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TWENTIETH ANNIVERSARY OF THE EMPLOYMENT ACT OF 1946

AN ECONOMIC SYMPOSIUM

SUPPLEMENT TO

HEARING

BEFORE THE

JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES

EIGHTY-NINTH CONGRESS

SECOND SESSION

Invited Comments
on
DIRECTIONS FOR THE FUTURE

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INTRODUCTION

On February 23, 1966, the Joint Economic Committee held a hearing on the operation of the Employment Act of 1946. This was to mark the 20th anniversary of the signing of the act. At that time the committee heard from Members of Congress and individuals who had active parts in the administration of the act during the two decades. The committee had the advice in the selection of witnesses and arrangements for that day's hearing of a group of five economists who had served under the act either as members of the Council of Economic Advisers or with the staff of the Joint Economic Committee or the Council of Economic Advisers. They were:

Grover W. Ensley, *Chairman*
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The 1-day symposium proved to be a unique form of congressional hearing, producing advice and counsel as to wherein the act and its administrators had succeeded over the years, wherein they had fallen short, and as to what should be done in the future. The participants at the hearing were urged to extend or supplement their oral comments if they so desired.

While preparing for this 1-day symposium, the committee had in mind soliciting also the views of a large number of other experts who could not have been present to testify within the limitations of a 1-day hearing in Washington, D.C. The committee, accordingly, reviewed the list of witnesses, who had at one time or another testified and been helpful to the committee and, with the exception of those who had gone on to other positions in the Government, asked for additional comments focused particularly upon the future; as the invitation for their views expressed it, "as to the direction which ought to be taken in administering and living with the act in the future."

The invitation sent by Chairman Wright Patman in behalf of the Joint Economic Committee, asking for these views as a part of the 20th year "stocktaking" reads:

"The 20th anniversary of the enactment of the Employment Act has recently been observed. But what of its future? What changes can and should we expect in the respective roles of the Federal Government, acting in cooperation with industry, labor, and the State and local governments, as the act requires, in providing for a stable and growing economy?

"An all-day bipartisan symposium on February 23 brought forth much about the workings and accomplishments under the act. These accomplishments are, indeed, impressive. No less important, however, are the problems, opportunities, and directions for the future.

"On one or more occasions you or your organization have participated in the hearings of the Joint Economic Committee or in studies made under the Employment Act as an invited contributor to the discussion of current economic problems. Because you have this working knowledge of the act, I would like to ask you, on behalf of those interested in its objectives, to help us again by expressing your views or thoughts involving the act and economic policies in the future.

"The enclosed record of the 20th-anniversary symposium will provide some background. Within the limits of a 1-day hearing we could not on that occasion hear from all of those such as yourself who have helped thus far, but we would appreciate your views as to the direction which ought to be taken in administering and living with the act in the future. Your statement need not be long."

In response to our invitation, we have now received a thoughtful and provocative set of comments from organizations and individuals—all of whom have had opportunity to become familiar with activities under the act. Needless to say, we very much appreciate this added evidence of cooperation by these individuals and organizations.

The comments which follow (arranged in alphabetical order) deserve the careful consideration of all the friends of the Employment Act and those who believe in its objectives. Successes in stabilizing and promoting the growth of the economy since the end of World War II only serve to make it more urgent that we strive harder to understand economic forces and improve the economy and society in the future.

The statements are presented with a minimum degree of editing consisting chiefly of the deletions of those portions of the replies which had no bearing on the principal statement, particularly letterheads and signatures.

While we feel that the views expressed will be helpful and of interest to all members of the committee and the public concerned, the statements, of course, reflect the individual views of the correspondents and do not necessarily reflect those of the committee or its individual members.

DIRECTIONS FOR THE FUTURE

STATEMENT BY THE NATIONAL PLANNING ASSOCIATION [1]

The 20th anniversary of the passage of the Employment Act provides an occasion for taking stock of the event to which the policies and institutional framework established under that act could be made to serve better the needs of coming decades. The time appears opportune not only because a third decade is beginning according to the calendar, but because new tasks intimately associated with the original objectives of the Employment Act have come to the fore and old tasks have changed their urgency. Equally important to the great changes in conditions and outlook during these 20 years is the fact that we, as a nation, are concentrating much more on economic and social problems, such as poverty, discrimination, and improvement of the quality of our environment, which have existed for a long time. Moreover, we are today in a better position to appraise the effectiveness of policies and institutions available to an alert democracy for dealing with these tasks.

In recent years we have had what has been characterized as the greatest experiment under the Employment Act: in addition to initiating, as in the past, programs to counteract a recession when it occurred, we have been tailoring Government expenditure, tax, and monetary policies to lead beyond recovery into a period of sustained economic expansion. And we have elected to pursue these policies under conditions of growing balance-of-payments difficulties.

Thus, this is a particularly propitious time for reexamining the objectives of the Employment Act, for appraising the policy instruments which have been used or could be used under it, for specifying the information required for making policy recommendations, and for considering what adjustments in the institutional arrangements under the act appear warranted.

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[1] NPA has been interested in problems of economic growth and stabilization since 1943 when it began a series of studies in the field. The studies led to a report, *National Budgets for Full Employment,* which proved of value in drafting the Full Employment Bill of 1945—the forerunner of the Employment Act of 1946.

NPA commemorated the first decade of the act by issuing the special report, "The Employment Act, Past and Future," edited by NPA Chief Economist Gerhard Colm. On the occasion of the act's 20th birthday, the February 1966 issue of the Association monthly report, "Looking Ahead" presented the statement, "The Employment Act—20 Years' Experience and the Future" which is reprinted above.

I. Old and New Objectives of the Employment Act

A. *Full employment*

Combating widespread unemployment such as that experienced during the Great Depression was and still is the primary objective of the Employment Act. The high degree of unemployment which existed until most recent months is quite different from the kind of unemployment feared 20 years ago. Recent unemployment is not the result of depression, but of inadequate rise in employment opportunities. Unemployment of this kind affects particularly the extraordinarily large number of young workers and, as we have come to recognize increasingly, those workers who are unfavorably located, who suffer racial discrimination, or who lack the skills required by modern technology. Underemployment, by which is meant both working fewer hours than desired and holding a job below the level of ability, similarly is receiving greater attention. More job opportunities and reduced unemployment facilitate the fight against racial discrimination. Also, with reduced unemployment, it becomes of increasing importance to improve the matching of jobseekers and job opportunities through education, training, and relocation of people or industries.

B. *Full employment for what?*

The Employment Act of 1946 established the Federal Government's responsibility for determining targets and policies for "maximum employment, production, and purchasing power," This formulation of objectives was in terms of total amounts, but left open the question of in what directions and to what purposes the employment and production would be applied. In the meantime the American people have become conscious of the need explicitly to pursue specific national goals, such as education, transportation, defense, urban redevelopment, research, health, combating poverty and racial discrimination, and improvement of the quality of our environment. The pursuit of the maximum employment and production objectives, however, is both a determinant of and determined by the use of resources for these specific goals. Thus, in a way, the objectives of the Employment Act are enmeshed in the pursuit of national goals and the accompanying reconciliation of these goals with the utilization of resources.

C. *Sustaining growth and counteracting fluctuations*

Adoption of the Employment Act was motivated by the virtually unanimous concern that it is the Government's responsibility to prevent by countercyclical measures the repetition of the downward-spiraling effects of depression, such as took place during the Great Depression of the 1930's. In fact, in the decades since the passage of the Employment Act, the recessions have been milder and shorter than before. In recent years emphasis has shifted from mitigating cyclical swings to sustaining a desirable rate of growth as a primary goal under the Employment Act. However, it cannot be assumed that economists will always be right in their diagnosis of the market factors promoting or obstructing a desirable rate of growth. The same is true of their proposals for policies needed in support of a desirable rate of growth. Nor can it be taken for granted that legislative and administrative implementation of such policies will always be adequate. Therefore, it is prudent to assume that fluctuations can still occur, so that we must perfect the policy devices to deal with them.

D. Rising incomes

Economic expansion requires rising incomes and growing markets provided by consumer expenditures, business investment, and Government purchases. In our economy, consumer expenditures are, and are expected to remain, the mainstay of expanding markets. In the long run, lifting the incomes of individuals above the "subsistence" level by increasing their productive capacity can make the greatest contribution to increasing earning power of poverty groups and thereby to expanding markets. Thus the antipoverty program and some income-maintenance programs are not only socially desirable but also economically beneficial. For maximum effectiveness they must be accompanied by a general growth in national income and productive capacity. To the extent that an increase in incomes accrues to those in lower brackets of the income pyramid, mass consumption markets are apt to be expanded, and this is a condition for continuing high employment and economic growth.

E. Price stabilization

In recent years, price rise has been a problem in most countries. We have learned that "overheated" demand is not the only occasion for price rise; even during periods of relative stagnation, prices have occasionally risen as a result of cost increases and exercise of market power. Combating cost-induced and market-power inflation is a complex task requiring the cooperation of business, labor, and Government. Success in maintaining price stability during the expansion of the early 1960's does not permit us to conclude that this problem has been solved. The desired closer approach to full employment would probably test our methods and policies in this area.

F. Promoting technological advances and mitigating undesirable consequences

During the 20 years since the adoption of the Employment Act, the pace of technological innovation, led by automation and electronic data processing and controls, was stepped up. The newer techniques, many of them revolutionary in character, generated in their wake demand for different labor and managerial skills and brought about certain undesirable consequences. While there now exists an increasing recognition by business, labor, and Government of the need to attain the desirable rate of technological advance with a minimum of adverse side effects, the need for institutional adjustments, as an object of public policy, had not been fully recognized at the time the Employment Act was adopted.

G. Intranational equilibrium

Some geographic areas have lagged behind the rest of the Nation in their ability to maintain employment, in adaptation to technological change, and in the pursuit of specific goals such as education and health. Not only are these hardships problems of public policy for the governmental bodies within the regions concerned, but they adversely affect the economic development of the whole Nation. While all regions cannot be expected to grow at the same pace, it must be recognized that certain national policies have varying regional consequences, and that such policies could be used also in support of regional development.

H. International equilibrium

In recent years, the international ramifications of domestic policies (such as the effects of U.S. monetary policy on the balance of international payments) and domestic ramifications of international policies (such as the absorption of resources by the U.S. role in the defense of the free world) are of increasing importance. As well, the economic policies pursued by other countries influence our domestic situation as never before. The felicitous phrase of the Employment Act "consistent with * * * needs and obligations and other essential considerations of national policy" has assumed a new and poignant meaning. The interactions between domestic and international economic policies emphasize that an essential goal of the Employment Act is the pursuit of the greatest possible degree of harmony between policies in these areas.

Significant indicators

[Billions of dollars unless otherwise noted]

Item	1st quarter 1961 (recession trough)	3d quarter 1965 (latest available)	Change, + increase or − reduction
Federal Government finance, cash budget (seasonally adjusted annual rate):			
Expenditures	$99.6	[1] $126.5	+$26.9
Receipts	94.8	122.0	+27.2
Deficit	4.8	[1] 4.5	−.3
Addendum: net change in receipts may be attributed to—			
Change in Federal tax rates (annual rate) reduction in tax rates [2]			−17.5
Increase in social insurance tax rates			+3.0
Expansion of the tax base (annual rate)			+41.7
Total			+27.2
Gross national product (seasonally adjusted annual rate, 1958 dollars)	$482.7	$613.0	+ [3] 27.0
Public debt (average for quarter)	$289.5	$317.7	+$28.2
Public debt as a percentage of gross national product	57.5	46.9	−10.6
Wholesale Price Index (1957-59=100)	$101.0	$102.9	+ [4] 1.9
Consumer Price Index (1957-59=100)	$103.9	$110.1	+ [4] 6.0

[1] Adjusted for nonrecurring 3d quarter expenditures.
[2] Change in depreciation guidelines, the investment tax credit, the Revenue Act of 1964, and that portion of the excise tax reduction passed in 1965 which was effective by the 3d quarter 1965.
[3] Percent.
[4] Percentage points.

II. Policy Instruments Available in Support of These Objectives

The Employment Act committed the Government to use "all practical means" to accomplish the purposes of that act. Wisely, it did not specify what means should be used. Also, today and for the future, the determination of the policy devices to be used should depend on circumstances which cannot be foreseen. Nevertheless, we have more experience today than we had 20 years ago as to what kind of policies can be effective and may need to be used. Moreover, policy devices have been developed which were not available 20 years ago.

A. Fiscal policies in support of economic growth

1. The experience of the last 20 years, and especially over the last 5 years since the bottom of the last recession, suggests that fiscal policy, if adapted to prevailing conditions, can be a powerful instrument in support of economic growth without necessarily undermining the fiscal position of the Federal Government and without serious inflationary consequences. A few figures illustrate the spectacular development of recent years. (See table on p. 6.)

2. Effective fiscal policy in support of economic growth requires a judicious combination of expenditure and tax policies. The best combination of such policies changes with circumstances determined by foreign and domestic policies, economic conditions, and social priorities. At present, in the light of the possible need for increased expenditures for defense and for implementation of the domestic "Great Society" programs, a "wait and see" attitude is warranted before commitments are made for further tax reduction that may become again necessary and desirable at a future time.

B. Monetary policy

Monetary policy affects investment outlays and the creation of employment opportunities by making borrowing less costly or more costly to consumers, business, and State and local governments, and by affecting the availability of loanable funds. Monetary and other Government policies must be coordinated, and the "mix" of monetary and fiscal policies must be continually adapted to the changing domestic and international economic situation if the goals of the Employment Act are to be realized. In most recent years this coordination and use of a viable "mix" has been particularly important; fiscal policy sought to stimulate the domestic economy, while the pursuit by monetary policy of the same objective was restrained by the intention of dampening the outflow of volatile short-term money.

C. Science and technology policies

Twenty years ago science and technological development were regarded as endeavors of academic institutions and private enterprise. Exceptions were research in the fields of agriculture and health, and in development of atomic energy and certain weapons, which were both regarded as temporary efforts. Today, mostly as the result of the vast expansion of research in military and space technology, two-thirds of the total national effort in research and technological development is carried out or financed by the Federal Government. There is no argument over the necessity of research and development to meet the needs of the Nation's defense. However, it is increasingly recognized that science and technological knowledge are also an essential factor of production and possibly the most promising factor promoting economic growth, improving our competitive position in the world, and contributing to human welfare.

While it is desirable and expected that a growing amount of research and technological development will be independent of Government financing, a Government policy in support of research and technological development is bound to play a continuing role in the advance on the frontiers of human knowledge, in economic growth, and rising productivity.

Basic research must find Government support in the United States, as it does in other countries, to the extent that it exceeds resources of private organizations. Examples are in space exploration, high energy physics, oceanics, weather science, and medical science.

In some of these fields Government support is needed also in applied research, often in cooperation with private enterprise and research organizations. It is essential to continue the development of new organizational forms for such Government-business cooperation. Experience such as with the techniques used in encouraging civilian atomic power and space communication can be utilized in this effort. The Government should also be concerned with the appropriate dissemination of research findings, especially those made under Government auspices. However, what practical uses in production and distribution are made of advances in knowledge in general depends, and should continue to depend primarily, on ingenuity, talent, and initiative in private enterprise.

More study is needed to recognize both the socially beneficial and the socially harmful consequences of technological advances as well as the measures by which public and private policy can promote the beneficial and mitigate the harmful effects through economic and social adjustments. The American economy is a high-wage economy. Full employment, growth, and international competitiveness in a high-wage economy depend on technological advances. In order to mitigate undesirable side effects of such advances, policies promoting technological developments need to be related to fiscal and other economic and social policies in support of full employment and economic growth.

D. Education, training, and labor market policies

The technological revolution is occurring in the factory, in the office, and on the farm. As one result, the skills required of the labor force are changing. Education, training, and other programs will have to be continually adapted to the changing situation.

The economy will have to cope as well with an extraordinary influx into the labor market in coming years (the babies of 1946–48). The recent experience of a long, vigorous expansion that reduced but did not solve the unemployment problem demonstrates that, in the future, programs of training and retraining that stress skill and incentive must go hand in hand with expansion of job opportunities. Programs to deal with unemployment among youth and the aging will be of special concern.

The U.S. Employment Service should be given the mandate and the resources to make a greater contribution toward matching supply of and demand for labor throughout the Nation. Further action is needed to differentiate the activities of the Service from the unemployment insurance system so that placement efforts are not considered merely an adjunct of benefit payments.

E. Price and wage policy

A policy on wages and prices designed to achieve "price stability" (frequently called an "income policy" in Europe) is a vital part of a policy in support of economic growth. It can be a focal point for management decisions and labor strategy. Also, the competitiveness of American products in international markets rests largely on technological advances and on the course of prices and wages. Leaders of NPA in the past have repeatedly emphasized the need to find a solution for this problem. The general "guidelines" on prices and wages set forth by the President are very important but their formulation and implementation need to be reviewed from time to time and their implications should be spelled out, especially for crucial industries. The guidelines gain in persuasiveness when the Federal Government adheres to them with respect to Federal workers.

F. Regional policies

A consistent yet flexible approach to the problem of certain geographical regions lagging behind the general economic advance is required on both economic and social grounds. The States and localities must play a major role in such an effort.

Among the elements of this approach will be an evaluation of the regional consequences of Federal fiscal policy, particularly of increased defense or of disarmament. Expanded grants-in-aid to sustain regional economic development and pursue specific national goals at the regional level are an important aspect of regional policies. An effort should be made, however, to consolidate the great variety of existing and contemplated grants-in-aid.

These regional policies will require a revitalization of State and local government. Increased technical assistance to foster capabilities at the State and local level, as in the various aspects of urban and regional planning, will be desirable. Improved coordination of Federal, State, and local policies will be necessary. Also, State and local governments should continue to examine their institutional structure to assure that they are responsive to new responsibilities as they are assumed, the population shifts as they occur, and other problems as they arise.

G. Anticyclical policy

Policies and machinery must be held ready for action to deal with economic fluctuations—either speculative booms or recessions. The role of automatic stabilizers, such as the unemployment insurance system, will continue to be essential, so that they should continually be reviewed and updated to assure that they are adequate to their purposes. A further desirable instrument of this preparedness could be a system of contingency tax changes or public works appropriations that would be expedited through the executive-legislative process. This would require legislation discussed below.

H. International economic policy

An important part of pursuing economic policies will be the explicit recognition of interplay between domestic and international elements. Some of the elements that will be particularly relevant to considerations under the Employment Act are:

1. A fundamental change in world conditions, which would permit an arms reduction, would affect Government expenditures and much of private production. We should, as far as possible, have plans and programs ready for such an event.

2. The contribution that the United States is able to make to developing nations depends in part on the adequate growth of the U.S. economy. In an expanding economy, developed nations are more likely to reach the target of the U.N. Decade of Development of a capital flow (public and private) equal to 1 percent of the national income going to developing nations. In turn, the economic growth of developing nations is likely to spur their trade with the United States.

3. The health of the international monetary system will be an important part of the environment of the U.S. economy, both directly and via the indirect effects on the economies of other nations (e.g., Great Britain). For this reason, the United States should continue to work with other nations in an attempt to achieve the most effective solution to the problem.

III. Informational Requirements

A. Economic projections

At the time of the passage of the Employment Act the usefulness of the intermediate- and long-term projections available was not yet proven. In the 20 years since, the improvements in and experience with such projections, both in private and in public organizations, have validated the contribution such projections can make to economic growth and stability.

1. Quantified intermediate- and long-term projections of the overall economic development would provide orientation for Government programs and private investment planning. Projections of this kind should be included in the Economic Reports of the President.

2. A manpower budget projection, providing continual estimates of present and future demand-supply relationships for the various industrial and occupational categories, is a vital tool in developing appropriate programs in education, training, and labor market policies. Such a budget would, for example, point out that, say 10 years hence, specific occupational groups (e.g., scientists and engineers, urban planners) will be experiencing increased demand for their services while other groups (e.g., machine tool operators, agricultural workers) will be experiencing decreased demand.

3. It is particularly important to the development of fiscal policy that medium- and long-term projections of Federal, State, and local government expenditures and revenues be prepared and periodically revised. Projections should also be made of private activities stimulated by Government programs such as the housing insurance and guarantee programs.

B. Program evaluation

Increased use of program evaluation is desirable to appraise the impact of Federal programs on manpower and other resources; this evaluation should include the non-Federal elements of programs undertaken jointly with other government levels and the private sector. Urban renewal, for example, will draw heavily on the resources of all levels of government as well as those of the private sector. Program evaluation would estimate the overall impact in order to help formulate plans that would be of service to the various advisory agencies in the Executive Office of the President and to the

Congress. (Elaboration of this point was contained in the National Planning Association's joint statement entitled "Program Appraisal in the Federal Government" released on December 13, 1965.)

C. Analysis of Government expenditures

For purposes of analysis, Government expenditures should be classified as follows: (a) expenditures for routine operation; (b) expenditures such as education, research, or highway construction, which are especially important in furthering the growth and the rising productivity of the economy; and (c) expenditures for social welfare, some of which may also indirectly contribute to rising productivity. Such a separation would help evaluate the contribution Government programs make toward increasing the Nation's productive capacity.

D. Summaries of legislative recommendations

Even though the objectives of the Employment Act are implemented by separate legislation, it would be useful if the Economic Report contained summaries of all legislative recommendations made by the President relating to the objectives of the Employment Act and of their long-term costs and economic impact. This would make easier the task of obtaining a coordinated picture of the executive proposals and would facilitate the Joint Economic Committee's statutory role of providing a guide to the legislation relating to the objectives of the Employment Act.

IV. Institutional Adjustments

A. In the Executive

1. The technological advances since the passage of the Employment Act have made it desirable that the chapter dealing with technological change and R & D, included in a recent Economic Report, be developed into an annual survey of current R & D progress, the extent to which this progress is supported by the Federal Government, and the proposed programs (e.g., by the National Academy of Sciences). Such a survey could be either a part of the Economic Report or a separate document coordinated with the Economic Report.

2. The interrelations between the Economic Report, the Manpower Report, other Presidential messages, and the desired reports on R & D are many and complex. To achieve the goals of the Employment Act, coordination is required within the Executive Office between the Budget Bureau, the Council of Economic Advisers, and the Office of Science and Technology. It may be desirable to institute special arrangements to improve administrative coordination, although each office would still retain its direct responsibility to the President. Also, improved coordination of these offices with other agencies of the Federal Government continues to be desirable to insure the greatest policy effectiveness.

B. In Congress—The Joint Economic Committee

1. It would be useful if the Joint Economic Committee were to play a greater role in appraisal of relevant legislation; this could be accomplished, for instance, by testimony from the Joint Economic

Committee members (majority and minority) in hearings on legislative measures which vitally affect the American economy. The appraisal would be particularly desirable in the case of providing an overview of budget and tax policy. Reports by the Joint Economic Committee that show the areas of agreement by members, with attached supplementary or dissenting views, could work toward giving the committee's voice greater weight.

2. In spite of the adoption of policies promoting sustained economic growth, the possibility of recession or inflation exists. Therefore, the Government should be prepared to act promptly if a recession or inflation occurs. For such preparedness it would be desirable if Congress adopted in advance legislation directing a tax change without effective date, which, in case of need, could be made effective through a joint resolution of Congress if recommended by the President and the Joint Economic Committee. Correspondingly, Congress could adopt contingency appropriations which could speed up suitable Federal or grants-in-aid programs. The authorizations to spend the additional amounts could be triggered by the same joint resolution process. Such arrangement would permit prompt action without the need to delegate power to act to the President, which Congress thus far has not been inclined to do.

3. As an adjunct function, the Joint Economic Committee has engaged in several pioneering studies of issues and problems within the realm of the Employment Act. These studies have been useful and should be continued.

C. In the private sector

Growth-sustaining investment and technological progress in the private sector are likely to be encouraged by realistic appraisal of present and future economic developments (market potential, human and physical resource availability, etc.) and by increasing familiarity with the confidence in the Government's role in supporting national economic growth. This dual objective might be furthered in the following ways:

1. Greater use could be made by the Council of Economic Advisers of the consultive committees with representatives of labor, business, etc., as authorized in the Employment Act. Success in obtaining the goals of the Employment Act within our framework of social and economic institutions depends to a very large degree on the confidence in the Government's policies by business and labor. The consultive committees would contribute to this relationship.

2. Intermediate- and long-term projections, made available by the Government (or, if not, by private organizations), will help businessmen in their appraisal and help give a common orientation to the economic sectors.

3. More vigorous exploration is needed of ways and means to help management and labor in industries of crucial importance spell out the formulation and implications of price-wage guidelines in a more concrete form.

D. In State and local government

The Employment Act provided for cooperation and consultation with State and local governments. The Public Works and Economic Development Act of 1965 creates further encouragement for cooperation between the Federal Government, on the one hand, and State and local governments and regional groupings, on the other hand. Full use of the provisions of these acts should be taken by State and local governments. Also, the Economic Report of the President might include a chapter dealing specifically with regional development.

The Employment Act of 1946 was born out of the experience of mass unemployment during the depression, on the one hand, and of full employment during the war years, on the other. Yet, it was a forward-looking document committing the Government to a policy of promoting "maximum employment, production, and purchasing power" within the political and social framework of a society of private competitive enterprise. It was a general charter of the American people, to be implemented by a great variety of specific laws and administrative measures. This act has stood the test of time under conditions which in many respects differed drastically from those anticipated by the legislators. Actual political, economic, social, and technological conditions—national and international—have changed during the past 20 years. Awareness of these conditions and of the tasks which lie ahead has also changed. New approaches have been initiated and will need further development. This requires imaginative and flexible legislation and administrative implementation of the objectives of the Employment Act which have been unfolding over two decades.

The tasks to be met in the coming decades are quite different from those envisaged when the Employment Act was adopted. Also, the policy means and the informational guideposts now available to the policymakers are different. New tasks require greater cooperation between the public and the private interests in support of sustained economic growth. Standby legislation is also needed so that prompt executive-legislative action can be taken to combat recessions if they occur. For dealing with inflation resulting from cost increases and market power, a generally acceptable solution has to be found. Also, the international monetary problem presents a task still to be tackled. And the consequences of the technological revolution now in progress are still unknown.

While these changes in tasks and policies require further exploration which, in many cases, may lead to specific legislation and administrative reorganization, they do not necessitate a rewriting of the Employment Act of 1946. Like the Constitution, this basic act can be adapted to changing conditions and tasks either by amendment or by reinterpretation. Thus, each economic report of the President and of the Joint Economic Committee of Congress has contributed to a continuing reinterpretation of the act in the light of changing political, economic, technological, and social conditions, and, no doubt, each future report will continue this process of amendment. Through this and other ways of reinterpreting this basic mandate given the Government 20 years ago, the Employment Act can continue to serve the unfolding needs and will continue to merit the overwhelming support of the American people.

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STATEMENT BY THE CHAMBER OF COMMERCE OF THE UNITED STATES

PREPARED BY CARL H. MADDEN, CHIEF ECONOMIST

The two decades of almost continuous prosperity and economic growth since the passage of the Employment Act of 1946 are a tribute to the wisdom of the Congress in adopting the act in its present form rather than the Murray full employment bill (S. 380). Population growth and movements, an upsurge in family formation, ample savings flows, expanding markets, and, above all, a dynamic technology that has caused business to invest heavily to remain competitive, have vindicated the country's faith in the enterprise system. The Employment Act contributed greatly to the postwar confidence of the public by its assurance that Government would prevent a recurrence of the disastrous depression of the thirties. Through their economic studies and reports both the Joint Economic Committee and the Council of Economic Advisers have added to economic knowledge and have stressed the need to take an integrated view of legislative policy.

There is real danger, however, in the tendency of the Council's recent annual reports to shift the emphasis of economic policy to long-range social problems. The danger is twofold: it suggests, contrary to our postwar experience, that a full employment policy and high, sustained economic growth at stable prices, cannot meet many social problems, such as poverty. At the same time, it implies (incorrectly) that economic policy alone is fully capable of solving other social problems in the urban, human resource, and natural resource areas. It is also disquieting to find the Council becoming an ad hoc price enforcement agency. The administration's guideline policy is the result of erring on the side of inflation in its monetary and fiscal policies as the economy approached capacity. In 1962 the Chamber of Commerce of the United States supported tax reductions to unshackle the economy from wartime taxation levels. The tax measures of 1962 and 1964 and the expansionary monetary policy between 1961 and 1965 were widely supported as appropriate for an economy operating below capacity. But, the new economics, espoused by the Council, calls for budget surpluses—not deficits—along with tight money, when unmistakable signs of inflation appear.

Far from advocating a legislative change, the national Chamber believes that the Employment Act in its present form provides a sufficient guide to national economic policy. It is not the act but its implementation during the current inflation that disturbs the Chamber. The powerful—and nondiscriminatory—weapons of monetary and fiscal policy are available to combat both inflation and deflation. The great legislative accomplishment of the Employment Act requires an equally high order of economic statesmanship to realize its goals.

STATEMENT BY FEDERAL STATISTICS USERS' CONFERENCE

Because of the nature and objectives of our organization, our views, of necessity, are limited and cannot deal with the broad aspects of economic policy as will most of the views being submitted to you.

Because of the diversity of interests of our members, we often have diverse views on economic policies. As you know, our primary concern is not with economic policies as such, but with economic data developed by Federal agencies to facilitate the making of policy decisions and the implementation of economic programs. From this point of view we are, of course, concerned with economic policies, once established, because of the need for adequate, timely, and reliable information.

Aside from the essential uses made of economic data for the determination and carrying out of public policy, Federal statistics are an important source of information for many nongovernmental users in all sectors of the economy. Such data serve an important function in assisting these nongovernmental users to make policy and operating decisions. We feel sure that the successful decisions made in the private sector of the economy assist in achieving the policy of the Federal Government set forth in the Employment Act "to promote maximum employment, production, and purchasing power."

The Federal Statistics Users' Conference is an association of 154 business firms, labor unions, and nonprofit research groups who have a common interest in Federal statistical programs and improvement of information supplied by such programs. Our membership is highly diversified. Aside from the three categories mentioned above, our membership includes representation from many industries such as banking and finance, insurance, manufacturing, retail trade, printing and publishing, etc. These members make use of every type of Federal statistical information published.

We believe that the 20th anniversary of the enactment of the Employment Act provides a timely occasion for an appraisal of the objectives of the act and the institutional framework established under it. And, certainly it is timely to review and appraise the economic information that has been developed over the past 20 years which has been used in making policy recommendations. It is also opportune to anticipate the information needs of the future in the light of changed conditions and emphasis and degree of urgency.

There has been a tremendous advancement in the economic welfare of the American people in the past 20 years. While there are many factors responsible for this, the Employment Act, its administration, and the policy instruments used under it, has made a major contribution to this advancement.

The Role of the Joint Economic Committee

The Joint Economic Committee, established as the legislative machinery for administering the act, has also made a vital contribution in the past 20 years. Its hearings and studies have greatly expanded our knowledge of economic theory, our understanding of the workings of the economy and appropriate policy, and have stimulated an increasing interest in such policies.

While the Federal Statistics Users' Conference was not established until November 1956, it has worked very closely since that time with the Joint Economic Committee and particularly with its Subcommittee on Statistics. Although it may not have been envisioned at the time the Joint Economic Committee was established, that committee has become a strong voice urging and defending adequate and proper economic statistics. It has played a vital, necessary, and leading role in the development of improved statistical programs. We pledge our continued support and cooperation to the work of the committee.

While the conference has not taken a specific position on the role that the Joint Economic Committee should play in the future, it would seem that the committee's contribution would be enhanced if it played a greater part in appraising all the legislative recommendations made by the President that relate to the Employment Act.

Evaluation of Statistical Programs

One of the functions of the Conference is to make a continuing evaluation of the various Federal statistical programs, current and long range. In November 1960, the Conference adopted 'A Long-Range Program for the Improvement of Federal Statistics." (As with the Employment Act, it is now timely to reappraise this program.)

The Committee on Long-Range Improvements in Federal Statistics, in its detailed examination of more than 250 suggested needs for improvement, established certain general criteria for the evaluation of those proposals and for the continuing examination of existing programs. It recognized, however, that there is no single framework, no single overall set of criteria against which all existing and proposed statistical programs can be evaluated.

Because we have suggested that current and future information needs be examined and evaluated, by whatever instruments of government or otherwise, we think it worthwhile to enumerate the criteria used by the Conference to guide it in its evaluations. These are:

> "1. Statistical programs which serve multiple and widely felt needs should have priority over those which serve limited purposes.
>
> "2. As a corollary to this criterion, every statistical program, existing or proposed, should be considered in terms of possible uses to which the information can be put and should be designed to provide optimum usefulness for these different purposes.
>
> "3. New programs, or existing programs, which have been substantially expanded should not be further expanded until the information made available from the previously expanded program has met the test of usefulness.

"4. Competing demands for limited resources require both users and producers of statistical data to make a continuing evaluation of the relative usefulness of existing and proposed programs. New programs should not be initiated at the expense of essential existing programs. At the same time, alleged needs of existing programs should not be used as a means of discouraging the development of new and promising ideas.

"5. Existing data sources should be used as fully as possible as an alternative to starting a new statistical program."

Aside from these incomplete criteria, the Conference also gives consideration and emphasis to three areas of major importance to users: (1) timeliness, (2) geographic detail, and (3) product detail.

Improving Federal Statistical Programs

Because economic policies of the future must be based on sound reliable information, the Federal Statistics Users' Conference believes that Federal statistical programs must be under constant review. In its statement before the Joint Economic Committee in February 1964, during the hearings on the January 1964 Economic Report of the President, the Conference called for a full-scale review of statistical programs. The Conference also places particular emphasis on the importance of establishing priority needs for improvement in statistical information with a view to giving guidelines for the future development of statistical programs.

The Joint Economic Committee, since its inception, has contributed notably to the improvement of Federal statistics. The Conference has testified regularly before the Joint Economic Committee in its hearings on the Economic Report of the President to point out areas for review and for the establishment of priority needs. Some areas worthy of careful review include:

Manpower, employment and unemployment statistics.—The President's Committee to Appraise Employment and Unemployment Statistics proposed an elaborate program for the improvement of these data. Work is now underway to implement some of these recommendations. It is worth considering whether this work is going forward rapidly enough to meet the problems of the last half of the 1960's and whether it is being directed to those areas where the need for information is likely to be most critical over the next few years.

Statistics on consumer income and expenditures.—The economy's heavy reliance on markets for consumer goods and services as the foundation for national economic prosperity suggests that a careful reexamination of the numerous statistical series bearing upon consumer income and demand may be worthwhile. Is it prudent to place such a heavy reliance upon an assumption that observed past relationships between disposable income and consumer expenditures are adequate for use in forecasting the course of the economy? Do we need to inquire more deeply into factors affecting consumer expenditures?

Housing statistics.—There is a growing concern about the lack of adequate information not only on vacancies but also on available housing inventories and on housing market activity. Efforts to close this data gap in the past few years have been largely unsuccessful.

While efforts to improve information on the production of housing (housing starts, construction put in place) have received some needed additional resources, data affecting the demand for housing are generally lacking.

Economic impact of Federal activities.—The Federal Government's purchases of goods and services amount to about 11 percent of the Nation's total output. Statistical reporting of Federal procurement and other activities which affect the economy is very limited. The efforts now underway to improve these data need to be looked at and appraised as to their effectiveness in overcoming existing statistical gaps.

Agricultural statistics.—It has become commonplace to talk about the revolutionary changes which have taken place in American agriculture in the last 25 years. Although the Government's statistics relating to crop and livestock production are in the process of being substantially improved, other statistics relating to agriculture do not clearly reflect the changes which have occurred. Are the present data adequate for appraising policy alternatives?

Regional information.—Demand for subnational demographic and economic statistical information continues to grow. Many of these new demands arise from programs authorized by Congress in legislation passed in the last few years. Among these are: the Economic Opportunity Act, the Federal-Aid Highway Act of 1962, the Appalachian Redevelopment Act of 1965, the Elementary and Secondary Education Act of 1965, and the Public Works and Economic Development Act of 1965.

A number of these new programs call for all kinds of information about local areas which were nowhere on the agenda of information needs 5 years ago—from the point of view of governmental policy. Considerations of cost, disclosure, and reporting burden pose many questions which are not fully resolved, but considerable progress has been made in some areas to overcome these obstacles.

Technological advance, the development of new techniques in data collection, and rapid expansion in the use of computers by all kinds of organizations provide new opportunities for the development of these data. Much of this potential could be unrealized for many years to come if steps are not taken soon to assure a continuing flow of basic information from the many sources newly available.

The Federal Government should make a detailed study of needs for subnational demographic and economic data. This study should:

Emphasize fuller utilization of presently available information without undertaking new programs.

Distinguish between those areas where the Federal Government should concentrate its efforts and those areas where other organizations, groups, and levels of government should concentrate their efforts.

In most cases, neither legislation nor administrative procedures precribe standards to assure that the information is uniform as among areas. For some kinds of information, the lack of uniform standards may be unimportant in meeting the needs of a specific program. For some kinds of information, as, for example, data pertaining to such matters as population, employment, and income, the national interest in having comparable data, gathered and compiled by standard methods, using common definitions, transcends the immediate needs of any particular program. Such information is so important that steps should be taken to secure data which are comparable from one area to another. Without comparable data there will be no common measure to evaluate the success or failure of specific programs or to decide whether or not the existence, expansion, or curtailment of particular programs should be the order of the day.

We hope the Joint Economic Committee will exercise vigorous leadership in seeing that steps are taken to secure the development of basic data which are uniform throughout the county. By doing so, it will promote economy, it will lessen the paperwork burden of respondents to statistical inquiries; and it will assure that public policy decisions are being made on the basis of reliable, comparable information.

Balance-of-payments statistics.—Formerly a technical tool used only by specialists, balance-of-payments statistics are now being more widely used for practical purposes by business and other decisionmakers as well as by the Government. A continuing effort should be made to encourage Congress to appropriate necessary funds to support efforts to improve balance-of-payments statistics in line with the findings and recommendations of the Review Committee for Balance-of-Payments Statistics.

Prices and productivity.—The continuing debate about the administration's wage-price "guideposts" focuses new attention on the accuracy and reliability of statistics on prices and measures of productivity. The recent hearing of the Subcommittee on Economic Statistics of the Joint Economic Committee on price statistics was timely and should lead to a better understanding of problem areas, inadequacies of current data, and to recommendations for improvement.

Additional Information Requirements

There is one other informational area which undoubtedly needs serious consideration. The Conference itself has not taken an intensive look into this question, nor taken any concrete position, particularly so far as the Federal Government is concerned, but will certainly consider it in the not-too-distant future.

The question might be phrased in this fashion: In view of the wide range of economic data which have been developed and improved in the past 20 years, would it not now be feasible and useful to make more intermediate and long-range economic projections that would assist governmental and private planning and eventually contribute to further economic growth and stability? It would seem logical that some projections of this kind could be included in the Economic Report of the President.

Conclusion

The Employment Act of 1946 was the product of a certain time and experience, but in the past 20 years the act and the instruments created under it have demonstrated their flexibility in meeting satisfactorily situations and conditions not anticipated by the legislators. Thus, it has proved to be a forward-looking document.

Its objectives of promoting "maximum employment, production, and purchasing power" represent not just a policy commitment for the Federal Government, but one that should be subscribed to by all segments of the economy. In the light of this, every effort should be made to insure greater cooperation between the public and private interest in sustaining economic growth.

The Employment Act can continue to be effective in meeting current and recurrent economic problems. In most cases, it should prove adaptable enough to meet new and changing problems as they arise, but where this is not the case it certainly is subject to amendment or reinterpretation.

The basic concern of the Conference, of course, is that whatever policies are developed for the administration of the act they should be founded on and supported by reliable information of maximum usefulness at minimum cost.

STATEMENT BY WILLIAM R. ALLEN

PROFESSOR OF ECONOMICS, UNIVERSITY OF CALIFORNIA, LOS ANGELES, CALIF.

Among the objectives not explicitly included in the Employment Act of 1946—along with avoidance of inflation and promotion of "growth"—is equilibrium in the balance of international payments. We have been reminded of such omissions several times in the commemorative symposium held last February (price stability: pp. 7, 12, 16, 17–18, 28, 60–61, 84; growth: pp. 8, 12, 13, 16, 28; balance of payments: pp. 7, 10, 13, 16, 17–18, 28, 61, 84). But whereas inflation and growth are given appreciable attention in the symposium papers, balance-of-payments problems generally are given only a bow—typically sad, frustrated, and grudging—as though the subject is really not quite decent enough to be discussed in polite society. (Only Prof. H. C. Wallich devotes as much as a couple of paragraphs to the balance of payments (pp. 14–15–17–18), and his discussion of the matter is not, in its entirety, one of the strong components of an otherwise sensible and sane paper. Theory does not assert and history does not confirm his view that "flexible [exchange] rates would get us from the frying pan of payments imbalance into the fire of trade wars, exchange speculation, and accelerated inflation."

During the period of the Employment Act, most of the commercial world has operated—floundered, staggered, lurched, and improvised would be more descriptive verbs—under the arrangement of the International Monetary Fund. The domestic purposes of the Employment Act and the international financial arrangement under the IMF are quite incompatible. The two can give an impression of surviving gracefully together only by compromising and reneging on the commitments of the domestic goals or by ad hoc alterations in or improvised shoring up of the international scheme or by a combination of the two.

This domestic-international, or internal-external, fundamental incompatibility can be readily indicated by listing several relevant national objectives. These objectives include:

a. *Full-employment-with-steady-prices.*—All this is virtually one word. Very largely, it is what the Employment Act is supposed to be about. Neither "the discipline of the balance of payments" nor anything else is passively to be allowed to circumvent the maintenance of monetary and fiscal "autonomy" or "independence." This is a sacred goal.

b. *Absence of significant barriers to international trade and finance.*—With Cordell Hull and the beginning of the reciprocal trade agreements program in 1934, the United States has been the foremost advocate of "freer" trade, of movement with all due haste toward trade and investment barriers, if any, of only the simplest and most nondiscriminatory sort at "minimal" levels. But this is only a profane goal, subject to manipulation, machination, and accommodation.

Still, the goal, the ideal persists, as manifested partly in the fact that imposition or increase of import barriers often is done under the guise of "gentlemen's agreements" with foreigners and "friendly, patriotic persuasion" of domestic importers of goods and claims.

c. *No curtailment of Government spending abroad*—economic aid, maintenance of Military Establishment, prosecution of Vietnam war, etc.—for balance-of-payments purposes. This may not be quite a sacred goal, for there are occasional alarums about the resources of even this country being finite. But the alarums are generally ignored, and ignoring any balance-of-payments constraint on Government spending abroad (or, indeed, at home) is a principle with at least one foot in heaven.

d. *Indefinitely pegged exchange rates.*—Pegged but alterable exchange rates are the most conspicuous feature of the IMF arrangement. Making the worst of two worlds—rates which are pegged but (in contrast to the gold standard) not firmly pegged and which are flexible but only sporadically and at governmental decree—this is surely the worst type of arrangement which the ingenious mind of man could have concocted. But the freak, having been spawned, has been virtually deified in influential circles—although there is a seemingly growing group of us heathens.

Existing theoretical literature makes clear that, even in the abstract, the conditions and techniques of achieving and maintaining joint internal-external equilibrium is a highly complex problem, at least with pegged exchange rates. And with effective honoring of constraints imposed by the four objectives we have reviewed, the task of obtaining persistent internal-external equilibrium is quite impossible.[1]

The foregoing suggests some observations:

(*a*) There are numerous variables—we have spoken in terms of income components and balance-of-payments components—in analyzing the vexing and involved problem of internal-external equilibrium.

(*b*) The existence of numerous variables implies that there are alternative general avenues to follow in affecting the state of the balance of payments. To be sure, altering one variable or category of variables will have repercussions on others, but the immediate impact of policy can fall on any of a number of places.

(*c*) Any type of internal-external adjustment involves difficulties and costs. There is no choice of general policy which will avoid all compromises of preferences and objectives of all persons (if, indeed, of any person).

(*d*) Not only are there various general approaches to adjustment, there are different particular tactics in implementing a chosen approach. Basically, these tactics fall into two groupings: desired actions (e.g., reduction of imports, curtailment of capital outflows, increase in saving) can be induced or they can be coerced.

(*e*) For those who prefer inducement to coercion, on grounds of political philosophy, administrative convenience, economic efficiency, and the equity of impersonality, freely fluctuating exchange rates can have a strong appeal. This is not to assert that advocacy of indefinitely pegged rates invariably reflects fondness of authoritarianism, administrative heavyhandedness, inefficiency, and inequity. Some-

[1] Technical and algebraic material on the equilibrium problem omitted here.

times it reflects a dubious hypothesis of abnormal mass psychology. And sometimes it reflects a failure to comprehend the nature of markets.

(*f*) All this does not encompass the further problem of how the "dollar exchange standard" could be viable if somehow the United States were to achieve and for long maintain equilibrium in its balance of payments. On the one hand, will the rest of the world forever refrain from a last, complete run on American gold if the United States continues to have a balance-of-payments deficit? On the other hand, can a growing world economy conveniently adjust to a situation in which "liquidity" in the form of dollars fails to expand appreciably because of correction of the U.S. balance-of-payments deficit? With freely fluctuating exchange rates, both questions would become irrelevant.

Even this brief recital is sufficient to indicate that a problem of internal-external equilibrium is still with us. It is as apparent as anything about the future can be that the problem will continue to exist. In one set of manifestations or another, it is bound to persist so long as we lack a genuine mechanism of balance-of-payments adjustment, and, as was conceded even by Lord Keynes, one of the Bretton Woods founding fathers, under the IMF arrangement there is no adjustment mechanism.

Prof. W. W. Heller spoke happily in the symposium (p. 37) of an adopted combination of measures "designed to harmonize the demands of" internal objectives and "external payments equilibrium." He was cautious enough not quite explicitly to claim complete success for this design of policies—a claim which would be as incredulous as it would be immodest. But even the cautious claim misses a point of fundamental concern: what we desire—at least what some of us desire—is not a discretionary and ad hoc design of policy to direct and decree market behavior but rather a design of institutions to induce and engender behavior which yields internal and external equilibrium. And one promising feature of such a design of institutions is freely fluctuating exchange rates.

STATEMENT BY JAMES W. ANGELL

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The Employment Act of 1946 has been a major factor in producing a miraculous transformation in the life of the American people. In consequence of this act and of other legislation passed in the same general period, the old pattern of intermittent but violent economic recessions and depressions has given way to one of increasingly modest recessions or even mere slowdowns, and we may hope that the specters of the breadlines and the apple sellers have been banished forever.

Nevertheless, experience has shown that the act contains both serious internal inconsistencies and serious gaps in its statements of goals and means.

The most serious inconsistency arises from the fact that "maximum purchasing power"—which I interpret to mean reasonably stable prices—may be impossible to achieve if at the same time we strive for "maximum employment." As the employment rate begins to approach levels which we can regard as tolerable, prices often begin to shoot up, too, as we have been discovering recently. This does not mean, of course, that we must abandon one goal or the other. It does mean, however, that the recognition and resolution of this potential contradiction between goals should be made an explicity stated further purpose of the act, thus providing a firm foundation on which both administrative action and any necessary additional legislation can be based. We have no firm guidelines in these directions now, and too much of vital importance is hence left to the inevitably varying and often conflicting judgments of administrators or to emergency action by the Congress.

The most serious gap in the act, I believe, is its failure to make any explicit provision for orderly incorporation of the policies and actions of the Board of Governors of the Federal Reserve System into its own framework. Legally, in its operations the Board is independent of the Federal Government as such. But this is an absurd situation, found in no other major country. Monetary policy and fiscal policy are in many if not all situations only two sides of the same coin. They should be directed toward the same general objectives, and should be implemented by mutually consistent measures. Yet only too frequently we have witnessed virtually head-on conflicts over current goals and methods, between the Board, on the one side, and the Treasury or other organs of the administration, on the other. Such conflicts at best produce uncertainty and a probable retardation of our growth rate, and at worst could inflict really serious damage on the economy. They should be completely prevented, presumably by new legislation.

The other great gap in the act is its complete failure to recognize the severe limitations that can be placed on the implementation of our primarily domestic economic policies by our international commercial and financial transactions. This limitation arises from the obvious practical requirement that we maintain something approaching equilibrium in our balance of international payments—not with respect to any one short period, of course, but at least with respect to our average position over a period of several years taken together. This requirement, which seemed to offer no difficulties in 1946, has had serious consequences since about 1960, and now threatens to become crucially important.

The basic fact of the matter is that as a nation we now have at least five major economic and political objectives, but that it may not be possible for us to achieve all five in full and at the same time. The five are the maintenance of a high rate of domestic economic growth, and hence of employment (some may wish to state these two related goals in the opposite order); the maintenance of reasonable stability in our price levels; the safeguarding of our military and political commitments abroad; the maintenance and increase of our economic aid to less developed countries; and the maintenance of substantial equilibrium over time in our balance of international payments. Failure to achieve the last-named objective can easily bring us to the brink of foreign exchange crises and even risk the disaster of an enforced devaluation of the dollar, thus imperiling a number of the other objectives. Yet our experience in recent years shows that the combination of rapid internal growth and the maintenance of our commitments abroad—especially when large private capital exports are piled on top—can prevent our coming even close to reaching international payments equilibrium on any sustained basis. The consequence has been the development of a situation which we are finding increasingly difficult, and which may become intolerable. Then something will have to give—be sacrificed. The Employment Act of 1946 offers no guidelines, however, for the resolution of these conflicts of national objectives. I believe it should.

