Was last month's 4.5% unemployment rate 'too low'? Was last year's 3.8% growth in real gross domestic product, let alone the 5.4% annualized growth in the first quarter of this year, too good for us? Is the average worker's 2.8% gain in real wages over the past 18 months something to dismay us? Must we worry if, despite the wage increases, profits along with the stock market have soared?

Perennial purveyors of gloom tell us these measures of our economic health are not sustainable. All the worse, they tell us that we must act now to curb the good times, lest we pay in future inflation and then recession. Too many economists have accepted and advanced the outworn dogma of a 'natural rate of unemployment' and saddled us with the abominable acronym of the Nairu, the nonaccelerating-inflation rate of unemployment. We are told by the Congressional Budget Office and others that this rate is about 6%. Unemployment rates below 6% are supposed to cause inflation not just to rise but to accelerate continuously. We would presumably face the disaster of hyperinflation unless the acceleration is reversed by inducing unemployment rates above that 6%.

This argument is compounded by the assumption that a growth rate of about 2% would keep the unemployment rate constant. Faster increases of output would demand more workers at a faster rate than they are being supplied. This would reduce unemployment, carrying it even below that most recent 4.5% (or the 4.3% of April and May). Hence, it is argued, to get the unemployment rate back up to 6% we have to get the growth rate down, perhaps to zero. Little thought is apparently given to the consequences for investment, productivity, wages and profits, not to mention the stock market, of such enforced stagnation.

Many have pointed to our inability to know precisely what the magic trigger-point rate of unemployment really is. But the very idea of the Nairu is fatally flawed. Its underlying hypothesis that current and past inflation feeds automatically 100% into future inflation is not supported by the data. And the data of the past 40 years indicate that while high unemployment may have tended to lower inflation, low unemployment has not raised it.

What better laboratory experiment could there be to confirm these flaws than recent history? The unemployment rate has been below 6% since September 1994. Inflation (as measured by the comprehensive GDP chain-type price index, reflecting prices of all of the nation's output) ran at a 3.3% annual rate in the first quarter of 1995. It has clearly not accelerated since. By the first quarter of 1998 it was down to 1.2%.

Unfortunately there are powerful voices, including members of the Federal Reserve Board and presidents of Federal Reserve Banks, who view our relatively low unemployment and rapid growth as menaces to be combated. They advocate higher interest rates to slow the economy -- in order to fight a virtually nonexistent inflation. One may well ask whether, even if rapid growth raised inflation by a percentage point, we would be better off with prices and wages rising not at all than with 4% wage increases and 2% inflation -- that is, 2% annual growth in real
Fortunately, Fed Chairman Alan Greenspan has so far rejected a policy of raising interest rates to slow growth. He has made clear that he looks carefully at all of the measures of our large, complicated economy, rather than make decisions on the basis of the simplistic theory of the Nairu.

Nevertheless, Mr. Greenspan has not suggested lowering interest rates to counter the slowing of the economy he and other analysts anticipated. Last week, in testimony before the Senate Banking Committee, Mr. Greenspan stressed his concern about the tight labor markets related to lower unemployment. This, along with the reiteration of his views on excessive optimism about future profits, was apparently sufficient to send the stock market into a several-day dive.

Yet the Humphrey-Hawkins Act of 1978 set a target of 4% unemployment, a target most economists argued was unattainable. Now that we are close, why not proceed all the way? Further, as Mr. Greenspan pointed out, we have been 'saved' so far by the increasing proportions of the working-age population actually seeking work.

The strong economy and rising real wages have made work more available and attractive. The greater availability of jobs, especially well-paying ones, has induced many on welfare and millions of others to join the labor force. The increases in the minimum wage and the earned income tax credit have substantially raised the income of low-wage workers, bringing many more into the labor force. There is no reason why this should not continue.

The proportion of our population at work can be increased further by making quality child care available and affordable for working women. Increased investment in education, training and basic research will also raise employment rates and productivity growth in the long run. And most important, we must pursue monetary and fiscal policies that keep purchasing power high and maintain incentives to invest and grow at all levels.

We have a great economy, the envy of the entire world. Rather than reining in our strength, we should harness our economic power to greater heights.

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