

Appendix B
REPORT TO THE PRESIDENT ON THE ACTIVITIES
of the
COUNCIL OF ECONOMIC ADVISERS DURING 1972

LETTER OF TRANSMITTAL

COUNCIL OF ECONOMIC ADVISERS,
Washington, D.C., December 29, 1972.

THE PRESIDENT:

SIR: The Council of Economic Advisers submits this report on its activities during the calendar year 1972 in accordance with the requirements of the Congress, as set forth in Section 4(d) of the Employment Act of 1946.

Respectfully,

HERBERT STEIN, *Chairman.*
EZRA SOLOMON.
MARINA V.N. WHITMAN.

Report to the President on the Activities of the Council of Economic Advisers During 1972

The Employment Act of 1946 established the Council of Economic Advisers to advise and assist the President in discharging his responsibilities under the act. In carrying out its duties in 1972, the Council devoted major attention to the programs and policies that were initiated by the President's New Economic Policy announced in August 1971.

Herbert Stein became Chairman of the Council on January 1, 1972, succeeding Paul W. McCracken, who returned to the University of Michigan. Mr. Stein is on leave of absence from the University of Virginia, where he is A. Willis Robertson Professor of Economics. Ezra Solomon served on the Council throughout 1972. He became a Member in June 1971 and is on leave of absence from Stanford University, where he is Dean Witter Professor of Finance.

On March 13, 1972, Marina v.N. Whitman became a Member of the Council, filling a vacancy created by the departure of Mr. McCracken at the end of 1971. Mrs. Whitman is on leave of absence from the University of Pittsburgh, where she is Professor of Economics.

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..... | |
| | Chairman..... | May 10, 1950..... | January 20, 1953. |
| John D. Clark..... | 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 15, 1953..... | February 9, 1955. |
| Walter W. Stewart..... | Member..... | December 2, 1953..... | April 29, 1955. |
| Raymond J. Saulnier..... | Member..... | April 4, 1955..... | |
| | Chairman..... | December 3, 1956..... | January 20, 1961. |
| Joseph S. Davis..... | Member..... | May 2, 1955..... | October 31, 1958. |
| Paul W. McCracken..... | Member..... | December 3, 1956..... | January 31, 1959. |
| Karl Brandt..... | Member..... | November 1, 1958..... | January 20, 1961. |
| Henry C. Wallich..... | Member..... | May 7, 1959..... | January 20, 1961. |
| James Tobin..... | Member..... | January 29, 1961..... | July 31, 1962. |
| Kermit Gordon..... | Member..... | January 29, 1961..... | December 27, 1962. |
| Walter W. Heller..... | Chairman..... | January 29, 1961..... | November 15, 1964. |
| Gardner Ackley..... | Member..... | August 3, 1962..... | |
| | Chairman..... | November 16, 1964..... | February 15, 1968. |
| John P. Lewis..... | Member..... | May 17, 1963..... | August 31, 1964. |
| Otto Eckstein..... | Member..... | September 2, 1964..... | February 1, 1966. |
| Arthur M. Okun..... | Member..... | November 16, 1964..... | |
| | Chairman..... | February 15, 1968..... | January 20, 1969. |
| James S. Duesenberry..... | Member..... | February 2, 1966..... | June 30, 1968. |
| Merton J. Peck..... | Member..... | February 15, 1968..... | January 20, 1969. |
| Warren L. Smith..... | Member..... | July 1, 1968..... | January 20, 1969. |
| Hendrik S. Houthakker..... | Member..... | February 4, 1969..... | July 15, 1971. |
| Paul W. McCracken..... | Chairman..... | February 4, 1969..... | December 31, 1971. |

ECONOMIC POLICY MAKING AND THE COUNCIL OF ECONOMIC ADVISERS

RESPONSIBILITIES OF THE COUNCIL

The central responsibility of the Council is to contribute economic analysis to the solution of public policy problems that warrant the attention of the Executive Office of the President. In the Employment Act of 1946, which created the Council, the primary goal mandated by the Congress was "to promote maximum employment, production, and purchasing power." The Council's major responsibility continues to be to provide the President with analysis and recommendations directed toward reaching that goal. The Council furnishes the President with regular reports on current economic conditions and forecasts of the economic outlook. Economic studies contribute information for Presidential decisions on appropriate policies to achieve greater price stability, to expand employment and economic growth, and to reach balance in the Nation's external payments position. In 1972 particular emphasis was placed on the proper evolution of aggregate demand management, the operation and evaluation of the price-wage control system of the Economic Stabilization Program, and the formulation of proposals for international economic reform.

