TWENTIETH ANNIVERSARY
OF THE
EMPLOYMENT ACT OF 1946
AN ECONOMIC SYMPOSIUM

JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES

EIGHTY-NINTH CONGRESS
SECOND SESSION

FEBRUARY 23, 1966

Printed for the use of the Joint Economic Committee

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HEARING

BEFORE THE

JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES

EIGHTY-NINTH CONGRESS

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CONTENTS

MORNING SESSION, 9:30 A.M., INTERNATIONAL BALLROOM EAST, THE WASHINGTON HILTON

Page

Introduction and opening statement: Representative Wright Patman, Chairman, Joint Economic Committee 1
Opening statement: Grover W. Ensley, chairman, Special Committee on the 20th Anniversary of the Employment Act of 1946 3

THE EMPLOYMENT ACT OBJECTIVES—AFTER 20 YEARS

Roy Blough, professor of international business, Graduate School of Business, Columbia University 5
Henry C. Wallich, professor of economics, Yale University 12

AGGREGATE OR STRUCTURAL APPROACHES TO ACHIEVING EMPLOYMENT ACT OBJECTIVES

Leon H. Keyserling, president, Conference on Economic Progress 19
Arthur F. Burns, president, National Bureau of Economic Research, Inc., and professor of economics, Columbia University 27

LUNCHEON SESSION, 12 NOON, INTERNATIONAL BALLROOM CENTER, THE WASHINGTON HILTON

USING FISCAL AND MONETARY POLICIES TO FURTHER EMPLOYMENT ACT OBJECTIVES

Walter W. Heller, professor of economics, University of Minnesota 35
Raymond J. Saulnier, professor of economics, Barnard College, Columbia University 48

AFTERNOON SESSION, 2:30 P.M., INTERNATIONAL BALLROOM EAST, THE WASHINGTON HILTON

PRICE-COST BEHAVIOR AND EMPLOYMENT ACT OBJECTIVES

Kermit Gordon, vice president, The Brookings Institution 59
Paul W. McCracken, professor of business conditions, School of Business Administration, University of Michigan 67

ADMINISTRATION OF THE EMPLOYMENT ACT

Bertram M. Gross, professor of political science, and director, national planning studies, the Maxwell Graduate School of Citizenship and Public Affairs, Syracuse University 76
Gerhard Colm, chief economist, National Planning Association 80
Neil H. Jacoby, dean of the Graduate School of Business Administration, University of California (paper read by Karl Brandt, professor emeritus, Stanford University) 83
John W. Lehman, regional director, U.S. Bureau of Labor Statistics, Cleveland, Ohio 87

QUESTIONS AND OBSERVATIONS FROM THE AUDIENCE

Grover W. Ensley, presiding 90
Participants: 90
Edwin G. Nourse, first Chairman of Council of Economic Advisers
Theodore J. Kreps, former Staff Director, Joint Economic Committee, and emeritus professor of business economics in the Graduate School of Business at Stanford University 91

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Participants—Continued

	Page
Karl Brandt, professor of economic policy, emeritus, Stanford University	93
George E. Outland, former Congressman from California, professor, San Francisco State College	95
James Tobin, professor of economics, Yale University	95
Kermit Gordon, replying	96
Raymond J. Saulnier, replying	97
Stephen K. Bailey, dean, Maxwell School of Citizenship, Syracuse University	97
Walter Heller, replying	98
Jack Stieber, director of the School of Labor and Industrial Relations and professor of economics, Michigan State University	98
Leon H. Keyserling, replying	99
Sidney Koretz, economics writer	101
Kermit Gordon, replying	102
Louis K. Mather, economics writer	102
Walter Heller, replying	103
Richard Long, Federal Reserve Bank, Atlanta	103
Kermit Gordon, replying	103
William Freund, Prudential Insurance Co	103
Walter Heller, replying	103
Additional comments—	
Leon H. Keyserling	104
Bertram M. Gross	104
Henry C. Wallich	104
Gerhard Colm	105

DINNER SESSION, 7:30 P.M., INTERNATIONAL BALLROOM, THE WASHINGTON HILTON

Grover W. Ensley, presiding	107
Greetings from—	
Representative Wright Patman, chairman, Joint Economic Committee	109
Senator Jacob K. Javits, ranking minority member, Joint Economic Committee	110
Messages from—	
Former President Harry S Truman: read by Hon. Richard Bolling, member, Joint Economic Committee	112
Former President Dwight D. Eisenhower: read by Hon. William B. Widnall, member, Joint Economic Committee	113
President Lyndon B. Johnson: read by Hon. Henry H. Fowler, Secretary of the Treasury	113
Summary of Symposium—	
James W. Knowles, executive director, Joint Economic Committee	115
Responses to Summary—	
Senator Paul H. Douglas, vice chairman, Joint Economic Committee	120
Representative Thomas B. Curtis, senior minority member, Joint Economic Committee	123
Gardner Ackley, Chairman, Council of Economic Advisers	128

APPENDIX

History of the Employment Act of 1946	133
Press release announcing formation of Special Committee on the 20th Anniversary of the Employment Act of 1946 (dated Aug. 6, 1965)	140
Press release announcing 20th anniversary of Employment Act of 1946 to be marked by all-day economic symposium (dated Oct. 22, 1965)	141
Advance program of economic symposium	142
Press release announcing that economic symposium of Feb. 23 would be moved to downtown hotel because of space limitations at the Capitol	146
Biographies of members of the Joint Economic Committee and of participants at economic symposium	147

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EMPLOYMENT ACT OF 1946

(PUBLIC LAW 304—79TH CONGRESS)

DECLARATION OF POLICY

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

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AN ECONOMIC SYMPOSIUM ON THE OCCASION OF THE 20TH ANNIVERSARY OF THE EMPLOYMENT ACT OF 1946

WEDNESDAY, FEBRUARY 23, 1966

CONGRESS OF THE UNITED STATES,
JOINT ECONOMIC COMMITTEE,
Washington, D.C.

MORNING SESSION, 9:30 A.M., INTERNATIONAL BALLROOM EAST,
THE WASHINGTON HILTON

The symposium convened at 9:30 a.m., in the International Ballroom East of The Washington Hilton Hotel, Representative Wright Patman (chairman of the Joint Economic Committee) presiding.

Present: Representatives Patman, Bolling, Boggs, Reuss, Griffiths, Curtis, Widnall, and Ellsworth; Senators Douglas, Javits, Miller, and Jordan.

Also present: James W. Knowles, executive director; John R. Stark, deputy executive director; Marian T. Tracy, financial clerk; Hamilton D. Gewehr, administrative clerk; and staff economists William H. Moore, Nelson D. McClung, George R. Iden, and Donald A. Webster (minority).

STATEMENT OF REPRESENTATIVE WRIGHT PATMAN, CHAIRMAN, JOINT ECONOMIC COMMITTEE

Representative PATMAN. This morning the Joint Economic Committee begins another unique experiment in congressional procedures, stimulated by the 20th anniversary of the Employment Act of 1946 under which our committee was created.[1] The actual anniversary date fell on February 20—last Sunday.

It is indeed fitting that we should again be experimenting with new techniques of economic investigation and debate as we begin the third decade of the history of one of the most important experiments in economic policy formulation in American history.

The act itself was inspired by the experience of boom, prolonged depression, war, and by fear of repetition of the economic dislocations which had so badly damaged the Nation in the 1930's. Those of us who labored to obtain national agreement on this statute believed that there was a wide variety of policy tools available which were not being adequately employed to prevent mass unemployment, depression, falling farm prices, bankruptcy, and loss of profits. We believed that World War II had taught that proper coordination of Government and private policies could—without adding any new powers or any

[1] The *Employment Act of 1946, as Amended, With Related Laws,* is available from the Publications Office, Joint Economic Committee.

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new interferences with the rights of free workers, businesses, and farmers—produce a more stable, more prosperous, more rapidly growing America without the constant fear of inflation or deflation.

We are convinced that the great objectives set forth in section 2 of the act, together with the President's Economic Report, the Council of Economic Advisers, and this committee, have contributed to 20 years of better economic performance than would have occurred had not this coordination of policy been made a matter of paramount national concern. Not only have there been successes, there have obviously been shortcomings to policy.

It was with this in mind that the committee encouraged a group of five outstanding experts who have served under the act to design this day's economic symposium as a unique form of congressional hearings. It is intended to be a device to solicit advice and counsel as to where we have succeeded, where we have failed, and in what directions public and private policies could be altered to improve this Nation's economic performance in the years ahead to the benefit of all of our citizens. This is but the first step in our review.

Today we hear from experts assembled by Dr. Grover W. Ensley, formerly our committee's executive director, and the four individuals who have served with him on the Special Committee on the 20th Anniversary of the Employment Act of 1946, and who have served also with the Council of Economic Advisers—Dr. Walter W. Heller, Dr. Raymond J. Saulnier, Dr. Gerhard Colm, and Dr. Henry C. Wallich. We are indeed grateful to this special committee for their unselfish and unpaid labors in the public interest on this occasion. It is but a mark of the great contributions that they have made in the past to the success of this statute and the machinery it created.

We hope that today's deliberations will produce the basis for stimulating many other individuals and organizations to advise the committee in the months ahead at our invitation as to where we might go in further clarifying and promoting the objectives of the Employment Act. It is only by constant attention to the opportunities and ideas for further progress that our national economic policies can be constantly improved.

We are most grateful to all of you who have come here to participate, and we shall study with great attention and interest the results of this and successive deliberations.

I would like to have inserted in the record a history of the Employment Act of 1946 which the committee staff has prepared; the press releases issued by the committee announcing this economic symposium; the advance printed program; and the biographical sketches of members of the Joint Economic Committee and of the participants in today's proceedings. (See appendix, p. 133.)

During the day—again in a unique departure from the usual practice—these sessions will be presided over by the man who has acted as chairman of the Special Committee on the 20th Anniversary of the Employment Act—Dr. Grover W. Ensley. Dr. Ensley is executive vice president of the National Association of Mutual Savings Banks. He was with the Joint Economic Committee as associate director from 1949 to 1951 and as executive director from 1951 to 1957.

Dr. Ensley, will you please take the chair?

Dr. ENSLEY (presiding). Thank you very much, Mr. Chairman.

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OPENING STATEMENT OF DR. GROVER W. ENSLEY, CHAIRMAN OF SPECIAL COMMITTEE ON THE 20TH ANNIVERSARY OF THE EMPLOYMENT ACT OF 1946; AND EXECUTIVE VICE PRESIDENT OF THE NATIONAL ASSOCIATION OF MUTUAL SAVINGS BANKS

Dr. ENSLEY. Ladies and gentlemen, and participants in today's economic symposium. Twenty years ago last Sunday, President Truman signed the Employment Act of 1946. It had been passed by unanimous vote of the Senate and by a large majority of the House of Representatives. Passage of the act concluded a vigorous and productive debate in which representatives of agriculture, labor, business, government, and the academic and research community participated. On February 20, 1946, a new chapter in the Nation's economic and political history was begun.

At the time he signed the act, President Truman said:

> In enacting this legislation, the Congress and the President are responding to an overwhelming demand of the people. The legislation gives expression to a deepseated desire for a conscious and positive attack upon the ever-recurring problems of mass unemployment and ruinous depression * * *. The Employment Act of 1946 is not the end of the road, but rather the beginning. It is a commitment by the Government to the people—a commitment to take any and all of the measures necessary for a healthy economy, one that provides opportunities for those able, willing, and seeking work. We shall try to honor that commitment.

Later, in his memoirs, President Truman has observed:

> Occasionally, as we pore through the pages of history, we are struck by the fact that some incident, little noted at the time, profoundly affects the whole subsequent course of events. I venture the prediction that history, some day, will so record the enactment of the Employment Act of 1946.

Earlier, Congressman Patman, one of the original sponsors, urged adoption of the conference report on the legislation, and concluded his remarks by saying:

> We will always have some unemployment. We cannot expect people to be 100 percent employed * * *. Yet we want a policy which, if carried into effect, will cause us to have just as little unemployment as possible and provide maximum or full employment to the greatest extent possible for the people.

In the Senate, one of the principal architects of the legislation as it was finally passed, Senator Robert A. Taft, said in support of the bill.

> We declared a general policy of the Government to use all its means to bring about a prosperous condition so that people looking for work may expect to find work.

In the 20 years that have passed since the legislation was enacted, the Nation's economy has been subject to many and varying stresses and strains. The domestic and international environments in which the economy operates have also undergone many changes. Yet the objectives for the economy as specifically stated or implied in the Employment Act have become increasingly acceptable, and the mechanism established by the act for implementing public and private policy has become increasingly sophisticated and responsive.

It is appropriate and gratifying, therefore, that the Joint Economic Committee, with the full cooperation of the Council of Economic Advisers, took the initiative to present today's economic symposium.

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The special committee appointed by the Joint Economic Committee to plan and carry out this commemorative occasion is honored to have this responsibility. The committee is grateful for the help and support we have received in developing today's program. A scrupulous effort has been made to prepare a balanced and comprehensive program of subjects and speakers. Specific subjects have been assigned each speaker. Therefore he will not be able to freelance on any and all of the topics that he may choose.

We are, of course, pleased that our program has had the blessing of the bipartisan leadership of the Joint Economic Committee and of the Council of Economic Advisers. The special committee trusts the audience and participants will find the day and evening stimulating. More importantly, we hope this symposium will make a contribution to the development and improvement of public and private economic policy in the future.

In the interest of time, we have prepared biographical material on the speakers, which was given to you when you entered the auditorium. These will be inserted in the printed proceedings (p. 147). Therefore when I call on each speaker I will only cite his connection with the act and his present position.

To assure that the symposium proceeds on schedule, and to permit time for audience participation this afternoon, the speakers have been asked to stay within the time limits imposed by the special committee; namely, 25 minutes for presentations in connection with the first four subjects, and 12 minutes for those discussing the fifth topic. I will notify the speakers when they have 1 minute to go and bring the gavel down hard when the allotted 25 minutes or 12 minutes, respectively, have been used.

May I venture an observation at the outset? One of the greatest achievements of the Employment Act during the past 20 years has been the improvement in economic knowledge and the use of that knowledge by public and private policymakers. I believe that no area of American life has witnessed a more dramatic revolution than in this area. The Joint Economic Committee and the Council of Economic Advisers have tried hard to assimilate economic knowledge and use it in generating consensus in the interest of designing and administering economic programs to achieve the objectives of the Employment Act. Too often we have neglected to recognize what has been accomplished. I believe that today's symposium will demonstrate considerable consensus on objectives, on programs, and on machinery.

But while the consensus may have noticeably widened in the past 20 years, as the day progresses we will realize that there are still many areas of disagreement among responsible and well-qualified experts and statesmen.

Today we will first examine the Employment Act objectives after 20 years. Then we will consider the analytical approaches in developing programs for achieving these objectives. The luncheon session will be devoted to a discussion of Federal fiscal and monetary policies. This afternoon we will start off with a discussion of price-cost behavior and Employment Act objectives, and conclude by considering the administration of the Employment Act.

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Time has been allotted for approximately 1 hour of questions from the audience, with the session recessing promptly at 5:30 this afternoon. The reception in the terrace will begin at 6:30 p.m. Dinner will be served promptly at 7:30. Following greetings and messages, the dinner program will be devoted to a summary and appraisal of the day's symposium.

Now, let us turn to the first subject: "The Employment Act Objectives—After 20 Years."

Our two distinguished speakers will consider such important questions as what was the original commitment of the Federal Government under the Employment Act? Has passage of time changed the consensus as to that commitment? Does the act give significant weight to stability of prices? What has been the effect of the Nation's international obligations on achievement of domestic economic goals?

The first presentation is by Dr. Roy Blough, a member of the Council of Economic Advisers from 1950 to 1952, and now professor of international business in the Graduate School of Business at Columbia University.

Dr. Blough.

STATEMENT OF DR. ROY BLOUGH, PROFESSOR OF INTERNATIONAL BUSINESS, GRADUATE SCHOOL OF BUSINESS, COLUMBIA UNIVERSITY

THE EMPLOYMENT ACT OBJECTIVES—AFTER 20 YEARS

Dr. BLOUGH. Chairman Patman, Chairman Ensley, friends old and new of the Employment Act. Much of the program of this symposium is directed to a discussion of ways and means of achieving the objectives of the Employment Act of 1946. An obvious starting point is a review of what those objectives are, so that hopefully differences of opinion regarding ways and means will meet head on instead of sliding by each other inconclusively. However, there is no clear-cut distinction between objectives and ways and means. The Employment Act objectives are not the ultimate goals of individual or social life, they are themselves only ways and means to achieve those goals.

To analyze the evolution of Employment Act objectives it may be interesting to compare briefly the situations at 10-year intervals, starting 4 decades ago, in 1926, when traditional economic policies were firmly in control. It was, as I recall it, a time of complacency, at least in governmental circles, regarding economic policy. President Wilson had refused to call a conference on unemployment after the war, but the economy had righted itself rapidly. "Back to normalcy" had won in the election of 1920 and "hands off of business" in 1924. In 1926, the party in power was firmly entrenched. The dominant influence and moral authority of business were only weakly challenged if at all, in the executive, legislative, and judicial branches of the Federal Government. The economy was in good shape, with rising levels of production, relatively stable prices, and an improbably low recorded unemployment rate of 1 percent of the labor force. The balance of international payments was satisfactory.

To be sure, agricultural surpluses were proving recalcitrant, while the Florida land boom and collapse suggested an excess of euphoria.

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But in general, the experience of the economy was demonstrating the rightness of such traditional doctrines as the annually balanced budget, rapid retirement of the national debt, great freedom for business, the gold standard, and a banking system geared only to the changing credit demands of business. Say's law of markets seemed never more secure. While the germ idea of Federal responsibility for the economy can be traced far back in American history, it seemed irrelevant in 1926.

Ten years passed quickly; now it was 1936. Again, the party in power was firmly entrenched, but there was no complacency now. The puzzling 1929 crash and 1929–33 slide had been followed by some recovery, but production had not yet returned to the level of 1929, much less to that of 1926. While the population had gone up 14 percent in 10 years, employment was lower, and the unemployed were counted at 17 percent of the labor force.

The New Deal since 1933 had been experimenting with various plans for recovery, but without notable success. Neither pump priming nor the efforts to set a floor under price and wage competition, nor yet a 70-percent increase in the price of gold had restored prosperity or employment. The Government's basic adherence to doctrines of "sound finance" was attested by the fifth tax increase in 5 years. However, the new tax happened to be a tax designed to force the distribution of corporate profits which engendered enormous business hostility. The undistributed profits tax illustrated the shift in ideas that had taken place. In 1926 the policymakers practiced, and the public accepted, the idea that the pursuit of private interest by businessmen was enough to promote the public interest and maintain high employment. By 1936 it was clear from the depression that this result had not followed; the inference, however, was not so much that the economic policy was wrongly conceived but rather that businessmen had been "bad boys" and were not carrying out their responsibilities. This "bad boy" concept of business embittered the relations between the Government and business throughout the period.

The year 1936 also saw the publication of J. M. Keynes' book, "The General Theory of Employment, Money, and Interest." This was a highly significant development for U.S. economic policy. The book offered a persuasive explanation by a noted economist of why previous efforts had been so disappointing, and proposed a more effective approach.

Great changes in national policy are not made for minor reasons. There must first be a destruction of faith in traditional principles and policies, and then the creation of at least hope if not faith in new principles and policies. The depression only gradually destroyed for those in power the faith in traditional principles and policies. The Secretary of the Treasury tried hard to make them work, but when in the autumn of 1937 he announced to a skeptical and derisive audience of businessmen that a balanced budget was imminent, the economy was already sinking into a new sharp recession. That was the last effort to balance the budget as a method of getting out of depression. The shift to the essentially Keynesian ideas that the economy could stagnate at a low-level equilibrium with large unemployment, and that major governmental fiscal action might be necessary to raise demand

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to a full employment level began to take place in national policy after the recession of 1937–38.

There is no doubt in my mind that it was Keynesian thought, imported and domestically cultivated by Alvin Hansen and others, that was the chief basis for the hopes of the principal advocates of the Employment Act in 1945 and 1946. But the battle for the new doctrines would surely have be a prolonged one had it not been for the great object lesson of World War II. The acceptance of vast Federal outlays and deficit spending in time of war are as much a part of the American tradition as were minimum spending and balanced budgets in time of peace. With the preparation for war and entry into it the depression evaporated, and the problem shifted from underemployment and insufficient demand to overfull employment and excessive demand that had to be suppressed by direct controls to avoid spiraling wartime inflation.

During the war several nuclei of economists, mostly of the Keynesian persuasion, were set up in the new war agencies and elsewhere. New statistical tools and data were becoming available, thanks to the work done by Simon Kuznets, the National Bureau, and others. The inflationary gap was analyzed in the framework of a national economic budget. A missionary campaign to win converts for Keynesian principles among economists already in the Government had considerable success, being made easier by the fact that Keynesian policy toward war finance closely resembled orthodox policy.

Having drawn this sketchy background, I come to 1946 and the Employment Act. A person reading the Employment Act and knowing the fears that motivated it would be justified in concluding that unemployment was the central concern of the Congress in passing the act and would be the central concern in administering it. There were, to be sure, certain inconsistencies that clearly indicated two philosophies struggling, and ending in a compromise. For example, the Federal Government was "to coordinate and utilize all its plans, functions, and resources" to achieve the purposes of the act, and was to do it "in a manner calculated to foster and promote free competitive enterprise." While planning and free competitive enterprise seemed poles apart and were thought by many to be in conflict, I consider their combination in practice to be the key to the successful management of prosperity.

Notice what was not contained in the Employment Act. There was no mention of inflation although the law was debated and passed in a period of both open and repressed inflation. There was no mention of balance of payments or international equilibrium. Surprisingly, there was no mention of economic or social justice, or of the distribution of income and wealth, let alone of redistribution. The fighting words toward business of the 1930's were completely absent. These were scarcely accidental omissions; they were politically very wise, and they reflected the new national unity that the war had achieved. But they also reflected a basic shift in economic understanding. Depressions, it now appeared, were not caused by bad boys of business; the problem was more fundamental. Private business enterprise would inevitably develop fluctuations and other deficiencies that would require corrective or compensatory governmental action. Thus, the big shift in policy and economics was on its way. Given suc-

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cess for the new ideas in dealing with the postwar period, the old ideas would gradually disappear and be replaced by a growing consensus.

The Employment Act was directed to the problem of unemployment, but I think the real concern was for the much broader subject of the role of the Federal Government in the economy generally—what various writers have called the management of prosperity. The very first Economic Report of the President, issued in January 1947, said little about employment and much about inflation and many other matters, incorporating the President's whole economic policy, domestic and foreign. Even the embryo of the wage-price guidelines is there: "For its own advantage as well as that of the country at large, labor should refrain from demands for excessive wage increases that would require price increases." Subsequent reports of the President, as well as the reports of the Council, continued to cover a broad scope.

Thus, even before the first report, the major immediate concern had moved from unemployment to inflation. The combined economic objective then was full employment with economic stability, that is, price stability. Before long, economic expansion or growth also became a major objective. Leon Keyserling, in particular, took the initiative in the Council in the early promotion of this objective, linking it to both employment and national strength. The combined objective thus before many years became economic growth at high employment with economic stability. This three-legged objective was generally accepted, but which of the three legs was the most important was widely debated.

The Joint Economic Committee and its staff played an important role in rounding out the objectives of the Employment Act. It was well situated to do so, having forward-looking chairmen and committee members, a very able and imaginative staff, money, and no immediate administrative or legislative responsibilities. The hearings and symposia of the joint committee and its subcommittees gave the academic community a much-appreciated sounding board for advanced ideas. In the early 1950's, the committee staff made projections of potential economic growth and showed the failure of the economy to achieve the potential. The committee stimulated concern for growth also by publishing comparisons of Russian and United States growth. It made extensive studies of the problems of low income groups. Its monetary studies were influential in the change in policy toward the Government bond market. One of its subcommittees under the chairmanship of Wilbur Mills, now chairman of the Committee on Ways and Means, laid notable foundations for future tax and fiscal policy. In these and other areas of policy the work of the joint committee and its staff laid foundations for later adoption of effective tools of analysis and goals of policy.

Let us move another decade to 1956. The uncertain months of early 1953, when the future of the Council of Economic Advisers had hung in the balance, were a memory. The Council had been modified by statute to put the chairman in charge, and the new Council had every appearance of enjoying the confidence of the President and an increasing influence in the executive branch. The National Planning Association sponsored a 10th anniversary symposium in which were brought together the views of many members of Congress, leaders of economic groups, and former members and staff members of the

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Council. It was a one-sided symposium in the sense that only friends of the Employment Act were represented, but it reflected a wide range of economic, governmental and academic interests.

There was much general agreement: that the need for and value of Federal action in the economy had been demonstrated; that the provision for machinery in the executive and legislative branches to rationally appraise economic policies was a great advance; that the phrase "maximum employment, production, and purchasing power" was sufficiently comprehensive to embrace economic policies generally; and that the act had operated to stimulate business confidence and had promoted economic stability and growth.

Views diverged on a number of points in the 1956 symposium. With respect to basic philosophy, Dr. Edwin Nourse, the first chairman of the Council, differentiated between those who looked for the act to

> launch the Federal Government on a comprehensive and continuous program for engineering optimum performance for the whole economy

and—

> those who understood the act as merely stating a broad objective or ideal goal toward which effort would be directed and as introducing additions to our executive and legislative institutions which would aid the economy—both its private and its public sectors—in moving more competently toward that goal.

Dr. Nourse placed himself in the latter group. In this, he seemed clearly to be joined by the then current chairman, Arthur F. Burns, who for the symposium indicated agreement with those who believed that—

> the Government could probably help in some degree to moderate economic fluctuation without intruding unduly into private affairs or becoming a dominant factor in our economy.

The other former Council chairman, Leon H. Keyserling, was firmly in the optimum performance group. He called for presidential leadership and initiative, noting that—

> the commitment of the Employment Act to full employment economics, rather than to countercyclical economics * * * represents a profoundly valuable and virile shift in mood and emphasis.

Most other participants in the symposium could be identified explicitly or implicitly as being on one side or the other of this general issue of philosophy.

Of the many other significant matters dealt with in the 1956 symposium, two seem particularly important to my subject today. The first was a general recognition of the possible conflict at some levels of business between the objectives of high employment, rapid growth, and stable prices. The resultant problem was recognized as difficult, but there was a dearth of suggestions for reducing the conflict.

Another matter dealt with by some contributors implied a broadening of objectives to take into account the many problems that were present in an economy enjoying a generally high level of prosperity. I quote from Senator Douglas:

> Certainly we have not yet solved the problem of agricultural production and income, nor, to list a few of the more obvious ones, have we solved problems of chronically or temporarily distressed areas, the problems of dealing with rural and urban low-income groups, the problems of establishing a more just Federal tax structure, the pressing and troublesome need for freer international trade, and the problems of preserving the free enterprise system against the encroachment of monopoly and bigness.

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Emphasis on these structural problems constitutes in my opinion a significant expansion or at least reinterpretation of the Employment Act objectives as originally visualized.

This brings me to 1966. In the decade since 1956, there have been many exciting developments in the implementation of the Employment Act. New ideas have blossomed, while old ideas have reached fruition, some under attractive new names.

As to the objectives themselves, perhaps the major new factor has been the need to maintain satisfactory international economic equilibrium. Our goal of managed prosperity now must comprise high employment, rapid economic growth, stable prices, and international equilibrium sufficient for us to bear our responsibilities as the world's leading banker. The balance-of-payments problem has reinforced the need for stable prices.

Another factor causing concern in some quarters is the economic and social instability inherent in rapid technological advance. While it is important for rapid growth, technological advance, especially in the form of automation, also presents a possible threat to employment. This problem should be met head on. Alleged solutions that would reduce employment in hours or otherwise below the desires of the individual worker would in my opinion represent the failure of business and public policies.