Finally, the three main discretionary instruments or tools by which we seek to achieve the goals of the Employment Act and our other objectives are seriously defective in that even when used in combination, they cannot assure that smooth and steady overall economic growth, and that quick and efficient adaptation to changed circumstances, which should be the ideal. They are powerful, but they often work too slowly, or too jerkily, or fail to deal with important types of situations. First, monetary policy can be varied easily and quickly. But while it can help check booms and also help with the balance of international payments, it is ordinarily of little immediate assistance in starting a recovery after a recession or even a mere slowdown of activity. Second, the volume of Federal expenditures can also be varied within considerable limits by administrative action, but the effects of changes—especially of increases—take considerable time to be felt widely. This is not a good short-term weapon. Third, broad tax changes can have very powerful and quite immediate effects. But under our present laws only the Congress can change our Federal taxes. This means that such changes can usually be brought about only after substantial delay, and that the decisions involved are often strongly influenced by primarily political considerations. Increasing tax rates is never popular. To overcome these very substantial shortcomings in the use of our present tax system as an instrument of control, I urge, as have many others, that the President be given the discretionary power to raise or lower tax rates by say 5 percent above or below the rates previously set by the Congress. This power should certainly extend to individual and corporate income taxes, and perhaps to other taxes as well. Its use can contribute greatly to the smoother operation and the sustained even growth of our economy, without trespassing materially on the powers of the Congress—which in any event is not well constituted to deal with rapidly changing shortrun contingencies.

The several problems I have described above are complicated. I believe, however, that the Congress must face up to them explicitly and promptly. The Congress should both expand the array of major economic objectives that are now set out in the Employment Act, and state them clearly; should establish a broad order of priorities among them to provide guidance in situations when, as now seems to be the case, they cannot all be pursued to the full simultaneously; and should prescribe, at least in general terms, any necessary additional tools of implementation.

Much of what I have proposed above will require further legislative enactments, either as amendments to the Employment Act itself or in the form of new laws. I think, however, that we must make up our minds soon as to what we really want to achieve, and then act. We live in a world of rapid change, and time will not wait for us.

STATEMENT BY JOSEPH ASCHHEIM

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I. THE CHANGE OF ORIENTATION

The 20th anniversary of the Employment Act is a fitting occasion for renewed consideration of the act's objectives. Under the impact of changing times, the suitability of even the broadest economic policy objectives must itself be subject to change. It was this realization that led this writer,[1] among others, 8 years ago to suggest that a stable price level objective should be added to the Employment Act. For the act had been formulated amid forecasts of heavy unemployment in the immediate postwar period. The emergence of inflation, rather than of unemployment, as the major problem of the immediate postwar period contrasted with the absence of any reference to a price level objective in the act. The reemergence as a problem for economic policy in the mid-1960's has once again highlighted that omission in the act.

Yet this omission itself would seem defensible for the future if the conflict between full employment and price level stability were a severe one. The evidence of recent years, however, corroborates this writer's conclusion of 1958 that price level stability in the American economy is consistent with an unemployment rate of 5 percent of the civilian labor force. Even this unemployment rate is in excess of the frictional unemployment of about 3 percent which is implicit in a state of full employment in the American economy. Thus, the conflict between full employment and price level stability persists but remains moderate.

While the dilemma between price level stability and full employment is by now of long standing, an additional, newer and apparently more bothersome problem has emerged in connection with present Employment Act objectives. It is the problem of the external equilibrium of the American economy. The novelty of this problem is, strictly speaking, the novelty of the recognition of the problem. For several years before any noticeable attention was accorded it, the U.S. balance of payments had been in a deficit position. Yet the overall external condition of the American economy had come to be regarded as so patently sound, that this aspect of the economy was consistently ignored in the many-sided discussion of Employment Act objectives. Thus, in the Joint Economic Committee's weighty 1958 Compendium on the Relationship of Prices to Economic Stability and Growth, consisting of more than 40 papers by economists, not a single paper showed any cognizance of the external aspect of the American economy. In

[1] "Price-Level Stability and Employment Act Objectives," in Joint Economic Committee, The Relationship of Prices to Economic Stability and Growth (Washington: U.S. Government Printing Office, 1958), pp. 23–31.

these papers the discussion reflected the promise that American economic policy could analytically be treated as if the American economy were a closed economy.

In contrast to this widely adopted approach of as recently as 1958, the literature bearing on national economic objectives in the last half-dozen years is replete with references to and, indeed, concern about the problem of external equilibrium. Reflecting this new concern, the Joint Economic Committee's symposium on the 20th anniversary of the Employment Act of 1946 includes serious discussion of the problem. In particular, one former member of the Council of Economic Advisers pointedly suggests including the goal of balance-of-payments equilibrium, as well as that of stable prices, in the Employment Act.[2] Indeed, he considers the goal of payments-balance of such overriding importance as to insist that "It is the only objective where a fairly precise target must be achieved. We can choose our way of achieving balance, beyond the deficit justified by amount of dollars the world wants, by exporting more, or investing less, or by borrowing abroad. But we cannot afford to run out of international reserves."[3]

It is certainly symptomatic of the changing nature of American economic thought that there has occurred, within the timespan of 1958 to 1966, an elevation of the concern over U.S. payments balance from the status of nonexistence to that of suggested explicit inclusion in the Employment Act as "the only objective where a fairly precise target must be achieved." Though not all economists may go so far as to urge such amendment of the Employment Act, there can be little doubt but that concern over U.S. payments balance has become widespread among economic policymakers throughout the United States and the free world. In view of such widespread concern, the suggestion of including balance-of-payments equilibrium among Employment Act objectives deserves more than a passing thought.

In the following pages, the payments-balance objective will be considered in terms of (*a*) implications of adoption of the objective, and (*b*) possible alternatives to the objective. It will be shown that the implications of its adoption render the objective undesirable, and that the search must be among alternative approaches to the coordination of the external with the internal position of the American economy.

II. Implications of the Payments-Balance Objective

A. COMPATIBILITY OF OBJECTIVES

Incorporation of the payments-balance objective into the Employment Act presupposes that the act's various objectives are either compatible or, at worst, in only mild conflict. For if the conflict between the payments-balance objective and the act's other objectives were a sharp one, it would become necessary either to abandon some objective(s) entirely or else to specify in the act the limits of deviations from individual objectives that would be deemed tolerable.

Now it is interesting that the aforementioned proposal of adopting the payments-balance objective is based upon belief "in the longrun

[2] Henry C. Wallich's statement in Joint Economic Committee, "Twentieth Anniversary of the Employment Act of 1946: An Economic Symposium" (Washington: U.S. Government Printing Office, 1966), pp. 17–18.
[3] Ibid., p. 17.

compatibility of payments balance with employment and growth." [4] This belief is reinforced by the observation that "the price restraint that needs to be applied in order to end a payments deficit is nonrecurring: Once domestic prices have become more competitive, we can live happily ever after with a strong balance of payments." [5] The temporal context for this observation is that of 1958–66. Thus, "Our balance-of-payments experience of the last 8 years has taught us another lesson about inflation. If the international value of the dollar is to be maintained, and all that goes with it economically, politically, and militarily, we must keep our international payments in balance and hence inflation under control." [6]

I submit that the balance-of-payments experience of the last 8 years teaches us a lesson about inflation diametrically opposite to that quoted above. The lesson is that even in the absence of inflation, the balance of payments may remain continuously in deficit. Instead, precisely this is the great irony of the period that has elevated the concern over U.S. payments balance to such prominence. During the very time when the international financial position of the United States emerged as a major economic-policy problem, the American economy was featuring a measure of price-level stability that merited the envy of the world. From 1958 to 1964 consumer prices in the United States rose at the rate of 1.2 percent per annum, and, more relevant to international trade, wholesale prices rose by one-tenth of 1 percentage point for the entire period. Yet the U.S. balance of payments persisted in adversity, even in the face of a decidedly favorable balance on current account. Thus, keeping inflation under control and keeping international payments in balance are nonequivalent propositions. Moreover, throughout that same 6 years the level of employment was significantly less than full employment, with the civilian unemployment rate averaging in excess of 5 percent.

Unfortunately, therefore, the "happy conclusion about the possibility of peaceful coexistence" [7] among full employment, price-level stability and payments balance is contradicted by the very evidence adduced for it. Correspondingly, the proposition that "once domestic prices have become more competitive, we can live happily ever after with a strong balance of payments" founders in light of the experience of 1958–64. Throughout that period American domestic prices were declining relative to foreign prices; yet deficits in the U.S. balance of payments persisted. The direct linking of payments balance with product prices or terms of trade is fundamentally fallacious. The net balance-of-payments position reflects not only product-price movements, but also the movements of loanable funds and of the Government sector's international payments and receipts. These latter transactions may have rather little to do with price comparisons and much more with political, military, and other considerations. It is only in the simple model of the classical gold-specie-flow mechanism, with its assumptions of downward as well as upward price-level flexibility and the absence of an economic and military and granting government, that the direct linking of product prices with payments balance is

[4] Ibid., p. 15.
[5] Ibid., pp. 14–15.
[6] Ibid., p. 17.
[7] Ibid., p. 15.

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warranted. That, however, is not the model relevant to the post-World II United States.

The complexity of the relationship between the domestic price level and the international payments balance is illustrated not only by the coexistence of price-level stability with deficits in the United States but also by the coexistence of inflation with balance-of-payments surpluses in other economies during the same period. The prescription of "control of inflation" as the road to payments balance is so over-simple as to be grossly misleading. This is not to suggest that the control of inflation should be thrown to the winds. On the contrary, as noted in section I above, the present author reiterates his 1958 suggestion of incorporating the objective of price-level stability into the Employment Act, but not because this objective implies long-term payments balance, for it manifestly does not.

That even the substantial volume of unemployment coupled with the price-level stability of 1958–64 did not restore equilibrium to the U.S. balance of payments suggests that it would have taken a depression to restore such equilibrium via the route of competitive price adjustment. In other words, under circumstances quite relevant to the contemporary United States, there may be periods of severe conflict between international payments balance and full employment. The unemployment rate of 1958–64 was obviously not adequate to the task of equilibrating the balance of payments; yet even that rate was considered socially intolerable for the long term (as witness the income-tax reduction of 1964). If equilibrium is to be restored to and maintained in the U.S. balance of payments, it will only be by means that themselves are consistent with the preservation of the Employment Act objectives already extant.

B. THE NATURE OF THE OBJECTIVE

Consider now the implications of the payments-equilibrium objective for the role of the dollar in the international monetary system. In the course of the postwar period the U.S. dollar has come to be the leading reserve currency of the world, to the point where by 1964 nearly one-half of the free world's monetary reserves (outside the United States) consisted of dollars. But how did this outcome emerge?

The U.S. balance of payments has been in deficit every year with the exception of 1957, ever since 1950. Thus straight through the period of the so-called dollar shortage, the U.S. balance of payments was in deficit. Indeed, it was in the course of the period of the dollar shortage; i.e., during 1945–58, that European countries increasingly used dollars in U.S. banks as reserves of international means of payments, in preference to gold. This preference arose from the dual character of dollars as freely convertible into gold at the U.S. Treasury and as interest-bearing assets at the same time. Thus, the persistent balance-of-payments deficits of the United States provided the financial wherewithal that has come to be a substantial of the free world's international monetary system.

To have had in the Employment Act of 1946 a commitment of U.S. economic policy to a payments equilibrium would have implied the denial to the free world of its single most important source of additional international means of payment. Given the existing system of stable exchange rates and international gold reserves under the Articles of Agreement of the International Monetary Fund, equilibrium in the U.S. balance of payments during 1945–58 would have denied the free world the services of its leading international reserve banker.

But what of the period since 1958? From 1958 onward the size deficit in the United States of the balance of payments more than tripled on the average as compared to the pre-1958 period. Thus from 1958 on the U.S. balance-of-payments position came to be regarded as seriously problematical. Yet the United States has, by the choice of others, continued to serve as the free world's leading international-reserve banker, as evidenced by a continuing accumulation by foreigners of short-term dollar assets. It should, therefore, be hardly surprising when in one particular quarter, the second quarter of 1965, the U.S. balance-of-payments position turned favorable, it was immediately recognized that if the world were faced with the termination of deficits in the U.S. balance of payments, the international economy would be subjected to a shortage of dollar reserves that could culminate in an international liquidity crisis.[8]

Thus, so long as the stable exchange-rate system under the Articles of Agreement of the IMF is favored and prevails, adherence to a payments-equilibrium objective would be inconsistent with continuance of the role of the dollar as the leading reserve currency in a world economy with a growing volume of international transactions. To restrict U.S. national economic policy by a payments-balance constraint without providing for some alternative reserve-currency scheme is to burden rather than to enhance the international monetary system extant.

C. THE MEANING OF THE PAYMENTS-EQUILIBRIUM OBJECTIVE

The experience of the period of the so-called dollar shortage as contrasted with the succeeding period illustrates that it is not deficits in the balance of payments of a key-currency country that erode its position of international-reserve banker. Rather it is the net drain of the key-currency country's gold reserves that erodes this position. Now the mere existence of a deficit in the key-currency country's balance of payments does not necessarily imply that the country's gold reserves are dropping. (Nor does the mere presence of surpluses in the key-currency country's balance of payments imply that the country's gold reserves are growing.) Whether or not, and the extent to which, the deficits are associated with gold losses depends on the other countries' preferences for gold vis-a-vis the reserve currency. The factors determining these preferences are varied and changeable. These factors may include the size of the other countries' accumulated holdings of the reserve currency, the magnitude of the reserve-currency country's deficits, and the timespan of the deficits.

Thus a year-to-year equilibrium in the key-currency country's balance of payments is an utterly too constricting policy objective. On the other hand, if short-term equilibrium in the balance of payments is rejected, what is meant by long-term equilibrium? In one case, a period

[8] See Howard S. Piquet, The U.S. Balance of Payments and International Monetary Reserves (Washington: American Enterprise Institute, 1966), p. 53.

of 5 years of running deficits may be associated with no net loss of gold reserves; in another case, the same period may be associated with a major depletion of the gold reserves. In any case, however, it is not the equilibrium position of the balance of payments but rather the status of the gold reserves that matters to the preservation or erosion of the international-reserve-banker position of the country concerned. So the objective of balance-of-payments equilibrium is an altogether misleading label for the orientation of the international financial policy of a reserve-currency country such as the United States.

III. Alternative Approaches

In the face of a possible serious conflict between a balance-of-payments objective, or even a gold-reserve objective, and the goals of the Employment Act of 1946, the subjection of the American economy to an international financial constraint is an intolerable absurdity. Not even the highest sense of international responsibility befitting the free world's leading international-reserve banker warrants a major compromise of the employment goal at home. Instead, alternatives must be explored that would render American prosperity compatible with a viable international monetary system. In other words, neither the balance of payments nor the U.S. gold stock should serve as a constraint upon domestic economic policy pursuant to the Employment Act.

One possible approach to preservation of the existing reserve-currency status of the dollar is that the U.S. Government regulate its own part in the totals for payments and receipts in the U.S. balance of payments so as to offset disequilibrium in the balance of payments that would otherwise continue. Thus, the role of the Government in the provision of foreign economic and military aid could be altered over time to take into account the reserve-currency status of the dollar under the existing stable exchange-rate system. For example, the U.S. budgetary cost of the presence of U.S. Armed Forces and installations in well-to-do countries such as Germany could be shared with the governments involved. An American-German agreement on a compensation scheme to this effect could go a long way to wiping out the present deficit in the U.S. balance of payments.

A more fundamental alternative approach could be any of a considerable variety of plans for reform of the international monetary system that have been spelled out in the economic literature. Some of these plans are based upon the existing order of stable exchange rates. Other plans are variants of freely floating exchange rates. Still others involve, in one form or another, exchange control. The thorough exploration of all of these plans deserves high priority in light of the postwar experience under the Articles of Agreement of the IMF. In the meantime, the Employment Act of 1946 should remain unencumbered by any particular constraint of international finance upon the domestic quest for prosperity without inflation.

STATEMENT BY WILLIAM J. BAUMOL

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The Employment Act serves as the expression of a number of extremely important economic objectives and as the symbol of the powerful tools that have been developed for their achievement. We have gone far in learning how to control and avoid the major economic catastrophes that from time to time have beset our Nation in the past, and we have seen the commitment to utilize all available means for this purpose grow to be an integral part of national policy.

Yet our instruments for the control of depressions and inflations have turned out to resemble the ax more than the scalpel. They can deal effectively with major problems, but they are not well suited to produce refined adjustments. While they equip us to fight effectively the threat of major depressions, they have not enabled us to maintain over longer periods anything resembling full employment without inflation.

It will not be easy to develop the finer methods for making more delicate adjustments in the economy's level of activity. The wage-price guideposts have offered some limited help in this respect but at the moment there is little prospect of a major analytical breakthrough that will provide the basis for systematic and effective policies for dealing with mild inflationary pressures and mild problems of unemployment.

At the moment there seems to be only one clearly desirable instrument of policy of which the Government has not availed itself. I believe it would be desirable to develop means whereby some limited changes in tax rates could be instituted on short notice. As it stands, any significant change in our tax schedules can be effected only after a long delay, and this may mean that they go into effect after the need for them has passed. Thus the Nation denies itself a fiscal instrument which is likely to prove exceedingly useful.

While much remains to be done, the extent of the success of stabilization policy should not be overlooked. Indeed, so substantial has been the progress in this area that I believe stabilization is no longer among our most pressing economic problems. Rather, I think the most critical problems before us, or at least those that are potentially most serious, are the growing financial pressures that beset our cities, and the complex of problem areas such as transportation and air pollution in relation to which, for a variety of reasons, the uncoordinated pursuit of self-interest threatens to produce results that are seriously inimical to the public welfare.

This is not the place to go into detail on the nature of the difficulty or on the possibilities for remedial action. It is enough to say that the economic literature has thrown considerable light on these important matters so that, as in the stabilization area, one can proceed with some degree of understanding of the nature of the difficulties. Moreover, I believe that the seriousness of the problems involved can scarcely be overstated. A little extrapolation readily suggests what they portend for the quality of existence within a matter of decades: cities increasingly blighted, atmosphere polluted to an extent that seriously menaces health, large segments of our transportation hopelessly snarled, etc., etc. Such a way of life is an intolerable prospect; yet unless effective and drastic action is taken it may be all but inevitable.

STATEMENT BY NEVINS D. BAXTER

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The Employment Act of 1946 specifies that "it is the continuing policy and responsibility of the Federal Government to use all practicable means consistent with its needs and obligations and other essential considerations of national policy * * * for the purpose of creating and maintaining, in a manner calculated to foster and promote free competitive enterprise and the general welfare, conditions under which there will be afforded useful employment opportunities, * * * and to promote maximum employment, production, and purchasing power."

Hardly anyone can disagree with the intent of these legislative guidelines; this general appeal, however, may also be a serious limitation. Legislation which can mean all things to all people can be little more than a general guide whose success must rest on the skills of those who implement it. Therefore, economic performance under the Employment Act is dependent upon the specific tradeoffs chosen by public policymakers.

The possible conflict between full employment and price stability has received considerable attention in both the professional journals and the financial press. Certainly the very recognition that a choice may be necessary is no small accomplishment, and one which in large part may be credited to the Employment Act. Yet the Employment Act provides no clues as to how the conflict is to be reconciled. By setting up goals, the act defines full employment and price stability as "goods"; society is better off if one is more closely realized, for any given degree of achievement of the other goal. The analogy to consumer theory is apparent—if guns and butter are both "goods," a very basic axiom states that society is better off with more guns at any given level of butter. But consumer theory does not tell us how much in the way of butter to give up for a given increase in guns. Such an answer can be had only if the society can reveal its preference between the two goods. Likewise for full employment and price stability.

Yet even here, the Employment Act has made an important contribution through the Joint Economic Committee and the Council of Economic Advisors. The activities of these bodies have increased public awareness of economic issues and necessary economic choices and have led to freer and more informed public discussions on economic matters. The significance of this cannot be underestimated, for while it is the responsibility of professional economists and legislative experts to make known the choices available to society, the basic decisions between full employment and price stability, between faster economic growth and a smaller balance-of-payments deficit, etc., must ultimately be made by a well-informed electorate. It is my sincere hope that the years to come will see an even greater public awareness of these economic issues and an even fuller recognition of the trade-offs which must be made.

While the necessity to choose among conflicting goals will always exist, the possibility to improve the choice open to us will likewise always be present. Just as the introduction of technological innovations will allow the production of more guns without sacrificing butter, so the advancement of economic knowledge may permit policies which increase the level of employment without inducing inflation. A better understanding of structural unemployment, and of the factors leading to the immobility of labor and the adoption of more efficient production-scheduling techniques can lead to policies which will minimize bottlenecks in the economy and will promote higher levels of employment, consistent with price stability. Similarly, a better knowledge of our monetary system will allow an expansion of flexible policies such as "operation twist," which was designed both to encourage domestic expansion and to discourage the outflow of short-term capital. Needless to say, there are unlimited horizons for economic research directed at public policy issues, and there are very good reasons to further close the ever-narrowing gap between the researcher and the public policymaker. Bold and flexible implementation of economic ideas will be necessary if our economy is to continue to make the sort of progress that we hope it will.

Turning to more specific policies, we have good reason to be proud of the accomplishments of the investment credit, the liberalized depreciation guidelines and the across-the-board cuts in the corporate and personal tax rates. Such legislation was designed to cope with what was considered to be an inadequate rate of economic growth and a higher-than-acceptable rate of unemployment, and the success of these policies can hardly be questioned. Truly, this positive action was in the spirit of the Employment Act. Yet fiscal policy is a two-way street, and tax reduction is, from a political standpoint, the sunny side of that street. We must have the courage to raise taxes and to suspend the investment credit in periods when investment appears to be straining on the resources of society and when inflation is deemed to be the clear-and-present danger. Such action is just as definitely obligatory within the spirit of the Employment Act.

As a final point, I would like to call attention to the clause of the Employment Act which states that the act should be implemented "in a manner calculated to foster and promote free competitive enterprise." I can neither overstate my sympathy with this provision nor can I understate my disapproval with the so-called policy of voluntary restraint and the less-subtle form of arm twisting characterized by the wage-price guidelines. Clearly, if these policies are designed to alleviate the balance-of-payments deficit and the existing inflationary pressures, they do so by ignoring the expressed concern with free competitive enterprise. Private capital must be free to flow across international borders in response to profitable opportunities, just as goods and services must flow between nations if each is to realize its "comparative advantage." Restraints on capital movement, just like tariff barriers, can in the long run serve only to make everyone worse off. Rather than striking at the reasons for the balance-of-payments deficit, the voluntary-restraint program serves only to impose a cure which may be worse than the disease itself.

The wage-price guidelines are not only subject to the same criticisms concerning the promotion of free enterprise, but also are likely to be almost completely ineffective as a device to achieve price stability. Given the level of economic activity and the velocity of money, the general price level must be a direct function of the supply of money. Therefore, a policy which is designed to hold prices down in certain key industries can be effective merely in altering relative prices.[1] In other words, lower prices in aluminum and copper, other things equal, must be matched by higher prices elsewhere in the economy, and cannot be a substitute for monetary restraint or surpluses in the Federal budget. To be sure, the wage-price guidelines are applied to "strategic" industries, where "strategic" is presumably defined by the existence of large corporations or powerful trade unions who are susceptible to Government pressure and coercion. Given the level of aggregate demand, wage-price restraint in these sectors will be accomplished by higher wages and prices in, for example, the service industries, where similar Government pressure cannot be applied. Only a misallocation of resources is likely to result from this distortion of relative prices.[2]

In summary, it is my belief that the Employment Act has made an important contribution by increasing public awareness of alternative economic policies and of the need to make choices where conflicts exist. It is my hope that the administrators of the act in the years to come will pursue its goals with imagination and flexibility, will foster economic research on public-policy issues, and will place economic growth and stability ahead of what may appear to be short-run political expediency. Even more strongly, I hope that there will be a renewed emphasis on the intention of the writers of the Employment Act to "foster and promote free competitive enterprise," for when the returns are all counted, it is only in such an atmosphere that the goals of the Employment Act can truly be achieved.

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[1] The effect of changing relative prices on the general price level is very uncertain. An induced demand shift to sectors where some excess capacity exists may have a deflationary effect but a shift to sectors which are operating at full employment may be inflationary. The final impact on the general price level is almost impossible to determine and may on balance be virtually neutral.

[2] It can be argued that the wage-price guidelines apply to those sectors of the economy where monopolist elements exist, both on the side of management and of labor. Therefore, the reallocation is likely to be desirable. To this I would suggest that where monopolistic practice is demonstrated to exist, vigorous antitrust policies would appear to be far less capricious and more effective at providing a competitive allocation of resources than are wage-price guidelines, designed to meet another objective. It is only in the pathological world where we must settle for the "Nth best" that we might be forced to combat monopoly by preventing free competition.

STATEMENT BY WALTER BUCKINGHAM

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The Employment Act of 1946 should go down in history as one of the great pieces of legislation enacted in this country. One of its greatest advantages lies in the fact that its authors recognized the need for flexibility to meet the changing problems which it was designed to solve. As a result, the act has the kind of flexibility that we find in the U.S. Constitution, which, for example, has no rules specifically regulating such things as freight rates on airlines.

Although the problems which the Employment Act was designed to solve are still with us, they are now in different forms, as its authors expected. Partly, this is due to the fact that technological change has accelerated so rapidly in the past 20 years. Some scientists say as much new knowledge has been added in the past 8 years as in all previous history. This, like the atom bomb, is a change to something entirely different and not just a change in degree.

Unemployment and underemployment have become different things than they were 20 years ago. We have long known that the rules to be used under conditions of full employment do not always apply when there is unemployment. Very much like Alice, who looked into the looking glass and found that things were backward under these special conditions, we might look at full employment as the looking glass and when we do not have it, many of the rules may change.

An outstanding article by Thomas Dernburg and Kenneth Strand in the American Economic Review, March 1966, which is the official publication of the American Economic Association, sheds considerable light on how things have changed. Entitled "Hidden Unemployment 1953–62: A Quantitative Analysis by Age and Sex," it concludes that the level of unemployment in the United States has been vastly understated. It shows, for example, that when 1,000 new jobs for males are created, unemployment declines by only 416. Roughly the same percentage is true of females in these classifications of the labor force. The overall conclusion is "a rise in employment is accompanied by a rise in labor force participation" (p. 94).

The problem resembles that of the typical new expressway which, after careful calculation of the number of automobiles that it is expected to provide for, finds itself blocked, bumper to bumper, with additional cars by the time it is finished, with the result that transportation is little if any better off than it was before the expressway came in the first place.

There are many reasons why the general public has not yet recognized the seriousness of our problems of unemployment. For one thing, many expert studies have shown that we tend to measure only the part of the iceberg that is above water. Mixed with the so-called affluent society and the economy of opportunity in which we live is an enormous economy of frustration for millions of Americans.

We in the United States, with only 6 percent of the world's population, have almost half of its wealth. Yet, these figures overlook how the enormous resources are distributed. Mixed with our obvious abundance and increasing production and profits is a widespread and deep-seated cancer of poverty and unemployment.

Many people have been out of work for so long that they have given up hope and are no longer looking for work of any kind. Consequently, they have lost all motivation for a better life. These people are not officially counted as unemployed, although many of them would gladly accept work if it were available. Dr. Charles Killingsworth, a national authority in this area, has estimated that total unemployment has been about 8 percent for many years. The famous Swedish economist, Gunnar Myrdal, in his book, "Challenge to Affluence," estimates American unemployment at 9 percent for more than 10 years. Other economists agree with these estimates.

The evidence of "invisible unemployment" is clear. When jobs are available, or when employers are willing to train unskilled workers, or if they are less demanding about such things as age, race, or national origin, most of the unemployed or part-time employed have responded favorably to the opportunity to work. The Federal Reserve Board has estimated that over 2 million people not now seeking work, and, hence, not counted as unemployed, would be at work or seeking jobs if overall unemployment were reduced to 3 percent. In Europe the number who seek work has grown enormously with low unemployment rates.

Second, the "underemployed" are estimated to be as much as 25 percent of the labor force. These include several million people working at jobs beneath their abilities, nearly 5 million women who would like jobs, 2 million part-time workers and over a million farmworkers who stay on the farm because there is no work other than this for them.

Third, there is labor displacement. A leading business executive estimates that the rate of disemployment, or "silent firing," is 40,000 persons per week, or over 2 million per year. "Silent firing" refers to those who are never hired because their potential jobs were eliminated by technology. It is true that the demand for professional people, such as scientists, engineers, and teachers has exceeded the supply, but all of the professional people put together are only about 11 percent of the labor force.

The rate of labor displacement has increased. From 1947 to 1957 the total number of nonfarm employees, both clerical and factory, increased at the rate of 2 percent per year. But since 1957 this growth rate has been more than cut in half, to less than 1 percent per year, or only about half the rate of population increase.

It is interesting to note that the United States has become possibly the first industrialized nation in the world in which the number of employees in service jobs exceeds the number in factory jobs. Unfortunately, displacement of labor in industry tends to reduce wages in the service trades, as the displaced industry workers move toward service jobs, vastly increasing the supply of labor without any corresponding increase in the demand for services. To make matters worse, there is evidence that technology is affecting some service trades, such as automatic elevators.

Fourth, several million factory workers are working overtime while almost this many are unemployed, underemployed, or only part-time employed. Unfortunately, it is often cheaper to pay overtime than to hire new workers. This is especially true in industries with seasonal demand. So, we have an economy of paradoxes. With record high levels of employment, production, profits, and gradually rising prices, we simultaneously have too much unemployment and poverty.

Fifth, long-range unemployment has increased. The aged, the sick, the migrants, the minorities, the children, and the students are becoming an increasing burden on society. As medicine improves, more people are kept alive, even though often in conditions of chronic illness and economic dependency. Furthermore, continuing high birthrates are giving us a larger proportion of children and, hence, an unusually large student generation. Schools, universities, mental hospitals, nursing homes, old peoples' homes, and other refuges for the economically dependent are already overcrowded, and their expansion and maintenance will be a real burden on society unless more positive action is taken to prevent it.

Sixth, economic growth has not kept up. A U.S. Labor Department study of 36 of our major industries, employing nearly 30 million workers, shows that employment was expected to continue to decline in 15 of these industries. The ratio of employment was uncertain for seven major industries. The employment outlook was favorable in only 14 of the 36 industries. Those expected to decline drastically include aerospace (of all things), bakery products, soft coal, crude oil production and refining, natural gas, dairy products, shoes, foundries, all kinds of wood products, meat, liquor, railroads, telephone communications, textiles, and others.

Seventh, we have not even kept up with theory. Full employment was defined by Sir William Beveridge in his classic book, "Full Employment in a Free Society," as "having always more vacant jobs than the unemployed, not slightly fewer jobs. It means that the jobs are at fair wages, of such a kind, and so located that the unemployed can reasonably be expected to take them; it means by consequence, that the normal lag between losing one job and finding another will be very short." According to this definition, we have been far from full employment for a long time.

A society with our value system cannot expect to build the truly great economic and social system now possible. Although we are the world's richest nation, we have not divided our wealth and opportunities democratically. For example, since 1920, expenditures on technical research and development have risen 200 times, while educational expenditures rose only 12 times. No wonder our economy is out of balance.

In the 1960's over 26 million additional young people must have jobs. This is more than a 40-percent increase over the previous decade. If this trend continues, over a million and a half teenagers will be on the streets by 1970—more than the present population of Boston, San Francisco, or St. Louis. Many parents have given up hope of a better life for their chidren, as evidenced by the fact that the rate of promotion from grade to grade among schoolchildren of families on relief is far below the national average. Of those who have completed high school in some States, it is actually easier for most of them to get into college than to get a job—except that they cannot afford college.

Dr. Edward F. Denison, of the Brookings Institution, has summarized four major domestic disadvantages which result from excessive unemployment. First, it discourages investment and research into new technology, which are two of the most important causes of our much needed economic growth. Second, it discourages workers from moving out of depressed areas and off of farms, where they are either unemployed or underemployed, and seeking better jobs in new industries. Third, it increases union resistance to management's attempts to reduce wasteful labor practices which increases opposition to more efficient production methods including laborsaving machinery. Fourth, the high rates of unemployment lead to demands for higher tariffs to protect both industry and labor against goods produced more efficiently in foreign countries; therefore, tending to hold up price levels at home.

In this country we spend nearly 10 times as much on liquor as we spend on books. We spend three times as much on chewing gum ($350 million per year) as on educational scholarships. The American public needs to know how many dollars are being spent in the country on such luxury items, as contrasted with the small fraction of this amount spent on retraining, social welfare, and other programs which could help our poor and aged people. Smug moralisms from the few who are fortunate actually do much to prevent breaking this cycle. We must train people to work for themselves or we will have to support them out of profits and taxes. The only economically sound thing to do is to think in terms of capital investment in people.

The principal goals of any modern economic system must include the fullest reasonable employment of all its resources. The greatest practical degree of stability in the employment of these resources must be maintained. Old-fashioned business cycles are out.

The goal of full employment has only recently become widely accepted as both an economic and a political necessity. Since the great depression, there has been a growing realization that there is no automatic regulator that guarantees full employment. The enormous costs of unemployment of all resources—but particularly labor—have been well documented. People are not like machines or ore deposits. Human resources normally depreciate with time rather than use; and they wear out at an accelerated rate when they are unemployed. The main economic cost of unemployment is in production that is permanently lost. Yet the social costs of unemployment far exceed even the economic costs, since unemployment also contributes in large measure to crime, disease, family disintegration, race and religious prejudice, suicide, and war.

Abraham Lincoln is supposed to have said that freedom seldom means the same thing to a wolf that it means to a lamb. If you build a shelter to protect the lambs, then wolves will howl that the lambs have lost their freedom. Social services and union protection undoubtedly do restrict some kinds of freedom (such as the "right to work" without joining a union or a group pension plan), but they may safeguard or even create other kinds of freedom (such as freedom from arbitrary dismissal). Unemployment, insecurity, and poverty can destroy the freedom to choose or change occupations and locations or to secure needed education more effectively than laws and regulations can. Freedom to change jobs requires that there be other jobs to change to. The freedom to make a living, even to pursue happiness itself, requires full employment and some degree of individual job security in a modern, highly industrialized economy.

The U.S. Secretary of Labor has stated that we have an "outlaw pack" of over three and a half million young people who cannot find jobs. The cost of this to the Nation is over $1,000 per person every year in welfare and unemployment benefits alone, not counting the production lost by their unemployment or the cost of their possible crime and destructiveness. (Seventy percent of the recent crime increase has been in the 15 to 22 age group.) For an investment of $1,000 to $3,000 each for these outcasts, we could pull every girl or boy back from poverty, unemployment, and ignorance. The total cost to the Nation of 1 year's unemployment for one person exceeds the total cost of 12 years of education. We spend more per person on prison inmates than on retraining our unemployed.

More than twice as many underprivileged children drop out of high school as those otherwise classified. Over 40 percent of all farm families in the United States are poor by national standards and half of them live in the South. There are an estimated 16 million children of the poor who when reaching age 16 are three times more likely to quit elementary or high school as those whose parents earn over $5,000 per year. A sample group of these dropouts, half of whom have been forced to quit school to support their families, showed almost half of those who failed to pass the basic intelligence test came from families of six or more children.

These unfortunates can expect, at best, part-time or insecure employment in low-level, low-wage jobs for their entire lifetime unless prompt, positive, and major action is taken to save them. If such action is not taken, they can look forward to a life of poverty for themselves and their families. As said earlier, we might expect it if these "rejects" eventually resort to lives of crime. There is no doubt that this unemployment is a major cause of race riots, as unskilled whites and Negroes compete for jobs that are rapidly disappearing. Dr. James Conant calls this problem "social dynamite."

The children of our poverty-stricken people may be able to work in the many industries, which are being created so rapidly, if we rise to the challenge of educating or training them. A serious problem is that most of the parents of these children also need help of a positive nature. Although private industry has done a good job in this area, this is not nearly enough. The Federal, State, and local governments will have to provide more help where private industry or labor unions are not planning to reeducate or retrain.

At the other extreme are the millions of unemployed or part-time employed in the so-called older groups. There is a tragic loss through the waste here of the abilities of these millions of people. We do less than any other industrialized nation in the free world to give our youngest and our oldest citizens a chance for dignity or even minimum economic security.

In addition to these groups there is excessive unemployment among Negroes, women, people living in depressed areas, migrant laborers, subsistence farmers, and unskilled domestic servants. Many people in these groups who are employed are working at wages of 40 to 75 cents an hour. On the other hand, there are many areas in which there are labor shortages, but our experience indicates no tendency for unemployed coal miners to become medical doctors or even unemployed carpenters to become plumbers in the same town where there may be a great shortage of plumbers. In fact, due to company retirement programs, as well as the natural desire of people for security, there is not nearly the amount of labor mobility that would be necessary if these unemployment problems were to be solved in this way alone.

A sign on a backwoods Georgia road reads, "Choose your rut carefully. You'll be in it for a long time." Many people seem to get great satisfaction from burying themselves in routine activities. They resist strongly any threat of change because it strikes at their basic emotional security. Industrial workers are no exception. Often they believe they are dependent for their livelihood on a unique combination of machines, plant organization, and their own highly specialized skills. Sometimes they are right but, right or wrong, where this belief exists workers can be expected to resist automation in a thousand subtle ways.

The barriers to labor mobility have always been great, but even in the face of increasing concentration of capital it is likely that labor is more mobile and flexible today than ever before. Cheap transportation, improved communication, and the disintegration of family and community ties, which specialization and industrialization have encouraged, all tend to make for labor flexibility among firms in the same industry or firms offering similar jobs. However, movement among occupations, particularly to more highly skilled jobs, entails great costs which individual workers cannot normally bear and this is exactly the kind of mobility which automation requires.

Rationality, self-interest, mobility, and flexibility, while highly desirable means of making industry more efficient and resource allocation more rational, are not ends in themselves. Too much of these makes pirates out of businessmen, gypsies out of workers, and, in general, irresponsible citizens who do not own real property, vote, or assume civic responsibilities. On the other hand, too little of the qualities makes for narrow provincialism, ignorance, waste, and a great loss of potential accomplishments.

It is not necessary that all workers be equally sensitive to changes in the demand for labor or differences in opportunities. A highly mobile minority in each occupational group will usually preserve the necessary flexibility of supply except where there are structural changes taking place such as automation may produce. The individual rewards for mobility, and penalties for immobility, seem likely to increase. This will favor young, aggressive workers with few family responsibilities and discriminate against older, more settled workers. It also may encourage the opportunists and the irresponsible as against the more stable elements in the work force.

There is no reason why labor should be more mobile, flexible, and willing to assume the enormous risks of economic dislocation than the other components of production—capital, management, and natural resources—which are to varying degrees organized, concentrated, and immobilized. The possible loss of an unrealized profit or, at most, the loss of a business investment may be a greater disadvantage to the growth of the economy but it is usually not as severe a personal hardship as the loss of a job is to a worker.

Displacement does not always cause hardships, of course. Younger workers may be benefited by being squeezed out of dead end jobs they drifted into by accident or out of archaic businesses that they inherited.

The best favor that some people can receive is to be forced into more productive opportunities. The displacement problem is partly relieved because most of the really spectacular growth of automation so far has been in clerical work and in some particular industries, such as telecommunications, where there has been a great economic expansion anyway. In these areas automation performs new tasks more than replacing old ones and it has been women workers who have been most affected. Women tend to change jobs more frequently than men and are often working merely to supplement the incomes of their husbands or parents. Hence, they are not always totally dependent on their jobs for a livelihood. This fact has helped automation to be introduced without causing many obvious hardships or much noticeable unemployment. Layoffs have remained constant and even fallen in some industries, but the hiring rates have fallen even more. The displacement problem has been disguised by normal labor turnover, the more than proportional impact on women who are often not the sole support of a family, and the general economic expansion.

The unemployment of machines and natural resources represents only a temporary loss of production to the economy, since they can be used later. But, the unemployment of persons is the greatest loss in many ways. First, depreciation of human beings is primarily a function of time, not use. The loss of production through idle human time can never be recovered by extending the life of the unemployed person, as is the case with many machines. When people are out of work the loss to the Nation is far greater than when only machines are idle. Many machines have a certain possible total production, whether they are employed all the time or on and off. This is not true of people. Many people die sooner when they are forced to retire or are largely unemployed and have no hope without the stimulation of something constructive to do. Furthermore, skills and talents deteriorate during unemployment, requiring extensive retraining to restore them, if it is at all possible.

The U.S. Labor Department estimates that $600 billion worth of goods and services have been lost to us through involuntary unemployment in the last 10 years. What could we have done if we had used our labor resources fully? First, we could have doubled payments to the 15 million Americans now on social security. Second, we could have wiped out many slum areas by the construction of about 9 million homes in the $15,000 class. Third, we could have built about a thousand badly needed hospitals with approximately 900 beds each. Fourth, we could have doubled the construction of water systems, sewage plants, parks, and highways. Fifth, we could have added about 400,000 badly needed classrooms for schools. Sixth, we could have increased the salaries of all American teachers by an average of $1,500 per year. Seventh, we could have given $2,000 scholarships to 3 million college students in need of financial help. Eighth, we could have doubled the necessary aid to our foreign allies without increasing the national debt. Finally, long periods of full employment cause people to leave safe, but unproductive, low-wage jobs and take jobs where they can contribute more output and receive more money for it.

Recently, the U.S. Secretary of Labor revealed that in 1 year we wasted more manhours through involuntary unemployment than were lost through strikes in the last 36 years. In the last decade alone, we lost forever, by unnecessary unemployment, 25 million man-years of production. This cost, in badly needed products and services, as noted previously, was at least $600 billion. In addition, there is no way to calculate the loss to the Nation through the number of people who, of necessity, had to accept employment at below the level of their abilities. Many others were forced into part-time employment or early retirement and the goods and services these people might have produced have been lost forever.

We have been more concerned about price stability than full employment because price increases affect everyone; whereas, unemployment affects only a minority, although in this case a very large minority. The fact that unemployment has been accompanied by small price increases suggests that we may no longer have a choice between the two.

In 1961 the Subcommittee on Unemployment and the Impact of Automation of the Committee on Education and Labor of the U.S. House of Representatives, of which this author was the director, held hearings which led, in part, to the passage of the Manpower Development and Training Act. Six of the seven subcommittee members made 10 recommendations in addition to the Retraining Act. It is encouraging that virtually all of these detailed recommendations are being carried out by the Office of Manpower Automation and Training.

To show the importance of this program, an estimate of the cost of the Nation's needs through 1975 has been published by the National Planning Association. It shows that the needed growth in 15 of 16 major areas, including such things as urban development, national defense, space and transportation, ranges from 1½ to 3 times by 1975. The 16th area, manpower retraining, is estimated to need to be increased by 28½ times.

Thanks to the Retraining Act, the Anti-Poverty Act and other legislation, there is now a major program dealing positively with the problems recognized so well by the authors of the Employment Act of 1946. Much more needs to be done but we are moving rapidly in the right direction. Victor Hugo once said that there is no power in the world as great as that of an idea whose time has come. The time obviously has come in this area.

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STATEMENT BY MORRIS A. COPELAND

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My principal thought is that measures should be adopted that would provide adequate implementation for the objective of "creating and maintaining in a manner calculated to foster and promote free competitive enterprise and the general welfare, conditions under which there will be afforded useful employment opportunities * * * for those able, willing, and seeking to work." Certainly what has been done under the 1946 act and since its passage has not provided adequate implementation for this objective. In each of the years 1958–64 on the average more than 5 percent of the members of our civilian labor force were unemployed. And no convincing evidence has been advanced to show that the necessary minimum amount of frictional unemployment is as much as 3 percent.

I have a number of specific proposals for the effective implementation of the full employment objective. They are explained in a book that has just been published by the Fordham University Press. It is entitled, "Toward Full Employment in Our Free Enterprise Economy."

Among my proposals are:

(1) The establishment of a Federal agency that would schedule a small but very significant part of our national output each quarter. I shall refer to it as the GNP Scheduling Agency. It would operate by entering into contracts with private parties and State and local governments. It would offer sufficient compensation to make these contracts attractive. It would have a well-qualified sales force to sell them.

(2) Under one type of contract, called definite period agreements, private businesses, private individuals, and State and local governments would agree in advance of each quarter to make purchases of major durable goods during that quarter. Definite period agreements covering major construction projects would also be sold. There would be a bonus for carrying out these agreements, and a small tax on purchases and construction work (of the eligible types) not covered by definite period agreements. It should be possible to schedule enough large purchases and large construction projects under these agreements to reduce the cyclical variations in these volatile components of aggregate demand substantially.

(3) Under a second type of contract, called stable inventory agreements, businesses would undertake to keep their inventories intact (i.e. at a level at each date at least equal to that of a year earlier). For inventories for which physical quantity records are maintained compensation might be at a specified rate per unit per month during the term of the contract. It should be possible to cover enough inventories by stable inventory agreements to reduce substantially the

cyclical fluctuations in this highly variable component of aggregate demand.

(4) The GNP Scheduling Agency should sell a third type of contract that would make it possible to establish a shelf of works projects. Shelf project sponsors might be State or local governments. They might also be private businesses or research institutions. Each project sponsor would agree (a) to defer the activation of his project until notified to activate it by the Scheduling Agency and (b) to activate it promptly on receipt of such notice. Each project should be ready to go, before it could be included in the shelf. A great variety of moderate-sized projects might be included in the shelf; many large construction projects would probably be unable to meet the requirements for this type of contract. Some shelf project agreements might provide that the Scheduling Agency would have to activate the projects within a 2-year period; others within a 3-year period. The bonus for carrying out an agreement should be larger in the latter case.

(5) The definite period agreements would cover only purchases of the larger durable goods and the larger construction projects. Purchases of other durable goods and other construction work might be encouraged by a tax credit in periods of slack business (possibly a 7-percent credit), but such credit should apply only when business is definitely slack. During periods of particularly brisk business a small tax should apply.

(6) The above proposals are all aimed at ironing out the business cycle. Even if there were no significant cyclical fluctuations in business activity, there might still be a secular deficiency in aggregate demand. To deal with such a deficiency if there is one and to deal with any remaining cycle I urge a proposal made some years ago by John H. G. Pierson, a per capita quarterly income payment (or possibly a tax cut) to increase disposable income enough to provide a capacity level of GNP. The per capita payment would have the advantage that it could easily be adjusted from quarter to quarter so as to keep aggregate demand at very close to a steady, full-capacity level.

(7) Still another proposal concerned with aggregate demand involves international action. It is a proposal for an international buffer stock operation in a dozen or more basic commodities, and an international corporation to engage in the stockpiling and unstocking. The United States might well take the lead in getting such a plan started.

In addition to these proposals there are a number of suggestions in my book that are aimed at reducing the amount of frictional unemployment. Such measures, as well as measures concerned with aggregate demand, can help to provide useful employment opportunities for our labor force, and this possibility merits more attention than it has had hitherto.

STATEMENT BY ELEANOR S. DANIEL

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The feast of ideas presented in the economic symposium commemorating the 20th anniversary of the Employment Act of 1946, affords little scope for introducing new thoughts or reflections. This brief statement, therefore, will content itself with a very few random observations on the emphasis accorded the several objectives of the act and the policies utilized to implement them.

The proposal to include reasonable longrun price stability and longrun payments balance among the stated objectives mandated in section 2 of the act deserves careful consideration. It is hard to see how the inclusion of these would in any way diminish the flexibility of economic policy by tying it to specific aims which will become outdated with the passage of time. None of the goals spelled out in section 2 are ultimate in themselves; they are way stations on the route to human dignity and happiness. Presumably the same destination might be reached by a different route (e.g., centralized planning instead of "free competitive enterprise," etc.) but Americans prefer to take the paths specified there.

Reasonable longrun stability of price levels is as essential to human dignity within our system as are "employment, production and purchasing power." The language on page 116 of the symposium is unfortunate in that it implies that only "the well provided for" experience "disutility—from a small loss of income or value of assets from inflation." Actually, the potential victims of inflation are among the most defenseless of all groups. They include all whose incomes are fixed, usually having been determined by the level of earnings and prices prevailing at some earlier date so that they do not move in relation to the money value of current output. Hardest hit by inflation are the aged, the disabled, widows, and orphans.

Those in the life insurance business have lived intimately with the tragedy of inflation. Typically, life insurance replaces only part of a man's contributions to his family when it is interrupted by death, disability, or old age. Although 81 percent of all household heads hold some form of insurance, the median coverage is only $5,000. These are in no sense luxury dollars, therefore, but very essential. However, if a rising cost of living acts to reduce the real purchasing power of a breadwinner's life insurance coverage, it is difficult for him to adjust to the siutation even if his own income also rises, because the cost of additional insurance for any individual automatically tends to rise as he grows older. (Furthermore, there is no guarantee that he may not become medically uninsurable in the interim.)

