

measuring that growth from a recession low and the important question we have to ask ourselves is, once we have attained the level of economic activity and comparatively low level of unemployment that has now been achieved, can we continue to sustain the growth rate as high as 4 to 4.5 percent?

Secondly, while we have made substantial advances over the last 4 years, the fact is that we still have more than 3.5 million people in our labor force who want to work, are able to work, but are unable to find jobs. As a statistic measured against a labor force of about 74 million people it is a small number; it is 5.2 percent. But in terms of human beings it is an intolerably high number. And while a gross national product of \$627 billion annual rate in the third quarter of 1964 is impressive, in order to reduce unemployment to the Administration's interim target of 4 percent, we would have had to be producing a gross national product not of \$627 billion, but of approximately \$650 billion.

In other words, the 4 percent employment gap, or to use an unfortunate shorthand term, the full employment gap is now, according to best estimates, somewhere in the neighborhood of \$20 billion. In the course of the last year it has been reduced by some \$10 billion; from a level of over \$30 billion to about \$20 billion. This is progress, but what I am suggesting is that there is still a substantial distance to go, even to reach that interim target of 4 percent unemployment, a target which I think no reasonable individual would regard as a satisfactory target. There is no reason to believe that we must operate this economy with a level of unemployment as high as 4 million in good years.

If we are to reach more satisfactory levels of 2.5 or 3 percent we have even further to go yet. And our experience certainly suggests it is possible to reduce unemployment to as low as 2.5 or 3 percent without substantial inflation. But, clearly, this would take an even larger increase in GNP above the level that we have in fact attained, and are likely to attain in the absence of overt policy designed to reduce this output gap.

The other thing that concerns me immediately in viewing the demands on tax policy is the fact that over the next decade we are going to have to find jobs for more than the 3/4 of a million or so new entrants in the labor force that we have had over the last few years. One statistic that makes a very important impression on me