The problems of various sectors of the economy and of the distribution of economic opportunities have recently achieved a much higher position among policy objectives. The dignity of the individual, the relation of individuals to their economic groups, the distribution of income, social justice, clean air and water, esthetic surroundings, the problems of racial minorities, education, health, the poverty of groups within the society, urban slums—these are matters dealt with nowadays by the President in his economic report and by the joint committee in their studies, hearings, and reports. In some of these areas positive contributions up to a point can be made toward the goals of "maximum employment, production, and purchasing power." Beyond that point, issues involving serious conflicts of economic interest are likely to develop. It is a serious question whether the managers of prosperity can become politically involved in such controversies and still maintain a national consensus on their central economic objectives.

The most difficult problem concerning the major objectives of the Employment Act continues to be how to maintain stable prices at high levels of business activity. It has been a key problem at various times over the past 20 years, but perhaps never more so than today. To the extent that what is involved is a choice among objectives, one can accept more than frictional unemployment and make provision to minimize the resulting hardships; and/or, one can accept some degree of inflation and make provision for minimizing the resulting injury. In a well-balanced economy, having high resource mobility, together with responsible action by Government and the various economic groups, the "trade-off price" between inflation and unemployment ought to be low. A continuing maximum effort is called for to reduce this trade-off price to a minimum by social invention, better administration, better economics, better planning by business and Government, better public understanding, and more responsible behavior all around.

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I have covered sketchily a span of 40 years. In one sense, economic objectives can be said not to have changed much in that time. I would think that the American dream, as a dream, is today pretty much what it was in 1926—less optimistic, though more opulent, perhaps, but much the same. Continuing high employment, rising incomes, price stability, international equilibrium, prosperity for all—it is hard to think of anyone then or now not supporting these economic objectives.

But obviously there have been changes. The acceptance by the Government of responsibility for the economy and the growing consensus that this has benefited all economic groups is the most obvious. But there are others:

First, rapid population growth combined with greater industrialization, urbanization, and general complexity of the economy has made realization of the objectives more imperative for the maintenance of social peace and tranquility.

Second, important aspects of the American dream are now more attainable, thanks to advances in the economy and economics.

Third, political power has shifted in the direction of persons and groups to whom the economic objectives are more important and away from those who have thought it more important to insure freedom to use economic power without restraint regardless of its impacts.

Fourth, since about 1940, a new relationship has been developing between the private economy and Government, in which the importance of both, and their mutual dependence, has been increasingly recognized.

Fifth, thanks in part to the development of a continuing dialog among different economic groups, there is, I think, less tendency to see problems in blacks and whites, less tendency to divide people into the good guys—us—and the bad guys—them.

Sixth, continued economic growth has provided larger shares for all major groups, quieting social conflict, while affluence has pricked consciences and turned attention to sectors of the economy that have not shared in the general prosperity.

These are all significant and constructive changes. We can look back with considerable satisfaction, but in a time of revolutionary social change, of uncharted technological advance, and of international upheavals, all largely beyond our control, we dare not be complacent when we look forward.

I started out with the idea that there was such a conceptual entity as the objectives of the Employment Act. I end these comments recognizing that the matter is a highly susceptible one. Every person has his own pattern of objectives, and the social consensus, or discord, regarding objectives evolves with the changing times, which I suppose is both as it should and must be.

I thank you. [Applause.]

Dr. ENSLEY. Thank you very much, Professor Blough.

The second presentation on this subject is by Dr. Henry C. Wallich, a member of the Council of Economic Advisers from 1959 to 1961, and now professor of economics at Yale University.

Dr. Wallich.

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STATEMENT OF DR. HENRY C. WALLICH, PROFESSOR OF ECONOMICS, YALE UNIVERSITY

THE EMPLOYMENT ACT OBJECTIVES—AFTER 20 YEARS

Dr. WALLICH. Chairman Patman, Chairman Ensley, Members of the Congress, distinguished guests and friends, it is a tribute to a law and to the law's sponsors when 20 years after its passage no voice is raised deploring that event. It is an even greater tribute when, because it has worked well, there is widespread sentiment for strengthening that law. Both kinds of tribute, I believe, the Nation today pays to the Employment Act and those who conceived it.

Credit is due also to American political institutions and processes, and to the men who operate with and through them, for making the Employment Act work. The founding fathers of the act had the wisdom to make it a flexible instrument. The Members of the Congress and successive administrations have taken advantage of that flexibility to adapt the act to ever-changing conditions.

The experience of these changing conditions must be our principal guide to any extension of the act that we may want to contemplate. But before entering upon an analysis of that experience, I would like to examine briefly the elements of flexibility built into the act that have permitted its creative adaptation to changing conditions.

They are to be found in the marching orders of section 2 of the act: "The Congress declares that it is the continuing policy and responsibility of the Federal Government * * *." The passwords to prosperity there used are "maximum employment, production, and purchasing power." These are not the terms an academic economist might have chosen. Employment and production are largely, though not altogether, coextensive. "Purchasing power" is not a well-defined term. A maximum of three different variables is something at which a mathematician would wince—one cannot stand on three hilltops at once. These three goals, moreover, are tied to the preceding part of the sentence in a manner that leaves uncertain whether the "continuing policy and responsibility of the Federal Goverment" is to promote the three goals, unqualifiedly, or whether the Government's policy and responsibility is—

> to use all practicable means, consistent with its needs and obligations and with other essential considerations of national policy * * * to promote maximum employment, production, and purchasing power.

What I believe to read in this language is a desire of the legislator to see the Government play a larger role in the pursuit of national economic goals. The nature and content of these goals, however, was to some extent left flexible.

Experience has shown the wisdom of this decision. The Government's "needs and obligations and other considerations of national policy * * *" have changed repeatedly since the passage of the act. In 1946, fear of a great postwar depression was the dominant concern. This probably is the reason why price stability, which later became a serious problem, was not specifically mentioned among the objectives. As the avoidance of large-scale unemployment came to be taken for granted, national interest shifted to economic growth. This objective, too, was not mentioned in the act.

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Nevertheless, it became customary to integrate the new concerns of price stability and growth into the act by identifying "maximum production" with growth and "maximum purchasing power" with price stability. Employment remained employment. When the economy developed a persistent large balance of payments deficit, the possibility of which had not been anticipated in the days of massive dollar shortage, the policies appropriate for dealing with that problem, too, could be accommodated under "other essential considerations of national policy."

As of today, then, I would say that the specific content that experience has given to the goals of the Employment Act is full employment, growth, price stability, and payments equilibrium. Experience has also taught us something about the compatibility of these goals, and has forced us to decide on priorities.

We cannot have a maximum of everything at once. We therefore must try to establish the tradeoffs among goals; that is, how much of one must be sacrificed to gain a little more of another. This is an empirical question to which objective answers ought to be possible, within reason. We must also ask ourselves, each for himself, how much of one goal is worth sacrificing to get the obtainable amount of another. This is a value judgment on which agreement is unlikely.

Employment and growth are generally judged broadly compatible. Employment could be raised at the expense of growth, to be sure, by inhibiting automation and other productivity advances. But by raising the rate of growth it is always possible to raise also employment, and that is the sensible way to deal with automation.

The principal conflict occurs between employment and growth on one side and price stability and, in some circumstances, payments balance on the other. Economists' efforts to measure the tradeoff involved in trying to reduce unemployment at the expense of inflation have been embodied in the so-called Phillips curve. Estimates made for the American economy are not as firm as those available for the United Kingdom. They seem to show that it would take unemployment well in excess of 4 percent to achieve full stability of the consumer price index or the GNP deflator. The experience of the last few years seems to confirm this.

Personally I am skeptical of the durability of this approach. It seems to rest on the assumption that people will never learn to discount inflation. If labor really continues to believe that a 6 percent wage increase accompanied by 3 percent inflation is more than a 3 percent increase with no inflation, if businessmen continue to believe that the former increase is more costly to give than the latter, then unemployment can be permanently reduced by accepting more inflation. I doubt that people are incurably afflicted with this kind of money illusion.

If inflation can be predicted, it can be discounted. Labor, business, consumers, investors will think in "real" terms; that is, in terms of constant purchasing power. To achieve the same employment effect, inflation would have to be accelerated beyond the expected rate, and when that new rate became expected, more acceleration would be needed. Few people believe that constantly accelerating inflation is a feasible policy. I conclude that the possibility of raising employment by accepting inflation exists only in the short run, until people

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have caught onto the game. If that is true, the cost of price stability in terms of unemployment is very much lower than is commonly thought. Just how large the level of unemployment compatible with price stability is, and what can be done to lower it, is an important matter to which I shall return presently.

Next, let us contemplate the likewise much publicized conflict between price stability and economic growth. Some see a conflict because they equate growth with pushing employment to very high levels. That is a palpable misinterpretation of the meaning of growth, although a frequent one. Raising the rate at which existing productive capacity is utilized is not growth. True growth consists in increasing productive capacity itself. But a little reflection will show that growth in productive capacity is not closely dependent upon the rate of unemployment.

The principal factors through which a free market promotes growth are investment in plant and equipment, and research leading to technological advance. These are importantly influenced by the rate of growth of demand, by the pressure of demand upon plant and equipment capacity, and by the level of profits, both as incentive and as source of funds. Among these three stimulants to investment and research, the rate of growth of demand and the operating rate of equipment are not dependent upon the level of unemployment. GNP can be rising rapidly at lower as well as at higher rates of unemployment. Demand can press closely on plant and equipment capacity without pressing equally hard on labor capacity. Only profits may be dependent upon the level of unemployment—they are likely to be higher when there is some amount of inflation. But if inflation is of the cost push variety, even that ceases to be probable.

It is clear that heavy unemployment would act as a disincentive to investment and research in many ways. But the issue is not whether heavy unemployment should be tolerated—it obviously should not. The issue is whether growth could be promoted by reducing unemployment to the point where significant inflation occurs. The facts I have cited suggest that growth would benefit little from such policy.

Growth would suffer if inflationary pressures are combated mainly by high interest rates instead of by fiscal restraint. Proper fiscal policy can take us off the horns of this dilemma. I conclude that the conflict of price stability and growth is no deeper, and perhaps less so, than that between price stability and full employment.

Similar conclusions follow when we examine the frequently mentioned antagonism between balance-of-payments equilibrium on one side and full employment and growth on the other. Payments balance requires, broadly speaking, that the United States inflate no faster than other countries. Advocates of high inflation tolerance believe this competition-imposed quasi-stability may be a drag on full employment and growth. Many, therefore, propose flexible exchange rates. My own view, which I would like to note parenthetically, is that flexible rates would get us from the frying pan of payments imbalance into the fire of trade wars, exchange speculation, and accelerated inflation. But, in any event, the dilemma that flexible exchange rates supposedly would solve is itself more apparent than real. If price stability is not, in the long run, severely at odds with full employment and growth, neither is payments equilibrium. Moreover, the price restraint that

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needs to be applied in order to end a payments deficit is nonrecurring: once domestic prices have become more competitive, we can live happily ever after with a strong balance of payments.

Growth could be hurt by balance-of-payments policies that take the form of high interest rates to restrain capital outflows instead of fundamental improvement in competitiveness. Defensively high interest rates must remain a temporary measure. Aside from this, I believe in the longrun compatibility of payments balance with employment and growth.

It may be surprising to arrive at this happy conclusion about the possibility of peaceful coexistence among our goals, at least in the long run. It should not be. Truly competing objectives are those that make demands upon resources—more investment for growth versus more output for current consumption, moonshot versus poverty programs, public versus private use of resources. Full employment, growth, and price stability are not of this sort. Each moves in a different dimension. A rational society should have no permanent difficulty in reconciling them, though the learning period may be painful.

I have tried to show how the flexibility which the founding fathers introduced into the Employment Act has permitted a reinterpretation of its goals in the light of contemporary needs. Beyond that, I have argued that while there are serious shortrun conflicts among some of the goals that we now read into the act, these conflicts diminish in the long run. Next, I shall proceed to raise questions about the present explicit and implicit goals. Are they adequate as statements of our purposes, or should the act be amended, be it by making implicit goals explicit, or by defining targets more precisely, or by adding new goals?

In undertaking this assessment, I should like first to raise some general questions about the propriety of setting national goals in a democratic society.

There are pitfalls that the goal setter must avoid. First, the goal setter must bear in mind clearly that the Nation is nothing but the sum of its citizens, and that a nation's goals cannot be anything but the totality of their enlightened self-interest. To argue differently is to place democracy itself in jeopardy. For if the citizens' goals do not exhaust the national interest, then there must be somebody who knows better than the citizens what decisions to make. Totalitarian governments exalt the state and its goals against those of its people. A democracy cannot.

Second, the goal setter must remember that his activity involves certain logical perplexities that have never been satisfactorily resolved. It seems fair to demand that the process of democratic decisionmaking meet certain criteria of reasonableness. Yet it has been shown that the process often cannot meet these criteria. In other words, public decisionmaking may either violate democratic standards, or fail to demonstrate that it makes even the majority of voters better off. To illustrate, if three Members of the Congress were to rank the priorities of spending an added $1 billion on the poverty program, the moonshot, and defense, each in different order, there would turn out to be a majority of 2 to 1 favoring the poverty program over the moonshot, the moonshot over defense, and defense over the poverty program.

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Finally, even when it is clear that a majority is made better off by implementing a public goal, there is a question how far it can properly go in imposing its will upon the minority. In our system of checks and balances, this question is less serious than in a parliamentary system where even a small majority wields great power while it remains in office. In our system a narrow majority rarely can impose anything very serious upon the minority. The latter can usually bid away enough votes from the other side to block a proposal. Nevertheless, it should give the goal setter pause to think that, as broad goals are reduced to specific decisions, what makes the majority better off makes the minority worse off.

These thoughts, abstract as they are, counsel caution in setting national goals. The need for caution is underscored by the experience of the Employment Act goals. If the goals of maximum employment, production, and purchasing power were taken literally, they would long be out of date. They would have failed to anticipate the problem of inflation, the problem of growth as contrasted with mere "production," and the problem of the balance of payments. Interpreted in this sense, the lesson of experience is that goals date very quickly and that, raised to a high legal pedestal, they will be bypassed by the future. If the goals of the Employment Act are understood symbolically, as I have argued they should be, they demonstrate the virtue of flexibility. The lesson of experience, then, is that this flexibility should be preserved. We should not, by crystallizing the lessons of 20 years, try to freeze the wave of the future.

In addition to these warning signals, however, the lessons of the last 20 years also contain many positive hints. Economic experience does not necessarily lead to economic agnosticism. We have learned much about the goals that are explicit in the act, and about those that are implicit.

About employment we now know, what we did not know in 1946, that it can readily reach a 96-percent level and, what few would have believed then, can reach this level quite possibly without massive budget deficits. There is every reason to think that enough aggregate demand can push unemployment still lower. The experience of continental Europe, if not our own, shows that peacetime economies can achieve less than 1 percent unemployment, although differences in definitions may enter here.

At the same time we have observed, in the course of the past year, that below 5 percent unemployment significant price and wage pressures develop. "Full employment" seems to lie somewhere in the 4- to 5-percent range. As I have argued earlier, the relation between unemployment and prices probably is not a stable one. A small stable rate of inflation will help to keep unemployment down only so long as labor, business, and investors have not learned to discount it. But before this discounting becomes general, there is a trade-off between unemployment and inflation, and we are now discovering what it is.

To improve this trade-off is an urgent policy goal. Two approaches are available: to match the skill structure of the labor force to the skill structure of jobs, by education and retraining, and to modify wage and price setting habits of labor and business through the guideposts or some other form of incomes policy. The subject of policy tools, however, I must leave to other speakers.

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In time, we must succeed in reducing the level of "full employment unemployment" well below the 4- to 5-percent range. The experience of 1965 has shown that we cannot do it yet. With our employment goals thus in a state of flux, I conclude that it would not be advisable to write a precise employment target into the Employment Act.

The last 20 years also have taught us something about economic growth. We now know that the rate that has prevailed in the United States for so long as we have data is not easy to speed up. We did not know this during the first fine flurry of growth enthusiasm during the late fifties, when the sky was just an interim goal. We also have learned that we are still quite uncertain about the quantitative effect of particular actions to strengthen investment, research, and education, We know enough to be able to say that measures in these areas will accelerate growth. It would seem entirely reasonable for the voters and the Congress to decide that, in the light of international and domestic needs, we should accelerate growth. We can then adopt particular measures and see how far they take us. But the lessons of experience provide no basis for writing a particular growth rate into the law. We do not know the measures required to reach that rate, and we might not like them once we did know.

On the subject of price stability, the last 20 years have taught us that perfect stability is very hard to achieve. We have also learned that inflation, once it exceeds the 1- to 2-percent rate and becomes widely expected, can be kept from accelerating and reduced to a slower rate only at great cost. Even so, I am unable to share the view that a low rate of inflation, of 1 to 2 percent, is only a minor nuisance and a cheap price to pay for gains in employment and growth that, to boot, I believe to be transitory. A good monetary system is part of our social fabric, like our system of laws. Lack of trust in stable money means lack of trust in all economic relationships. It has been well said that an inflationary economy is like a country where nobody speaks the truth.

A government that inflates while professing to aim at stability, thus denying its people the opportunity to anticipate inflation correctly, may be acting in their interest in terms of employment and growth. But if such benevolent deceit is justified in economic matters, why not also in matters of war and peace, or any other? I prefer truth.

Our balance-of-payments experience of the last 8 years has taught us another lesson about inflation. If the international value of the dollar is to be maintained, and all that goes with it economically, politically, and militarily, we must keep our international payments in balance and hence inflation under control.

Payments equilibrium has become a major objective of policy in its own right. I see no escape from it through flexible rates. It is the only objective where a fairly precise target must be achieved. We can choose our way of achieving balance, beyond the deficit justified by amount of dollars the world wants, by exporting more, or investing less, or by borrowing abroad. But we cannot afford to run out of international reserves.

Since stable prices as a goal can be found in the Employment Act only by interpretation, and payments balance only under the catchall "needs and obligations and other essential considerations of national policy," there is a good case for writing both into the act. I would

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favor this amendment. However, I doubt that, up to the present, inflation and the payments deficit would have been fought any less energetically had the two new goals always been set forth clearly in the act. To amend the act, therefore, would not mean much without a new resolve on the part of the people and the Congress to hold the line hereafter.

Inclusion of price stability and payments balance would advance the Employment Act in a direction that strikes me as desirable: toward more qualitative goals. I use the term not in contrast to target goals, but as focusing on the content rather than the amount of things. The basic English of the Employment Act is heavily quantitative: a maximum of everything. But employment, too, has qualitative aspects. A job is not only a source of income, but the foundation of human dignity. Stability and balance, which a poet once equated, are qualitative concepts. As we become richer, it seems increasingly appropriate to concern ourselves not only with "how much?", but also with "how good?". The Great Society programs are designed largely to improve our life qualitatively as well as quantitatively—through medicare, education, the ending of poverty, pollution control, a more beautiful America. In time, I expect, our goals will become more social and less purely economic. As new aspirations acquire the status of national goals, they should be given greater force by embodiment in the Employment Act. Legislative pronouncements will have to reflect a broadly felt need, however, if they are to amount to more than economic New Year's resolutions.

Economists can play an important role in the evolution of our goals. Economics is a discipline that seeks to trace farflung interdependencies, remote often in point of impact as well as in time. If these lead to conclusions sometimes beyond the borders of economics, they are nevertheless worth following up. There are no disciplinary boundaries in national legislation.

Economists can render the best service to the evolution of our goals if we take advantage of these potentialities of our discipline. This means to emphasize more strongly the long-run effects of our recommendations. The short-run effects usually are sufficiently obvious to be visible without benefit of economic advice. We need not be dismayed by the retort that in the long run we are all dead, or that the long run unfortunately is a succession of short runs. It is equally true that most short-run problems are the long-run consequence of something that was done years ago.

Knowing that in economics everything depends on everything else, we should beware of the simple solutions to which human sympathies make us prone. We ought to know better than to say "there ought to be a law" in the face of every malfunctioning of markets and institutions. The cost of simple and direct solutions through government intervention may be felt in complex and indirect ways. The malfunctioning that arouses us often is the consequence of the simple and direct solution given to some other problem. And as representatives of a discipline that once prided itself upon having pulled away the "veil of money" that obscures real economic relationships, perhaps we should be more hesitant in proposing the creation of a little more money as the standard solution for all problems.

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The first 20 years of the Employment Act have given economists an unprecedented opportunity to place themselves at the service of the community. The experience, I believe, has been mutually beneficial, as transactions in free markets are supposed to be. Both sides can do even better during the next 20.

Thank you. [Applause.]

Dr. ENSLEY. Thank you very much, Professor Wallich.

In order to give time for you to stretch your legs, there will be a 5-minute recess. Those who have not purchased their luncheon or reception and dinner tickets will find an opportunity to do so outside at the information desk.

(A short recess was taken.)

Dr. ENSLEY. Resuming the economic symposium, we will now turn to the second subject, "Aggregate or Structural Approaches to Achieving Employment Act Objectives."

What does the act call for by way of economic analyses of Federal policymaking? Can goals and gaps be quantified or are qualitative factors more important? What weights should be given to these various approaches?

The first presentation will be made by Dr. Leon H. Keyserling, Vice Chairman of the Council of Economic Advisers from 1946 to 1950, and Chairman from 1950 to 1953. Dr. Keyserling is now the president of the Conference on Economic Progress.

Dr. Keyserling.

STATEMENT OF DR. LEON H. KEYSERLING, PRESIDENT, CONFERENCE ON ECONOMIC PROGRESS

AGGREGATE OR STRUCTURAL APPROACHES TO ACHIEVING EMPLOYMENT ACT OBJECTIVES

Dr. KEYSERLING. Mr. Chairman and friends, we had a very amicable dinner last night for the participants in this program. I hope that, after what some of us say here today, it won't turn out to have been the last supper.

Unaccustomed as I am to public reading, I nonetheless will have to read today, and read very fast because of the time limitation. If you miss anything because of the speed, you will be to that extent better off, or at least happier.

Background of the Employment Act

The wise injunction of those who planned this program was that we look to the future rather than bask in the glow of the past. We should not assume that this calls for major shifts in the emphasis which animated the original framers of the Unemployment Act. This act had its root proposals during the late 1920's, by a few leaders who foresaw the problem of mass unemployment. But from the very start these leaders never contemplated any narrow tests of economic progress. They were interested not only in how fast we were going but also in what directions; not only in the size of GNP but also in the speed at which we abolished poverty; not only in jobs but in what we produced; not only in total national income but in how it was distributed; not only in the aggregates but also in the com-

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ponents. And they sought means compatible with these ends. The Employment Act really projected a great experiment in planning under freedom an economic experiment infused with social purpose.

A good synopsis of that purpose may be found in my 1944 postwar planning essay, "The American Economic Goal." It spoke not of the defensive purpose of avoiding downturns, but of the dynamic purpose of realizing the full promise of America. It set as a prime goal in its first paragraph the abolition of poverty, which is as much a social as an economic purpose. Its proposal for joint determination by the executive branch and the Congress of specific goals for progress, integrated with policies to achieve these goals, and, lifted to the center of attention by inclusion in Presidential messages to the Congress, was essentially an outline of the final act of 1946. The one new feature of this essay, and of the act itself, was recognition that the New Deal era, allowing for some splendid accomplishments, was handicapped by the conflicting nature of its improvised and ad hoc policies, and that we should sieze in the postwar period the opportunity for selective application of what we had learned about the unlimited potentials of a reasonably coordinated and comprehensive economic policy during World War II.

The broad purposes of the Employment Act shed much light upon the subject assigned to me, and indicate that any rigorous dichotomy between aggregate and structural approaches to attaining the act's objectives is unrealistic and misleading. I shall regard the aggregate approach as looking at the economy as a whole and applying broad measures to increase the total volume of spending on demand, depending upon whether the economy is too slack or too tight. And I shall regard the structural approach as focusing upon the components of economic activity and the relationship among them.

Employment problems: aggregate and structural aspects

The policies and performance in recent years, to which I shall address some tempered criticism, have fallen short because they have not achieved an appropriate blend of these aggregate and structural approaches. For example, no unemployed person can become employed, unless he merely takes a job away from somebody else, without additional spending in the aggregate. Moreover, experience, as I read it, demonstrates conclusively that an increase in spending, whether directly by Government or induced by tax reduction, is the main approach to reducing unemployment and that training or retraining are auxiliary approaches. The prime reason why it has taken us so long to get within sight of maximum employment is that this aggregate approach has been used much too timidly.

Nonetheless, structural refinements of the aggregate approach are essential. In numerous industries, the rate of advance in technology and output per man-hour worked will remain more rapid than any likely rate of increased spending for the products of these industries, as determined by consumer choices, no matter how much money is jingling in their pockets. Here, there is not much opportunity to achieve sizable portions of the 22 to 27 million new jobs needed during the next 10 years to absorb the annual growth of the civilian labor force, plus new types of jobs for those eliminated by technology. To be sure, we might on paper solve the incremental employment problem

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by stimulating the economy enough to produce 20 million more autos each year than the year before, or 200 million more autos per year by 1975. We would then have to dump most of them into the ocean, and try to find room on the streets for the rest.

Quite apart from this, maximum employment is not nearly good enough, regardless of what it yields. We do not need jobs which produce 50 million more new gadgets each year nearly so much as we need new jobs which produce half a million new units of slum clearance and rehousing each year. And if we redirect the structure of spending or demand in accord with priority needs, the prospects for sustained maximum employment over the next decade will become very bright, because the immensity of these priority needs call for yearly expansion of output far in excess of the rate of technological change in these areas. But this restructuring of spending will not come automatically through mere increases in aggregate demand. It will require detailed planning and programs, which are also a condition precedent to the intelligent restructuring of the labor force through training, retraining, and other measures.

World War II experience is much in point. In 1939, with 8 million unemployed, we were debating whether the causes were aggregate or structural. But when war came, we stopped this largely arid debate and got down to brass tacks. On the aggregate side, we strove for maximum utilization of total resources, and we spent enough to get it. On the structural side, we recognized priorities, and combined selective cutbacks with selective acceleration. Every major policy undertook this combination. And because we knew both what we wanted and how much, we knew what to train the people for, and found no great difficulty in matching the labor force to the jobs.

Fiscal policy

Coming back closer to the present, recent fiscal policies have shown egregious disregard for an appropriate blend of aggregate and structural approaches. The 1966 Report of the Council of Economic Advisers admits at long last the point I have been urging for many years, that the three recessions since 1953 occurred because during the preceding upturn periods, investment in the plant and equipment which add to our production capabilities was advancing much too rapidly relative to the expansion of demand for ultimate products in the form of consumer expenditures and public outlays at all levels of government. And the Council is now concerned that, during 1964 and 1965, this type of investment advanced more than twice as rapidly as GNP.

Despite all this, the legislative and administrative tax reductions of 1962–65, having an annual value of close to $20 billion, directed almost half of this amount to corporate tax cuts and to aspects of personal tax reduction designed to increase the rate of saving for investment purposes. This also served to limit or restrict policies pointed toward adequate expansion of private consumption and much-needed public services. All of this reminds me of the man who drives his car up to the station and says, "Fill her up," without much regard for whether the gas is poured into the radiator, the oil into the tires, and the air or the water into the gas tank.

In consequence, at least a third of the tax reduction was wasted. Some went overseas to increase our balance-of-payments problem;

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some of it was used for the noneconomic function of bidding up the stock market excessively; some of it was purely saved, or used to increase consumption among those least entitled to enjoy these increases, while almost a fifth of our people lived in poverty.

To be sure, these incontinent tax cuts have stimulated the economy some; $20 billion a year thrown into the streets would have done that. But a very different structuring of the tax cuts, and a very different admixture of reduced taxes and increased public spending, would have provided much more efficient immediate stimulus to the economy, and been much more conducive to economic equilibrium in the long run.