Even now, the pattern of life insurance coverage mirrors the effects of the price rise of the postwar years. (Although, of course, other factors are also at work.) A recent study shows that the median coverage is highest ($10,000) for husbands 25–29, and declines thereafter to $5,000 for husbands 45–54 and $4,380 for those 55–64. Among husbands 45–64, fewer than half the men have as much as 1 year's income protected for the benefit of their families.

Comparable data are lacking to document the effects of creeping price inflation on the plight of the 7½ million life insurance annuitants and especially the fourth of these who are already receiving payments in today's dollars which were purchased at the sacrifice of much greater real income in years gone by. However, anyone who has ever undertaken the sad task of answering a pathetic communication from one of these disadvantaged individuals is fully aware of the human costs of inflation.

The social inequities of inflation have been cited here first because too often this aspect has been brushed off in sophisticated macroeconomic arguments about how important price stability may or may not be to the functioning of the economy. Then, too, the American record on prices has been so outstandingly good in a world beset by inflation that it naturally engenders complacency. It is hard to comprehend that an average price creep of 2½ percent yearly will cut the real value of a $5,000 life policy, or a $100-a-month provision for retirement by more than half in just 30 years. And yet, consumer prices have increased since 1940 at an average rate of 3.4 percent compounded yearly, and over the entire postwar period, at 3 percent. The increase since the immediate pre-Korean war period has averaged 2 percent. Even on the optimistic assumption that such conflicts will not be a recurrent feature of our environment, the upward peacetime creep since Korea has averaged 1.5 percent annually.

The conclusion is clear that while price stability has been recognized as a major objective from the start by the President, the Council, and the Joint Economic Committee, and the American record is comparatively good, it is just not good enough to serve as a model for the future. To paraphrase Mr. James Knowles' remark in his summary of the symposium: "We cannot in good conscience rest content with any lesser achievement" than reaching both a reasonably stable general price level and the other major objectives of the act.

The obvious inhumanity of a society which tolerates even a slow creeping inflation must in time undermine faith in its integrity and will thus also impair the functioning of the economy. It will undermine basic incentives to work and save at a time when production and savings were never more urgently needed. It will impose a continuing drag on the international value of the dollar, which is such a necessary bulwark of our political and military stature in the world.

No student of the Employment Act can fail to be impressed both by the delicate weighing and balancing of objectives involved in its administration and by the need for a flexible adaptation of policies to changing economic conditions. The 20 years have been one long process of experimenting with new blends of actions for new blends of problems, learning from successes and profiting by mistakes. In this decade of the sixties, measures taken to expand aggregate demand worked so well for a period to promote sustained expansion and reduce unemployment that they probably were pushed beyond their maximum usefulness. In an economy approaching full employment it might have been both more effective and safer, from the standpoint of inflationary effects, to attack residual and structural unemployment through selective measures. (Professor Saulnier elaborated this point of view most eloquently in his remarks during the symposium.)

This overstimulation of aggregate demand, with the needs of Vietnam superimposed, is at the root of the strain on resources and the uncertain outlook for prices and costs which has faced the economy since mid-1965. Since the February symposium the possibility that concerned Professor Saulnier has clearly come to pass: monetary policy has assumed most of the burden of restraining further overheating of the economy. It has broken into completely new territory and if it traverses it without either countenancing further inflation on the one hand, or precipitating a financial crisis on the other, it will evidence rare skill on the part of the monetary authorities.

It is fervently to be hoped that these policies succeed. However, for the future, the risks are too great to rest all of the outcome on monetary policy, no matter how skillful. To quote Mr. Knowles once more: "it is dangerous to put too much reliance on any one policy tool separately." Streamlined procedures for quickly adapting fiscal policy to short-run stabilization requirements, as suggested by Professor Heller, deserve a high priority on the list of desirable improvements in the full-employment machinery. Neither inflation nor recession waits but, despite the advances which have been made, we are not yet adept at forecasting far in advance which way the wheel may turn. Because of the inevitability of this "recognition lag" it is all the more important to shorten decision lags with respect to desired changes in policy. The recent hearings conducted by the Subcommittee on Fiscal Policy of the Joint Economic Committee under the chairmanship of the Honorable Martha W. Griffiths constitute a most encouraging first step in this direction.

STATEMENT BY LEO FISHMAN

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The purpose of this statement is to suggest two methods that might be used to enhance the effectiveness of the Employment Act of 1946. The first could be accomplished without passage of any additional legislation. It would merely involve careful interpretation and application of certain key provisions of the Act. The second, however, would involve passage of new legislation, as well.

I

An essential feature of the Employment Act of 1946 is that it assigns to the President, as the Chief Executive Officer of the Federal Government, the primary responsibility for coordinating all, "plans, functions, and resources" of the Federal Government for the purpose of promoting "maximum employment, production, and purchasing power." Statements made at various times during the debates preceding passage of the act indicate clearly that this feature of the act was not the result of careless drafting or lack of forethought. Congress deliberately assigned this responsibility to the President.

When the legislation had been revised for the last time and the Senate was about to vote on it, Senator James H. Murray pointed out that the bill made it clear that the "basic responsibility for developing the employment program within the executive branch is that of the President as the elected representative of the entire country, and as head of the executive branch of the Government."

In recent years, however, the President has been prevented from acting in a manner consistent with the effective discharge of his responsibility for coordinating all "plans, functions, and resources" of the Federal Government, because the Board of Governors of the Federal Reserve System has claimed (and has on several occasions exercised) complete autonomy with respect to monetary policy.

The tools of monetary policy are both speedy and flexible. They can also be quite potent, especially when used in restrictive fashion. If used for restrictive purposes, they cannot fail to counteract, at least to some extent, the effect of any fiscal policy deliberately adopted for the purpose of stimulating or sustaining an expansion of economic activity.

As long as the Board of Governors continues to assert and to exercise complete autonomy in matters pertaining to national economic policy, it is possible for U.S. monetary policy to be oriented toward different and incompatible sets of goals. It is impossible for the President to coordinate all "plans, functions, and resources" of the Federal Government for the purpose of promoting "maximum employment, production, and purchasing power."

It is a matter of public record that on at least two occasions since the passage of the Employment Act of 1946, there have been sharp differences of opinion with respect to national economic policy between the Federal Reserve authorities and the President or his advisers. In each of these cases important decisions on monetary policy that were clearly inconsistent with the stated views of the President and the Council of Economic Advisers were made by the Federal Reserve authorities.

In April 1956, during Dwight D. Eisenhower's administration, the Board of Governors raised the discount rate although the Chairman of the Council of Economic Advisers and members of the Cabinet believed that the change was not consistent with other Government policies designed to help achieve the goals of the Employment Act. In December 1965, the Board of Governors raised the discount rate, although President Johnson had recently indicated that he considered such a change unnecessary and ill advised, although it might be warranted several months later.

The Employment Act of 1946, although it does contain an explicit mandate to the President, does not contain either an explicit or an implicit mandate to the Board of Governors. In the debates preceding passage of the act no reference was made to the powers of the Board of Governors, nor was any mention made of its right to exercise its powers independently of the President. In fact, on one or two occasions it was observed that monetary policy would be used by the President to promote the purposes of the legislation.

If the President is to discharge the responsibilities assigned to him in the Employment Act of 1946, he must exercise the power to coordinate national monetary policy with national fiscal policy. The basis for such exercise of power by the President already exists. Passage of new legislation is not necessary.

II

The effectiveness of the Employment Act of 1946 might be further enhanced by giving the President additional power to modify fiscal policy in order to achieve the purposes of the act.

At present, all changes in tax policy and basic changes in the level of expenditure for any given fiscal year require the passage of legislation by Congress. The President may, of course, urge that Congress enact the legislation he considers appropriate. But consideration of such legislation by Congress is likely to take many months. The effect of the recommended change in policy, if and when it is finally adopted by Congress, may be quite different from what it would have been at the time it was first proposed.

The President may, in addition, alter the rate at which funds appropriated by Congress are actually expended in the course of a fiscal year. But total expenditure for any purpose for the entire year cannot exceed the amount appropriated by Congress. Thus if the rate of expenditure is increased in one part of the year, it must generally be reduced later in the same year so that expenditures do not exceed the amount appropriated.

This method of altering fiscal policy becomes more difficult to utilize and less efficacious as the fiscal year progresses. Later in the fiscal year it is not really feasible to use it at all. Even if it is used relatively early in the fiscal year to increase expenditures, there is always the possibility that the expansionary effect of the initial increase in the rate of expenditure will be canceled later in the year when the rate of expenditure is necessarily decreased.

If the President had power to alter tax rates or total expenditures within certain limits set by Congress, his power to fulfill the responsibility bestowed upon him by the Employment Act of 1946 would be greatly enhanced.

The report of the Commission on Money and Credit, published in 1961, contained a recommendation that Congress grant the President "limited conditional power to make temporary countercyclical adjustments in * * * the personal income tax. * * *" Although President John F. Kennedy requested that Congress make this delegation of power, Congress never seriously considered his request.

It is fairly easy to understand why Congress has been reluctant to delegate to the President any part of its power to determine tax policy. At the same time, it seems fairly obvious that unless the President is granted some discretionary power to make temporary changes in tax rates or expenditures, his ability to use fiscal policy to fulfill his responsibility under the Employment Act of 1946 will be limited in the future, as it has been in the past. The recommendation of the Commission on Money and Credit merits serious consideration.

STATEMENT BY WILLIAM C. FREUND[1]

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Some months ago, the story was making the rounds in Washington about two businessmen who were discussing the Federal budget. One asked the other how he thought the President could finance the vast expansion of social benefits under the Great Society program. "Why, how naive you are," answered the other. "These days we simply finance out of tax cuts!"

Twenty or even ten years ago few people would have understood the point of the story at all, for the joke mirrors a revolution in the public's attitude toward Federal finance. Less than a generation ago, Keynesian economics was in disrepute among the American public in general and the business community in particular. Today, Keynesian policies have become what John Kenneth Galbraith recently called "the new orthodoxy."

Recognition of this change comes from unexpected quarters. Thus, the July 1965 issue of the renowned Lloyds Bank Review of London observed that "the contribution that economics has made, both to public understanding and policy, in the area of employment policy can hardly be overrated. It would not be an exaggeration to say that—the nuclear bomb apart—the greatest contrast between postwar and prewar is the abolition of large-scale unemployment and of violent swings of economic activity. This is among the major revolutions of our time." And, as the article goes on to point out, this revolution can be credited to economics and "to the gentle and deliberate way in which economists have educated politicians, administrators, and the general public."

It was Lord Keynes who first focused the attention of the world on policies to prevent unemployment. But Keynes was wrong in one respect. While he believed that it was ideas which ruled the world, he also felt that revolutionary new ideas require many generations before they are accepted. Back in 1936, he wrote in his now celebrated book, "The General Theory of Employment, Interest and Money," that "there are not many who are influenced by new theories after they are 25 or 30 years of age, so that the ideas which civil servants and politicians and even agitators apply to current events are not likely to be the newest." It is difficult and time consuming, he was convinced, to break free from the outmoded economic dogma the current generation picks up from teachers of the old.

Keynes should not have despaired so easily. His influential "General Theory" was published just 30 years ago. In 1946, a scant 10 years later, it helped bring about the passage of an Employment Act in the

[1] Reprint of his article entitled "Educating the Electorate: The Employment Act After 20 Years," November–December 1965 Challenge magazine.

United States which declared the promotion of maximum employment, production and purchasing power to be a major national economic objective. In the two decades since then, the American public has become educated and sophisticated in economic policies far beyond the expectations of Keynes and other economists.

To realize how extensive this transformation in economic philosophy has been, it is only necessary to think back to the great depression of the 1930's. At that time there was relatively little dispute on how best to deal with the catastrophe. The business community was not alone in its deeply rooted belief that if the Government only refrained from tinkering with the economy, forces of expansion would once again assert themselves. And hardly anyone disputed the desirability of an annual balance in the Federal budget.

The idea that Government should actively seek to stimulate higher levels of employment was for a long time rejected by a large proportion of the population as part of an alien and even subversive philosophy. Most people adhered to the teachings of classical economics: if only the economy is left to itself, it will reestablish equilibrium at full employment. All that is necessary, according to this argument, is that wages and interest rates be allowed to decline. Seen in this light, unemployment is a temporary although necessary condition to bring about lower wages. Once wages and interest rates have declined sufficiently, the incentive to hire additional workers and to employ additional capital will be reestablished and full employment will be restored. Keynes argued that adjustment in wage rates and interest rates could not guarantee full employment, that the economy might reach equilibrium with men and capital still out of work. Wage reductions would reduce purchasing power and consumer demands. Lower interest rates need not spark the incentive to invest if plant and equipment is already in excess supply. Instead, Keynes focused on aggregate demand for consumer and investment goods.

It is the fate of every revolution that in time its principles come to sound commonplace. The great philosopher, Schopenhauer, once observed that new developments tend to pass through three distinct phases. In the first stage, the new idea is ridiculed. In the second stage, it is severely opposed. But by the time it reaches the third stage, it has become widely accepted and is considered self-evident.

Today the Keynesian emphasis on purchasing power has been added to the vocabularly of modern man. Newspapers report on GNP as if it were no more complicated than baseball scores. Few of us ever reflect on how our vocabularly has been expanded by the national income accounts which were developed partly in response to the new economics. For instance, on August 5, 1965, the New York Times reported routinely on its financial page that "a common opinion heard around the big board is that this expansion of defense spending will have a multiplier effect on the economy." A day later, James Reston wrote from the Washington bureau of the New York Times: "It begins to look as if the people will take the welfare state and the planned economy if you just don't mention the names, mainly because, wicked or not, they seem to work. The gross national product rose by $9.2 billion in the second quarter of 1965—from a 1964 level of $622 billion to an annual rate of $658 billion."

How did this revolution in economic thinking come about? It was in 1946, just 20 years ago, that Congress passed the Employment Act which gave new direction to the Government's economic policies and, in turn, sparked the public's economic reeducation. This is a good time, then, to review some of the factors which have contributed to the public's deeper concern with and understanding of economic processes.

The Employment Act of 1946 for the first time obligated the Federal Government to pursue economic policies which would prevent unemployment and the recurrence of another major depression. It established the Joint Economic Committee of Congress, as well as a Council of Economic Advisers to the President, which have proved important institutions in the economic education of the American public.

That education has not been the result simply of chance. One significant factor has been the development of the national income accounts. The very fact that we can now measure through quarterly GNP accounts the Nation's total output of goods and services, and the specific spending sectors responsible for a changing total of output, adds immeasurably to our system of economic intelligence. During the great depression of the 1930's, by contrast, we had no regular reports on gross national product or national income. We had no estimates of the volume of investment or savings, of consumer spending or Government purchasing. We knew little about the magnitude of changes in aggregate economic activity from season to season, let alone from month to month. As a result, Government policymakers and private investors were largely in the dark.

Today, the gross national product accounts allow us to identify the specific sectors of the economy in need of attention, either because they are booming excessively or threatening to act as a drag on further economic expansion. Government policymakers are able to take countercyclical measures at an early stage to head off cumulative contractions.

The statistical profile of the Nation's economy provided through the national income and product accounts has become familiar to large numbers of educated Americans. The GNP has become more than a mere conversational ploy at a cocktail party. Businessmen have found it useful to plan their own operations a year or a decade ahead on the basis of anticipated developments in the national economy as measured by GNP or its components. In planning sales, in budgeting for new plant and equipment, in negotiating a new wage bargain with unions, American industry has learned to rely on our system of national income accounting.

The awareness of economic changes as measured by our national income accounts has become even more pronounced in Washington. The slightest wiggle in the economic indicators brings forth on Capitol Hill studies and reports on appropriate economic policies. The Joint Economic Committee of Congress has held hundreds of hearings on economic topics, to which it has invited representatives from the business and academic community, from labor and Government. These hearings have constituted a significant dialog on economic policy and have promoted an unprecedented understanding of our system of economic statistics. Participants in these hearings were forced to read the staff studies of the joint congressional committee if only to offer criticism in public hearings. And since these committee studies were often of a high quality, the learning effect was much more widespread than might have been anticipated or planned.

The reports of the Council of Economic Advisers, especially the January report to Congress, regularly make the front pages of daily newspapers, are discussed on the editorial pages, and debated by Members of Congress and their constituents back home. People who would never have thought about the relationship of wage gains to productivity, and the influence of these two factors on the price level and on the aggregate demand, now consider these issues in business conversations, lunchtime talk, TV interviews and public debates. Thus the Employment Act of 1946, now 20 years old, should be credited not only with initiating a new approach to Government economic policies, but with contributing mightily to the success of the public's economic education.

Our increased concern with economics, which can be partly attributed to the Employment Act, has raised the stature of economists not only within Government but also within business. The fact of the matter is that we have come to live in the shadow of economic policies that an earlier generation of Americans, and certainly of businessmen, would have regarded with horror. Two outstanding groups—the Committee for Economic Development (CED) and the National Planning Association (NPA)—concentrated on the reeducation of the business community from which their membership came. Their publications have reflected a sympathetic attitude toward the new economics, not because of any philosophical predisposition to support it, but as the result of scholarly study and research.

Of course, there remain prominent exceptions (witness Goldwater's candidacy), and all businessmen have not become enthusiastic adherents of the new economics. But there is today far greater understanding and sympathy on the part of the vast majority of enlightened businessmen on the role of government in promoting full employment and economic growth. To see how profound this change has been, one need only contrast the business view on two major economic issues: (1) Government policies for full employment, and (2) Government policies for economic growth.

Not many decades ago, most businessmen—and, indeed, most Americans—favored an annually balanced Federal budget and regarded a Federal deficit as the height of fiscal irresponsibility. By the end of the war, however, the Keynesian notion—that there was nothing sacrosanct about a calendar year and that it made more sense to aim for a balanced budget over the course of the business cycle than during any 12-month period—began to take hold.

Galbraith has called this change "a revolution without organization." No one issued orders and there was no organized drive; the conviction just spread that mankind was not powerless in the face of economic declines. Business organizations like CED expounded the case for a countercyclical fiscal policy which allows for deficits to be incurred during periods of recession and encourages a balanced budget or a moderate surplus under conditions of high employment. The CED, moreover, is not content to rely merely on a natural contraction to unbalance the budget in a recession—that is, for a decline in incomes to reduce tax revenues and thereby produce a deficit. It has explicitly urged a deliberate enlargement of the Federal deficit during recessionary periods, either through tax reductions or in times of severe depression through increased Federal spending.

What we have seen, then, in recent years is a willingness on the part of the Government to invoke countercyclical fiscal and monetary policies and an acceptance of this principle by the public, including the business community. Indeed, many economists claim that we will never again witness another major depression of the magnitude of the 1930's, not only because we have the tools to avoid a major collapse, but, more importantly, because there is a national determination to head off a cumulative economic contraction at an early stage.

It would be a mistake, however, not to recognize the ambivalent attitude still held by many people on Federal budgetary policies. There is still a strong feeling that it is wrong for the Federal Government to incur deficits even in a recession, not only because it violates the canons of sound individual finance, but because there are so few periods of prosperity in which a counterbalancing surplus is achieved. Nonetheless, when the chips are down and economic expansion grinds to a halt, few spokesmen now appear before Congress pleading for lower wages, less Federal spending or a balanced budget. And that is quite an achievement.

During the last 3 years, there has been a further change in the public's attitude. Up to that time, the emphasis had been on fiscal and monetary policies designed to restore the economy's momentum whenever it threatened to falter. More recently, the emphasis has shifted from moderating the cycle of boom and bust to generating a more rapid rate of economic growth. This new emphasis, though subtle, is extremely significant. The tax reduction of 1964 did not come when recession threatened, but in a time of prosperity when the Federal budget was already in deficit. Its purpose was to inject $10 to $15 billion of additional purchasing power into the private economy in order to generate additional production, wages, and profits. It was a new approach to fiscal policy, designed not to fill in the troughs of recession, but to stimulate a more rapid rate of economic advance. The administration argued that since Federal revenues are derived largely from income taxes, the increased tax take from higher wages and profits would ultimately more than offset the effects of the lower tax rates.

At first, the tax reduction of 1964 was greeted with much skepticism, but the administration's position is winning increased acceptance. In 1965 the rise in the Nation's economic growth caused revenues of the Treasury to increase even beyond expectations. Walter Heller, who as the President's Chief Economic Adviser engineered the tax cut, recently claimed that "we have demonstrated the success of a tax cut which symbolizes the shift from an antirecession, shock-absorbing fiscal policy to a gap-closing, economic-propulsion policy." It may well be easier to balance the Federal budget with lower taxes and a more rapid rate of growth than with higher taxes and a slower expansion.

The new emphasis of economists on the "full employment surplus" is beginning to be noted by the public, although there are probably few laymen who have heard of it and still fewer who can claim to understand it. In its 1965 report to the President, the Council of Economic Advisers argued that since actual revenues and actual Federal expenditures vary automatically with economic activity. the amount of the realized surplus or deficit reflects both the automatic effect of variations in business activity and the discretionary action taken by the Federal Government. Thus the amount of the actual surplus or deficit is not a useful tool for formulating policies.

To distinguish automatic changes from the results of discretionary actions, and to provide a more useful guide to policy, these two effects ought to be separated. One way to do this is to calculate revenues and expenditures at a fixed level of economic activity; namely, at the full employment level. Thus in 1960 the Federal budget produced an actual surplus of $3.5 billion, but the full employment surplus was about $13 billion. Given the extent of unemployment, this surplus at full employment was too large and needed to be reduced if a drag on the economy was to be avoided.

Too large a full employment surplus acts to slow down economic growth because it means that the Federal Government is taking more out of the economy than it is putting in. Walter Heller claims that the $13 billion full employment surplus in 1960 had a lot to do with the recession which began in that year. By the same token, he argues, the tax reduction of 1964, by reducing the full employment surplus, was a major factor then in moving the economy closer to full employment. To anyone old enough to think back some 30 years, this new emphasis on using fiscal policy to stimulate an acceptable rate of economic growth must seem like a veritable revolution in the public's economic thinking.

History shows that the pendulum often swings too far in one direction, setting in train a period of consolidation or even a backward swing of the pendulum. Perhaps we have gone too far. But a return to the policies of pre-Keynesian times is unthinkable. We have passed that point of no return. The public has become sophisticated in economic affairs beyond anything imaginable just 20 years ago when Congress debated the Employment Act of 1946.

STATEMENT BY SEYMOUR E. HARRIS

PROFESSOR OF ECONOMICS, UNIVERSITY OF CALIFORNIA, LA JOLLA, CALIF.

At the anniversary meeting there was surprisingly little said about the need of well-integrated policies. It is no wonder. The Federal Reserve Board insists that it is independent. Obviously if the FRB is independent then the possibilities of a well-integrated policy are greatly reduced. If the FRB goes one way and the executive departments another then we are indulging in luxuries that this country cannot afford.

An excellent example of the nonintegrated policy was the rise of discount rates introduced by the Board in early December 1965. The administration urged Chairman Martin to hold up his restrictive policy until February when the net effects of other relevant policies would be clear, and notably spending and revenue policies. But Mr. Martin would not wait. He averted a direct confrontation with the President, and apparently, fearing the loss of one of his supporters on the Board, hastened to get through a vote in favor of a dramatic rise of rates. He apparently made it clear that he could achieve his objectives without the cooperation of those responsible for fiscal policy, for wage or price guidelines, or for protection of the dollar, etc.

But Martin's attack on integration has proved to be embarrassing to him. In recent months the Fed, in its concern for inflation—frequently overdone, but perhaps justified now—has maintained a highly restrictive policy. At first, frightened by the possible effects of the December policy, the Fed followed up with fairly liberal expansion in the supply of money. But in the first half of 1966, the dominant policy has been restrictive. Now the Fed is concerned lest it be blamed for bringing on a depression. It is therefore pleading, as are financial leaders generally, for help. Now they demand that the Treasury contribute through a rise of taxes to a cooperative anti-inflation policy. But the Treasury, impressed by some deterioration of the economic situation in the second quarter of 1966 and the probable delays of getting a tax increase through and, therefore, fearful that the impact of the tax increase may be left in the midst of a possible recession in 1967 just when an expansionist policy may be wanted, seems hesitant to join the Martin crusade against inflation. Besides, Martin's uncooperative policies in 1965 do not attract a vigorous brand of cooperation by other policy groups.

THE INDEPENDENCE THEORY

I see little support for the theory of an independent Federal Reserve. There is nothing in the legislation that says the Fed should be independent. And even if in World War I, or 1950, independence may have seemed wise—because, for example, the Treasury may have supported a monetary policy that favored the Treasury too much against the needs of the economy—the case is much weaker now. No

President, worthy of the position, will allow the managers of the monetary machine to upset the policies sought by the President.

One of the peculiarities of the so-called independent theory is that however often it is proclaimed, the fact is that in practice it prevails rarely. The December 1965 episode is almost unique in the extent of the defiance of the President. Under Eisenhower, both the President and Martin proclaimed the independence theory; and what the country received was a highly restrictive policy that yielded much unemployment and higher prices. But obsessed by fears of inflation, Eisenhower wanted a restrictive monetary policy. And this is what he obtained. The fact is, Martin was not pursuing an independent policy.

Similarly, President Kennedy proclaimed the independence of the Fed. He did not believe in it—as he told me on more than one occasion—but it seemed politically wise to say so. What the President wanted was an expansionist monetary policy and this is what Martin gave him. In practice the Fed was anything but independent, and if Martin had flouted the President in 1961–63 as he did President Johnson in December 1965, he would not have been reappointed as Chairman in 1963. In 1952–60, Martin's independence yielded restrictive monetary policy; in 1961–64, expansionist policies. In the former period, unfortunate policies; in the latter, helpful policies.

INDEPENDENCE AND REGULATION Q

Under the rubric of independence, the Fed also supports policies that are not easily defended. I refer especially to the contribution of the Fed under regulation Q, through which the Fed greatly strengthened the competitive position of the commercial banks vis-a-vis the mutual savings banks and savings and loan associations (S. & L.); and also greatly increased the rate of interest as commercial banks outbid the savings banks and S. & L. for cash. The resultant embarrassment to the latter organization is clear: they lost as much as $1 billion of deposits in 1 month to the commercial banks and have had to reduce greatly their investments in house mortgages.

Now the Fed fights any attempt of Congress to reestablish equal treatment for the various kinds of financial institutions.

INDEPENDENCE AND LEVEL OF RATES

One result of the penchant for proclaiming the independence theory is a great emphasis on the part of the Fed on the threat of inflation and hence the need of higher money rates to discourage investment. The sellers of money, and particularly the large banks, join this crusade with vigor and quickly demand higher and higher rates. They want to sell their product at higher and higher prices and thus induce a collapse of the economy—as they did in the 1950's—and in the end reduce the profits of the banks. The bankers still have to learn that lower prices and more business may well increase rather than reduce profits.

SOME CONCLUSIONS IN RE THE EMPLOYMENT ACT

From all of this I draw some conclusions on the Employment Act of 1946. The act should make clear that effective economic policies require the use of all potent tools; the integration of the relevant instruments of policy; that no policymakers have the right to withdraw their instruments or use them in a manner to negate the overall effects of policy.

It would also be well to clarify the point that monetary creation is the responsibility of the Congress, which they have in fact delegated to the banks. Monetary policy is a responsibility of the Federal Reserve Board and banks; but the ultimate authority for policy resides in the Congress; and it cannot abdicate its rights. The object of monetary policy is to contribute a maximum to the growth and stability of the economy and a fair distribution of money. The ultimate gains are not to be concentrated only on the banks.

How much money? What price for money? These are important questions and the answers given will determine to some extent the growth and stability or the decline and instability of the economy. In these troublesome times it is more important than ever that monetary policy help rather than depress the economy.

In the more than 50 years since the Federal Reserve Act was passed, many of the authorities have forgotten the objectives of that legislation. President Wilson made clear that the new system was to serve the Nation, not special groups.

In the last 40 years, Congressman Wright Patman, chairman of the Joint Economic Committee, more than anyone else, has continued to proclaim the principles embodied in the Federal Reserve Act. Indeed, he has been a gadfly for the financial groups. But his interest in adequacy of money, in reasonable rates of interest, in control on behalf of the many, not the few, has kept our monetary authorities on their toes. He has used his chairmanship of two major committees to push appropriate monetary policies. When on occasion he has taken extreme positions, he could easily defend himself on the grounds—as Keynes once said—that to achieve big objectives, it is necessary to exaggerate a little.

I can only agree with Senator Douglas who, in his anniversary paper, said, "I must admit that I take a great deal of pleasure whenever I see my dear friend, Wright Patman, unload on the Federal Reserve Board. I think at times people may have thought that Wright was not fully informed, but when he goes into the intricacies of the operations of the Federal Reserve Board, I have discovered that there is no one in that handsome palace who can keep pace with him and that those who came to scoff, remain to tremble."

I sometimes criticize the Federal Reserve Board, sometimes the System, and frequently Mr. Martin. Over the years Martin, a charming man and a smart operator, has been the symbol of financial responsibility and of the interests of financial men. President Kennedy was aware of this image of Martin. In the Board, or in the Open Market Committee, Mr. Martin is still a power though he is probably facing more uncertain times. His position is still so dominant that he seems to release statements to the press that if he cannot carry the Board, he will resign. This is a threat to the President of impending resignation by Martin and loss of prestige of the President if Martin supporters are not appointed to the Board.

STATEMENT BY WALTER W. HELLER

FORMER CHAIRMAN, COUNCIL OF ECONOMIC ADVISERS; PROFESSOR OF ECONOMICS, UNIVERSITY OF MINNESOTA, MINNEAPOLIS, MINN.

As I noted in my paper for the Employment Act symposium, we plan today with an eye on the speedometer and a foot on the brake, but we also need to prepare for tomorrow's fiscal choices. In the following pages, I should like to expand a little on these choices.

Our automatic growth of about $7 billion a year in Federal revenues (a figure which will rise steadily over the years) lies at the heart of these choices. Except in times of excess demand, dividends must be declared to be realized. Unless they are made one way or another, they will disappear in economic slack and retarded growth. Yet, they are essentially pleasant choices, aimed not at the lesser evil but at the greater good.

The demands of Vietnam and anti-inflationary policy, together with inescapable growth in civilian expenditures, may preempt the dividends for some time to come. On the other hand, it is quite possible that the need and opportunity to declare such dividends may reappear sooner than we think, and we had better be prepared.

Before turning to the claims of Federal expenditures, tax cuts, social security benefits, and State-local governments, we should note that we will have to reexamine our previous target of a balanced budget at high employment in the environment of the post-Vietnam economy. If money rates were sharply eased and private investment demand were strong, first claim on our rising revenues would be to hold some of them as a high-employment surplus for debt retirement. But if money rates prove to be stubborn, or if business investment and housing demand—with or without easy money—do not rise to the occasion, rough balance in the high-employment budget might again be the appropriate target. How, then, would we apportion our projected fiscal dividends so as to realize the full promise of modern economic policy? That question brings the sources and uses of growth to the center of the stage.

If we have, as I believe, made our economy, not recessionproof, but at least recession repellent, we can and should focus much of our future economic policy attention on growth, on its sources, its costs, and its uses.

First, let me comment on fiscal dividends in relation to the sources of growth. In the past few years, part of our rise to the top of the growth ladder has been accomplished by closing the production gap. If we keep the economy operating near its potential in the future, our realized growth will now depend on the rate of growth in that potential since we can no longer pad the figure by taking up economic slack. And if international payments considerations prevented us from using easy money as a growth stimulant, or indeed, if further fiscal or monetary encouragements added only little more to the sustainable rate of private investment, the search for faster growth would lead us ever more directly to well-springs that only Government can provide through its investment in education, research, and physical resources. When we add to this the Federal Government's responsibility for overcoming some of the ravages of economic growth and its commitment to those uses of growth which will raise the quality of life, Federal expenditures become a high-priority claimant on the fiscal dividends in our future.

Federal Expenditures

Public expenditure programs will play a large part in pushing out the social and scientific frontiers that will define our economy's limits in the future. Consider the critically important ways in which they enter into the economic growth equation:

Programs to develop human resources will pay enormous rewards in higher productivity. One of the significant contributions of empirical work in economics in recent years is the better measurement and increased understanding of education and work skills as a source of more rapid growth. Further expansion of our manpower programs, especially now that we are in a range where structural unemployment does become important, promises good returns in expanding the economy's potential. The National Commission on Technology, Automation, and Economic Progress, for example, recommended that retraining programs be expanded to cover 750,000 persons a year.

For the longer run, the big payoff will come from basic education. It is no coincidence that the overall superiority of the American school system is matched by the higher productivity of American workers. Yet we remain an enormous distance from what is achievable in educating our children. The Automation Commission recommended that free education be extended from 12 to 14 years, into technical schools and community colleges.

Enlarging the stock of public capital has long been recognized as a Government responsibility in the growth process. Public roads, water systems, school buildings, and hospitals will be no less important in the future because they are already on the familiar lists of the past. Direct Government investment in atomic energy, in communication satellites, in mass transportation, and in urban redevelopment are less traditional but equally important.

Government also plays a key role in raising the quality and efficiency of both public and private capital by advancing the technology it embodies.

New programs of public support of research, public construction, and public operation are looming larger in the quest for future supplies of natural resources. Water resources alone are the subject of desalinization experiments, pollution control, weather modification—all part of a list of exciting and important areas in which the public returns may prove as large in the future as the returns in agricultural research, for example, have in the past.

While we seek to expand our efficiency and gain the benefits of faster growth, we cannot weigh the future claims of growth on public expenditures by this criterion alone. At bottom, growth is to be enjoyed—and, most importantly, in a good society, it is to be enjoyed by all.

But first claim on the products of growth should be to repay the ravages of the growth process. If as byproducts in our quest for growth, we destroy the purity of air and water, generate ugliness and social disorder, displace workers and their skills, gobble up our natural resources, and chew up the amenities in and around our cities, the repair of that damage should have first call on the proceeds of growth. If the damage is essentially a private cost forced on society, as in the case of industrial effluents and smoke discharge, it should be forced back on those private units. But much of the problem and the cost can be met only by government. (If we could isolate that part of it which is a direct cost or byproduct of growth from that which is a natural concomitant of population growth and urbanization and so forth, we should probably make a subtraction each year from our total output, an adjustment of our GNP figures, to take account of it.)

When we turn to the uses of growth, we find a rather blurred line between programs to speed its advance and overcome its costs, on one hand, and programs to devote its product to the better life, on the other. Each of us has his own conception of these uses. I have put mine this way:

> "The polluted air I breathe in many large cities, the now polluted Lake Michigan, Milwaukee River, and Puget Sound waters I used to swim in as a boy, our vanishing wilderness, our growing urban blight, the persistence of human poverty amidst plenty, the uneven struggle between beauty and ugliness in our surroundings, the excessive incidence of illiteracy, crime, and delinquency—all these reach out for a large share of that $7 billion annual dividend, either in the form of direct programs or through more generous transfers to State and local governments. For how else are we to gain control of our public environment, rather than letting it control us in a 'half-finished society?' How else can we make real progress toward a society that will not only be large and productive but great and good?"

Tax Cuts

One need not dwell on the claims of the tax cutters of the future. They will point out, correctly, that tax cuts vitalize free markets and private incentives, supply added funds for private capital formation, and boost private demand. Yet, I would hope that the tax cut lesson of the past few years has been learned wisely, and not too well. The on-target success of the 1964 tax cut should not blind us to the special circumstances which made tax reduction clearly preferable to further expenditure increases at that time. In 1963, massive tax cuts became the clear choice over more rapid expenditure increases for reasons that may not repeat themselves in the near future:

> At that time, the income tax structure itself badly needed realinement, particularly in the top and bottom brackets. This meant lowering the top-bracket rates to reduce avoidance and restore incentives and the low-bracket rates to meet the elementary requirements of equity.
>
> The need to expand aggregate demand in the manner most likely to restore incentive and enlarge private investment funds,

which pointed to tax reduction, was more pressing at that time than it may be in the future.

Also pressing was the need to halt and reverse the process of erosion of the income tax base in the interests of both greater equity and less distortion of resource allocation. The large tax cut, though finally accompanied by only modest reforms, was a promising vehicle for this purpose.

The whole political complex in its broadest sense required an approach to expansionary fiscal policy which would not be rejected on grounds that it necessarily meant bloated budgets. Added expenditure programs faced very great resistance. By using tax reduction, it was possible to induce a coalition of conservative and liberal elements to endorse and work for an expansionary fiscal policy even in the face of an existing deficit, an expanding economy, and rising Government expenditures.

Under the foregoing circumstances, the surest path to more adequately financed Government programs was, paradoxically, through tax reduction. The upsurge of tax revenues flowing from economic expansion would finance higher levels of local, State, and Federal spending than we would have had without the tax cut's stimulus—a stimulus that the country was unwilling to provide by deliberately enlarging the Federal budget. And, in point of fact, the 16.3 percent rise in GNP in the 2 years after the tax cut—between the first quarters of 1964 and 1966—made possible a 13.5 percent rise in Government expenditures at lower average tax rates.

Future tax reductions do, of course, offer potential contributions to economic efficiency and our goal of accelerating growth

by encouraging business investment, as needed, and thus enlarging and modernizing our stock of physical capital;

by improving the incentives to risk-taking and to income-earning among high income groups;

by improving the allocations of resources in production and in the use we make of our output;

by stimulating the search for new methods and technologies and the application of innovations.

In the light of these attractions the unthinking man's quick answer to the question of how we dispose of our post-Vietnam fiscal drag so as best to harmonize our various economic ends may be, "untax us." But the thoughtful man's answer may be quite different (or, at least, less quick). He will recognize that there may be carefully drawn and pointed expenditure programs which can contribute more to productivity and growth than another round of tax cuts. He will recognize that the circumstances which gave a crystal clear signal for stimulus of private investment in plant and equipment in 1960–64 may not always hold, quite apart from the current investment boom.

We will continue to need a high level of such investment to translate our advances in technology and science into concrete advances in productivity. But before we conclude that they still signal an increase, and corresponding fiscal stimulants to achieve it, we need to

stop to ask whether higher levels of private investment would be sustainable under foreseeable circumstances;

look at the cash flows available to finance them and the profits available as rewards for the risks involved; and listen to the competing claims of larger expenditures for growth-producing and growth-inducing public programs.

We could put it this way: the case for added fiscal stimulus to private investment in 1961–64 was open and shut. In the future, it is again open. Not to be misunderstood, I should underscore that emphasis on high levels of investment—not only in plant and equipment, but in brainpower and research—is here to stay. It is essential to the Nation's economic well-being. But we also have to recognize that too rapid expansion of capital goods can generate inflation and undermine our international competitive position, as it did in the 1955–57 period, and that it can create overcapacity, as it did in the 1920's. We must maintain a balanced approach to a high-investment, high-research, high-education economy if we are to have a truly high-growth economy.

Even when tax cuts do not have as high a priority as they did in 1961–65 as an economic source of growth, they have a definite role to play in the economic uses of growth. Our economic progress needs to be shared with low-income groups, not just by poverty programs, but by tax cuts at the bottom of the income tax scale. Something of a consensus seems to be developing, as it should, that top priority in longer term tax reduction belongs to the lower income groups. President Johnson, in signing the excise tax bill in 1965, said:

> "We hope, in particular, to provide further tax relief to those in our Nation who need it most—those taxpayers who now live in the shadow of poverty."

Programs like the negative income tax or minimum income guarantee all represent a further step in the same direction. It is a reflection both of our economic growth and of our increasing social maturity that such programs now gain the benefit of calm and rational discussion, together with increasing support (but still far from majority support), in contrast with the emotional and hostile reaction they touched off not so many years ago.

Closely allied to special forms of income tax reduction to aid the lowest income groups is the proposal to finance increases in social security benefits, both scheduled and unscheduled, out of general revenues. How far should we go in further across-the-board income tax cuts, side by side with payroll tax increases that bear most heavily on the lower income groups, bear heavily on consumption, and increase employers' costs of providing jobs? As fiscal leeway develops, I believe we can make a strong case for strengthening our system of income maintenance without corresponding increases in payroll taxes. As a first step, one might well tap the income tax to finance higher unemployment compensation payments. It would strengthen the economy and ease burdens on small incomes without raising business costs.

Transfers to State-Local Government

Finally, in distributing future fiscal dividends, we must consider the claims of State and local governments. Let me briefly plead their case and, in the process, pose a basic question about the future of our national fiscal system.

The essence of the case is a fiscal mismatch:

> The supply of readily available revenues is rising faster than the demands on the Federal purse.

The State-local situation is reversed—expenditure demands are rising faster than the readily available revenue supply.

Evidence? While Federal outlays have been rising more slowly than GNP, State-local expenditures rose nearly 9 percent per year, or almost double the GNP rise from 1953 to 1963. They rose from $28 billion in 1953 to $65 billion in 1963. State spending alone rose from $12 to $28 billion.

No letup is in sight:

Demography burdens State-local budgets, not just by the 19 percent overall population increase from 1953 to 1963, but the 40 percent rise in the 5 to 19 age group and the 29 percent rise in the over 65 group.

Mobility and urbanization call for even more new schools, sewers, roads, parks.

Prosperity generates demands for better schools, roads, mental hospitals—faster than it generates new State-local revenues.

Price trends, for example, on construction and the services of teachers have also worked against State-local budgets.

Looking ahead, Joseph A. Pechman at Brookings has projected State-local expenditures at a possible $103 billion in 1970—a 7-percent growth rate—with receipts (including "normal" growth in Federal grants) rising only to $88 billion. This would leave a $15 billion gap to be closed by new State-local tax boosts.

No doubt, State and local bodies can and will do more to tax themselves—e.g., States doubled the collections from their own sources between 1953 and 1963. But their handicaps are serious:

Limited jurisdiction, less-than-optimal administrative size, and constitutional barriers;

Interstate competition, the fears of driving out or keeping out industry and wealth;

Great disparities in economic and hence taxable capacity;

Already heavy reliance on tax sources that are not very responsive to economic growth.

Yet, in the face of these barriers, the fact remains that many of the functions essential to a great, good, and growing society are carried out by State-local government: Education, community development, mental and physical health, recreation, welfare, the list is not short.

On simple grounds, then, of redressing the fiscal balance there's much to be said for a more generous allotment of Federal funds to the States and localities by methods which will strengthen their independence as well as their capacity to serve their citizens.

But more than that, what kind of a fiscal system do we want? One in which—to put it in extremes—we dismantle the progressive and comparatively equitable Federal income taxes while we lean ever more heavily on regressive and comparatively inequitable State-local property, sales, and excise taxes? Or one which relies on fiscally potent Federal income taxes to relieve some of the pressure on our weaker and poorer taxes?

STATEMENT BY WERNER Z. HIRSCH

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Few will dispute what appears to be fact: the Employment Act of 1946 has served the Nation well. During our first 20 years under the act, however, we have focused our concern mainly on short-run problems. Now, with our increasing sophistication and experience, perhaps we should begin to look farther ahead.

In his April 1964 address to the Nation's newspaper editors, President Johnson said: "A President has to try to peer into the future, and he has to prepare for that future." In short, the Government, to be effective, must not merely react to events as they occur. It must be able to anticipate possible courses of future events, and to lead in ways that will help the Nation attain the most desirable future among the many which are possible.

Some of the speakers who participated in the 20th anniversary symposium sponsored by the Joint Economic Committee of Congress mentioned in general terms this need for future orientation. I would like to be a bit more specific—to note a few examples of possible opportunities in dealing with the future, and to suggest that the time is ripe for the Joint Economic Committee, the President's Council of Economic Advisers, and possibly other groups to look farther ahead.

We might view this as a threefold task: (1) To scan the horizon, identify new goals and directions, and become aware of coming opportunities, problems and potential solutions; (2) once goals, problems, and potential solutions are identified, to try to evaluate measures which may most effectively meet future needs, and to suggest how these may be integrated into potential programs for consideration by Government executive and legislative bodies and by private enterprise; (3) to consider various means by which such programs might be administered efficiently in the expected future environment.

In noting a few specific examples relevant to dealing with the future let me first revert to hindsight—the war on poverty. This could have been widely foreseen as an issue for the 1960's (and it was in fact predicted by Leon Keyserling, a former Chairman of the President's Council of Economic Advisers, mainly on the basis of economic information). Projected wealth increases were sufficiently large to support an attack on poverty in the 1960's. There were also projections of budget surpluses which would have deflationary consequences, and the recognition that the gap in income between whites and nonwhites was increasing. Further, the importance of educational opportunity as a means of improving the lot of minorities in the long run was clear. In spite of these various indicators, the "war on poverty" approach, and its implications for educational needs was, and perhaps still is, not fully appreciated.

For an example from the future that is almost upon us, we have the computer. Progress in the development and the use of computers during the last decade has been nothing less than spectacular. The size and cost of computers have gone down dramatically, while their speed, ease of use, the number of new applications, and the number of actual users have increased just as rapidly. A report from the Rand Corp. suggests that the cost of carrying out computer operations in the next decade will drop to one two-millionths of the 1955 cost. Yet the rate of new developments with regard to computers is certain to proceed at an ever-increasing rate. Computers are seen by those who specialize in the field as taking the form of teaching machines which will bring more rapid learning; as research tools which will operate as simulated laboratories and bring even higher rates of scientific discovery; as management planning, decision, and production tools, which will bring more efficient production; and as administration aids which may bring business and Government operations to a new peak of efficiency. Needless to say, such changes will also bring problems: The closing out of certain job categories and skills, the opening of others for which new training will be needed, the need to protect information and individual privacy, which will take on a new strategic importance.

Such increasing rates of growth in this and other fields—"the knowledge explosion"—may have a number of more indirect consequences. For example, it may further the gap between the social and physical sciences. Or as Bertrand de Jouvenel has said, "The rapidity of change implies that our present knowledge of the environment has a short validity; speaking of faster change implies a decrease in life expectation of our present knowledge of the environment. * * * In other terms again, our knowledge of the future is ever less as change accelerates. This must be remedied by speculation." [1]

An example of a more far-out opportunity for shaping our future is the possible increased lifespan of the individual. The day may come when medicine will succeed in allowing man to remain in full vigor for many more decades than he does today. In this event the proportion of children to adults would change; the productive individual output may increase; requirements for education (for example, for "lifelong learning") could change radically; and the whole traditional pattern of the average citizen's life—his "lifetime budget" of education, work, leisure, etc.—may change.

I would like to suggest that the Joint Economic Committee address itself more than it has in the past to the implications of such futures.

That is not to say that the job will be easy. But there do appear to be opportunities to make significant progress.

First, a number of responsible individuals have already given us much rich and serious speculation about what seems to lie ahead; for example, Prof. Dennis Gabor, of England, in his book "Inventing the Future," and Prof. Bertrand de Jouvenel, of France, in his "L'Art de la Conjecture." Others at the frontiers of science are continually updating these pictures.

Second, our scientists are developing more powerful analytical tools, such as operations analysis and cost-benefit analysis. Though these will not allow us to accurately predict the future, they can, when properly used, reduce uncertainties, and help us to make wise choices among alternatives.

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[1] Bertrand de Jouvenel, "Futuribles" (Santa Monica: the Rand Corp., January 1965).

And finally, a few very preliminary steps have been taken toward organizing the machinery for studying the future. The Futuribles in France, and various suggestions of "future lookout stations" and research institutes in this country, are examples.

How can policy-oriented research into the future best be carried out? Through our universities? Or nonprofit institutions? Or entirely new bodies? There is no easy answer to this question. But the various issues of organization, research methodology, and dissemination of findings of futures research, might very well lend themselves to a program of early studies sponsored by the Joint Economic Committee, which should culminate in public hearings. Since knowledge is power, it would be important to make sure that no monopoly will exist on research about the future. One way to avoid such a danger would be to have such research carried out by a number of organizations, both inside and outside of Government.

STATEMENT BY JOHN W. KENDRICK

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The Employment Act of 1946 has been a most constructive force in the economic history of the United States during the past 20 years. I believe it can play an even more important role in the future, given some amendments to the act—or at least further evolution in interpretation of the act; continuing refinements in economic policy measures to implement the explicit and implicit objectives of the act; and further improvements in its administration.

POSSIBLE AMENDMENTS TO THE ACT

At the 20th anniversary symposium, tribute was frequently paid to the framers of the Employment Act of 1946 for the breadth of language which has permitted great flexibility in its interpretation and administration. That flexibility in response to changing circumstances is a vital characteristic of a living document, and should be preserved.

Nevertheless, there is no good reason why the act should not be amended when, in the light of experience and a developing consensus, such amendment would clarify purposes, administration, and promote realization of goals, while preserving essential flexibility. Consideration should be given to addition of the following objectives:

To avoid general price-level inflation, or to diminish the effects thereof, while maintaining flexibility of individual prices;

To foster mobility of resources in response to dynamic economic changes—in particular, to promote the matching of labor force capabilities with employment opportunities;

To promote growth of productivity, and real national product, consistent with a given expansion of human resources, and saving propensities of the community.

