the high employment surplus, and that is what are you going to use for the price level. And while we have seen for some time around the 4 percent unemployment level, prices have been rising rather rapidly. And if we had defined the high employment surplus as the surplus we would get with high employment and with stable prices, or with the prices of some early period, we would probably find that the high employment surplus was smaller than the actual surplus. And that would have been embarrassing. So my interpretation is it became convenient to drop this number. It was a very helpful number as long as the high employment surplus was much bigger than the actual.

Also, there is a certain arbitrariness about defining the price level at which you are going to measure the high employment surplus where there did not seem to be much arbitrariness about defining the unemployment rate.

Chairman PROXMIRE. Of course, so much depends on what you pick as the unemployment rate, though, too. This committee unanimously decided that 3½ percent should be our short-term goal, and 3 percent our long-term goal. Four percent does seem to settle for an unfortunate amount of stagnation and very, very high unemployment for many people in our society.

I notice that Leon Keyserling, in his recent comments on the economy says that we have a \$40 billion GNP gap right now, that we are functioning at far below the level we should function at. But I guess we just have to rely on whatever the administration in power decides is an unemployment rate at which you can have stable prices.

Mr. STEIN. Well, from the standpoint of the concept of the high employment surplus, it does not really matter within some considerable range what number you take, what unemployment rate, as long as you keep that constant. In other words, you could do the same thing at 3 percent if you had some reason for doing that. What we are mainly interested in, I think, is variations in the size of the surplus at some standard rate of unemployment. It is just like should we measure the boiling point of water at sea level or at 7,000 feet altitude.

Chairman PROXMIRE. Yes, but isn't the whole purpose of this so that we can get a clear notion of how much drag there is? For instance, in 1958, when we had unemployment that everybody agreed was too high, then we could determine that even though we were running a deficit in 1958, that there was fiscal drag, because if we had had reasonably good employment, running at 4 percent instead of 5½ or 6