Instead of bragging that unemployment now is the lowest since 1953, CEA should note that, even today, unemployment is 30 to 50 percent above the level consistent with maximum employment; that, due to rotation, a 4-percent unemployment rate means that at least 15 percent of the civilian labor force suffers at least 3 months of unemployment during the year, which drags them below the poverty-income ceiling, even if they were not there already because of substandard wages; that the true level of unemployment today, taking into account the full-time equivalent of part-time unemployment and the concealed unemployment due to scarcity of job opportunity, is 7 percent and not 4 percent; and that the relatively high incidence of unemployment among the vulnerables in Watts and in many large cities is an explosive force of terrible portent, especially in view of the rising tide of legitimate expectations. It is a national crime to be tolerating so much unemployment after 13 years of excessive unemployment, and CEA, instead of saying that we should move cautiously toward further reduction of unemployment, should reread the Employment Act, and, more important, read the faces of the unemployed.

As excessive unemployment is a correlative of inadequate economic growth, CEA should note that the real economic growth rate since 1961, or since 1963, has been considerably lower than during some period in the past when we enjoyed reasonably full resource use without price inflation; and that we need, in view of our openended international obligations and our crying needs at home, to strive to utilize fully the greatest nonsecret weapon of the United States, our proven ability to expand production even more rapidly. In the long run, this would be the best answer to inflation.

The CEA's projection of expanded output for 1966, 5 percent in real terms, should be compared with the 7 percent that we need for at least 2 years, to get back to full employment, even by 1968.

So the tax cut has not worked wonders. More important still, the primary purpose of fiscal policy through the Federal budget is not to enable us to increase or decrease taxes, depending upon whether or not we want to speed up or slow down the economy. The primary purpose is to induce the goods and services which the Nation needs most and cannot otherwise get. That is what the Federal budget is all about. Largely in consequence of the excessive tax cuts, the fiscal 1967 budget continues a downward trend in domestic public outlays, measured against the size of our national product. Some of the programs which sound more splendid remain only token programs. These token programs are doubly dangerous in a nation where 81

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million poor or deprived citizens have been aroused by the just aspirations of the Great Society.

We all admit that, if the large additional outlays required by the Vietnam war were to impose serious inflationary strains, we should increase taxes to cut back on the least essential private consumption and the types of investment which feed it. But we have gotten into a national mood which views very differently the high priorities of the Great Society: rescue of decaying cities; replacement of slums in which at least one-sixth of our people still live; rebuilding of obsolescent transportation systems; clearing of polluted airs and waters; replenishment and enlargement of national resources; provision of adequate medical facilities and personnel for the 40 percent of our people who cannot yet afford it and who are not covered by medicare; adequate expansion of educational personnel and facilities, and opening of college opportunity to those among our young people who have the ambition and ability to go there, but in 50 percent of the cases lack the means; lifting social security and welfare payments above miserably inadequate levels; improvements in minimum wages, and guarantee of minimum adequacy incomes for all Americans, through a negative income tax or otherwise; waging of an effective war against poverty on all fronts. To serve these great priorities, we remain unwilling to restraint scores of billions of dollars of marginal or even wasteful private spending. This is utterly unacceptable, no matter how roaringly prosperous we may be.

Price-wage guideposts

Coming to another example, CEA's wage and price guideposts, whether viewed in aggregate or structural terms, have been indefensible from the outset. The attempt to regulate wages but not profits, to look upon wages as a factor in business costs but not in consumer purchasing power, would not pass an elementary quiz in economics, especially during years when, as the CEA now belatedly admits, investment fed by profits was relatively excessive and ultimate demand relatively deficient. The guideposts have resulted in nationwide real wage rate gains lagging far behind nationwide average productive gains; prices have risen for reasons other than excessive wage costs; and the efforts to compensate for the resulting deficiencies in consumer purchasing power by tax reductions have placed an excessive strain upon fiscal policies, and have left the Government without sufficient revenues to serve adequately our great public priorities.

CEA's attempts—in industries where productivity is advancing fastest—to keep wage rate gains in line with nationwide average productivity gains might be justified on ultimate social grounds if the excessive profits which result were usefully diverted. This could be done either by substantial price cuts benefiting all consumers, including those receiving substandard wages, or by special taxes upon these excess profits, with the proceeds used to help the poor. But nothing of this sort has been attempted.

Also, almost nothing has been done to enable workers of the industries whose productivity gains have been below the nationwide average to achieve wage rate gains in accord with this average. Contributing thus to swollen profits and investment in some quarters, while neglect-

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ing real needs elsewhere, the guideposts have been stacked to feed the fat and starve the lean.

The 1966 guideposts, changing the rules in the middle of the game, and substituting CEA's guess as to productivity gains in the future for the revealed record of productivity gains during the past 5 years, violates what Mr. Justice Brandeis in another connection long ago called the average man's sense of decency and fairplay.

Minimum-wage legislation

Nor is this all. CEA, in contrast with the proposal of the House Committee on Education and Labor to lift the minimum wage to $1.75 by 1968, now tells us that the lift should be only to $1.60 by 1970. Since when are guideposts designed to make average income gains for all wage earners applicable to the poor and exploited? Since when should a family move out of poverty only as fast as others become even more affluent?

Beyond this, allowing for likely changes in the cost of living which must certainly enter into an appropriate minimum wage, the CEA proposal for 1965–70 would lift the minimum wage only by 3 percent, which is below the guideposts. And more properly, based on 1963 when the $1.25 went into effect, the average annual increase in real terms through 1970 would be only about 1.5 percent per year. And this from a CEA which has propagandized from coast to coast the urgency of personal tax cuts which increased by about 16 percent immediately the disposable income of a married couple with two children having an annual income of $200,000. What kind of a war against poverty is this, which would take a breadwinner earning $1.25 an hour in 1965 5 long years to reach $1.60, which would yield, even if he worked 40 hours a week and 50 weeks a year, an annual income barely above the poverty income ceiling, and well below the poverty ceiling when allowance is made of changes in the cost of living, and 47 percent below what the Department of Labor considers a "modest but adequate" family budget, even without allowing for changes in the cost of living?

To lift the minimum wage even to $2 an hour by 1970 would add only about 1½ percent per year or about $2.6 billion a year to the total wage bills of the affected firms. Would this be "inflationary" in terms of aggregate demand, in an economy with a GNP averaging far above $700 billion in the years immediately ahead? Would it make price increases necessary? Mostly not. And in a few instances, prices should be raised, even in accord with the guideposts, this to be compensated for by the price cuts elsewhere which CEA has developed no effective method to bring about.

Restraint of inflation, and monetary policy

CEA's minimum wage position shows how faulty is the purely aggregate approach to the whole problem of inflation. We debate whether the timing of the Federal Reserve Board has been good or bad from the viewpoint of stimulating or slackening up the economy through utilization of the control of the money supply. But this completely overlooks that some prices and incomes may need to be raised, and others lowered, to improve economic equilibrium, improve resource allocation, and to do simple justice.

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I have estimated that, from 1952 through 1965, we transferred about $60 billion of national incomes through rising interest rates alone. This transfer, in the main, has been toward those in least need of income supplementation. This transfer, in the main, has been away from the homeowner of scant or moderate means; the worker buying on time a secondhand automobile to get to work; the farmer trying to hold on to his farm; the family buying on time a television set to distract it from the fact that one or two of its potential breadwinners cannot get jobs, or borrowing money on time to finance a catastrophic illness or send a child to college. The Federal Government's interest payments on the national debt are now at an annual rate more than $4 billion in excess of what they would now be if interest rates had remained at the 1952 level; this sum is about 2½ times the size of the 1967 budget item for the Office of Economic Opportunity.

War against poverty

The outstanding example of excessive reliance upon the structural approach, as commonly defined, is the current war against poverty. The main focus here has been direct contact with the poor, in efforts to improve their personal characteristics through various uplift programs. This effort is worthy, but it impinges upon only a very small fraction of the poor, and its success even here depends upon a wide range of different efforts along more conventional lines.

About 40 percent of the poor, among senior citizens and families headed by women who cannot or should not work, cannot be helped much by training, retraining, or other types of personal processing. They need increased incomes through expansion of established insurance and welfare programs. About 60 percent of the poor are poor because their breadwinners are unemployed part-time or full-time, or employed at substandard wages, or because of some combination of these factors. Programs on these antipoverty fronts need to be quantified; they need to be integrated with the balanced use of all our resources in terms of competing needs.

For these reasons, the war against poverty, instead of being treated largely in isolation and brought into the CEA reports as an afterthought or appendage, should be the main focus of these reports. For at the very core of all our economic and related social efforts is the need to lift to an American standard of living the 34 million Americans who still live in poverty, and the 47 million others who live above poverty but in depravation nonetheless. What could do more to assure sustained maximum employment and production than to cultivate with fervor this greatest undeveloped market in the world for our own products, plus reconstruction of the oppressive physical environment in which they and many of the rest of us live?

Improved operations under the Employment Act

These are the challenges we face. They are both aggregate and structural. We have the resources to meet them, the know-how, and I believe the will. But this task can be vigorously commenced, in my view, only when the Employment Act utilizes what I have called an American economic performance budget. This should include these major elements, projected for the most part a decade ahead:

(1) Goals for sustained maximum employment. These should take into account, not only what might be regarded as normal growth in the

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civilian labor force, but also how the labor force participation should be smaller or larger, in terms of our resources measured against priority pressures. Both retirement and educational policies would thus become closely integrated with maximum employment policies. There is hardly such integration now.

(2) Goals for sustained maximum production at maximum employment. The factoring in of projected productivity gains, breaking away from excessive reliance upon historical trends, should place more emphasis upon empirical evidence that sustained full resource use accelerates productivity gains in the long run. We need more aggressive programs to stimulate productivity advance.

(3) Goals for meeting the priorities of our national needs, both private and public. These would involve breaking down maximum employment and production goals into meaningful subcomponents, indicating desirable readjustments in resource allocation and in the structuring of the labor force.

(4) Goals for sustained maximum purchasing power, which really means a pattern of income distribution which facilitates attainment of the physical goals. While various patterns might serve this purpose, high priority should be accorded to a pattern committed to liquidation of U.S. poverty by 1975. And we should adopt supplementary measures which guarantee a minimum adequacy standard of living for every American family.

(5) All policies and programs in the performance budget should be geared explicitly to the foregoing goals. The Federal budget, on both the spending and tax side, should be an integral part of this performance budget. So should monetary policy. And so should all other policies and programs which allocate economic resources in a major way, such as those relating to housing and urban renewal, social security and welfare, and agriculture.

(6) Our international economic programs in the broadest sense, and not merely the balance-of-payments problem in a conventional or stereotyped sense, should be included in the performance budget.

Limited planning under freedom

Does this ask too much, distort the balance between private and public responsibilities, militate against our institutions or freedoms? This kind of performance budget, by whatever name called, has been developed by the Rockefeller reports, the National Planning Association, the Conference on Economic Progress which I head, and others. How can it be less than essential for our Government itself to seek this unifying and purposeful approach to our great national problems? In fact, for CEA to do so across the economic field would be nothing more than a full exercise of the requirement that it develop needed levels of employment, production, and purchasing power. These needed levels must be quantified in structural as well as aggregate terms, because the reports under the Employment Act bespeak the economic and related social goals of the American people. *And because CEA has enduringly rejected exercise of this mandate of the act to any adequate degree, I favor the broad purposes of S. 3237, introduced by Senator Joseph S. Clark after his magnificent inquiry into the Nation's manpower revolution.*

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By returning to the original intent of the Employment Act, we can adjust planning under freedom to our domestic and worldwide needs, steering between the Scylla of excessive centralization and Charybdis of inadequate national purpose and cohesion. Through this method, we can more effectively bring to bear upon all public policies the watchful eye of a better informed and more soundly inspired American people.

[Applause.]

Dr. ENSLEY. Thank you very much, Dr. Keyserling.

The second presentation on this subject will be made by Dr. Arthur F. Burns, who was Chairman of the Council of Economic Advisers from 1953 to 1956, and is now president of the National Bureau of Economic Research.

Dr. Burns.

STATEMENT OF DR. ARTHUR F. BURNS, PRESIDENT, NATIONAL BUREAU OF ECONOMIC RESEARCH, INC., AND PROFESSOR OF ECONOMICS, COLUMBIA UNIVERSITY

AGGREGATE OR STRUCTURAL APPROACHES TO ACHIEVING EMPLOYMENT ACT OBJECTIVES

Dr. BURNS. The Employment Act which we celebrate today has had its share of the vicissitudes of fortune that go with life. The bill originally proposed by Senator Murray ran into massive opposition in the House, and many anxious months elapsed before the Congress hammered out an acceptable compromise. The machinery established by the act has not always functioned smoothly or as its designers may have hoped. At times, the findings by the Council of Economic Advisers have lacked the detachment or the luster of science. At times, the pronouncements of the Joint Economic Committee have suggested excessive partisanship or haste. In 1 year the Congress refused to vote a full year's appropriation for the Council's activities, and its ability to survive became doubtful. Despite such occasional setbacks, the moral authority of the Employment Act has grown with the passage of time. Indeed, in the span of a mere 20 years, the act has acquired the force of an economic constitution. The President, his Council of Economic Advisers, the Congress, in some degree the entire executive and administrative establishment, including the Federal Reserve Board, now function under this "constitution" when major economic policies are developed.

As befits a constitution, the Employment Act lays down general principles and procedures, but gives little guidance on how the Federal Government is to discharge its new responsibility of promoting "maximum employment, production, and purchasing power." To be sure, the act stresses the importance of proceeding "in a manner calculated to foster * * * free competitive enterprise." This constraint reaffirms our Nation's commitment to the principle of freedom, but it does no more than that. The act also specifies that the means employed in furthering its objectives must be consistent with the "needs and obligations" of the Federal Government, with "other essential considerations of national policy," and with "the general welfare." In view of this broad language, our successive Presidents have been able to

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deal under the umbrella of the Employment Act with such objectives of policy as stability of the general price level, faster improvement of productivity, equality of opportunity, and equilibrium in the balance of payments. However, the act itself is entirely reticent on these matters, and therefore gives no clue to the way in which any of these objectives is to be sought, or how the pursuit of one or another of them may aid or limit the achievement of "maximum employment, production, and purchasing power." In short, the act practically leaves the means for dealing with recession, unemployment, or inflation to judgment concerning the individual case.

The flexibility inherent in the Employment Act has proved very helpful to Government officials charged with its administration. Indeed, economic life is so full of surprises that it is doubtful if the act could have survived if the Congress has prescribed some formula, whether the one suggested by the Murray bill or any other, for achieving maximum employment—to say nothing of maximum production or purchasing power. At the same time, the sweeping but imprecise mandate of the act has imposed an extremely difficult task on the Council of Economic Advisers and the Joint Economic Committee, and beyond them on professional economists as a class.

Taking the past 20 years as a whole, the administrators of the Employment Act have concentrated on the maximization of employment, but they have not neglected other major objectives of national policy. By and large, our economy has performed well during this period. We have preserved the essentials of freedom in a revolutionary age, when many other nations have lost or destroyed their freedom. Our economy has continued to grow in size and efficiency. We have made great strides in moderating the business cycle, and the fruits of industry have been widely distributed among our people. The Employment Act has contributed to these achievements by introducing elements of order into economic policymaking and by providing assurance to both businessmen and consumers that economic storms would not be left to themselves. We must not, however, gloss over the lapses from full employment during the postwar period, or the series of recessions, the deterioration in the value of the dollar, the chronic deficit in the balance of payments, and the persistence of pockets of poverty in our land of plenty. If the efforts of the administrators of the Employment Act have not always been successful, the reason in large part is that they have worked with tools that are much too crude.

We need, in particular, better ways of determining whether, when, or to what degree unemployment can best be attacked by overall monetary and fiscal policies. Our Nation has relied preponderantly on such policies during the past few years on the ground that aggregate demand was deficient. This approach has certainly not been wanting in plausibility. In view of the fact that we experienced a recession in 1957–58, that the recovery which followed was incomplete, that another recession occurred in 1960–61, and that a good part of 1962 was marked by sluggishness, there can be little doubt that a deficiency of demand was a major cause of unemployment during much of the period since 1957. However, the Council's calculations of the gap between actual and potential output, quite apart from being fragile, cannot be treated as measures of demand shortage. If aggregate output falls short of its potential, the gap may have nothing to do with

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any weakness of demand. It may instead reflect obstacles on the side of supply or a failure of the constituent parts of demand and supply to adjust sufficiently to one another. Since the structure of our economy keeps changing, these changes as well as difficulties on the demand side must be reckoned with in a scientific diagnosis.

Let me note briefly a few of the structural factors. First, welfare programs have grown very rapidly in recent years. A great merit of these social measures is that they maintain a flow of income during periods of unemployment, so that even poor men may practice some of the discrimination in job choosing that comes as a matter of course to the well-to-do. Our statistical measures, however, do not recognize this voluntary aspect of unemployment, nor the fact that our social legislation together with increasing prosperity have been tending to increase it. Second, women and teenagers have become a much larger factor in the labor force since the late fifties. But women are less inclined or less able than men to end their unemployment by taking a job in another city. Indeed, they are less prone than men to move to another occupation or another firm within the city of their residence. Moreover, married women commonly seek only part-time or intermittent work. And since a large proportion of the teenagers in the labor force are students, they, too, frequently seek part-time or intermittent work. But a new entrant into the labor force rarely finds or takes a job immediately; in other words, he is unemployed for a time. Since these unavoidable intervals of unemployment are repeated for intermittent workers, the volume of unemployment has tended to rise as the intermittent work force has grown. Third, the obstacles to rapid adjustment in the labor market have lately become larger. The pace of technological change has quickened. The supply of part-time workers has increased with sudden rapidity, while the evolution of demand has been gradual. Also, the legally prescribed minimum wage has risen much faster than the average wage at the very time when the ranks of unskilled and inexperienced workers were swelling. Hence, shortages of some types of labor and in some communities have coexisted with surpluses in others to a larger extent than before.

It is developments such as these that the structuralist school has emphasized rather than any deficiency of aggregate demand. And just as the expansionist school has sought to fortify its claims by an impressive array of evidence, stressing in particular the depressed state of business investment in fixed capital between 1957 and 1963, so the structuralist school has marshalled considerable evidence on the high and rising level of overtime work, on the concentration of unemployment among less educated workers, on the jump in the ratio of the unemployment rate of Negroes to that of whites since the mid-fifties, on the exceptionally high ratio of the unemployment rate of teenagers to that of adult males during the past 3 years, and so on. Most structuralists have been entirely ready to grant that easy money, lower tax rates, and larger Federal expenditures—that is, the remedies favored by the expansionists—would reduce unemployment. They have insisted, however, that more lasting effects would be achieved by attending to the structural causes of unemployment, and that the risk of inflation would also be reduced in the process. Although their views were heeded to some degree, as the Manpower Development and Training Act of 1962 and related legislation testify, the expansionist

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theory proved more congenial to the mood of our times. Had it done so to a lesser degree, I believe that unemployment would now be no higher, while the danger of inflation would be smaller than it has become.

My purpose on this occasion, however, is not to press the relative merits of this or that school of economic thought. My basic point is rather that existing information has prevented economic investigators from reaching the precise diagnosis of the unemployment problem that the Employment Act so plainly requires. The act declares that the Federal Government has the responsibility of promoting "conditions under which there will be afforded useful employment opportunities * * * for those able, willing, and seeking to work." To discharge this responsibility, statistics are needed to determine to what degree, if any, the aggregate demand for labor falls short of the number of "those able, willing, and seeking to work"—that is, of the supply of labor. But the aggregate demand for labor includes the unfilled jobs as well as those that are being manned, just as the aggregate supply of labor includes the unemployed workers as well as those who have jobs. Hence, to determine the relation between aggregate demand and supply, information is needed on three magnitudes—employment, unemployment, and job vacancies. Unhappily, while we have comprehensive statistics on the first and the second, the data on job vacancies are fragmentary, and it has, therefore, been impossible to bring either the expansionist or the structuralist theory to a decisive test.

If I read the Employment Act correctly, its implementation requires continuous, carefully compiled, and comprehensive statistics on job vacancies. It may be interesting to know whether the existing unemployment rate is above or below 4 percent, but neither this conventional figure nor any other can be relied upon to identify maximum employment—or its equivalent in common usage, full employment. What really matters for the purposes of the Employment Act is not what figure on unemployment appears to correspond best to the concept of full employment, but how the amount of unemployment that actually exists compares with the number of job openings. When unemployment exceeds job vacancies at prevailing wages, the demand for labor is clearly insufficient to provide employment for everyone who is able, willing, and seeking to work. At such a time, a deficiency of aggregate demand exists, and a governmental policy that relies on monetary, fiscal, or other devices to expand demand is, in principle, suited to the Nation's needs. On the other hand, when the number of vacant jobs is equal to or larger than the number of the unemployed, there is no deficiency of demand. A government that is seriously concerned about inflation will not seek to expand demand at such a time, but will instead concentrate its efforts on securing better matching of the men and women who seek work with the jobs that need to be filled. By equipping ourselves in the future with more of the information needed to determine the true state of demand, we should be able to pursue the objective of full employment with less danger of causing serious inflation.

This objective will be promoted by other improvements in economic information. Our statistical system is the best in the world,

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but it is not keeping pace with the needs of our times. We learn, for example, that unemployment amounted to 3.3 million this January. What precisely does this figure tell us? A short answer is that it reports the number of jobless persons who are able, willing, and seeking to work. This answer, however, is incomplete and in some respects misleading. In the first place, the figure includes an unknown number of individuals who, while they are willing to work and are seeking work, are so handicapped physically or psychologically that they would be unable to hold down a job even in a very tight labor market. Second, the unemployment figure includes several hundred thousand persons who actually have jobs; specifically, those who are waiting—whether of their own choice or the employer's—to start work within 30 days, those who are searching for a new job while they are absent from work, and those who have been temporarily laid off but have definite instructions to return within 30 days. Third, the unemployment figure includes an undetermined number who are not looking for work diligently. A man who applied for a job as much as 60 days ago, but made no other effort to find a job while waiting for a reply to his application, may still be counted as unemployed. Fourth, the unemployment figure includes a certain number of persons, again of unknown magnitude, who are not looking for work in any sense, either because they are temporarily ill, or because they are waiting to be recalled from an indefinite layoff, or because they believe that no work is available in their community or trade. On the other hand, the unemployment figure omits some, perhaps many, persons who have stopped looking for work because they have established that acceptable jobs are unavailable within their geographic reach. Clearly, the unemployment figures which serve as a basis for much of our policymaking are highly technical and somewhat dubious aggregates. Not only is it desirable to refine the concept of unemployment; we also need to learn how to assemble and use statistics of unemployment so that the parts which cannot be readily influenced by broad fiscal or monetary policies may be approached by more direct measures.

Other branches of our statistical system also show signs of age and need to be revitalized—notably, the records of prices and wages. The quotations that enter into price indexes of industrial commodities at wholesale are largely based on list prices rather than actual market transactions. But in the course of an economic upsurge, such as we have been experiencing, discounts tend to become smaller, concessions fewer, and premiums more frequent or larger. By neglecting these changes, our price indexes have understated the advance of the wholesale price level since mid-1964. If more accurate price indexes had been available, we might have realized sooner that the remarkable period of general price stability which began in the late fifties had come to an end, at least temporarily.

Despite their element of bias, the wholesale price indexes have the merit of comprehensiveness—an advantage that our measures of wage changes lack. The fullest set of figures published by the Bureau of Labor Statistics pertains to hourly earnings of production workers in manufacturing. These figures represent hours paid for, not hours worked, and hence do not allow for the increasing number of hours paid for but not worked. They do not include fringe benefits—a factor

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that has become of major importance to employers and employees alike. A sizable and increasing fraction of employees are classified as "nonproduction" workers, and they are not covered at all in the wage statistics. Finally, it is well to note that employees in the goods-producing industries are now outnumbered by those in the service industries, and that the statistical coverage of wage rates and earnings in the service industries is meager.

But the records that are used most widely and on which businessmen as well as Government officials have come to rely most heavily are the estimates of gross national product; that is, the Nation's total output of goods and services. These figures not only inform us on past and current economic conditions, but also serve as a basis for much of the forecasting in which economists and others necessarily engage. As is true of so many parts of our statistical system, the gross national product estimates are more dependable than comparable data for most other nations. They are not, however, as good as they should be. The July 1965 issue of Economic Indicators, for example, reported that the gross national product in 1964 was $623 billion. The next month's issue reported the appreciably higher figure of $629 billion for the same year. In fact, had it not been for certain changes of definition that accompanied the statistical revisions, the latter figure would have been $640 billion. Or to cite a more nearly current example, the increase between the first and second quarters of 1965 was reported in successive issues of Economic Indicators as $9.2, and $11.2 billion, while the increase between the second and third quarters was reported as $11.0, $11.6, and $12.7 billion. While I admire the constant striving of statisticians for promptness, precision, and conceptual relevance, I also suspect that the initial underestimates of the growth in our Nation's output last year may have contributed to the somewhat tardy realization by policymakers that slack in the economy was vanishing. I have wondered over the years, and still do, how much might have to be added to the cost of gathering our statistics so as to reduce, if not eliminate, the need for sizable revisions in the future, and whether the resulting benefits would not greatly outweigh the cost. I hope that the Joint Economic Committee, which has often taken the initiative to improve our statistical system, will seek answers to these questions.

Let me say, finally, that the implementation of the Employment Act requires, besides better information, more realistic models of the workings of our economy than are now current. Contrary to widespread notions, neither the labor force nor the output per man-hour grows steadily and smoothly, year after year. Nor is the gap between actual and potential output like a bathtub that merely needs turning on of the fiscal faucet to be filled. Experience teaches that productivity increments tend to decline as full employment is approached. If this tendency is overlooked by the makers of policy, the bathtub may overflow. Experience also teaches that confidence is a basic factor in economic life, and that it therefore makes a difference, even if we cannot express it in a mathematical equation, how we seek to fill gaps. Arithmetically, one dollar in the Federal budget is like any other, but from an economic viewpoint the individual dollars differ. The great success that attended the recent reduction of income tax rates cannot be attributed solely to the arithmetical magnitude of the fiscal stimulus. It was also due to the fact that the Government took numerous steps

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to improve confidence after the unhappy steel price episode of April 1962, that the fiscal stimulus adopted in early 1964 took the form of a tax reduction instead of an increase in expenditures, and that the tax reduction became effective over the entire range of personal and corporate incomes instead of being limited—as some well-meaning citizens had urged—to individuals at the lower end of the income scale. But just as confidence may be strengthened by creating a better environment for enterprise and investment, so also can it be damaged by imprudent management of governmental finances or by arbitrary interference with the workings of labor and commodity markets.

I wish to congratulate the present Council of Economic Advisers and the Joint Economic Committee on their efforts to bring our evolving economic knowledge to bear on the Nation's economic condition. They need not be reminded of William James' pragmatic maxim that "we have to live today by what truth we can get today, and be ready tomorrow to call it falsehood." [Applause.]

Dr. ENSLEY. Thank you very much, Professor Burns.

This concludes the morning session.

Luncheon will be served beginning at 12 m., in the international ballroom center. That is directly to your right.

The archdiocese of Washington has granted dispensation from fast and abstinence for Catholics today at the luncheon, the reception, and the dinner.

Remember, luncheon starts promptly at 12 o'clock. Kindly be in your seats.

We stand in recess.

(Whereupon at 11:45 a.m., a recess was taken until 12 m. of the same day.)

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LUNCHEON SESSION, 12 M., INTERNATIONAL BALLROOM CENTER, THE WASHINGTON HILTON

Dr. ENSLEY (presiding). Good afternoon, ladies and gentlemen.

Once more, it is my pleasure to welcome you on behalf of the Joint Economic Committee to the luncheon session of the economic symposium marking the 20th anniversary of the Employment Act of 1946.

The two speakers at this session together have 10 years of direct involvement with the act. The subject under discussion at this luncheon session is, "Using Fiscal and Monetary Policies To Further Employment Act Objectives."

As with the other subjects discussed at this symposium, significant questions as to future policy will be raised: What should be done about a Federal tax system with a capacity to produce increasing revenues in an expanding economy? What weights should be given to expenditure programs, tax reduction, debt retirement? What is the role of monetary policy in an expanding economy? How can fiscal and monetary policies contribute to economic stability in a period of mounting aggregate demand?