Consideration should also be given to the possible desirability of strengthening the Federal Government's commitment to employment opportunities for all who are able and willing to work. The President's Commission on Automation recommended that the Government should be the "employer of last resort." There is much to be said for the idea that when eligible persons have exhausted their rights to unemployment compensation, or when ineligible persons have spent a reasonable period of time in active but fruitless search for employment, the Federal Government directly and through cooperation with State and local governments concerned, should offer productive employment. Given relatively effective policies for stimulating the private economy, the numbers involved should not be large, while opportunities for useful public service are great. When numbers of the unemployed increase during recession, temporary public employment would reenforce the countercyclical effects of unemployment insurance programs, while making productive use of resources that would otherwise be unemployed.

FORMULATION OF POLICY MEASURES

It is probably easier to achieve consensus on broad economic objectives, as discussed in the previous section, than it is to devise specific policies (policy measures) to implement the objectives. In large part, however, disagreement on policies can be traced to inadequate economic information, and incomplete knowledge as to how the economy works. Therefore, it is basic to improved policy formulation to continue to improve basic economic data and qualitative information, and to promote studies to improve economic theories and thus our knowledge concerning the operation of the economy.

The activities of the Subcommittee on Economic Statistics have been most useful in identifying data gaps and deficiencies, and promoting efforts to improve economic intelligence. These should continue, in cooperation with the Office of Statistical Standards in the Budget Bureau, in an effort to further build and maintain a Federal statistical program consistent with the requirements of an increasingly complex economy and Government establishment.

The basic studies of various aspects of the economy undertaken directly by the Joint Economic Committee, those stimulated by the committee and included in its compendia, and the hearings by the committee, have been a potent force in advancing economic knowledge, and should be continued. Further thought might be given to means for stimulating continuing research both inside and outside Government in the areas of particular relevance to the missions of the Council of Economic Advisers and the Joint Economic Committee.

The following paragraphs relate more specifically to policy formulation to achieve the goals now implicit in the act, which I suggested might be made explicit through amendment.

Reasonable price level stability.—The commitment of the Government to stability of the general price level cannot be absolute, just as the commitment under the present act to avoidance of economic fluctuations is not absolute. In a relatively free economy, it may not be feasible to achieve complete secular price stability, just as it has not proved feasible to avoid some fluctuation in overall economic activity. But a commitment to throw the weight of Government fiscal activity and other policies against price inflation will help in this endeavor, just as the Employment Act commitment has greatly diminished the amplitude of economic fluctuations, compared with previous periods.

Further basic data on realized prices of goods, prices and productivity of the factors of production, and costs per unit of output by major type will be helpful. More important, further basic studies of demand-and-supply factors resulting in price changes in individual markets and in the economy as a whole, and the price effects of monetary and fiscal policies, are needed to increase our knowledge as to the basic causes of inflationary and counterinflationary movements.

In particular, studies and hearings are needed to promote the evolution of the "wage-price guideposts," or an "incomes policy," into a possibly effective operational instrument for avoiding "cost-push" inflation during periods of high-level growth. It seems particularly important that such a policy be formulated in consultation with representatives of business firms and labor unions, and represent a workable consensus as to what is needed and feasible. The present deliberations of the President's Labor-Management Advisory Committee could be an important step in this direction.

It seems reasonable that any effort to conform average wage-rate increases roughly to the rate of increase in real product per unit of labor input so as to preserve stability in labor costs per unit of output should be accompanied by a commitment by the Government to pursue monetary and fiscal policies to maintain a reasonable degree of stability in average profit margins at high levels of aggregate demand.

In addition, the Employment Act objective "to foster and promote free competitive enterprise" should be more vigorously pursued with respect to financial markets and labor markets, as well as to markets for commodities. Here again, additional studies are needed as background for more effective policy formulation.

Resource mobility.—The importance for mitigating fluctuations and promoting high-level growth of adequate resource mobility is becoming more widely recognized. In fact, mobility costs may be considered a form of investment, since they are necessary to effectuating increases in income and output made possible by technological changes and other dynamic forces affecting the economy unevenly with respect to industry, occupation, and region.

The most pressing need for promoting labor mobility is for continuing national and regional registers of job vacancies. The feasibility of obtaining meaningful job vacancy data has been established by several recent exploratory surveys. Also, more complete national and regional listings of unemployed persons (and potential labor force members) by relevant characteristics, are needed. Expansion of data along these lines would make possible effectuation of the recommendation of the National Commission on Technology, Automation, and Economic Progress for "* * * the creation of a national computerized job-matching system which would provide more adequate information on employment opportunities and available workers on a local, regional, and national scale." Also, as the Commission pointed out, the public employment service would have to be expanded and improved to implement this objective. In addition, further study should be given to programs for training, retraining, and relocating unemployed persons to facilitate their obtaining useful employment.

Regarding capital mobility, further studies are needed of the capital markets, with particular respect to interregional flows of short- and long-term funds. Particular regions should not be handicapped by shortages, or high cost, of capital relative to the Nation as a result of imperfections in our system of financial institutions.

Government employment.—A commitment by the Government to serve as "* * * employer of last resort, providing work for the 'hardcore unemployed' in useful community enterprises," as recommended by the national Commission, would represent a controversial amendment to the Employment Act. Yet, given the past success of the act, the commitment would not be a large one; it would be countercyclical; it would prevent waste of human resources; and it would represent the final step in eliminating long-term unemployment from the U.S. economy.

Careful thought would, of course, have to be given to the specific implementation of such a commitment. Cooperation of Federal with State governments, and State with local, would be necessary since the community enterprises most in need of unskilled labor are generally at the local level. Federal subsidy, or cost-sharing arrangements would have to be worked out. There would need to be advance planning to deal with fluctuations in numbers of the long-term unemployed. Pay scales would have to be worked out that would preserve incentives to return to "regular" jobs, and means devised to facilitate the transition. If possible, public-service employment should be linked with training for jobs which are available in the private economy, or in regular government agencies.

In the last analysis, public service employment is a desirable alternative to long-term unemployment for economic as well as social reasons. It would represent an addition to the national product. The net cost to government should not be large, since such programs would permit reduction of public assistance payments, and the multiplier effect of net additions to income would result in higher tax yields than would otherwise be the case.

Promoting growth.—Since World War II, the American people have become increasingly conscious of the importance of economic growth. Growth is seen not merely as a means of maintaining full employment under conditions of rising productivity and expanding labor force, but as a means of securing our international position and raising domestic planes of living. In other words, economic growth provides the material means of winning the war against poverty at home, and the "cold war" abroad. Both political parties had planks in their platforms of 1960 calling for acceleration of economic growth rates. It would seem appropriate that this commitment should be written into the Employment Act. The commitment can be honored by promoting tangible and intangible investments in the private sector, making adequate provision for such investment in governmental budgets, and possibly by setting up a National Productivity Center to conduct continuing studies of ways to advance productive knowledge, and to promote its dissemination.

The Productivity Center would represent a practical counterpart of the National Science Foundation, whose chief function is to promote basic research and fundamental scientific progress. The Center would guide and promote applied research and development activities. It would make full use of existing agencies, such as the Office of Technical Services in the Commerce Department and the Agricultural Extension Service in the Department of Agriculture, but it would try particularly to uncover areas in which technology lags, and seek ways to stimulate development of these relatively neglected areas. Broadly based advisory committees would aid in the creative outreach of such a center.

The question of possible new institutional arrangements apart, it must be kept firmly in mind that the basic source of economic growth is saving and investment. Investments in new tangible capital goods, in development of natural resources, and in rearing children to working age, expand the quantity of our factor services; intangible investments in basic research, in applied research, development and engineering, in education and training, and in mobility and health, all increase the quality, or productivity of our human and nonhuman resources. Both the Council and the Joint Economic Committee must be concerned with policies to promote and facilitate saving and investment in the private sector, and to allocate adequate portions of Government expenditures to investment or "developmental" objectives. In particular, direct public investments should supplement private investment and make it more productive. The role of the National Science Foundation in promoting basic research is a case in point, since advances in fundamental science are the wellspring from which inventions and productive applications flow without noticeable tendency toward diminishing return.

Administration of the Act

My comments concerning administration are brief, since I have not studied the problem at firsthand. But based on casual observation, I believe the Council of Economic Advisers needs a somewhat larger staff, particularly of career people. In the past two decades, both the economy and the Federal Government Establishment have more than doubled in size, and complexity has grown, but the Council staff has not increased to speak of, while the number of "permanent" staff members seems to have declined.

The Council also needs further to expand its contacts with all the numerous executive branch agencies concerned with economic policymaking and execution either directly or through interagency committees. Regular channels of contact between the Council and various economic interest groups should also be broadened, although the Council must remain insulated from undue pressures as it seeks to devise policy measures in the general public interest. In particular, I believe that the Council should provide more formal arrangements for interchange of information and views with State (and possibly major local) governments. For example, data on the current and capital expenditure plans and revenue expectations of State and local governments should be assembled, since these are a significant factor in the economic outlook. At times, the Council may wish to recommend certain adjustments of fiscal plans to these governments in the national interest.

Obviously, adequate liaison between the Council and Federal agencies, State and major local governments, and major private organizations, requires a larger staff, and possibly an increase in the size of the Council itself to 5 or 7 members, with staggered terms. Such a step would also enhance the continuity of the Council's operations. The views of present and past Council members should be solicited in this regard.

My only thought with respect to the Joint Economic Committee is that procedures should be devised to increase its influence in relation to other congressional committees concerned with various aspects of economic policy. The committee itself can best judge if additional resources are needed. But given the considerable amounts of time and resources expended by the committee and its staff in studying economic conditions and recommending needed measures, the effectiveness of this effort could be enhanced by broader and more intensive contacts with the other interested committees of the Congress.

STATEMENT BY LEON H. KEYSERLING

FORMER CHAIRMAN, COUNCIL OF ECONOMIC ADVISERS; PRESIDENT, CONFERENCE ON ECONOMIC PROGRESS, WASHINGTON, D.C.

In February 1956, upon the 10th anniversary of the Employment Act, I prepared for a publication celebrating that event[1] an article entitled "The Council of Economic Advisers' Tasks in the Next Decade." In that article, I set forth eight points of emphasis which I thought might guide some redirected efforts on the part of the Council of Economic Advisers during the years 1956–66. As we now look ahead to 1976 and even 1986, I submit that these eight points of emphasis are equally or even more pertinent, and that an examination of the extent to which CEA has neglected these points to date provides an excellent starting point for looking at the challenges of today and tomorrow.

I shall therefore set forth, at times in abbreviated form, the eight points which I raised in early 1956, and comment upon each of them in the light of the present and the revealed needs of the future.

> (1) "*Maximum production*" *should be reexamined.*—Does reasonably full utilization of available and growing productive resources meet the objective of "maximum production," or should the objective include more intensified efforts to accelerate the rate of productivity advance by specific national policies, including resource development, attention to depressed or underdeveloped areas, human training, etc.? Whether we grow by 4 percent a year rather "automatically," or by 6 percent a year with special effort, may not be merely a matter of "gilding the lily" in view of the worldwide contest of economic strength likely to endure as far ahead as we can imagine.

I feel that the CEA has been far too willing to accept as "maximum production" that level of output which would result rather automatically from reasonably full utilization of manpower and other productive resources. Viewing the weight of our imperative international and domestic burdens, we should strive to call forth fully the long-range rate of average annual economic growth which would be the optimum, short of excessive inflationary strain. I judge the evidence to be fairly conclusive that this would be not less than 5 percent a year, after reasonably full resource use is achieved. The growth rate should be considerably higher until then.

Not only has CEA failed to move in this direction, worse still, CEA has not really committed itself at all to any qualification of either long-range or short-range goals for economic growth, thus abjuring the specific mandate of the Employment Act itself. Instead, CEA has contented itself with forecasting prospects for economic growth, and mainly short range, which is a very different thing from setting goals.

[1] The Employment Act Past and Future, a 10th anniversary symposium. Edited by Gerhard Colm. National Planning Association Special Report No. 41. February 1956.

In its more technical discussions, CEA seems to have accepted the proposition that an adequate rate of economic growth would be very close to that averaged over the long term in the past. I submit that these long-term historic averages have little bearing upon our true potentials now and in future, because of the long-term trend toward accelerating productivity growth, the demographic factors affecting the future growth in the labor force, our increased command of economic policy, and the urgency of our current and prospective needs.

A most striking demonstration of this CEA default occurred subsequent to the expansion of the demands placed upon our economy by the war in Vietnam. This is a time when CEA should have concentrated upon calling forth more fully what I have called the great nonsecret weapon of the U.S. economy, its proved ability to lift its growth rate in response to hard challenges imposed upon it. Instead the CEA, although these increased demands due to Vietnam found us still very substantially short of reasonably full resource use, let its concern about "inflation" dominate other considerations of more vital importance, and in 1966 viewed with equanimity the evidence that the growth rate is contracting very considerably.

> (2) "*Maximum employment*" *should be reexamined.*—Can achievement of this objective be measured merely by a statistical count of the unemployed, or must it include also a count of the underemployed (e.g., in agriculture)? Is a given level of employment conducive to "efficiency," or do we just say it is; and even if it were more "efficient," are we not productive enough to forgo some "efficiency" rather than to inflict sustained unemployment on several million people? Is unemployment below a certain level "inflationary" per se, or was the "inflation" which at times accompanied extremely low unemployment due to other peculiar causes (e.g., rapid transition in resource use and expectancies during defense mobilization)?

The default of the CEA on this score has been so apparent to date that it does not require much discussion. Here again, CEA has abjured its statutory responsibility even to define quantitatively what constitutes "maximum employment." And without setting goals in these terms, there is no satisfactory standard toward which the employment policies of a great nation can be pointed.

The CEA, in the count of the unemployed which it uses for practical purposes, neglects entirely the full-time equivalent of part-time unemployment and the concealed unemployment which exists among those who are not in the civilian labor force because of scarcity of job opportunity and who therefore are not counted among the unemployed in the official statistics. The CEA also neglects the underemployment or poor utilization of the labor force in many industrial sectors and in agriculture.

The CEA position in early 1966 that future reductions in unemployment (below a 4 percent "interim target" which in itself was unconscionably high and was accepted with composure for far too long a time) should be sought with extreme caution because this might engender inflationary strains is grossly vulnerable for the reasons set forth above in my 1956 insistence that the problem of "maximum employment" should be reexamined. And even apart from social considerations, CEA has failed to develop a mature economic analysis of whether it is really true that there is a positive correlation between the reduction of unemployment and the advance of inflation. In any event, the whole CEA approach to the problem of inflation seems to me highly unsophisticated, for reasons for which I shall set forth below.

(3) "*Maximum purchasing power*" *should be reexamined.*—
Is this objective satisfied merely by enough purchasing power to sustain maximum employment and production without "inflation," or does it also contain necessarily the problem of distribution of purchasing power in terms of human welfare? Suppose, though I doubt it, that maximum economic activity (e.g., savings equal to investment) could be maintained indefinitely even with 22 million people in the farm population (or less a few years ahead), and many additional millions, living under gross income disparities or in poverty? Is such an imbalance in living standards any less a national economic problem than an imbalance between steel output and automobile demand? If this is a "social" rather than an "economic" problem, can it be met effectively by "social workers" if it is bypassed by national economic policy?

The CEA by 1966 arrived at the indefensible if not shocking position that it is "neutral" on the subject of the distribution of purchasing power, and is concerned mainly with aggregate purchasing power from the viewpoint of aggregate levels of economic activity. This, in my view, violates even the traditions of the great economists, and it is a preposterous position for those advising the Government of a great nation which must be concerned with the priorities of our national purposes. A "war against poverty," officially initiated, cannot be reconciled with economic advisers to the President who are "neutral" on the subject of income distribution.

Even from the more limited "economics" viewpoint, the question of the distribution of purchasing power is at the very heart of the whole problem of sustained economic growth and reasonably full resource use. If CEA had developed the long-range quantitative models for U.S. economic performance which I hold to be a mandate under the Employment Act, it could not have led the President, the Congress, and the public into the egregious error of tax reductions in 1962 and 1965 having an annual value of almost $20 billion. These tax reductions were along lines which stimulated the economy for a while, to be sure. But they intensified the disequilibrium in the long run by allocating far too much additional spendable income to those who did not need these increments, and far too little to those who needed larger increments even on grounds of economic balance, quite apart from dictates of equity and social justice.

The CEA should have protected the President, the Congress, and the country against still further tax concessions to the investment function in 1965, which put the President early in 1966 in the unfortunate position of begging the recipients of these bounties not to spend them either overseas or at home lest the balance-of-payments problem and the relatively excessive investment boom be further aggravated. It is not the function of business enterprise to save, but rather to spend, the income available to it. And it is the function of Government not to supplement this income unduly by tax reductions, when alternative fiscal measures could have done so much more to promote economic equilibrium and to meet the priorities of our national needs.

(4) *Optimum economic stability should be redefined.*—When we have small recessions, are they a "corrective process," or is this term a euphemistic way of saying that we are doing well but not well enough, and should try harder? We have no specific cure for the common cold, but we do not say that the common cold helps us to avoid pneumonia. As we learn better how to stabilize, we must think not only of the cost of recessions to the general economy, but also of their impact upon the proximate victims.

CEA deserves credit for emphasizing that we should seek further improvements in ironing out the business cycle and that, insofar as we seem to have solved the problem of major economic downturns, we should direct attention toward averting even minor economic recessions. But I do not believe that we can have much success in this direction without much more mature equilibrium analysis than has thus far been developed by CEA. The attempts of CEA since 1961 to explain the recessions between 1953 and 1961 have taken on too many political overtones, have concentrated too excessively upon fiscal and monetary policies, and have not offered comprehensive analysis of how there appeared in the economy at large the distortions which led to the recessions. Such analysis would require construction and annual revision of models for the U.S. economy in operation at reasonably full resource use, and analysis of how departure from these models led to the recessions which occurred.

(5) *The economic significance of price trends should be reexamined.*—A theological assertion that a rising price level is bad has crowded out these pertinent questions: If alternative policies had held the price level more stable, what would have been the effect on production? On income distribution? On economic growth? On smooth reconciliation of conflicting interests (e.g., collective bargaining)? I do not here argue the relative merits of a stable versus a rising price level; and better policies at times might have produced improved price behavior. But price objectives are one among many, and the CEA would make a significant contribution by setting price discussion in the context of the whole dynamics of the economy.

In recent years, most of the economic and financial discussion of "inflation" has retrogressed from a legitimate concern to a distorted preoccupation. It is perfectly manifest that, within the perspective of likely price change in the U.S. economy, the relationships among prices and incomes are far more important than price stability per se, whether in terms of economic equilibrium or social justice. This is elementary economics, but it has not been recognized in recent and current use of monetary policies to check "inflation" by aggregate restraints upon the money supply and rising interest rates.

The history of Federal Reserve performance since 1953 has been a glittering case study of what happens when aggregated measures are used to "hold things down," without recognizing that in the complex U.S. economy some areas of activity ought to advance even while others should be restrained, again in terms of both equilibrium and social justice. As an immediate example in 1966, the policy of tight money and rising interest rates is of almost no avail toward restraining the inordinate investment boom, while it is crippling the production of housing despite the repeated asseverations of the Government that one of our top national priorities is to restore our cities and to make sizable rather than token progress toward rehousing the one-fifth of our people who still live in slums.

The immature, if not culpable, state of our national economic policies in dealing with "inflation" ties in very closely with the immature approach to analyzing in full perspective the problems of economic equilibrium and the inseparable problems of national priorities and social justice. During the past decade and more, in the name of the crusade against "inflation," we have through rising interest rates alone transferred more than $60 billion of national income from those who borrow to those who lend. Subject to some exceptions, those who borrow are more in need of income supplementation through deliberate national policy than those who lend. The lower half of the income structure dissaves on net balance. We have thus deliberately been transferring income away from the ordinary homeowner or renter who pays higher interest rates, the man buying a car on time to get to work, the family borrowing to send a child to college or a mother to the hospital, and also from governments at all levels paying those higher interest rates—transferring income away from them and into the hands of those whose incomes are already on the high side in terms of equilibrium and social justice.

CEA in my view cannot shrug off responsibility for this benighted policy on the ground that the Federal Reserve System is "independent." CEA has itself failed to analyze the whole problem of "inflation" and the means of preventing it in satisfactory terms; CEA has itself contributed to the undue panic, the confused thought, and the bugaboos on this whole subject. CEA has in its own reports condoned the wayward monetary policy at times, ignored it at other times, and joined in the insupportable proposition that the monetary travesty has been justified by our balance-of-payments problem.

In fact, CEA has joined vociferously in the chorus of those exaggerating the balance-of-payments problem far beyond its real significance. CEA has thus abetted the joinder of the "balance of payments" scare and the "inflation" scare which have tended toward sacrificing the fundamental maximum-resource-use goals of the Employment Act of 1946, as well as the allied social priority goals.

(6) *Our great national priorities should be given more weight.*—Resources should not be allocated just to keep a machine running at high speed, but also to serve ultimate human needs. Even assuming, contrary to commonsense, that we could maximize production by sharpening tools while dulling bodies through poverty, bad housing, and poor medical care—and dulling minds by inadequate educational facilities—is the production of goods any more an economic ultimate than the cultivation of people? Are these "political" rather than "economic" values? They involve programs which the President in large measure must initiate; he must be guided by the power, potential, and distribution of our economic resources; and the CEA exists to help him rationalize the basic elements in national economic policies and programs. And even from the simon-pure "economic" viewpoint,

social security policy variation may be more potent than practical variations in monetary policy.

If CEA fulfilled its essential responsibility to develop a long-range quantitative model for the U.S. economy in action, it would necessarily have to include within this model an acceptable quantitative allocation of our resources to the priorities of our national needs, as identified in purely qualitative terms by the declared objectives of the Great Society. The neglect of this whole task has put us in the position where we are willing to curb superfluous or expendable resource use if that proved necessary to support the priority of our international policy in Vietnam, while we are unwilling to serve the great domestic priorities rather than take steps if need be to use tax policies and other restraining policies to curb the superfluous or the expendable. The gruesome proof of this statement is to be found in the recent and current trends with respect to the domestic programs in the Federal budget, when measured on a per capita basis or relative to the size of a growing GNP.

The whole history of the enactment of the Employment Act, the entire records of performance of those who contributed most to its enactment, and other well-known factors, make it irrefutably clear that this act was intended to translate the use of our economic resources into the fulfillment of our great national purposes. But the current trustees of the act have forgotten largely about all this. We have almost reached the point where the areas of preoccupation and the range of debate would lead to the conclusion that increasing or lowering taxes to make the economy run faster or slower is the prime embodiment of economic wisdom and the hallmark of a "new economics." The speed at which the economy runs is a means, not an end, in itself. What is happening is really a retrogression, because it leaves out of consideration in the formulation of national economic policies those essential elements which were so well recognized during the period of thought and action which culminated in the Employment Act.

The CEA cannot exculpate itself from a large share in this aberration on the ground that its members are professional people divorced from what might be called issues of policy or politics. The attempted excuse runs too far. For the CEA has not remained silent; it has lent the weight of its professional authority to the rationalization of policies which do not live up to the purposes of the Employment Act. The CEA and its inner circle of friends among economists outside of the Government have largely spawned the euphoria surrounding the excessive claims made for the "new economics."

(7) *Federal budgetary policy should be more closely integrated with national economic policy.* The most commonly accepted formula today is that when the economy is full or nearly full, the budget should be balanced or in surplus, to avoid "inflation" or "to reduce the national debt"; and that when the economy is not nearly in full operation, a budgetary deficit should be run for its stimulatory effects. This growing adherence to what is called (correctly or loosely) the Keynesian approach represents increasing realization that the Federal budget is an instrument of national economic policy, and that what is good for the national economy is good for the Federal Government. But economists have become far too prone to reiterate the general formula of the

"compensatory budget" without more precise analysis to fit particular situations, and thus unwittingly to lend support to those who look at the Federal budget without looking at the national economy.

I have already stated my reasons for insisting that the use of fiscal policy to stimulate or restrain the economy, without regard for a comprehensive model for improved equilibrium, does not direct either the stimulus or the restraint to the right sectors of the economy. Nor does it take account of national priorities.

Indeed, there is a strong tendency to develop the Federal budget rather independently of the economic report, and then to use the economic report as a rationalization of the Federal budget. As soon as feasible within the next few years, I am hopeful that the Federal budget will become an integral part of the economic report, for fiscal policy is but one aspect of national economic policy.

This desirable result would necessarily follow, if CEA developed a long-range equilibrium model for the performance of the whole U.S. economy. For proper delineation of needed levels of employment, production, and purchasing power would encompass in integrated fashion the whole range of those of our national objectives which are served by the use of those of our resources which enter into the stream of economic endeavor. And the Federal budget bears directly upon economic resource allocation.

(8) *Economics should move beyond forecasting toward purposeful policy, and increasingly from defensive to affirmative action.*—The Employment Act is frequently referred to as a "forecasting" statute. This is a misplacement of emphasis. The act is concerned primarily with setting forth objectives and how to reach them, and calls upon "forecasting" techniques only in aid of this central concern. Granted, the need for a policy depends in one sense upon a "forecast" of what is likely to happen both with and without the policy. Nonetheless, as we come to appreciate increasingly the power of concerted intelligence to shape the economic environment in a country so richly endowed as the United States, we shall come more fully to adhere to the purposeful intents of the Employment Act. And as we come closer to achieving the more traditional aspects of economic stability and growth, our economic problems will become more largely concerned with satisfying the types of economic needs which lie in areas where "forecasting" has even less significance and where conscious policy is controlling. We do not forecast how many schools we are going to build; we decide how many to build, and by what means.

In any event, an increasing accent upon needed levels of activity and means toward their attainment will be far more likely to produce optimum stability and growth results than forecasting and defensive action. If we rest content behind economic Maginot lines, we are indeed overconfident. I believe that increasingly economists should turn from preoccupation with antidepressionary programs, held in reserve, to pro-prosperity programs, employed consistently to move us forward. It makes more sense to me to estimate our long-range needs for balanced economic expansion and our national priorities and then to gear efforts including long-range public works and tax programs to these objectives (of course with timely modifications if estimates turn out wrong), rather than to await manifestations of economic instability and then attempt quickly to reshape public works and tax programs on a random or emergency basis. Full employment economics, in its approaches and techniques, is quite different from countercyclical economics. The commitment of the Employment Act of full employment economics, rather than to countercyclical economics, has hardly been noted by most economists, and yet it represents a profoundly valuable and virile shift in mood and emphasis. Here is unique opportunity for leadership by the CEA.

In the decade ahead, our economic problems, barring major war, will depart increasingly from the older problems which have absorbed this generation, and move increasingly into the area where economics merges with issues of morality, social justice, and human values. We should be eternally grateful for this, because it bespeaks opportunities for human well-being unknown to our predecessors. But to say that these new issues are outside of economics is to say that economic stability and general growth, without other measures, will automatically heal the sores of poverty in a land of plenty, rebuild the slums, meet the health and educational needs of the people, fulfill our international responsibilities, and reshape the texture of our economy to the problems as well as the benefits arising from more leisure. Sober economists know that this is not so, and unless we avoid this trap, wealth may accumulate and men decay.

Accordingly, if the CEA is not to lapse into innocuous desuetude in the decade ahead, but instead rise to the full responsibilities of its key relationship to the Presidency, it needs to move vigorously along these lines:

First, the Council should reinstate its earlier practice of projecting in quantitative terms, needed levels of employment, production, and purchasing power. It must do this, to obey the law. It should do this, because to say we need more jobs or teachers—but not how much more—is no sufficient guide to resource allocation or national economic policy. Second, the Council should set forth and evaluate the Federal budget as an integral part of the Nation's economic budget. Third, the Council's projections should not be limited to the major components of gross national product, but in addition should state quantitatively our basic national priorities and appraise their relative economic cost and necessity. Fourth, the Council should make these projections on a long term basis—5 years or longer—recognizing that we cannot live safely today unless we look ahead. Glowing forecasts for 1965, unaccompanied by indicating the policy road to be traveled year by year to get there, smack of demagoguery rather than leadership. Fifth, the Council should realize that it is not primarily an economic research agency, nor a statistical refinement agency, nor an interpreter of past trends, nor a pure forecasting agency. Drawing of course upon these resources and techniques, it is primarily an agency to help determine needs and evolve policies and programs.

I have set forth this eighth point of emphasis so fully because it is really a summary of all that I have said over the years about responsibility and techniques under the Employment Act, and because this summary written more than 10 years ago is so much more significant now than it was at that time. It has become more significant because the CEA has had an additional 10 years to marshal the staff, the know-how, and above all the will to do now what it should have done all along. And it has become more significant because the situation in 1966 calls so much more than the situation in 1956 for translating the Employment Act into living reality.

The worldwide situation now is even more parlous than in 1956, and is imposing heavier responsibility upon the U.S. economy for as far ahead as we can see. Deficiencies in many domestic public services and facilities have accumulated further since 1956. Poverty and deprivation among our people have been reduced since 1956 in absolute numbers, but in terms of the new and legitimate expectancies of the victims measured against our rising economic capabilities, the serious problem of 1956 has been converted into the crisis of 1966.

During the 10-year interval, some nations living under the institutions of freedom have done a much better job than we have done, in striking a proper balance between flexibility and planning, between individual initiative and public responsibility, between variegated discrete purposes and core national purposes. Above all, some of these nations have done better than we have, in bringing their programmatic efforts closer to their verbal aspirations.

Twenty years after its creation, the Council of Economic Advisers is showing signs of becoming impeded by the inertia and complacency which tend to afflict the relatively elderly Government agencies, instead of recognizing that CEA is still in the infancy of developing the Employment Act into what it was intended to be and should be.

One sign of this premature aging is the propensity of some members of the Council in recent years to publicize how much more attention and acceptance the Council has received in recent years than during its first years. Whether this claim be true or excessive, it is entirely beside the point. The most important test of an agency like CEA is not how smoothly it is getting along, but rather what it is trying to do. I think that the time has come for some to combine more modesty with more enterprise; more testing of what is now being done in terms of what is now needed; and fewer self-serving comparisons between what has happened recently and what happened 20 or 15 years ago.

We live in an age when technology is changing rapidly; when knowledge is growing greatly; when expectancies are rising at a revolutionary rate. Fortunately in the United States, and unlike the situation in some unhappy lands, we have the native endowments and the economic resources to confront these challenges and even to surmount them. But to do so, we must let our minds be bold; and nowhere is this more essential than in the formulation of the national economic policies which encompass perhaps the largest share of responsibility for the future of our Nation and our people.

STATEMENT BY C. P. KINDLEBERGER

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1. The brilliance of the performance under the Employment Act on the domestic front, and the success of the new economics in overcoming massive unemployment at long last rested on the achievement of analytical consensus. The Joint Economic Committee, along with groups like the Committee for Economic Development and the AFL–CIO, contributed enormously to this unity of view. The economic performance of the United States has not been as brilliant on the international front. No consensus exists inside the United States on the fundamental causes of the deficit in the balance of payments in this country (if it should in fact be regarded as a deficit) nor does consensus exist between governmental, parliamentary, academic and public groups in this country and abroad. Therapy is on the whole ad hoc and consists in individual acts which violate the principles of open markets and nondiscrimination for which the United States has stood in the world. While the Joint Economic Committee has labored long on these problems, frequently under the inspired leadership of Congressman Henry S. Reuss' Subcommittee on International Exchange and Payments, more remains to be done.

2. The leadership in foreign economic policy which the United States exerted from the enactment of the Reciprocal Trade Agreement Act in 1934 has slipped. Perhaps mainly this is an inevitable concomitant of the success of U.S. efforts in helping to restore the world which was willing and able to collaborate to full economic strength and prosperity. In part it may be due to the alleged weakness of the dollar. But U.S. initiatives in tariff reduction in the Kennedy round, in foreign aid, in international monetary reform and a series of other issues increasingly encounter opposition or disinterest. U.S. enterprise abroad is disliked in a number of countries. In other problems, such as East-West trade and meeting the trade demands of the less developed countries, U.S. policies diverge from those urged or adopted abroad. There is little prospect of effective leadership outside the United States, and little prospect, currently, of making U.S. leadership effective.

3. Accordingly, I believe that the most important single task ahead for economic policy in the next years is the construction of an international consensus, over as wide a number of countries, and groups within countries, as possible, a consensus as to how the world should handle the increasingly intimate character of international economic interrelations. This is not to say that there is not unfinished business on the domestic front, such as the creation of institutions for more rapid changes in fiscal policy when called for by domestic employment conditions. Indeed the construction of effective international machinery for meeting targets of employment, stability and balance

worldwide may require the development of more flexible fiscal policies abroad, as well as in the United States, relying on monetary policy more for international balance and less for domestic employment.

4. Economic policy in the years ahead will less and less remain a domestic affair. The Joint Economic Committee, in my judgment, would do well to do what it can to broaden the communication on these issues, leading to consensus.

STATEMENT BY PHILIP A. KLEIN

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One of the strongest impressions which emerged from the symposium commemorating the 20th anniversary of the Employment Act of 1946 is that though there are divergent views concerning its seriousness and what to do about it, there is something like a consensus that the danger of inflation is the major worry in the economy in the immediate future. A number of speakers examined the question whether price stability should not be added specifically to the list of objectives mentioned in the act. In this connection, two factors would appear to be worth noting: first, while much had been accomplished via monetary and fiscal policy in the past 20 years toward achieving the "maximum employment, production, and purchasing power" which the Employment Act charged the Federal Government to strive for, it is not without significance that the unemployment rate stayed tenaciously above the 4-percent interim full employment target throughout the record expansion of the past 5 years until January 1966. Many complex factors have figured in this situation, but it is nonetheless of importance in assessing the record of policy pursued in quest of the objective of the Employment Act. Secondly, it is some indication of what still must be learned about timing, coordination, and flexibility in the utilization of monetary-fiscal policy, that almost in the same month that one of the act's objectives, namely, full employment, reached tolerable levels, another of its objectives, price stability (which I view as clearly implied in the present explicit objective of maximum purchasing power) threatened to slip away because of the very real possibility of a general overheating in the economy.

It occurred to me that the problem alluded to—of coordinating economic policy so as to reduce unemployment without permitting the development of an environment susceptible to inflation—is very closely related both to Professor Burns' comments on the current status of our statistical information and to Professor Heller's emphasis on the need for greater speed and flexibility in the adaptation of our policy to changing economic circumstances. Clearly the latter can proceed no further than the status of the first permits, and it would appear crucial, therefore, to attempt to assess the current status of both. No degree of adaptability or flexibility in our policy tools can overcome the handicap under which they must be used if the relevant data are either inaccurate or available on a reasonably accurate basis only after a period so long as to produce policy decisions which will be too late to be effective.

Without attempting to answer the important question of how soon we must act to head off threats to the maintenance of economic conditions conducive to maximal success in achieving each of the goals of the

Employment Act, and setting aside as well the problems of ranking the goals via a set of priorities, it is nonetheless important to note that our present ability to keep the relevant statistical records accurate and up to date may not be the same in the case of all the objectives of the act. Clearly, the quality of the data and the speed with which it becomes available are critical factors in applying policy effectively. The record in this connection suggests that we may well be able at present to measure the current status of unemployment better than we can measure the record relevant to the question of inflation. If we restrict ourselves arbitrarily to the most recent 14 months recorded in the monthly issues since January 1965 of "Economic Indicators," the following picture emerges.[1] In each of the 14 months during the period December 1964–January 1966 the unemployment rate was reported with a 1-month lag, and in no case was it ever subsequently revised. Thus the relevant information to assess the status of unemployment was available with considerable speed and accuracy and could, therefore, presumably constitute the basis for utilizing policy tools of comparable speed and flexibility.

In contrast to this record, assessing our ability to measure rapidly and accurately the indexes reflecting potential inflationary pressures is much more complicated. The Wholesale Price Index was reported usually (but not always) with a 1-month lag, and was in need of subsequent revision but once during the same period. (Weekly data were available part of the time as well.) On the other hand, the Consumer Price Index was customarily reported with a 2-month lag, though it, too, required no subsequent revisions. Price level changes are merely the measure of existing inflation. Crucial, therefore, in assessing inflationary pressures in the economy early, is information concerning inventory levels and their relationship to shipments and orders and here the record is less impressive. We have utilized wholesale business inventories and manufacturers inventory-to-shipments ratio as representative of this kind of information.

Wholesale business inventories were reported with a 2-month lag during the period reviewed, and were, moreover, invariably revised. Furthermore, in the majority of cases (10 of the 12 estimates examined) the revisions were upward. While the initial errors in the estimates may not appear large, the magnitude of the revisions is not inconsiderable relative to the total range of variation in the series. Such comparison is necessary in considering the usefulness of the series in guiding fiscal policy which could be ideally sensitive and flexible. The range of variation resulting from monthly revision was approximately one-fifth as large as the total range of variation in the series during this period of time.[2] Thus, information concerning business inventories was not only 2 months old when originally reported, but customarily underestimated as well. It was not until 3 months later that presumably reliable information was available.

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[1] The relevant material from "Economic Indicators" is summarized in the tables at the end.

[2] Such an estimate is perforce crude. It was computed as follows: Assigning the lowest level reached by inventories during the 14 months a value of 100, the highest level may be represented by an index of 108.8. This range is, therefore, 8.8 percent. Computing the percent which each revised estimate constitutes of the original estimate also gives a series of index numbers, the lowest of which is 99.9 percent and the highest of which was 101.5 percent; hence, the "error range" was 101.6. 1.6 percent is 18.2 percent of 8.8 percent. *Cf.* the table dealing with Wholesale Business Inventories at the end for the index numbers.

A similar investigation of the monthly reports of the manufacturers' inventory-to-shipments ratio suggests the same sort of picture.[3] This important indicator of inflationary pressures is reported with a 2-month lag, and during the period reviewed three estimates were subsequently raised; one slightly lowered. An examination of the range of change represented by the revisions suggests that it was slightly over 40 percent as large as the total variation which the series exhibited during the period viewed.

While such estimates are certainly not precise, they do suggest that for a number of important measures of inflationary pressure our statistics are frequently 3 months late in being available in reasonably reliable form, and that they can on occasion be quite misleading in their original form. In these circumstances the most flexible and precise of fiscal tools could not be applied with reasonable accuracy for some time, and when the data gave clear indications of how to apply such policies either the rate of economic change or its direction might render the policy inappropriate. It is in this context that one can argue that speed and flexibility in the development and use of fiscal policy can progress no faster than the speed and accuracy with which the guiding statistical data can be made available.

Setting aside the problems involved in assessing the threat of inflation speedily and accurately, there is another problem touched on during the symposium concerning the availability of fully flexible fiscal policy on which a comment is perhaps in order. It was suggested that congressional action is frequently less than ideally rapid, and that as a result changes in the impact of fiscal policy on economic activity are frequently tardy. To the suggestion that this problem might be mitigated by vesting greater discretion in the executive branch the whole question of congressional prerogatives was raised. In this connection it may be in order to point out that a precedent for resolving this conflict may already be found in our operation of monetary policy. An adaptation of the same approach might be applied to discretionary fiscal policy. The Congress currently sets reserve requirements within certain broad limits, thus retaining its prerogatives minimally, but within these broad limits the nominally independent Federal Reserve Board may set and vary the actual rates in accord with changing circumstances. While not precisely parallel, there seems to be no reason why, after a detailed study involving both considerations of incidence and revenue, the Congress could not, for example, convert the present income tax rate schedules into a series of relatively narrow ranges, within which the Chief Executive could alter the applicable rates in accord with changing economic requirements. In this way congressional prerogatives could be maintained within a framework which could be far more flexible operationally.

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[3] One could examine a number of other series, including manufacturers' shipments, manufacturers' inventories, and new orders, as well as several other ratios, but the two series considered are meant to be suggestive rather than exhaustive in assessing the current state of the data.

TABLE 1.—*Wholesale prices, all commodities*

[1957-59=100]

Issue of—	Report for—													
	December 1964	January 1965	February	March	April	May	June	July	August	September	October	November	December 1965	January 1966
1965														
January	100.8	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
February	100.7	101.0	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
March	100.7	101.0	101.2	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
April	100.7	101.0	101.2	101.3	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
May	100.7	101.0	101.2	101.3	101.7	-----	-----	-----	-----	-----	-----	-----	-----	-----
June	100.7	101.0	101.2	101.3	101.7	102.1	-----	-----	-----	-----	-----	-----	-----	-----
July	100.7	101.0	101.2	101.3	101.7	102.1	-----	-----	-----	-----	-----	-----	-----	-----
August	100.7	101.0	101.2	101.3	101.7	102.1	102.8	102.9	-----	-----	-----	-----	-----	-----
September	100.7	101.0	101.2	101.3	101.7	102.1	102.8	102.9	102.9	-----	-----	-----	-----	-----
October	100.7	101.0	101.2	101.3	101.7	102.1	102.8	102.9	102.9	103.0	-----	-----	-----	-----
November	100.7	101.0	101.0	101.3	101.7	102.1	102.8	102.9	102.9	103.0	103.1	-----	-----	-----
December	100.7	101.0	101.2	101.3	101.7	102.1	102.8	102.9	102.9	103.0	103.1	103.5	-----	-----
1966														
January	100.7	101.0	101.2	101.3	101.7	102.1	102.8	102.9	102.9	103.0	103.1	103.5	104.1	-----
February	100.7	101.0	101.2	101.3	101.7	102.1	102.8	102.9	102.9	103.0	103.1	103.5	104.1	104.6

Source: "Economic Indicators," p. 27, issues as indicated (from Department of Labor).

TABLE 2.—*Unemployment rate, all workers*

[Percent of civilian labor force, seasonably adjusted]

Issue of—	Report for—													
	December 1964	January 1965	February	March	April	May	June	July	August	September	October	November	December	January 1966
1965														
January	5.0													
February	5.0	4.8												
March	5.0	4.8	5.0											
April	5.0	4.8	5.0	4.7										
May	5.0	4.8	5.0	4.7	4.9									
June	5.0	4.8	5.0	4.7	4.9	4.6								
July	5.0	4.8	5.0	4.7	4.9	4.6	4.7							
August	5.0	4.8	5.0	4.7	4.9	4.6	4.7	4.5						
September	5.0	4.8	5.0	4.7	4.9	4.6	4.7	4.5	4.5					
October	5.0	4.8	5.0	4.7	4.9	4.6	4.7	4.5	4.5	4.4				
November	5.0	4.8	5.0	4.7	4.9	4.6	4.7	4.5	4.5	4.4	4.3			
December	5.0	4.8	5.0	4.7	4.9	4.6	4.7	4.5	4.5	4.4	4.3	4.2		
1966														
January	5.0	4.8	5.0	4.7	4.8	4.6	4.6	4.5	4.5	4.4	4.3	4.2	4.1	
February	5.0	4.8	5.0	4.7	4.8	4.6	4.7	4.5	4.5	4.4	4.3	4.2	4.1	4.0
Index, current estimate	100.0	96.0	100.0	94.0	96.0	92.0	94.0	90.0	90.0	88.0	86.0	84.0	82.0	80.0

[1] December 1964=100.

Source: "Economic Indicators," p. 11, issues as indicated (from Department of Labor.)

TABLE 3.—*Consumer prices, all items*

[1957-59=100]

Issue of—	Report for— December 1964	January 1965	February	March	April	May	June	July	August	September	October	November	December
1965													
January	108.8	----	----	----	----	----	----	----	----	----	----	----	----
February	108.8	----	----	----	----	----	----	----	----	----	----	----	----
March	108.8	108.9	----	----	----	----	----	----	----	----	----	----	----
April	108.8	108.9	108.9	----	----	----	----	----	----	----	----	----	----
May	108.8	108.9	108.9	109.0	----	----	----	----	----	----	----	----	----
June	108.8	108.9	108.9	109.0	109.3	----	----	----	----	----	----	----	----
July	108.8	108.9	108.9	109.0	109.3	109.6	----	----	----	----	----	----	----
August	108.8	108.9	108.9	109.0	109.3	109.6	110.1	----	----	----	----	----	----
September	108.8	108.9	108.9	109.0	109.3	109.6	110.1	110.2	----	----	----	----	----
October	108.8	108.9	108.9	109.0	109.3	109.6	110.1	110.2	110.0	----	----	----	----
November	108.8	108.9	108.9	109.0	109.3	109.6	110.1	110.2	110.0	110.2	----	----	----
December	108.8	108.9	108.9	109.0	109.3	109.6	110.1	110.2	110.0	110.2	110.4	----	----
1966													
January	108.8	108.9	108.9	109.0	109.3	109.6	110.1	110.2	110.0	110.2	110.4	110.6	111.0
February	108.8	108.9	108.9	109.0	109.3	109.6	110.1	110.2	110.0	110.2	110.4	110.6	111.0

Source: "Economic Indicators," p. 26, issues as indicated (from Department of Labor).

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TABLE 4.—*Wholesale business inventories*

[Millions of dollars—Seasonally adjusted]

Issue of—	Report for—												
	December 1964	January 1965	February	March	April	May	June	July	August	September	October	November	December
1965													
January	(1)												
February	16,398	(1)											
March	16,461	16,521	(1)										
April	16,461	16,774	16,841	(1)									
May	16,461	16,774	16,867	17,014	(1)								
June	16,461	16,774	16,867	17,064	17,110	(1)							
July	16,461	16,774	16,867	17,064	17,216	17,234	(1)						
August	16,461	16,774	16,867	17,064	17,216	17,450	17,425	(1)					
September	16,461	16,774	16,867	17,064	17,216	17,450	17,410	17,472	(1)				
October	16,461	16,774	16,867	17,064	17,216	17,450	17,410	17,530	17,488	(1)			
November	16,461	16,774	16,867	17,064	17,216	17,450	17,410	17,530	17,535	17,459	(1)		
December	16,461	16,774	16,867	17,064	17,216	17,450	17,410	17,530	17,535	17,655	17,721	(1)	
1966													
January	16,461	16,774	16,867	17,064	17,216	17,450	17,410	17,530	17,535	17,655	17,715	17,684	(1)
February	16,461	16,774	16,867	17,064	17,216	17,450	17,410	17,530	17,535	17,655	17,715	17,775	17,837
Index, current estimate [2]	100	101.6	102.5	103.7	104.6	106.0	105.8	106.5	106.5	107.2	107.6	108.0	108.3
Index, original estimate [2]	100	100.8	102.7	103.8	104.3	105.1	106.3	106.5	106.6	107.1	108.1	107.8	108.8
Revised estimate as a percent of original estimate	100.4	101.5	100.2	100.3	100.6	101.2	99.9	100.3	100.3	101.1	99.96	100.5	

[1] Not available.
[2] December 1964 equals 100.

Source: "Economic Indicators," issues as indicated, p. 21 (from Department of Commerce).

TABLE 5.—*Manufacturers' inventory—Shipments ratio* [1]

Issue of—	Report for— December 1964	January 1965	February	March	April	May	June	July	August	September	October	November	December	January 1966
1965														
January	(2)													
February	1.60	(2)												
March	1.60	1.62												
April	1.60	1.63	1.63											
May	1.60	1.63	1.64	1.58										
June	1.60	1.63	1.64	1.58	1.60	(2)								
July	1.60	1.63	1.64	1.58	1.60	1.61								
August	1.60	1.63	1.64	1.58	1.60	1.61	1.62	(2)						
September	1.60	1.63	1.64	1.58	1.60	1.61	1.62	1.57	(2)					
October	1.60	1.63	1.64	1.58	1.60	1.61	1.62	1.58	1.62					
November	1.60	1.63	1.64	1.58	1.60	1.61	1.62	1.58	1.62	1.65	(2)			
December	1.60	1.63	1.64	1.58	1.60	1.61	1.62	1.58	1.62	1.65	1.65	(2)		
1966														
January	1.60	1.63	1.64	1.58	1.60	1.61	1.62	1.58	1.62	1.65	1.64	1.62	(2)	
February	1.60	1.63	1.64	1.58	1.60	1.61	1.62	1.58	1.62	1.65	1.64	1.62	1.60	(2)
Index, current estimate	100.0	101.9	102.5	98.8	100.0	100.6	101.3	98.8	101.3	103.1	102.5	101.3	100.0	
Index, original estimate	100.0	101.3	101.9	98.8	100.0	100.6	101.3	98.1	101.3	103.1	103.5	101.3	100.0	
Revised estimate as a percent of original estimate	100.0	100.6	100.6	100.0	100.0	100.0	100.0	100.6	100.0	100.0	98.8	100.0		

[1] Ratio of inventories at end of month to shipments during month.
[2] Not available.

Source: "Economic Indicators," p. 22, issues as indicated (from Department of Commerce).

STATEMENT BY STANLEY LEBERGOTT

PROFESSOR, INSTITUTE OF INDUSTRIAL RELATIONS, UNIVERSITY OF CALIFORNIA, BERKELEY, CALIF.

The Joint Economic Committee in the future, as in the past, will undoubtedly deal with whatever problems turn out to be most acute at the time. What can an outsider usefully do today? Perhaps propose that the committee invest for that future—in improvements of economic knowledge, and "new techniques of economic investigation and debate" to use Chairman Patman's admirable phrase. May I suggest three areas?

1. *Evaluating policy.*—We are less divided than in 1932 as to what the Government should do. All the more reason to know more precisely what economic consequences would follow from a given tax cut, rediscount rate change, rise in Government spending.

