CONFERENCE ON ECONOMIC PROGRESS

Introduction

The opportunity which the Joint Economic Committee has given me, year by year, to express my views with respect to the Economic Report of the President and the annual report of the Council of Economic Advisers is deeply appreciated.

My comments will deal mainly with the CEA report, for it develops the underlying analyses upon which the brief Economic Report of the President is based and, quite properly, there is virtual consistency between the two documents.

In terms of the history of the Employment Act and its legitimately ambitious purposes, the 22 years of cumulative experience with operations under that act, and the profound economic challenges imposed upon the U.S. economy by current and foreseeable international and domestic conditions, I regretfully regard the current CEA report as inadequate and disappointing. In my view, the performance goals which it sets are too low, the priorities which it establishes are not properly ordered, and the analysis which it undertakes is in important respects very deficient.

My comments upon the CEA's report will be set forth under the five chapter headings contained in that report.

Chapter 1: Sustaining Prosperity: Record and Prospects

CEA's excessive optimism about economic growth performance

The report is excessively impressed with the average annual U.S. economic growth rate in real terms of 4.6 percent during 1960–67. The real growth rate averaged 4.5 percent during 1922–29, 4.6 percent during 1947–50, and 5 percent during 1947–53. In none of these earlier periods did we possess the capabilities for economic growth which have been our during the more recent years, in terms of technology, industrial skills, and policy know-how. Nor in any of these earlier periods were we confronted by challenges as imperative as those now confronting us. Indeed, the recent years have been the first time within the 20th century that a war of substantial size, and tremendous domestic needs, have not prompted us toward a national economic policy which sought to call forth fully the great nonsecret weapon of America's optimum production capabilities. There is nothing in the report which gives even an intimation of the seriousness of this omission. The report focuses mainly upon the defensive purpose of restoring reasonable price stability (subsequently to be discussed), instead of upon the affirmative and dynamic purpose of obtaining the maximum objectives of the Employment Act of 1946.

The report exhibits extraordinary complacency in the face of a real economic growth rate of only 2½ percent 1966–67, which I equate with a GNP gap of about $70 billion measured in 1965 dollars, coming to about 8.7 percent of maximum production. It is noteworthy that the Council in this report has practically abandoned its previous concern about the GNP gap. To be sure, if the Council undertook to estimate the gap for 1967, it would undoubtedly come up with a much lower