

Appendix A

REPORT TO THE PRESIDENT ON THE ACTIVITIES OF THE
COUNCIL OF ECONOMIC ADVISERS DURING 1971

LETTER OF TRANSMITTAL

COUNCIL OF ECONOMIC ADVISERS,
Washington, D.C., December 30, 1971.

THE PRESIDENT:

SIR: The Council of Economic Advisers submits this report on its activities during the calendar year 1971 in accordance with the requirements of the Congress, as set forth in Section 4(d) of the Employment Act of 1946.

Respectfully,

PAUL W. McCracken,
Chairman.

EZRA SOLOMON.

HERBERT STEIN.

Report to the President on the Activities of the Council of Economic Advisers During 1971

During 1971 a far-reaching program in economic policy was put in place, the most far-reaching in the postwar period. The Council contributed to the formulation and implementation of this program and also continued to participate in many policy-oriented activities of Government.

Significant changes in the membership of the Council took place during the year. Hendrik S. Houthakker resigned in July to return to his position as Professor of Economics at Harvard University. He was succeeded by Ezra Solomon, whose appointment was confirmed by the Senate on June 17. Mr. Solomon is on leave from Stanford University, where he is the Dean Witter Professor of Finance.

Past Council Members and their dates of service are listed below

Name	Position	Oath of office date	Separation date
Edwin G. Nourse.....	Chairman.....	August 9, 1946.....	November 1, 1949.
Leon H. Keyserling.....	Vice Chairman.....	August 9, 1946.....	
	Acting Chairman.....	November 2, 1949.....	
John D. Clark.....	Chairman.....	May 10, 1950.....	January 20, 1953.
	Member.....	August 9, 1946.....	
	Vice Chairman.....	May 10, 1950.....	February 11, 1953.
Roy Blough.....	Member.....	June 29, 1950.....	August 20, 1952.
Robert C. Turner.....	Member.....	September 8, 1952.....	January 20, 1953.
Arthur F. Burns.....	Chairman.....	March 19, 1953.....	December 1, 1956.
Neil H. Jacoby.....	Member.....	September 13, 1953.....	February 9, 1955.
Walter W. Stewart.....	Member.....	December 2, 1953.....	April 29, 1955.
Raymond J. Saulnier.....	Member.....	April 4, 1955.....	
Joseph S. Davis.....	Chairman.....	December 3, 1956.....	January 20, 1961.
Paul W. McCracken.....	Member.....	May 2, 1955.....	October 31, 1958.
Karl Brandt.....	Member.....	December 3, 1956.....	January 31, 1959.
Henry C. Wallich.....	Member.....	November 1, 1958.....	January 20, 1961.
James Tobin.....	Member.....	May 7, 1959.....	January 20, 1961.
Kermit Gordon.....	Member.....	January 29, 1961.....	July 31, 1962.
Walter W. Heller.....	Member.....	January 29, 1961.....	December 27, 1962.
Gardner Ackley.....	Chairman.....	January 29, 1961.....	November 15, 1964.
	Member.....	August 3, 1962.....	
John P. Lewis.....	Chairman.....	November 16, 1964.....	February 15, 1968.
Otto Eckstein.....	Member.....	May 17, 1963.....	August 31, 1964.
Arthur M. Okun.....	Member.....	September 2, 1964.....	February 1, 1966.
	Member.....	November 16, 1964.....	
James S. Duesenberry.....	Chairman.....	February 15, 1968.....	January 20, 1969.
Merton J. Peck.....	Member.....	February 2, 1966.....	June 30, 1968.
Warren L. Smith.....	Member.....	February 15, 1968.....	January 20, 1969.
Hendrik S. Houthakker.....	Member.....	July 1, 1968.....	January 20, 1969.
		February 4, 1969.....	July 15, 1971.

Paul W. McCracken, Chairman from February 1969, resigned to return to the chair of Edmund Ezra Day University Professor of Business Administration at the University of Michigan, his resignation taking effect on January 1, 1972. The President designated Herbert Stein, also a Member of the Council from February 1969, to succeed Mr. McCracken as Chairman.