The Council's role has broadened far beyond the primary goal of macroeconomic policy set forth in the Employment Act. Under the act, the Council is also given responsibility "to appraise the various programs and activities of the Federal Government." Experience has demonstrated that economic analysis can be useful in dealing with many issues other than employment and price stability. As the Council has become increasingly involved in a broader range of subjects, its direct advisory role to the President has been expanded to include advisory work with many departments, agencies, and offices in the executive branch. Members of the Council's staff maintain close working relations with other agencies and assist in evaluating current programs and developing new ones.

The Council's activities in 1972 covered a wide range of economic issues. The Council participated in areas of emerging prominence, including the evaluation of science policies, the development of programs to improve environmental quality, studies of productivity in the food sector, and an intensive review of the Nation's energy problems. Contributions were made to the analysis of changes in tax regulations, social security benefits and financing, Federal credit programs and regulation of financial markets, as well as to the formulation of agricultural programs, review of the timber supply situation, and the evaluation of housing programs. The Council continued to analyze the problems of certain regulated industries, particularly transportation, and examined several aspects of national growth policy. Work in the area of human resources included a review of manpower programs and the study of a variety of issues in health and education. In many instances the Council provided leadership to interagency studies in these fields.

The problems and policies of international trade and investment continue to be a major concern of the Council. The Council helps formulate the Administration's position on overall international trade policy, and it also works on the resolution of specific trade problems. In 1972 the Council contributed to decisions on meat imports, preparations for upcoming trade legislation and negotiations, and studies of the impact of direct foreign investment and the transfer of technology abroad.

The Council also provided liaison with the President's Advisory Panel on Timber and the Environment. The Panel is expected to submit its report and recommendations to the President in early 1973.

In September the President announced that he had requested the Chairman to organize an Advisory Committee on the Economic Role of Women. The Committee's purpose is to expand knowledge of the role of women in the economy, to highlight problem areas, and to ensure that the economic interests of women are considered in the formation of economic policy. The first meeting of the Committee is planned for early 1973.

Early each year the President submits the *Economic Report of the President* to the Congress as required by the Employment Act. The Council assumes major responsibility for preparation of this *Report* which, together with the Annual Report of the Council of Economic Advisers, reviews the progress of the economy over the past year and outlines the Administration's policies and programs to achieve the goals of the act.

POLICY COORDINATION

Much of the Council's work is performed through joint activities with other agencies of the executive branch. The "Troika" system is the main working group that monitors the overall performance of the economy, examines the economic outlook, and analyzes stabilization policies. It ensures close working relationships between officials of the Treasury, the Office of Management and Budget (OMB), and the Council. A group of senior staff economists from all three agencies, known as T-3, conducts studies which are submitted to a second tier composed of a Council Member, the economist for OMB, and the Assistant Secretary of the Treasury for Economic Policy. This group, called T-2, reviews the analysis and clears it for consideration by the Troika, which includes the Chairman of the Council, the Director of OMB, and the Secretary of the Treasury. The Troika meets on a regular schedule every 2 weeks. When problems or concerns are such that the Chairman of the Board of Governors of the Federal Reserve System joins the Troika, the group is referred to as the "Quadriad." Both the Troika and the Quadriad meet from time to time with the President.

During 1972 the Council worked closely with the Cost of Living Council, which supervises the Economic Stabilization Program. Mr. Stein is Vice Chairman of this group, Mrs. Whitman serves on its planning committee, and senior staff economists are members of its senior review group and various informal working groups.

The Council is active in several areas of work coordinated by the Council on International Economic Policy and the Domestic Council. The Chairman also served as a member of the National Commission on Productivity, the Regulations and Purchasing Review Board, the Property Review Board, the Oil Policy Committee, the Joint Board on Fuel Supply and Transport, and the Defense Programs Review Committee.

In addition to these relatively formal groups that provide for coordination of economic analysis and policy, the Council and the professional staff served as members of approximately 30 other interagency working groups, including several on the quality of Federal economic statistics.

In November 1972 the President announced a new Council on Economic Policy, which will be chaired by George P. Shultz, the Secretary of the Treasury. The Council of Economic Advisers will be a member of the new Council and will participate actively in many of the working groups that will be the main vehicle through which the new Council will function.