The committee might usefully sponsor a review of the various systematic models of economic change that have developed in recent years, to study directions for improving them so that they can help the insights we gather in other ways. Thus the Social Science Research Council has recently sponsored the creation of a large-scale model of the U.S. economy. For some years the University of Michigan model has provided results used by the committee. A shrewdly designed model has been developed in The Netherlands. What changes, extensions of such models, could make them more useful for the joint committee's study of current policy actions? What improvements in Federal data could make them more efficient?

2. *Anticipating economic change.*—Both private business and Government must forecast economic change as accurately as possible if the economy is to operate as efficiently as possible. Some of the inevitable, fruitful, differences between the legislative and executive branches over "standby economic powers" could be reduced if we had a more solid basis at any time for judging just where the economy was headed in the next 6 months.

It is easy to outline a program for getting more prompt, more reliable, more usable forecasts than we now have of investment, consumption, GNP, employment, and unemployment. For the most part we need no new Government statistical programs; we do need to adapt these existing programs. (Doing so could also give us faster, more reliable figures on actual changes in profits, investment, GNP.)

3. *Impact of Government spending.*—The Government now takes so large a share of our output that we worry about inflation when the amount rises, about unemployment when it declines. It is about time that we regularly got the facts on that spending—what industries are involved, what products, which States directly and which indirectly receive those funds. Limited changes in Government contracting procedures, some adaptation of existing Government surveys, would substantially reduce our ignorance of this vital sector.

I hope that the committee stimulates these investments, to assist its own fine work and to improve economic analysis by private economists and businessmen and the execution branch as well.

STATEMENT BY MARK W. LEISERSON

ASSOCIATE PROFESSOR OF ECONOMICS, YALE UNIVERSITY, NEW HAVEN, CONN.

The achievements over the past 20 years in implementing the Employment Act of 1946 have provided solid foundations for even greater successes in the next 20 years. The specter of severe depressions with general unemployment levels of 15 to 20 percent should now at last have been exorcised for once and for all. And the economic performance of the past 5 years should have demonstrated that rapid rates of economic progress with high employment levels and without severe interruptions can be sustained for extended periods of time, perhaps indefinitely.

But the successes themselves have highlighted in unmistakable fashion some of the difficulties which will attend the full achievement of the objectives of the Employment Act and which will, therefore, play determining roles in the future direction of national economic policy. Of these, perhaps the most obvious is the problem of maintaining reasonable stability in domestic price-cost levels. Certainly, the concern in recent years over the possibility of inflationary price movements, along with the deterioration in the balance of payments, has been one of the major constraints operating on policymakers to limit more vigorous application of fiscal and monetary measures to accelerate the reduction in unemployment to levels below 4 percent. This fact alone is sufficient reason for increased efforts to establish greater control over the cost-price reactions to aggregative economic measures. Even though the fear of inflation may be excessive (as I believe it to have been in recent years), it nevertheless is very real and serves to inhibit vigorous and effective action to achieve and maintain full employment. It follows that one line of future development of economic policy must be in the direction of reducing the "inflation-proneness" of the U.S. economy at high levels of employment.

Two lines of attack on this problem may be distinguished. The first (and the one which has received the greatest attention to date) is structural improvements in the operation of factor and commodity markets. The assumption is that by improving the efficiency with which individual markets adjust to changes in supply and demand conditions, the economy as a whole will become more amenable to aggregative economic controls and the "trade-off" between unemployment and inflation will be reduced. Into this category fall the whole panoply of labor and product market policies such as retraining programs, more effective and expanded employment services, more vigorous enforcement of anticompetitive practices, and general efforts to increase the educational levels of the labor force.

Although these and other such measures may provide the conditions necessary for the efficient functioning of the economy, it is doubtful if they are sufficient for the maintenance of reasonable price stability at full employment. Consequently, it will, I think, become increasingly recognized that it is along the second line of attack that greater policy efforts will have to be made; that is, in the direction of fashioning policy instruments which provide more direct and differential control over wage- and price-setting mechanisms. Because such instruments have, in general, been relatively unavailable, Government policymakers have had to rely on what is perhaps best described as a set of brilliantly improvised policies in this area. Principal among these improvisations, of course, are the wage-price guidelines of the Council of Economic Advisers. But they include in addition more or less direct pressure on prices and wages through the use of defense stockpiles, import regulations, potential threats of antitrust action, Government contract allocations as well as "moral suasion" exercised by the President and his Council of Economic Advisers on particular wage and price decisions.

The improvisatory character of these instruments is reflected in the fact that the points at which governmental pressure can be applied most effectively may bear little relation to those where such pressure is most needed; inevitably Government action, therefore, tends to present an arbitrary or even erratic character. Moreover, the resulting uneven incidence is likely to dramatize the relative weakness of Government policies with respect to wage and price decisions and, thus, undermine an essential prerequisite for successful implementation of "guidelines policy," namely, confidence that wage-price movements will not get "out of control."

It would seem, therefore, that an important task for the future will be to forge policy instruments which will enable the development of more comprehensive and more systematically applied national wage and price policies. There is no need to emphasize difficulties of increasing governmental authority over wage and price decisionmaking processes without sacrificing free market institutions and free collective bargaining and without impairing the allocative and adjustment mechanisms of the economy. Although these difficulties make it imperative to proceed with caution, they do not mean we should not proceed at all. The alternative of improvisation and perhaps failure to maintain full employment with reasonable price stability could lead to a retreat from those goals as now embodied in the Employment Act of 1946.

STATEMENT BY PAUL W. McCRACKEN

EDMUND EZRA DAY UNIVERSITY PROFESSOR OF BUSINESS ADMINISTRATION, UNIVERSITY OF MICHIGAN, ANN ARBOR, MICH.

Some concerns in the area of public policy warrant appearance on a list of comments on "living with the Employment Act." First, we need to recognize that fiscal policy is not even yet at all well adapted for shortrun stabilization purposes. While I began urging tax reduction as early as 1958 (while still a member of the Council of Economic Advisers), and wholly supported the strategy of economic policy involved in the 1964 tax reduction, it is quite clear that one discrete action proves less than many assume about the usefulness of fiscal policy for stabilization purposes. It constituted an action to deal with a structural imbalance in the economy. I see no way to give fiscal policy needed short-term turn-around capability other than giving the President limited authority to vary tax rates. This should be properly circumscribed. Any Presidential action should be accompanied by a report from the President to the Congress outlining the findings that led him to take the action. And any change could be for a limited duration and, of course, for a limited magnitude.

Some of the Nation's most pressing problems are going to be in the public sector in the decade ahead. A complex, urbanized, affluent economy will want an enlarging volume of urban facilities and services. This is bound to produce increasingly intractable economic problems, problems so severe as to constitute a drag on the vitality of the economy, unless the public sector can do a more rational job of using the pricing and allocation mechanism. We have in some of our large cities such indefensible situations as a disinclination to charge for water even in the face of a water crisis, making scarce city street facilities practically a free good (with the inevitable congestion from excess demand) and urban transit systems imperiled in part by reluctance to price rationally.

Third, Government policies and actions that influence the capability of the economy for an effective economic performance now extend far beyond fiscal and monetary policies, and include many matters of a regulatory nature. At one time monetary policy and fiscal policy were thought of in fairly circumscribed terms. The function of taxes, for example, was once assumed to be to assure that the Treasury would have enough money to pay its bills. Our horizons here have broadened markedly, and we now see these instruments of policy as having major responsibilities for economic activity generally. A considerable broadening of horizons is also relevant to many other dimensions of economic policy—such as antitrust and surveillance of regulation industries.

Another area of activity in which the Joint Economic Committee could play an important and highly constructive role would be a thorough study of Federal Government programs and actions that have a direct effect on our price-cost level. (I alluded to this in my symposium paper last February.) The great unanswered question still has to do with our ability to reconcile full employment, vigorous economic growth, and a reasonably stable price-cost level. There are numerous Federal programs which have the direct effect of raising our cost-price level and thereby making it more difficult to reconcile full employment and a reasonably stable purchasing power of the dollar.

Finally, we face a major problem of learning how to reconcile our domestic economic policy objectives with our position in the world economy. A realistic appraisal of our external payments performance over the last decade, our prospects, and the results of ad hoc action to plug the external payments seepage must lead any candid observers to the conclusion that we are far short of anything like a resolution of these problems.

Clearly the objectives of economic policy and the nature of economic policy are evolving phenomena, and the committee is to be commended for this venture in looking ahead.

STATEMENT BY STEPHEN L. McDONALD

PROFESSOR OF ECONOMICS, UNIVERSITY OF TEXAS, AUSTIN, TEX.

Twenty years of experience under the Employment Act of 1946 leave us with both the satisfaction of great accomplishment and the challenge of problems yet unsolved. These years have seen growing acceptance of the view that Government has the duty and power to stabilize the growth of output at "full" employment levels by monetary-fiscal means; growing confidence in the ability and will of public officials to use the instruments of stabilization effectively and responsibly; growing understanding of and respect for economics in the public service. But these years have also seen the development of new economic problems, the identification of new economic goals and the erection of new standards of economic achievement. Today we demand not more than 4-percent unemployment, not less than 5 percent annual growth in real output, constant internal purchasing power of the dollar and balance-of-payments equilibrium without altering the price of gold prevailing for more than 30 years past. We demand all these things simultaneously, and without having to accept any direct controls.

Competent opinion and experience thus far suggest that we expect too much of indirect policy instruments—that our goals are mutually inconsistent, given certain key behavioral propensities. At less than 5-percent unemployment, the relative increase in money wages tends to exceed the relative increase in labor productivity; unit labor costs and prices therefore tend to rise. At more than 4 percent annual growth in real output, occupational and geographical labor immobility tends to produce an unacceptable degree of structural unemployment, while growth-induced imports tend to enlarge the balance-of-payments deficit. The monetary ease required to combat recessions and sustain growth at an acceptable level of unemployment tends to perpetuate the balance-of-payments deficit by inducing large capital outflows.

The inference usually drawn is that we must establish the terms of tradeoff among our several economic goals and seek an optimum combination of achievements. But there is another possible inference to be drawn: that we should seek new approaches to policy—new ways of using available policy instruments—so as to push out the limits on simultaneous achievement of economic objectives. Recent analysis and experience suggest several possibilities.

By far the most promising area for policy innovation is fiscal policy. The stabilizing and growth-stimulating effects of tax rate adjustments are now well demonstrated. Fiscal ease, per se, tends to stimulate domestic output and employment while checking the outflow of private capital on international account. It may be combined with monetary restraint to pursue consistently our employment, growth, and balance-of-payments objectives. But to be an effective countercyclical instrument, fiscal policy must be made more flexible. The most urgent need is the grant of discretionary fiscal powers to the executive branch of the Federal Government, within strict limits laid down by the Congress, comparable to the discretionary monetary powers which for half a century have been lodged in the Federal Reserve System. The exercise of such powers, always subject to review by the Congress, involves no more risk of irresponsibility than the exercise of discretionary monetary powers. It would permit the sensitive, timely adjustment of tax rates or expenditures to changing business conditions. It would facilitate the coordination of monetary and fiscal policies with a view to maintaining under changing circumstances the optimum "package" of monetary-fiscal stimulation or restraint.

Another promising area for policy innovation is growth stimulation from the supply side. Only recently have we become aware of the extent to which growth in output per man-hour has depended—and in the future must depend—on technological progress and education. Denison,[1] for instance, credits these two closely related factors with about four-fifths of the recent past and immediately prospective increase in labor productivity. Education and the basic research from which technological innovation ultimately stem are "produced" largely in the public sector, the latter because the basic researcher rarely can capture for private gain the full fruits of his effort. At advanced levels, education and basic research are produced as joint products. Fragmentary evidence suggests that we devote too little of our resources to the production of education and basic research, and employ the resources so devoted rather inefficiently. If upon closer inspection this conclusion proves valid, then we have an opportunity to stimulate growth from the supply side by means of larger, more carefully allocated investments in two industries traditionally or "naturally" situated in the public sector. Such investments would generate a larger flow of both the raw materials of technological innovation and the complementary human skills, thus simultaneously widening the scope of profitable private investment and accelerating the advance of labor productivity. In contrast with efforts to stimulate growth from the demand side by means of monetary-fiscal ease, the suggested approach would tend to be cost- and price-reducing. It would increase the profitability of domestic relative to foreign investment. It would, therefore, contribute to both price and balance-of-payments objectives.

An essential permissive condition of rapid economic growth is resource mobility among occupations and regions. Growth, particularly that resulting from technological progress, is necessarily associated with structural change as reflected in the composition of output, the combination of inputs and the distribution of activities among regions. Thus for economic growth to proceed steadily, there must be continuous movement of labor and capital among industries, occupations and areas. Capital is quite mobile, but labor mobility is limited by such barriers as ignorance of opportunities, retraining and moving costs and potential loss of seniority, pension and unemployment compensation rights in old jobs or locations. We can increase the sustainable rate of growth and reduce structural unemployment by lowering such barriers to labor mobility. To this end, long-term unemployment compensation should take the form of retraining and

[1] E. F. Denison, "The Sources of Economic Growth in the United States and the Alternatives Before Us" (New York: Committee for Economic Development, 1962).

moving assistance. Help-wanted statistics should be regularly compiled on an occupational and regional basis as the counterpart of unemployment statistics. The State employment services should be nationally integrated, in both form and outlook, so that unemployed workers may be matched with job vacancies anywhere in the country; and unemployment compensation or retraining assistance should have no local residence requirements.

The labor immobility which limits the sustainable growth rate also limits the fullness of employment consistent with constant unit labor costs. Greater mobility would allow unemployment to fall to 4 percent or less before specific labor shortages caused (or allowed) wages on average to rise faster than labor productivity. In more technical terms, greater mobility would shift the "Phillips curve" (relating the degree of unemployment to the propensity of money wages to increase) toward the origin, thus increasing the compatibility of growth, employment, price, and balance-of-payments policies.

The "Phillips curve" may be shifted favorably also by explicitly incorporating general price stability into our statement of policy objectives under the Employment Act, and by making such stability the primary objective in practice whenever job vacancies become equal to or in excess of the volume of unemployment. The bargains freely struck by workers and employers are more likely to be consistent with constant unit labor costs and prices if neither party can expect monetary-fiscal policy always, and regardless of price consequences, to create the aggregate demand necessary to assure "full" employment narrowly defined.

To summarize, future approaches to policy under the Employment Act should look to weakening those propensities and rigidities in the economy which presently seem to make our policy objectives mutually inconsistent. The most promising policy innovations are: (1) assignment of greater stabilization responsibility to fiscal policy relative to monetary policy and creation of the necessary flexibility in fiscal policy instruments; (2) stimulation of growth from the supply side by means of larger, more carefully allocated investments in education and basic research; (3) reduction of labor immobility by means of retraining and moving assistance, national integration of State employment services and formal utilization of job vacancy data to guide and gage the effectiveness of employment policy; and (4) explicit recognition of general price stability, in both statement of purposes and practical policy formulation, as an objective which may at times take priority over limitation of measured unemployment.

STATEMENT BY C. A. MATTHEWS

PROFESSOR OF FINANCE, CHAIRMAN OF THE DEPARTMENT OF FINANCE AND INSURANCE, UNIVERSITY OF FLORIDA, GAINESVILLE, FLA.

The Employment Act of 1946 is widely regarded as providing an economic "blueprint" for the United States. In considering proposals for modifying or extending the act, it seems important to distinguish between goals, public instruments, and responsibility. We shall follow this threefold classification in our discussion.

GOALS

The Employment Act of 1946 set forth three major economic goals for the United States; namely, "maximum employment, production, and purchasing power." In addition, the act specified other goals, or perhaps more accurately constraints, within which the primary goals will be pursued; namely, "free competitive enterprise and the general welfare." Furthermore, objectives must be consistent with "essential considerations of national policy."

One of the most significant aspects of the Employment Act of 1946 is the general wording of the "Declaration of Policy." While the act has been criticized for "vague" if not "contradictory" wording, others view this as permitting flexibility and varying degrees of emphasis on different goals as may be desirable at different times. Included in flexibility is the wide range of specific goals which may be pursued within the context of "general welfare" and "maximum" production and purchasing power.

Those who have questioned the "clarity" of the original act, and others, have advanced several suggestions for modification. Four of these are price stability, economic growth, social goals, and balance of payments. A brief appraisal of each of these follows.

Price stability.—There seems to be a widespread feeling that the economy of the United States has an inherent inflationary bias. Some support for this position stems from the emphasis in the Employment Act on "maximum employment, production, and purchasing power." The only reference in the act which can reasonably be interpreted as calling for price stability is found in section 4 which directs the Council of Economic Advisers to develop and recommend national economic policies "* * * to avoid economic fluctuations to diminish the effect thereof * * *".

The reference in the Declaration of Policy section to maximum purchasing power is, logically, support for the inflationary bias thesis. Purchasing power is maximized through more rather than less aggregate demand. An expansion of aggregate demand will, as the economy approaches full employment, contribute to price increases rather than to stability. [Maximum purchasing power may, of course, be interpreted to mean the maximum purchasing power of one unit of money; i.e., of $1. Such an interpretation is, of course, inconsistent with other objectives and need not be given serious consideration.] While the emphasis on "maximum" may be explained with reference to the depression-oriented psychology which prevailed at the time the Employment Act was under consideration in Congress, a statement of policy goals should be consistent with either an inflation-prone economy or one with deflationary potentials.

A look at the record of consumer prices as compiled by the Bureau of Labor Statistics reveals an uptrend since World War II, with substantial increases in 1946–48, 1950–51, and 1956–57. It also reveals periods of relative stability with a more gradual upward trend prevailing from 1957 until late 1965. While the record may be interpreted as evidence that the authorities have been concerned with price stability, it would, nevertheless, be reassurance to those who stand to lose as a result of price increases if price stability were substituted for maximum purchasing power as an objective of economic policy. This change would also be consistent with other goals of national policy such as solving the problem of the balance of payments.

Economic growth.—Much has been said in recent years about the need and desirability of accelerating the rate of economic growth, and it has been suggested that this goal be included in the Declaration of Policy. Consideration of some of the factors necessary for economic growth and a review of the goals now included in the act raise questions as to what effect this proposal would have on economic policy.

Economic growth is closely associated with production and employment. Only by increasing output which means higher levels of production can the capital needed for more production be achieved. If existing facilities are underutilized, then additional output will result also in more production and employment. It is also possible to obtain economic growth by increasing productivity; i.e., by increasing output per unit of input, which is not inconsistent with maximum production and employment. Indeed, as maximum levels of production are reached with existing facilities, pressure will develop to increase output through increased productivity—especially if free competitive enterprise is promoted.

There are other ways to promote economic growth. One is to divert more of current production to capital formation. Until the additional capital contributes to increased production, this policy would result in lower levels of consumption and possibly in high prices. It is doubtful if either result would be politically acceptable or if it would be consistent with the directive to promote free competitive enterprise.

Social goals.—Numerous suggestions which might be considered within this category have been made to amend the Employment Act of 1946. These include such proposals as directives to achieve a more "equitable" distribution of income, to provide more equal opportunity for all individuals, to facilitate the development of depressed areas of the economy, and to raise all incomes above "poverty" level. These are all worthy objectives. The question, however, is not if we are for them or against them, but if they should be included as goals in the Declaration of Policy. There are several reasons which suggest that they should not be.

The present policy statement specifies "useful employment opportunities" and "maximum employment." Achievement of these goals will result in raising the level of income and achieving a "better" distribution. Furthermore, if price stability becomes a specified objective, and if this results in more stable prices, another source of poverty would be removed or at least decreased; i.e., the tendency for rising prices to reduce those with fixed incomes which are just above the poverty margin to below the poverty margin would be decreased.

In addition, the present policy statement clearly directs the Government "to use all practicable means consistent with its needs, * * * to coordinate and utilize all its plans, functions, and resources for the purpose of creating and maintaining, in a manner calculated to foster and promote free competitive enterprise and the general welfare * * *." While there is no specification of what is meant by "general welfare," clearly this is consistent with achieving any social goals as indicated above.

Finally, inclusion of specific goals within a policy statement would impair the effectiveness of the statement. The specific would appear as definite and concrete while the general goals as vague and indefinite. Pressure to attain the one and ignore the other would be applied. Flexibility in the administration of the act would be undermined and the development of useful policies might be discouraged. Furthermore, social goals are continuously changing. The history of the last three decades are replete with examples of this change. While much remains to be done, it is questionable if to write specific social goals into the Employment Act would hasten their achievement or retard realization of the ultimate objective over the long run.

Balance of payments.—Much of the discussion with respect to economic growth and social goals applies also to suggestions that balance-of-payments equilibrium be included in the Declaration of Policy. Hardly anyone who reads the papers or listens to the newscast would question that this is not now an objective of national economic policy. But the successful achievement of that policy seems to be as elusive as ever. An obvious problem, of course, is that the implementation of policies to achieve this objective conflict with "other essential considerations of national policy" and have, at times, conflicted with other goals such as maximum production and employment.

There is the further problem that balance-of-payments equilibrium may not at all times be a desirable goal of national policy. Thus, from 1950 to 1956, a deficit in the balance of payments was probably desirable as a means of increasing the total supply of international monetary reserves and of obtaining a better distribution thereof. It may be a desirable objective again at some future date. At the present time, a surplus in the U.S. balance of payments is probably desirable in order to decrease the short-term foreign liabilities of the United States and to maintain confidence in the dollar

Conclusion.—In order to continue as a workable blueprint, the Employment Act must be flexible. If many specific goals are included in the Declaration of Policy, the act becomes rigid and its administration difficult. Goals stated in a general manner enable the authorities to adopt policies which make the maximum contribution simultaneously to the solution of as many goals as possible. In order to maintain flexibility and to refrain from creating numerous conflicting objectives, it is our position that the goals should be amended only to substitute price stability for maximum purchasing power.

Policy Instruments

The Employment Act is largely silent as to the specific instruments to be used in achieving the goals set forth in the Declaration of Policy. It is vocal in declaring "* * * that it is the continuing policy and responsibility of the Federal Government to use all practicable means * * *" to achieve the objectives of this act. This statement is all inclusive and leaves little doubt that existing instruments of policy are to be used. But it does not specify which instruments are to be used when or to what extent. It is doubtful if such specifications could be effective even if written into the act.

Furthermore, the act directs the Council of Economic Advisers to develop and recommend national economic policies to achieve objectives as set forth in the act. A careful reading of the annual Economic Report of the President indicates that the Council has done this. The act also requires the preparation of an annual report which is to review and recommend economic programs for achieving objectives set forth in the Declaration of Policy. Such provisions seem to leave little doubt of the intent to use present instruments of policy or of the responsibility to develop additional instruments.

Suggestions have been advanced that various additional instruments of economic policy be provided to better achieve economic goals. Two such instruments might well be provided on a standby basis with adequate safeguards to prevent their abuse. These are: authority for the President to vary the first bracket income tax in order to achieve greater flexibility in the application of fiscal policy; and authority for the Federal Reserve authorities to use consumer and possibly real estate credit controls to obtain more immediate effect if the use of credit in these areas seems to be contributing to economic instability. But it is questionable if these or other instruments should be included as a part of, or the extent of their implementation specified by the Employment Act.

Perhaps the most effective means of improving the performance of those responsible for the act is to provide adequate financial support with instructions to study the total operations of the economy. If more is known about the forces which cause economic fluctuations; if there is a better understanding of the impact, timing, and effectiveness of various policy instruments; then it should be possible to more nearly accomplish the goals as set forth in the Declaration of Policy.

Responsibility

Any consideration of possible amendments to the Employment Act should give some consideration to the assignment of responsibility for the implementation of the act. Even where the broad objectives to be sought have been agreed upon, there is frequently difference of opinion concerning the order of priority to be assigned these objectives. Even if the order of priority can be resolved, there may be differences of opinion as to the emphasis to be placed on each. And even if the weight to be assigned each objective is resolved, there may be differences of opinion as to the instruments to be used and of the effects to be expected from the use of the several various instruments. In short, there is little consensus.

This is important when one considers that the electorate is expected to have a voice through the vote in determining objectives, instruments, etc. In what way can the electorate be best provided with the information necessary to formulate a position?

The policy of the administration is stated in the Economic Report of the President and is supported by the material included therein. It has been developed with the experience and authority of the Council of Economic Advisers. The majority party of the Joint Economic Committee is provided with a professional staff to study and recommend policy. While one would not accuse either the staff or the Council of "bias" they have been selected by the administration and the majority and presumably have similar views on many problems.

But what of the minority, especially if this is also the opposition party to the administration? It has been proposed that a staff be provided to help the minority formulate its position relative to policy proposals and to recommend policy. There is much to be said for this suggestion since it should result in a better informed electorate and, therefore, one better qualified to make choices between alternative policies.

While discussing the desirability of providing the electorate with the various points of view involved in reaching decisions with respect to the implementation of economic policy, it seems appropriate to comment on the continuing recommendation to make the Federal Reserve System a part of the executive branch of the Government. One overwhelming argument against such a proposal is that it would reduce the freedom of the Federal Reserve authorities to make their position on questions of policy known to the Congress and to the public. As a part of the executive branch of the Government the "official" position would become the Fed's position. As an "independent" agency, the Fed's position may or may not be the same as that of the administration. It would, at least, be an independently derived position.

It should be emphasized, however, that this is not a stand for irresponsibility nor for conflict in policy. Once policy is clearly specified by the electorate through the administration and the Congress, the "Fed" as a part of Government would be expected to implement that policy. This is rather a stand for a better dissemination of information.

STATEMENT BY VERNON A. MUND

PROFESSOR OF ECONOMICS, UNIVERSITY OF WASHINGTON, SEATTLE, WASH.

A significant problem to resolve in the continuing application of the Employment Act of 1946 is the joint and coordinate use

(1) of fiscal monetary measures, and

(2) of measures designed to create and maintain open markets.

The measures which the Federal Government has used since World War II to promote high-level output and employment have been largely monetary and fiscal. These measures, intelligently planned and used, provide a mechanism for maintaining a balance between total demand and the capacity of the country to produce.

In general, economists agree that the major fluctuations of the business cycle result mainly from fluctuations in investment activity, both private and public; the excessive use of credit; and mass speculation in securities and real estate. Monopolistic restrictions may influence these factors, but they are not a cause of business depressions.

The antitrust laws have for their purposes ends other than the prevention of business fluctuations. The chief costs of monopoly are long-run (secular), not immediate or catastrophic. They express themselves in an inequitable distribution of income, an uneconomic allocation of resources, a retardation in the reduction of prices, and restrictions on the investment of capital.

Although monopolistic restrictions do not operate to cause depressions, they are probably a significant factor in making them more severe and prolonged. Monopolistic restraints operate to keep excess capacity unused and to aggravate unemployment.

Thus far, Government intervention in the United States to curb restrictive business practices has been principally negative in character. It has taken the form of cease-and-desist orders, injunctions, prohibitions on certain practices, and the imposition of fines and penalties. The assumption has been that if the law declared that persons were free to compete, open markets and a free price system would automatically result. This idea, however, in the main, is illusory. The lessons of our antitrust history show that if we are to have open markets, we must act positively to create and maintain them.

As a long-range program—in the application of the Employment Act in the future—a positive approach should be taken in the solution of our economic problems. One of its goals should be the purposeful creation and maintenance of open markets by public action. Increased Government responsibility is needed not only to plan for high-level employment and long-term growth but also to make effective the free economy which is the prime generator of economic progress.

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STATEMENT BY HUGH S. NORTON

PROFESSOR OF ECONOMICS, UNIVERSITY OF SOUTH CAROLINA, COLUMBIA, S.C.

The 20th anniversary of the passage of the Employment Act of 1946 has elicited much complementary comment. For reasons which are perhaps fairly obvious the bulk of this comment has centered around the Council of Economic Advisers.[1] No doubt, the CEA as a part of the executive branch has enjoyed a much greater degree of public awareness than the more sheltered Joint Economic Committee. Members of the Council appear quite frequently on television, and are in the news media in connection with such matters of public interest as the "guidelines," and in their role as commentators on the future course of economic events and as defenders of the President's economic policy. The staff of the JEC does not have such a platform. The members of the Joint Committee often appear in the press, but whereas Dr. Ackley appears as Chairman of the Council, Senator Douglas more likely appears as Senator Douglas, even though his remarks may be directed to JEC matters. Members of the JEC staff like their CEA counterparts seldom are heard.

There seems to be little doubt that the executive branch per se enjoys more public interest than does the legislative branch; the CEA shares in this interest. If this is true, it is of interest to look more closely at the Joint Committee, its membership and staff through the years, in order to throw some light on its performance.

In fact, given the orientation of the act, the functions and philosophy of the Joint Committee are as important, in fact, perhaps more so, than those of the Council itself. Obviously, the significance of the Joint Committee lies in the fact that it can reflect the divergent views of the Congress, or at least those who serve on the committee.

There is ample evidence that the philosophical views of the Council as to alining themselves with the program of the President have not been by any means clear. The Council under Chairman Nourse was often split on this issue and in the end Dr. Nourse resigned as Chairman, having failed to find a solution to the problem. All evidence indicates that the issue has been less troublesome to recent Council members, but professional economists can well understand its importance. There was considerable discussion of the matter during the early years of the Council's life.

One former Council member has pointed out that the Council is not a debating society, that the members must work together and support the President's policies, even though they are in disagreement.[2]

Perhaps Professor Blough, another former Council member, has made the best statement of the dilemma facing the professional econo-

[1] For example, in the Economic Symposium held to commemorate the act only one speaker focused his remarks almost entirely on the Joint Committee. See statement by John W. Lehman, "Twentieth Anniversary of the Employment Act of 1946," Joint Economic Committee, Congress of the United States, 89th Cong., 2d sess., Feb. 23, 1966.

[2] Jacoby, Neil H. "Can Prosperity Be Sustained?" New York: Henry Holt & Co., 1956.

mist in the position where he cannot agree with his Council associates or with the President:

"* * * What the individual in an inconsistent position like that facing the Council may do is to carry on as well as he can, thinking and speaking as independently as possible but being discreet and cautious, never abandoning his standards of integrity by saying what he does not believe to be true. Almost inevitably in the end, the inconsistency of the position will become too clear and he will be obliged either to withdraw from some aspect of his work or resign his position. I have no criticism of any economist who is not willing to put himself into such an inconsistent position, or who, being in it, prefers to retire. That is clearly the most comfortable choice and the most unequivocal position. But unless economists are willing to carry on in the Council under the conditions I have outlined, I doubt if we shall be able to achieve through the Council the various goals we would like to see achieved. Perhaps we should look on Council members as expendable, each carrying forward the work as far as he individually can and then retiring in favor of others who can carry it farther before they, too, drop by the wayside. I suggest that even the institution of the Council itself is expendable and that sooner or later it will be cut down politically to be replaced by some other organization carrying forward the same functions in somewhat different ways." [3]

The Joint Committee is largely free from this problem. Their role is that of critic, not advocate. The President presents to them a program and a forecast. Their task is to examine and to criticize the program and to question the forecast, and ultimately, to weave the program into the legislative framework. It is natural that the majority will look upon the program of the President who shares their political faith with favor. On the other hand, those of the opposite party will cast a jaundiced eye upon the report. Like the Council itself, the committee has become more sophisticated as experience has accumulated, although one observer has expressed the opinion that the committee has not yet achieved the status of the Council.[4]

The duties of the committee as expressed in the act are:

(a) There is hereby established a Joint Economic Committee, mittee, to be composed of eight Members of the Senate, to be appointed by the President of the Senate, and eight Members of the House of Representatives, to be appointed by the Speaker of the House of Representatives. In each case, the majority party shall be represented by five members and the minority party shall be represented by three members.

"(b) It shall be the function of the joint committee—

"(1) to make a continuing study of matters relating to the Economic Report;

"(2) to study means of co-ordinating programs in order to further the policy of this Act; and

"(3) as a guide to the several committees of the Congress dealing with legislation relating to the Economic Report, not later than March 1 of each year (beginning with the year

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[3] Blough, Roy. "Political and Administrative Requisites for Achieving Economic Stability," *The American Economic Review*, XL, No. 2 (May 1950), 177–178.

[4] Berle, Adolf. The American Economic Republic. New York: Harcourt, Brace & World, 1963.

1947) to file a report with the Senate and the House of Representatives containing its findings and recommendations with respect to each of the main recommendations made by the President in the Economic Report, and from time to time to make such other reports and recommendations to the Senate and House of Representatives as it deems advisable."

The first committee consisted of the following:[5]

Senators	*Representatives*
Taft (R)	Wolcott (R)
Ball (R)	Bender (R)
Flanders (R)	Rich (R)
Watkins (R)	Judd (Herter) (R)
O'Mahoney (D)	Hart (D)
Myers (D)	Patman (D)
Sparkman (D)	Huber (D)

Some comments about the most influential members may be in order.

Robert A. Taft: "Mr. Republican," son of the President, a Republican Party and Senate leader. Lawyer by profession, a conservative, but aware of social and economic problems. Interested in the Council from the beginning of legislation.

Joseph H. Ball: Republican, of Minnesota. Newspaper reporter. Appointed to Senate in 1940 to fill a vacancy. Reelected in 1942. Defeated in 1948.

Ralph E. Flanders: Republican, of Vermont. Industrialist, self-made executive (machine tools). President, Federal Reserve Bank of Boston. Chairman of Board, Jones & Lamson Machine Co. Liberal, interested in the original Murray bill legislation.

Arthur V. Watkins: Republican, Utah. Lawyer, farmer, editor. Conservative, active in LDS Church.

Joseph C. O'Mahoney: Democrat, Wyoming. Lawyer, newspaperman. Guiding light in TNEC hearing. Active in promotion of the Murray bill. Liberal, long record of interest in social and economic legislation, and held a reputation on the Hill for economic erudition.

John Sparkman: Democrat, Alabama. Lawyer (later vice-presidential candidate). Served five terms as U.S. Representative. Liberal.

Jesse P. Wolcott: Republican, Michigan. Lawyer. Longtime Congressman (seven terms). Chairman of the House Committee on Banking and Currency.

George H. Bender: Republican, Ohio. Businessman, active party stalwart.

Robert F. Rich: Republican, Pennsylvania. Conservative "budget balancer." Businessman (woolen mill). Banker, long-term Republican. Famous for his cry, "Where's the money coming from?"

Christian A. Herter: Republican, Massachusetts. Diplomat (later Secretary of State). High-level Federal service, independently wealthy, "Eisenhower" Liberal Republican.

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[5] The act originally provided that the Joint Economic Committee be composed of seven members of the Senate and seven members of the House of Representatives. A full committee was appointed late in 1946 but was not active that session. Although Senator O'Mahoney who had been active in the passage of the act had been slated to be Chairman, the election of that year resulted in a shift in the 80th Congress from Democratic to Republican. Senator Taft thus took over the position of Chairman. Senator Taft had also been active in the bill's history. Likewise, Mr. Judd resigned shortly and was replaced by Mr. Herter.

Wright Patman: Democrat, Texas. Liberal, longtime champion of easy money, foe of the Federal Reserve monetary policy. Lawyer. In Congress since 1928, present Chairman of the Joint Economic Committee, and the House Banking and Currency Committee.

In summary, the original committee consisted of eight nominal conservatives and six liberal members. However, Taft, Flanders, Wolcott, and Bender had all been involved in the original legislation, and were in general favorable toward it.[6] In addition, Herter had a generally liberal record. Only Rich and Watkins were of doubtful sympathy toward the idea of full employment via planning in the manner contemplated by the act.

Dr. Charles O. Hardy, formerly of the Brookings Institution and the Federal Reserve Bank of Kansas City, was appointed the first staff director. The first Economic Report from the President caught the joint committee largely unprepared for business. In lieu of a formal report, a statement was issued saying inter alia:

> "All of these six matters are already under consideration by standing committees of Congress which will make a detailed study of each one of them and submit recommendations to the Congress. Most of them are highly controversial. A recommendation from this committee at this time which could only be casual before our studies are made, would not be helpful to the solution of the problems. The committee will proceed to consider these problems with reference to their effect on the maintenance of a stable economy and continuous employment.
>
> "The basic problem which this committee has to consider is the method of preventing depressions so that substantially full employment may be continuously maintained. No problem before the American people is more vital to our welfare, to the very existence of our way of life, and to the peace of the world. It is the most complex and difficult of all the long range domestic problems we have to face. It involves a study of price levels and wage levels and their relation to each other, a study of methods of preventing monopoly control in industry and labor from distorting prices and wages, a study of spending for consumption and for capital investment, a study of individual and corporate savings and a study of many other economic forces bearing on a stable economy.
>
> "Until we have further studied and analyzed the basic considerations which underlie this problem, we do not feel we should become involved in controversy on current issues which have many aspects besides their effect on the prosperity of the country."

This seemed unsatisfactory to many and former Senator Glen Taylor of Idaho (later to run for Vice President with Henry Wallace), who had been an interested party in passage of the act issued a blistering statement.

Taylor was critical of the committee for not rendering a report and said that Taft had offered instead of a report "a series of excuses." The midyear economic report (July 1947) was given only passing attention by the joint committee, but in late July the committee undertook an extensive study on food prices and followed this up with

[6] Bailey, Stephen K., "Congress Makes a Law." New York: Columbia University Press, 1950.

a special study on the cost of living.[7] The procedure used in this report was elaborate with public hearings held in the field (various parts of the United States) under subcommittees. Late in 1948 the committee began a series of hearings on the President's message relative to inflation.[8]

All in all, though it was a disappointment to some, performance during the first year of the joint committee's existence was reasonable under the circumstances.

After this somewhat slow start, the committee began its second year of operation on a rising plane and has generally set a high standard.

PERFORMANCE OF THE JOINT COMMITTEE

Nourse and Burns had both been shy of testifying before the joint committee, and committee-council relations had from the first, though cordial, been somewhat distant. Nourse (though not Keyserling and Clark) had on several occasions been reluctant to appear before the committee, and had been leery of too close a relationship.[9]

Burns followed somewhat the same philosophy and in general "played close to his chest." [10] Burns' views on the relationship between the Council and the committee led him into a dispute with Senator Douglas.[11] To what degree this situation influenced the work of the committee is difficult to say. Dr. Heller took steps in 1961 to bring council-committee relations somewhat closer together. Professor Flash comments and quotes the Chairman:

> "In the significant congressional area, Heller wasted no time in establishing cordial relations between the Council and the Joint Economic Committee. He knew of the testifying issue between Chairman Nourse, the committee, and Keyserling in 1947–48. He was well aware of the subsequent feud over testifying between Arthur Burns and Paul Douglas when the latter was committee chairman. He recognized the potential sources of argument and unfriendly questioning from such Committee members as Chairman Patman and Representative Curtis, of Missouri. 'Our concern,' he told the committee during his first presentation on March 6, 'is with the overall pattern of economic policy.' The concern carries with it a responsibility to explain to the Congress and to the public the general economic strategy of the President's program, especially as it relates to objectives of the Employment Act. This is the same kind of responsibility that other executive agencies assume in regard to programs in their jurisdiction. * * *
>
> "In congressional testimony and in other public statements, the Council must protect its advisory relationship to the President. We assume that the committee does not expect the Council to indicate in what respects its advice has or has not been taken by the President, nor to what extent particular proposals, or omissions of proposals reflect the advice of the Council.

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[7] Senate Rept. 1565, June 9, 1948.

[8] U.S. Congress. "The President's Program To Deal With the Problems of Inflation." 80th Cong., 1st sess., S. Rept. 809.

[9] Nourse, Edwin G. "Economics in the Public Service." New York: Harcourt, Brace & World, 1953.

[10] Flash, Edward S., Jr. "Economic Advice and Presidential Leadership." New York: Columbia University Press, 1965.

[11] U.S. Congress, Joint Committee on the Economic Report. Hearings on January 1956 Economic Report of the President. 84th Cong., 2d sess., 1956.

"Subject to the limits mentioned, members of the Council are glad to discuss, to the best of their knowledge and ability as professional economists, the economic situation and problems of the country, and the possible alternative means of achieving the goals of the Employment Act and other commonly held economic objectives. In this undertaking, the Council wishes to cooperate as fully as possible with the committee and with Congress in achieving a better understanding of our economic problems and approaches to their solution." [10] [12]

By its nature, the committee is in a position to "second guess" the CEA. That is, it can examine the reports, call witnesses either friendly or hostile and it has, to some degree, the benefit of hindsight since some time will have elapsed since the data upon which the report is based were collected. Upon occasion the "unfriendly" witnesses can ask somewhat embarrassing questions. Clearly one of the functions of the Joint Committee is to force the Council to be somewhat beholden to the Congress. This factor was very likely in the minds of those who drafted the original legislation. Especially when the situation under discussion is fast moving, the questioning can get somewhat rigorous.[13] Yet, no one can read the hearings without becoming fully aware of the two-way educational process which takes place. Nor can one escape the fact that the members involved have most often spent considerable time with their "homework." Not only does the committee have the benefit of the views of the Council, but also of a large number of distinguished economists who are invited to testify. In the 1965 hearings for example, Seymour Harris, John Kenneth Galbraith, Raymond Saulnier (a former CEA Chairman) and others joined in the exchange. In addition high level officials, Secretary Dillon and Chairman Martin of the Federal Reserve, appeared as witnesses. It cannot be expected that every member of the committee has the time or inclination to absorb and digest this vast amount of complex information (the 1965 hearings run to 494 pages), but clearly the value of the procedure is beyond calculation.

Having seen committees at work on complex economic matters, a cynical observer might be excused if he had had little faith in the JEC. To be sure, the committee has not been beyond reproach. However, given the scope of its work its performance has been most rewarding over the years. Let us quote Mr. Lehman:

"Not only have the committee's studies affected a broad range of legislation but their direct influence, both current and long range, on the actions of executive agencies has been impressive. Today's concerns over restoring excise tax cuts and increasing tax rates remind us of the Joint Economic Committee's unanimous resolution in July 1950 calling for an immediate increase in taxes to finance the Korean war on a pay-as-you-go basis and how it changed current policy of that time. There was the Treasury-Federal Reserve "accord" which came out of the Subcommittee on Monetary Policy's studies and hearings—and the

[10] Flash, Edward S., Jr. "Economic Advice and Presidential Leadership." New York: Columbia University Press, 1965.

[12] U.S. Congress, Joint Economic Committee. Hearings on January 1961 Economic Report of the President and the Economic Situation and Outlook. 87th Cong., 1st sess., 1961.

[13] See the questioning of Dr. Ackley by Representative Thomas B. Curtis, Hearings on January 1965 Economic Report of the President. 89th Cong., 1st sess., pt. 1, 1965.

new or improved statistics initiated as a result of the studies of the subcommittee working so intensively in that area. Studies of balance of payments and foreign economics bore fruit in the Trade Expansion Act and some of the corrective measures involving the balance of payments. The Agriculture Subcommittee's presentation of alternative agricultural programs also shows how hearings and reports lay the ground for executive as well as legislative action.

"We could go on through study after study to illustrate in depth this role the Joint Economic Committee had in the early identification of public economic problems and in the long, ofttimes repetitive process of public education so essential to the acceptance of an idea. As Walter Heller noted, we could document the development of the 'New Economics' of last year's tax cut in the studies of the Fiscal Policy Subcommittees, in the 'Study of Employment, Growth, and Price Levels,' and that 1954 best seller, 'Potential Economic Growth in the United States in the Next Decade."

COMMITTEE MEMBERSHIP

As we saw, the original membership of the committee was somewhat of a mixed bag with, by good fortune, a cadre of interested members. Over the years this general pattern has been followed.

Senator Goldwater, candidate for President in 1964, served two terms on the committee. A liberal, Senator Proxmire of Wisconsin, joined the committee in the 87th Congress and still serves. Two members, Senator Sparkman and Representative Patman, have served continuously. Senator Douglas has served on the committee since the 81st Congress. Another member, Representative Bolling of Missouri, has served continuously since the 82d Congress.

The joint committee has been a going concern for 10 Congresses (as of 1966). Service on the committee in five Congresses might be considered evidence of considerable interest, assuming of course that the member lived through and was elected to five Congresses. Those who meet this test are:

Ten Congresses:
- Sparkman
- Patman

Nine Congresses:
- Sparkman
- Patman
- Douglas

Eight Congresses:
- Sparkman
- Patman
- Douglas
- Bolling

Seven Congresses:
- Sparkman
- Patman
- Douglas
- Bolling
- Fulbright

Six Congresses:
- Sparkman
- Patman
- Douglas
- Bolling
- Fulbright
- O'Mahoney
- Watkins

Five Congresses:
- Sparkman
- Patman
- Douglas
- Bolling
- Fulbright
- O'Mahoney
- Watkins
- Wolcott

In summary, two members have been on the committee for its entire life, and eight members have served for at least half of that time. In the 89th Congress, the veterans, Patman, Sparkman, Douglas, Fulbright, and Bolling, remain.

THE JOINT COMMITTEE STAFF

Several major differences are evident between the staff of the joint committee and that of the Council. Perhaps first is that the staff of the JEC is likely to have more leeway professionally than that of CEA. This seems likely because the CEA staff reports directly to a group who are themselves professional economists. The JEC staff on the other hand deals with a group who include professional economists only by chance, although to be sure, the committee members may be very knowledgeable. Further, the members of the committee have many other pressing matters to attend to, whereas Council members are fully occupied with matters of economic analysis. While it is extremely hard to generalize in such matters, it is probable that the staff members of the committee have been a shade less distinguished in the eyes of their fellow economists than is true of their counterparts on the Council. Perhaps this is an illusion caused by the fact that the Council staff has had more of an academic orientation.

The staff has remained small and has made considerable use of the resources available to congressional staffs: the Legislative Reference Service of the Library of Congress, and employees of the executive branch agencies, as well as the talents of other congressional committees. Like its CEA counterpart, the JEC staff has made frequent calls upon economists outside the Government.

The JEC staff also has more leeway in its scope of work. The Council must in general "keep its nose to the grindstone" if it is to turn out the Economic Report on schedule. On the other hand, the committee staff can respond to the reports in a manner which the committee sees fit. Also, subject to agreement with the committee concerned (e.g., Banking and Currency) the staff of the joint committee can and does range far and wide in special studies.

The committee has been fortunate in having had able staff directors, but the rate of turnover has been somewhat higher than one would wish for. The longest service was that of Dr. Grover Ensley who served from April 1951 to July 1957, only 4 months short of 6 years. In the period March 1947 to the present, June 1966, a total of 19 years and 3 months, nine men have served. Since Dr. Ensley's service accounted for almost one-third of the total, the average time for the others was about 1½ years. (There were 3 months when no one occupied the office.) It would seem desirable to have somewhat longer tenure in an office of such importance.

EXECUTIVE DIRECTORS OF THE JOINT ECONOMIC COMMITTEE 1947–66

Charles O. Hardy, staff director	March 1947–November 1948.
Fred E. Berquist, acting staff director	December 1948–August 1949.
Theodore J. Kreps, staff director	August 1949–March 1951.
Grover W. Ensley, staff director	April 1951–December 1955.
Executive director [14]	December 1955–July 1957.
John W. Lehman, acting executive director	August 1957–March 1958.
Roderick H. Riley, executive director	March 1958–December 1959.
John W. Lehman, acting executive director	January 1960–February 1961.
Wm. Summers Johnson, executive director	February 1961–February 1963.
James W. Knowles, executive director	February 1963–

[14] This title was changed from staff director to executive director on adoption of the rules of the committee in December 1955.

THE EMERGING PATTERN

What is the picture of the joint committee which begins to take shape after two decades of development? Perhaps first and foremost is that the committee has become, perhaps somewhat involuntarily, a tremendous force for economic education. Again quoting Mr. Lehman:

"[Who would have foreseen]
that the committee would bring the kind of reciprocity between academe and the Congress that would prompt a reference shelf writer 18 years later to say that—

" 'The Joint Economic Committee is the nom de plume of the world's largest class in economics, in which astute and overworked Congressmen and Senators take turns being pupils and instructors to most of the Nation's economists.'

"The committee surely was not set up to be the voice urging and defending adequate and proper economic statistics, but it has been and it continues to be, in the clearest of tones.

"Nor did anyone, I suspect, ever anticipate that the Joint Economic Committee would virtually have to invent a hearing format and method in order that the wide-ranging views of many kinds of witnesses could be fairly and effectively presented. The use by the Joint Committee and other congressional groups of the roundtable, seminar-type hearing, and the compendium of witness papers prepared and distributed in advance is so common now as to make us forget their origin.

"Or who would have thought in 1946 that an experimental hearing, bringing together physical and social scientists in 1955 for a discussion of 'Automation and Technological Change,' would have highlighted the need for improved educational standards at all levels, 3 years before the traumatic impact of Sputnik I? And it was the Joint Economic Committee which about that same time began the series of pioneering studies that have led us through the maze of economic statistics we must tread if we are to understand comparative rates of growth between the United States and the Soviet Union."

As Mr. Lehman notes, the education role of the Committee has been somewhat accidental, but it is nonetheless real and viable.

The unique nature of the committee's function has given it another major advantage. Unlike most committees which have a somewhat specialized mission, the JEC is not confined to agriculture, banking and currency, or other specific microeconomic areas. The more than 300 committee publications include studies on automation, low-income families, fiscal policy, agriculture, economic stability and growth, the balance of payments, to cite only a few. No other committee has such a broad mandate.

