

inflationary pressures which lead, in turn, to repressive and restrictive policies. Positive policies are needed to assure that growth is vigorous and sustained, and that it proceeds in balanced fashion.

The policies advocated by the Council, unfortunately, have been negative on both counts. The Council has consistently tended to be less expansionary or more restrictive than the economic circumstances of the time required. It has advocated a negative wage policy (as well as certain tax measures) that have encouraged imbalances in income distribution. Those imbalances have contributed toward unsustainable investment and inventory booms which facilitated and stimulated inflationary price increases; and fears of further inflation were made the basis for more restrictionism.

RESTRICTIVE EMPLOYMENT POLICY

The Council has always been more afraid of possible inflation than of existing unemployment. True, the Council has given recognition to the goals of full production and full employment, but the Council's fear of seeing the economy move forward as far or as fast as it could have been implicit in the policies it has advocated, at least for the past several years. It was in 1962 that Council first proposed an "interim goal" of reducing unemployment to 4 percent—it then stood at close to 6 percent. This reduction the Council expected to see achieved by mid-1963, but the economic policies actually followed, largely on the advice of the Council, did not succeed in reducing unemployment to the 4 percent level until the beginning of 1966.

Even then, it is questionable whether the reduction of unemployment to 4 percent was due to the policies of the Council as much as to events in Vietnam completely outside its control or its ability to forecast. In its 1968 Report, summarizing economic developments of that period, the Council says:

Around mid-1965, the growth of demand for industrial products suddenly accelerated as the direct and indirect consequences of the enlarged commitment of U.S. forces in Vietnam. Manufacturing output and employment spurted sharply in the last quarter of 1965 and the first quarter of 1966, and continued to rise steadily through most of 1966.

Early in 1966 the Council was beginning to back away from the goal of further reductions in the unemployment rate. It did not quite call for acceptance of 4 percent unemployment, but it did suggest "prudent . . . reduction in the unemployment rate to a level below 4 percent" and "a cautious move toward lower unemployment . . ."

By 1967 the Council had fully retreated from the goal of reducing unemployment below 4 percent, and had indeed announced that 4 percent unemployment constituted "essentially full employment." The first paragraph of its report read:

The United States in 1966 enjoyed the benefits of the fullest employment in more than a decade. The unemployment rate reached a 13-year low of 3.9 percent. At that level, demand finally matched supply in most labor markets, a situation which most economists define as essentially "full employment."

Subsequently, in discussing the economic outlook for 1967, the Council said: