Discussion

F. THOMAS JUSTER reasserted the possibility that real GNP could be overdeflated during the first half of 1974, accounting for much of the apparent mystery on unemployment. Michael Lovell reminded the group that overdeflation had turned out to be a problem during the double-digit inflation of the late forties. But George Jaszi doubted the existence of an error in real GNP large enough to account for the $15 billion puzzle that had arisen during the first half of the year. He noted that some of the apparent discrepancy between the Federal Reserve index of industrial production and the real GNP could reflect weak performance in nonindustrial sectors, such as construction. Another portion might arise from inadequacies in the production index—for example, its reliance on some shipment data during a period of declining inventory investment, and its failure to respond to the rising share of small cars in auto production. Jaszi agreed that another portion undoubtedly reflected errors in real GNP, especially in a period of rapid inflation, but he felt that those errors could be negative as well as positive.

Otto Eckstein and Michael Wachter attributed much of the strength of employment demand in the first half of 1974 indirectly to high profits. Eckstein mentioned his success with a financial variable, the ratio of business short-term debt to equity, in improving the fit of an unemployment equation and particularly in tracking the 1969–71 period. Okun agreed that the absence of any decline in profits in the first half of 1974 helped to cushion employment demand. But both he and Franco Modigliani were skeptical that the moderate level of profits, especially since it included large inventory gains, could have encouraged unusual labor hoarding.

George Perry and Saul Hymans expressed interest in a disaggregation of output to determine whether the changing composition of production by sectors could account for any significant portion of the weak performance of aggregate productivity. Okun guessed that that was unlikely to be of significance, since durable goods had experienced a marked reduction in output in 1974 much like that in earlier recession periods, although it was entirely in consumer rather than producer durables. R. J. Gordon suggested that some of the strength of employment might be attributable to the hiring of workers to man newly installed producers' equipment in the later stages of an investment boom, as occurred in 1957 and 1969.