I understand that by mutual agreement the first speaker will concentrate primarily on fiscal policy and the second primarily on monetary policy.

Our first speaker is Dr. Walter W. Heller, Chairman of the Council of Economic Advisers from 1961 through 1964, and now professor of economics at the University of Minnesota.

Dr. Heller. [Applause.]

STATEMENT OF DR. WALTER W. HELLER, PROFESSOR OF ECONOMICS, UNIVERSITY OF MINNESOTA

USING FISCAL AND MONETARY POLICIES TO FURTHER EMPLOYMENT ACT OBJECTIVES

Dr. HELLER. Chairman Patman, Chairman Ensley, members of the Joint Economic Committee, ladies and gentlemen. It is fitting that we should observe, within a 1-week span, both the 20th anniversary of the Employment Act of 1946 and the 5th birthday of its offspring, the great expansion of the 1960's. For the policies for balanced growth of the past 5 years were a direct response to the mandates of the Employment Act:

> Mandates that President Kennedy revitalized in his call, late in 1960, to "return to the spirit as well as the letter of the Employment Act" and "to deal not only with the state of the economy but with our goals for economic progress."
>
> Mandates that 20 years of "judicious interpretation" under four Presidents have gradually translated into a four-dimensional

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policy for full employment, rapid growth, price stability and balance-of-payments equilibrium—an interpretation which President Johnson stamped with an explicit Presidential seal in his 1965 Economic Report.

This week spans also the second anniversary of the Revenue Act of 1964, a fiscal milestone representing, in the President's words, "the first time our Nation cut taxes for the declared purpose of speeding the advance of the private economy toward 'maximum employment, production, and purchasing power.'"

In raising high the banner of the Employment Act at their end of Pennsylvania Avenue, Presidents Kennedy and Johnson did no more, in a sense, than match the unflagging efforts of the Joint Economic Committee at its end of the avenue. In its superb reports, staff studies, and hearings, the committee has consistently held the banner aloft. And in doing so, it has not only kept faith with the act but kept pace with modern economics. In commenting on the so-called policy revolution of the past 5 years, I have sometimes said that the Nation has simply pressed into public service the economics taught in its classrooms for 20 years and accepted as orthodox by 80 to 90 percent of its economists. I should have added that it is also the stuff of which the Joint Economic Committee hearings, studies, and reports have long been made. Indeed, the committee and its staff could be pardoned for wondering what's so new about the "new economics."

Like any good constitution, then, the Employment Act—our "Magna Carta" of full employment planning, as Alvin Hansen called it on its 10th anniversary—has proved sound in principle and flexible in practice. Born largely of fears of unemployment and recession, its mandate and machinery are equally adaptable to the task of managing prosperity.

The mandate and the machinery are at hand—the question now before us is whether we have the will and the wisdom to use them—

First, to maintain prosperity without inflation in an economy where "the smell of war is in the air" (as Otto Eckstein put it a few days ago); and

Second, to maintain the economy's momentum when the fresh breezes of peace again prevail.

Part of the answer can be be inferred from the economic strategy and statistics of the past 5 years. But for most of the answer, we must look to the policy alternatives and actions that lie ahead of us.

THE DUAL STRATEGY OF 1961–66 FISCAL POLICY

Let me assure you at once that I don't intend to dwell on the workings and wonders of expansionary fiscal policy in the 1961–66 period. Not that it didn't work, and that it isn't wonderful. But if it had been as one-track-mindedly expansionary as casual critics often picture it, it would stand us in poor stead today. Only by costarring higher productivity and cost-price stability with demand expansion was sustained growth made possible.

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Track 1: Demand expansion

To be sure, fiscal policy has had an expansionary bias. And with good reason—it was aiming at a briskly rising target, our GNP potential, from launching pads $50 billion, or even $30 or $20 billion, below. Moreover, policy erring on the side of expansion can normally bank on a strong built-in corrective in the form of a $7 billion automatic growth in Federal revenues each year (after allowing for the automatic growth in transfer payments). Were it not for Vietnam, the 20th anniversary of the Employment Act would find us comfortably contemplating the form and size of fiscal dividends needed to keep us on the road to full employment, instead of wondering whether, even if we are not exceeding the economy's great and growing capacity, we may be temporarily exceeding its speed limits.

Even in its demand-expansion aspects, the contribution of the 1961–66 fiscal experience to the objectives of the Employment Act is to be counted not so much in advances in GNP, jobs, and incomes as it is in the development and testing of new guides and approaches to policy:

The GNP or performance "gap" and the associated estimates of the economy's potential and growth rate (concepts long familiar to the Joint Economic Committee through the pioneering work of its own staff), which have now passed the rugged test of 5 years' use as benchmarks for policies to match demand with capacities, culminating in the virtual closing of the gap as the economy again reached a 4-percent level of unemployment last month.

The "full-employment surplus" and the dynamics of "fiscal drag" and "fiscal dividends" as aids in fiscal policy planning, especially for the longer run.

The shift to "a continuous, rather than a cyclical, framework" for economic policy (as the Council of Economic Advisers has put it), relying heavily on discretionary fiscal actions rather than built-in flexibility and focused chiefly on full use of a constantly growing potential rather than on periodic battles against recession and boosts to recovery.

Track 2: Productivity and Cost-Price Stability

The 1964 tax cut, as the most dramatic expression of this new approach to policy, captured the public's attention and imagination. Its expansionary melody, quickly and easily learned, lingers on. But the harmonics of economic policy for cost-price stability—a corequisite of sustained economic expansion—are more subtle and less readily perceived. Yet they are no less important.

The discouraging pattern of recessions every 2 or 3 years has been broken, not by a simple-minded devotion to demand stimulus, but by a tight coupling of measures to boost demand with measures to boost productivity and hold costs and prices in check—a combination designed to harmonize the demands of full utilization of our economic potential with the demands of high growth, cost-price stability, and external payments equilibrium.

In seeking guidance for the future pursuit of Employment Act objectives, one should give full weight to the central role of fiscal policy in generating the sizable and sustained productivity advances of the past 5 years—advances that in large part reconcile the rising

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income claims of business and labor with stable, or even falling, unit costs of output. Moderation in wages and prices becomes more bearable when higher productivity, bigger volume, and lower taxes keep take-home pay and profits rising merrily.

The search for ways and means to build a firm base of price-cost stability for expansion began long before massive tax stimulants to demand were proposed. A first line of defense against inflation was provided by the legacy of price stability that grew out of the restrictive monetary-fiscal policies, economic slack, and high unemployment that ushered in the 1960's. But the hard task was to maintain that stability while taking up the slack and restoring full employment. To accomplish it, the following major steps were taken to speed up productivity gains and forestall a resumption of the price-wage spiral.

Manpower measures were initiated early in 1961 as the forerunners of a long line of Federal investments in human beings designed to increase their knowledge and skills, their mobility and adaptability.

The monetary "twist," also introduced early in 1961, held down the cost of long-term funds for investment in new and more efficient plant and equipment.

The wage-price guideposts, introduced in January 1962, sought to induce noninflationary wage and price behavior among unions and businesses exercising substantial market power.

Probably most important of all were the nearly $3 billion of tax stimulants to investment put into effect in 1962 (on the basis of Presidential recommendations made in April 1961).

The combination of tax credits, more liberal depreciation, and cuts in corporate tax rates in the 1962–65 period played a key role in increasing the ability of businesses to finance new investment and their willingness to take risks.

That these measures met their mark is confirmed by the unmatched record of price and cost stability in 1961–65:

A rise of only 1.3 percent a year in consumer prices from 1960 to 1965 and of wholesale prices by only 2 percent for the whole 5 years is, as we know, a record no other industrial nation can match.

The record on unit labor costs shows that—

From 1960 to 1965, average unit labor costs in the private economy grew by only 0.6 percent a year, in contrast with an average increase of 2.1 percent a year from 1953 to 1957 and 1.4 percent between 1957 and 1960;

In manufacturing, unit labor costs actually fell between 1960 and 1965 as output per man-hour rose by an average of 4 percent and hourly compensation rose only 3.6 percent. This decline continued in 1965.

The growth in average weekly spendable earnings in manufacturing (worker with three dependents) was—

13.1 percent in constant prices and 20.5 percent in current prices in the 5 years between 1960 and 1965, as against

3.9 percent in constant prices and 14.8 percent in current prices between 1955 and 1960.

In drawing constructive lessons from this 5-year experience with double-track fiscal policy—one track directed toward higher production and demand, the other toward higher productivity and cost-price

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stability—we now have to contend with the critics who are wringing, or rubbing, their hands at the prospect of inflation. Some imply that if the economic pressures of Vietnam were now to knock our expansion a little off balance, it would discredit the policy experience of the entire 1961–66 period. Lest they forget, as they now say "I told you so"—they first told us so nearly 5 years and $200 billion of GNP ago, nearly 7 million jobs and $20 billion of corporate profits (after taxes) ago.

And yet, yesterday's milestones don't solve today's problems. And we do have problems. We can't be quite certain what they are: Inflation? Another jolt to the budget from Vietnam? Readjustment problems when Vietnam mercifully ends? But each of them poses tough tests for fiscal policy.

The one uppermost in our minds as we meet today is the vexing and perplexing problem of inflation. Of course, if Vietnam drops another budgetary shoe, the fiscal fog would clear in a hurry, to use a mixed metaphor. "If the necessities of Vietnam require it," President Johnson said in his State of the Union Message, "I will not hesitate to return to the Congress for additional appropriations and additional revenues." And it seems likely that a nation which has accepted the idea of tax cuts to overcome slack, to close a "deflationary gap," would understand tax increases to cool off an overheating economy, close an "inflationary gap" growing out of Vietnam. (The echoes of World War II and Korean economics in that phrase remind us that Keynesian fiscal policy is no newcomer to the firing line in Washington.)

But the President has also pledged that "if it should turn out that additional insurance [against inflation] is needed, then I am convinced that we should levy higher taxes rather than accept inflation—which is the most unjust and capricious form of taxation." Today, we face the question of whether more insurance is needed: is there already enough steam in the boiler to call for further restrictive measures, or do the disquieting price and inventory figures of the moment reflect only a flurry of inflation that will soon subside without additional action?

This is a 20th anniversary where we should think lofty longrun thoughts. But what is more central to the longrun fate of economic policy under the Employment Act than the question whether—in the treasured but treacherous territory of full employment—we can meet and beat inflation? Coming face to face with this question is the standard penalty for success in expansionary policy. If we can manage full prosperity without inflation—or, more realistically, without a price-wage spiral—we will have reached a goal that has hitherto eluded not only the United States but all of its industrial partners in the free world.

INFLATION: A CLEAR AND PRESENT DANGER?

Having entered the promised land of relatively full employment and production—indeed, the unemployment rate has entered the anniversary spirit by reaching that elusive 4 percent figure—we must consider how close we are to the "maximums" of the Employment Act. We must consider not only the costs of too little, but the dangers of too much—

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On one hand, one does not have to be either a Pollyanna or an ostrich to believe that if Vietnam costs level out as now scheduled, we may be able to "ride this one out"—to the benefit of our employment and production goals—without getting into an inflationary spiral.

On the other hand, one need not be a Cassandra to be disturbed by the disquieting signs that the economy—years after the critics' cries of "wolf" were first heard, and only under the forced draft of Vietnam—may now be heating up, and that we should now be "trimming sail."

Riding it out

In weighing the costs against the benefits of further restrictive steps, one must consider the risks of stunting the growth of our 5-year expansion before it has reached full maturity. True, unemployment has reached the 4 percent interim target; but we have always underscored "interim." And given the young men who are in the Armed Services, Job Corps, and Neighborhood Youth Corps, and given the rising quality and mobility of our labor force, we should certainly not settle for 4 percent. Also, we should remember that the Phillips curve, describing roughly the trade-off between jobs and inflation, describes a continuous phenomenon. We do not suddenly reach a point beyond which we clearly must not pass—and before which we clearly must not stop.

What is the evidence supporting a ride-it-out approach to policy?

As the Council of Economic Advisers has so effectively brought out in its 1966 report, conscious Government policy for cost-price stability—coupled with more effective private policies of inventory and cost control, less speculation, better matching of plant capacity to markets, and more moderation in wage-price policies than we have experienced in any previous expansion in our history—have not only prolonged expansion but built strong defenses against runaway inflation.

Productivity, unit cost, and profit margins all continue at healthy levels, according to the latest available measures. In manufacturing, in particular, unit labor costs remain remarkably stable.

To the extent that some of the present flurry of price rises reflect the higher costs of marginal increments to output, it is largely a one-time adjustment. Markups to squeeze out a bit more profit or to cover a higher level of materials costs may be of the same character.

To convert this type of price increment into a cumulative price-wage spiral requires confirmation, so to speak, from the wage side; yet, few bargains of nationwide significance are in the works this year; and by 1967, when bargaining is again in high season, some of the upward pressures should have relented.

Furthermore, as to the price increases that are already behind us, we must remember that wholesale price increases to date consist in large part of advances in food, nonferrous metals, and other prices which are not very responsive to restrictive tax and monetary measures. And export prices have thus far been little affected.

Recent and projected increases in Federal purchases and business investment suggest that we are going through a spurt which may level off or even recede within 6 to 18 months, a period during which large additions to the labor force and plant capacity will be coming on

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stream. As table 1 shows (p. 47), the automatic growth of Federal revenues would, at fiscal 1967 levels of Vietnam and other budget programs, generate a high-employment surplus of some $6 billion by fiscal 1968 (thus belying, by the way, the fears of those who, forgetting their fiscal dynamics, condemn the President's fiscal program as a "one-shot" affair). And at present, the full bite of our restrictive monetary-fiscal measures has not yet been felt, in that—

The December discount rate increase has largely worked its way through bank loan rates, but its full force is still to be felt in the capital markets;

The January payroll tax increases have not yet had their full impact—one recalls the first couple of months of delayed reaction to the 1964 tax cut;

The force of the excise tax restorations and graduated individual income tax withholding is still ahead of us;

The same is true of the acceleration of corporate tax payments and the stepped-up sales of Government credit instruments, measures which are fiscal in form but monetary in effect (and which have thus put the hyphen back in monetary-fiscal).

Trimming sail

As these remarks suggest, we have thus far been remarkably well adjusted to the high-employment economy we have reached, and we have important protections against inflation. Yet, in the face of the inescapable price pressures of the past few months, the growing psychological shift from a buyers' to a sellers' market, and the prospects for a continuing surge of investment demands—let alone the possibility of a further escalation of the economic demands of Vietnam—one must hear the case for taking additional fiscal or monetary steps now.

What's at stake if we err on the side of too much expansionary force is not only the well-known inequity of inflation and the deterioration of our balance-of-payments position if cumulative inflation takes hold, but also the fact that our attempts to stay on the track of full employment and high growth may be derailed when corrective—rather than preventive—steps must finally be taken.

What's at stake may also be the freedom of decision in both pricing and wage bargaining. If inflation were to get away from us, fiscal-monetary measures might be forced to yield to direct controls. The inefficiency and inequities of such a step would be a huge price to pay for "too little and too late" on the fiscal-monetary side. As revealed by various public opinion polls, the American people are willing to tolerate some inflation as the price of prosperity, but not much—they are distressingly ready to invoke price controls when they see the cost of living on the rise.

Finally, what's at stake may even include the growing confidence and belief in positive economic policy. If both expansion and faith in expansionary policy fell victim to inflation, it would be another incalculable cost.

What is the evidence supporting a "trim some sail" approach to policy?

Investment in 1965, for the first time in nearly a decade, equaled high employment private saving. Still rising sharply in 1966, invest-

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ment now threatens to exceed high employment saving and exert inflationary pressure.

If the limited data now available portend an inventory boom, we are inviting trouble for the future—an inventory-boom economy is a recession-prone economy.

The projection of Government, consumer, and investment demands in the near future, according to present best estimates, is strong enough to withstand restrictive fiscal and monetary action without undercutting our full employment momentum, at least through 1966.

The stability we continued to enjoy as unemployment dropped to 4 percent may be a poor predictor of what happens next. Unemployment will fall further, and we can only guess at how sharply our inflation tradeoff rises from here.

Before we need fear a full-blown cumulative inflation, price markups need validation from excessive wage increase. Yet, something less may still be too much. We must recognize how little we know about the dynamics of inflation and how roughly we must estimate the price consequences of alternative states of demand in 1966.

FISCAL-MONETARY POLICY FOR HIGH-PRESSURE PROSPERITY

The foregoing balance sheet on inflation makes one thing crystal clear: that we should keep our policy powder bone dry and lose no time in perfecting our contingency planning. If today's uncertainties resolve themselves in favor of trimming more sail, what principles should guide our fiscal-monetary moves, and what measures should we employ? In considering that question, we focus on today's economy, but our basic perspective is the more general one of policies for high-pressure prosperity.

Perhaps we should spend a moment on the point of departure for such policy today. In *fiscal policy*, our foot is off the accelerator and is poised over the brake. The package of excise tax reversals, corporate tax speedups, and graduated withholding now moving through Congress signals this change. I doubt that economics can tell us precisely whether fiscal policy today is still a little expansionary, has shifted into neutral, or is going a bit restrictive:

> Our best single measure, the *full-employment surplus*, suggests that we are shifting into *neutral*, that we are roughly striking a high-employment budget balance on national income account (after having run a surplus in the first half of 1965 and a considerable deficit in the second).
>
> A reading of the *cash budget* suggests *restriction*—indeed, the $17½-billion increase in cash revenues from fiscal 1966 to fiscal 1967 will be the biggest single-year jump in history.
>
> But if we look at the rising tide of *obligational authority*—nearly a $20-billion jump from fiscal 1965 to fiscal 1966—and the accompanying spurt in contract-letting, we find some support for the thesis that our budgetary impact is still *expansionary*.

In any event, the question is not so much whether we are at, a little above, or a little below neutral in budget policy. The question is whether *further* restrictive action is needed. Only the current and prospective performance of the economy—based on changing private demands as well as changing fiscal impacts—can tell us that.

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As for *monetary policy*, our foot is already on the brake. During most of the expansion, monetary policy played a largely permissive role. Constrained by the balance-of-payments problem, it nonetheless served the cause of expansion by meeting the growing credit needs of the economy at no more than gently rising long-term borrowing costs. Given the strong fiscal measures for demand expansion and investment stimulus, these higher costs did not materially impair the pursuit of domestic objectives. In December, as domestic demands began to change, the Federal Reserve slipped out of the harness of monetary-fiscal coordination and touched off a wave of interest rate increases, for both buyers and sellers of money, that must be surprising even to those who initiated the move.

Planning of further restrictive moves must be attuned to an economic environment of uncertainty and change and to the demands of a high-tension economy with slack in its future. Choices between fiscal and monetary approaches and among specific courses of action should be governed not only by the well-understood principles of equity and efficient resource allocation but by considerations of flexibility, speed, selectivity, and linkage between present and future.

Flexibility and speed

Flexibility of mind, approach, and program are vital to the Employment Act's success in a world of change and uncertainty. This requires willingness to shift or reverse gears, both in the basic direction of policy and in its fiscal-monetary, tax-expenditure, consumption-investment and domestic-international emphasis. Doctrinaire adherence to consumption stimulus in the past 5 years would have poorly served our objectives of high growth, price stability, and international competitiveness. Doctrinaire adherence to investment stimulus today would poorly serve our current needs for price stability and our future needs for full employment, as I shall show in a moment.

Flexibility of program calls for readiness to move taxes up as inflation pressures mount, and down as demand ebbs, to tighten or loosen money as needed, or to shift between monetary and fiscal, general and selective measures in response to changes in the structure of our economic problem. And it calls for speed.

I would like to devote a moment to both of these.

The interlocking requirements of flexibility and speed often point to monetary policy as the first line of defense. Habits of mind, ready-made procedures, limited choices, and fairly general agreement on the form of action once its direction is determined, all give monetary policy a decided edge over fiscal policy in speed of action. To narrow the gap calls for further change in our fiscal thinking and practice, especially in taxation:

Habits of mind.—Tax cuts one year to remove slack should not bar temporary tax boosts the next to remove unexpected tension created by a Vietnam. This year's excise tax reversals are a good beginning.

Limits on choices and agreement on form.—President Johnson's call for "background studies by both the Congress and executive branch * * * to permit quick decisions and prompt action to accommodate short-run cyclical changes" would serve this end. In today's circumstances, one should lose no time in hammering out the general contours of a temporary Vietnam add-on or surtax on our income taxes, for

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use as needed. Here, one has to strike a balance between speed and adaptability. Both would be served by prior agreement on use of individual and corporate income taxes and on a choice between percentage surtaxes and percentage-point add-ons. But unless agreement were followed by very early action, precise agreement on rates might serve the interests of speed at the cost of adaptability to changing circumstances. For example, if at a given time, investment is excessive, profits are rising fast, and we have no excess profits tax (and, like wage and price controls, it is so clumsy and inefficient, that it should be used only as a last resort), we will want to raise corporate rates more and individual rates less than under the reverse circumstances.

Streamlined procedures.—The need to keep open some options in a "precooked" tax package for the reasons just cited suggests that we should not give up the search for shortcuts in tax procedures that are consistent with the congressional prerogative in revenue matters. Perhaps presidential deadlines can meet the need for speed—last year's speedy excise cuts and the rapid progress of this year's tax package are impressive cases in point. But recession and inflation don't wait. If ways and means could be found to cut months to weeks or weeks to days in the congressional taxing process in emergencies, the cause of stability under the Employment Act would be well served.

High-speed income tax legislation, quickly translated into changes in withholding and quarterly payment rates, would give the Federal Reserve a run for the money in timely stabilization policy. Changes in tax rates still would not be made quite as quickly as changes in discount rates or reserve targets. But with the direct and swift effect of tax rates on the income stream, compared with the slower workings of monetary changes through interest rates and asset changes, fiscal policy would have a fast-cutting edge.

Selectivity

Under this heading, let me make—and illustrate—just two points:

First, the differing selective effects of general measures should be given full weight in making decisions on the use of such measures.

Second, selective measures like investment credits and installment credit curbs may be useful adjuncts to stabilization policy under the Employment Act.

The current investment boom provides illustrations on both counts. Just as new investment was the object of our fiscal affections as a source of growth and cost stability in the past 5 years, it is becoming a candidate for our temporary disaffection as a source of inflationary pressure today and possible overcapacity tomorrow. On one hand, each successive revision of plant and equipment spending plans for 1966 suggests a bigger capital boom, with resulting inflationary pressures. On the other, our current level of investment is generating capacity increases at a 7-percent annual rate—welcome muscle for a Vietnam economy, but an unsustainable source of excess capacity under normal growth conditions. So measures which selectively dampen investment today and postpone it to a post-Vietnam tomorrow make good economic sense.

In this setting, the selective impact of generally tighter money on investment is not unwelcome. And temporary suspension of the in-

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vestment credit would have a good deal of economic appeal on this score. Administrative and political difficulties aside, partial suspension (not repeal) of the investment credit—possibly by temporarily denying it to *increases* in investment—would usefully serve the dual stabilization interest in investment that is "gone today and here tomorrow."

Linking the present and future

Part of my point under this heading has just been made: the ideal policy to use in a high-pressure economy is one that transfers demand to a later, lower pressure economy. On this count, measures that reduce the return on investment now, with a clear promise to increase it later, are especially effective. As just noted, partially suspending the 7-percent investment credit, with an ironclad guarantee to restore it, deserves consideration in any program of added restriction.

Any income or excise tax increases considered in the current setting should also be transparently temporary, both to provide the greatest possible incentive for postponing expenditures to a happier day of lower taxes and, more important, to provide a ready source of demand expansion when Vietnam ends. Making an income tax increase refundable, though not a resounding success in World War II, deserves reconsideration under today's changed circumstances.

Especially against the background of already tighter money, fiscal measures have a decided edge as means of coupling a cut in demand today with a convincing promise of expanding it tomorrow. With the increasing impact of our interest rates on those abroad, we may find a growing ratchet effect in our interest rates and monetary policy: what goes up may not come down so easily later in the face of high overseas rates that would threaten to siphon funds out of this country. So the longer run expectations effect of tight money today may not be as strong an incentive to postponement of capital expenditures as in the past.

Shortrun expectations effects in monetary policy also deserve attention. The amount of anticipatory borrowing in recent weeks strongly suggests that higher interest rates are still expected. What we need to do to stop this is quickly to get our rates, especially our long-term rates, up as high as policy wants them to go, and then say so. If, at the same time, short rates are high enough, the investor would have little incentive to borrow short now and fund his debt later—he would hesitate to lock himself in at high rates in the capital market and would have no place to hide in the money market.

It is clear, then, that just as a number of the economic policies introduced in 1961–62 were aimed, not so much at the problems of the moment as at the more distant full-employment horizon, so our policies today must keep the post-Vietnam horizon constantly in view.

OUR FISCAL FUTURE

While today's economic planning is necessarily conducted with an eye on the speedometer and one foot on the brake, we should also look beyond the present period of rising defense needs and ask what choices we must prepare for in the future.

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To visualize these choices, suppose the war in Vietnam ends and defense spending drops $10 billion by fiscal 1969 (to its fiscal 1965 level). This would parallel our post-Korean experience in that defense spending declined from $50.4 billion in fiscal 1953 to $40.7 billion in fiscal 1955. In this case, if we look only to the "automatic" fiscal changes that would occur—*including* the excise tax cut postponed from this year and next and expected increases in person transfers and interest costs, but *not* including other increases in nondefense spending that will surely occur but whose magnitude we cannot now predict—our high-employment surplus would rise to $22 billion by fiscal 1969 and $30 billion by fiscal 1970, as table 1 shows. This would be an enormous fiscal feast to portion out before it ended our prosperity and seemed to make sages of those who would have the world believe that our economy is now kept running only by war.

Even if defense spending were to level off at its fiscal 1967 rate, table 1 shows a potential fiscal drag of some $12 billion developing by fiscal 1969, and some $20 billion by fiscal 1970. We would be fighting a war abroad and still have to take deliberately expansionary fiscal steps to maintain the health of our economy at home. If we did not, having shown we can have both guns and butter in 1966, we could find ourselves risking both war and recession in 1968. Our great strength is that our economy is capable of so much. Our weakness would be a failure to use it.

As Vietnam relents, and the fiscal harvest of economic growth again becomes available for other purposes, how best can we deploy it to serve the objectives of the Employment Act?

First claim, if money were sharply eased, and private investment demand were strong, would be to hold some of the revenues as a high-employment surplus for debt retirement. But if money rates prove to be stubborn, or if business investment and housing demands—with or without easy money—do not rise to the occasion, rough balance in the high-employment budget might be the appropriate target. How, then, would we apportion our projected $20 billion or so of fiscal dividends so that they would not turn into fiscal drag?

Each of the claims on our fiscal dividends that has been honored in recent years will surely have a share in any future apportionment as well. We will see expanded Federal spending programs, tax reduction, and enlarged grants-in-aid. Yet, with substantial progress toward some goals already achieved and advances toward others barely begun, our priorities will now be different.

As table 2 shows, we have taken $48 billion of net expansionary actions (at annual rates) in the past 5 years, representing—

A reduction of $14 billion in the high-employment surplus;

An absorption of $34 billion of high-employment revenue growth (at constant effective tax rates).

Major forms of fiscal dividends were—

Tax reductions of $19 billion (less $3 billion of payroll tax increase);

Increases in domestic nondefense purchases of $3 billion (not including $5 billion for space) and in transfer payments of $9 billion;

A $5 billion increase in grants-in-aid.

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In the current period, as shown in the second column of table 2, we are veering sharply from civilian to defense spending, and from income tax cuts to payroll tax increases (to finance transfer payment increases).

TABLE 1.—*Future high-employment surplus under alternative defense assumptions* [1]

[In billions of dollars]

Assumptions	Fiscal years			
	1967	1968	1969	1970
Drop in defense spending [2]	0	+11	+22	+30
Leveling-off in defense spending [3]	0	+6	+12	+20
Increase in defense spending [4]	−5	−4	+2	+10

[1] These estimates are necessarily approximate and rounded. All figures are on the national income accounts basis. Excise taxes are assumed reduced according to the present administration proposals. Except for the expected increase in personal transfers from the social insurance trust funds, total nondefense expenditures are maintained at the second half of fiscal year 1967 level.

