Measuring Broad Economic Goals

Overview

The 1930s were marked by periods of chronically high unemployment in the United States. After World War II, Congress passed the Employment Act of 1946, which stated that it was the policy and responsibility of the federal government to use all practical means to promote maximum employment, production and purchasing power. The Employment Act of 1946 established three important goals for the economy:

1. *Full employment* (also called the natural level of employment) exists when most individuals who are willing to work at the prevailing wages in the economy are employed and the average price level is stable. Even under conditions of full employment, there will be some temporary unemployment as workers change jobs and as new workers seek their first jobs (*frictional* unemployment). In addition, there will be some *structural* unemployment. Structural unemployment exists because there is a mismatch between the skills of the people seeking jobs and the skills required for available jobs.

2. *Price stability* exists when the average level of prices in the economy is neither increasing nor decreasing. The goal of price stability does not imply that prices of individual items should not change — only that the average level of prices should not. A sustained rise in the average level of prices is called *inflation*; a sustained decline is called *deflation*.

3. *Economic growth* exists when the economy produces increasing amounts of goods and services over the long term. If the increase is greater than the increase in population, the amount of goods and services available per person will rise, and thus the nation's standard of living will improve.

In 1978, Congress passed the Full Employment and Balanced Growth (Humphrey-Hawkins) Act establishing two additional goals: an unemployment rate of 4 percent with a zero-percent inflation rate.

Measuring the Achievement of Economic Goals

To determine how well we are achieving the economic goals, we must measure the levels of employment, prices and economic growth. We look at how such measurements are commonly made.

Part A

Measuring Employment

The civilian unemployment rate measures how well we are achieving the goal of full employment. The unemployment rate is derived from a national survey of about 60,000 households. Each month the federal government asks these households about the employment status of household members aged 16 and older (adult population). The survey puts each person in one of three categories: employed, unemployed or not in the labor force. People who are at work (the employed) plus those who are actively looking for work (the unemployed) make up the *labor force*. The labor force is much smaller than the total adult population because many individuals are too old to work, some people are unable to work and some choose not to work.

Adapted from *Master Curriculum Guide in Economics: Teaching Strategies for High School Economics Courses* (New York: National Council on Economic Education, 1985), p. 126.