

Appendix A

REPORT TO THE PRESIDENT ON THE ACTIVITIES

OF THE

COUNCIL OF ECONOMIC ADVISERS DURING 1978

LETTER OF TRANSMITTAL

COUNCIL OF ECONOMIC ADVISERS,
Washington, D.C., December 29, 1978.

MR. PRESIDENT:

The Council of Economic Advisers submits this report on its activities during the calendar year 1978 in accordance with the requirements of the Congress, as set forth in section 10(d) of the Employment Act of 1946 as amended by the Full Employment and Balanced Growth Act of 1978.

Cordially,

CHARLES L. SCHULTZE, *Chairman*
LYLE E. GRAMLEY
WILLIAM D. NORDHAUS

Report to the President on the Activities of the Council of Economic Advisers During 1978

With the enactment of the Full Employment and Balanced Growth Act of 1978, the chartering legislation of the Council of Economic Advisers was substantially revised for the first time since the Council was created by the Employment Act of 1946. The new act, which was signed by the President on October 27, 1978, is better known as the Humphrey-Hawkins Act, after the primary sponsors of the law, Senators Hubert and Muriel Humphrey and Congressman Augustus Hawkins.

Under the Full Employment and Balanced Growth Act, the basic mission of the Council of Economic Advisers is unchanged. The Council is to continue to advise and assist the President in the formulation of national economic policies and in Presidential decisions on other matters that affect the economic life of the Nation. However, the Humphrey-Hawkins Act creates an important new framework within which the government is to pursue policies designed to reach our economic objectives.

The act reaffirms and enlarges upon the commitment of the Employment Act of 1946 by declaring that it is a national objective to provide full opportunities for useful employment to all Americans willing and able to work. The Humphrey-Hawkins Act also legislates for the first time a national commitment to reduce the rate of inflation. The act recognizes as well the need for better coordination of monetary and fiscal policies, and to that end establishes new procedures and requirements for the President, the Congress, and the Federal Reserve System.

The new law requires that the President each year set forth in the *Economic Report of the President* numerical goals for employment, unemployment, production, real income, productivity, and prices during the next 5 years. Short-term goals for these key indicators of the economy's health are to be established for 2 years, and medium-term goals for the subsequent 3 years.

The Full Employment and Balanced Growth Act sets forth specific numerical goals for unemployment and inflation for the 5-year period now ahead. The act states that the goal for unemployment in 1983 should be 4 percent overall and 3 percent for workers aged 20 and over. For inflation, the act sets a goal of 3 percent by 1983 and, after that goal is achieved, zero percent by 1988. These are highly ambitious goals that cannot be realized

solely through fiscal and monetary measures. The act recognizes this in two ways.

First, it recommends to the President a wide range of policies that might serve to attack the problems of unemployment and inflation. The act does not require him to pursue any specific policies, nor does it authorize spending on any new programs. If the President wishes to adopt policies mentioned in the act, he must seek congressional authorization to fund the new programs.

Second, the act authorizes the President, beginning with the second *Economic Report* published after passage of the act, to recommend goals for unemployment and inflation in 1983 that differ from those provided for in the act, if economic circumstances make such changes necessary. The act provides, however, for continued commitment by the Congress and the President to the objective of reducing unemployment to 4 percent as soon as feasible.

If the President recommends a change in the 1983 goal for reducing unemployment, his *Economic Report* must designate the year in which he believes that the 4 percent goal can be achieved. The Congress may then include in its first concurrent budget resolution its own timetable for attaining the 4 percent unemployment goal. The budget resolution may also contain such a statement if the President should, in subsequent years, recommend a year for reaching 4 percent unemployment other than that set in a future congressional budget resolution.

Each year the President is required by the new act to present budget recommendations for the 2 years immediately ahead that are consistent with the short-term goals set forth in his *Economic Report*. He is also required to present projections for the budget in the subsequent 3 years that are consistent with the medium-term goals set out in the *Economic Report*. Similarly, the act calls upon the Congress, in its consideration of the budget, to take into account the economic goals recommended by the President. Every year, when debate on the first concurrent budget resolution is begun in each House of Congress, up to 4 hours of debate are to be reserved for discussion of the economic situation and its implications for budgetary policy.

The Federal Reserve Board is required by the act to review the President's budget and *Economic Report* and to report to the Congress regarding the President's recommendations and the manner in which monetary policies are related to his goals. The Congress, in its yearly deliberations on the budget, is to take into account not only the President's program but the views and policies of the Federal Reserve Board as well. Through this process, the act should promote a better coordination of the Nation's economic policies.