ECONOMIC POLICYMAKING AND THE COUNCIL OF ECONOMIC ADVISERS

RESPONSIBILITIES OF THE COUNCIL

The central responsibilities of the Council continued to be to provide the President with information and analysis of economic conditions, to evaluate economic policy, and to make recommendations designed to foster the goals of the Employment Act of 1946. In this act the Congress has declared 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 . . . to promote maximum employment, production, and purchasing power." The challenge of economic policy in 1971 was to make progress toward the stipulated objectives of the Employment Act while at the same time recognizing such "other essential considerations of national policy" as strengthening the basis for a more stable price level and improving our external payments position.

The President is kept informed of economic developments and of the Council's views through personal discussions and memoranda from the Chairman. Presentations and written comments are also made to the Cabinet and Domestic Affairs Council, the Cabinet Committee on Economic Policy, the "Troika," the "Quadriad," other Administration officials, and the Congress. Such communications reflect a continued, careful monitoring of current economic developments and projections by the use of a variety of statistical and analytical tools.

The Council staff works with other agencies to appraise existing activities of the Federal Government and to develop new programs. It also reviews bills proposed for action by the Congress and submits recommendations. The Council's recommendations give particular attention to economic implications of prospective programs and actions. During 1971, the Council formally expressed opinions on about 200 bills in various stages of the legislative process.

As in previous years, the Council and its staff participated in the Administration's examination and formulation of programs and policies in many areas. These were directed toward such matters as energy, environmental quality, international trade and finance, research and development, transportation, trade adjustment assistance, and assistance to communities affected by defense cutbacks. The Council also provided leadership to inter-agency studies of the problems in particular industries and in relation to particular products, notably steel and timber.

In addition to this variety of ongoing activities, the Council helped to design the comprehensive new economic program that was instituted to deal simultaneously with domestic and international problems affecting the U.S. economy. Subsequent to its adoption, members and the staff helped to resolve questions which arose early in the operation of the new program, to explain the program to the public, and to develop the policies further.

POLICY COORDINATION

The Council and its staff maintained close contact with other Government officials in order to share viewpoints and coordinate policy activities. Communication between the Treasury Department, the Office of Management and Budget, and the Council of Economic Advisers continued to be closely coordinated. The Secretary of the Treasury, the Director of the Office of Management and Budget, and the Chairman of the Council, known collectively as the "Troika," met frequently to discuss economic developments and policy issues. There are also second- and third-tier Troika groups. The second tier consists of one of the other two Council Members, the Assistant Secretary of the Treasury for Economic Policy, and the Economist for the Office of Management and Budget. The third tier comprises senior staff economists from the three agencies. Memoranda on the outlook were prepared periodically in 1971 by the latter group and submitted to the second tier of the Troika for approval before transmission to the three agency heads. The President met regularly with the Troika, and from time to time the Chairman of the Board of Governors of the Federal Reserve System joined Troika meetings, thus forming the "Quadriad."

One of the vehicles for coordinating broad economic policies within the Executive Office is the Cabinet Committee on Economic Policy, established by Executive Order of the President on January 24, 1969. Members include the President, the Vice President, the Secretaries of the Treasury, Agriculture, Commerce, Labor, and Housing and Urban Development, the Director of the Office of Management and Budget, the Chairman of the Council of Economic Advisers, and the Deputy Under Secretary of State for Economic Affairs. The Chairman of the Council of Economic Advisers coordinates the work of the Committee.

In 1971 the Chairman of the Council continued to serve as a member of the Domestic Affairs Council and as Chairman of its Subcommittee on the National Energy Situation. The Chairman also served as a member of the Property Review Board, the National Commission on Productivity, the Defense Programs Review Committee, and the Regulations and Purchasing Review Board. Reflecting the Council's wide range of interests, the other two members and the Senior Staff Economists also participated in a number of interagency committees, task forces, and study groups.