The Chairman and Council Members appeared before the Joint Economic Committee (JEC) of the Congress four times during 1972. The JEC, like the Council, was created by the Employment Act of 1946. The act requires the JEC "to make a continuing study of matters relating to the *Economic Report*" and to submit its own report and recommendations to the House and Senate. The Council testified on the *Economic Report* before the JEC on February 7 and appeared again on July 24 in connection with the midyear review of the economy. In addition, the Chairman presented testimony with Mrs. Whitman to the JEC regarding the Economic Stabilization Program (April 14); and he presented testimony with Mr. Solomon during the hearings on unemployment problems (October 26). Mr. Stein also testified before two other congressional committees in 1972: before the House Ways and Means Committee on June 6 and September 19 in connection with raising the Federal debt ceiling and before the House Appropriations Committee on January 27 concerning the Federal budget. Mr. Solomon testified on the relation between the Federal budget and the economy before the Senate Appropriations Committee and the House Ways and Means Committee on February 1.

The Council maintained an active role in the growing international dialogue on economic policy. The Chairman heads the U.S. delegation to the Economic Policy Committee of the Organization for Economic Cooperation and Development. He also serves as Vice Chairman of the Committee. Council Members and senior staff economists attended meetings of several different working parties of the Committee during the year. Mr. Solomon and Mrs. Whitman head the U.S. delegations to Working Party II on economic growth and resource allocation and Working Party IV on inflation, respectively. A new activity was initiated in March when Mr. Solomon and two members of the staff met in Tokyo with officials of the Japanese Economic Planning Agency to discuss economic issues of common interest. In September a six-member delegation from Japan came to Washington

to continue the informal discussions. This exchange proved to be productive, and plans are being made to continue it in 1973. The Council was also host to a delegation from the Economic Council of Romania in March 1972. The delegation was headed by Manea Manescu, Chairman of the Economic Council and one of Romania's Vice Presidents.

PUBLIC INFORMATION

The annual *Economic Report* is the principal medium through which the Council informs the public of its work and its views. It is also an important vehicle for presenting and explaining the Administration's overall economic policy, both domestic and international. Distribution of *Reports* in recent years has averaged about 50,000 copies. The Council also assumes primary responsibility for the monthly *Economic Indicators*, a publication prepared by the Council's Statistical Office, under the supervision of Frances James. The Joint Economic Committee issues *Indicators*, which has a distribution of approximately 10,000 copies.

Information is also provided to the public through the speeches and participation in seminars and panels by the Chairman, the Members, and the senior staff economists throughout the year. The Council held frequent press conferences during 1972 to comment on important economic statistics shortly after they were released. Each year the Council answers numerous requests from the press and provides economic information in response to inquiries from individual citizens. In addition, the Council and staff schedule visits from business, academic, and other groups and individuals as often as they can without interfering with other responsibilities.

ORGANIZATION AND STAFF OF THE COUNCIL

OFFICE OF THE CHAIRMAN

The Chairman is officially charged with reporting the Council's views to the President under authority of the Employment Act, as amended in 1953 by Reorganization Plan No. 9. He performs this duty through direct consultations with the President, regular memoranda on the economy, and written submissions on special issues that arise. The Chairman represents the Council at meetings of the Cabinet and in many other formal and informal contacts with Government officials.

COUNCIL MEMBERS

Together the two Council Members are responsible for all subject matter covered by the Council, including direct supervision of the work of the professional staff. Members represent the Council at a wide variety of meetings and assume major responsibility for the Council's involvement in many activities. One of the Council Members automatically becomes Acting Chairman whenever the Chairman is absent from Washington.

In practice, the small size of the Council's staff permits the Chairman and Council Members to work as a team in most circumstances. There is, however, an informal division of subject matter between them. Mr. Solomon's areas in 1972 included domestic economic and financial conditions and outlook; fiscal policy and monetary policy; manpower programs; taxation and social security; energy; defense; housing; and national growth policy.

Mrs. Whitman is responsible for the analysis of international economic developments and policy. Other areas under her supervision include price and wage developments, particularly the Economic Stabilization Program; human resource programs; industry studies, including agriculture and transportation; environmental programs; and issues related to regulated industries.