The Council of Economic Advisers played an active role in the development of the Full Employment and Balanced Growth Act. During 1977 the

Council joined sponsors of the act in discussions that led to the legislation introduced in mid-1977 with the President's full support and passed by the Congress in 1978. During congressional consideration of the act, the Council worked closely with members of Congress, their staffs, and other government agencies to achieve passage of the legislation.

The *Economic Report of the President* and the *Budget of the United States*, published in January 1979, will be the first issued under the new act, and the first to set forth economic goals in the fashion required by the new act. They will also carry out the requirement of the Humphrey-Hawkins Act that each year the Office of Management and Budget review selectively a number of national priority programs and policies that can further the purposes of the act. The act particularly directs the Office of Management and Budget to study such significant issues as government policies affecting energy and agriculture, the problems of urban areas, and the expansion of exports. Similarly, the act requires that the *Economic Report of the President* include a report on investment policy that discusses both the needs of businesses for investment capital and the government's policies to support adequate rates of capital formation.

FUNCTIONS OF THE COUNCIL OF ECONOMIC ADVISERS

The Employment Act of 1946 challenged the government to pursue policies that would achieve maximum employment, production, and purchasing power. Recognizing the evolution of the economy since 1946, and the increasing importance of the inflation problem in today's economy, the Full Employment and Balanced Growth Act adds to that mandate. The Federal Government still is to promote high levels of employment and production. Now, however, the government is also called upon to pursue prudent budgetary policies, to seek an improved international trading position for the United States, and to take steps to assure reasonable price stability.

These new legislative objectives are fully consistent with the Council of Economic Advisers' current role in the Administration, a role that has grown steadily since 1946 as new economic problems placed new demands on the Council and its staff. Today the Council is responsible for advising the President on such widely differing matters as Federal fiscal policies, efforts to reform the Federal regulatory system, and the international economic policies of the U.S. Government.

MACROECONOMIC POLICIES

From the outset the Council's fundamental role has been to advise the President on comprehensive economic policies designed to achieve the government's objectives for employment, output, and price stability. To fulfill this responsibility the Council develops economic forecasts several times each year with the assistance of an interagency forecasting committee. The members of this committee include, in addition to the Council, representa-

tives from the Office of Management and Budget and the Departments of the Treasury, Commerce, and Labor. This group, which is chaired by a Member of the Council, meets to analyze the outlook for individual sectors of the economy and to develop detailed economic forecasts for the period immediately ahead. The Chairman of the Council presents these forecasts to the Economic Policy Group (EPG), made up of the President's principal economic advisers, which meets each week to discuss and develop the Administration's economic policy proposals. The Chairman of the Council of Economic Advisers is a member of the EPG and of its steering group.

In the final months of each year, during the preparation of the President's annual budget, the Council also presents to the Economic Policy Group, and later to the President, proposals for Federal fiscal policies during the coming fiscal year. The development of advice to the President on macroeconomic policy thus remains one of the Council's major responsibilities.

The Council also worked actively during 1978 with the Council on Wage and Price Stability to develop and apply measures to combat inflation, including the program that the President announced to the Nation on October 24, 1978. The Council on Wage and Price Stability was chaired by the Chairman of the Council of Economic Advisers, Charles L. Schultze, until October 1978, when Alfred E. Kahn was named Advisor to the President on Inflation, and Chairman of the Council on Wage and Price Stability.

MICROECONOMIC POLICIES

In addition to its work on overall economic policies, the Council of Economic Advisers is increasingly involved in the analysis of microeconomic issues—those policy actions and economic developments that affect individual sectors of the economy, or even individual industries and markets. During 1978 the Council helped form the Administration's policies regarding agriculture, energy, financial institutions, health insurance, welfare reform, and other major issues. The Council and its staff were also actively involved in developing the tax program that the President submitted to the Congress in January 1978.

During 1978 the Council continued to chair the interagency Regulatory Analysis Review Group (RARG), created late in 1977 to review selected analyses of the economic effects of major regulatory proposals. The President has ordered that each major regulatory proposal must be accompanied by a regulatory analysis. The analysis is to be developed by the regulatory agency originating the proposal and submitted for public comment before the final regulation takes effect. During the period for public comment the Regulatory Analysis Review Group evaluates the regulatory analysis, and its appraisal is filed in the agency's record of public commentary. In 1978 five major regulations were reviewed by the RARG: the Occupational Safety and Health Administration's standard on workers' exposure to acrylonitrile, and its generic carcinogen policy; the Environmental Protection Agency's

ambient air quality standard for ozone; the Department of Transportation's regulation on access to mass transit facilities for the handicapped; and the Department of the Interior's surface coal mining and reclamation regulations. At year's end, reviews were under way of the Environmental Protection Agency's new source performance standards for steam-powered electric generating plants and the Department of Energy's coal conversion regulations. The Council's staff took an active part in preparing several of the review group's comments on these regulations and in coordinating the activities of the RARG.