The Council's active role in the development of the new economic program began with the meetings that preceded the President's address on August 15. The Chairman served as Vice Chairman of the Cost of Living Council and, during the period of the freeze, as Chairman of the Executive Policy Committee of the Cost of Living Council. Mr. Stein headed the Task Force of the Cost of Living Council which prepared recommendations to the Council for a program to follow the freeze.

The Council of Economic Advisers testified several times during the year before the Joint Economic Committee, a committee with which the Council has a particularly close association. In accordance with annual practice,

testimony on the economic outlook was presented by the three Council Members on February 5 following submission of the *Economic Report* to Congress. On February 18 the Chairman joined the Secretary of the Treasury and the Director of the Office of Management and Budget in testimony before the Senate Appropriations Committee; similar testimony was given before the House Appropriations Committee on February 24. The Chairman appeared before the Subcommittee on Foreign Economic Policy of the Joint Economic Committee on June 29 to discuss issues related to the role of the United States in the world economy. Testimony was also given by the Chairman and by Mr. Stein before the Joint Economic Committee on July 8 concerning the state of the economy at midyear, and on August 30 the Chairman testified concerning the new program for domestic and international economic policy. In addition, the Chairman presented testimony on June 15 to the Senate Committee on Interior and Insular Affairs in regard to the national energy situation; and on December 7 he appeared before the House Public Works Committee to discuss issues involved in amending the Federal Water Pollution Control Act.

In the international sphere, Council Members and staff took part in meetings of the Economic Policy Committee of the Organization for Economic Cooperation and Development. The Chairman of the Council was again head of the U.S. delegation to meetings of the Economic Policy Committee, and in 1971 he served this Committee as Vice Chairman. Through this Committee, member nations seek better understanding and coordination of their domestic economic policies. The Council Members and Senior Staff Economists also participated in several subcommittees of the Economic Policy Committee, including Working Party III on the balance of payments and international financial problems, the Working Party Group on Short-Term Economic Prospects, Working Party IV on inflation, Working Party II on promotion of long-term economic growth, and the Manpower and Social Affairs Committee on problems and policies relating to manpower and the labor market.

The Chairman of the Council was also a member of the U.S. delegation which engaged in joint Cabinet discussions with Japan in September.

NATIONAL COMMISSION ON PRODUCTIVITY

The National Commission on Productivity was established by the President in June 1970 to recommend ways to improve productivity in the American economy. Members represent industry, labor, agriculture, the public, and State, local, and Federal governments. The Director of the Office of Management and Budget acts as Chairman. Other Federal Government representatives are the Secretaries of the Treasury, Commerce, and Labor, the Chairman of the Council of Economic Advisers, and the Special Assistant to the President for Consumer Affairs. The staff of the Commission at the end of 1971 included an Executive Director and three other professional members. The Commission received administrative services from the Council of Economic Advisers, and its budget was included in the budget of the

Council in fiscal year 1972. The Economic Stabilization Act of 1970, as amended and extended in December 1971, sets forth a number of objectives for the Commission and contains authorization for appropriations to carry out its activities during the period ending April 30, 1973.

PUBLICATIONS

The annual *Economic Report* is the principal means by which the Council provides the public with information and analysis of economic conditions and policies. About 50,000 copies of the February 1971 *Economic Report* have been distributed. The Statistical Office of the Council prepares *Economic Indicators*, which is issued monthly by the Joint Economic Committee. Approximately 10,000 copies of this publication are currently circulated.

NEEDED LEGISLATION

The Employment Act of 1946 requires that the *Economic Report* be transmitted to the Congress not later than January 20 of each year. It is also a statutory requirement that the *Budget* be sent to the Congress "during the first 15 days of each regular session"; customarily the *Economic Report* is presented a few days after the *Budget*. The fact that in recent years the Congress has not convened until after mid-January, however, has resulted in a later date for the transmission of the *Budget* and hence for the *Economic Report* as well. These later dates for the convening of the Congress and the transmission of the *Budget* have repeatedly necessitated a joint resolution of the Congress to permit the *Economic Report* to be presented after the statutory deadline of January 20. Accordingly, it would be advisable to amend the Employment Act of 1946 to provide that the *Economic Report* shall be transmitted to the Congress not later than 15 days after the *Budget*. This would retain the desirable features of a deadline, but would automatically ensure its consistency with whatever date the Congress might set to convene.