Rewarding though this may be, it presents inherent problems.[15]

Service on the Joint Committee if it is properly carried out requires a substantial amount of hard work, not compensated by power and prestige as in the case of such committees as Appropriations or Foreign Relations in the Senate, or Ways and Means in the House. Almost from the beginning, men who have been influential on the Joint Committee have of necessity been in positions of general leadership

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[15] Many of these were foreseen by the perceptive Dr. Nourse.

in the Congress, if not indeed in national affairs. Taft, Sparkman, Patman, Herter, Goldwater, and Douglas have been household words. The present membership includes the chairman of the Senate Foreign Relations Committee (Fulbright); a former candidate for Vice President (Sparkman); an active and long-term Congressman (Patman) as chairman and as vice chairman; a professional economist and liberal Senator (Douglas), active on many fronts of public life and who also has served as chairman and vice chairman of the committee. A Member of Congress cannot confine himself to one intensive activity and survive politically. He must operate on many fronts and provide a wide variety of services to his constituents. This, of course, brings up a related problem. The broad mandate of the Joint Committee provides ample opportunity to step on the toes of a wide number of interests. A Congressman who has to observe the welfare of wool, copper, silver, peanuts, or automobiles may find himself faced with problems if he has endorsed some view of the Joint Committee. The heart of this matter is that the Joint Committee transcends the regional interest so often encountered in the Congress and focuses instead upon the national interest. Meeting this test is not simple, and those who attempt it often learn its difficulty. It would be naive to believe that when a Member enters the committee room of the Joint Committee, he sheds his State or district interests, or forgets his inherent, parochial, and perhaps incorrect economic beliefs. However, there can be no doubt that service on the Joint Economic Committee has been a form of higher economic education, and that the committee and its staff have rendered a valuable service to the Congress and to the Nation.

STATEMENT BY EDWIN G. NOURSE

FORMER CHAIRMAN, COUNCIL OF ECONOMIC ADVISERS; GUEST SCHOLAR, THE BROOKINGS INSTITUTION, WASHINGTON, D.C.

Since this compendium is focused primarily on future developments in national policy and practice, I am glad to embrace the opportunity for examining a little further the question I raised at the close of the symposium on February 23: Did passage of the Employment Act mark a subconscious or intentional departure from, or modification of, the traditional American principle of "checks and balances" and toward monolithic central government?

This invocation of the principle of checks and balances was not intended to be applied to the familiar political doctrine of "separation of powers"—legislative, executive, and judicial—but, rather, to expand or transpose this well-proven theorem to the economic realm. There we find a comparable differentiation, organizational and operational, between three major economic functions: fiscal, monetary, and market, which make up the total economic process.

The fiscal function is sui generis an exclusie prerogative and responsibility of Government. During the last 20 years, national policymaking for growth and stability has been preoccupied with a newly propounded theory of fiscal activism and with problems of its application to political practice. This intensive attention was, at the time, natural and even desirable in terms both of operational experimentation and of popular education. The next 20 years should see further refinements in the technology of fiscal stimulation and stabilization. But these years should also see improved voluntary coordination of the philosophy and the administration of monetary function and the market function along with our now accepted fiscal activism, not an attempt to dominate them. We need unity of purpose rather than unitary control.

As for monetary management under Employment Act objectives, it will require in the coming years no less—perhaps more—searching study and imaginative experimentation than will our fiscal technology if we are to keep abreast of the demands of new economic developments and Employment Act goals. The "money" concept is a subtle, complex, almost mystical figment of the human mind as compared with the forthright mechanics of taxing and spending. It was hardly more than a half century ago (after thousands of years of cryptobarter, metallic currency, and primitive local banking) that we moved up to the commercial sophistication of nationwide credit exchange, an elastic paper currency, and the sturdy but sensitive apparatus of our Federal Reserve System. With Yankee ingenuity we turned away from the European tradition of a central bank, tied servilely to the national exchequer and established a voluntary federation of thousands of locally autonomous member banks, organized into a national credit pool—a system that honors the principle of private enterprise in the banking business but raises it to the high level of national efficiency and safety compatible with modern industrial capitalism.

To the flow of decisionmaking as to the cost, availability, and volume of commercial credit (with no watertight bulkhead against some capital credit) this apparatus of local-member and regional-reserve banks and integrating Board of Governors synthesizes the professional wisdom of a farflung cadre of individual bank managers, country and city, concerned for company profits and solvency but concerned also for the prosperity of private businesses and the growth of local communities and the national industries of which they are parts. The top echelon of this private banking business, though "independent" of the Federal Government in its decisions about interest rates and the volume of money, is by no means a law unto itself. It is a responsible partner of fiscal administration and market administration in the effectuation of the purposes of the Employment Act. While it acts as a check on both these other members of our economic troika in the exercise of their distinctive functions, it is itself checked by the impact of fiscal operations on the one hand and the impact of administered prices and of collectively bargained wages on the other.

The open-market operations of the Fed must be modulated to the Treasury's exigencies of debt management and also to the supplying of an optimum amount of liquidity to the Nation's business. Its mandate to administer an elastic currency system authorizes it to "lean against the breeze" of either inflationary or deflationary forces, whether they come from the fiscal policies of Government, the operating policies of management and labor, or the psychoses of consumers. It cannot rightfully be held responsible for maintaining the price level or the rate of national growth, but it is a sensitive instrument for promoting economic balance through the checks it imparts to and receives from either fiscal or market forces.

Any balancing device, to be reliable, needs to be free running. The "independence of the Fed" was relinquished during World War II and Korea in order to peg U.S. bonds at par but was restored by "the accord of 1951," allowing the money market again to exercise its aggregate supply-and-demand adjusting role. Recent interpreters and implementers of the Employment Act, however, are restive under any such concept and practice of shared responsibility for national economic growth and stability. With "coordination" as their watchword, they extol Executive Office primacy in governance of the whole economy rather than coordinate right and responsibility for differentiated policymaking toward a common purpose.

When, in December 1965, the Board of Governors of the Fed lingeringly responded to its responsibility to check a fiscally overstimulated economy with a mild, testing monetary brake, the Chairman of the Economic Advisers and also the Secretary of the Treasury and the chairman of the Joint Economic Committee denounced this challenge to unitary judgment. There was publicly expressed "regret [over this] blemish on the record * * * [linked to] hope that the pattern of coordination which has been the rule through the past 5 years can be resumed and strengthened." Even by the time of the February 23 symposium, there was widespread agreement that the Reserve Board's action had been timely and salutary—indeed that more of the same might soon be needed, since fiscal devices were patently defective in their reverse gear.

The Employment Act had not a word to say about the choice of strategic weapons in the campaign for maximum employment or who should have a finger on the trigger for their use. But the long sweep of experience with the administration of National Government in peace and war (not to mention the lessons of big business and big labor) should warn that suppressing dissent or precluding veto magnifies the danger of impetuous or partisan errors in official judgment and action. Success in the grand purpose of the Employment Act in the future will not be advanced by rigid welding of the monetary function to the fiscal function but through flexible articulation between fiscal and monetary, with the latter internally coordinated in a comprehensive pattern of short-, intermediate-, and long-term credit administration. This would rationalize the practices of many recently established financing agencies of the Federal Government, with various kinds of "independence" and orientation to the private money market—Farm Credit Administration, Federal Housing Administration, Home Owners' Loan Banks, Rural Electrification Administration, Small Business Administration, and others.

Pass now from the monetary function in national growth and stabilization to consideration of the market function and the checks that Government must impose on private enterprise in pursuit of its proper goals of profit and consumer service; and the checks that free management and organized labor impose on Government in its pursuit of its goals of national growth and stability. Here, our original question might be restated: Did passage of the Employment Act express an intention to curtail the independence of private business and bring it in some significantly new way within the ambit of national economic management? Or has the experience and experimentation of these 20 years indicated that such change is necessary for accomplishment of the purposes of the act?

There were many proponents of such a view before and after World War II. Prof. Morris Copeland may be cited as spokesman for this school of thought—particularly because he has revived and updated this philosophy in his recent Fordham University lectures. He goes so far as to advocate Government "procedures"—a GNP Scheduling Agency—"that would schedule most major private construction projects and most major durable goods purchases"—also Stable Inventory Agreements (all quarter by quarter). "The program proposed would be an important step in the direction of making the economic system of the United States a managed economy."

The view that prevailed in 1946, however, after extensive congressional, press, and academic debate, was much more traditional. The declaration of policy of the Employment Act stated specifically that "the continuing responsibility and policy of the Federal Government * * * to promote maximum employment, production, and purchasing power [is to be administered] with the assistance and cooperation of industry, agriculture, labor, and State and local governments * * * [and only by] means consistent with other considerations of national policy * * * in a manner calculated to foster and promote free competitive enterprise." This recognition of the market function raises issues even more complex, subtle, and fast-changing than those of fiscal and monetary policy and action. The Joint Economic Committee has explored several of them in timely topical studies, but the record of the executive branch has been, at best, ambiguous and vacillating.

In the early days of the Council of Economic Advisers, we instituted a practice of having standing committees composed of representatives chosen by business organizations, big and little, labor union federations, farm organizations, and consumer groups. This two-way communication was abandoned some time ago; contact of the Executive Office with these parties at interest are now neither frequent nor fruitful. They have more the character of briefings on policies already adopted or of cozy individual parleys (by Chairmen or President) to produce consensus or twist the arm of some recalcitrant. In the early days of the Kennedy administration, a promising approach was made toward coordination of the market function with the fiscal and the monetary function in a truly democratic implementation of the Employment Act. Flanked by Secretary of Labor Goldberg and Secretary of Commerce Hodges, the President, in the fall of 1960, set up an Advisory Committee on Labor-Management Policy "to help our free institutions work better . . . to study, advise me, and make recommendations with respect to policies that may be followed by labor, management, government, or the public, which will promote free and responsible collective bargaining, industrial peace, sound wage and price policies, higher standards of living, and increased productivity." This seminar of seven top business executives, seven leading labor union officials, and five distinguished "public" members sat for its deliberations in the Cabinet Room of the White House.

Six months later, this response to the Employment Act's specification of "the assistance and cooperation of industry, agriculture, labor * * * to foster free competitive enterprise" was undergirded with a White House Conference on National Issues, designed as the first of an annual series. Its agenda was essentially the same as that of the Advisory Committee, but its membership much wider and its procedures more academic. But the second session (May 1962) changed drastically in scope and purpose, to be in effect a briefing session for the pending tax reduction program. Hope that a standing Advisory Committee and continuing White House Conference might bring the operative realities of the private market (i.e., "business") effectively to bear on top Government policymaking as a check against economic bureaucracy and also quicken perception of the primacy of national economic efficiency as a check on short-run parochialism of organized labor or other special interests was aborted. To be sure, the Advisory Committee was reconvened by President Johnson in May 1966, but his charge to the members sounded more like a roster of specific questions of current economic strategy (or tactics) than a call for mutual reexamination of prevailing structures, practices, and attitudes of big business and its executives and big labor and its administrative officials.

The market process of prices, wages, and service rates; of capital formation, investment, and dividend payments; of consumer choices and selling pressures does not lend itself to the "aggregate" treatment central to the New Economics as do fiscal budgets and monetary maneuvers. But these dedicated mechanicians, undaunted by this discrepancy, developed the statistical governing device of "guideposts"—price, wage, and investment. The Council of Economic Advisers lays great stress on the voluntary character and educational value (which assumes their theoretical and operational validity) of the guideposts. But a considerable array of devices for acceleration of the learning process or for assuring voluntary compliance lay at hand and have been put to use. These teaching aids include procurement or manufacturing contracts withheld, expanded, or reallocated; stockpiles impounded or dumped; Government grants and credits manipulated; the bright glare of press and TV publicity; and the subtle seduction of a Presidential conference or personal telephone call. This enginery of voluntary compliance with Executive Office directives embraces all branches of economic policymaking and execution—Treasury, Commerce, Labor, Agriculture, Defense, Justice, and various lending agencies—with the Council of Economic Advisers as chief of staff.

Since the application of national criteria of public interest to the specific, complex, and fast-changing situations of administered price making, collective wage bargaining, and industrial investment planning (long run and international) requires either divine inspiration or comprehensive research, suggestions are already beginning to appear in the economic press and in the legislative hopper of the Congress that "the improvised nature of what the Council [of Economic Advisers] is doing" be superseded by some sort of "institutionalization of the guidelines" in a satellite agency either of the Council or of the Joint Economic Committee. The next step after such an OPA for Peacetime might logically be a Growth Mobilization Agency.

A British economist, in a wide-ranging survey of "modern capitalism" in Western Europe and the United States argues—or just assumes—that a natural force of economic evolution drives all industrial nations "into tightening the hierarchial structure of governments, compelling all departments to put all the decisions which have significant long-term consequences into a single intellectual framework, determined at the highest level of administration." He rates the United States a "laggard" in this grand march.

On the contrary, I read the Employment Act as a considered repudiation of any such doctrine of "natural" evolution—an updated affirmation of our ancient faith that intellectual pluralism and democratic responsibility are the most powerful and dependable constituents of national success. I venture to predict that history will adjudge the years 1946–66 a period in which complementary governmental activism, fiscal and monetary, was broadly accepted—even measurably understood—as an indispensable and permanent part of the structure of our technologically ordained capitalism. But, to consolidate this gain, the next 20 years must produce a no less revolutionary development of private business structures of equal economic sophistication and a new sense of national solidarity superior to class interests. From the present Topsy-like laboristic capitalism, we need to move forward to a uniquely productive and progressive system of tripartite collective bargaining between private and public free enterprise.

STATEMENT BY FRANK C. PIERSON

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Experience during the 20 years since passage of the act has demonstrated the need for concerted private and public action to promote full employment and to maintain an adequate rate of growth without adverse repercussions on the country's domestic price level or its balance-of-payments position. There can be no doubt that policies under the act have helped materially in realizing these goals but in my judgment certain changes are now needed to bring administration of the Employment Act more fully in line with current conditions and requirements. These changes can be grouped under three headings: more flexible short-term policies; a clearer, more carefully formulated ordering of long-term goals; and a more effective mix of policies when the economy is close to full employment. They are taken up in order below.

1. There are many facets to the question of the need for greater policy flexibility under the Employment Act. Nonetheless, almost all attention has centered on the one proposal that Congress should yield some of its prerogatives over Government spending and taxation to the executive branch, a step it apparently is quite unprepared to take. Other possibilities, accordingly, should be explored. First, if more detailed and complete data could be developed and made available to policymakers more rapidly, the administrative agencies and Congress could achieve greater flexibility without any change in existing relationships. The collection and dissemination of up-to-date information on the number of job vacancies as well as on the number of jobseekers would be particularly helpful in this regard. More refined data on the components making up the gross national product would help clarify current changes in economic conditions. A critical review of various price and cost series such as in the construction field would likewise contribute to more flexible and more relevant policymaking. Indeed, any move to close the information gap would contribute not only to faster decisionmaking but to sounder decisions as well.

Second, closer administrative coordination between the Council of Economic Advisers, Treasury, Federal Reserve, and Budget Bureau would help implement the decisionmaking process. The advantages of decentralized or independent policymaking should not be allowed to be emphasized to the point where unified action on major policies becomes impossible. The Federal Reserve's independent move last December in raising the rediscount rate before a broader governmental decision on stabilization policy could be reached may well have been defensible on substantive grounds but it left unanswered the procedural question whether a single agency should be permitted to exercise this degree of authority in such a vital area.

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Third, a greater degree of flexibility needs to be built into the role which Congress plays in determining the general level of Federal expenditures and revenues. Various possibilities for achieving this result without infringing in any significant way on congressional prerogatives should be explored. If Congress enacts a tax increase or decrease but gives some leeway to the executive branch in setting the effective date of its action, an important element of flexibility would be introduced. The same would follow if Congress permitted the executive branch to effect minor adjustments in tax or spending levels for a limited period and made such adjustments subject to legislative veto. Under present circumstances the Government is often foreclosed from adopting a certain course of action because economic conditions may be altered before the policy can be reversed. Since the economic future beyond 12 or 18 months is highly unpredictable, the only effective answer is to put the decisionmaking process on a more flexible basis. The means for achieving this result without infringing on any essential prerogatives of Congress should be made a first order of governmental business.

2. Another aspect of the Employment Act deserving serious attention is the lack of any systematic, continuing review of the economy's long-term goals and strategies. The Council of Economic Advisers has made some efforts to bring these longer term considerations to the attention of public policy makers but too much of its work is of an ad hoc, firefighting variety. A mere listing of a few basic goals coupled with some general suggestions about how they might be achieved is not enough. The specifics of underlying choices need to be closely examined. For example, what are reasonable targets for this Nation to set for itself for 1970 or 1975 in different aspects or areas of our economic life? What different approaches to achieving these targets should be investigated? What do cost estimates tell us about the comparative feasibility of the different approaches? Wherein do the more serious conflicts between the various goals and approaches arise? What are the crucial choices which government policymakers have to make in resolving these conflicts? Long-term issues of this sort tend to be lost sight of in the press of immediate concerns and deliberate steps need to be taken to keep them in the forefront of public discussions. The Council of Economic Advisers, the Joint Economic Committee, and other bodies concerned with the Employment Act could well provide the lead in meeting this crucial requirement.

3. Finally, greater attention should be centered on the special problems confronting the economy when it nears its full-employment potential since it is in these circumstances that the need for both more policy flexibility and a clearer ordering of long-term goals becomes most compelling. This country has not had much experience with full employment in peace time, and in contradistinction to conditions of either pronounced slack or severe inflation the appropriate mix of policy measures in such situations is decidedly unclear. Under these circumstances there is reason to believe that the principles underlying monetary and fiscal policy take on a very different character. So do the principles underlying the price and wage decisions of the country's major private business and labor organizations. So do the principles underlying the country's international balance of payments. In a full-employment environment, policy choices in all of these areas have

to be assessed in terms of a much more complex and delicately balanced system of relationships than in more straightforward circumstances. The need to look at the major policy issues in this new context should therefore be made a primary focus of study.

These are the lines of policy development which I feel deserve major attention in the future administration of the Employment Act of 1946.

STATEMENT BY WALTER S. SALANT

SENIOR STAFF, THE BROOKINGS INSTITUTION, WASHINGTON, D.C.

1. In the past few years, I have not been close to the actual administration of the act, and I no longer have an intimate knowledge of current procedures. I have the impression, however, that the CEA has not always used its advisory committees as intensively as would be desirable to obtain the fullest possible understanding of, and consensus about, proposed major new policies. I believe this is illustrated by the use of those committees in connection with both the original launching of the guideposts for noninflationary wage and price behavior in 1962 and, later, the assignment of a specific quantitative target for noninflationary increases in money wage rates in industries subject to the general rule. More thorough discussion with the labor and industry advisory committees might have helped to obtain fuller understanding and acceptance of the guideposts by the interest groups directly affected. This is only an illustration of the point, which applies generally. I fully understand that, in the press of daily business, protracted discussions with advisory committees may appear a luxury which the Council members cannot afford, but the effort will be worthwhile and in the long run will even save the Council's time if it succeeds in easing the acceptance of a new policy direction which depends for its success on the acceptance of any of these groups.

2. The power and effectiveness of wage-price guideposts are confined to economic situations in which there is no, or little, excess demand, and would be so confined even if the guideposts were more widely accepted by the leadership of labor and business than they are now. Nevertheless, as objectives of national policy, they are sound and should be supported. I feel, however, that in seeking to make them more effective, the Government would be wise to direct its efforts more toward getting them understood and accepted in principle and toward entrenching them more deeply in the national view of what constitutes acceptable behavior than to try to enforce them by direct action in particular cases. While it would probably be overoptimistic to suppose that the effort to do this could succeed in a short period, it might well succeed over a period of, say, five years or more, provided that demand conditions were not allowed to place too severe a strain on the policy.

3. To be a valid principle over the long run, the guideposts must take international factors into account explicitly. For international reasons, national price levels must be permitted—indeed, will often have to be encouraged—to move, for several years at a time, above and below the desired long trend. The reason is that, under a system of fixed foreign exchange rates, equilibrium in international payments requires changes in the relationship between the general level of costs and prices in one country and in others. Although such changes

at some times call for increases in the general cost and price level of the United States in relation to the world average and at other times call for decreases, they are consistent with the domestic objectives of long run domestic price stability and the maintenance of high employment. A country, when in deficit (under the "official settlements" definition), could reduce its average price level as rapidly as output per man-hour rises without making aggregate demand too small for high employment, if money wages could be kept constant and the general price level reduced at the same rate as average output per man-hour increases. If a country did this when it was in deficit, and when in surplus permitted money wages to rise by more than output per man-hour, allowing prices to rise, the general level of prices would be stable over the long run.

If the objective of longrun price stability is regarded as a hopelessly lost cause on the ground that even gradual decreases in general price levels are unobtainable, a gradual rise in the general level of prices can be substituted for a stability as a longrun national objective and as a short-run world objective. So far as my present point is concerned, it does not matter whether the longrun price objective is stability or a slow increase. Whatever it is, the restoration and maintenance of balance in international payments under a system of fixed exchange rates requires all countries to recognize sooner or later that their guideposts for noninflationary wage and price behavior are longrun norms and that in the short run the permissible movements of their general levels of money wages and prices should be less or greater than this norm according to whether the country is in deficit or surplus in its international payments.

This implies that whatever the objective for the general price level, in periods of balance-of-payments surplus the general level of money wages should be allowed to rise by slightly more than its permissible trend value, and that in periods of deficit, it should be restricted to smaller rises. Changes in the general price level exceeding the longrun target over a period of 5 or more years, if offset in subsequent years by changes falling short of the target, would thus be consistent with the target which, after all, is to avoid changes in prices that are both rapid and prolonged in one direction. Deviations of, say, 2 percent from the target which were in opposite directions in surplus and deficit countries would involve annual changes of 4 percent in the relation between national price levels. That should suffice to correct imbalances, given time for their effects on trade to take full effect and assuming that reserves and other means of financing deficits are made and kept adequate, which is in any case necessary.

4. To improve the Government's ability to achieve the objectives of the Employment Act, it would be desirable for the Congress to give the President a limited amount of discretion to make temporary and limited changes in tax rates and specified categories of Government expenditures. I believe that Congress could find a way to do this without surrendering its powers and prerogatives, while giving the President the right to choose one from a menu of a few specified and limited changes in taxation and expenditures. The legislation authorizing this Presidential discretion should state in general terms the economic conditions under which this discretion may be exercised but could provide for a congressional veto of its exercise and limit the period during which the change was in effect.

This suggestion is similar, broadly speaking, to the recommendations in the Economic Report of the President transmitted to the Congress in 1962 but differs from it in several respects. I do not propose, as the President did, that the standby authority to change taxes be confined to decreases in the individual income tax. I think it should permit limited increases as well as limited decreases, and that these should not be confined to the individual income tax.

Similarly, it may be undesirable to confine the standby authority over capital expenditures to limited expansion and acceleration of capital improvements. Limited reductions and decelerations may also be desirable at times (e.g., when excess demand is concentrated on heavy construction). Although the President already has power to spend less than is appropriated, it might be desirable for Congress to recognize that it is appropriate for him to use this power for stabilization purposes by including it in the standby authority. It may also be desirable to extend the permissible authority to forms of government expenditure other than capital improvements, provided that they are likely, as a practical matter, to be reversible. Although the total amount of such reversible noncapital expenditures may not be large enough even in the aggregate, to have important stabilizing effects, the power may be useful as a means of combining a desirable, if small, additional stabilization effect with good governmental administration. Every agency has many noncapital projects which need to be carried out only on an occasional basis—for example, research studies—which it could then be authorized by the President to undertake during periods of general economic slack.

Furthermore, I think the authorities to change tax rates and Government expenditures should be complementary, so that the maximum fiscal change is both (*a*) limited in total amount, and (*b*) entirely attainable through changes in either taxation or expenditure. One or the other was possible under the recommendations for fiscal stimulation made by the President in 1962, but both were not. The maximum fiscal stimulus could be attained only by action on both taxation and expenditure. The economic situation might make this inappropriate; it might make desirable a greater concentration of the stimulation on one or the other than those recommendations envisaged.

5. Referring specifically to the issue of general noninflationary wage and price increases, I do not think it is either necessary or desirable to amend the act by adding general price stability to the legislated objectives of the act. The current discussion makes clear that policymakers are sufficiently aware of that desideratum of policy and that it need not be incorporated in the legislation. Whether one thinks enough or too little has been done to achieve the objective, I doubt that more would be done; the obstacle has certainly not been lack of awareness of the objective or inadequate appreciation of its importance.

6. I also do not consider it necessary or even desirable to amend the legislation in a manner that makes the Board of Governors of the Federal Reserve System more directly subject to the wishes of the President. The Board's present degree of legal independence has not been, and is not likely to be, exercised in a way that has a serious adverse effect on national policy. Its present degree of independence enforces a more thorough discussion and threshing out of issues within

the Government than might otherwise occur. This appears to me to be generally healthy, however inconvenient and frustrating it may be to the officials concerned. The present arrangements have not worked out badly, on the whole, and much of value would be lost if the Board were placed under a tighter rein. This view does not, of course, preclude some of the changes that have been suggested by others, such as changes in the timing of nominations of the Chairman of the Board or in his term of office as Chairman.

STATEMENT BY EMERSON P. SCHMIDT

ECONOMIC CONSULTANT, WRITER, AND LECTURER, WASHINGTON, D.C.

The Employment Act of 1946 was forged under a cloud of economic pessimism, if not despair. The fear was widespread that high unemployment, deflation, and low output would threaten after the war.

On the contrary, the problems of inflation, overutilization of resources, and international payments imbalances, were not foreseen by the act's drafters. Consideration should be given, therefore, to amending the law to specify that among the goals should be general price stability or slowly declining average price levels, the avoidance of both inflation and deflation, and the maintenance of balance in our international payments—all, however, within a free competitive market economy.

It may be argued that the policy authorities, including the administration, the Federal Reserve Board, and others, already seek to attain these goals and there is no need to amend the act. But this argument would apply with equal force to the other policy goals already stated in the act: maximum employment, production, and purchasing power. The goals not specifically mentioned are easier to avoid by the administration, other agencies and the Congress. And these unspecified goals have indeed been neglected.

Since the Employment Act of 1946 was enacted the Consumer Price Index has gone from 68 in 1946 to 115 in mid-1966 (1957–59=100), a rise of 70 percent. This represents a drastic decline in the purchasing power of the dollar. It is a cruel punishment of pensioners, owners of life insurance, government bonds and bank deposits, and others living on fixed or lagging incomes. Indeed, the goals of maximum production and employment have been quite fully attained during several periods since 1946, at least in part by sacrificing the additional goals stressed herein.

In all but 4 years since the act was passed, our international payments accounts have shown a deficit. Here again, if some reasonable goal regarding these payments balance were specifically in the law, neither the administration nor the Congress could so readily ignore them. Those concerned with greater price stability and balance in international payments under free market conditions, would have a more powerful argument at their command. Many in both the administration and the Congress would welcome a better balanced statement on goals.

Mistakes in policy in other but related fields would be less likely to occur. To some degree the repeated increases in the legal minimum wages (wage and hour law, Davis-Bacon and Walsh Healey) and the upward pressures of collective bargaining, have been validated by more loose fiscal and monetary policies, which in turn are the major cause (if not the sole cause) of the deterioration in the purchasing power of the dollar. Had there been a clear mandate in the act requiring equal consideration of the purchasing power of the dollar, the decline in its value, undoubtedly, would have been mitigated. Lower domestic prices would in turn tend to improve our international balance-of-payments position by stimulating exports relative to imports.

The principles underlying the wage-price guideposts as announced in 1962 by the Council of Economic Advisers conformed roughly with the way in which the free competitive market tends to function. In time, the so-called annual productivity gain (about 3.2 percent in the 1960's) as a guide to wage adjustments became the minimum target instead of an average. As this occurred, particularly in 1965 and 1966, the wage-fringe settlements tended to overshoot the productivity gain. The result was strong upward price pressures at retail as well as at wholesale.

Here, again, had the avoidance of inflation and the maintenance of a stable (or slowly falling) general price level been an official target, fiscal and monetary steps could have been taken to prevent the rising number of wage-fringe settlements which pierce the goal of preserving the value of the dollar. Four years before the Council announced its wage-price guideposts, the Council on Prices, Productivity and Incomes (appointed by the Government of the United Kingdom in August 1957) warned against Government announcing a percentage figure for wage changes,

> "There would thus be a real danger that the prescribed average would always become a minimum, and the process of wage inflation therefore, built into the system." (For an analysis of this report and the dangers see, Productivity and Wage Settlements, Chamber of Commerce of the USA, Washington, 1961.)

Clearly, we had adequate warning from the so-called three wise men (constituting the British Council) against error of policy in this key field.

Government has taken numerous extra-legal steps to restrain the wage-price spiral and to reduce the international payments deficits. While these steps have been labeled "voluntary," they have had an extremely uneven impact. Union officials have quite uniformly announced that they would not feel constrained by the guideposts. In a few cases Government threats have possibly reduced the level of wage-fringe settlements. In numerous price restraint situations the Government has requested price rollbacks, in others the raw material stockpiles have been used to control prices. Procurement and other threats have been used by Government.

Such reliance on direct price surveillance may serve as an excuse for not employing more impersonal but effective broad monetary and fiscal policies. When resources are fully used, as in much of 1965 and well into 1966, price rollbacks tend to underprice resources and encourage overuse of them. Thus precisely when prices are conveying signals of pressure, voluntary controls are likely to be least effective and to do damage. Even if a few prices are restrained, the demand may merely spill over into some other markets.

Thus whether our problem is inflation or deflation, sole, or at least primary, reliance should be placed on the broad fiscal and monetary policies. Were the maintenance of overall or average price stability a clearly stated goal in the act, those wishing to avoid seeing the Government's hand intervening in a growing number of price and wage situations could urge effective control via traditional fiscal and particularly monetary policy. This would be in harmony with the "free competitive enterprise" specified several times in the act.

A slowly declining average price level as a goal, rather than merely a stable level, has several advantages. We have already noted that in practice the goal of stable prices is likely to lead to rising prices, pushed in part by above-average productivity wage-fringe increases. A slowly declining price level as a target or goal might in fact result in stable overall prices, or at least restrain the upward price pressures, whether pressures on costs or demand pulls.

Slowly declining general prices would expand purchasing power to those on fixed and lagging income.

In a competitive economy, the gains in productivity due to improved processes, technology, and materials as well as enterprise, will go mostly to the employees as consumers. In fact, competition may prevent a rise in profits or in interest rates. The Council's proposal that wage-fringe increases be limited to the overall productivity gains puts the stamp of approval on the idea of wage-fringe juggling every year, for nearly every employee. There is no theoretical or practical reason why the productivity gains could not be passed on to them through lower prices. In turn this would greatly reduce the enormous costs of wage and salary administration.

After the current superboom has run its course, unemployment of resources, including human resources, will again become a problem. Pressures to utilize palliatives (such as shortening the workweek and the input of labor and productive agents) will recur. The Joint Economic Committee should continue its work in the field of underutilization, so that when problems arise, we will not be stampeded into unwise action.

The standard workweek, for example, should be reduced when a consensus clearly opts for more leisure, rather than more goods. It should not be reduced merely to share employment and create disguised unemployment. The widespread use of cost-of-living escalator clauses may create indifference to the slide in the value of the dollar.

Finally, the Joint Economic Committee should engage in further followup work on the economic impact of the budget. It should explore ways and means by which the Congress could in a more businesslike way and unified manner handle the multifaceted aspects of the budget: revenue raising, authorizations of expenditures and appropriations for expenditures. Innumerable committees and subcommittees (in both House and Senate) have a part of the responsibility for fiscal affairs and operations. A more uniform and better informed approach could reduce the tax burden and promote higher grade cost effectiveness. The committee should give high priority to this aspect of the Government business.

STATEMENT BY RICHARD N. SCHMIDT

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INTRODUCTION

The following statement is divided into five parts. First is a comment on the symposium itself. Second is an indication of the apparent consensus of the symposium. Third are some definitions of five levels of economic data. These definitions are needed in the fourth part. Fourth is a statement concerning the concept and potential for the Joint Economic Committee of a national computer network and a proposal for its establishment. Fifth is a proposal for a postdoctoral program for economists. Last is a brief summary.

SYMPOSIUM

Every once in a while the Government publishes a gem, a classic that one recognizes immediately as being an enduring and potent contribution to the literature. Certainly, the printed symposium of February 23, 1966, must fall in this category, and its merit recommends itself for the required reading list of all advanced students in economics.

CONSENSUS

There is little doubt that there was a general consensus that the Employment Act of 1946, having set up noble goals and having facilitated the establishment of control mechanisms to aim for these goals, must be reckoned with as a power of the first magnitude. There was an agreement that, on several occasions since 1946, the statistical indicators appeared to require action of a monetary and fiscal nature, and after action was taken, the economy righted itself properly.

However, there are many economists who, if asked, would maintain that the 20-year period from 1946 to 1966 would have been but little changed even if the Employment Act of 1946 had not existed. This assertion would follow from the well-known high correlation of time series data. If, in some quantitative way, one could calculate a correlation between "the state of the economy" and the "time implementations of the act," he would find its value to be very high over the 1946–66 period. However, this high value really might not have great meaning. In other words, these people who feel that the economy would have behaved much the same with or without the act envision the people who see the act as having a dominant role in controlling the economy as being misled by spurious statistics.

The general consensus, consequently, although it was on the high positive side, is not universally accepted without question. It appears that it will be the next two decades in which the power of the act will face its first serious tests. If indeed the combination of fiscal/monetary policy manipulation permits central control to attain the goals for employment, production, purchasing power, and trade balance, then these tools of control are far more powerful than most thoughtful people will presently credit. There is, unfortunately, no high probability that these basic tools can do the work needed in maintaining the goals over those periods in which there would have been runaway inflation or unresponsive depression without them. Thus, whereas most people would have to admit, by looking at the apparent evidence, that the first two decades have been an unqualified success, the real tests will first appear in the next two decades.

Although there is considerable optimism that the outcomes will be successful, there is no real assurance that the tests will be met. Because of this uncertainty, we must consolidate our position by further planning, experimentation, testing, and evaluation. The section after the next contains some ideas for this consolidation.

Levels of Data

Before coming to the main idea of the statement, it is necessary to define what may be called the five levels of data.

(1) *Routine data.*—The basic structure of all economic data consists of individual items of routine data which are customarily not broken into finer parts. A simple example could be the number of employees working in a plant on a given day.

(2) *Control totals.*—Ordinarily the bits and pieces of routine data have little interest for economic activity and they must be totaled for further use. Thus, the employment in a single plant may not be useful, but the total for all plants in a given geographical area might be of value in decisionmaking.

(3) *Control ratios.*—In that control totals are often more easily understood when they are converted to ratios, ratios of control totals have a prominent place in statistical analysis. Thus, the ratio of employment between two time periods may be more meaningful than the mere totals. Unfortunately, ratios of this kind are of limited usefulness.

(4) *Mathematical models.*—The fourth level of data consists of mathematical models that have been tested statistically to validate their structure. Econometric regression models are good examples of this fourth level of data.

(5) *Integration of mathematical models with actual data.*—The fifth level of data consists of a working relationship in which actual data (routine or totals) are being processed and at the same time they are compared with the standards as prescribed by the model. Thus, when the employment for the plant, or the total for a geographical area are examined, they are compared with the standards for them as given by the model. A control and decisionmaking apparatus inherent in the model would report any deviation whether significantly high or low.

These are the concepts concerning economic data that are relevant in the following discussion.

Computer Network

Throughout the symposium there were statements that expressed the great problem of economic data, decisionmaking under uncertainty, and the difficulty of assessing the overall and structural reactions to given decisions. In essence, the problem is one of being able to obtain meaningful and timely data, to compare the data with estimates based on some kind of statistically tested mathematical model, to make decisions under the uncertainty inherent in the data and the model, and then to ponder the outcome of the decisions on the overall performance and the structural components of the economy.

Several years ago Russia announced a concept involving regional economic data being continually fed into regional computer centers where the data would be screened and validated. Once the data have passed all of the validation tests and are suitable for transmission, the regional computer centers are to forward the data to a central computer center where they will be used for national purposes. Here they will be used in conjunction with national mathematical models for overall decisionmaking. The significance of this plan is that the time between the birth of the data and their use in the national center is to be very short indeed. Certainly some of the data will be born in a local area, forwarded to the local computer center, validated, transmitted to the national center, and used for electronic decisionmaking all within a second. Other data may take more time, but even here the time will be short.

This plan may seem farfetched to people who are accustomed to delays of weeks, months, or even years from the birth of economic data to their use. Nonetheless, the present state of development of computers, data transmission facilities, econometric methods, systems analysis, and programing will support such a system, both on an economic as well as a physical basis.

However, people who have been intimately involved with business and economic data, with systems development, with mathematical models, and with computers realize that the development of the system as outlined above is a large, long, and expensive proposition. In the years since Russia announced the master plan there has been little detailed information of progress; mainly, one hears rumors of delays and problems. Nonetheless, someday in the future the West is going to be startled by a new sputnik—an administrative and control sputnik made possible by computers.

It would seem to be most appropriate for the Joint Economic Committee and the Council of Economic Advisers, who wield the massive tools of fiscal control and monetary control, to have continual access to outputs as could be afforded by such an information and decisionmaking system. To plan and implement such a network and to make it function at an acceptable level of sophistication may take a decade. The Russians have been working on such a system for about half of that time. We have not yet really begun. I recommend we begin as soon as practical.

Postdoctoral Education

The development of the system envisioned in the previous section will require a continual stream of highly motivated and highly educated economists, statisticians, and computer scientists who have their doctorate. Part of the design of the plan would be facilities for the attraction of such people on postdoctoral fellowships. The best present example of a related method is in the National Bureau of

Standards. Its postdoctoral program for statisticians in the physical and mathematical sciences is recognized as one of the best in the world. The list of distinguished statisticians who have had postdoctoral experience at the Bureau constitutes one of the peer groups in this discipline. Not only does the Bureau benefit by the intermixing of these fresh young minds as they come from the intensity of their graduate study, but the country as a whole benefits when these gifted people, who have been educated to the realities of the problems that remain to be solved, go to their chosen academic, governmental, or industrial occupations.

A plan for such postdoctoral education on a continuing and rotating basis can be implemented by the Joint Economic Committee immediately.

SUMMARY

It is my belief that the real test of the Employment Act of 1946 is yet to come. We should not merely wait for this test, which under present circumstances might not be met, but rather we should plan for a better national information computer network incorporating the data-to-mathematical-model-system outlined briefly above. An important aspect of the plan should call for postdoctoral educational facilities for people in suitable disciplines, primarily statistics, computer science, and economics.

STATEMENT BY MARTIN SCHNITZER

PROFESSOR OF BUSINESS, VIRGINIA POLYTECHNIC INSTITUTE, BLACKSBURG, VA.

The Employment Act of 1946 represented a major landmark in Federal Government policy toward employment. The act involved acceptance by the Government of responsibility to aid in creating and maintaining conditions under which useful employment opportunities, consistent with a free enterprise system, would be provided for all those who were able and willing to work. The rationale for the Employment Act was provided by the depression of the 1930's in which unemployment remained at a high level. There was concern that unemployment would revert back to this level after the demobilization of approximately 12 million U.S. servicemen.

It seems to me that the present and future objectives of the Employment Act should center around the subjects of price stability and the impact of technological change on the American economy. Price stability should be a major desideratum of the Employment Act. The sacrifice of price stability for the sake of securing full employment (defined more in the European framework of 2 percent or less) redounds to the disadvantage of economic growth. An inflationary economy is not consonant with a stable economy. It is inconsistent with the objective of maintaining a favorable balance of payments internationally.

The impact of technological change on employment may well turn out to be the most significant problem of the next decade. It is contended that one of the most serious consequences of cybernation will be the displacement of a large percentage of the labor force by machines. A priesthood of technocrats will arise to control the lives of the disenfranchised masses.

Although this is probably a rather unrealistic picture of the economy, particularly in the next decades, nevertheless, the fact remains that technological progress has been accelerating. This will mean displacement of some jobs and the creation of others. It also means that job requirements will change and the level of skill requirements will move upward. Persons who have no skills will become unemployable.

The acceleration of technological progress implies that structural unemployment will increase. This means that monetary and fiscal measures aimed at stimulating a high level of aggregate demand will be only partially effective at creating a high level of employment. More concern should be given to attending to the causes of structural unemployment and to policy measures aimed at promoting the occupational and geographical mobility of labor. More emphasis should be placed on job retraining (the human investment bill as proposed by Senator Aiken merits serious consideration). A Federal program of relocation allowance to move unemployed workers is desirable. A national public works program to support many persons who are currently unemployable should also receive consideration.

The guaranteed annual income may well become an important policy issue within the next 5 years. It has received support from a wide variety of groups and persons, ranging from left to right on the political spectrum. It may well be that the guaranteed annual income is the most efficacious and pragmatic way to solve the problem of poverty. It may well be that technological change will cause a spin-off into the ranks of the unemployed of workers who cannot be reabsorbed into productive employment. Through no fault of his own, the worker no longer can secure employment. Would not a guaranteed income become both necessary and desirable? Certainly, the subject is worthy of consideration.

Finally, with respect to the Employment Act of 1946, I would favor the creation of a council of economic advisers for the minority party. The creation of a minority council would, in my opinion, have the following salutary effects on American society.

1. It would provide the minority party with the necessary expertise to develop alternative programs to those advanced by the majority party. It is necessary to provide effective alternatives to foster the development of the best solutions to all problems. The role of a minority party should be constructive rather than obstructive; this can be accomplished through provision of the minority council.

2. The transitional time period between changes in the positions of the parties is shortened. In other words, the minority council becomes the majority council. The expertise has already been gained; therefore, the changeover becomes more smooth.

In the British Conservative Party, there is a party organ called the Research Department. This is, in a sense, the Conservatives' answer to the Fabian Society: a body of expert researchers who advise party leaders on policy and who brief Conservative M.P.'s on issues before Parliament.

In conclusion, it is apparent that policymaking emanating from the directives of the Employment Act must be concerned with problems of today and the future. It is my opinion that these problems are the maintenance of price stability and attention to the problem of structural unemployment created by rapid technological change.

STATEMENT BY BERYL W. SPRINKEL

VICE PRESIDENT AND ECONOMIST, HARRIS TRUST & SAVINGS BANK, CHICAGO, ILL.

Clearly, the Employment Act of 1946 and its subsequent implementation has made a significant contribution to the welfare of our citizens and to an improved performance of our market economy. No longer must we plan in the shadow of fear of another economic collapse comparable to the great depression. In contrast to the situation prevailing in 1946, all segments of our citizenry, including the business community, now agree that the Federal Government has both the responsibility and the tools necessary for promoting economic stability and growth. Furthermore, it is generally recognized that the most important tools available to the Federal Government for discharging this responsibility are monetary and fiscal policies.

Postwar monetary-fiscal policies have been far from perfect, but they have been much improved over earlier periods. Policymakers continue to learn from past experiences and the record of accomplishment from 1960 through the middle of 1965 was indeed outstanding. It is my view, however, that the record during the past year has left much to be desired and that much of the deterioration is due to a subtle change in the techniques used for achieving economic stability and growth. Instead of relying primarily on monetary and fiscal policies as a regulator of total demands, increasing emphasis is being placed upon implementation of the so-called guidelines which affect the symptoms of demand while deflecting attention away from the important variables. It is one thing to launch an educational program designed to impress upon the public the long-term relationship between productivity increases and wage increases as was attempted in the 1962 Economic Report of the President. It is something quite different to lay down an edict that actual wage and price changes in the marketplace must be governed by the 3.2-percent increase in labor productivity. The attempt to apply guidelines and guideposts in an increasingly large segment of the total economy will inevitably lead to serious distortions, and rather than contributing to the achievement of the goals of the Employment Act of 1946, the so-called voluntary restraints will prove to be a positive hindrance.

In summary, it remains my view that the Federal Government can and should influence the economic environment in such a way as to promote achievement of the universally accepted goals of full employment, price stability, and economic growth. This can best be achieved by confining Federal influences to the monetary fiscal policy area and avoiding direct interference in particular wage and price markets. It is my view that both monetary and fiscal policies have been much too stimulative since the middle of 1965 and that these policies promise to hasten the deterioration in the value of the dollar. An attempt to compensate for permissiveness in the monetary-fiscal policy area by imposing various guideline and guidepost constraints will not

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prevent inflation but will do positive harm to the efficiency of the economy through preventing relative price changes from performing their indispensable allocative function.

STATEMENT BY HERBERT STEIN

Director of Research, Committee for Economic Development, Washington, D.C.

"The Congress hereby declares that it is the continuing policy and responsibility of the Federal Government to use all practicable means consistent with its needs and obligations and other essential considerations of national policy, with the assistance and cooperation of industry, agriculture, labor, and State and local governments, to coordinate and utilize all its plans, functions, and resources for the purpose of creating and maintaining, in a manner calculated to foster and promote free competitive enterprise and the general welfare, conditions under which there will be afforded useful employment opportunities, including self-employment, for those able, willing, and seeking to work, and to promote maximum employment, production, and purchasing power."

This long and turgid sentence, taking seven-eighths of a step backward for every step forward, capable of meaning everything or nothing, is the heart of the Employment Act of 1946, signed by President Truman on February 20, 1946. Twenty years later this sentence stands, as no shorter and simpler one could, as a relevant catalog of questions—not answers—about current economic policy.

For example, the Government tries to hold down the price of aluminum. Is this necessary to create a condition in which those "able, willing, and seeking work" can find employment without inflation that might make the employment unsustainable? Or is it part of an effort to push employment beyond its "maximum"? Is the sale of aluminum out of stockpiles one of the "plans, functions, and resources" of the Government to be used for the purposes of the act? What about threats of antitrust action, statements that the President is hopping mad or is not, invitations to White House dinners? Are they legitimate functions or arrogations of power? Are they means of obtaining the "assistance and cooperation of industry," in "a manner calculated to foster and promote free competitive enterprise?" Are they "practicable" or window dressing?

Or, to raise another current issue, is the Federal Reserve System part of the Government, to be guided by the objectives of the act? If so, whose responsibility is it to "coordinate" the plans, functions, and resources of the Federal Reserve System with all the other instruments of Government? Who is to define "maximum employment, production, and purchasing power" for the guidance of the Federal Reserve System, or is the Federal Reserve to define those standards for itself, and possibly in a different way than the President defines them?

The act does not tell us how to answer these questions, but it should remind us to ask them as we enter the third decade of operation under it.

Every phrase in the act is a monument to a battle of the yearlong legislative war that preceded its passage. The biggest guns of ideology and pressure, conservative and liberal, business and labor, had been engaged in the fight. There has been in our generation no other confrontation on so massive a scale over the basic character of the American economy.

When the smoke cleared it was impossible to tell who had won. The sponsors of the bill had wanted a firm Government commitment to assure everyone willing and able to work his right to employment. They had named their bill the "full employment act," and the word "full" meant a great deal to them. Moreover they had wanted to commit the Government to assuring full employment by a specific means—by spending as much as might be necessary to achieve the result, the spending being euphemistically called Government investment. They didn't get either the commitment to the "full" objective or to the specific instrument, and as a result some of the disappointed sponsors of the bill regarded the act as a meaningless scrap of paper. Senator Barkley said of the Senate bill that it "promised anyone needing a job the right to go out and look for one." The final act promised less.

On the other hand the opponents of the Full Employment Act as originally proposed—or at least many of them—would have preferred no legislation at all. They did not want the elevation of anything about employment to a preeminent position among national objectives. They did not want Government to assume any active responsibility for this objective. They recognized that Government inescapably had an influence, positive or negative, upon the level of employment as upon other aspects of the economy. But they thought this influence would be most beneficial if Government kept hands off. The president of the NAM said of the bill that "there could be no greater discouragement to business." The dilution of the original bill that they achieved reconciled them only in part. While the red flag "Full Employment" was removed, the act remained clearly a recognition of special concern with the state of employment. Government spending was no longer singled out, in the act that passed, as the primary instrument by which the employment objective was to be achieved, but it was not rejected and remained as one of the instruments available to be used, with due regard for other means and ends.

Twenty years later the verdict probably would be that both sides won. Each got what it wanted most, or should have wanted if it had understood the problem and the facts as they have become clearer in the past 20 years.

While the liberals who sponsored the original bill nailed the "Full Employment" flag to their mast, of course they did not literally mean zero unemployment. They meant two things by a declaration for "Full Employment." First, the avoidance of anything like the depression of the 1930's, when unemployment averaged about 18 percent for a decade, was a national objective of absolutely top priority. Second, the prevention or reduction of even much lower rates of unemployment is very important, although it may have to be accommodated to other objectives that are also important. The words "Full Employment" were not necessary to establish those points. Moreover, once these points were established, a legal commitment to assure "Full

Employment" could only have been a nuisance to responsible authorities trying to use limited instruments to advance a number of objectives, some of which have turned out to be more critical than was expected in 1946.