The Council of Economic Advisers continued during 1978 to participate in developing the Administration's international economic policies. The Chairman of the Council also served during the year as the Chairman of the Economic Policy Committee of the Organization for Economic Cooperation and Development (OECD). In that capacity he chaired three meetings of the committee, which consists of senior economic officials from OECD member governments.

The Council also participates in the working parties of the OECD Economic Policy Committee on inflation, balance of payments adjustment, and medium-term growth, as well as the ad hoc group on positive adjustment policies. Council Members or staff economists, representing the U.S. Government, attend periodic meetings of these working parties during the year.

PUBLIC INFORMATION

The Full Employment and Balanced Growth Act retained the requirement, originally set forth by the Employment Act of 1946, that the President submit a report to the Congress each year on the state of the economy. As noted earlier, however, the Humphrey-Hawkins Act requires new information to be included in the *Economic Report of the President*.

The Council assumes major responsibility for the preparation of the *Economic Report of the President*, which also contains the annual report of the Council. This publication is the principal channel through which the public is informed of the Council's work and views, and it is of further importance in presenting and explaining the Administration's domestic and international economic policies. In recent years about 50,000 copies of the *Report* have been distributed annually.

The Council prepares a monthly publication, *Economic Indicators*, which is a compendium of statistical information developed by the Council's Statistical Office for the Joint Economic Committee of the Congress. Each month about 10,000 copies of *Economic Indicators* are distributed.

Information is also provided to members of the public through speeches and other public appearances by the Chairman, Members, and staff economists of the Council. In 1978 the Chairman and Members made 23 appearances before committees of the Congress to testify on the Administration's economic policies. Among its publications this year the Council in-

cluded a Staff Paper on the taxation of capital gains, prepared by John Yinger, a senior staff economist, with the help of other members of the Council's staff. Less formally, the Council answered numerous requests from the press in 1978 and provided information on a wide range of economic topics in response to inquiries from individual citizens.

ORGANIZATION AND STAFF OF THE COUNCIL

OFFICE OF THE CHAIRMAN

Charles L. Schultze, appointed Chairman of the Council in 1977, communicates the Council's views to the President through direct consultation as well as through written reports dealing with particular economic developments, programs, and proposals. The Chairman represents the Council at meetings of the Cabinet and other official events.

COUNCIL MEMBERS

The two Council Members supervise the work of the Council's professional staff. Members also represent the Council at meetings of public and private groups concerned with economic affairs, and they assume major responsibility for the Council's involvement in the activities of the government that affect the economy. Lyle E. Gramley and William D. Nordhaus continued to serve as Council Members during 1978.

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 15, 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. Walllich	Member	November 1, 1958	January 20, 1961.
Walter W. Heller	Member	May 7, 1959	January 20, 1961.
James Tobin	Chairman	January 29, 1961	November 15, 1964.
Kermit Gordon	Member	January 29, 1961	July 31, 1962.
Gardner Ackley	Member	January 29, 1961	December 27, 1962.
	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, 1963	January 20, 1969
Merton J. Peck	Member	February 2, 1966	June 30, 1968.
Warren L. Smith	Member	February 15, 1968	January 20, 1969.
Paul W. McCracken	Member	July 1, 1968	January 20, 1969.
Hendrik S. Houthakker	Chairman	February 4, 1969	December 31, 1971.
Herbert Stein	Member	February 4, 1969	July 15, 1971.
	Member	February 4, 1969	
Ezra Solomon	Chairman	January 1, 1972	August 31, 1974.
Marina v.N. Whitman	Member	September 9, 1971	March 26, 1973.
Gary L. SeEVERS	Member	March 13, 1972	August 15, 1973.
William J. Fellner	Member	July 23, 1973	April 15, 1975.
Alan Greenspan	Member	October 31, 1973	February 25, 1975.
Paul W. MacAvoy	Chairman	September 4, 1974	January 20, 1977.
Burton G. Malkiel	Member	June 13, 1975	November 15, 1976.
	Member	July 22, 1975	January 20, 1977.

The Council staff is small enough to permit the Chairman and Members to work together as a team on most major policy issues. To facilitate coordination of the staff's work, however, responsibility for the major economic topics of concern to the Council has been informally divided between the two Members. Mr. Gramley has continued to take primary responsibility in 1978 for macroeconomic analysis, including the preparation of economic forecasts, and for labor market policies. Mr. Nordhaus has supervised international economic analysis and microeconomic analysis, including analysis of policies in such areas as energy, agriculture, social welfare, and oversight of regulatory reform activities.