PUBLIC CONTACTS

From time to time during the year the Council met with groups of academic, business, and labor economists to discuss questions of mutual interest. Many individuals, including businessmen, labor leaders, foreign visitors, students, and educators, also visited Council Members for discussions. Another important channel of communication was the substantial number of speeches on economic developments and policy made throughout the year by Council Members and Senior Staff Economists. Finally, continuing contacts were maintained with representatives of the news media through personal interviews and telephone conversations.

ORGANIZATION AND STAFF OF THE COUNCIL

OFFICE OF THE CHAIRMAN

The Chairman is responsible for reporting the Council's views to the President, as officially provided by the Employment Act, as amended by Reorganization Plan No. 9 in 1953. This duty was discharged through direct consultations with the President and written comments on economic

developments and policy considerations. The Chairman also represented the Council at Cabinet meetings and at many other formal meetings and other contacts with Government officials. He also exercised ultimate responsibility for directing the work of the professional staff.

COUNCIL MEMBERS

The other two Council Members directly supervised the work of the professional staff. Although the Council is not organized into departments, there has been an informal division of responsibilities by subject area. Mr. Stein's areas in 1971 included forecasting and analysis of economic conditions, medium-term economic projections, fiscal policy and taxation, Federal budget matters, Federal credit programs, monetary policy, financial institutions, welfare and social security, agriculture, defense, manpower, and wages and industrial relations.

Responsibility for directing the work in international finance and trade policy, foreign aid and economic development, transportation and regulated industries, individual price behavior, technology, environment, antitrust, health and education, housing, private finance, energy, and urban and regional problems was handled by Mr. Solomon in 1971 after Mr. Houthakker resigned.

PROFESSIONAL STAFF

At the end of 1971 the professional staff consisted of 14 Senior Staff Economists, two Statisticians, five Junior Economists, and two Research Assistants. Members of the professional staff were responsible for economic analyses and policy recommendations in major subject areas involving the Council's interests and responsibilities. In addition, Staff Economists carried out many different Council and interagency assignments requiring a broad application of their general knowledge and analytical skills. The professional staff and their special fields at the end of the year were:

Senior Staff Economists

John D. Darroch.....	Prices and Industry Studies.
Murray F. Foss.....	Economic Analysis and Forecasting.
William E. Gibson.....	Monetary Policy, Financial Markets, International Finance.
Eric A. Hanushek.....	Urban Economics and Health, Education, and Welfare.
A. Gilbert Heebner.....	Special Assistant to the Chairman.
Alan K. McAdams.....	Environment, Industry Regulation, Research and Development.
Edward J. Mitchell.....	Energy Policy, Natural Resources, Industry Problems.
J. Carter Murphy.....	International Finance and Trade.
June A. O'Neill.....	Manpower Programs and Health, Education, and Welfare.
Mark J. Riedy.....	Housing, Private Finance, Business Conditions.
Frank C. Ripley.....	Economic Analysis and Forecasting.
Bernard Saffran.....	Fiscal Policy and Public Finance.
Gary L. Seevers.....	Agriculture and International Trade.
James R. Wetzel.....	Labor Economics and Manpower.

Statisticians

Frances M. James..... Senior Statistician.
Catherine H. Furlong..... Statistician.

Junior Staff Economists

Rayton Gerald..... Financial Markets.
William R. Keeton..... International Finance and Trade.
David C. Munro..... Economic Analysis and Forecasting.
Lydia Segal..... Economic Analysis and Forecasting.
H. Kemble Stokes, Jr..... Monetary and Fiscal Policies.

Research Assistants

Zell Berman.
Joanne M. Vinyard.

Frances M. James, Senior Staff Statistician, continued to be in charge of the Council's Statistical Office. Miss James had major responsibility for managing the Council's economic and statistical information system. She supervised the publication of *Economic Indicators* and the preparation of tables and charts for the *Economic Report* and for a wide variety of meetings throughout the year. She also handled the fact checking of memoranda, testimony, and speeches. Dorothy Bagovich, Catherine H. Furlong, V. Madge McMahon, and Natalie V. Rentfro assisted Miss James.

The Council also conducted a student intern program, employing a limited number of promising students of economics, both graduate and undergraduate, for various periods but particularly during the summer months. The 1971 interns were Daniel K. Benjamin (University of California, Los Angeles), Philip A. Cummins (Princeton University), Leslie Farber (University of Minnesota), Keith R. McLaren (Northwestern University), Alan A. Rabin (University of Virginia), David H. Schaefer (University of California, Santa Cruz), and Daniel L. Wisecarver (University of Chicago).

At the end of 1971 the list of economists serving as consultants to the Council included John T. Dunlop (Harvard University), Ray C. Fair (Princeton University), Milton Friedman (University of Chicago), Alan Greenspan (Townsend-Greenspan & Co.), Gottfried Haberler (Harvard University), Arnold C. Harberger (University of Chicago), Hendrik S. Houthakker (Harvard University), Stephen P. Magee (University of Chicago), John R. Meyer (National Bureau of Economic Research), Thomas G. Moore (Michigan State University), Saul Nelson (private consultant), David J. Ott (Clark University), George J. Stigler (University of Chicago), Stephen J. Tonsor (University of Michigan), Lloyd Ulman (University of California, Berkeley), Marina v.N. Whitman (University of Pittsburgh), Thomas D. Willett (Cornell University), and G. Paul Wonnacott (University of Maryland).

In preparing the *Economic Report*, the Council relied upon the editorial assistance of Rosannah C. Steinhoff (University of Michigan).

SUPPORTING STAFF

The Administrative Office coordinates the activities of all supporting personnel responsible for preparation and analysis of the Council's budget, procurement of equipment and supplies, processing of legislative referrals, distribution of Council speeches, reports, and congressional testimony, and responding to correspondence and inquiries from the general public. James H. Ayres served as Administrative Officer, assisted by Nancy F. Skidmore, Elizabeth A. Kaminski, Margaret L. Snyder, and Bettye T. Siegel. The duplicating, mail, and messenger department was operated by James W. Gatling, Frank C. Norman, and A. Keith Miles.

Secretarial staff members were Daisy S. Babione, Mayme Burnett, Evelyn D. DeZerne, Mary Catherine Fibich, Dorothy L. Green, Lillie M. Hayes, Laura B. Hoffman, Bessie M. Lafakis, Patricia A. Lee, Karen J. MacFarland, Eleanor A. McStay, Joyce A. Pilkerton, Earnestine Reid, Linda A. Reilly, and Alice H. Williams.

DEPARTURES

The Council's professional staff is drawn primarily from universities and research institutions, and these economists normally serve for 1 or 2 years. Senior Staff Economists who resigned during the year were Robert A. Kelly (Department of Housing and Urban Development), Marvin H. Kosters (Department of Labor), Irene Lurie (University of Wisconsin), Michael H. Moskow (Department of Labor), Sam Peltzman (University of California, Los Angeles), Rudolph G. Penner (University of Rochester), William L. Silber (New York University), T. Nicolaus Tideman (Harvard University), and Marina v.N. Whitman (University of Pittsburgh). Sidney L. Jones also resigned from the position of Special Assistant to the Chairman to return to the University of Michigan. Junior Economists who resigned in 1971 were Christine H. Branson and J. Michael Swint. Other resignations included Elizabeth F. Gray, Secretary, and Judson A. Byrd of the Administrative Office. Teresa D. Bradburn of the Statistical Office and Dorothy L. Reid, Secretary, retired from Federal service during 1971.