[2] Accepts present budget estimates for fiscal year 1967. Over the following 2 fiscal years, defense spending is assumed to decline by $10 billion—a decline corresponding to that following the Korean war; this brings defense spending in fiscal year 1969 back to the fiscal year 1965 level.

[3] Accepts present budget estimates for fiscal year 1967. Afterward, defense spending is assumed to level off at the rate indicated for the second half of fiscal year 1967.

[4] Assumes defense needs grow from present estimates, raising defense spending estimates for fiscal year 1967 by $5 billion, for fiscal year 1968 by $5 billion more, and leveling off thereafter.

TABLE 2.—*Factors changing the high-employment surplus* [1]

[In billions of dollars]

	2d half 1960 to 2d half 1965	2d half 1965 to 1st half 1967
High-employment revenue growth (at constant tax rates)	+34	+12
Payroll tax changes	+3	+6
Defense purchases	−6	−6
Space program purchases	−5	0
Domestic nondefense purchases	−3	0
Grants-in-aid	−5	−3
Personal transfers	−9	−7
Interest and subsidy payments	−4	−2
Indirect business tax changes	−2	−1
Corporate tax changes	−6	0
Personal income tax changes	−11	+1
Net change in high-employment surplus	−14	0

[1] Estimates are approximate and rounded. All figures are on the national income accounts basis. Spending increases and tax reductions appear with a minus sign as they reduce the high employment surplus.

Against this background, what are the major claims on the fiscal dividends in our future?

Expenditures.—Important domestic spending programs must expand if they are to fulfill their promise in the design of the Great Society. After being given second billing to tax reduction in the first half of the decade and to Vietnam spending needs in the immediate future, nondefense expenditure increases should be a more important factor after Vietnam subsides.

Tax cuts.—Something of a consensus seems to be developing, as it should, that top priority in longer term tax reduction belongs to the lower income groups. I say this against a background of recent tax changes which have increased our reliance on payroll taxes and State-local property and excise taxes relative to income taxes.

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Fiscal support for the States.—Additional support for hard-pressed States and localities—through continued growth in Federal aids, perhaps a new system of Federal tax credits for State income taxes, direct revenue sharing, or other plans as yet unnamed—also have a high-priority claim on our latent surpluses of the future.

CONCLUSION

As the Joint Economic Committee and the Congress face their continuing commitment under the Employment Act—especially the intensified problems growing out of Vietnam today and the transition to peace tomorrow—they have a broad base to build on:

Twenty years of increasingly successful experience in carrying out "the spirit as well as the letter" of the Employment Act;

Increasing agreement on basic strategy on fiscal monetary policy while still allowing for enough controversy and dissent on tactics to satisfy even James McGregor Burns;

Finally, and most important, a wider public understanding of, and a deeper Presidential commitment to the mandate of the Employment Act and the policies required to carry it out than we have ever known before. [Applause.]

Dr. ENSLEY. Thank you very much, Professor Heller.

The second speaker on this luncheon session discussion of fiscal and monetary policies as they are used to further Employment Act objectives is Dr. Raymond J. Saulnier, who was a member of the Council of Economic Advisers in 1955 and Chairman of the Council from 1956 to 1961.

Dr. Saulnier. [Applause.]

STATEMENT OF DR. RAYMOND J. SAULNIER, PROFESSOR OF ECONOMICS, BARNARD COLLEGE, COLUMBIA UNIVERSITY

USING FISCAL AND MONETARY POLICY TO FURTHER EMPLOYMENT ACT OBJECTIVES

Dr. SAULNIER. Thank you, Mr. Chairman. Mr. Patman and members of the Joint Economic Committee, ladies and gentlemen. The innocent bystanders of the world are subject to all kinds of risks, of which inflation is one. My most recent encounter with this has been my friend Walter Heller's estimates of the amount of time that it was going to take him to read his paper, which went from 25 to 30 to 35 minutes.

But, Walter, it was a very good paper. I liked it, and I choose to call your estimates a case of expansion and not inflation. [Applause.]

Walter and I have had a kind of side agreement on the subject of these remarks. He has undertaken to talk primarily about fiscal policy, and I thought I would say a few words about monetary policy.

I can't say that this is exactly the program arrangement that would be most exciting. But there is some sense to it. I really cannot think of anybody who has been treated more generously by fiscal policy than my friend Walter; and, if I may say so, I can't think of anybody who was tormented by monetary policy more than I was.

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As I put my remarks together and got to thinking about a title, it occurred to me that I might call it "A Few Kind Words for Monetary Policy." But as I got to working on it I changed my ideas about the title, and thought I would call it "The Dangers of Asking Monetary Policy To Do More Than Its Own Work." But in the end I have done the decent thing, and have called it exactly what Grover Ensley has insisted that I call it—not insisted but suggested, in his nice way—"Using Monetary Policy To Further Employment Act Objectives."

What is most intriguing about the problems of economic policy is that they are always changing. There was one set in the second half of the 1950's and another, very different, set in the first half of the 1960's. Now, as we enter the second half of the 1960's, and the third decade of experience under the Employment Act, the economic problems have changed again, and very drastically. The change took place, I would say, about midway in 1965; and because I believe that economic policy has not yet adapted itself adequately to the new conditions, most of what I have to say in these remarks will be about the current position and outlook of the economy and their implications for economic policy. But I should first like to comment briefly on the two earlier periods. The central point of my remarks is that although we must be willing to use monetary policy freely and flexibly to help achieve the goals of the Employment Act, we must not ask it to do more than its own fair share of that work. The three periods I have identified illustrate three different aspects of this problem.

The second half of the fifties:
Monetary policy and the problem of cost inflations

In the second half of the 1950's, the principal problems of economic policy were threefold: First, to help eliminate cost inflation; second, to stabilize the price level and to eliminate an inflation psychology that gripped the economy; and, third, to correct the imbalance in international payments that emerged in the closing years of the decade.

In many ways it was cost inflation that presented the greatest difficulty. There were demand factors in the upward movement of prices that began in 1955, but a pervasive and powerful factor in it was the inflation of labor costs, traceable to increases in cost per unit of labor employed that seriously outran the rate at which productivity was being improved. There is concern today, and properly so, about average labor cost increases just over 4 percent a year. But the problem was much more acute in the second half of the 1950's. Believe it or not, in 1956–57 total compensation per man-hour in the U.S. private economy was rising 6 percent a year, more than twice as fast as productivity was being increased. Reflecting this imbalance, labor costs per unit of output in U.S. manufacturing were 15 to 20 percent higher in 1958 than at the beginning of the decade.

It would have been a grave mistake, of course, for economic policy to have ignored this inflation of costs, and the inflation of prices which (with some lag) went along with it. Indeed, had that mistake been made, our fine country would still be suffering from it. There was no option but to use monetary policy—and fiscal policy, too, for that matter—to help bring about the needed correction. And using monetary and fiscal policy to this end—jointly with moral suasion directed to the leadership of labor and industry and with another component

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of policy all too often ignored, namely, patience—the corrective process was completed. By 1960, annual increases in total compensation per man-hour had fallen to 3½ percent a year, at which level they were broadly in line with the rate of productivity improvement. Price stability soon followed. By mid-1959 the wholesale price index was stable and the rate of increase of consumer prices had been reduced by about two-thirds. By 1960, both cost and price stabilization had been achieved and the basis had been laid for the use of monetary and fiscal policies in their positive and stimulative roles.

There is a point of view—though it carries a good deal less weight nowadays than it did a few years ago—that to ask monetary policy to help achieve a better balance between labor cost increases and productivity improvement is to ask monetary policy to do more than its fair share of the work of economic stabilization. But once cost inflation has taken hold in an economy, certainly once it begins to reflect itself in price inflation, there is no option but to turn monetary policy to this task, distasteful as it is. And the same is true of fiscal policy. In this connection, I was interested to note that in the recent report of the Council of Economic Advisers it was stated, and correctly so, that the reemergence of cost inflation would require that monetary and fiscal policy be used in this negative and restrictive capacity. If there is any doubt about that necessity, its inevitability can be illustrated by what has been happening in every economy of Western Europe these past few years. There, one government after another has been forced to turn to what are nowadays called "stabilization programs," which consist primarily of monetary and fiscal restraint, to help correct cost and price inflation that became plainly unacceptable.

A major part of the dialog over economic policy in recent years, in Europe as well as in the United States, has consisted of a search for some means of escape from the necessity of using monetary and fiscal policy in their negative and restrictive capacities to help correct cost inflation. To some, an alternative has seemed to be some species of direct control, of which the numerical guidelines that have developed in the United States are a mild illustration and of which the "income policies" of Western European economies are more fully fledged examples. But the trouble with these solutions is that, if monetary and fiscal policies prevent the economy from getting overheated, "guidelines" or "income policies" are unnecessary; on the other hand, if monetary and fiscal policies overheat the economy, they are unworkable. Bearing this out, every country of Western Europe, no matter how willing and well-positioned it may have been for exercising direct controls over its economy, has found it necessary in the end to reverse monetary and fiscal expansionism in order to bring cost and price inflation under control.

Monetary and fiscal policy made it possible for the cost inflation problem to be solved in the United States in the second half of the 1950's without recourse to direct controls. This was in the spirit of the Employment Act, which directs us to seek solutions to national economic problems in ways that will preserve and strengthen our free institutions, not weaken them. The problem, however, is that when cost inflation has been allowed to develop, monetary policy can be used

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to help reestablish a balance between cost increases and productivity improvement only at the expense of a retardation of economic growth. This was pointed out in every Economic Report issued during the cost-inflation period of the 1950's. It is part of the warning issued in the January 1966 Economic Report, to which I referred earlier. And it has been demonstrated time and again by recent developments in Western Europe where, without exception, stabilization programs have slowed growth as part of the task of reestablishing a better balance between cost increases and productivity improvement.

But this is not a satisfactory solution. What we must find is a solution that is both consistent with the maintenance of free institutions and will not retard growth, even temporarily. Part of this solution must be a heightened sense of responsibility on the part of those who have at their disposal the exercise of discretionary market power. Part of it must be a strengthening of the competitive quality in markets. And part of it must be to avoid the overheating of the economy that invites cost inflation in the first place.

Along with the task of designing selective measures to help eliminate residual unemployment in a high employment economy, a problem to which I shall turn in a moment, how to avoid cost inflation is one of two top items of unfinished business as we enter the third decade of experience under the Employment Act.

The first half of the sixties:
Monetary policy and the problem of residual unemployment

In the 1960's, until recently, with a good relationship established between labor cost increases and productivity improvement, the economic policy problem has been very different. During this period, it has been possible to use monetary policy aggressively in its expansionist role to help accelerate the rate of economic growth. Fiscal policy is typically credited with having been the major, if not the sole, expansionary force, but the fact is that monetary policy has been used to the hilt in this capacity.

Thus, annual increases in commercial bank loans to business have averaged just under 10 percent a year in the past 5 years. Annual increases in consumer credit have averaged 9 percent. Despite a relatively modest level of housing starts, increases in home mortgage credit have averaged 8½ percent a year; and other types of mortgage credit have increased twice as fast. It is impossible to disentangle the separate effects of monetary and fiscal expansion in what is actually a joint result, but it is interesting to contrast the increase of private debt—the part of total debt most directly influenced by monetary policy—with the increase in public debt. In the past 5 years, private debt has risen twice as fast as public debt.

Naturally, this expansion of credit has left its mark on the money supply. Construed narrowly, that is, defined as consisting of currency and the demand deposits of commercial banks, money supply increased percentagewise four times as fast in the 5 years, 1961–65, as in the preceding 5 years. Construed broadly, that is, defined to include time deposits as well as demand deposits of commercial banks, along with currency, money supply increased three times as fast percentagewise in the 5 years, 1961–65, as in the preceding 5 years.

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To be sure, monetary policy launched no bold, headline-winning expansionary initiatives in this period; but it worked exceedingly hard. In its essentially unspectacular, almost subterranean manner, with its results recorded in numbers that even the experts find it not too easy to read, monetary policy has been plugging away since 1960 as a powerfully expansionary force in the economy. And quite in contrast to its flashier comrade in arms, fiscal policy, with its grand gestures of large tax cuts and expenditure increases, monetary policy has been getting precious little recognition in the process.

But lest these remarks be interpreted as suggesting that what we have here is a contest in which top prize should go to the arm of policy that somehow manages to be most powerfully expansionist, let me hasten to add that there is such a thing as excessive expansionism. And it is precisely the danger of excessive expansionism that we face at this time.

How we have come to this point is easy enough to understand. We have come to it because monetary and fiscal policies have been used in a kind of "double-barreled expansionism" to solve a problem of residual unemployment which, as we reach full employment, should be approached increasingly through selective measures of job training, job counseling, and job placement. What is at issue here is not expansionism; what is at issue is the balance that should be struck, as specific labor shortages develop, between expansionist and structuralist approaches to residual unemployment. To put it differently, the question is not whether we should be waging war against the unemployment that remains in a high-employment economy. Indeed, this is a war we should be waging more vigorously than ever before. The question is how to wage it with maximum impact on unemployment and with minimum side effects in cost and price inflation. In short, the problem is how to eliminate residual unemployment without overheating the whole economy.

It seems to me that the experience of the past few years underlines the necessity of our being more ingenious and inventive in the development and administration of selective unemployment-reduction programs. In this connection, it would seem to me a good idea to undertake a "census of unemployment," and to repeat it at least every 2 years. This would provide a factual basis for the development and administration of effective selective programs of job training, counseling, and placement. Second, I wish the same support could be developed in 1966 for a Businessmen's Committee To Reduce Unemployment as was developed in 1963 for a Businessmen's Committee for Tax Reduction. And, third, since I find myself in a mood today to make suggestions for fiscal policy, I think we should be looking diligently for a constructive way to use tax incentives to help eliminate residual unemployment.

Happily, progress is being made in the development of selective programs for the reduction of residual unemployment; and for this we can be grateful. Naturally, it will cost a good deal of money to do the job effectively. But money should not be the limiting consideration. The only limiting consideration should be government's capacity to make constructive use of funds in planning and carrying out the needed programs.

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I emphasize these matters in remarks on monetary policy because monetary policy is of necessity drawn into the process as blunt measures of aggregate-demand expansionism are relied on to do a job in which selective measures of unemployment reduction should play a much larger part. The risk of overworking monetary policy in this capacity is, of course, the risk of overheating the entire economy. And I believe that overheating is precisely the problem we face today.

This brings me to the present economic situation and to the outlook for 1966–67, and with that to the third type of situation in which, if we are not careful, we will be asking monetary policy again to do more than its fair share of the work of economic stabilization.

The period ahead:

Monetary policy and the problem of cooling off the economy

The crux of the problem we face today is that the closer we have come to full utilization of our economic resources, the faster has been the rate of increase of credit and of the money supply. Bank loans to business rose 20 percent in 1965, compared with an average of 7 percent in the preceding 4 years. Consumer credit rose 12 percent, compared with an average of 8 percent in the preceding 4 years. Total private debt rose nearly 10 percent, still significantly faster than the 8½ percent average increase of the preceding 4 years. The money supply, narrowly construed, rose nearly 5 percent in 1965, compared with 3 percent annually in 1961–64; broadly construed, the money supply was up nearly 10 percent last year, in contrast to about 8½ percent annually in the preceding 4 years.

And the rate of expansion of credit and money accelerated even within 1965. Thus, the percentage increase of the money supply was nearly three times as great in the last 6 months of the year as in the first 6 months.

As we move into 1966 there is every indication that the pressure of demand will mount. The rate of increase of personal income was accelerating markedly as 1965 ended; there is no reason to expect it to slow down. If the volume of fixed investment expenditures by businesses runs ahead of projections in 1966, as may very well be the case, they could increase at an even faster pace than in 1965. In any case, we know that the order books of the machinery-producing industries are distinctly heavier today—relative even to today's very heavy shipments—than they were a year ago. And the new order volume in these industries is pointing sharply up. In view of what is happening to prices, it would contradict everything we know from theory and experience if inventory accumulation failed to accelerate. Last week, the wholesale price index was 3.8 percent higher than a year ago, and its rate of increase has been accelerating in recent months. As recent reports show, an acceleration of inventory accumulation is already underway.

In the circumstances, not only is monetary restraint called for, but fiscal restraint, too, yet it looks as if very little help is coming from the latter. In the income and product accounts budget of the Federal Government it is indicated that purchases of goods and services will rise sharply in the first half of 1966. A $10 billion annual-rate-basis increase is indicated between the second quarter of 1965 and the second quarter of 1966. Currently, the economy is receiving a strong upward

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thrust from this expenditure increase. The critical question is: What will happen as the year develops, and as we move into 1967? On this point, budget projections tell us that the expenditures will be held at roughly unchanged levels. That would be helpful, to be sure, but how likely is it to happen? No one, least of all no one outside Government, can say with assurance which way Government spending will move. We all devoutly hope that military spending can be reduced. However, lacking a vigorous effort to prevent this from happening, the trend of overall Federal expenditures suggests sizable increases for as far ahead as we can see.

Hopefully, budget projections will prove to be correct. But even so, there are two factors in the budget which give it more of an expansionary impact than it appears to have.

First, there are the unusually large seigniorage profits. These are officially estimated to total between $1½ and $2½ billion in the fiscal years 1966 and 1967 combined. What this means is that budget expenditures are, to this extent, being financed in a thoroughly inflationary manner.

Second, there are the sales of federally held financial assets. These have the effect of producing lower levels of expenditures and deficits than would otherwise be reported in budgetary accounts. But they do not affect the actual volume of spending and they do not reduce the demands that the Federal Government places on the credit and capital markets. The financial assets sold under this program have to be marketed just as any new Federal debt has to be marketed; in this sense they have the same impact as a Federal budgetary deficit. They are, indeed, a kind of "back-door deficit financing." This could be ignored if the amounts involved were small, but they are very large. Indeed, sales of federally held financial assets are expected to reach $3.4 billion in the current fiscal year and then to mount to $4.7 billion in 1967.

Lacking new initiatives, it looks as though our earnest, hard-pressed champion, monetary policy, is going to get precious little help in the immediate situation from his gay companion, fiscal policy. And the outlook for the longer run is not more reassuring. What help monetary policy is getting in the 1966–67 budgets comes principally from essentially nonrecurring factors, namely, from acceleration of income tax collections. Even granted that life is just one nonrecurring incident after another, one is troubled by the possibility that at some point we may run out of such sources of budgetary assists and, worse still, that we may run into a nonrecurring incident that will move the budget in the wrong direction.

In short, monetary policy is being asked to carry a very heavy load in this exceptional period, in which a war effort is being laid on top of a boom. The question is whether it is prudent to ask monetary policy to carry the full amount of this burden. I believe not. In making this judgment, I have several technical points in mind.

First, interest rates are already at levels that are high by all U.S. historical standards. It is one of the most interesting and significant features of the first two decades of experience under the Employment Act that, in that period, we had to complete a trip from the abnormally low interest rate levels of 1946 back to the much higher levels prevailing at the end of the 1920's, the previous period of peacetime prosper-

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ity. The entire trip, from 2½ to 4½ percent, was made in less than 10 years, from 1952 to 1960, and it was not an easy trip, I can tell you. Indeed, the path was enough to make the "rocky road to Dublin" look like the smoothest of paved highways. But it was an essential trip, let there be no doubt about that. The question is: Where do we go from here? Without meaning in the least to imply that there is anything sacred about the existing level of interest rates—on the contrary, the worst mistake we could make would be to think that economic balance requires interest rates to remain frozen at present levels—I do want to say that the route past 4½ percent takes us into genuinely new interest rate territory and that we will be well advised not to press the journey too rapidly. Above all, we should aim to move smoothly and to avoid abrupt changes.

There are technical reasons both for expecting a trend to higher rates and for striving to make the transition to them as smoothly as possible. As for the trend, it seems to me that underlying economic currents favor higher levels of interest rates and bond yields. First, demand for capital is bound to swell in the years immediately ahead, as the age distribution of our population shifts toward those who are net borrowers rather than net savers.

Second, when we consider what could happen to Federal expenditures in a nation engaged, as we are, in a large military effort, and in a war against poverty on several continents overseas as well as here at home, and when we consider that it is mainly nonrecurring items that are being counted on in the fiscal 1967 budget, it looks as if, lacking new initiatives from the side of fiscal policy, the basic budget position of the Federal Government is moving further into deficit. This will make the Federal Government a chronic net borrower in the years ahead. As such, it will be contributing to the pressures making for higher interest rates, not alleviating them.

Third, although I can't be entirely sure of this, I expect the rate of turnover of money will continue to increase in the years ahead, thus continuing to limit the extent to which credit demands can be satisfied by the creation of demand deposits. This means placing heavier reliance on savings performed by other methods than the holding of increased cash balances. It means correspondingly heavier upward pressures on interest rates.

Fourth, the relatively low rate of growth of the money supply in the second half of the 1950's doubtless created a basis for more rapid increases in the 1960's. I expect, however, that this advantage has by now been fully exploited. Again, this will throw us back on more expensive ways of obtaining savings and will favor the drift to higher levels of interest rates.

Fifth, the liquidity position of the commercial banking system has reached the point where further large increases in bank credit outstanding will require increasing recourse to relatively high-cost time and savings deposits.

All of these circumstances, jointly with high and rising aggregate demand, favor an upward trend of interest rates in the period ahead. But it is not this trend that presents the problem. The problem is to avoid breaking into new interest-rate ground too abruptly. Two reasons for moving steadily and avoiding abrupt changes are especially worth noting.

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The first has to do with the ratio of total liquid assets to that part of the total which we call money. One of the most important changes that has occurred in our economy since the writing of the Employment Act has been the increase in this ratio. Since 1946, selected liquid assets as a total have increased nearly three times as fast as the money supply. Apart from what are obligations of the Federal Government, these liquid assets are both the obligations and the lendable and investable resources of a variety of financial intermediaries. As such, they are mainly invested in long-term assets. But those who hold the claims as assets regard the funds which they represent as highly liquid and readily available, that is, readily shiftable. They are readily shiftable. But the point is that sudden shifts of such funds are potentially very disturbing to financial markets and to the economy. Shifts can be instigated by abrupt changes in bond yields and interest rates and the shifting itself has the effect of carrying yields and rates to still higher levels. The moral is, this is a process we had just better not get started.

The second technical reason for avoiding further large and abrupt changes in bond yields and interest rates has to do with the stock market. I think it goes without saying that the spread between yields on debt securities and on equity stock is wide enough as things stand without risking further large increases.

It happens that as this symposium is being held, the mood of financial markets is unusually sensitive. There is wide recognition of the need to cool off the economy a bit, certainly to avoid any further heating up. But there is concern, too, that to ask monetary policy to do this singlehandedly would escalate interest rates so far and so abruptly as to risk serious financial disturbances. One is therefore justified in asking what fiscal policy has to offer to ease the task. This is the time for fiscal policy to show that it is a flexible instrument—an instrument that can be used to restrain, as well as to expand, demand. How fiscal policy should do this is, of course, an open question. But this much seems clear to me—the first effort should be made in the area of expenditure control; the tax system provides the second line of defense.

In any case, I see no acceptable alternative but to use fiscal policy in the present and upcoming situation as an instrument of restraint. To throw the burden entirely onto monetary policy would risk sharper interest rate increases than it would be prudent to invite. And if, with inadequate fiscal restraint we try to avoid increases in bond yields and interest rates by allowing the money supply to continue to expand as it has been expanding, then all we will have done in this 20th year of the Employment Act is to rediscover the world's oldest formula for inflation. And more than inflation is involved. What is involved along with inflation is a potential widening and deepening of direct controls over wages and prices. The stakes, in short, are very high, indeed, as we begin the third decade of experience under the Employment Act.

I must not close these remarks with words that could suggest I think we face an impossible policy problem in the months ahead. That does not describe the situation. What we face is a difficult policy problem. To put it differently: The passage ahead is full of risks but I believe it is a navigable passage. And, along with millions of other Americans I am counting on its being navigated safely. Part of the secret of doing this will be to let monetary policy do its

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fair share of keeping our economy on a safe course. The rest of the secret will be not to ask monetary policy to do more than its fair share of this task, but to look to fiscal policy to help cool off the economy. From this it follows that further increases in aggregate demand cannot be used as aggressively as some would perhaps like to help reduce further the unemployment that remains in our high-employment economy. But we should be able to deal with this problem adequately, and in the end more constructively, by means of selective measures of job training, counseling, and placement. I think we ought to be spending every penny that could be constructively used. The development of these measures should be at the top of the current policy agenda.

It is not easy in our uncertain and changing world to find the right combination of policies, and to get them into action at the right time. The price of failure on the side of overexpansion is inflation, controls, the disturbance of financial markets, and ultimately, a slowing of the economy's growth rate. The rewards of success, on the other hand, are literally dazzling. They are continued, uninterrupted expansion and continued, uninterrupted improvement of the economic welfare of all Americans.

On the question of what the outcome will be, I am optimistic. I look for success. This is partly because of my confidence in the strength of the forces making for growth in the American economy. It is partly because of my respect for the resilience of our economy and its ability to make adjustments even to severe shocks. And it is partly because on just such occasions as today's celebration of the 20th birthday of the Employment Act we have our own way, through free and open discussion, of finding the combination of policies that will guarantee success. [Applause.]

Dr. ENSLEY. Thank you very much, Professor Saulnier. I think you all will agree with me that we have heard two magnificent papers by two very distinguished statesmen in the economic fraternity.

I would be amiss, if I did not, before we recessed, introduce our distinguished chairman of the Joint Economic Committee, one who opened the symposium this morning and one who will bring greetings to the dinner this evening.

But on the chance that some of you may not have been here this morning and some of you may not be with us this evening, I would like very much at this time to have you rise for recognition of the distinguished chairman of the Joint Economic Committee, Congressman Wright Patman, of Texas. [Applause.]

Thank you very much, Mr. Chairman.

The afternoon session will get underway promptly at 2:30.

We now stand in recess.

(Whereupon, at 2 p.m., a recess was taken until 2:30 p.m. this same day.)

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AFTERNOON SESSION, 2:30 P.M., INTERNATIONAL BALLROOM, EAST, THE WASHINGTON HILTON

Dr. ENSLEY (presiding). Welcome again to the economic symposium celebrating the 20th anniversary of the Employment Act.

We begin this afternoon's session with a discussion of "Price-Cost Behavior and Employment Act Objectives."

In this area, a number of questions present themselves: What is the effect of technological advances on the economy? What role, direct and indirect, should the Federal Government play with respect to distribution of income resulting from technological advances, including such matters as wage-price guidelines, antitrust actions, and the like?

First to present his views is Dr. Kermit Gordon, a member of the Council of Economic Advisers from 1961 to 1962 and now vice president of The Brookings Institution.

Dr. Gordon.

STATEMENT OF DR. KERMIT GORDON, VICE PRESIDENT, THE BROOKINGS INSTITUTION

PRICE-COST BEHAVIOR AND EMPLOYMENT ACT OBJECTIVES

Dr. GORDON. Mr. Chairman, members of the panel, Members of the Congress, ladies and gentlemen. I, too, have an announcement to make. To help me slip out from under the tyranny of our timekeeper, my friend, Professor Wallich, has yielded to me the one and a half minutes of his time that he did not use. I hope that the timekeeper in the spirit of the occasion will honor this commendable manifestation of bipartisan cooperation.

It is characteristic of economic meteorology that each kind of economic weather creates its own special set of anxieties. The transformation of foul economic weather into fair does not dissipate anxiety, but rather changes its character. My subject is properly a fair weather anxiety, and its current timeliness should be, in a backhanded sort of way, a cause for rejoicing.

Lest we allow our current concern over the danger of inflation to distort our sense of relative values, it would be well to retrace briefly the course we have had to follow in order to qualify for the privilege of entertaining a well-founded anxiety about the prospect of inflation. The road has not been easy; in order to earn the right to worry about what President Johnson has called the "welcome problems of prosperity," the United States has had to increase real gross national product over the last 5 years by 25 percent; over approximately the same period, we have had to reduce the number of persons unemployed by 1¾ million, to create 7 million additional jobs, including 1¾ million jobs

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for teenagers and nearly a million jobs for nonwhites; we have had to create an economic climate which has brought unprecedented profits to business firms, opportunities for advancement to employees working below the level of their highest skill, solid employment gains to Negroes at a most critical stage in the Negro's struggle for economic equality, and a new lease on life to communities all over the country which were thought a few years back to be hopelessly mired in economic stagnation. We have had to increase real spendable income per person in these 5 years by more than we raised it in the preceding 12 years. We have had to put on a display of national economic vitality which has caused people throughout the world to take another look at the merits of our form of economic organization.

Thus, however sharp may be the disagreement on the proper therapy for our current ills, there ought to be unanimity on the proposition that we confront today the least disagreeable set of economic anxieties that we have known for nearly a decade.

Our central anxiety today arises from the generally held view that we are about to test again what has come to be regarded as the grand dilemma of modern mixed capitalism. As among three basic economic goals which are held in high esteem in our society—reasonably full employment, reasonably stable prices, and reasonably free economic institutions and processes—it is widely believed that we may attain any two together, but not all three. If we were willing to substitute mandatory wage and price controls for free collective bargaining and private price setting, it is easy to see how, at least in principle, we could have both full employment and price stability. If we were willing to depress the level of employment sufficiently, we should have no difficulty in stabilizing prices and preserving free institutions. And if we were willing to accept whatever price consequences should ensue, we could certainly arrange—at least for a time—to enjoy full employment in a setting of economic freedom. But no one in the Western World has discovered the Rosetta stone which gives us the key to achieving all three goals simultaneously.

The grand dilemma implies a particular view of the way wages and prices are set in the modern system of mixed capitalism which characterizes most of the advanced Western nations. It is no longer argued that there is a clearly defined full employment threshold, below which wages and prices will behave in a noninflationary manner, and above which wages and prices will begin their inflationary ascent. If prices and wages did in fact behave in this happy fashion, the grand dilemma could be resolved simply by managing correctly the level of aggregate demand. But wages are determined and prices set by groups which possess a measure of discretion in these decisions; and this discretion can be used and has been used to introduce an inflationary bias into wage and price setting at levels of economic activity short of full employment.

Though the apparent conflict between full employment and price stability has never been far from the center of economic debate during the last decade, it did not figure in the thinking of the authors of the Employment Act. The act is explicit in identifying high employment and the preservation of free economic institutions as goals of economic policy, but nowhere is there explicit reference to the problem of inflation. True, a master of constitutional exegesis, by strain-

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ing hard, could probably extract the desired declaration of policy from the act's endorsement of the goal of "maximum * * * purchasing power," but he would have to employ some shaky economics to accomplish the feat. The fact is that inflation was not seen as a major long-term problem at the time the Employment Act was hammered out.

This is paradoxical, for the United States in 1945 was suffering from a massive wartime imbalance between aggregate supply and demand, the inflationary symptoms of which were partially suppressed by general wage and price controls. But the climate of ideas within which the Employment Act was shaped was attuned to the economic experience of the 1930's, not to the economics of the war years. The common view, both of economists and of practical men, was that the wartime boom was a respite from a condition of chronic depression, into which the United States would relapse at the end of the war unless heroic countermeasures were taken. The expectation of economic collapse after the war was reinforced by memories of the events which followed the end of the First World War; production and employment began to decline after the armistice, and these, together with prices, fell sharply in 1921.

The predominant concern was with income and employment, not with prices. When we entered the Second World War, both the wholesale price index and the consumer price index were still below the 1929 level. The brief runup in prices which occurred in 1937 had occasioned little concern; in fact, in the early years of the New Deal, the Government made deliberate efforts to raise prices, on the reasoning that since prosperity was often accompanied by rising prices, a successful effort to raise prices might produce prosperity. Concern for the balance of payments, which has figured so prominently in our thinking about prices during the last several years, was virtually unknown in 1945. We had $20 billion in gold, our international payments position had been strong for many years, and we regarded balance-of-payments ills as an affliction confined to other countries, like the multiparty system.

But this relative indifference to the problems of inflation was soon to end. With the lifting of controls in 1946, the huge reservoir of liquidity accumulated during the war burst forth as effective demand, and wages and prices rose sharply. Ironically, the very first major inquiry of the Joint Economic Committee—in June and July 1947—dealt with price developments, as did many subsequent studies and hearings. The executive branch shifted gears just as quickly—President Truman's first Economic Report, in January 1947, registered disquiet over rising prices, and later reports employed an increasingly strident tone in deploring price developments. It is worth noting that if the widespread postwar expectation of imminent economic collapse had not caused business firms and households to leaven their buying plans with a measure of conservatism, the postwar inflation would have been even worse than it was.

While the process by which an inflationary episode unfolds is never simple, some inflations are nevertheless a good deal easier to categorize than others. Both the 1946–48 eruption, and the panic-buying episode which flared up during the 8 months following the outbreak of hostilities in Korea in 1950, were fairly straightforward examples of ex-

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cess-demand inflation. In both cases, aggregate demand surged ahead of aggregate supply on a broad front, and wages and prices responded promptly and sharply. These two war-induced inflations, incidentally, account between them for most of the increase in the price indexes which has occurred in the 20 years since the end of the Second World War.

The 1955–58 inflation, on the other hand, is not easy to categorize. Indeed, the Joint Economic Committee has devoted lengthy hearings and reports to an effort to understand exactly what happened in those years. Yet, in a sense, the 1955–58 episode is more important than the earlier and more violent inflations, for it shook many preconceptions about the nature of the inflationary process, raised new doubts about the compatibility of full employment and price stability, and exerted a strong influence on current thinking about public policies toward prices and wages.

From May 1955 to March 1958 consumer prices rose by 8 percent and wholesale prices by 9 percent. Compensation per man-hour in the private economy rose a good deal faster than productivity, with the result that labor costs per unit of output rose by 5½ percent in 1956 and 3½ percent in 1957. Yet it would be hard to argue that the period was marked by excess aggregate demand. Only during the second half of 1955 did the rate of capacity utilization in manufacturing exceed 90 percent. The rate of unemployment bumped along close to the 4-percent level from mid-1955 to mid-1957, falling below 4 percent during only 3 months of the entire period.

Although total demand did not seem to be excessive for the economy as a whole, capacity was under some strain in the durable manufactured goods sector. Automobiles had a spectacular year in 1955, the steel industry operated close to capacity for the greater part of the period, and parts of the machinery industries felt strong demand pressure. The greater part of the 1955–58 rise in the index of wholesale industrial prices was directly attributable to price increases in metals and metal products and machinery and motive products. Very large multiyear wage settlements were negotiated in this sector, including the 1956 steel settlement, the cost of which has been estimated at 8 percent a year. These settlements influenced the aspirations and bargaining goals of labor unions in other sectors of the economy.

The 1955–58 inflation clearly eroded our international competitive position, and played a part in precipitating the severe balance-of-payments weakness which developed toward the end of the 1950's. The price increases were concentrated in metals, machinery, and transport equipment, and these commodities make up about two-thirds of total U.S. exports of manufactures. In steel, for example, U.S. prices between 1956 and 1958 rose nearly 20 percent more than the average price rise in five other major steel exporting countries. The U.S. share of world exports of iron and steel products fell between 1956 and 1958 from 19 to 14 percent of the total; and our share of exports of manufactures fell over the same years from 30 to 27½ percent.

It does not do justice to the complexities of this episode to characterize it simply as cost-push inflation. The existence of a high level of demand was clearly a prerequisite to the price and wage behavior of the period, as were the supply bottlenecks in the critically impor-

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tant durable goods sector. Yet wage- and price-setting institutions were also of central importance: some powerful labor unions were able to negotiate outsize wage settlements on a multiyear basis; these wage impulses fanned out to other sectors of the economy; and business firms which enjoyed strong market power positions were able to widen profit margins. In brief, during a period when aggregate supply and demand seemed to be in reasonably good overall balance, and in which the unemployment rate stayed close to the 4-percent level, the economy demonstrated a modest but persistent inflationary bias.

This was the wage-price backdrop to the thinking of administration policymakers as the economy began to emerge from its fourth postwar recession in 1961. The surge of economic activity in 1961 was reassuring, but it again raised the specter of a renewed wage-price spiral as the economy neared full employment. The lesson of 1959–60 was fresh and clear—a heavy foot on the fiscal and monetary brakes had indeed prevented an inflationary outbreak in 1959, but it also stalled the recovery well short of full employment and triggered another downturn. Moreover, the balance-of-payments position had become critical; the gold outflow turned into a hemorrhage toward the end of 1960, and the early months of the new administration were marked by an atmosphere of balance-of-payments crisis. The recognition that a reserve currency nation with a wide margin of unemployment and unused capacity possesses few acceptable techniques for adjusting to a balance-of-payments deficit underscored the necessity of strengthening the U.S. competitive position by holding the line on prices.

It was in this setting that the Council of Economic Advisers, with the endorsement of President Kennedy, enunciated the wage-price guideposts in January 1962. The use of exhortation in the quest for price stability was hardly new; Presidents Truman and Eisenhower and others in their administrations had on numerous occasions pleaded for "responsible" wage and price behavior. But so long as responsible behavior was left undefined, it was of little utility as a guide to conduct. After all, few labor unions or businessmen in the 1955–58 period would have characterized their wage or price decisions as irresponsible.

The element of novelty in the wage-price guideposts was thus the effort to give some operational content to the notion of responsible wage and price behavior. The purposes of the guideposts were (1) to launch an educational effort to clarify the economic and arithmetic interrelationships among prices, wages, productivity, and incomes, in order to identify the kinds of wage and price behavior which are broadly consistent both with economic efficiency and a stable price level; (2) to help create a sanction in public opinion for noninflationary wage and price behavior, in order to influence indirectly the behavior of decisionmakers; and (3) to provide standards for responsible wage and price behavior sufficiently operational to give useful guidance to those who wished to honor the public interest in their decisionmaking. The focus was not on all wage and price decisions, but on the decisions of those groups which exercised important market power.

It was perfectly clear in the minds of the authors of the wage-price guideposts—as it is to their present custodians—that the guideposts were no substitute for monetary and fiscal action to prevent the emergency of general excess demand. It was thought, however, that

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there existed a band of unemployment rates, above which the guideposts were superfluous and below which they would be largely ineffective. While neither the width nor the position of this band could be defined with precision, it was the prevailing hunch that in 1961 we were outside the upper limit of the band, and that, given the labor market circumstances which existed at the time the guideposts were enunciated, an unemployment rate markedly below 4 percent would probably be below the lower limit of this band. It was felt, however, that *within* the band the guideposts could have a constructive influence in restraining inflationary wage and price behavior.

The educational purpose of the guideposts was of primary importance. Misconceptions about the interrelations among wages, profits, prices, and output were prevalent both in labor and in business. Spokesmen for labor often seemed to regard wages as incomes but not as costs. They frequently fixed on the rates of productivity increase in particular industries as appropriate standards for wage increases in those industries; needless to say, if this standard were widely adopted, the United States would in a short time have a grossly distorted and inefficient wage structure. They sometimes talked as though the steady increase in economywide productivity were ascribable to higher skills and greater effort on the part of workers, neglecting the major influence on advancing productivity of the quantity of capital, improvements in technology, interindustry shifts, the quality of management and organization, and improvement in the rate of utilization of productive capacity.

On the management side, it was frequently held that any increase in wage rates was inflationary; in fact, of course, the failure of wage rates to rise would sooner or later force a decline in the general price level. Also, it was frequently said that if wage rates rose at the same rate as the economywide increase in productivity, the whole of the gain from increasing productivity would be captured by labor; the truth of the matter, which is now, I think, widely appreciated, is that both labor income and property income would rise at the same rate under these circumstances.

Whatever may be one's view of the merits of the guideposts, I believe it must be conceded that they have had a salutary educational effect. The debate over the value of the guideposts has served as a cram course in wage-price economics. Public statements by labor and business leaders, and reporting and discussion in the press, reveal today a markedly higher level of sophistication concerning the economic interrelationships among wages, prices, productivity, and incomes. If public opinion is to influence decisionmaking in the public interest, it must be formed on the basis of clear understanding. We have made notable progress in that direction in the last 4 years.

But have the guideposts worked? Have they actually reduced the inflationary bias of our price- and wage-setting institutions, or have they been an exercise in futility? Lacking any means of determining what would have happened to wages and prices these last 4 years in the absence of the guideposts, we shall never know for certain. But one cannot suspend judgment because conclusive proof is beyond reach. My own guess is that the guideposts have in fact been a restraining influence. This judgment rests in part on analysis which indicates that annual rates of wage increases in recent years are signifi-

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cantly below the rates which would be predicted from historical relationships between wage increases on the one hand and unemployment rates and profit levels on the other. It rests in part on the evidence of overt public action to restrain the rate of wage increase for civil service employees and maritime workers. It rests also on the knowledge that governmental influence has been brought to bear effectively on a number of wage and price negotiations, openly in some cases and privately in others. And it rests finally on the observation that every wage negotiation is an adversary proceeding, that the negotiating positions of the parties can be strengthened or weakened by public interest considerations, and that the guideposts are frequently introduced into negotiations as such a consideration.

On the price side, the evidence is admittedly scanty. There have, of course, been a few cases of overt governmental intervention. But apart from these, while it is hard to point to any price reductions in which guidepost analysis has been an identifiable influence, there is reason to believe that some prices have not been raised—or have been raised less than they otherwise would have been—because of the guidepost "atmosphere." And, of course, the guideposts have also influenced prices indirectly through their effects on wages and hence labor costs.

Though the guideposts have helped over the last 4 years to maintain a wage-price environment even more stable than the degree of economic slack would have led one to expect, it should be quickly pointed out that other forces have been working in the same direction. More vigorous foreign competition in the domestic market has helped. Inflationary expectations may have been dampened by the virtually back-to-back recessions of 1958 and 1960. The remarkably steady improvement of productivity over the last several years—sustained by tax policies designed to encourage investment—has helped to stabilize unit labor costs. Expanded training programs and other measures to improve the skill structure of the labor force have helped to avoid skill bottlenecks, and the well-balanced structure of the economic expansion has meant the avoidance of capacity bottlenecks.

The specific standards set forth in the guideposts represent a compromise between the desire to achieve operational simplicity and the desire to simulate the kinds of wage and price behavior which would characterize a highly competitive economy operating in the vicinity of full employment. As a result, the standards are somewhat more complex than one would desire and somewhat less faithful to the rigorous model of a highly competitive economy than one would like. Much of the technical criticism of the guideposts has centered on the possible allocative and distributive distortions which could result under various circumstances from the exact application of the guideposts. There is merit in much of this criticism, though some of the counts in the indictment seem to have more analytical elegance than real-world significance.

It is also true, as critics allege, that the guideposts will inevitably bear more heavily on the important and visible wage and price decisions than on those which escape public attention. Furthermore, the wage guideposts are more specific than the price guideposts and hence easier to apply. And these criticisms do not exhaust the list of shortcomings of the guidepost policy.

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All these points are relevant and important; they are not, however, conclusive. As seems to be the case in too many debates, the proposition which the negative side is attacking is not the same as the proposition which the affirmative is defending.

The case for the guidepost policy does not rest on the contention that it is without serious imperfections. The case for the guidepost policy rests, rather, on the proposition that any alternative strategy for dealing with the grand dilemma would be more objectionable—that there is no better way to seek to resolve the apparent conflict among full employment, price stability, and the preservation of free economic institutions. The alternatives are (1) to pursue a full employment policy and accept such inflationary consequences as may ensue; (2) to maintain enough slack and unemployment in the economy to stabilize the price level; (3) to pursue a full employment policy and institute mandatory wage and price controls; and (4) to strip decisionmakers of market power by breaking up concentrations both in business and labor.

With all of its warts and blemishes, the guidepost policy—or something very much like it—seems preferable to any of these alternatives. Opponents of the guidepost policy have a responsibility, it seems to me, either to deny the existence of the problem to which the guideposts are addressed or to advocate one or another—or some combination—of the alternative policies for dealing with it.

In the further evolution of the guideposts, there will certainly be occasions when governmental intervention in particular price or wage decisions is necessary. But if such intervention should become the sole or even the principal sanction for adherence to the guideposts, then the policy will surely fail. In an economy as large, as decentralized, and as diverse as ours, occasional calls from Washington will not change the way businessmen and workers think about price and wage problems. Yet the future of the guideposts will depend precisely on the way decisionmakers think about their responsibilities. Prof. J. M. Clark said it very cogently 6 years ago in a book about the wage-price problem:

> It is a fundamental principle of any society based on voluntary action that the amount of freedom that can be retained—freedom from public controls on the one side and from the coercions of private actions on the other—is measured by the extent to which the need for public coercion is lightened by the members' voluntary acceptance of the requirements of living together.

If we are to strengthen voluntary acceptance of the canons of conduct proposed in the guideposts, we shall need continued strong governmental leadership; more direct participation in the development of guidepost institutions and policy by leaders of business, labor, and the public; broadened public understanding of the benchmarks of responsible wage and price behavior; and the ultimate and powerful sanction of an alert and informed public opinion.

No one can be confident that the effort will succeed, but no other course offers a better longrun chance of avoiding inflation while honoring the commitment of the Employment Act to the goals of maximum employment and production and the preservation of free economic institutions. [Applause.]

Dr. ENSLEY. Thank you very much, Dr. Gordon.

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The second speaker this afternoon is Dr. Paul W. McCracken, member of the Council of Economic Advisers from 1956 to 1959 and now professor of business administration at the University of Michigan.

Dr. McCracken.

STATEMENT OF DR. PAUL W. McCRACKEN, EDMUND EZRA DAY UNIVERSITY PROFESSOR OF BUSINESS ADMINISTRATION, GRADUATE SCHOOL OF BUSINESS ADMINISTRATION, THE UNIVERSITY OF MICHIGAN

Price-Cost Behavior and Employment Act Objectives

Dr. McCracken. Mr. Chairman, the stern strictures of the chairman here in regard to the time allotted to us has imposed on me, as is true for most of the other participants, the painful task of excising a good many pages of priceless prose. I dare say that when this venture is concluded, Grover, we ought to cite you to the Anti-Vivisection Society.

What is the relevance of the Nation's price-cost performance to the objectives of the Employment Act? This question may not be the most fundamental issue of economic policy before us today, but it is probably a leading candidate for the most vexatious piece of unfinished business. The price-cost question naturally divides itself into about three questions. How important is a reasonably stable price-cost level to the more fundamental objectives of full employment and rising levels of living widely shared? Is there a market-power dimension to the price-level problem? Third, what are the policy implications of these matters for the objectives of the Employment Act?

I

Certainly the case for attaching high priority to a reasonably stable price level seems to be a persuasive one for reasons concerned with both our external and our domestic economic performance. Given the large noncurrent burdens on our balance of payments, the sharp recovery in the balance on current account, after it had dipped into a deficit position in 1959, probably made the difference between an international dollar crisis and an external payments position that has been tolerable even if not comfortable. From 1954 to 1959 the U.S. export price index increased 8 percent compared with 3 percent for other industrial nations as a whole. During the next 5-year period (1959-64), however, our export prices rose only 3 percent, a markedly better record than the 8 percent in the first half of that decade and somewhat better than the average for other industrial countries. The fact that the U.S. price level did perform much better by international standards is undoubtedly relevant to our improved payments performance on current account in recent years.

In the domestic economy a reasonably stable price level is desirable in itself for many obvious reasons. A rising price level does, for example, pose problems of equity. Some incomes are, if not fixed, at least sticky. The real purchasing power of financial assets held by those of moderate means is more adversely affected than those held by the affluent. The empirical evidence about the relationship between

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price increases and rates of domestic economic expansion is more complex, but it presents no persuasive case that acceptance of a more rapidly rising price level enables a country to achieve a more rapid rate of economic progress. The record of 39 nations for the period 1950 to 1960 and 1960–63 reveals no significant relationship between rates of growth of GNP (total or per capita) and the rate of increase in the price level. In studies (largely of developing nations) by the International Monetary Fund there seems, in fact, to be some evidence of an inverse correlation between rates of economic growth and the rapidity with which the price level was rising.[1] Countries with a relatively stable price level have done somewhat better on the average than those experiencing strong upward pressures on the price level. There are persuasive reasons for expecting that things might work out this way. The pervasive expectation of continuing inflation does disturb economic decisions. The pattern of capital formation is distorted. It encourages an outflow of domestic capital, and it impedes the inflow of capital from the outside. On all of these matters there is supporting empirical evidence.

The relationship between the rate of growth of output and the rise in the price level for more developed nations such as the United States is again indistinct. For 17 of these nations in the 1950's there seems to be no discernible relationship between the rate of rise in the price level and the rate of growth in real per capita GNP. For total output there was a faintly perceptible negative relationship, but too low to be statistically significant. If we limit ourselves, in our quest for a price-level target, to the criterion of growth rates, international experience does not lend support to the view that a moderately rising price level is essential or inimical to vigorous growth in developed nations.[2] The desirability of a strong position on price-level policy must then rest heavily with such considerations as equity or our external economic position.

II

Suppose we turn now to the second question. Is there more to the problem of a stable price level than good monetary and fiscal policy? Is there a market power dimension to the problem? The decision does not automatically go to the affirmative. From 1909 to 1929 (excluding 1914–20) there were 14 years of rising business activity. In eight of these the price level rose, in three there was no change, and in three the price level declined from that of the preceding year. On the average the price level rose 1 percent per year for these 14 years.

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[1] Cf., for example, Graeme Dorrance, "The Effect of Inflation on Economic Development," staff papers, March 1963, pp. 1–47.

[2] Computations were made for 17 developed nations for the period 1950–60. They were: Australia, Austria, Belgium, Canada, Denmark, France, West Germany, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Sweden, Switzerland, United Kingdom, and the United States. The terms were: G—rate of growth in real total GNP; G^1—rate of growth in real per capita GNP; P—rate of rise in the cost of living. GNP growth rates are from the United Nations Yearbook of National Accounts, 1965, and the rate of increase in the cost of living was computed from data in International Financial Statistics. The results are:

Equations		
	1950–60	
	$G=5.5-0.30P$	R^2
	$G^1=f(P)$	0.060

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For the period 1949–65 there were also 14 years of economic expansion. The average price rise was 2.3 percent for these 14 years, and in only one expansion year (1955) did the price level recede. The average rise in rising years, however, was greater in the 1909–29 period than after 1949. The principal difference between these two periods seems to be the lesser frequency of any price decline at all, during expansion years, in the postwar period. The record does not seem to suggest that the price level now is prone to rise more rapidly during an economic expansion than in our earlier history. If anything it may be less so.

Our experience in the late 1950's was, of course, undeniably disturbing. From mid-1956 to mid-1958 the price-cost level was rising too rapidly, and after mid-1957 it was also a period of subnormal employment. Even that period in retrospect has its extenuating circumstances. Some of the wage adjustments that were pushing our cost level upward were the result of negotiations conducted in the ebullient climate of 1955. Moreover there was a swelling wave of inflation-mindedness. The proportion of people, for example, expecting the price level to continue rising for the long run tripled from 1953 to 1957. Here was a phenomenon of social psychology bearing perhaps some resemblance to the Salem witch hunts or the Communist hunts of the McCarthyism era. In retrospect these ground swells always seem a bit perplexing and inexplicable, but they are real and influential while they last. These expectations of inflation, the inflation-mindedness, considerably overshot the basic facts of economic life, of course, but for a time they were an important force nudging the price-cost level upward. Business response to union demands was in part reflecting these assumptions. Union demands for wage adjustments in turn were responsive to this climate. Each settlement, therefore, was followed by the higher prices that gave another thrust to the rising price level, seemingly confirming the wisdom of making decisions on the assumption that an age of inflation was ahead.

The disinflationary policies of 1957 to 1959 (except for a brief interlude from mid-November 1957 to about July 1958) were probably too severe, but they did perform the desirable function of puncturing this bubble of inflation-mindedness. And the more moderate pace of the price level in recent years dates from mid-1958—not, as all good things in economic policy are sometimes alleged to do, from January 1961.

Even so there probably is an element of the market-power phenomenon in the tendency for our price-cost level to edge higher. Since 1960 the price level has continued to drift upward at the rate of perhaps 1¼ percent per year, and costs per unit of output (in the corporate sector) have shown a comparable rise—even though unemployment averaged 5.8 percent of the labor force. Moreover, the rise in both the price level and costs per unit of output were apparently at a somewhat greater rate in 1965. This is a less impressive performance than, for example, the 1920's (1922 to 1929) when unemployment averaged about 4 percent, and the price level increased at the rate of only 0.2 percent per year. (The average annual rate of increase in output from 1922 to 1929 of 4.7 percent was also higher than the 4.5 percent average from 1960 to 1965.)

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III

What, then, are some of the elements of a price-cost policy for the Nation? Clearly this has become once more an urgent question. The economy by the latter part of last year had regained reasonably full employment, and the tolerances began to narrow sharply. Once again we are in a zone where strengthening the capability of the economy to resist inflation, always desirable, must be given even higher priority.

Measures to avoid a rise in aggregate demand that outruns the economy's productive capability are now, of course, fundamental. Whatever differences may exist about other dimensions of the price-level problem, there would be a wide measure of agreement that inflationary pressures cannot be contained in an overheated economy. The most fundamental and basic requirement for a reasonably stable price level is, therefore, fiscal and monetary policies that do not crowd demand too hard against the economy's capability to produce. This is hardly controversial, in principle, and issues of fiscal and monetary policy have already been discussed, so we can move on to other matters.

There seems to be some measure of agreement that a modern industrial nation should have a wages or incomes policy. In the 1961 O.E.E.C. study on "The Problem of Rising Prices," the panel of distinguished economists agreed that negotiated wage increases were "decisive in explaining why some countries have failed to a far greater extent than others to achieve price stability."[3] On the problem of wages their report is quite explicit. "In the view of the majority of the group, the essential element to be stressed, first of all, is that the stabilization authorities must have a wages policy for dealing with the problem of wages—just as they must have monetary and fiscal policies for dealing with the problem of demand."[4]

Our own venture into incomes policy has been via the guidelines. It has, on the whole, been a constructive step. It was the logical sequel to extensive academic and professional discussion, antedating the 1962 Economic Report, about the relationship between wages and prices. This ancillary discussion included increasing attention to the problem in successive Economic Reports during the Eisenhower Administration. The articulation of the guidelines has focused public attention and understanding more squarely on the problem, and in their absence it is reasonable to suppose that we might have had a somewhat higher price-cost level today.

We need to recognize, however, that the guideline approach also involves some important risks. For one thing there is danger that preoccupation with inevitably only a few highly visible price or wage settlements will cause inattention to the more fundamental matters of monetary and fiscal policy in the strategy for maintaining a reasonably firm cost-price level. The excessive rate of credit expansion in the closing months of 1965, at a time of a few highly visible price controversies, reminds us that this is not an academic matter. There is, in fact, real danger that an overly expansive policy, as in 1954–55, will force a sharp reversal, as in 1956–57.

[3] P. 45. The authors of the report were William Fellner, Milton Gilbert, Bent Hansen, Richard Kahn, Friedrich Lutz, and Pieter de Wolff.
[4] P. 56. Cf. also Henry Smith, "Problems of Planning Incomes," Lloyds Bank Review, January 1966, pp. 30–40.

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Another danger is that the guideline approach, if it becomes *de facto* or *de jure* a program for extensive price control, would impede the mobility and fluidity of the economic system. And the more effective (and, therefore, extensive) the guideline program becomes, the greater is this danger. The trouble fundamentally is that the articulation of the guidelines principles largely ignores the role of changes in demand in our system. Our economy depends for its efficient operation on extremely complex and sensitively adjusting pricing relationships that serve as the communications system for promptly reflecting the ever-changing pattern of demands.[5] There is not much recognition of this in the enunciation of the guidelines. "The general guidepost for prices," says this year's Economic Report, in the strong language of italics, "is that *prices should remain stable in those industries where the increase of productivity equals the national trend; that prices can appropriately rise in those industries where the increase of productivity is smaller than the national trend; and that prices should fall in those industries where the increase of productivity exceeds the national trend.*"[6] On the next page we learn that increases above this may be appropriate to reflect increases in unit material costs, if not otherwise offset, or to correct an inability to raise capital. This latter exception is quite explicitly not considered to be "widely applicable in the present environment."

Now this simply describes a cost-plus economy. It will not do even as a short statement of our pricing system. A rise in prices for industries with a productivity rise below average may be quite inappropriate and inconsistent with economic efficiency if the industry is declining and should be extinguished. Price increases may be a desirable means of signaling for increased production of a product even when the industry has average or above-average gains in productivity if demand has intensified.

These are not academic matters. An economy whose pricing system operates according to the guidelines as enunciated would certainly find its capability for progress weakened.[7] Half of our gains in output have come from uncovering more effective ways of utilizing productive resources of labor and capital, and through open competition diffusing these across the economy generally. A cost-plus economy would tend to prolong the lives of decaying industries, and it would slow responses to areas of increasing demand.

The problem here is fairly clear. It is the danger of attempting to apply an aggregative macroeconomics rule relevant to the general price level to the ever-changing relationships among specific prices in microeconomics. The pricing system that we would get if this cost-plus pricing were fully implemented would, to an observer from the University of Mars, look like a highly primitive and crude version of what we now have.

Problems of equity will also inevitably become more difficult if attempts to apply the guidelines to specific situations become more extensive. Even though the guidelines recognize exceptions, most situa-

[5] My colleague, Prof. Charles N. Davisson, pointed out to me the full significance of this point.
[6] Economic Report, January 1966, p. 90.
[7] Cf. Arthur F. Burns, "Wages and Prices by Formula," Harvard Business Review, March–April 1945, pp. 55–64.

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tions will actually be measured against the average. The steel wage settlement is an example. If it was on the 3.2-percent average, it really exceeded the guidelines because it has been an industry with more than its share of unemployment, wage rates were relatively high already, and profits have been relatively low. These are conditions that, according to the Council's articulation of the guidelines, call for a below-average wage settlement. Yet the settlement was pronounced to be right on target—because it came out on the average.

The procedures for singling out price and wage candidates for attention will inevitably be uneven and capricious. Steel would be apt to get the works even though prices of some other products in the aggregate might be just as important. The price which, according to the guidelines, ought to go down and does not would probably be safer from official wrath than the price that ought to stay put but goes up. And there is the question of equity as among wage settlements. The USW or UAW member is apt to find his income more affected by guidelines than a member of the construction union. And it is almost inevitable that a larger proportion of the wage area will be under surveillance than of prices. An industry that has one major labor contract may have hundreds of prices. This is bound to create political strains that either weaken the guidelines or force the Government in the direction of price control.

Another important dilemma of the guidelines approach (or any variant that is some *de facto* form of direct price or wage control) is that it introduces some upward biases of its own. Because price increases when needed may involve some abrasive moments, there would be considerable incentive to resist any price declines. And there would be strong incentives to take the maximum price rises that could plausibly be attributed to such exogenous factors as wage settlements or higher material costs.

There is also an issue of government here. We have probably gone about as far down the guideline road as is appropriate in the absence of legislative action. A form of price-wage control could ultimately come to have the force of law because of the formidable power that the Federal Government can assemble against any miscreant in pricing or wagemaking. If these programs are to become significant instruments of economic policy, the Congress should debate the issue and, if persuaded of their wisdom, take the necessary legislative steps to authorize administration action. The come-let-us-get-together approach can be a device that builds up a power structure in Government which circumvents the legislative process, and in the private sector which circumvents the normal market disciplines of competition. This is not desirable in our political system or in our economy.

The basic reservation about the guideline approach, however, is the evidence that it is of quite limited practical effectiveness. There has not been much displacement in the relationship between our price-level performance and the pace of the economy. In their paper before the American Economic Association 5 years ago Professors Samuelson and Solow suggested that to achieve a stable level of labor costs per unit of output unemployment might have to be 5 to 6 percent, and to achieve "the nonperfectionist's goal" of 3 percent unemployment the price index might have to rise 4 to 5 percent per year.[8] If we

[8] Paul A. Samuelson and Robert M. Solow, "Analytical Aspects of Anti-inflation Policy," American Economic Review, Proceedings, May 1960, p. 192.

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make a simple linear interpolation between these two points of their modified Phillips curve, the 4.6 percent unemployment rate for 1965 would imply about a 1.7-percent rise in the price index. The Consumer Price Index actually rose 1.7 percent from 1964 to 1965, and the rise would have been somewhat higher except for the effect on the index of reduced excise taxes. The guidelines do not seem to have been holding the rise in the price level to anything markedly different from what would have been expected, given our volume of unemployment. Moreover, international experience also suggests cautious expectations about what guidelines can accomplish. The trend of wages and prices in European countries does not suggest that the incomes-policy approach is apt to provide strong defense against inflation. The results from the United Kingdom's policy for incomes and prices, launched just over a year ago, are not auspicious, and the next version will apparently be legislation to require advance notice of price changes and of wage negotiations.[9]

The articulation of the guidelines, let me repeat, has been useful. It has certainly given the whole subject greater public visibility and understanding, and that has been helpful. Their job is to make a marginal contribution—to field the few wild-ball price and wage situations that might occur—under circumstances where fiscal and monetary policies are the basic defense against inflation. At the same time the hard evidence here or abroad does not suggest that they are a strong or highly effective anti-inflationary weapon. And if they divert attention from more fundamental matters of fiscal and monetary policy, they could give the price level an upward bias while they are also reducing the capability of the economy to sustain vigorous economic progress. At this point they would collide squarely with any reasonable interpretation of the Employment Act's section 2.

It is, however, high time that we move on to other matters. One possible contribution to a more stable price level is squarely within the domain of the Federal Government's operational activities. The fact is that important Government programs and actions give a direct and significant upward thrust to the price-cost level. At a time when rising food prices have been a significant factor in the higher cost of living, which in turn will influence wages, the Government will spend on agriculture an estimated $4.3 billion this fiscal year and $3.4 billion in fiscal year 1967. Proposals to increase the minimum wage are inimical to the objectives of the Employment Act if we are concerned about price-cost-level problems, and if we are also trying to draw into regular employment those in the labor force only marginally employable. Secretaries of Labor in their administration of the Bacon and the Walsh-Healey Acts have usually interpreted prevailing "minimum" wages for Government contracts to be synonymous with union rates even in localities where these rates had no real relevance to local situations.[10] Obviously the rationale that these programs reflect "political realities" will no longer do. Political gain is to the political arena what profits and wages are to the economic arena. A Govern-

[9] Cf. Ray Vicker, "Holding the Guidelines," Wall Street Journal, Feb. 7, 1966, p. 14. Also International Financial News Survey, Jan. 14, 1966, p. 10.

[10] Gordon F. Bloom and Herbert R. Northrup, "Economics of Labor Relations" (Irwin, 1961), pp. 549–550.

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ment requesting unions and managements to rise above their self-interest on wage and profit decisions can be asked to lead the way itself in some of these operational programs.

If society decides to channel more of its national income into the public sector, and to do so via sales and excise taxes, it makes no sense to have this affect the Consumer Price Index. In an era where demands in the public sector are going to be heavy, we have arranged things so that the use of a tax with substantial popular support would quite directly push upward our most widely used measure of changes in the price level. During 1965 the Consumer Price Index rose 2 percent, but the rise would have been 2¼ percent except for the reduction of excise taxes. And we are in the odd position of increasing excise taxes in 1966 to counter inflation, though their increase will directly raise the price index—and directly and indirectly have an effect on wage movements.

It would be in the public interest for the Joint Economic Committee to conduct an exhaustive study of all Federal programs that have a direct effect on costs and prices. They might be found to be consequential.

Few things are more effective in neutralizing the exercise of power than availability of alternatives. Even our powerful corporations cannot force or cajole consumers into buying what they do not want. They cannot because the consumer has alternatives. If the gas company suffers from delusions of grandeur, it will be brought back to earth by marginal shifts of energy requirements to electricity or oil. If Chevrolet buyers were to feel abused, Ford or Chrysler would be eagerly ready with alternatives. A part of our price-cost policy could usefully be exploration of ways to widen alternatives further. The increasing internationalization of economic life offers a major opportunity. The alternative of imports has already served as a significant restraint on the dour ritual of large increases in wage rates duly succeeded by ample price increases. In some cases it has had a notably therapeutic effect on more aggressive product development. Further relaxation in constraints on the availability of alternative foreign products and services would make a useful contribution to the Nation's price-cost performance, and it would also make for better jobs and a stronger economy. The administration is to be commended for its insistence on adjustment assistance for hardship cases as trade barriers are relaxed, rather than the route of blocking tariff reductions.

Things which might increase the ease with which capital could be substituted for labor must also be classed in the category of broadening alternatives. It is a grisly thought, but the labor cost per unit of classroom output might be under less severe upward pressure if a teaching machine could more readily be substituted for professors. Capital budgeting came upon the industrial scene belatedly, but it has made great strides. If the capital budgeteers and the capital goods engineers could increase the substitutability of capital for labor, we would come close to getting the best of three worlds—an upgrading of jobs; a more stable cost-price level; and an accelerated rate of economic progress.

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IV

Suppose that even with appropriate fiscal and monetary policy, supported by as much marginal help from other policies and programs as it is reasonable to expect in this world, the price level is still not quite stable. This is probably a reasonable expectation. The last sustained period of full employment, vigorous economic growth, and a stable price level was the period from about 1922 to 1929. And for the entire period from 1900 to 1929 (excluding the war periods), 80 percent of the expansion years saw some rise in the price level.

The objective of a stable price level is an important one, but it does remain a facilitating and not a fundamental objective. It is important largely to the extent that it is essential for full employment, vigorous economic growth, and high and rising levels of incomes widely and equitably shared. We must not be so obsessed by building the bridge over the Kwai that we lose sight of the larger picture. It would be better to retain the motility and adaptability of our free-market economy, for example, than to contract economic arthritis through extensive direct intervention into the specifics of economic life—out of zeal for a flat price index. It is possible, however, that emergent inflation-mindedness may become a problem. We must in that case contemplate occasional episodes of disinflation. These might briefly reduce the proportion of the labor force employed by perhaps a percentage point. It should, however, be quite possible to achieve results through short periods of moderately reduced growth, still avoiding any significant recedence in the economy. Episodic disappointed inflationary expectations would probably be enough to serve as a reminder that caution is appropriate even if the general trend is up because it is also necessary to survive shorter run contingencies.

It is to be hoped that a stable price-cost level becomes possible with full employment. The fact is that with the existing state of the arts of economic policy severe insistence on price-cost stability is a recommendation for the distortions of suppressed inflation that enervate the economy—and probably for a lower trend rate of growth. Obviously we cannot close down the economy until we know more about achieving a stable price level without retarding the economy's growth. We therefore face the inevitable problem of feeling our way along with a mix of real growth, high employment, and some concession to the price level—with the mix itself changing a bit from time to time—if we are to achieve the maximum rise over a long period of time in widely diffused levels of living.

V

Since the act which we honor today was signed, every President has explicitly recognized the importance of a reasonably stable price level to the performance of our economy and to the quality of our Nation's economic life. This clearly continues to be the case, and it is wise. As is true of our objectives for employment, production, and purchasing power, we sometimes fall short of our price-level goal, and we shall probably have our shortfalls in the future. We can, however, say of this goal what Beardsley Ruml said of the Employment Act's objectives two decades ago when he told a Senate committee that "this statement of the goal of our sincere efforts to attain it will make the

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reality much closer to the ideal than if the ideal had never been expressed." [Applause.]

Dr. ENSLEY. Thank you very much, Professor McCracken.

The final subject of this afternoon's session deals with "Administration of the Employment Act."

Here again, a number of questions present themselves: What are the most constructive roles and relationships of the President, the Council of Economic Advisers, other executive agencies, the Joint Economic Committee, other committees, the Congress as a whole, the non-Government groups? Four individuals have been chosen to bring us their thinking in this important area. Each has been allotted 12 minutes.

First we have Prof. Bertram M. Gross, staff adviser to the congressional sponsors of the Employment Act and Executive Secretary of the Council of Economic Advisers from 1946 to 1952. Professor Gross is now director of national planning studies for the Maxwell Graduate School of Citizenship and Public Affairs at Syracuse University.

Professor Gross.

STATEMENT OF DR. BERTRAM M. GROSS, PROFESSOR OF POLITICAL SCIENCE, MAXWELL SCHOOL, SYRACUSE UNIVERSITY; CHAIRMAN, COMMITTEE ON NATIONAL PLANNING RESEARCH, AMERICAN SOCIETY FOR PUBLIC ADMINISTRATION

ADMINISTRATION OF THE EMPLOYMENT ACT

FROM ECONOMIC BOOKKEEPING TO SOCIAL ACCOUNTING

Professor GROSS. Mr. Chairman; advisers, admirers, and critics of Presidents; fellow members in the great society of economic planners; and other politicians.

Is economics a science?

I believe that the speeches of my predecessors may have dispelled any lingering doubts you might have had on this subject. But I would suggest that their comments have demonstrated that economics does provide a scientifically designed language for presenting personal bias in objective terms and providing politicians and administrators with ammunition they really need in carrying on modern-style group conflict.

Although administration is not a science either, I do not see how I can be as controversial as those who have preceded me.

Now, the amending of Senator Murray's original full employment bill did not stop when an improved version became law in February 1946. That is when the processes of real-life amendment began.

In the first stages, the act's administrators set their sights on economic stability of different types. They then shifted to sustained growth, with stability. We are now on the brink of a great shift to "quality of life" objectives which, while including growth with stability, go much further. None of us yet quite knows how much further they will go.

These objectives have been vigorously, if vaguely, presented in the President's vision of a Great Society in which economic activity

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serves other human needs in addition to economic security and material affluence.

In a certain sense these shifts have resulted from the initiative and interaction of Presidents, advisers, agencies, Members of Congress, and interest groups. All of these, of course, take part in the governmental process of reconciling competing interests, goals, pressures, and policies.

But in a deeper sense, these shifts mirror the changing condition of man in a period of great transformation throughout the West, the transition from industrialism to postindustrialism.

The more obvious aspects of this transformation are often referred to as "explosions" in population, in urbanism, or, as the organizational, scientific, technological, or cybernetic "revolutions."

These explosions and revolutions are moving at accelerating rates. They are all the more confusing because, at the same time, we are experiencing the birth pangs—unheralded, unanticipated, and, for some people, totally unseen—of a new world society. This new world society of bad neighbors is already characterized by increasingly interdependent and interpenetrating nations, megalopolitan world centers, world-spanning organizations and world-oriented elites, polycentric conflict with intersecting and shifting coalitions, and more complex economic relations than any economic professors have tried to study. These many changes hold forth tremendous potentialities for good and evil, for new freedoms and new despotism, for spiritual enrichment and moral impoverishment. What combinations may result will depend in part upon the ability of national leaders to guide an unsystematic social system whose complexities defy full comprehension or control.

Under these conditions of uncertainty, I am afraid that many of us are trying to face tomorrow's problems with the ideas, concepts, and, if you will, guidelines of 1946, 1956 and, God help us, 1966. Generals are not the only ones who try to refight the wars of the past. In a society of intermingling generations, when too many of us refuse to fade away, the ideas of the past may easily capture, confuse, or alienate the minds of the young and prevent any of us from understanding the present. These words are an introductory warning against the calm remainder of my remarks.

What I shall discuss today is nothing more than the continued application in the future of three unusually simple principles embodied in sections 2, 3, and 4 of the Employment Act: first, presidential reporting; second, the use of experts; and third, congressional initiative. The first of these, indeed, is embodied in the section 3, article II of the U.S. Constitution.

First, in his annual messages to Congress, the President of the United States should really report—and perhaps I should say for the first time—*on the "state of the Union."* The provisions in the Employment Act for an annual Economic Report were a small step in this direction. They were based upon a recognition of the tremendous power of ordered information and a presidentially initiated dialog on where we have been and where we might want to go. As a result, the President's state of the Union messages are now backed up by two sophisticated informational packages: the Economic Report and the budget message.

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This style of Presidential reporting has had an enlightening influence on private policies. It has even helped to promote some coordination in our last refuge of competitive enterprise, the Federal Government. These reports have gone a long way toward destroying economic illiteracy among the Government, business, labor, and professional leaders of America.

But as presently conceived, these messages deal mainly with the monetary reflections of reality. Their logic of internal improvement leads more deeply into purely economic analysis. This, I am afraid, may well continue to spread the new Philistinism, the bookkeeper philosophy that anything important in life may be reduced to a common money denominator.

Now, I am not prepared to discard anything that is called the Gross National Product. But even if it were the "Gordon national product," I would be concerned in this day and age—when quality changes are not reflected in market sector prices, and when the nonmarket sector is increasing at a very important rate—by the fact that GNP, far from being an indicator of social welfare, is becoming an increasingly spurious aggregate.

Now, the President has already moved toward increasingly explicit statements concerning human needs and performances in manpower—through a special report—and in health, education, and a few other fields. But as Senator Javits has suggested in his proposals for national goals, the handling of these subjects requires more than "glittering generalities." It also requires a frank facing up to the fact that our currently compiled social indicators are shockingly inadequate. In some areas, such as the FBI's crime index, the state of statistics, misinterpretation, and underlying concepts is little short of criminal.

In my judgment, we need a new style State of the Union Message, backed up not only by an improved economic report and budget message, but by a "Social Report of the President." In this way, I believe that the President could give Congress every year a more comprehensive and coordinated accounting on where we have been and where we might choose to go.

Such modernized Presidential reporting, backed up by specialized technical documents, could provide individuals and groups with serious information for developing their own plans and policies. It could provide new starting points for an informed dialog in a society in which some people, although certainly not all, may conceivably move toward greatness.

Second, in handling his new tasks, the President should get coordinated help not only from economists, but from experts in all fields relevant to the guidance of significant national change.

Now, the Employment Act was born with the help of an incredible number of experts in many fields. Under the act, the various Council economists have pioneered the new techniques of analysis and new policy concepts. Indeed, it was the Council, going far ahead of the economics profession outside of the Government, that first established sustained growth as an essential goal of national policy among Western democracies.

Yet in some respects, the Council has fallen in love with the political value of its professional image. Its commitment to dealing with real-

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life problems sometimes moves in inverse proportion to its loyalty to—if I may borrow the ultra-Marxian words of Arthur Burns—"professional economists as a class."

Yet national policymaking requires something more and something better. Specifically, Great Society programs require an imaginative broadening of economic bookkeeping into national social accounting.

This task cannot be performed easily or mechanically. It will require the creative use of expertise in many areas.

In 1946, there already existed in economics a body of organized data and synthesizing theory with clear—and clearly controversial—policy implications. In the next 20 years, new data and new theory are needed. While some Council role in this venture seems inescapable, new instruments are necessary, and action, I believe, is now underway to establish them.

Third, and finally, we need a full-dress congressional inquiry into alternative concepts of the Great Society and the relation of Great Society programs to the dynamics of change in America and the world. The Employment Act was born through congressional initiative. Many achievements in economic policy and performance since then have resulted almost entirely from the initiative of the Joint Economic Committee. In this area of executive branch activism, it seems to me that a rebirth of congressional initiative is needed to keep agencies on their toes, to bring hidden issues into the open, and to rescue the creative ideas that may always get knifed in the secret alleyways of large Government bureaucracies.

We need the continuing stimulus of such legislative proposals as those offered by Senator Clark on manpower and Senator Javits on national goals.

Now, in a previous period of major change in America, we had a broad-gaged, bipartisan congressional inquiry under the TNEC. Today, at a time of still greater and more confusing change, we need another grand inquiry into where we are and where we may choose to go. We need a congressional inquiry that rises above the preparations for the next elections, and that utterly rejects the idea—so popular in this room—that nature, like universities, is organized into intellectual disciplines.

In the years ahead, the Joint Economic Committee has the distinctive opportunity to conduct a Great Society study that will illuminate this challenging period of social, economic, and institutional transformation and choice.

I salute the indefatigable Representative Wright Patman, of America, not merely of Texas, for the initiative he has already taken in this direction to the Joint Economic Committee's Subcommittee on Economic Progress.

Back 21 years ago in a few months, he and Senator Murray took the initiative on a venture whose results none of us then could have possibly predicted. I believe a still greater same promise lies ahead in the future.

Thank you, Mr. Chairman. [Applause.]

Dr. ENSLEY. Thank you very much, Professor Gross.

Next we have Dr. Gerhard Colm, senior staff member of the Council of Economic Advisers from 1946 through 1952, and now chief economist for the National Planning Association.

Dr. Colm.

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STATEMENT OF DR. GERHARD COLM, CHIEF ECONOMIST, NATIONAL PLANNING ASSOCIATION

ADMINISTRATION OF THE EMPLOYMENT ACT

Dr. COLM. Mr. Chairman, friends and foes of the Employment Act. Most of what I have to say on the administration of the Employment Act, asking your pardon if an economist goes into such a strange field, flows from what previous speakers have said. But I shall not waste my precious minutes on courtesies to the previous speakers.

The legislative and executive machinery under the Employment Act exists today pretty much at it was established 20 years ago. With regard to the Council of Economic Advisers, competent experts in public administration predicted at that time that the machinery would bog down in friction among the Council, the Budget Bureau, and other agencies. They believed that a more thorough reorganization in the Executive Office was needed. That there was less friction than expected is due, I believe, to the quality of, and the cooperation among, the individuals in key positions throughout the period.

It is less surprising that only few changes have been made in the structure and operation of the Joint Economic Committee. Its establishment was welcomed 20 years ago as a promising innovation and has received little criticism in the interim period. Nevertheless, despite the high caliber of its members and the excellent and devoted work by the committee and its staff, it has not yet entirely fulfilled the original expectations. It was hoped that the committee would act in an advisory capacity not only to Congress as a whole but especially to its legislative committees. Actually, its impact stems primarily from the educational effect of hearings, from the influence individual committee members have on pending legislation, and from the excellent pioneering staff studies.

Many things have happened during these last 20 years that have deeply affected the task to be performed under the Employment Act. Twenty years ago the main concern was with depression and mass unemployment of the kind that was experienced during the 1930's. Actually, during most of the period the main concern was, first, with inflationary tendencies which resulted as an aftermath of World War II in connection with the Korean war and is now threatening as a result of the Vietnam war. Second, we were concerned with the frequent though limited recessions of the fifties.

Gradually, however, the emphasis has been shifting from combating recessions to promoting sustainable and steady economic growth.

Anticyclical policies seek to influence the aggregate demand through monetary and fiscal policy. Our concern in this connection is with arrangements for some flexibility in expenditures and tax policy, and for coordination between fiscal and monetary policies. In spite of the 20 years' experience, no provision for greater flexibility in tax and expenditure policies has been made. Also, the reader of newspapers, the Congressional Record, and the proceedings of some hearings may gain the impression that the coordination between monetary and fiscal policies is not yet entirely perfect, in spite of the progress made during the last 15 years.

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While the procedures for dealing with cyclical developments need to be improved, it is of equal if not greater importance to consider the consequences of the increasing emphasis on growth-supporting policies.

When Government policy only aims at influencing the total amount of effective demand, it doesn't make too much difference what combination of and what kind of changes in expenditures, tax, and monetary policies are adopted because as long as we are influencing aggregate demand in the right direction, the desired effect on the business cycle can be achieved, even though different policy requirements require different sizes of effort. The situation is quite different when we are seeking to support sustainable and steady economic growth. Here we must be concerned with those factors that either promote or obstruct expansion, which requires much more detailed diagnosis and more detailed consideration of a great number of individual policy measures.

The evaluation of the effect of the various Government programs and policies on economic growth implies two requirements. One is that even the next steps have to be seen in the longer time perspective; the second is that the specific steps must be evaluated in the whole context of the interrelation of national goals and economic growth. Economic growth is not an end in itself. It is important mainly because it increases the means for achieving the national goals set by society and individuals for themselves. In turn, achieving our national goals—for example, in education, health, and research—lays the groundwork for and supports larger economic growth.

The recently initiated procedures to evaluate the programs of the Federal agencies in terms of clearly defined long-term goals is a promising step in the right direction. In a way, the President and his advisers, in formulating the Government program, always have weighed what can be done within the limits of available resources in pursuit of national defense, social, cultural, and economic objectives. It would be desirable if the Economic Report would present longer range estimates of the resources likely to become available over a period of time and their likely use for individual consumption, business investment, and Government programs under the President's proposals. This is the original idea of using long-term national economic budget projections in the Economic Report.

At the time of the great debate in 1945 Congress did not insist on having in the Economic Report a national economic budget spelled out for future years as it had been proposed. It was felt, rightly, that we did not yet have enough experience with economic projections to incorporate a specific requirement of that kind in a basic statute. Recognizing the experimental work done by various Government agencies— including the Joint Economic Committee—and by private research organizations, we can say with confidence today that the time is ripe for including in the Economic Report such long-term projections of potential resources and their use under proposed Government programs. These longer term projections should be both in terms of the gross national income and product account—in spite of Bertram Gross' strictures—and in terms of a manpower budget.

What I am recommending here would have a number of administrative consequences.

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First, I believe one reason why the Council has not concentrated more on longer range problems is the fact that they are far too busy (including recruitment of new members and staff because of an extraordinarily high rate of turnover).

Second, we should recognize the increasing importance of technological developments for long-term economic growth. The Office of Science and Technology could make a very important contribution to the development and framing of technologically oriented programs which are desirable in themselves and could promote economic growth. The Office should act as a link between operations under the Employment Act and the scientific community.

Third, I wonder whether it would not be useful for a high-ranking assistant of the President to act as a program coordinator in the Executive Office. He would receive program proposals from the various Government agencies and also from private groups. These proposals would be screened and those selected for consideration would be evaluated in financial terms by the Budget Bureau, in economic and manpower terms by the Council of Economic Advisers and the Labor Department, and in technological terms by the Office of Science and Technology. I welcome Bertram Gross' suggestion that programs should be appraised also from the aspect of their contribution toward the achievement of our various social objectives. I'm not proposing a computerized machinery to which all proposals are given as an input and out of which comes an optimum program which reconciles economic, social, and political goals with potential resources. What I have in mind is a somewhat more systematic collection and processing of information which would make possible a prudent evaluation of priorities and the economic and social effects of Government programs in existence or being considered, thereby going beyond the cost-effectiveness approach. Everything I'm suggesting is now done in the heads of the great number of people who advise the President, but I believe that the use of available techniques would enable a more systematic economic and social program assessment and formulation.

Fourth, the Council has had to act frequently as a fire brigade for the President, particularly for the implementation of the price-wage guidelines. I believe that it is essential for a policy in support of economic growth to inject the public interest into the process of price and wage determination in a more orderly manner. I don't want to support exactly the wage-price guidelines as formulated at present. I also don't want to advocate price and wage controls in peacetime. I would favor, however, the establishment by law of an office for price-wage-productivity analysis which would work under the general direction of the Council of Economic Advisers but would have its own operational responsibility. This office would establish, on request of the President, special committees for crucial industries to study the effect of proposed price and wage actions on economic growth, productivity, and price stability. The President could bring these findings, if he wished, to the attention of Congress.

None of these suggestions implies a drastic change from the kind of organization which has developed and which has been tested over 20 years. However, today we see more clearly than 20 years ago what is required and what is feasible to make our economic and social system

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work in a period of rapid technological developments, great international uncertainties, and a growing social consciousness.

Thank you very much.

Dr. ENSLEY. Thank you very much, Dr. Colm.

Next, we have a paper prepared by Dr. Neil H. Jacoby, a member of the Council of Economic Advisers from 1953 to 1955, and now Dean of the graduate school of business administration at the University of California. Dr. Jacoby is detained in California and cannot arrive until late this afternoon. We have arranged to have his paper read, however, by Dr. Karl Brandt, professor emeritus of Stanford University, and a member of the Council of Economic Advisers from 1958 to 1961.

