

You asked if it is an axiomatic thing, something which has no exception, and I would say it has exceptions.

Senator MILLER. Do the other members of the panel agree on that?

Mr. CHANDLER. I would agree from your example that you most likely would have inflation.

Normally, a monetary increase of something like \$5 billion would finance an increase of \$10 billion of GNP.

Mr. MODIGLIANI. Less than that. More like \$2.5 billion.

Mr. WALLICH. I agree with that.

Senator MILLER. If it is likely that this will prove out, recognizing there could be some exceptions, might it not be a good idea for the Federal Government to try to seek out a formula for arriving at what could be called real economic growth? Instead of all this attention being paid to various factors—gross national product, production, all that business—and come up with a formula that will tell us whether or not we have had any real meaningful economic growth? For example, a year ago you may remember that during the first 3 months the entire amount of increased GNP consisted of inflation. And we were just standing still. That does not mean that we had no real economic growth. Possibly our real economic growth went down. I do not know. But our committee went into this some time ago, I think, Mr. Chairman, when we encouraged the development of a long-range balance sheet for our economy.

I am just wondering why we have not developed something along the line of a concept of real economic growth which would be uniformly recognized by the economics community.

Mr. CHANDLER. I would like to make two comments on that. The first one is that I think the number of exceptions would exceed the rule. I think they would be very frequent indeed. The second thing is that if we are going to approach it from your point of view, we would certainly have to use some concept of potential real growth, because the actual rate of growth is surely not independent of the behavior of demand for output, which in some sense is related to the behavior of the money supply.

So one would have to deal with potentials rather than actuals.

Mr. MODIGLIANI. And I think in this connection, while it is hard to construct a single—a one-dimensional measure of economic growth, I think most economists would agree that a measure of capacity to produce GNP in constant prices is as good an overall measure as one can have, and I think you would want to accompany this by a few related measures such as productivity measures and measures of employment and whatnot.

But, in principle, this notion of the full employment GNP, real GNP, is a good measure, and the way it behaves over time will give you a reasonable measure of real economic growth.

Senator MILLER. You do not agree with Professor Wallich that we could refine that still further to real dollar increased GNP per capita?

Mr. MODIGLIANI. You see, when I speak of a potential economic growth, I mean the amount of GNP in constant prices that could be produced at high-level employment. That still tells you the maximum you could do and what you should shoot for.

You can then, if you want, express it on a per capita basis, that is fine.