PROFESSIONAL STAFF

At the end of 1972 the professional staff consisted of 13 senior staff economists, two statisticians, and eight members of the junior research staff. 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 |
| Geza M. Feketekuty..... | International Finance and Trade |
| Murray F. Foss..... | Economic Analysis and Forecasting |
| William E. Gibson..... | Monetary Policy, Financial and Mortgage Markets, and International Finance |
| Ronald F. Hoffman..... | Public Finance and Social Security |
| Mary W. Hook..... | Business Conditions and Forecasting |
| William A. Johnson..... | Energy, Defense, Urban Economics, and National Growth Policy |
| Leo V. Mayer..... | Food and Agriculture |
| June A. O'Neill..... | Manpower Programs, Health, Education, Welfare, and the Economic Role of Women |
| Nicholas S. Perna..... | Labor Economics and Manpower Programs |
| Gary L. Seevers..... | Special Assistant to the Chairman |
| Robert D. Tollison..... | Environment, Industry Regulation, Research and Development |
| Robert C. Vogel..... | Fiscal Policy, Public Finance, and Econometrics |

Statisticians

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

Junior Staff Economists

| | |
|-----------------------|-----------------------------------|
| Paul W. Boltz..... | Public Finance |
| David C. Munro..... | Economic Analysis and Forecasting |
| Andrew J. Safr..... | International Finance and Trade |
| Lydia Segal..... | Econometrics and Forecasting |
| Mary E. Sullivan..... | Financial and Mortgage Markets |

Research Assistants and Interns

Zell Berman
Irwin L. Collier, Jr.
Robert S. Dohner

Frances M. James, Senior Staff Statistician, continued to be in charge of the Council's Statistical Office. Miss James has major responsibility for managing the Council's economic and statistical information system. She supervises 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 handles the fact checking of memoranda, testimony, and speeches. Catherine H. Furlong, Dorothy Bagovich, V. Madge McMahon, and Natalie V. Rentfro assist Miss James.

The Council conducts a student intern program, employing a limited number of promising graduate and undergraduate students of economics for temporary periods, particularly during the summer months. Interns who served during 1972 were Irwin L. Collier, Jr. (Yale University), Robert S. Dohner (Harvard University), Eric B. Herr (Indiana University), Susan C. Nelson (Princeton University), William P. Starnes (Rice University), Mary E. Sullivan (University of Minnesota), and Michelle J. White (Princeton University).

Each year the Council obtains the consulting services of several economists. Consultants who provided services during 1972 included Alan Greenspan (Townsend-Greenspan & Co.), Hendrik S. Houthakker (Harvard University), Stephen P. Magee (University of Chicago), Thomas G. Moore (Michigan State University), and G. Paul Wonnacott (University of Maryland). James R. Golden (U.S. Military Academy) was a member of the professional staff during the summer.

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

SUPPORTING STAFF

The Administrative Office provides administrative support for the entire Council staff including 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, Bettye T. Siegel, and D. Carolyn

Fletcher. The duplicating, mail, and messenger department was operated by James W. Gatling, Frank C. Norman, and Kharl A. Williams.

The secretarial staff for the Chairman and Council Members consisted of Joyce A. Pilkerton, Mary Catherine Fibich, Alice H. Williams, Mayme Burnett, and Patricia A. Lee. Secretaries for the professional staff included Cheryl L. Green, Dorothy L. Green, Bessie M. Lafakis, Jean P. Noll, Julie L. Ohner, Earnestine Reid, Linda A. Reilly, and Lillie M. Sturniolo.

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 Eric A. Hanushek (U.S. Air Force Academy), Alan K. McAdams (Cornell University), Edward J. Mitchell (Cornell University), J. Carter Murphy (Southern Methodist University), Mark J. Riedy (Federal Home Loan Bank Board), Frank C. Ripley (Data Resources, Inc.), Bernard Saffran (Swarthmore College), and James R. Wetzel (Board of Governors of the Federal Reserve System). A. Gilbert Heebner also resigned from the position of Special Assistant to the Chairman to return to the Philadelphia National Bank. Junior economists who resigned in 1972 were Rayton Gerald, William R. Keeton, and H. Kemble Stokes, Jr. Other resignations included Daisy S. Babione, secretary; Evelyn D. DeZerne, research assistant; Karen J. MacFarland, secretary; Joanne M. Vinyard, research assistant; and A. Keith Miles of the Administrative Office. Laura B. Hoffman, secretary, and Eleanor A. McStay, secretary, retired from Federal service during 1972.