

THE Council's first annual report to the President covered only a few months of active work and was largely in the nature of a preview of our task and a statement of our initial plans for attacking it. The second annual report covered our first full year of operation and reviewed the progress of the Council's organization and early activities. Now we look back over a little more than 2 years' experience and the reactions of the public to our work. This suggests that the present report should first present a brief account of our actual operations during 1948 and then review some aspects of our latest thinking as to the role of the Council and the institutional environment within which we operate.

Part I. Organization and Operation of the Council in 1948

It is the major responsibility of the Council to "assist and advise the President in the preparation of the Economic Report" and, to this end, make continuing studies of the functioning of the national economy in order to identify and analyze influences (including Government programs and activities) related to continued national well-being. On the basis of these studies the Council is—

to develop and recommend to the President national economic policies to foster and promote free competitive enterprise, to avoid economic fluctuations or to diminish the effects thereof, and to maintain employment, production, and purchasing power.¹

The Council thus provides a staff arm to the President to aid him in keeping abreast of the multifarious economic developments within and without the Government, focusing analysis on the salient issues where public policy affects national prosperity. The tangible product of its labors is a series of reports, formal or informal, public or internal. An important intangible product should be an influence toward harmonizing economic thinking among Government agencies and between Gov-

¹ Besides the annual Economic Report, the President is authorized to make such supplementary reports (with supplementary or revised recommendations) as he may deem necessary or desirable. The Council shall "make and furnish such studies, reports thereon, and recommendations with respect to matters of Federal economic policy and legislation as the President may request."

ernment and the rest of the economy. This intangible product will be discussed after we have reviewed the Council's written reports.

REPORTS

In 1946, only one publication emerged from the Council's work. This was our First Annual Report to the President. It attracted wide attention in the press and on the radio as the first indication of the way in which the Council would interpret the Employment Act and how it would direct its activities. The opening paragraphs of this report explained that it would be devoted primarily to considering the broad philosophy of the Employment Act of 1946 and concluded:

It is the President's Economic Report to the Congress rather than this Council report which will contain specific economic conclusions and recommendations.

On a later page, it added:

The [creation of the] Council of Economic Advisers does not reallocate basic public responsibilities; it merely puts improved professional techniques and resources at the disposition of those who make national policy. Since the President must formulate his policies and shape his program within his own evaluation of the most varied and comprehensive political and social as well as economic influences and considerations, it is not to be expected that his Report to Congress will merely reflect the conclusions and recommendations of his Economic Council. He will simply use as he deems wise such economic analyses, appraisals, conclusions, and recommendations as they prepare for him.

In the early stages of the preparation of materials to be considered by the President for use in his Economic Reports, the staff of the Council maintains close relations with the staffs of the several Government agencies and takes into account the experience and views of these agencies. When drafts of material are prepared by the Council for submission to the President, they are brought to the attention of agency heads, so that these persons may have still another opportunity to bring their individual and agency resources to bear upon the problems discussed. Following this, or sometimes concurrently, there are discussions between the President and the Council during the period when he is formulating his decisions as to what he desires to send to the Congress.

The President's letters of transmittal of his Economic Reports to the Congress have uniformly read:

In preparing this report I have had the advice and assistance of the Council of Economic Advisers, Members of the Cabinet, and heads of independent agencies.

In January and July 1947, and in January 1948, the Economic Reports of the President contained not only his recommendations of policy but also all of the details of statistical description and economic analysis underlying these recommendations. The Midyear Economic Report of the President in July 1948, however, initiated a different practice. The President's report covered broadly but succinctly the high points of the Nation's economy, and embodied also his recommendations in full.

Along with this Economic Report of the President there was transmitted a report by the Council to the President, entitled "The Economic Situation at Midyear 1948." This included the details of statistical analysis and a more technical discussion of the observations and policies which might flow from such analysis as undertaken by professional economists. The reaction to this change in procedure has been favorable; it has brought to the Congress and to the public a keener appreciation of the respective duties of the President and the Council under the Employment Act.²

Besides assisting the President in the preparation of his periodic reports, and accompanying these, its own reports, the Council has made two reports on special topics at the request of the President. The first of these analyzed the *Impact of Foreign Aid upon the Domestic Economy*. This study was made primarily for the benefit of the President's Committee on Foreign Aid³ but was given general distribution as a mimeographed document (112 pages). It was submitted on October 28, 1947. In response to another request of the President, the Council made an analysis of the reasons for and probable consequences of certain steel price advances. It reported its conclusions to the White House in a brief memorandum on March 10, 1948. This statement was released to the press by the President.

Preliminary studies of annual wage or employment guaranties, which had been made by the Office of War Mobilization and Reconversion, were referred to the Council for continuation study. We have not yet brought our study of this matter to a state ready for submittal and recommendation. Work is in process also on several other problems referred to in Economic Reports of the President.

We revert now to the annual reports which the Council makes to the President in December of each year as required by section 4 (d) of the Employment Act. In the first annual report, we had made a general preliminary statement of "the economic philosophy of sustained employment." In the second report, we examined at somewhat greater length "the meaning of maximum production and means of attaining it." We stressed the necessity of adequate capital; the significance of the size, efficiency, and industry of the labor force; and the vigor, skill, and "balance" of managerial direction. In conclusion, we pointed out that if our national resources are to be kept in use at the level of maximum production, there must be real price competition, that is, market realities must be allowed to channel the full flow of effort and of product to

² In the Economic Report of the President in January 1949, this separation of the President's policy and program and the Council's factual survey and cause-and-result analysis will be continued.

³ The "nonpartisan committee of distinguished citizens appointed to advise [the President] on the limits within which the United States might safely and wisely plan to extend economic assistance to foreign countries and on the relation which should exist between such assistance and our domestic economy"—the so-called "Harriman Committee."

the points of greatest demand. Attempts to secure desired prices either for goods or for services by methods of monopoly or restriction are a flat contradiction of the principle of maximum production.

In some quarters, this sort of material, as included in annual reports of the Council, has been dismissed somewhat tolerantly as "philosophical essays" superfluous to our real assignment. In some other quarters, it is regarded as an improper alignment of the Council with doctrinal positions and this, it is argued, conflicts with our responsibility to present purely objective statements of economic fact and of demonstrable economic consequences flowing from particular situations or actions. We believe, however, that such neat and precise relationships as this view assumes do not in fact obtain in the complex economic behavior of free human beings. We suspect that some of the dissatisfaction expressed with reference to these discussions in the Council's reports stems primarily from the fact that they have not expounded the particular dogma dear to the heart of the particular critic. Frank disclosure of these differences seems to us likely to prove helpful in the long run.

As we read the declaration of policy with which the Employment Act opens, it does not outline a routine assignment whose accomplishment requires nothing more than the use of methods and tools already familiar to economists and business leaders. On the contrary, it seems to us to give only the broadest outline of a grand purpose and therefore to challenge the President and his economic aides, the Congress and its committees and their staffs, the working world and its executives and technicians to select sound old means and devise sound new ways for gradually bringing this grand purpose closer and closer to realization. Perhaps it is a measure of the vitality of the ideas that we have advanced in our initial exploration of these problems that they have elicited expressions of sharp disagreement or even dismay in some quarters as well as warm approval in others. The criticisms have been stimulative to our own further thinking and have also revealed the fact that some of our ways of stating our thoughts have been obscure or misleading. Insofar as these reports have provoked frank and incisive discussion of the basic issues of how free competitive enterprise can maintain production at maximum practical levels, we believe that we have served the needs of our country and the hopes of the host of forward-looking people who framed the Act. We feel that there must be continuing re-examination of the doctrines of formal economics and the practices of everyday business. Both need to be substantially improved.

Besides the several annual, midyear, and special reports and our quarterly memoranda to the President, the Council collates from the various statistical agencies of Government (particularly the Departments of Commerce, Labor, and Agriculture and the Federal Reserve Board) the latest statistical data available in a book of charts and tables (about 30) titled "Economic Indicators." This publication is issued

monthly through the good offices of the Joint Congressional Committee on the Economic Report of the President. Besides a small free distribution, this pamphlet is sold in substantial and increasing numbers by the Government Printing Office. Subscribers find in it an up-to-date collation of closely related sets of data covering the major aspects of business life. By using many short-cut methods, the Joint Committee and the Council make much of this material accessible to subscribers more promptly than they can secure it through the regular publications of the several agencies.⁴

BASIC STUDY PROGRAM AND STAFFING

The Council has continued to follow the plan of staffing outlined in its first annual report:

The Council has set up a small (not to exceed 10) top staff of broadly trained economists, selected with a view to their competence to analyze the state of the Nation's business as a whole and appraise the functioning of the entire economy. Each, however, has specialized knowledge of the problems, the methods of analysis used, and materials and personnel available in some special area such as labor relations, plant capacity, agricultural problems, consumer demand, price-wage-cost relationships, money and credit factors, taxation and fiscal problems. Together with a small secondary staff, these "specialized generalists" are utilized under the Council's direction to bring to its deliberations the best thinking of the economic and statistical profession in the Federal Government agencies, in non-Federal governments, and in the private organizations of business, labor, and agriculture. Easy and effective relations were promptly established between the Council's staff and the staffs of these many agencies.

Under this plan, the Council had by the end of 1947 recruited a professional staff of 8 senior (P-8) and 9 junior (P-4 to P-6) economists (or statisticians), a clerical and administrative staff of 20, and 2 messengers—a total regular staff personnel of 39, excluding members of the Council. Several part-time professional staff members add to this the equivalent of one full-time person. Since then our staff has been reduced from 39 to 34 because of budgetary curtailment which will be explained presently.

Supervision of the work of the Council in these fields of study has been distributed among the members of the Council, under a plan which permits each member to keep in touch with the work supervised by the others and to call upon any member of the staff for assistance in any problem which he is studying.

An important phase of our study program consists in the grouping of workers around four major problem areas of basic importance to the

⁴ A special selection of about half these charts and tables covering matters of most immediate concern is prepared for the President even more promptly than the Committee publication can be put through the Government Printing Office. These are put in a loose-leaf book, stamped "The Economy in Operation" which the President keeps constantly at hand in his desk. A companion book, "The Budget in Operation," is provided by the Bureau of the Budget each month.

long-range development of our capacity to detect, measure, and appraise current situations and changing trends, to analyze the factors and relationships making for stability or instability, to define maximum employment, production and purchasing power, and to recommend national economic policies.

The first of these four areas of concentration relates to capital needs, investment policy, and sources of funds. While economic science has not yet developed a clear and uniform concept of the exact ratio between capital investment and total output which will be most conducive to economic health, none will deny that the wide fluctuations in capital investment have been among the foundation causes for excessive economic instability, and that much further work of a critical character is called for in this area.

The second area of concentration has to do with wage-price-profit relationships and policies. This clearly indicates the Council's realization that the voluntary decisions affecting these policies are the main conditioning forces within our economy. It embodies the hopeful expectation that we may gradually evolve some broad standards for wage and price policy which should help voluntary agents to make more amicable and more economically satisfactory decisions in their daily dealings.

The third area of concentration has to do with the Nation's Economic Budget. This Budget is a device for blending the various quantitative aspects of the economy into a total description, as a basis for evaluating the interrelationship among the parts. As this particular study proceeds, it should shed light upon such questions as workable relationships between industrial income and farm income, business investment and consumer expenditures, the private economy and the budgets of Federal, State, and local governments.

The fourth area of concentration in our staff work has to do with economic stabilization devices and their application. Starting with the economic analyses involved in the three other areas of study, this project centers on the various private and public techniques for influencing the economy through conscious decision, private and public. It therefore sets such matters as tax policy, public works, and regulation—in fact, the whole range of relevant government programs—within the context of their instrumental relationship to the maintenance of maximum employment, production, and purchasing power.

These four basic studies are each organized through a staff committee operating under the close direction of a Council member. The provisions in the Employment Act setting forth in detail the qualifications for members of the Council clearly intend that each report by the Council shall represent the professional judgment of the members themselves. This establishes the character of the relations between the Council and its professional staff, and makes the Council members their

own chief economists. Subsidiary to this, the staff committees, sometimes with Council member participation, confer with outside economists and sometimes form or join in interdepartmental committees of specialists in particular phases of their work. Several of these staff committees are now preparing to present their formulation of problems and suggestions for needed work at round-table meetings of the American Economic Association, so that the work of the profession may thereby be directed more specifically toward new problems which arise as the Council explores the task of sustained employment and high production.

SOURCES OF MATERIALS

One of the most satisfying experiences of the Council has been the cordial cooperation it has received from the several Government offices upon which it must rely for economic facts. Reduced appropriations have seriously hampered them in those important services to the public, to the Congress, and to the business world. But where they have been forced to discontinue some part of their work, they have responded to the desire of the Council as far as possible in determining which part to continue. And they have cheerfully undertaken a serious burden of extra work in order to enable the President and the Council to include in the various reports preliminary data for the quarter which is only closing as the report is completed.

The periodical data collected and classified by the Department of Agriculture which the Council finds most important cover agricultural production, farm income, and prices received and paid by farmers. The Treasury Department furnishes regular reports on budget receipts and expenditures, and on public debt transactions. The contribution of the Bureau of the Budget includes quarterly reports and current estimates of Federal cash receipts from and payments to the public, and aid in a quarterly reconstruction of the Nation's Economic Budget. Data of the profits of manufacturing corporations, of personal savings, and of corporate security issues are compiled each quarter by the Securities and Exchange Commission.

The statistical series maintained by the Department of Commerce are numerous. The more important which are used regularly by the Council are the following: monthly reports of labor force, employment, and unemployment; quarterly computations of gross national product and gross national income; monthly reports of construction; monthly reports of the inventories and sales of manufacturing, wholesale, and retail firms; and many types of international trade data. An especially important service is the collection of information about the new investment of business firms for plant and equipment, and about their investment plans for the current and future quarters of the year. The Council has been criticized because it does not attribute to business investment the dominant place among the factors determining the course of the economy,

which many business analysts do. Nonetheless, we assign great importance to this factor and welcome the fine service of the Department of Commerce in furnishing information which was never before available and which, at least during the last 2 years, has been surprisingly accurate.

The Department of Labor is responsible for some of the most important statistical data used by the Council. It makes daily, weekly, and monthly reports of wholesale prices, and monthly reports of retail prices of goods which enter the consumers' price index, formerly known as the cost-of-living index. Labor data furnished by the Department include monthly reports of non-agricultural employment by industry groups, manufacturing employment by industry groups, labor days lost by strikes, and (by industry groups) hourly earnings, weekly earnings, and work hours per week. It also publishes monthly reports of construction activity and of housing starts, and at irregular intervals issues data relating to productivity.

The service offered by the statistical division of the Board of Governors of the Federal Reserve System covers, in addition to all aspects of banking, the monthly data of industrial production and a quarterly report of the profits of large manufacturing corporations. Its recent studies of accumulation, distribution, and use of savings have furnished the basis for much of the analysis of economic trends prepared by the Council, and the industrial production index is invaluable.

The many experts in the Government agencies have become very skillful in analyzing preliminary data, however meager, and in detecting the situation which will be fully disclosed when complete information has been collected. They have an acute sense of the relation of the business conditions in the area which they study to those of the total economy. They freely afford to the staff of the Council the benefit of their talent in this respect, and join in informal discussions of economic trends from which the Council receives much valuable assistance in its own work. Many technical staffs in the Government offices are engaged in research projects of direct interest to the Council, and it is kept advised of the progress of these studies and is able to learn of important results before the whole project is completed and a report prepared for publication.

All of these splendid services save the Council from bogging down in an enormous detail of fact-finding and research, and thus leave us free for the general analysis, interpretation, and consideration of policy which are our vital and special function.

RELATIONS WITH OTHER AGENCIES

We have continued and developed ~~our~~ working relations with other agencies during the past year, in line with our function as an over-all general economic staff, relying upon existing fact-gathering agencies

for our basic materials. This aspect of our work has been quite fully discussed above.

The consultative groups drawn from the public, which the Act admonishes the Council to organize, have been the source of much valuable information about business conditions and about the attitudes, expectations, and purposes of those whose decisions so largely determine the condition of a free economy. We have periodical conferences with advisory committees representing business, labor, agriculture, and the many consumers' and public-interest groups in the country. These are supplemented by many informal meetings with similar bodies and with the organizations which represent local and State governments, regional associations, and professional associations.

In the early stages of the preparation of materials to be considered by the President for use in his Economic Reports, the staff of the Council maintains close relations with the staffs of the several Government departments and agencies, and takes into account the experience and views of these agencies. When drafts of material are prepared by the Council for submission to the President, they are brought to the attention of agency heads, so that these persons may have still another opportunity to bring their individual and agency resources to bear upon the problems discussed. Following this, or sometimes concurrently, there are discussions between the President and the Council during the period when he is formulating his decisions as to what he desires to send to the Congress. We have continued our effort to promote coordinated consideration of economic problems in the interest of the Nation as a whole by department heads together with the Council prior to the making of recommendations to the President.

A development which has come into the interagency phase of our work during the past years relates to the National Security Resources Board set up under the Security Act of 1947. This Board, under a civilian chairman and with membership from seven of the major departments,⁵ is primarily entrusted with advising the President on the coordination of military, industrial, and civilian mobilization in a national emergency. This task necessitates careful study of the policies followed during peacetime as to national resources, manpower, and other requirements and the implications of such policies for the achievement of orderly and complete mobilization in time of war.

There is thus an evident interpenetration of the functions of the National Security Resources Board and the Council of Economic Advisers. This calls for cooperation and mutual strengthening of the Presidential staff function rather than competition or duplication in its performance. The Board staff is 10 times the size of the Council's staff and gives greater attention to requirements arising from the military program

⁵ Besides its Chairman, it includes the Secretaries of the Treasury, Defense, Commerce, Interior, Agriculture, Labor, and State.

(now accounting for more than one-third of the total budget) than we could expect to do. The work of the Board staff therefore affords a rich resource of factual material for our use in appraising the functioning of the civilian economy. We on our part can properly be expected to supply the Board with projections or practicable assumptions as to national production, income distribution, investment outlook, market demand, or other matters of broad policy significance.

With this collaboration in our current activities, the eventual staff service of the two agencies to the President moves in parallel lines. We advise him as to the maintenance of the highest attainable level of peacetime prosperity; they advise him as to the mobilization implications of current policies and as to steps which must be taken to attain maximum security in the event that we have to face an international emergency as a temporary interruption to peacetime economic progress.

BUDGET

Though given a large task, the Council is conceived as a small review and policy agency and had a personnel ceiling placed upon it in the original Act—\$300,000 for staff. We have had to move slowly in order to secure professional staff who measure up to the exacting requirements of our special function. Under a total appropriation of \$350,000 in fiscal 1948 we showed a top figure of 17 professional employees (besides the three Council members) and 22 administrative and clerical employees. The last Congress reduced our appropriation to \$300,000, and this has compelled us to forego the filling of several posts important for the carrying out of our basic functions and indeed to reduce our clerical staff by five positions.

Our budget request for fiscal 1950 is \$350,000. Hearings before the Appropriations Committees of the Congress have not yet been held.

Part II. The Environment Within Which the Council Operates

Unlike the Council's reports on the concrete facts and the analyses of the economic situation which are transmitted with the Economic Reports of the President to the Congress, the Annual Reports of the Council to the President attempt to set forth our thinking about the novel and difficult tasks assigned to us under the Employment Act of 1946. We believe that this serves a useful, democratic purpose by affording public officials, the business world, and the interested citizen an intimate glimpse into the working problems of a significant agency of their Government.