In addition to the dilution of "Full Employment," the deemphasis of Government investment in the act as passed was a disappointment to the bill's supporters. But probably many of them would now agree that their original concentration on this instrument was excessive and that their picture of how the instrument would be used was naive. We have since learned that Government spending decisions are too sluggish, involved with too many and varied objectives and therefore too divisive to be good instruments of employment policy. We have learned that tax decisions have many advantages from this standpoint, and relearned, what was commonly denied 20 years ago, that monetary policies have something to contribute. Harnessing employment policy to Government spending would probably have been a bet on the wrong horse.

What the initiators of the bill really wanted, or at least should have wanted, was an opportunity for the best available economic analysis to get a hearing at a high level of decision making. This was provided by the establishment of the President's Council of Economic Advisers. It was not necessary, and would not have been helpful, to prescribe by law a particular brand of 1946 economics.

Just as the proponents of the measure were better off with the act that passed than with the bill they introduced, so the opponents were better off with it than with no act at all. Whether they are regarded as businessmen or as enthusiasts for the free economy—not always the same thing—high employment was not against their interests. In general, business profits are high when employment is high. Also, the survival of the free economy requires that it performs effectively for most of the people, which it certainly isn't doing when unemployment and the risk of unemployment are large. Furthermore, the acceptance by the Government of responsibility for maintaining high employment would not necessarily conflict with the interests or principles of the conservative opponents of the bill. Everything would depend on how the Government tried to discharge that responsibility—and how high was high.

Opposition to the bill was in large part based on error. While the error antedated the New Deal it was undoubtedly reenforced by an association in the minds of conservatives between New Deal deficit spending and a long list of other New Deal measures against which they had more legitimate grievances. The extremism and naivete of many of the early followers of Keynes in America probably also contributed to the hostile view of conservatives toward the use of Government spending to achieve high employment.

The act as passed mainly confirmed the state of affairs that existed in the country. It confirmed that we expected the Government to take responsibility for achievement of a fairly high (but not "full") level of employment and to behave reasonably in the choice of means for doing that. This being the case, one can ask whether the act really accomplished anything. Passage of the act obviously did not make a Keynesian out of George M. Humphrey; even passage of the original bill would not have done that. On the other hand, failure to pass the act would not have made a Calvin Coolidge out of John F. Kennedy. So things may have turned out pretty much as they would have even if there had been no act.

There is a good deal to that, but not everything. Even if the act only expressed the prevailing postwar consensus, it took the debate over the act to disclose what the consensus was. "Merely" to confirm the existing state of affairs was an achievement, and permitted us to move on.

The act, however, did more than declare certain intentions. It established a Council of Economic Advisers to the President and a Joint Economic Committee, with a staff of economists, in the Congress. Now these bodies have no authority except to talk. The Council of Economic Advisers administers no program. The Joint Economic Committee cannot initiate legislation. But we should not underestimate the influence of talk. Just as the power to write the Nation's songs is a great power, so is the power to write the President's messages. People generally tend to believe what they have said, even if someone else wrote it, and this is probably true of Presidents.

Even without the Employment Act, Presidents would have obtained economic advice somewhere. The Employment Act does not prevent the President from listening to other economic advisers or require him to listen to the Council. There is competition for the President's ear. But the Employment Act gives the Council a better start in that competition than professional economists would otherwise have.

Presidents choose their own economic advisers and they naturally choose advisers who are congenial. The six Chairmen of the Council in the first 20 years of the act cover as wide a range—in the priority they give to various objectives, in their view of the way the economy operates, and in their concept of the role of Government—as the four Presidents of the same period. Nevertheless, despite their ideological differences, the economic advisers, as competent professional economists, have all brought something similar to the discussion and determination of economic policy. This is a "functional" attitude, which evaluates policies in terms of their expected real effects rather than in terms of conformity to traditional or symbolic rules. It also involves recognition that any policy action almost always affects more than one objective, that almost any objective can be affected by more than one kind of policy, and that the chain of events between action and results may be long and indirect. This adds up, as is often complained, to a complicated view of the world. It may lead to a certain shortsightedness, expressed in the dictum of John Maynard Keynes, the hero of modern economics, that, "In the long run, we are all dead." And it can provide convenient rationalizations for almost any desired policy. On the whole, however, the creation of the Council of Economic Advisers has raised the intelligence level of the national consideration of economic policy.

The influence of the congressional Joint Economic Committee has been in the same direction but probably less strong. The eight Senators and eight Representatives who serve on the committee are undoubtedly educated by their experience, but the spillover from this to the rest of Congress or to the congressional leadership is generally small. The hearings and reports of the Joint Economic Committee have a high visibility, as such things go, in the public discussion of economic policy and the chief influence of the committee on action is exerted through this indirect route.

However, the interesting and important question is not how effective the Employment Act has been but how well we are doing in maintaining high employment—whether or not that performance can be ascribed to the Employment Act. To ask "How well are we doing?" immediately invites the question "Compared to what?"

Certainly, compared to the fears that were present when the Employment Act was drafted—the fear of relapsing to the condition of the 1930's—we have done well. In the 20 years, 1946–65, unemployment averaged 5 percent, compared to the 18 percent of 1930–39.

But doing better than the 1930's is probably too easy a test, unless one accepts the idea that in 1929 we entered a period of "secular stagnation" in which, barring wars, the economy would tend to massive unemployment. If this was our prospect, then we have indeed done well to avert it. However, if the depression of the 1930's was not the opening of a new era, but an isolated episode occurring once in a century or two, avoiding it for 20 years may not prove much. In fact, we cannot even say that we have been doing better than in the past. For example, from 1900 to 1929 inclusive, unemployment averaged 4.5 percent as compared with 5.1 percent in the last 20 years.

There are good reasons for confidence that a depression on the scale of the 1930's will not recur. These reasons lie in improved understanding, by economists and the general public, of the way monetary policy and the Government budget works, and in much stronger financial institutions. Anyone who remembers the optimistic statements made not only in the 1920's but even after the depression of the 1930's was underway, must worry a little as he says this. But it would be pure superstition not to say it, even though the economic and political assumptions on which present optimism rests have not had a long period of historical testing.

We are entitled to feel reasonably confident about the minimum objective of the Employment Act—the prevention of a 1930-style depression. What about the maximum objective—symbolized by the word "full" in the original bill or the term "maximum employment" in the act as passed? Discussion of the question today is hampered by the same difficulty that perturbed the legislation 20 years ago. We don't know what "full employment" or "maximum employment" is and therefore don't know whether we've had it or how far away we've been.

In the postwar period the figure 4 percent had a certain currency as a standard of "full employment." The 4 percent is supposed to allow for the number who are inevitably between jobs, or seasonally unemployed, or just entering the labor force. By this standard we have averaged full employment in only 6 of the 20 postwar years, the most recent being 1953. But if 4 percent is really par for the course, we should probably not be disappointed at falling short, if we don't fall short too far and too often. Some people think the gap is serious—the 5 percent actual average unemployment of the postwar target exceeding the 4 percent target by 25 percent. But others say that we've employed 95 percent of the labor force, as against a target of 96 percent, which is a gap of only about 1 percent. At this level of discussion obviously no answers are possible.

Moreover, the 4 percent itself has no serious claim to be a standard of optimum performance. We know that it is possible to get unemployment below that rate, at least for significant periods, and unemployment was actually below 4 percent in several years of the postwar period. And we also know that to get unemployment down to 4 percent is likely to entail some consequences that are undesirable, such as rising prices. To take 4 percent as a standard only means that we are willing to pay the cost of getting down to 4 percent but not the cost of getting below it.

This suggests what is the most significant meaning of "How are we doing?" It is simply "Could we have done better?" or "Could we do better now?"—and without undesirable consequences that are worse than unemployment. This is not the same as asking whether we made mistakes. Of course, mistakes were made in the past and will be made in the future. The question is whether we made mistakes we might reasonably have expected not to make.

Without trying to second-guess the economic policy of the past 20 years in detail one can point to three major mistakes that could have been avoided, with a consequent reduction of unemployment and without fully off-setting costs of other kinds.

1. We were slow to recognize the importance of measures to train and retrain workers, to assemble and disseminate information about available jobs and workers, and to help jobs and workers to find each other. In the closing days of the war there was concern about the "readjustment" problem, for veterans and war workers. Generous educational benefits and readjustment allowances were provided for the veterans. But we were surprised, in 1946 and 1947, by the speed with which veterans and war workers were reabsorbed into civilian employment. We congratulated ourselves on the mobility and education of the American worker, and on the ability of the American employer to provide training, and we forgot about the problem for a dozen years.

The congratulations were justified up to a point. Most Americans are highly mobile and literate. Most workers and employers will find each other if they need each other. But if we are talking about getting unemployment down from 5 to 4 or 3 percent we are not talking about "most workers". We are talking about the least mobile, least educated and least informed, including a large proportion who are the victims of racial discrimination. Every study of unemployment, back to that initiated by Secretary of Commerce Hoover in 1921 and probably earlier, had pointed to the need for some measures to improve the labor market. Moreover we had the examples of other countries, notably Sweden, where labor market measures were being adopted and showing success. But it was not until the late 1950's that we began to move on this front—with the Area Development Act, the Manpower Training and Development Act, the revision of the Vocational Training Act, the Appalachia program, and relevant parts of recent education and antipoverty programs. It will still be some years before the results of these measures are visible. We should have been able to see the need and to start earlier.

2. We were slow, by about a dozen years, to recognize the possibility that the United States might encounter balance-of-payments difficulties that would interfere with high employment policy. We

recognized this for everybody else, but not for us. The International Monetary Fund, established in 1944, with the United States putting up one-third of the money, had as one of its main purposes the provision of credit to countries in balance-of-payments trouble so that they would not have to resort to restrictive, unemployment-creating measures at home. Moreover, the United States was a supplementary source of assistance—aside from the Fund—and was often called upon. Also the right of a country in persistent difficulty to devaluate internationally rather than deflate at home, was accepted. We had all seen one country after another in the 1920's and 1930's go through the wringer at home in order to defend its currency internationally. We didn't want it to happen again.

But nobody, or hardly anybody, thought that it could happen to us. We had, at the end of the war, two-thirds of the free world's gold, and hardly any foreign liabilities. The world outside the United States was short of dollars; the possibility of foreigners acquiring so many dollars that they would convert them into gold at an embarrassing rate seemed unthinkable. And so there was little provision for meeting a persistent U.S. deficit. The size of the International Monetary Fund did not contemplate that the United States would be a large-scale borrower. It was not thought that the United States could ever devalue the dollar, as other countries could devalue their currencies. Probably most significant, the United States assisted the rest of the world in obtaining gold and dollars from us without a commitment to similar help when we might need it. We made grants rather than loans to Europe and Japan, in the expectation that they could never repay loans. We undertook commitments for dollar expenditures in the defense of Europe, without provision for a readjustment if and when the balance-of-payments position changed. And we followed, or acquiesced in, trade policies of similar effect.

Since 1958 the United States has been struggling to slow down the growth of its foreign liabilities and the outflow of gold. To say that the American economy has been put through the wringer on that account would be a gross exaggeration. But concern about the balance of payments contributed to the restraint of fiscal and monetary policy between 1959 and 1963, when a more expansive policy would have reduced unemployment. Better use of America's bargaining power in the first postwar decade, when dollars were scarce, could have strengthened our international position in the second decade and given us more freedom to maneuver in domestic, high employment policy.

3. We were slow to recognize that after 1959 the Federal budget had become too restrictive, and slow to correct the condition after it was recognized. After the 1958 recession, and perhaps in reaction against the big deficit that it caused, a determined effort was made to hold down Government expenditures in order to balance the budget. The increase in revenues that would result from economic recovery and growth was not sufficiently appreciated. By early 1960 we had reached a point where, if there had been high employment, the Federal surplus would have run around $13 billion a year. The economy could not advance with the Federal Government taking out so much more than it put in and the recovery stopped short of high employment. We entered several years of excessive unemployment, which were only brought to an end when the 1964 tax cut drastically reduced the poten-

tial surplus. The Government was inclined to follow a cautious budget policy after 1959 anyway, because of the balance of payments and because of the desire to avoid another spurt of inflation. But the Government seems not to have recognized how restrictive its policy was, at first. And after that was recognized, correction was delayed by fear of violating budget-balancing rules.

How much better the employment record would have been in the past 20 years if we had avoided these three mistakes is impossible to say. The main effects would probably have been felt in the years 1960–63. These were the years in which domestic policy was most inhibited by balance-of-payments considerations and when the fiscal drag of excessive potential budget surpluses was most in evidence. Also, if an active program of matching jobseekers to jobs had been started early in the postwar period, the full benefits would not have emerged much before 1960, because some of the most important improvements needed were in the education of children. In the 4 years 1960–63 the national rate of unemployment averaged about 6 percent. It is probably not too much to expect that with achievable foresight we could have reduced this figure to 5 percent (the 1955–58 average) or even a little less. This would not have made much difference for the national average of unemployment during the 20 years of the Employment Act, but it would have made a significant difference for some people. It probably would have made a lifetime difference for young people who entered the labor market when jobs were hard to find.

The key error was failure to give enough attention early to improving the labor market by improving education, training, retraining, and information. There are two reasons why this was, and still is, critical.

First, when unemployment is in the ranges that now concern us, 4, 5, or 6 percent, the consequences of the unemployment depend overwhelmingly on its distribution. If 4 percent unemployment meant that every worker was unemployed 2 weeks a year and 6 percent meant that everyone was unemployed 3 weeks a year, this would not be a major problem in a country where average income is as high, and rises as rapidly, as in the United States. The real problem is that the unemployment is heavily concentrated, some people being unemployed for long spells with others experiencing no unemployment at all for years or even for a working lifetime. The incidence of unemployment in some categories of the population is far above the national average. For example, when the national average rate of unemployment is 5 percent the rate among young Negro females is likely to be 25 percent. It is these people with long durations and high risks of unemployment who are the chief objects of concern when the national average is at the levels of our recent experience.

Generally expansive measures to raise the demand for labor can reduce unemployment where it is most concentrated as well as elsewhere. In recent years there have been some who maintained the contrary. They argued that expansive fiscal and monetary policy could not reduce unemployment in the groups where it was highest—the unskilled, the young, the Negroes, et cetera. This argument has been proved wrong by the decline of unemployment in the hard categories in the past 2 years, as the national average has also declined. But a serious concentration of unemployment remains and is unlikely to be significantly reduced without concentrated measures to increase the employability of the kinds of people who have high unemployment rates.

Second, improvement of the labor market holds out hope of reducing the tendency for prices to rise more rapidly as average unemployment declines. A more expansive policy to increase the demand for labor after 1959 would have reduced unemployment somewhat, but would soon have run into the difficulty that as unemployment fell price rises accelerated. This occurs partly because of the uneven incidence of unemployment already discussed. Just as, when the national average unemployment rate is 5 percent there are some categories of workers for whom the rate is 15 percent, there are also some categories for whom the rate is 1 percent or 2 percent. These workers are scarce. The range of categories that are scarce increases as average unemployment declines from 5 percent to 4½ percent to 4 percent and so on, even though other kinds of workers are plentiful. The wages of these scarce workers tend to rise and so do the prices of the things they produce. An effective labor market policy would, directly or indirectly, shift workers from the surplus categories into the shortage categories. It would even out the distribution of unemployment and reduce the tendency for price-raising shortages to appear in parts of the economy before labor on the average was scarce.

Improvement of the labor market will reduce the conflict between high employment and price stability. However, it will not eliminate the problem, because at the end the problem is, like all economic problems, insoluble. We cannot simultaneously have as much of everything as we would like. We cannot simultaneously have as little unemployment, as little inflation and as little Government control of the economy as we would like. This fact was at the bottom of much of the more serious discussion of the Employment Act 20 years ago. Some feared that the act committed us to try to get unemployment down to a level at which either inflation or price and wage controls would be inevitable. Others wanted to make sure, by the act, that the fear of inflation was not used to restrain full employment policy before such restraint was necessary. The act did not resolve this issue, and doesn't even mention price level stability. Everyone who has been responsible for national economic policy in the past 20 years has accepted price level stability as an objective, even though it is not specified in the act. But no one has wanted to prescribe the conditions in which more employment would or would not be accepted for the sake of less inflation.

The problem of the unemployment-inflation-controls combination is likely to be the central problem of employment policy in the third decade of the act. The country is apparently not going to insist that any one of these three evils be held to zero. There may be dispute about the unemployment goal, which may be 4 percent or 3 percent, but no one thinks it is zero. We have come to accept annual increases of the consumer's price index by, say, 1 percent as price stability for all practical purposes. Probably only a few purists object to occasional Presidential sermons on holding prices and wages down, although these sermons are intended to interfere with the free market.

But even by these relaxed standards we have too much unemployment, too much inflation and too much control. Unemployment is a little over 4 percent, consumer prices rose by about 2 percent in the past year, and the Government effort to control prices has proceeded beyond general admonitions to direct and specific pressures. We do not seem to know how to make progress on one of these fronts without losing ground on one of the others. Moreover, there is considerable difference of opinion about what to sacrifice for what. The administration's preference seems to be to push for lower unemployment, while trying to contain the risk of inflation by direct but informal pressures on wages and prices. Others emphasize the dangers of inflation and would prefer to reduce it by softening the pressure of demand, even at some cost in unemployment. To others the great evil is the Government's interference in the market, and the threat they see of more controls. To avoid this they would be prepared to sacrifice something in employment and price stability if necessary.

Working out a satisfactory compromise within the corners of this unemployment-inflation-controls triangle will be the task in carrying out the mandate of the Employment Act in the years ahead. To show success in this will be more difficult than it was to show success during the first two decades of the act. This is not because conditions are more difficult but because ambitions are higher. After all, to improve on the economic performance of the 1930's was not hard. To improve on the much better performance of the postwar period will be another matter.

STATEMENT BY H. CHRISTIAN SONNE

CHAIRMAN OF THE BOARD, NATIONAL PLANNING ASSOCIATION, WASHINGTON, D.C.

In appraising the Employment Act of 1946 and its accomplishments nearly all groups may have a tendency—in Senator Douglas' words—to "not only accept the measure, but also believe that they originated it."

We, in the National Planning Association would have fallen for that very temptation but for our conviction that the need for an employment act was recognized—in wide circles—several years before its enactment, on moral, political, and economic grounds.

The public will not forget the splendid work performed by outstanding Members of Congress, and Representative Patman's opinion expressed as early as January 1944 to the effect that: "Employment is the most serious postwar problem ahead of us."

In a joint statement entitled: "Declaration of Interdependence by the Agriculture, Business, and Labor Committees of the National Planning Association," dated April 1943, we pointed out:

> "If when the fighting is over, we have ex-soldiers selling apples on the street, or masses of workers idle in present production centers, or people starving in one part of the country while food surpluses rot in other parts, we shall have lost this war. It will be too late to plan."

As believers in action we added:

> "We must prepare now for full and continuing employment under a peacetime economy."

With this in mind the NPA had already started—in cooperation with a number of economic technicians who were invited to participate—to prepare three basic "economic models" of our economy, each of which in time should be able to sustain a high level of income and employment; namely:

(1) The Government model denoting an expansion in public works and other government activities.

(2) The business model implying much larger investments and business activities—and

(3) The standard of living model in which consumers use a higher proportion of their income.

The following comments were added:

> "We need not necessarily choose one of these models—each suggests a policy that may be appropriate for specific situations * * * long-range policy may include from time to time some elements of each. * * * It is the use, the distribution, not primarily the size, of the Nation's output and income that counts."

This study was presented to a selected group in a Preview of June 8, 1944, as "Model T" of "National Budgets for Full Employment," published in final form in March 1945.

It was largely based on a Western European technique which was found useful as a protection against the competition in the 1930's of Hitler's Germany and without which the surrounding countries would have remained as helpless as groups of amateurs competing with professionals.

Armed with this basic concept of a nation's ability to influence its economic and employment problems, we had good reasons to believe that a high employment policy safely could be adopted.

The study has subsequently formed the basis for national economic projections that continue to be of inestimable value both to Government and private enterprise.

These are some of the any reasons why we, of NPA, right from the beginning have welcomed the fairminded spirit of the Employment Act and followed its development with profound interest.

On the occasion of the celebration of the 10th anniversary of the act, when the NPA had the pleasure of acting as host, the atmosphere was encouraging and complimentary, although it was generally felt that a 10-year period was too short for a fair appraisal—particularly because the Korean war and its aftermath undoubtedly added complications during a period when efforts should be concentrated on perfecting the organization.

Since the second decade has been more normal—judged by what one may expect nowadays—the full 20-year period lends itself better to a full appraisal of accomplishments, for which reason the initiative of the Joint Economic Committee in arranging for an economic symposium has been greatly and widely appreciated.

This is only one of many actions for which the Joint Economic Committee—one of the two entities established as a result of the Employment Act—deserves praise for having succeeded in the difficult and important task of disseminating widely, and in a bipartisan manner, a clear understanding of the social and economic issues which face the country.

When attempting to analyze what actual progress has been made in the employment and economic field we shall be concerned mainly with the second creation of the Employment Act, namely:

The Council of Economic Advisers

We may well take pride in having accomplished the apparently stupendous task of reducing the percentage of unemployed to approximately 4 percent from over 6 percent some 5 years ago, in the face of a yearly addition to the labor force of 1 million young workers.

But that does not mean that we can rest on our laurels; for we must recognize—as I believe the Council does:

First: That this accomplishment has taken place during a period when most industrial, developed nations have experienced a shortage of labor and in many cases have found it necessary to actually import foreign workers.

Second: That we have developed boom conditions, and it is not, or should not be, a new experience to find that a temporary boom is bound to develop when enough money is spent for its creation. The question is, how long can it last without further artificial stimulation.

If, for instance, some Government officials early in 1929 had pointed with pride at the high employment and well-being of the Nation during 6 years of prosperity, they might have felt somewhat humiliated by subsequent events.

Our Council members unquestionably are aware of that and may ask themselves:

Third: What has this development really cost us? A superficial answer might be that the Federal Government's debt has risen by about $40 billion since 1955, and if you add State and local government debts, you may arrive at an increase in total public debts of about $95 billion.

Some decades ago there was an inclination to look upon such debts as a mere domestic matter—during a period when our purchasing media were amply covered by goods or commercial liquid loans and/or gold. However, that is no longer the case and—though it is tempting to do so—we must not overlook that our short-term international financial position has deteriorated by approximately $18 billion since 1955 and by about $10 billion since the expansion of the 1960's.

This, then, may be said to have been the price we have paid, and at a time when we can ill afford it, because our net short-term obligations now exceed our short-term assets, including gold, by $8.5 billion, which makes it doubtful that under critical world conditions we could pay our debts. (True, our long-term investments have meanwhile increased considerably on paper, but the financial world's previous experience and commonsense, provide ample reasons why it would be irresponsible to expect relief from that source—particularly during periods of stress.)

In the long run such a price for high employment would not be consistent with "the needs and obligations and other essential considerations of national policy."

Since it clearly is the wish and obligation of our Nation to find a sound and practical way of implementing the Employment Act, we must, in good time, prepare ourselves for possible changes in methods.

Of the three basic models which NPA prepared in 1945, the Council has by and large proceeded along the lines of the "Standard of living"—and the "Business" models in that it has relied primarily on fiscal and monetary policy to enlarge consumption and stimulate business enterprise.

Since recent experience and prudence demand that such measures be used only occasionally, it is no wonder that Council members themselves express regret that their small resources constantly are strained in an effort to put out "fires" that are likely to develop when we try to make fiscal and monetary policy perform in a manner that can combine "full employment" with "rapid growth," "price stability," and "balance-of-payments equilibrium."

Increased spending in a given year—based on the concept of fiscal or monetary policy—to stimulate consumption and activities, helps relatively little to the creation of a more permanent structure which, by itself, should contribute to an increase in employment during future years.

Something more realistic and lasting is needed, which the NPA felt would be found by using the Government model. At that time we worked on a model which resulted in a deficit and put the burden on the Government of spending $7.9 billion on "something, presumably public works." We found it necessary to add to this "courageous" conception:

> "The first working model contains two features that will be held objectionable by many people—a Federal deficit of $6.3

billion, and Federal expenditures at levels high enough to require a rather drastic readjustment of our concepts of appropriate government activities in peacetime." "How could this enormous sum be spent—without extending far over into fields of private enterprise?"

Since then there has been a revolutionary change of attitude, not only on what the Government should be permitted to do but on what its function really ought to be.

This led to the NPA's joint statement of December 1964, entitled "Modernizing the American Economy" in which we pointed out that most of our apparent failures—inadequate growth, unemployment, etc.—are not the cause of our difficulties, they are but symptoms of structural maladjustment arising from changing patterns of job opportunities and national needs.

Our needs have been rising fastest in areas in which private and government services are interwoven, such as education, research, atomic energy, etc. New forms of government—business cooperation in operations and financing must be developed further.

We concluded, therefore, that the necessary next step in modernizing our economy was for our Government—Federal, State, and local—to initiate, or undertake on a more adequate scale, programs which are essential to our economic growth and which are not likely to be performed by private enterprise alone.

Another proof of our potential shortage of manpower is evident from the studies of the NPA.

Center for Priority Analyses

Using the report of President Eisenhower's Commission on National Goals as a point of departure a "pricing" was undertaken by the center of the various national goals, using specific alternative criteria of what should be achieved within a 10-year period.

The result showed that the costs of attaining our goals would considerably exceed the resources which would become available.

A translation of the costs of goals from dollar terms into terms of manpower would also show an expected scarcity of manpower.

These are just a few examples to show that if the problems are tackled intelligently there should be no need to worry about inability to find ample jobs, at any rate for several decades.

But skillful handling and planning are required.

It is this relatively new situation which caused us to adopt a joint statement of the NPA entitled: "More Long-Range Planning," which stated:

> "At the root of our failure to develop our full strength at home and abroad, is the general absence from our public life, and to a lesser extent from our private life, of long-range planning."

This lack of planning has in the past led to violent swinging of the economic pendulum and to jumping to conclusions of one extreme or the other, based on what I call "pendulum thinking."

Planning is essentially a function of democracy—it has not been invented nor can it be monopolized by totalitarian States.

Our Government's organization for efficient long-term planning is far behind the times. We do not yet have a real efficient planning body in government which considers our economic program as a whole.

Without it, a well-balanced full employment program is extremely difficult to develop and—almost impossible to maintain.

True, we have at present several planning bodies attached to various Government departments such as the Bureau of the Budget, the Labor Department, Department of Defense, etc., which are efficient in their special fields and should be encouraged. They would be useful in support of a new central planning organization which—while keeping in close touch with current events such as the Federal and State budgets, the domestic and international liquidity problem, the employment outlook, the raw material expected to be available—would study the various goals of the Nation. Such an organization might choose to place these goals in order of preference with due regard also to the most practical way of financing them and to whether the manpower that would be needed is of the kind most likely to be available at the time.

Continuity could be assured by a top permanent managerial body combining theory with practical experience; and profound knowledge of the various fields, to be explored, could be obtained by an associated larger group of outstanding leading citizens with specific practical experience in the particular fields that are most likely to be considered in the immediate future.

Continuity, supplemented by the combining of the direct knowledge of responsible leaders and the finding of research, is an essential feature of successful planning.

There are several ways of building such an organization which would assure the country that the plans and proposals made represent the best nonpolitical appraisal of the various choices available—both from a theoretical and practical point of view. The effort and cost may be great but would be repaid many times over.

How, one may ask, could such an organization be introduced as a useful additional means of implementing the Employment Act of 1946?

Speaking for myself, I have followed with great admiration the excellent work of the bipartisan Joint Economic Committee, which I should like to see continued undisturbed.

Moreover, it seems clear that the provisions of the Employment Act rightly placed the Council of Economic Advisers in the Executive Office as an arm of the President for developing national economic policy.

In consequence, it is and should remain an adjunct of the party in power.

I am also satisfied that within its limited resources, frequent changes in personnel and the general conditions under which it has operated, the Council, on the whole, has performed as well as could be expected.

There is therefore no criticism which would induce me to propose any changes in the present setup.

As a separate issue, however—in view of the political, economic, and international changes that have taken place during the last 20 years—I strongly recommend that for the benefit of the Nation and for the use of the President, the Council of Economic Advisers and the Joint Economic Committee—a really efficient first class, responsible, bipartisan central planning organization be created.

Such an organization would develop medium and long-term programs that have a bearing on all important economic problems that affect the Nation, including the employment problem, and cooperate closely with already existing specialized governmental planning bodies.

The central planning organization should also be prepared to explain from time to time why specific programs have been chosen in preference to other alternatives.

Private planning organizations may continue to be useful, particularly in their efforts to break new ground.

In summary—looking back over the last two decades, we have no reason to regret our performance under the Employment Act.

Looking ahead, we must recognize the profound changes that have taken place and are taking place, to deal with which we need both to improve the tools that are placed at the disposal of those who are responsible for the implementation of the act and at the same time find additional means of assuring the public of the soundness of the steps that are being recommended.

STATEMENT BY PHILIP TAFT AND GEORGE H. BORTS

PROFESSOR OF ECONOMICS, BROWN UNIVERSITY, PROVIDENCE, R.I.

The Employment Act of 1946 has served the country well. It has alerted the country to its economic needs and problems, has provided us with goals, and made us aware of dangers the economy faces. The Employment Act does not contain specific objectives to be reached by the application of given methods. Its purpose is to encourage policies which assure maximum employment. Wisely, the sponsors avoided outlining in detail methods to be used or the problems to be solved. The Employment Act is a warning against allowing our society to be overwhelmed by massive unemployment. The maintenance of high level employment will certainly not bring us to the promised land of utopia. We know from our more recent experience that many problems will exist and persist even if unemployment were reduced to a fraction of its present magnitude or even erased entirely.

The Council of Economic Advisers, founded under the Employment Act, has continually drawn the best minds from the economics profession. Its annual inventory of economic performance and expectations has been a major source of public education and has increased public sophistication in important economic areas. Its value to four Presidents is incalcuable.

Yet, progress in understanding proceeds through examination of claims and proposals. Many of the goals of the act are ill defined and and dimly understood. Circumstances as well as problems are ever changing, and some problems are directly traceable to past remedies applied to one or more economic ailments. The intellectual conflicts which have been generated cannot be glossed over by reference to such broad commandments as feed the poor and eliminate unemployment. In the hope of clarifying some of the issues raised by the speakers the following comments are offered.

1. The reader is struck by the absence of suggestions for integrating monetary and fiscal policies. Indeed many speakers failed to mention monetary policy at all. In part this may be due to a lack of scientific knowledge of the precise effects of central bank actions. As an example, Dr. Heller regards the monetary experience of 1965 as indicating the Federal Reserve System was tightening the money market. He infers this from the fact the Federal Reserve raised interest rates twice during the period, with the result that market yields of many types of financial assets rose. In fact, the money supply was growing at a very high rate during this period, much higher than in 1963 or 1964. As reflected in Professor Saulnier's remarks, many observers regard this higher rate of growth as an indication of a relatively easy monetary policy, not a restrictive policy. This conflict simply indicates the fact that economists have not yet agreed precisely on what constitutes a restrictionist monetary policy.

Nevertheless, monetary policy must be considered and controlled when attempting to stabilize the economy. Monetary policy must be brought within the framework of policy tools and made responsive to the same goals as a stabilizing Government fiscal policy. This is not to argue for any particular monetary policy at any particular moment, but to recognize that policy tools cannot be operated independently if they are to be effective.

2. Second, the reader was struck by the lack of agreement on what constitutes the right level of unemployment. None of the speakers indicated what is the proper policy goal with respect to unemployment and the price level. Our own feeling is that we can live with the 2 percent per year inflation of the last 10 years. A higher rate of inflation would be undesirable because of the burden imposed upon individuals holding fixed interest securities and working in fixed income occupations.

3. None of the speakers attempted to analyze the relationship between aggregate demand, the level of unemployment, and the growth of wages. In fact, there was a considerable amount of confusion among the speakers as to what causes wage inflation. Many hung their ideas on the Phillips relation between wage growth and unemployment. This reveals a lack of scientific knowledge and a willingness to grasp at straws. The Phillips curve is an empirical relationship whose underlying structure is ill understood. While it has been quoted by many individuals as a basis for policymaking, the Phillips curve should be dropped as a policy tool until we understand the mechanics of wage determination in a competitive economy. As an example, one could not use the Phillips curve to explain the experience of the late 1950's when wages rose quite rapidly while aggregate demand was anything but high. One possibility which may have been overlooked is that the growth of money wages depends upon the growth of the labor supply in addition to its presumed dependence on the state of aggregate demand and the level of unemployment. Labor supply is growing more rapidly in the 1960's than in the 1950's, and will continue to grow more rapidly for the rest of the decade. On this account we might expect less wage inflation for the remainder of this decade than we observed in the previous decade. The fear of wage inflation for the remainder of the 1960's may be overstated.

4. We were surprised at the extreme orthodoxy of all of the speakers with respect to the problems of the balance of payments. In part, our economic problems today are self-imposed because of the fundamentalism of economists and public officials with respect to the dollar price of gold. Direct Government interference with the outflow of long-term capital or central bank pressure on the structure of interest rates will not be enough to handle the balance-of-payments problem. There may have to be adjustments in the terms of trade through the exchange rate, unless we want to use deflation as a means of solving our balance-of-payments problem. In the first 5 years of the 1960's we were lucky that the Europeans inflated more rapidly than we did. We may not be so lucky for the next 5 years of the 1960's. A reexamination of the fixed gold price would be very useful in the context of stabilization policy. It would be a terrible mistake for economists to impose the dead weight of the 1933 gold price around the necks of public officials who are attempting to maintain full employment.

5. Dr. H. C. Wallich appears to be overconcerned with the dangers of inflation, and regards a good monetary system as part of our social

fabric, like our system of laws. The comparison is an appropriate one, but the conclusion is misleading. Neither our legal system nor our monetary system was handed down from Mount Sinai. Both must reflect a consensus as to the type of society in which we wish to live, and our major social goals. Dr. Wallich evidently regards a stable price level as a prime social goal for he tells us: "Lack of trust in stable money means lack of trust in economic relationships. It has been well said that an inflationary economy is like a country where nobody speaks the truth." Price stability is not an end in itself and Dr. Wallich is too cavalier about unemployment. If choice must be made between price stability and 5 percent unemployment, or between 2 percent inflation and 3 percent unemployment, equity and prudence eloquently speaks for the latter policy. The danger of high rates of unemployment to social stability—a much more important objective than a stable price level—should always be kept in mind. Even the beneficiaries of a stable price level might find the resulting political and social environment dangerous and uncertain.

6. Dr. Arthur Burns focuses on the structural aspects of the unemployment problem. He argues that:

> "We need * * * better ways of determining whether, when, or to what degree unemployment can best be attacked by overall monetary and fiscal policies. * * * If aggregate output falls short of its potential the gap may have nothing to do with any weakness of demand. It may instead reflect obstacles on the side of supply or the failure of the constituent parts of demand and supply to adjust sufficiently to one another."

In support of this position, Dr. Burns agrees that the volume of unemployment has tended to rise secularly as intermittent workers become an increasing portion of the labor force. This is a dangerous and misleading point of view. We have many examples of structural unemployment which have disappeared after aggregate demand rose. The unemployables of 1939 became sought after workers in 1941. The same phenomenon has been observed in the last 2 years with the disappearance of a number of depressed area labor markets from the Bureau of Labor Statistics reports. One of the fascinating aspects of unemployment in specific sectors is that it is multicausal. New factors may cause its emergence in the future in new places. This is one of the many reasons that flexible policies are necessary to combat unemployment, but one must always guard against diagnosing general ills in terms of their peculiarities.

There is some question about the utility of job vacancy data which Dr. Burns stresses. New information should always be welcome to the profession. However, job vacancies do not add much to our knowledge beyond that given by figures on labor turnover. In addition, it would be a serious mistake to use the data on job vacancies in the manner suggested by Dr. Burns:

> "What really matters for the purposes of the Employment Act is not what figure on unemployment appears to correspond best to the concept of full employment, but how the amount of unemployment that actually exists compares with the number of job openings. When unemployment exceeds job vacancies at prevailing wages, the demand for labor is clearly insufficient to provide employment for everyone who is able, willing, and seeking to work.

> At such time a deficiency of aggregate demand exists. * * * On the other hand, when the number of vacant jobs is equal to or larger than the number of the unemployed there is no deficiency of demand. A government that is seriously concerned about inflation will not seek to expand demand at such a time, but will instead concentrate its efforts on securing better matching of the men and women who seek work with the jobs that need to be filled."

This is a dangerous policy. We have little information on the cyclical behavior of job vacancies data. Dr. Burns is apparently willing to construct an employment policy based on an unknown relationship between job openings and the numbers of unemployed. There are many reasons why the number of job vacancies might exceed the number of unemployed in periods when the level of unemployment is too high, and could be reduced by fiscal measures. As an example, consider the recent experience which we had, where the level of unemployment hovered in the neighborhood of 4½ to 5½ percent nationally, with certain depressed regions experiencing rates up to 9 and 10 percent. It is quite possible that the number of job vacancies exceeded the number of unemployed in this period, due to the fact that job vacancies open up in expanding occupations. While it is true that long-term government retraining efforts might conceivably convert unemployed textile workers into aeronautical engineers, this does not seem to be an immediate or satisfactory solution of the unemployment problem. Many of those who might be considered to suffer from structural unemployment can be put back to work by adequate levels of aggregate demand. In addition, this will enable workers to shift into higher skills.

7. A number of the speakers were justifiably defensive about the Federal Government's enforcement of the wage price guidelines. The Federal Government using its powers of political pressure and persuasion has attempted to discourage excessive wage demands and increases in other prices. It is recognized that the effect of such Government pressure is likely to be spotty and uneven. Small bargains, those involving few workers of moderate sized employers, escape notice and consequently any pressure to conform to guidelines. A sufficient number of small bargains may have the same effect as one or several large ones. The enforcement of guidelines are more effective in industries where the employing unit or the bargaining unit is of substantial size. It is easier to restrict a price rise or wage increase in a large steel or automobile company than in a moderately sized construction job or garment shop. Yet, a number of increases in small sized firms may have the same inflationary potential as in one or two large enterprises. Use of guidelines may have undesirable allocative effects. An expanding firm that cannot exceed the guidelines may not be able to attract needed labor or other resources essential to its program of expansion. In addition, the absence of any pressure except exhortation places a premium upon evasion also more easily effected by small and medium sized firms. The Government has available other methods of limiting price increases for productive resources. Guidelines seem to be the least desirable and efficient alternative and indicate the failure of monetary and fiscal policy. If it is seriously argued that wage and price increases are imposed upon the economy

by organized monopolistic elements, and would not be imposed in more competitive market structures, then the direction of public policy is clear. It should attempt to reduce monopolistic power in markets where prices and wages are set. This issue is raised simply to point out the fact that those who propose the guidelines should investigate more effective and equitable methods of insuring the stabilization of prices.

STATEMENT BY WILLIAM W. TONGUE

PROFESSOR OF ECONOMICS AND FINANCE, UNIVERSITY OF ILLINOIS, CHICAGO, ILL.

Twenty years of experience under the Employment Act of 1946 offer assurance that we will avoid the wide fluctuations in employment and production which characterized U.S. economic history prior to World War II. Through the automatic operation of our built-in stabilizers and deliberate action in the monetary and fiscal areas, fluctuations have been contained within narrow limits relative to the past and stimulation has been applied to keep the economy moving upward. Yet the record is by no means unblemished, especially from the standpoint of overall price stability, and much opportunity remains for still further accomplishment in the future. Three subjects seem worthy of particular attention by the committee: (1) techniques for narrowing still further the range of fluctuation in employment and production, (2) methods for restraining the upward course of prices as the economy attains high employment, and (3) reconciling the objectives of the Employment Act with our international economic and political responsibilites.

NARROWING THE RANGE OF FLUCTUATION

Among the obstacles to further narrowing the range of fluctuations in employment and production is the time needed in the legislative process to consider, debate, and modify proposals for action. To short-circuit this process, it has been suggested that the President be given authority to vary tax rates within limits of extent and duration. There are a number of objections to this. In the first place, the tax system affects virtually every citizen and variation in rates, particularly of the income tax, will almost certainly affect the distribution of the tax burden among groups of the population. Secondly, it is difficult to disentangle temporary from long-run needs for tax changes, so that action that is thought to be temporary at the time it is taken may need to be continued beyond the expiration of some limited period, as has happened often in the past with "temporary" legislation.

These factors alone suggest that the Congress should be very cautious about surrendering any part of its responsibility in fiscal affairs to the President. It should continue to represent the voting public in these matters. But there is still a third reason, perhaps more compelling than the previous two. This relates to what has been called the "recognition lag," i.e., the time required to recognize that the economy has departed from a state of high employment equilibrium and is likely to continue on a destabilizing path in the absence of deliberate action. It is sometimes assumed, at least implicitly, that the recognition lag and the legislative lag are independent of each other. This is far from true. If there should be general agreement that the economy is in a recession, for example, there would appear to be little problem in obtaining quick action from the Congress on an across-the-board tax cut, for example, if that should be recommended by the President. With the posited general agreement, and with 20 years of experience under the Employment Act behind us, there can be little question that the electorate would demand and get speedy action.

This illustrates that the difficulty is not one of obtaining speedy legislative action when there is a consensus as to what the problem is; the difficulty lies in not being able to reach an agreed-upon diagnosis of the problem, how serious it is, how it may develop in the absence of deliberate action, and just what the consequences of different actions might be. Obtaining a consensus on these matters, even among the experts, is the heart of the problem. For if there is no consensus, swift action is unlikely whether the authority to act is lodged in the Congress or the Presidency; witness the hesitation of the President over recommending a tax increase in 1966 which parallels the hesitation of the Congress over a tax cut in 1963. In both cases, the precise outlook was far from clear.

In view of the varying degrees of uncertainty and the differing mix of short-run and long-run considerations bearing on decisions at specific moments, I believe it would be most unwise for the Congress to abrogate any of its authority over fiscal matters. The Joint Economic Committee can best further the objective of narrowing fluctuations by continuing to study actions that might be taken on both the tax and expenditure side under different eventualities and by fostering the widest possible dissemination of information on techniques for evaluating the economic prospect. In particular, the Committee might wish to keep a careful watch on the success or failure of the newer quarterly econometric forecasting models, such as the one at the Wharton School of the University of Pennsylvania, the Department of Commerce version of this, and the Brookings Institution model.

The Place for Monetary Policy

Fiscal policy is not alone in the arsenal of weapons for economic stabilization. There is also monetary policy. And whereas the weakness of fiscal policy may lie in the slowness with which it can be brought to bear when the outlook is uncertain, this is the area of special strength of monetary policy. For monetary policy is in action every business day in the capital markets. Whether the Federal Reserve System follows a policy aimed at securing a continuous increase in the money supply at a tolerably modest rate (which one might infer from the history of the past 5 years) or whether it merely "leans against the wind," it will be acting almost automatically to offset destabilizing tendencies in the economy as and to the degree that these develop and are reflected in the capital markets. Monetary policy is thus a device uniquely adaptable to operating in a world where the economic outlook is not certain.

The great weakness of monetary policy at present is that there is little agreement on the degree of its effectiveness, and hence there are no sure guides for its operation. This in turn stems from a lack of understanding about just how money affects economic activity. Even the new quantity theorists, typified by Milton Friedman, have done little to enlighten us on this beyond demonstrating impressively high correlation coefficients between changes in money stocks and economic activity. They don't explain why these high correlations exist. The Joint Economic Committee could perform a constructive service by exploring linkages between monetary and output changes, supplementing the work now going on in the Federal Reserve System on this subject. To the extent that we can increase our understanding of the monetary weapon and use it with more confidence of its effectiveness, we will be given more leeway for the deliberate consideration of changes in our fiscal system for their long-run consequences in promoting "free competitive enterprise" and "maximum employment, production, and purchasing power."

The Persistent Upcreep in the Price Level

Turning to the problem of stabilizing the price level, which might broadly be labeled promoting "maximum purchasing power," an even larger role can be envisaged for the Joint Economic Committee in clarifying and bringing to public consideration the numerous issues involved. At the moment we are relying heavily on the guideposts to contain inflationary pressures. Apart from the question of their effectiveness—and one may forecast that they will be severely tested in 1967—there remains the question of whether the guideposts are consistent with the objective of the Employment Act "to foster and promote free competitive enterprise."

In theory, the guideposts allow wide variations in individual wage and price changes which result in an overall average change consistent with longrun price stability. These variations are hard to spell out in practice without abandoning the yardstick objective of the guideposts, and hence the overall average tends to become the standard applied in specific cases. Alternatively, a particular price change may be related to a change in productivity from some past period which may have little correspondence to the situation in being or in prospect. In any case, it is not clear that the guideposts promote the efficient allocation of resources fostered by the free market.

Discussion of the guideposts has done one thing, however. It has called attention to the fact that price level stabilization has a dimension beyond the simple one of overall demand relative to supply. Market power is also a factor. The Joint Economic Committee has already made extensive studies of this subject, but the need for further exploration remains in light of experience under the guideposts, to date and in prospect. The year 1967 might be propitious for conducting an evaluation of the guideposts, for exploring alternatives to accomplish the same result, and for creating the widest possible public awareness of the questions involved.

International Economic Policy Controls

Finally, we turn to the most difficult problem of all: our international economic and financial relationships and the bearing of these on domestic employment policies. Here one can only point to the problem and urge extensive public discussion of ways to solve it "in a manner calculated to foster and promote free competitive enterprise" and "maximum employment and purchasing power." At the moment, we seem to be moving away from the first of these twin objectives, as we have been for some time. First there was the interest equalization tax, which made only minor inroads on our free institutions. Then there were the restrictions on bank transfers overseas. Next followed the limitation on foreign investment by businesses within guidelines which have become more and more restrictive with the passage of time. No basic solution to our adverse balance of payments seems a near-term prospect and one even has doubts about the long run short of a wholesale realinement of currency parities. Even such a step might provide no permanent solution unless acceptable means should be found for coordinating—or, more accurately, conforming—the monetary, fiscal, and even the "incomes policies" of the major nations. It is obvious that these nations will not and should not subject themselves to the capricious discipline of the gold standard if this should conflict with internal objectives. The alternative of floating exchange rates appears equally unacceptable. International institutions, with multinational powers over major instruments of economic policy, stand forth as the inevitable outcome in the long run.

Merely to state the problem in this way is to indicate that no easy nor early solution is likely. It will require years, possibly decades, of consideration, discussion, and debate. The committee can again play a most constructive role in clarifying the issues for the Congress and the general public in ways which at this point must be left undefined.

The Employment Act of 1946 states that the American people will be satisfied with nothing less than the combined benefits of competitive free enterprise and maximum employment and purchasing power. Experience of the first 20 years under the act suggests that these twin objectives are attainable and that we are progressing along the road to their attainment. The joint committee has fostered this progress by clarifying economic problems and possible solutions for the benefit of the Congress and the public at large. Obstacles loom in the road ahead, however, and it is a safe prediction that the committee will be presented with opportunities for service in the decades to come at least equal to those of the past 20 years.

STATEMENT BY ROBERT TRIFFIN

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I deeply regret being so overcommitted already for the next few months as to feel really unable to forward you the comments which you are inviting from me. A perfunctory piece would be unworthy of the occasion and a thoughtful one would certainly require far more time than I can possibly find at the moment.

May I, however, express very briefly the main point which I would like to present on the subject? The general philosophy of the act was very much influenced by the closed economy framework that dominates economic theorizing. It was written also at a time when our balance-of-payments worries were directed exclusively at our huge and persistent surpluses rather than at the opposite plight which has emerged since then. In the last few years our balance-of-payments deficits have greatly influenced policies in a different direction and served as justification for relatively contractionist policies much more than for the basic institutional reforms which might have been helpful in preserving the spirit of the act itself under the new circumstances that have arisen. This, I think, is a topic that will continue to deserve considerable attention in the future.

STATEMENT BY G. J. VIKSNINS [1]

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The Employment Act of 1946 asks the Federal Government to create and maintain "conditions under which there will be afforded useful employment opportunities" for all those who are able, willing, and seeking to work. While this preoccupation with the avoidance of a return to the unemployed economy of the 1930's is the heart of the act, a number of other interesting features are also present. The part most often quoted in elementary texts is the last clause—"to promote maximum employment, production, and purchasing power." Yet, the Government is beseeched to seek such favorable conditions "in a manner calculated to foster and promote free competitive enterprise." A rhetorical question seems to be in order (or a faint wave of the invisible hand): Has the bewildering tangle of regulations, taxes, credits, directives, and guideposts that we have created in the past 20 years served this objective of the act? There is a persistent irreversibility in the activities of the state; once begun, they are seldom discontinued. If truly dismal failures, they will probably be reinforced by further activity: a new law will be passed and a new agency established. Dispassionate evaluation of existing programs and coordination of such efforts are surely not as attractive politically as activism; the GAO has somewhat fewer press releases than the OEO. While the maxim "that government which governs least, governs best" is not true, is the one that governs most the best?

The promotion of maximum employment, production, and purchasing power involves marginal tradeoffs. The next 20 years of experience with the Employment Act should, hopefully, make us better informed in two basic areas. First, we do not know very well what the trade-offs actually involve insofar as these three goals are concerned. Second, we have relatively little information of a quantitative nature regarding the proper Government policies to reach any given set of targets. It is the intent of this brief paper to consider these two very broad questions.