PROFESSIONAL STAFF

At the end of 1978 the professional staff consisted of the Special Assistant to the Chairman, 10 senior staff economists, 2 staff economists, 1 statistician, and 5 junior staff economists.

The professional staff and their special fields at the end of the year were:

Peter G. Gould Special Assistant to the Chairman

Senior Staff Economists

Thomas C. Earley	Agriculture and Food Policy
Robert J. Flanagan	Labor Market and Anti-Inflation Policies
Steven W. Kohlhaugen	International Financial Developments and Trade
Val L. Koromzay	International Financial and Economic Developments, and Trade
Susan J. Lepper	Monetary and Financial Policies, Housing, State and Local Finance, and General Macroeconomic Analysis
David C. Munro	Business Conditions Analysis and Forecasting
David S. Sibley	Regulation
Lawrence J. White	Regulation
David A. Wyss	Business Conditions Analysis and Forecasting, and Health Policy
John M. Yinger	Public Finance and Income Maintenance Policy

Statistician

Catherine H. Furlong Senior Statistician

Staff Economists

Robert E. Litan	Regulation and Energy
Michael J. McKee	Business Conditions Analysis and Forecasting

Junior Economists

James P. Luckett.....	Labor Market Policies
Robert S. Lurie.....	Regulation and Energy
Frederick W. McKinney...	Public Finance, Income Maintenance, and Health Policy
Elizabeth A. Savoca.....	Business Conditions Analysis and Forecasting
Wanda S. Tseng.....	International Economic Developments and Trade

Catherine H. Furlong, Senior Statistician, is in charge of the Council's Statistical Office. Mrs. Furlong has primary responsibility for managing the Council's statistical information system. She supervises the publication of *Economic Indicators* and the preparation of the statistical appendix to the *Economic Report*. She also oversees the verification of statistics in memoranda, testimony, and speeches. Natalie V. Rentfro, Earnestine Reid, and Elizabeth A. Kaminski assist Mrs. Furlong.

From time to time during the year, the Council calls upon outside economists to provide special assistance on projects relating to their particular specialty. During 1978 consultants to the Council included Peter K. Clark (Stanford University), Donald H. Fullerton (Stanford University), Frank S. Levy (The Urban Institute), and John B. Shoven (Stanford University).

During the summer James R. Golden (U. S. Military Academy) was a member of the professional staff.

In preparing the *Economic Report* the Council relied upon the editorial assistance of Rosannah C. Steinhoff. Also called on for special assistance in connection with the *Report* were Dorothy L. Reid and Dorothy Bagovich, former members of the Council staff.

SUPPORTING STAFF

The Administrative Office of the Council of Economic Advisers provides general support for the Council's activities. Nancy F. Skidmore, Administrative Officer, prepares and analyzes the Council budget and provides general administrative services.

Elizabeth A. Kaminski, Staff Assistant to the Council, handles general personnel management, serves as Executive Secretary to the Regulatory Analysis Review Group, and provides general assistance to the Council and to the Special Assistant in the management of the Council's activities.

Members of the secretarial staff for the Chairman and Council Members during 1978 were Patricia A. Lee, Linda A. Reilly, Florence T. Torrison, and Alice H. Williams. Secretaries for the professional staff were M. Catherine Fibich, Bessie M. Lafakis, Joyce A. Pilkerton, Bettye T. Siegel, Margaret L. Snyder, and Lillie M. Sturniolo.

Marie G. Boccucci provided secretarial assistance during the summer months.

DEPARTURES

The Council's professional staff members most often are on leave to the Council from universities, other government agencies, or research institutions. Their tenure with the Council is usually limited to 1 or 2 years. Senior staff economists who completed their appointments with the Council during the year were Roger E. Brinner (Data Resources, Inc.), Peter K. Clark (Stanford University), Nina W. Cornell (Federal Communications Commission), George E. Johnson (University of Michigan), J. B. Penn (Department of Agriculture), Jeffrey R. Shafer (Federal Reserve Board), and William L. Springer (Data Resources, Inc.). Arthur E. Blakemore, staff economist, resigned to accept a position with the Council on Wage and Price Stability.

Junior economists who resigned in 1978 were Michael S. Golden (Congressional Budget Office), Howard K. Gruenspecht (Domestic Policy Staff), Richard I. Kolsky (Yale University), Richard A. Koss (Wharton Econometric Forecasting Associates, Inc.), Julianne M. Malveaux (Rockefeller Foundation), and Martha M. Parry (Stanford University).

James W. Gatling and Frank C. Norman joined the new Office of Administration created in the Executive Office of the President as part of the President's 1977 reorganization of his own staff offices.

