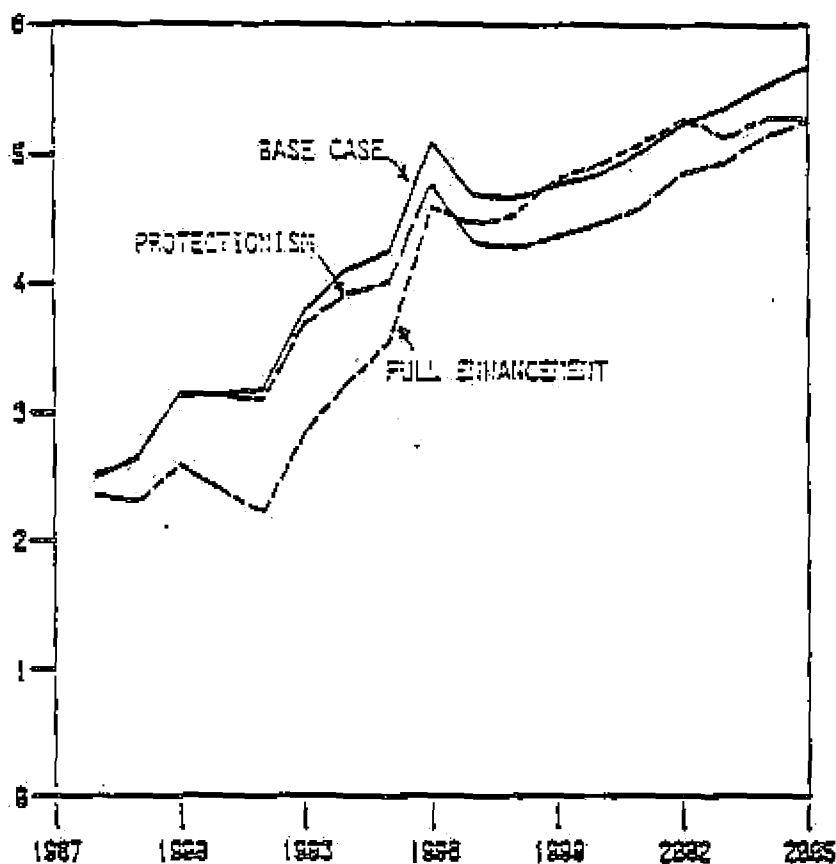


The aggregate employment gains are partially offset by impacts on labour supply. Increased real wage incomes encourage entry into the labour force, and the reduction in "official" unemployment in 1994 is limited to 60,000; in 2005, the reduction reaches 80,000. This, nevertheless, constitutes a significant reduction in the unemployment rate, which is depicted in Figure 3. It may also be noted that the comparatively modest employment gains in the 1990s and beyond reflect the view of the base case that the economy would already be operating closer to full employment. If the United States follows protectionist trade practices (or, equivalently, in the event that the 1990s are otherwise troubled years), this constraint on employment gains would be relaxed, and both the employment gains and the reduction in the unemployment rate would be larger. Alternatively, increased immigration could relax the labour supply constraint.

Figure 4.

INFLATION OF CONSUMER PRICE INDEX
PERCENTAGE CHANGE



As Figure 4 displays, inflation is significantly reduced in all years from 1988 through to the mid-1990s as a result of both