To rephrase the objectives of the 1946 act, they are low unemployment, price stability, and economic growth. It is well to remember that any two of these goals involve at least a possible contradiction at the margin. The most obvious conflict exists between the first two. This fact was recognized by virtually all of the participants of the February symposium. In the words of the first "witness," Professor Blough, of Columbia:

> "The most difficult problem concerning the major objectives of the Employment Act continues to be how to maintain stable prices at high levels of business activity. * * * To the extent that what is involved is a choice among objectives, one can accept more

[1] I should like to express my appreciation to Prof. Henry Briefs of Georgetown for considerable help with the issues involved; he escaped coauthorship by a narrow margin. I am also indebted to Ed Murphy for similar assistance.

than frictional unemployment and make provision to minimize the resulting hardships; and/or, one can accept some degree of inflation and make provision for minimizing the resulting injury."

TABLE 1

	Unemployment as percent of civilian labor force	Absolute annual change in the Consumer Price Index		Unemployment as percent of civilian labor force	Absolute annual change in the Consumer Price Index
1947	3.9	9.8	1957	4.3	3.3
1948	3.8	6.0	1958	6.8	2.7
1949	5.9	−.8	1959	5.5	.8
1950	5.3	.8	1960	5.6	1.6
1951	3.3	6.7	1961	6.7	1.1
1952	3.1	2.0	1962	5.6	1.2
1953	2.9	.7	1963	5.7	1.3
1954	5.6	.4	1964	5.2	1.4
1955	4.4	−.3	1965	4.6	1.8
1956	4.2	1.4			

Source: "Economic Report of the President," January 1966, table C–20, p. 232, and table C–43, p. 261.

The next 20 years of political economy should be concerned with spelling out fairly precisely the costs and benefits associated with trading off a given amount of price change for a given gain in employment. In addition to this much-needed increase in our knowledge about the relationship between these goals, efforts should also be made to reduce substantially their apparent inconsistency. Table 1 shows the unemployment rate and the absolute annual change in the CPI for the 1947–65 period. The pattern that emerges from an examination of both series is by no means clear. On an annual basis, we have had a number of low unemployment years with little price change: 1952, 1953, 1955, and 1956 are examples. In 1958, the highest unemployment rate for the period is coupled with an above-average price rise. Taking the 1960–65 expansion as probably being most relevant for any discussion of near-term trends, we can note a persistently high unemployment rate being associated with a steady upward "creep" in the Consumer Price Index. In the current year, the long-awaited piercing of the 4-percent unemployment barrier has produced at least a great deal of discussion of and even some signs of significant inflationary pressure. To put this slightly differently, the aggregate supply curve seems to be relatively inelastic through a range considerably below what might be termed "reasonably full employment." Surely 4 percent of the labor force is a bit too large a fraction of the labor force to be ascribed entirely to frictional causes. The upshot of this discussion is quite simple—we should bend our energies to the task of changing the supply curve so that prices do not rise appreciably before 3- to 3.5-percent unemployment is reached.

Generally speaking, this involves at least partly some improvements in our manpower policy. We should seek an improved matching of jobs and skills through the whole process of education and increased labor mobility. The role of the Federal Government in manpower policy is not easily defined. It should certainly be a positive one—encouragement of education and assisting of mobility. However, it is difficult to ascertain whether the direct efforts that have been made by the Government in this field in the last 3 or 4 years have been successful or, more important, whether it is most efficient to have the Government do this. The Federal Government has a number of programs in this field—the Manpower Development and Training Act efforts, programs in vocational education, other education-related programs, vocational rehabilitation, and—last, but certainly not least—certain parts of the war on poverty. Without discussing these programs in detail, it seems that there is considerable variation in costs and benefits. For example, the cost per trainee in the MDTA program is about $1,000 per year, while that of a Job Corps trainee is somewhat more than eight times that amount. Although a great deal more information is needed on the "success" of all the programs, in terms of benefits the "on-the-job" training programs of the Manpower Administration are preparing the majority of participants for skilled or semiskilled jobs compared with less than half of the participants of institutional projects.[2] In this connection, we should really mention the alternative embodied in the Human Investment Act of 1965, originated by Senator Prouty of Vermont (and cosponsored by a number of other Senators), and introduced in the House by Representative Curtis and 43 other Members. Without going into details, this bill would provide a 7-percent tax credit for certain training expenses incurred by an employer hiring presently unemployed or upgrading the job skills of presently employed workers. The major premise of the bill is that private business has, over the years, learned how to obtain the most results per training dollar, and should now be encouraged to expand its training programs to meet this national need.[3] It may be that political considerations influenced the amount of attention that this bill received in the 89th Congress.

In addition to the much-needed improvement in our knowledge about reconciling high employment with price stability, we should also seek more information about the relationship of both these goals to economic growth. The amount of information on the sources of growth is woefully inadequate. Price stability, in a relative sense, is surely a prerequisite for the functioning of a capitalistic system, but at what point would inflation seriously impede growth in real output? Reasonably full utilization of plant and equipment probably spurs technological change, but, if the full employment is reached through direct intervention, does public investment not act as a substitute for private investment? Surely full employment created by "spread the work" schemes (double time for overtime, for example) is detrimental to increased output. These are issues which should be faced by economists and policymakers in the near future. Yet, the major problem is still likely to be the alternative battle against inflation and unemployment—primarily carried on by fiscal and monetary policy.

Monetary Policy

Future stabilization policy is likely to rely considerably on the use of monetary controls. There are a number of advantages to the utilization of monetary policy. The most important of these is that of flexibility. Although it is true that discount rate and reserve require-

[2] For a further discussion, see George J. Viksnins, "The War on Poverty and Federal Manpower Policies," Congressional Record, Jan. 20, 1966, pp. A265–A267.
[3] Congressional Record, Sept. 9, 1965, p. 22402.

ment changes are made by fairly large discrete amounts, there is really little reason—save some bookkeeping convenience—why this should be the case in the future. Of course, the primacy of open-market operations is well established and purchases or sales of securities can be adjusted almost infinitely to the vagaries of the situation. In addition to the possibility of making exceedingly fine adjustments of the screws of credit, another advantage is that monetary policy may well be considerably less discriminatory than other alternatives. Since this statement may be shocking to some, a brief elaboration is in order. Crudely speaking, in an inflationary period (a situation in which monetary measures are customarily thought to be effectively deployed) there are three major policy alternatives available to the policymaker. The first that might be considered is some variant of direct control of prices and wages—voluntary coercion of some sort, of which the celebrated guideposts are an example. There can be little question that the "jawbone rule" must be discriminatory in its application. Large companies in large industries are just so much more visible and can be handled by intense pressure involving stockpiles, government contracts, and the like. The service industries, construction, and agriculture may have the same "administered" or "unfair" pricing potentialities in a local market, but escape entirely all but the most comprehensive sort of direct action against increasing prices. Second, restrictive fiscal policy is probably more likely to involve tax increases rather than expenditure cuts, and these are not likely to affect everyone equally. The third alternative, of tighter credit conditions, does generally favor lenders rather than borrowers, but beyond this general discrimination, further evidence is hard to find. Very much part of the current discussion is the charge that tight money discriminates against homebuilding (and hence all the benefits of homeownership and even the American way of life). As has been pointed out, much of the trouble in this area is associated with various legislatively established ceilings for which the Federal Reserve System can hardly be blamed.[4] There is also the customary contention that discrimination exists against small borrowers. Yet, statistical evidence does not support this belief—in the words of one of the major pieces of research in this area:

> "* * * Discrimination amongst borrowers was apparently largely on traditional banking standards of credit-worthiness and goodness of borrowers, with differing changes in loans to various borrower groups reflecting primarily differences in loan demands, rather than discrimination by lenders on other grounds, once standards of credit-worthiness were met. Widespread criticisms of tight money as unfairly discriminating against small borrowers, both in availability of loans and interest costs, are not supported by the data."[5]

In general, then, there can be little question that the stabilization role of monetary policy in the near future will be important—primarily due to its flexibility. But, certainly another reason for preferring monetary policy to "voluntary coercion" is the problem of dis-

[4] See James Schlesinger, "Monetary Policy and Its Critics." *Journal of Political Economy*, December 1960.
[5] G. L. Bach and C. J. Huizenga, "The Differential Effects of Tight Money," *American Economic Review*, March 1961, p. 79.

crimination. Despite this preference for the use of "traditional tools," there are a number of most interesting questions regarding their utilization and efficacy that the future will need to consider.

In the field of monetary policy these questions can be conveniently grouped in the political and the economic categories. The main one in the first group is the relationship of the Federal Reserve System to the rest of the Government. The distinguished chairman of the Joint Economic Committee has some fairly definite views on this question. In this connection, Congressman Patman introduced H.R. 11 in January 1965, a bill to make the Federal Reserve System responsive to the best interests of the people of the United States and to improve the coordination of monetary, fiscal, and economic policy. The bill involves retirement of Federal Reserve bank stock, the reduction of the number and the term of office of Federal Reserve Board members, coterminous appointment of the Chairman by the President, GAO audit, and congressional appropriation of Federal Reserve operating funds. Lastly, but most important in the present context, H.R. 11 seeks to provide the coordination of monetary and executive branch policy in keeping with the provisions of the Employment Act of 1946.

The issue is the independence of the Federal Reserve, which hinges on just what we mean by this term. Congressman Patman apparently sees no justification for independence in the sense of autonomy in decisionmaking:

> "* * * An independent Federal Reserve means something that is not in the framework of our constitutional system, which says that Congress will make the laws and the President shall execute them." [6]

On the other side of the fence, Mr. William Kelly (of the ABA) defines independence as:

> "* * * the insulation of the monetary decisionmaking process from narrow public or private pressures that would interfere with the application of monetary policy consistent with long-range economic goals." [7]

There can be little question that there is a grain of truth in both of the sharply differing views. There definitely does exist a potentiality in the independent Federal Reserve for largely frustrating the policy of the executive branch. A tax cut, say, could be largely nullified by a restrictive monetary policy and under present legal arrangements there is really little that could be done to stop the Federal Reserve if it were bent on a destructive or even a definitely undersirable policy. On the other hand, it can be argued fairly persuasively that the executive branch is politically quite sensitive, which means considerably more attention to employment than prices. To support every expenditure program and deny every tax increase constitutes demagoguery, which is too often politically profitable, however. Since the Federal Reserve need not respond to moment-by-moment political pressure, it may be one of the last few checks against demagoguery. While this argument may seem antidemocratic, in the last analysis the System is a creature of Congress and a destructive credit policy would surely not be tolerated for a long period.

[6] Congressional Record, 1964, p. 17255.

[7] Subcommittee on Domestic Finance of the Banking and Currency Committee, House of Representatives, "The Federal Reserve System After 50 Years," 88th Cong., 2d sess., 1964, vol. 3, p. 1905.

In this general area, a useful point has been by the Commission on Money and Credit:

> ". . . The need for coordination, however, is very important. Isolation may mean weakness, and Presidential support can be very helpful at times. The real ability of the System to influence national economic policy might well be increased rather than diminished if its ties to the President were closer." [8]

To this end, the Commission made seven fairly specific recommendations for changing the organization of the Board of Governors (in addition to a recommended change in Federal Reserve bank stock-ownership and a weak plea for better reporting of System decisions). These included Presidential appointment of the Chairman and Vice Chairman for 4 year terms coterminous with the President's; reduction of membership to five, with overlapping 10-year terms (although reappointment would be possible); elimination of occupational and geographical qualifications; a broadening of representation on the Federal Advisory Council; and a few others. To conclude, the Commission's most restrained recommendations should serve at least as a basis for the consideration of the political question in the near future.

MONETARY POLICY: MEASUREMENT AND EVALUATION

The second question regarding the Federal Reserve involves economic considerations to a greater extent. At present, there exists considerable disagreement concerning the historical policy record and, more important, there is controversy about just what is meant by tightness and ease. In many cases, when measuring the Federal Reserve's performance over a given period of time, the evaluator has criticized the System for failing to use his "magic indicator" as an exclusive guide for its policy.

The most influential and vocal group of critics has adopted the money supply as their basic indicator and has succeeded fairly well in gaining public acceptance for it. As a first example, the Commission on Money and Credit urged:

> "* * * that the average rate of growth of the money supply should be consistent with the continued maintenance of high employment at stable prices and adequate economic growth, but it recognizes that it may be appropriate for the money supply to grow more or less rapidly than the output of the economy at high employment." [9]

Representative Patman has gone somewhat further. His bill (H.R. 11, mentioned earlier) requires that the President establish "* * * guidelines concerning monetary policy, domestic and foreign—including the growth of the money supply, *as defined by him*" (emphasis added).[10] Mr. Patman's last phrase highlights a serious difficulty with the appealingly simple money supply approach. First, what sort of a definition do we use for the supply of money? Prof. Milton Friedman has defined money as "claims or commodity units that are gen-

[8] "Money and Credit" (Englewood Cliffs, N.J.: Prentice-Hall, Inc., 1961), p. 86.
[9] Ibid., p. 61.
[10] See "The Federal Reserve System After 50 Years," Subcommittee on Domestic Finance, Committee on Banking and Currency, House of Representatives, 88th Cong., 2d sess., p. VI.

erally accepted in payment of debts at a fixed nominal value,"[11] but he uses currency plus all deposits in commercial banks for his empirical work.[12] One can certainly wonder why other fixed-value redeemable claims should not be included. Or should monetary conditions be gaged by some broader series—perhaps a weighted average of some sort—which would include virtually all financial claims?

A second and related point is the question of the proper rate of increase in whatever stock of claims we choose. Futhermore, should such a growth rate be constant—perhaps fixed by law for all time? A number of economists, mainly associated with the so-called Chicago school, have argued that a 3 to 4 percent annual increase in the stock of money would minimize economic instability and maximize personal liberty (all in one fell swoop, so to speak). A few statistical attempts have been made to test the former contention; with sharply differing results.[13]

A third important question is the alleged lag in monetary policy. Without being able to treat the issue in the detail that it deserves, we can mention that little agreement exists regarding the existence and the length of such a lag. Professor Friedman has argued that the rate of change in the money stock reaches a peak about 16 months before a peak is reached in overall economic conditions and that on the downside the average leadtime for the money supply is about 12 months. The existence of such a lag has obvious consequences—since we cannot forecast accurately what sort of policy will be called for a year or a year and a half from now, the Federal Reserve should cease its "stop-and-go" actions and follow a "rule" growth rate in the money stock.[14] This conclusion can hardly be accepted in light of some more recent work. By combining a distributed lag in investment and one in the demand for money, Professor Tucker has found that "* * * (slow) lagged response of investment to interest rate and income changes is not a sufficient condition for monetary policy to work slowly."[15] Although Tucker's approach to the question is considerably different from Friedman's, their contradictory conclusions regarding the effect of monetary policy point up the need for further work in this important area.

Probably the major rival to the money supply as the one relevant indicator of "tightness" or "ease" is the concept of free reserves or net reserves. Based largely on the hypothesis that commercial banks are reluctant to borrow from the Federal Reserve System, this measure uses the algebraic sum of positive excess reserves and negative member bank borrowing to signify whether conditions are tight or easy. In its crudest application, positive free reserves are an indication of ease

[11] Milton Friedman (editor), "Studies in the Quantity Theory of Money" (Chicago: The University of Chicago Press, 1956), p. 5.

[12] See Milton Friedman and Anna J. Schwartz, "A Monetary History of the United States, 1867–1960" (Princeton: Princeton University Press, 1963). There is a most interesting footnote on the 5th page of this 860-page volume dealing with the stock of money, which refers the reader to a forthcoming work which will explain just why the stock of money has been thusly defined.

[13] See M. Bronfenbrenner, "Statistical Tests of Rival Monetary Rules," the Journal of Political Economy, February 1961, but also Franco Modigliani, "Some Empirical Tests of Monetary Management and of Rules Versus Discretion," the Journal of Political Economy, June 1964. Rules win over discretion for Mr. Bronfenbrenner but not for Mr. Modigliani.

[14] See U.S. Congress, Joint Economic Committee, "The Relationship of Prices to Economic Stability and Growth: Compendium of Papers Submitted by Panelists" (Washington, D.C., 1958, pp. 241–256).

[15] Donald P. Tucker, "Dynamic Income Adjustment to Money Supply Changes," American Economic Review (forthcoming).

and a negative value means tightness. Economists within and outside of the System have realized the shortcomings of such a crude application. A path-breaking statistical study of the use of free reserves noted two main problems: first, free reserves are more influenced by interest rate changes than by open-market operations and, second, "there is no actual volume of free reserves associated with a particular rate of deposit expansion." [16]

Others have suggested the stabilization of total reserves for monetary control,[17] or some expanded formulation based largely on total member bank reserves.[18] Still other alternatives involve the use of interest rates, bank credit, or asset ratios for specific portfolios (say, the loan deposit ratio for commercial banks).

Generally speaking, the evaluation of monetary policy has involved considerable confusion and more debate than analysis of the various indicators. The confusion may be clarified somewhat by remembering a simple distinction between monetary conditions and monetary policy. It is certainly possible for conditions to change without conscious policy and the reverse also holds—as an example, the Federal Reserve may buy securities and lower the discount rate ("easy policy"), but not in sufficient magnitude to satisfy rapidly rising credit demands ("tighter" conditions.) In trying to measure both monetary policy and monetary conditions in the future, the following conceptual schema may be of value.

The Federal Reserve System has a number of tools at its disposal. There probably would be general agreement that open-market operations are of primary significance, whereas the discount rate, reserve requirements on demand and time accounts, the rate ceiling on time accounts, and "moral suasion" have less importance. It is ridiculous to speak of monetary policy changes without considering these tools. Monetary policy is tightening if the Federal Reserve decreases its portfolio over a given period of time, after accounting for defensive maneuvers. Our starting point, then, can probably be the System's portfolio of Government securities, adjusted for reserve requirement changes. The next step would be to modify this index for discount rate and regulation Q changes and we would possess an indicator of policy.

The second step is not very far: we need to look at some sort of a "high-powered money" concept—total bank reserves plus currency (or, alternatively, Brunner and Meltzer's "extended base"). It should be one of our first tasks in the near future to specify the relationship between Federal Reserve policy and this sort of a monetary base concept. There are problems here. Changes in float, changes in the gold stock, changes in the currency, and changes in the time-demand deposit ratio all complicate the question. Given some information about the behavior of these variables, we would be able to predict the impact on member-bank reserves of a given open-market purchase.

[16] A. James Meigs, "Free Reserves and the Money Supply" (Chicago: the University of Chicago Press, 1962, pp. 87–88). However, much of this was realized within the System at that time. See Peter D. Sternlight and Robert Lindsay, "The Significance and Limitations of Free Reserves," Monthly Review, Federal Reserve Bank of New York, November 1958.

[17] See William G. Dewald, "Free Reserves, Total Reserves, and Monetary Control," the Journal of Political Economy, August 1963.

[18] See Karl Brumner and Allan H. Meltzer's study for the Subcommittee on Domestic Finance, Committee on Banking and Currency, House of Representatives, 88th Cong., 2d sess.

The third step is the more familiar problem of the deposit-expansion multiplier. Although we know in theory on what the relation between an increase in reserves and a change in deposits depends, the statistical values need further study. At this point we would be able to judge supply conditions in the commercial banking sector and, given some information about demand, have a preliminary judgment about whether monetary conditions are easy or tight.

The fourth and final step would be to evaluate monetary conditions in the economy in the light of our general economic goals. Basically this involves looking at interest rates and the availability of credit. About all that we can presently say in this connection is that interest rates should be low and probably falling in a situation of excess capacity and unemployment and the reverse in a period of inflation. The relation of rates to growth and international financial stability is not very well specified, nor for that matter do we know the precise contribution that, say, restrictive monetary conditions make to arresting price rises. But, the most important point to keep in mind is that there is a difference between monetary policy and monetary conditions. Rising interest rates may be coupled with tight, neutral, or easy monetary policy. We can judge the appropriateness of these three policy possibilities only in terms of the contribution that they make to tightening or easing of the credit markets. And, we can judge the appropriateness of monetary conditions in light of the general goal that we have in mind.

To return to our earlier argument, in summary, the near future should enable us to have considerably better information for the evaluation of Federal Reserve policy. It is to be hoped that we would be able to trace the impacts of, say, a billion-dollar sale of securities through bank reserves, money supply, interest rates, and national income to its ultimate one on the three or four goals. More formally, our task should be the specification of both the economic structure and an appropriate utility function for the decision-makers.

The Role of Fiscal Policy

Considerations of brevity prevent a full treatment of this interesting area of public policy, but a few problems—questions needing serious evaluation—can be indicated. First, there is the general problem of flexibility. The effects of the recent tax cut were beneficial due largely to fortunate circumstances; it took approximately 2 years from serious consideration to congressional approval, and in this period of time the situation might easily have changed to one calling for fiscal restraint. Although so-called formula flexibility has been advocated for a long time, nothing has been done in this field. Second, there is relatively little general information regarding the impact of fiscal policy. The full employment budget concept is an obviously useful one, but in need of considerable refinement. The question of the regional and the industry-by-industry impact of particular fiscal policy measures needs to be considered as does the relationship between fiscal policy and monetary-debt management policy.

In terms of more specific issues of a budgetary nature, the overriding issue is the question of defense expenditures. Just what to do in the case of rapid demobilization is a question worthy of more attention than it has received and, further, there should be a deliberate integration of academic discussion and political planning. Still on the expenditure side, the nuisance and the burden represented by interest payments on the public debt should receive more attention and, as an article of faith, the costs and benefits of other expenditures should be estimated. The issue of government economy should not be confined to periodic spot checking of criminal waste.

On the revenue side, the question of sharing between the Federal and State-local governments is important. Also, the present personal income tax structure probably needs continuing evaluation. A direction very little considered has been that of simplification—why not a proportional or a mildly progressive tax on gross income after a personal exemption of some reasonable amount (say $1,000)? The present crazy quilt system of decisionmaking for tax treatment needs to be an ever-present consideration and serves to support a perfectly needless class of tax sharks on both sides of the net. There are also thorny issues in the corporate income tax and capital gains area which have received relatively little attention. A number of reforms have recently been suggested in the estate and gift tax field and the tangled excise tax situation was not improved by the recent changes.

In summary, we should look for more and better information regarding both instruments and targets in public policy. Although we have been quite successful in reaching the goals of the Employment Act, or, at least moderating both the extent of inflation and unemployment, more remains to be done in defining the targets more precisely, formulating their costs and benefits, and knowing the optimum mix of policies required to reach them.

STATEMENT BY JERRY VOORHIS

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The Employment Act of 1946 marked a milestone in the development of social and economic policy in the United States. It set for our country a middle course between the impracticality and the injustices of laissez faire capitalism and the rigidity and denial of freedom of an authoritarian state. The act recognized officially that it is in our times a primary duty of government to create an economic, social, and political climate within which maximum employment opportunity for the people shall persist in a reasonably stable economy. It recognized mass unemployment as a social injustice of tremendous magnitude and it placed responsibility primarily upon government to prevent it. But the act did not contemplate unilateral action by the Government with imposition of its will upon an unwilling people. Rather it called for cooperation among Government, business, labor, agriculture, and all other elements in our national economic life for the achievement of the basic and essentially noble objectives which it set forth.

The act requires long-range planning, in the best sense of that word, based upon constant, thorough research and fact gathering by the best economic minds of the Nation. It calls also for the taking of such measures, in its proper field, as Government can take to advance the objectives of the act. Among these are social insurance, education and training, public works, taxation, monetary and fiscal policy.

When one considers the almost incalculable complexity of the American economy, the tremendous change that has been and is taking place, and the stress and strain of the past 20 years, the accomplishments achieved under the Employment Act of 1946 have been very great indeed. So basic and so far-reaching are its objectives that perfect performance within the context of economic freedom is hardly to be expected. But certainly as the 20th anniversary of the act is observed, its authors and those who have had to do with its implementation deserve the most profound gratitude of their fellow American citizens.

THE FUTURE

What the future holds is, of course, conjecture. But a few facts, intimately related to the basic objective of the Employment Act, seem altogether clear.

Automation has drastically reduced employment in manufacturing, mining, railroad transportation and, in general, in what have been regarded as productive industries. Even in agriculture the trend toward less employment of people has been strong.

Thus far the slack in employment caused by these changes has been taken up, and jobs provided, either in so-called service industries or by Government itself. Tragically, most of the increase in employment opportunity resulting directly from Government action has been due to war or preparation for war.

But, as we look ahead, it seems evident that—unless all our hopes are to be consumed in the final military conflict—continuing achievement of the objectives of the Employment Act will require far more sweeping changes in the pattern of employment than we have yet seen or than most of us have even seriously contemplated.

For reasons inherent in the nature of man we cannot seriously consider permitting our Nation to become one where vast numbers of people are maintained in one way or another in their right to life but denied opportunity to make constructive contribution to the growth and welfare of their country and the world.

We must therefore revise and greatly enlarge our conceptions of what constitutes "productive employment." We must see that that which makes possible a better life for people is "constructive employment" in the truest sense whether or not it results in the creation of physically useful or desired things.

Every moral resource of Government, education, religion, and other social agencies will have to be brought to bear to accomplish this.

For we must begin—and soon—to see clearly the vast amount of work that needs to be done if life in our own country and in the world is to be a "good life" or, indeed, a kind of life sufficiently in accord with the eternal purpose of life to be either worthy or capable of survival in a crowded world.

Much of this new work which the conditions of the world today and tomorrow will demand is in what may be termed the "public sector." Our society as a whole must, in its own interest learn to accept this fact and to adjust to it.

For high upon the list of the fields in which employment must be greatly expanded are the following:

(1) Education: Even now, were our children receiving the quantity and quality of education which they need and deserve, the number of teachers would need to be doubled and possibly trebled, and great numbers of men employed in school construction.

(2) Health care, sanitation, and the conquest of physical disease.

(3) Family counseling, youth guidance, and the conquest of delinquency and mental disease, as well as solution of the problems of population.

(4) Slum clearance, urban renewal, home construction for middle and lower income families, and the rehabilitation of core cities. This alone—adequately done, could employ millions of people for many years.

(5) Improved rapid mass transportation, especially to facilitate and reduce time and cost of carrying people to and from their work.

(6) Air and water purification and control and prevention of pollution.

Beyond all these, and not primarily in the public sector of employment lies the danger of widespread hunger in the world and the challenge this presents to what is perhaps the most efficient single industry in the world—American agriculture. We have become accustomed to assume that the decline in the number of people employed in agriculture in our country would continue. This assumption is subject to probable drastic revision. Unless present trends in population and in food production in other parts of the world are suddenly to change, there will be need in the foreseeable future for a steady if not dramatic increase in agricultural employment in the United States. If, however, this is to be achieved, then the rewards to farmers and to farmworkers must be brought into line with the rewards accorded to other segments of our population and with the primary importance of their work.

The future success of our national efforts under the Employment Act appear to depend upon our ability to make the adjustments in our thinking and our action and above all in our national attitudes and reactions which will facilitate the changes in patterns of employment which the days ahead seem so clearly to demand.

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STATEMENT BY CHARLS E. WALKER

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Two decades is an appropriate period after which to review the actions taken under the Employment Act of 1946. The passage of this act reflected a significant change in the relationship between the Federal Government and the economy. Prior to the passage of the act, the Government had, at various times and in various ways, intervened to influence the American economy, to regulate some of its activities and to alleviate some of the hardships resulting from excessively wide swings in business activity. The Employment Act committed the Government to the development of a program to achieve and maintain a high level of business activity; it was a broad rather than a piecemeal approach to economic problems.

This is the basic difference between the Employment Act and the specialized legislation which preceded it. It was the determination that, following the war, the American economy could not be permitted to return to the depressed prewar conditions that led to the passage of the act. It should, moreover, be emphasized that economic theory, adjusted to the lessons of the great depression, had developed rapidly, and leaders in both the private and public sectors of the economy were convinced that the new understanding of economic forces could, if called upon, provide highly useful assistance in the formulation of public policies for economic progress.

For the first time, the Government of the United States accepted the responsibility of attempting—

> to coordinate and utilize all its plans, functions, and resources for the purpose of creating and maintaining, in a manner calculated to foster and promote free competitive enterprise and the general welfare, conditions under which there will be afforded useful employment opportunities, including self-employment, for those able, willing, and seeking to work, and to promote maximum employment, production, and purchasing power.

The Economic Report of the President for 1966 raised the question of changes that should now be made in the Employment Act, and the Joint Economic Committee conducted a symposium on February 23, 1966, on "The Twentieth Anniversary of the Employment Act of 1946." To supplement those analyses of the act, Representative Wright Patman, chairman of the Joint Economic Committee, has asked a number of individuals and organizations to submit recommendations and comments. The Department of Economics and Research of the American Bankers Association is grateful for the opportunity of expressing its opinion on this important subject.

The 1966 Report of the Council of Economic Advisers contained a number of recommendations concerning the future administration of the Employment Act, and in "Comments on the President's 1966

Economic Report" the American Bankers Association endorsed them. The association stated:

> We share, of course, the view of the Council that the essential prerequisites of successful economic policy are firm and timely knowledge of where the economy stands, intelligent processing of the information gathered, and public understanding of how proposed economic measures intend to further desirable objectives.

We believe that these recommendations are extremely important.

Both the Government and private organizations are attempting to speed the collection of information showing the trends of the economy—trends which may shift so rapidly that speed and accuracy in securing data are vital. The basic data are being accumulated through improved sampling techniques and more frequent censuses. Private industry, also recognizing the need for accurate and current information, is cooperating. Electronic equipment is being employed to speed the processing of this information.

Freedom for Economic Research and Analysis. As more information becomes available, economists are learning more about the complex relationships within our economic system. These improvements in economic theory and analysis result not only from the efforts of Government economists, but also from those in business, labor, trade associations, private research foundations and, of course, the academic community. The necessity of maintaining the traditional freedom of academic economists to engage in whatever research they deem important is widely recognized and supported; what is not always realized is that economists employed in Government must also be able to carry out their analyses and studies within a similar atmosphere of freedom—in this instance, freedom from partisan considerations or influence. It is only through this type of research and analysis—supplemented, of course, by the important contributions of labor, business, and trade association economists—that economic theory and analysis can keep pace with the changes that take place in our economy and the increased information we are gathering about the economy.

The economist at the policymaking level in Government is in a difficult position. This is especially true of the members of the Council of Economic Advisers, who must be prepared to defend, before the Congress and before the public, the policies they recommend to the President. Although a case can be made for maintenance of a strictly confidential relationship between the President and his Council, in practice no such relationship would be feasible. Moreover, an articulate group of Council members, well versed in both the principles and practice of economic policy, can help greatly in providing logical support for a given set of policies.

The danger of such a relationship is, of course, that political (not necessarily *partisan*) considerations may impinge unduly upon the formulation of policy—perhaps against the specific advice of the economists—and the economic advisers will find themselves confronted with a dilemma: whether to defend the politically motivated policies or to adopt the only other alternative, resignation. To follow the former course risks destroying the credibility of the adviser's statements and positions to non-Government economists; to follow the latter course—resignation—is to remove one's direct influence on policy.

The possibility of such a conflict developing, it should be noted, is not confined to economic policy; it can and does occur in other areas of Government policy. And there should be no reason why the economist as a contributor to public policy formation should enjoy any more privileged position than, say, a high defense official or any other officer of Government. About all that can be said is that the particular economic adviser involved in any difficult situation will have to resolve the problem in a manner consistent with his own dedication to intellectual honesty and desire to promote the public welfare.

Need for Greater Economic Understanding. In its *1966 report*, the Council also emphasized the need for wider public understanding of Federal economic policies. The American Bankers Association concurs strongly with this objective also. In a political democracy, it is essential that the people have a fundamental understanding of basic governmental policies. In the field of economics, it is not essential that they understand all of the subtleties and nuances of modern theory, but it is necessary for the public to recognize the general nature and probable results of a given set of policies. The public should also recognize the limitations of policy and should not be lulled by short-run successes into a feeling that all the answers to economic problems have been found. On the other hand, the public should not be frightened continuously by the specter of failure in economic policymaking. Understanding of the objectives of economic policies as well as their limitations will enhance public acceptance of restrictive measures to keep booms within bounds as well as acceptance of expansive policies to combat recession or inadequate growth.

Unfortunately, at this stage of our political and economic development public understanding of economic policies leaves a great deal to be desired; much has been said of the widespread "economic illiteracy" among the American people. Consequently, special burdens are imposed upon both the economist and the political leader. The economist must take special pains to emphasize to the politician the limitations of economic analysis and economic action, and the politician must not demand too much of economics. Moreover, economists must strive to recognize the limitations surrounding the politician. It is no disparagement to political leadership to observe that the appropriate economic policy of the day is not always the most popular, with the result that the politician may be able to support such policies only at the risk of incurring unpopularity among his constituents. When politics and sound policies clash, the fault lies primarily with the constituents and not the politician. This doubtless results in part from the impact of self-interest in shaping the views of individuals and voting blocs. But to a great extent lack of public understanding of economics is the fundamental problem.

The answer to this problem is, of course, to adopt effective techniques for reducing economic illiteracy—a task which the independent sector of the American economy, but not the Federal Government, has tackled vigorously in the years since World War II. The activities of the Joint Economic Committee and the Council of Economic Advisers have, in some degree, sparked public interest in economic matters, and the public discussion leading up to the large income tax reduction in 1964 was also most helpful in this respect. Still, the Federal Government has engaged in no concerted or organized effort comparable to that underway in the independent sector, most notably under the leadership of the Joint Council on Economic Education.

Thus it is to be hoped that in the years ahead the Joint Economic Committee and the Council of Economic Advisers will join together in helping further these worthwhile organized efforts to increase public understanding of economics. In the long run, the survival of representative government as we know it may well be at stake.

Stabilization Policies and the Future. Any discussion of the Employment Act during the next 20 years would, of course, be incomplete if it did not include at least some reference to some of the more troublesome aspects of stabilization policy today and in the future. No one can foresee problems that will emerge as time goes by, but it is useful to outline some of the problems that past and recent experience points to as the most pressing.

Experience during the two decades of the Employment Act strongly suggests that simultaneous attainment of our multiple economic objectives—sustained growth, low unemployment, price stability, and balance in our international transactions—is an exceedingly difficult task. During the first 10 years, unemployment remained relatively low (except during the recession of 1948–49), but prices rose considerably and growth fell short of its potential primarily because of recessions. With dollars in short supply in international markets, the balance-of-payments deficits that emerged during the decade were no cause for concern but in fact were welcomed as a means of redistributing this Nation's huge gold supply.

Later in the 1950's price inflation was brought to a halt and, more importantly, the strong inflationary psychology engendered during the 1940's and 1950's was erased. However, large payments deficits emerged and economic growth was slow. Growth speeded up in the early 1960's as unutilized resources were drawn into use and tax policies spurred productive business investment. Still, unemployment remained above politically acceptable levels and the balance of payments stayed in deficit.

Finally, unemployment declined to the Kennedy-Johnson administration's interim goal of 4 percent or below in early 1966. Economic growth continued but price pressures became exceedingly strong and the goal of balance-of-payments equilibrium slipped away.

It is therefore clear that only temporarily during the period since World War II have our multiple economic goals been satisfactorily reconciled. Is the outlook for the future more encouraging? Surely we know more about stabilization policies today than 20 years ago but, unfortunately, such knowledge does not in itself assure sound policymaking.

One of the fundamental problems seems to be that the politically established goal of 3 percent or less unemployment of the labor force may not be achievable without severe upward pressure on prices. Surely this view is supported by experience in 1965 and 1966 when, with unemployment ranging from 3½ to 5 percent, strong price pressures came into play. Better education and training of workers is, of course, the fundamental answer to this problem, but such measures are difficult to implement and, in any event, take a relatively long period of time.

Some observers, concluding that the politically defined unemployment goal must be maintained but believing that inflation will undoubtedly result, argue for accepting some degree of "trade-off" between declining unemployment and rising prices. The inequitable impact of such a deliberate public policy should be abhorrent to all, in that the real incomes of people living on fixed incomes would be gradually eaten away. But even if such inequities did not exist or could be offset, there is grave doubt that the so-called "trade-off" approach would work. In the first place, those in a position to do so would try to hedge against the impact of the rising price level, and the inflation expected to occur would be discounted into current contracts. Labor leaders, in negotiating wage settlements, would insist upon contracts which allowed for the expected escalation in the cost of living. Similarly, lenders would attempt to obtain interest rates sufficiently high to offset, in addition to the regular costs and returns included in interest rates, the expected diminution in the purchasing power of the dollar.

Such escalation of wages and interest rates would represent a significant increase in costs of doing business, necessitating either a faster rise in prices to offset the higher costs or a cut in profit margins. In either case, the sustainability of economic growth would probably be impaired.

Some observers believe that the threat of excessive wage increases to the sustainability of a business advance can be offset by the application of some type of informal incomes policy, such as the Kennedy-Johnson administration's wage-price guideposts. Experience both here and abroad lends little support to this view; forces of self-interest are simply too strong to be overcome through exhortation. And, if exhortation is backed up by the exercise of Executive power, as in the steel-price incident of 1962, business confidence may be impaired, with a consequent dampening impact on investment.

In spite of stability of unit labor costs during the business advance of the 1960's the wage-price guideposts can in our judgment do little more than provide a useful marginal influence on wage and price decisions. In fact, the relatively high unemployment of that period—reflecting the absence of overheating in the economy—was probably the major factor accounting for stability of such costs. Experience during the 1950's, when unit labor costs consistently rose during periods of business expansion, strongly supports this view. If correct, it would seem to follow that one of the greatest threats to the achievement of sustained high employment and growth is the acceptance of unemployment goals which, although politically desirable, are not achievable without generating strong cost and price pressures.

To make this statement is in no way to endorse a permanently high level of unemployment as a means of assuring a high rate of economic growth. As noted earlier, efforts to improve the level of knowledge and skills in the labor force provide the fundamental attack on the problem. In addition, if, as seems likely, the market power of large labor unions creates a bias toward overall money wage advances at a pace faster than productivity increases, then a case exists for steps to reduce the market power of those unions. Surely this approach is preferable to any formalization of the wage-price guideposts which, in effect, would convert them into a system of wage-price controls.

Some observers believe that the prospects for sustained noninflationary growth would be enhanced if price stability were specifically named as a goal of public policy in the Employment Act. Perhaps this is so, and there would seem to be little valid objection against such an amendment. A strong case can also be made for including balance-of-payments equilibrium as an explicit policy objective. Still, most observers would probably agree that these two objectives, if not explicit in the language of the statute, are strongly implicit, and they are both given close attention by policymakers. No change in the wording of the statute is likely to add to success in achieving our economic goals.

Indeed, if there is a bias toward inflationary policies in our Nation (and the same can probably be said for other free world industrial nations), the cause stems not so much from statutory language as from the manner in which representative government operates. The simple fact is that the policies necessary to control inflation when economic activity is strong are not popular policies; they involve such distasteful steps as higher taxes, reduced Government spending, and rising interest rates. In the long run, this bias, although surely never completely subject to elimination, can no doubt be reduced by continuing strong efforts toward the reduction of economic illiteracy.

It is clear that the problems discussed above are primarily problems of "topping out" a business expansion. The fact that such problems dominate today's economic thinking reflects primarily, of course, the long period of expansion and the inflationary problems that now exist. But the presence of such problems probably also reflects the fact that existing monetary-fiscal economic theories, while adequate to support policies for stimulating the economy during recession, or for a long period of expansion when unutilized resources are being brought back into use, are much less helpful in providing policy recommendations for maintaining sustainable high-level employment, without inflation, once it has been achieved.

In conclusion, it is useful to reemphasize one of the most important but seldom quoted phases of the Employment Act; namely, the provision that requires the Federal Government in its efforts to promote economic stability to do so "in a manner calculated to foster and promote free competitive enterprise * * *." By and large this structure has been honored during the first two decades of the act; efforts to reduce the scope of competition and individual initiative and enterprise generally have been repressed. In addition, except for recent balance of payments policies and certain actions to induce "voluntary" adherence to the wage-price guideposts, the path of selective and direct controls toward economic stabilization has, most fortunately, been avoided.

Sill, the path of selective interference is indeed tempting to the harried policymaker trying to deal with an intractable problem. But that course must be avoided if the next two decades of the Employment Act are to be as prosperous and progressive as the first 20 years.

STATEMENT BY MURRAY L. WEIDENBAUM

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The hearings on the 20th anniversary of the Employment Act of 1946 clearly brought out the major achievements of the act during the past two decades, both in terms of new organizational structure for economic policymaking and the evolution of a far better informed and enlightened public approach to economic problems.

The hearings also brought forth a considerable variety of suggestions for changes in the Employment Act itself or in the manner of its implementation. To avoid repetition, I would like to offer one specific suggestion to the Joint Economic Committee. My suggestion relates to the focus of its future work.

I recommend that the committee focus not only on the current economic problems—such as those relating to the Vietnam military commitment—but also on the "next round" of major economic problems likely to be facing the Nation.

I would think that this next round of economic concerns might relate to the "reentry" problem of the American economy during what hopefully will be the post-Vietnam adjustment period. Without forecasting the specific military outcome, assumptions (perhaps alternative assumptions) can be made as to the rate and timing of subsequent reductions in U.S. defense spending and the nature of the transition of the American economy once again to a smaller defense sector.

Some of the specific areas of defense economic adjustment that the Joint Economic Committee might wish to consider as part of its long-range economic planning would be:

(1) *Maintaining high aggregate levels of employment, production, and income during the initial period of reduction in defense demand.*—The major problem of economic planning involved here would be to identify initial policies which would be sufficiently prompt and effective to prevent serious unemployment and excess industrial capacity from developing; such negative influences, if unchecked, could accelerate into a major recession. As the hearings and studies of the Joint Economic Committee have amply indicated, there is a wide range of fiscal and monetary policies which have the necessary stimulating impact on aggregate demand, but different effects on the composition of output and on the distribution of income among the different groups in American society.

In such "contingency" planning, the balance struck between tax reduction and increased Government spending would be influenced by the inferences as to the relative importance to be accorded to the private sector versus the public sector—to private demand for such goods and services as food, clothing, housing, and recreation, as against public demand for roads, space exploration, public health, and social services.

(2) *Achieving effective longrun utilization of the resources released by the defense cutback.*—As is well known, the "market basket" of defense goods and services is far more specialized than the procurement patterns of the typical consumer, industrial firm, or even civilian governmental unit. Contingency planning for the American economy would need to consider the availability of alternative productive employment opportunities for these scientists, engineers, and other highly skilled employees of defense agencies and defense contractors; such opportunities may not come about automatically and considerable leadtime may be required to develop them. A long-range planning and analysis effort might identify extremely useful applications in both public and private sectors of the high technology and systems analysis capabilities of the defense industries and their employees. However, such technological transfer may require substantial amounts of governmental assistance and encouragement.

(3) *Avoiding the creation of "pockets" of unemployed defense workers.*—A further aspect which might be considered is that any substantial concentration of unemployed former workers in the major defense production centers would accentuate the need to choose promptly among alternative public policies which would both create income for those adversely affected by the defense cutback and also contribute to an efficient, growing economy. In analyzing alternative mixes of Government adjustment policies and actions, it undoubtedly would be recognized that, although income maintenance programs might be the most rapid way of meeting short-term needs, this approach would limit the Nation's ability to utilize productively the resources made available for transition to a more peacetime economy.

If the committee does undertake the type of long-range (or contingency) economic planning suggested here, it might wish to give particular consideration to some of the new tools which economic analysis has made available for governmental resource allocation and expenditure decisionmaking. Despite numerous technical limitations, benefit/cost analysis, cost/effectiveness analysis, and the entire "systems" concept lend themselves to such applications in economic policy formulation. Although it is of necessity still quite rudimentary, the present effort in the executive branch to implement a comprehensive planning-programing-budgeting system should have important and direct application to congressional deliberations and action.

STATEMENT BY LELAND B. YEAGER

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I admire the way the Joint Economic Committee promotes communication between scholars and legislators. It wins a congressional hearing for academic proposals even before they have become familiar enough to appear in bills under actual consideration.

I would like to see the Joint Economic Committee stay alert to ideas for keeping monetary policy on a steady course. Anyone who watches the figures on the growth rates of the money supply and total bank reserves must be disconcerted by the zigzags often occurring from month to month or even from week to week during the past year or two. Hardly does the monthly review of the Federal Reserve Bank of St. Louis appear with an article about continuing monetary expansion than the newspapers are publishing weekly figure, showing a very recent downturn in bank reserves, and conversely. It is astonishing that the country should have to guess what Federal Reserve policy is—and revise the guesses from week to week. Business behavior would no doubt become steadier if businessmen could base their expectations confidently on a known and stable policy.

Along with other observers, I wonder whether the Federal Reserve, instead of making money supply and bank reserve growth the main criteria of its actions, may not still be unduly preoccupied with "free reserves" and interest rates. Part of the remedy for the resulting unsteadiness is to simplify the criteria and instruments of policy. I agree with suggestions for abolishing the whole discount mechanism: let the Federal Reserve determine total bank reserves through open market operations alone, with the Federal funds and Government security markets taking care of the distribution of reserves among individual banks. By specifying a fairly definite rule, Congress could hold the Federal Reserve to a steady course in its management of bank reserves and in turn of the money supply. An ideal rule would not necessarily require a rigid and unalterable monetary growth rate, but it would try to bar sharp spurts and slumps due either to watching the wrong indicators or to supposedly "leaning against the wind" of future business conditions in line with frequently revised guesses about what those conditions would be months later, when a current policy shift would begin taking effect. (As you see, I respect the evidence that the money supply is more crucial to total effective demand than a Government budget surplus or deficit, except insofar as the budget position itself dominates money supply policy.)

By further smoothing out the business cycle, steadiness in money supply growth would help mitigate the apparent conflict between full employment and price-level stability. Experience suggests that reducing the unemployment rate has a cost in the form of price inflation; successful resisting inflation has a cost in the form of higher unemployment. We must learn how to cut these costs. Reforms affecting wage bargaining would be one way, but so would a monetary policy that did not continually shift its emphasis back and forth between promoting full employment and resisting inflation. In one of the most noteworthy studies ever published by the Joint Economic Committee (Study of Employment, Growth, and Price Levels: Study Paper No. 1, "Recent Inflation in the United States." September 1959), Charles Schultze persuasively argued that large and rapid shifts of demand among sectors of the economy, together with greater upward than downward flexibility of prices and wages, intensify the problem of the tradeoff between full employment and price-level stability. Greater steadiness in money supply growth and so in business activity would go far toward eliminating large and rapid "cyclical" relative shifts of demand between the consumer goods and capital goods industries. This would narrow the scope for demand shift inflation. In various ways, furthermore, a steady, moderate growth of aggregate demand should aid the rise of productivity, so important in easing the unemployment or inflation dilemma: it would help avoid the slumps in production that raise overhead costs per unit of output; it would facilitate the mutual adaption of jobs and labor skills; it would help promote the mobility of labor and the willingness of business firms to accept the risks of competition, innovation, and fixed investment.

One of the worst recent obstacles to a sensible and dependable monetary policy has been our balance-of-payments problem. The foreign trade tail has been wagging the domestic dog in an almost comic way. I agree with those who deplore the widespread mysticism about "the discipline of the balance of payments," the doctrine that looks for achievement of our price stability and employment goals as a mere byproduct of fiddling with a supposed gold problem. We should try to achieve and to reconcile those domestic goals directly, letting the balance of payments take care of itself. For reasons of political philosophy as well as of economics, I deplore the "voluntary" exchange controls and other humiliating expedients our Government has been resorting to. I agree with proposals that we continue selling gold at $35 an ounce as long as we have any left (repealing the gold reserve requirement still in effect for Federal Reserve notes). In line with such proposals, we should state clearly, however, that once we have no more gold to sell, we will no longer buy it, either; we will no longer do anything to tie gold and the dollar together. Such an announcement would put some healthy uncertainty into the price of gold. No longer would the belief that gold might rise in price but could not fall spur foreigners to draw gold from us. Even so, we might conceivably run out of gold, severing any link between it and the dollar. What would be so terrible about that? Instead of calamities much dreaded but never described, we would experience a welcome opportunity for a simpler and more consistent domestic monetary policy. And international trade would not suffer. One main defect of the existing international monetary order is not the wide use of the dollar as an international reserve medium, but the precarious linkage of the dollar to gold on a fractional reserve basis. Cutting that link would abolish the joint use of what J. M. Culbertson has called first- and second-class international moneys and would remove the danger of swings in confidence and of runs from one into the other.

Conceivably—even probably—foreign monetary authorities would continue pegging their own currencies to the dollar, and gold would become just an ordinary commodity both in the United States and abroad. In some respects, this international non-gold-dollar standard would be the best of all outcomes for the United States; and for foreign countries it would offer at least some improvement over existing arrangements. Alternatively, foreign authorities might simply stop pegging their exchange rates. The system of free exchange rates enjoys growing support among academic economists, and for excellent reasons. The supposed counterarguments offered by practical Government officials, central bankers, and businessmen are turning out to be hardly more than unreasoned prejudices (or so it seems to me). The Joint Economic Committee can serve the country well by forcing "practical" men, through its studies and its hearings, to reappraise their prejudices.

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