Dr. Brandt.

STATEMENT OF DR. NEIL H. JACOBY, DEAN, GRADUATE SCHOOL OF BUSINESS ADMINISTRATION, UNIVERSITY OF CALIFORNIA (READ BY DR. KARL BRANDT)

IMPROVING THE ADMINISTRATION OF THE EMPLOYMENT ACT OF 1946

Dr. BRANDT. Mr. Chairman, distinguished members of this symposium, ladies and gentlemen. This morning when Dr. Ensley asked me to read Dean Neil Jacoby's paper I accepted promptly for two reasons: because I share the views this distinguished colleague of mine holds, and also because I considered it as an opportunity for expressing a little token of gratitude for the greatest education I ever got in my life about what makes this huge and dynamic economy tick and how the Executive and the Congress assist in its performance; namely, during the time I served on the Council under President Eisenhower.

Dean Jacoby's paper has the title, "Improving the Administration of the Employment Act of 1946."

My thesis is that the Employment Act of 1946 advanced the economic welfare of the American people by a significant quantum during its first 20 years of operation, and that modest changes in the act and in its administration by the Council of Economic Advisers and the Joint Economic Committee of Congress could measurably enhance its contribution during the years ahead.

The performance of the U.S. economy during the period 1946–65 was significantly better than during the 20 years preceding World War II. Production averaged closer to the capacity of the economy, unemployment was reduced, and fluctuations of price levels were much less extreme. The fruits of economic progress were more widely diffused among groups in society and among regions of the Nation.

Of course, this superior performance must be attributed partly to the absence of deep worldwide depressions since World War II, partly to striking advances in the use of powerful new monetary, fiscal and credit instruments for controlling the economy, and partly to more effective machinery for international economic cooperation. Even without an Employment Act, the American economy would have trod a smoother course of expansion in the postwar era than it did during the generation prior to World War II.

Yet there is persuasive evidence that the administration of the Employment Act in and of itself added an important increment of eco-

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nomic welfare. It achieved this result by performing three valuable functions. *It set goals and objectives* for national economic performance, and thereby stimulated long-range planning activities throughout American business as well as Government. It provided machinery for *coordinating Federal economic policies* designed to attain those goals. It greatly expanded our knowledge of economic theory and policy by establishing an administrative process for *educating* the Executive, the Congress, economists, and the public.

Without the Employment Act—a condition now difficult to envisage—postwar changes in Federal economic policies would have been less timely and effective. Postwar recessions would have been longer and deeper. Postwar booms would have brought more price inflation, inequity, and distortion of investment. From personal experience I know that the recession of 1953–54 was shortened and moderated by the influence of the Council of Economic Advisers exerted through the President and the Congress. A rigorous evaluation of the activities of the Council and the Joint Economic Committee over the past 20 years would probably demonstrate that they have indirectly added billions of dollars a year to the Nation's output and income.[1]

The obligation of the President to transmit an annual Economic Report to the Congress has compelled each administration to define its goals and to propose a set of coordinated economic measures to attain them. The hearings of the Joint Economic Committee on these reports have been an immensely valuable forum for public education in economic policy. The manifest rise in the economic sophistication of Americans, and the broad consensus that has emerged on Federal fiscal policies, are among the great achievements of our age. For them, the Employment Act may take primary credit.

Yet, the administration of the Employment Act can be improved. I shall refer to two desirable changes.

First, the Employment Act should contain a more precise and complete statement of national economic goals. It is time to incorporate into the act a less ambiguous and limited objective than the present injunction to seek "maximum employment, production, and purchasing power." The work of the President's Commission on National Goals in 1960, and 20 years of debate in and out of Congress, provide a basis for a clearer and better balanced statement of our national economic purposes.

There will always be room for differing interpretations of any statutory statement that is likely to be enacted. Yet it is obviously desirable to include in a statement of goals reference to price levels, international economic balance, efficient resource allocation and balanced distribution of incomes, as well as to employment and production. An inclusive and complete statement of national economic purposes in the Employment Act—and in the Federal Reserve Act as well—would provide the executive with better guidelines for formulating its annual economic policy proposals. It would lessen the uncertainty and raise the confidence of other countries in American economic leadership. The

[1] A scientific study should be made of these activities. The early years of the Council of Economic Advisers were analyzed by Edwin B. Nourse in "Economics and the Public Service" (New York: Harcourt Brace & Co., 1953). Aspects of the initial period of the Eisenhower administration were treated in my own book, "Can Prosperity Be Sustained?" (New York: Henry Holt & Co., 1956). Useful material is contained in the book by Edward S. Flash, Jr., "Economic Advice and Presidential Leadership" (New York: Columbia University Press, 1965).

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Joint Economic Committee should now begin the task of formulating such a statement.

Second, the Council of Economic Advisers should give more attention to structural economic problems and policies. Section 4(c) of the Employment Act makes it the duty of the Council 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.

Given its heavy responsibility to monitor the operation of the economy, and to propose coordinated policies to avoid cyclical fluctuations, it is natural that the Council has focused its energies on economic guidance over the short and medium period ahead. This preoccupation has let it neglect structural problems, which need to be resolved if the U.S. economy is to grow at the maximum sustainable rate. The Council should have the professional manpower and budgetary support to discharge its statutory responsibility to "foster and promote free competitive enterprise," as well as to avoid economic fluctuations.

The list of structural problems is formidable. It certainly includes problems of tax structure, of maintaining competition in markets for labor as well as for industrial products, of barriers to international trade, of international liquidity, of agriculture, of education, of transportation and communications, and of financing State and local government services. Policy studies of many of these problems are being made within or outside of the Federal Government. Yet the Council has not coordinated the attack on structural problems to the degree that it has organized countercyclical policies. Its recent attention to tax policies to foster economic growth is commendable; but a much wider range of structural issues is involved. Many of these problems can be approached fruitfully in the broad context of modern "systems analysis."

In preparing two affirmative changes in the administration of the Employment Act, I reject two other changes which have often been advocated:

Third, the semi-autonomous authority of the Federal Reserve System over monetary policy should be maintained. The well-publicized dispute of the Federal Reserve Board over increases in the discount rates of Federal Reserve banks again raised the question whether present machinery for coordinating economic policy is adequate. Some of those who considered the Board's decision to be wrong argued that the President should have final authority over monetary policy.

We are not here concerned with the merits of a particular monetary action, but with the basic propriety of present organizational arrangements. These were studied at length by the Commission on Money and Credit. It concluded that the semi-autonomous authority of the Federal Reserve Board over U.S. monetary policy should be preserved.[2] I agree. Present informal consultations between the Federal Reserve authorities and the principal economic and fiscal officers of the administration have, in fact, nearly always produced consensus on appropriate monetary actions and their coordination with fiscal and other policies. Since the famous "accord" of March 1951, instances

[2] See ch. 10 of *Money and Credit: The Report of the Commission on Money and Credit* (Englewood Cliffs: Prentice Hall, Inc., 1961), especially pp. 84–87, 266–267.

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of divergent judgments by the President and the Board have been very rare.

The Federal Reserve Board was properly given a measure of autonomy in order to remove monetary policy decisions one step from the political arena. It constitutes a kind of "monetary judiciary" that is compatible with our federal system of divided powers, checks, and balances. A semi-autonomous monetary authority is an accepted part of governmental organization in the leading nations of the West. If the United States were to abandon this principle now, foreign confidence in the dollar would be impaired.

Fourth, the President should not use the Employment Act as an authority for promulgating detailed national economic plans, but the Council should play an active coordinating role in making long-term policy planning studies. Devotees of national economic planning have been critical of the fact that no President has seen fit to specifiy in numbers the amount of national production and employment to be sought. None has proposed specific measures to precisely close the gap between probable and potential output and employment. Critics have charged that this was contemplated by the Employment Act, and the language of section 3 of the act certainly permits of such an interpretation.

The practice of the President and the Council to deal with short-term national economic goals in general and qualitative terms rather than in specific numbers has been wise and should be continued. Any definition of "full employment" is necessarily imprecise and debatable within fairly wide margins. Our knowledge of the magnitude and timing of the effects of Federal policies upon aggregate demand is rough and incomplete. Each year brings novel and unexpected economic forces into play that require the President and Council to alter their assessments. To ask the President to publish a set of numbers each January would be to delude the public. It would risk discrediting the Executive, if the numbers later proved to be far wrong.

The Employment Act has been and is, in a broad sense, an instrument of national economic planning. But it is a peculiarly American approach to planning. It contemplates a loose, indicative, educational type of planning that better serves our dynamic, competitive, market economy than would the highly structured plans of the Soviet Union, or of India, or of France.

Although American economic welfare would not be advanced by the publication of elaborate national economic plans, it would be advanced if the Council of Economic Advisers were responsible for making long-range economic policy planning studies. Such studies should evaluate the consequences of alternative economic policies for meeting future national contingencies. For example, the Council recently studied policies for meeting the contingency of a sharp reduction in defense spending. It should also have on-the-shelf studies of optimal policies for adjusting the economy to sharp increases in defense spending, to marked changes in technology, to radical shifts in international relations, and other exogenous factors. The Office of Emergency Planning and the Department of Defense now carry out parts of this responsibility. The Council should insure that all of it is performed, and act as coordinator of the effort. Long-range economic policy planning studies are needed by the President and the

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Congress for making current decisions. Because such planning studies have a longtime perspective and evaluate alternative routes toward defined goals, they can help to insure that current decisions approach optimality. [Applause.]

Dr. ENSLEY. Thank you very much, Professor Brandt.

At the conclusion of the next paper, there will be a 10-minute intermission.

Concluding our consideration this afternoon of the administration of the Employment Act is Mr. John W. Lehman, a member of the staff of the Joint Economic Committee from 1947 to 1962—15 years. Mr. Lehman is now Regional Director of the Bureau of Labor Statistics in Cleveland.

Mr. Lehman.

STATEMENT OF JOHN W. LEHMAN, REGIONAL DIRECTOR, U.S. BUREAU OF LABOR STATISTICS, CLEVELAND, OHIO

ADMINISTRATION OF THE EMPLOYMENT ACT

Mr. LEHMAN. Dr. Ensley, interested and durable friends of the Employment Act. It is a special joy to be again among so many who were my associates and to speak to this audience about the reflections I have had from now over 3 years and almost 300 miles away. These observations are also made from the other side of that mysterious and undefined space that separates the executive branch from the legislative branch of our Federal Government.

As we now move into this final talk of the day, note that the planners of the program, to their credit, have avoided the hackneyed and really not very productive session which such anniversary celebrations typically include. That is the one which begins, or is entitled "The Next 20 Years," or "The Next 50 Years," or whatever time it is that they are commemorating. Maybe this is because the program committee observed the prudent humility the framers of the Employment Act themselves had about trying to specify what the Joint Economic Committee would be doing beside their annual reviews of the President's Economic Report. The act's author handled this very deftly by the simple, broad provision that the Joint Committee should "* * * make a continuing study of matters relating to the Economic Report." How wise indeed were these draftsmen when we look at the actual accomplishments of the Joint Economic Committee under this portion of their charter. I propose now to take one last look back at those accomplishments, to see how essential the continuation of this kind of flexibility is to fulfill our hopes for the future.

What, then, are some of the activities of the Joint Economic Committee that could hardly have been anticipated in 1946? To start, who would have expected that the Joint Economic Committee would become a publisher of economic textbooks? It did—as many a college reference shelf and class assignment sheet will attest.

Or that the committee would bring the kind of reciprocity between academe and the Congress that would prompt a reference shelf writer 18 years later to say that—

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

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

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

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

What Member of the 79th Congress, rising to speak after the passage of the Employment Act, would have considered predicting that there would be enacted in the 89th Congress, nearly two decades later, a half dozen major pieces of legislation, with identifiable roots in hearings and studies of the Joint Economic Committee? Let me make clear there is no intention to claim too much for this exploratory and educational function of the Joint Economic Committee. Nevertheless, it is true that the Joint Economic Committee has itself or through its subcommittees conducted studies which brought the tools and Council of Economic Advisers to bear on almost every field of legislation passed within the last year: aid to higher education, programs for Appalachia, manpower retraining, improvements in social security, tax reduction for economic stimulus, aid to elementary and secondary education, and the whole antipoverty program.

While the committee's interest begins with the economic stability aspects of whatever problem is under consideration, it is important to note that an adequate understanding of the economic policy implications in a given area often requires help from other disciplines. As we already have noted, to understand the economic impact of automation required the physical scientist to tell the committee what the physical limits of the application of automation were, and only the educator could speak adequately on the training requirements that new technology would have to meet.

The committee's studies of social security and pensions were developed because of economic concerns about the impact of such programs on manpower and the needs for maintaining overall demand. But the committee found it needed not only the counsel of economists but the help of actuaries, administrative specialists, and experts from the area of social welfare. As a result of these appearances by scientists other than economists, including the political scientists, the impact of Joint Economic Committee studies has almost automatically spread to other than economic legislative areas.

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Not only have the Committee's studies affected a broad range of legislation but their direct influence, both current and long range, on the actions of executive agencies has been impressive. Today's concerns over restoring excise tax cuts and increasing tax rates remind us of the Joint Economic Committee's unanimous resolution in July 1950 calling for an immediate increase in taxes to finance the Korean war on a pay-as-you-go basis and how it changed current policy of that time. There was the Treasury-Federal Reserve "accord" which came out of the Subcommittee on Monetary Policy's studies and hearings—and the new or improved statistics initiated as a result of the studies of the subcommittee working so intensively in that area. Studies of balance of payments and foreign economics bore fruit in the Trade Expansion Act and some of the corrective measures involving the balance of payments. The Agriculture Subcommittee's presentation of alternative agricultural programs also shows how hearings and reports lay the ground for executive as well as legislative action.

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

We could follow through the long series of hearings, special studies, and reports of the Subcommittees on Low-Income Families, beginning with their 1949 report on "*Low-Income Families and Economic Stability,*" which first put dimensions on the problem by identifying the poor by age groups and other significant characteristics. That the poor are always with us may have been acknowledged through the centuries but the recognition that they are still here amidst affluence must be credited to a significant degree to the many years of hammering away by the Joint Economic Committee—right up to the paper in the Study of Employment, Growth, and Price Levels on "*The Low-Income Population and Economic Growth,*" that provided much of the ammunition for the opening guns of the war on poverty.

But time does not permit, and hopefully the argument does not require, that this assessment continue. The desirability of the Joint Economic Committee continuing to look ahead to problems and possibilities several years beyond those of any given year's President's Economic Report seems without question.

There is a special advantage, too, in these kinds of studies as distinguished from hearings on an immediate piece of legislation, which I think must not be overlooked. The studies provide a unique opportunity to establish at an early stage the general areas of conclusion upon which all or nearly all members of the Committee can agree.

I am well aware of that respected theory of political science which says the way to preserve the two-party system is for each party to strive vigorously to set forth its own point of view independent of the other in order that the voter can best make his own choice. I submit, however, that in the case of economic judgments, which often represent

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an infinite range of variations even within parties, it may well be that a greater contribution to the voter's best choice can be made by first striving to see what areas and principles the members of both parties can agree on. With these areas of agreement set aside, the issues remaining become more manageable for the voter to make his own value judgments. Many of the Joint Economic Committee's studies in broad economic policy areas provide the reader with exactly such an opportunity.

What form this kind of synthesizing will take in the next 20 years, what kinds of innovation and education the Joint Economic Committee will carry out under its Employment Act mandate for "continuing studies of matters relating to the Economic Report," I have already foreclosed us from forecasting. But there is little doubt that those who will come to this platform 20 years from now will look back with equal amazement on the range and significance of the Committee's accomplishments between 1965 and 1985. [Applause.]

Dr. ENSLEY. Thank you very much, Mr. Lehman.

We will now have about a 7-minute break and when you reassemble, I suggest that those who would like to ask questions gather around the floor microphone which is located at the back of the auditorium.

We stand in brief recess.

(Short recess.)

QUESTIONS AND OBSERVATIONS FROM THE AUDIENCE

Dr. ENSLEY (presiding). Will you please come to order?

We have allotted the remaining time this afternoon to questions from the audience. Our panel of today's speakers is strong minded and not easily drawn off base, so don't hesitate to call out challenging questions. Please keep your questions to 2 minutes so there will be plenty of time to have a number of questions.

I might say the participants, in giving their answers, will be asked to confine their remarks to not more than 2 minutes.

As you know, the Joint Economic Committee is planning a compendium of reactions to this symposium so any extended remarks should be reserved and submitted to the joint committee for possible inclusion in the followup publication.

As you have been advised, we will use the floor microphone at the rear of the auditorium. When you are recognized, please clearly identify yourself for the record and indicate to whom you wish to direct your question.

Now, my eyes fall on a very distinguished member of the economics profession, one who has been attentive here all day. No program commemorating the 20th anniversary would be complete without a few words from the first Chairman of the Council of Economic Advisers, the person who launched and gave professional status to a new arm of the President, serving from 1946 to 1949. I think it most appropriate that we start this discussion period with a few remarks from our distinguished dean of Chairmen, Dr. Edwin G. Nourse. [Applause.]

Dr. NOURSE. Thank you, Mr. Chairman, and friends. I know that I speak for everyone who has been here today in saying that the special committee has served us a rich and intellectual feast. I think that

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the sustained high level of the economic discussions has been impressive.

If any of you came thirsting for blood, particularly on the arena of wage-price guidelines or something of that sort, you may have been disappointed or at least disillusioned and thought this was an exercise in peaceful coexistence. I am reminded of the urchin who with great effort straggled over a high fence and dug his way under the flap of a circus tent, only to find that what was going on was a revival meeting.

I referred to this as a "rich and intellectual feast," but I hope I will not be abusing my privileges by saying that it has occurred to me that it was not a balanced diet. Of the 12 speakers on the program, 11 were former members of the Council of Economic Advisers or its top staff. Only one spoke, from the viewpoint of the Joint Economic Committee, John Lehman, the last speaker.

The Congress in its wisdom created two agencies having different functions but comparable importance for the interpretation and implementation of the act. I think John Lehman did a brilliant job of pointing out the distinctive services which the Joint Economic Committee has rendered.

Of course, I am aware that two Senators and two Representatives from the committee appear on the program tonight. Yet, I am not altogether reassured that after-dinner speaking will fully redress the balance with this all-day session of speakers from the Council of Economic Advisers.

Even if 2 Senators and 2 Representatives outweigh 12 academicians, there is a third side of this triangle of the Employment Act that has been strongly neglected.

The Employment Act specified that the purposes of what we now call "national growth and stability" should be pursued "with the assistance and cooperation of industry, agriculture, and labor." Those sectors of the private economy were active contributors to the drafting and acceptance of the Employment Act and I submit that their 20 years' experience in its application should yield something of unique value in our effort to see the goals of maximum employment, production, and purchasing power "in the round."

As Mr. Lehman pointed out, the joint committee in its publications, has developed a new format of congressional hearings that has had that widely rounded character. But no witness from the private sector has been called in this hearing.

I will sign off with a one-sentence question which I suspect may occur to future readers of these proceedings: Did passage of the Employment Act of 1946 mark a subconscious or intentional departure, or revision of, the traditional American principle of "checks and balances" and toward monolithic central government?

That seems to me a question which, in the next 20 years, we shall have to face. [Applause.]

Dr. ENSLEY. I notice the hand of my distinguished predecessor on the Joint Economic Committee and I recognize him as Dr. Theodore J. Kreps, emeritus professor of business economics in the Graduate School of Business at Stanford University.

Professor Kreps.

Dr. KREPS. The group I miss among the excellent speakers at this day's gathering are the business economists of the country, notably

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various members of the Committee for Economic Development. They played an important role in the history of the Employment Act. I think of Meyer Kestnbaum's statement that it would be a serious error to imply acceptance of the erroneous and dangerous view that nothing, for example inflation, has status as an objective of national economic policy unless it is mentioned in the Employment Act.

Though local and national industry and commerce, like traffic on the highways, requires flexible governmental regulations, conscientious and intelligent enforcement agencies, safe equipment and safe roads, the most important variable continues to be the manager at the steering wheel.

Like the automobile, our free enterprise economy is a complicated servomechanism which, when competitive and running at an accelerated speed for an unusually long time, generates a most intoxicating, hypnotic, and treacherous sense of power and euphoria. There may have been too much of that here today.

Mesmerized by the hum of automated processes, beguiled by the swift flow by of traffic and scenery, drivers are tempted to relax and to ignore speed and stop signs to such an extent as to invite disaster.

As is true of the automobile, the economy, despite its built-in regulators and snubbers, has no cosmic or invisible hand on the steering wheel or accelerator or brakes other than that which is channeled through the intelligence and purposes and character of human operatives. Booms and busts, like traffic snarls and crashes, are not decreed from on high but depend on the skills and responsible actions of all decisionmaking units, whether consumer household managers, business executives, labor leaders, or government officials.

I might phrase the question something like this: Since no matter how good the mechanism is, human beings are tempted to test how much it can do, how much it can stand, is the Council of Economic Advisers paying adequate attention to the insights and problems of the business economists who advise corporate policymakers?

Business managers cannot leave the problem of making decisions entirely to econometric equations and other servomechanisms. In addition to economic guidelines there are human problems of willingness to work, keeping faith with customers, with workers, with lenders, in short, of honesty, integrity, and character. It is during periods of prosperity that character tends to disintegrate, effort to diminish, rates of productivity to decline and slovenly practices to emerge. It is the boom that fires the drive for speculative profits in the stock market and in real estate to a fever pitch, culminating in flagrant violations of tried and tested investment principles. Human decisionmakers seem unable to recognize and summon the zeal as quickly to counteract the perils of prosperity as they muster to get rid of depression.

Basically, it is not the stars, or may I say the economic mechanisms that cause our troubles. It is ourselves. Too often we yield to this temptation to place the blame on others for our problems and we all have our favorite scapegoats. No one can earn his freedom, including the freedom to be a businessman unless he can somehow behave responsibly, as responsibly as every driver has to behave.

I wonder whether we are gearing our economic policies and our research sufficiently to the management decisions which business econ-

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omists try to illuminate, especially those decisionmaking units with which Senator O'Mahoney was so much concerned; namely, the large aggregates of economic power. Many of them larger than any State governments, all of them creatures of government and granted every power from the people. The Joint Economic Committee has persistently developed hearings and monographs in this area but the Council has been silent.

Similarly, what is the Council doing to strengthen and encourage State governments to set up economic councils as California has done? For it is especially at regional, State, and local levels that business economists become indispensable for developing the kind of disaggregated data of most use in their area and in their industry. The Joint Economic Committee and its congressional members have again rendered yeoman service in collating the insights of business economists. But I wonder whether the Council could not do a bit more toward helping labor and business decisionmakers to translate national guidelines into State and local operational policies and programs.

Thank you.

[Applause.]

Dr. ENSLEY. Thank you very much, Professor Kreps.

I believe one of your colleagues, Professor Emeritus Karl Brandt, has some remarks to make. As they will take longer than the time allotted, I suggest that they be made a part of the record at this point. Professor Brandt was a former member of the Council of Economic Advisers, 1958–61.

(The statement follows:)

STATEMENT OF PROFESSOR KARL BRANDT, PROFESSOR OF ECONOMIC POLICY, EMERITUS, STANFORD UNIVERSITY

Adapting the Objectives of Our International Economic Policies to the Growth and Stability Goals of the Employment Act

On this occasion of hearings of the Joint Economic Committee of the U.S. Congress most befitting the celebration of the 20th anniversary of the Employment Act of 1946, I want to address myself to the adaptation of the major objectives of our international economic policies which is both desirable and soon probably mandatory for the assurance of attaining the growth, stability, and optimum employment goals of the Employment Act. I will confine my remarks to a few aspects of such adaptation.

In his Economic Report of January 1966 the President has defined four objectives of the international economic policies in this order:

1. To keep the dollar strong by correcting the remaining balance-of-payments deficit;
2. To work toward reduction of trade barriers;
3. To improve the international monetary system on behalf of worldwide economic growth jointly with other industrial nations;
4. *To assist those economically less advanced countries which are prepared to help themselves.*

I shall refer particularly to the last objective, which inevitably cannot command the same priority as the three former ones.

The experience of 20 years' cooperation between the executive branch of the Government and both houses of the legislative branch via the

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Joint Economic Committee is a most valuable asset in guiding the coordinated functioning of our domestic and foreign economic policy with prudence as well as vision.

Such coordination and adaptation of national goals to specific foreign policy objectives has become painfully difficult. Within these past decades of incessant political and military turbulence extraordinary changes have occurred in political-economic geography and the dimensions of economic intercourse among enormously increased numbers of independent nations of the world make mere pragmatism inadequate. Among the changes that have occurred perhaps the most significant ones are those in the economies of the predominantly still rural and industrially less advanced or developing countries. In many of them, remarkable economic growth has been distored by ill-advised, overambitious policies, a progressive decline of foreign credit soundness, and hectic inflation which aggravates social injustices, corrodes the people's faith in the fairness and justice of the economic system, and thereby threatens political chaos.

Simultaneously, in many less developed countries with a rich endowment of natural and human resources, inappropriate, one-sided pushing of urban industrial and specifically metropolitan economic development jointly with vague plans of so-called agrarian reform and unfortunate measures of dirigism on food and agriculture are forcing indigenous private capital into flight from the countryside into big cities, if not abroad. These policies invariably impair domestic food production and impoverish the farm and village people.

The unfortunate policies of many developing countries are diametrically opposed to the wise orientation and guiding principles of economic growth and development incorporated in the Employment Act and in the basic framework of a free competitive market economy and private enterprise to which it adheres. Those policies ignore even more the experience the administration of the Employment Act has accumulated on governmental assistance to the decentralized decision-making private enterprise economy with the tools of fiscal and monetary policy.

The impact of these policies will not remain confined to those still chiefly primary product-exporting countries—but will inevitably have an unfortunate secondary and painful often multiangular impact on the industrial countries, first among them our now so prosperous country with its booming economy.

In the present situation, which places extraordinary responsibility on our Nation's fiscal and monetary self-discipline to counteract imminent inflationary dangers and overheating of the performance of demand, an overexpansion of such programs as "food for peace," law 480, or in general charitable largesse in foreign aid can only increase the strains and stresses—on top of what the war in Vietnam may involve.

The complex inflation control mechanism, with its fiscal and monetary policy tools and proper timing for shifting gears, is difficult enough to operate without such excess ballast as applying Marshall Plan ideas to utterly different needs and circumstances.

The most honorable, warm-hearted humane motives for effective foreign aid and the vote-getting appeal of such motives in partisan domestic politics must be weighed in the scales against cool-headed

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rational economic policies. Then there cannot be any doubt that if the developing nations of the free world apply to their domestic development and their foreign economic policy the essence of our experience with the Employment Act, this will be worth immensely much more to them than reliance on and pressuring for aid from the Federal Government of the United States. *If the intelligently interpreted self-interest of these nations demands the adoption of the basic philosophy of the Employment Act as much as does our own policy of economic growth and stability without inflation—then the goal of peaceful partnership in foreign trade, investment and mutual defense of freedom requires the utmost restraint in giveaway actions and unrequited exports of goods, services, or capital, particularly in the next 18 months.*

In the financial centers of the 10 leading industrial countries which endorse the stability of the U.S. dollar as the world's measuring rod of value, the fact is recognized that at this juncture of economic history—20 years after the passage of the Employment Act—*the world is short of capital, is beset by genuine inflationary pressures, and has to heed the ominous warning in the fact that in some markets of continental Europe even highest interest rates on bonds no longer attract buyers.*

Dr. ENSLEY. I now see the hand of a former Congressman from California who was one of the original sponsors of the Employment Act back in 1945 and 1946, former Congressman George E. Outland, and now a professor at the San Francisco State College.

Would you like to ask a question or make an observation?

Mr. OUTLAND. I would like to make a brief observation if I could, Mr. Chairman.

Somebody said earlier that we shouldn't look back. As a member of the first Joint Economic Committee, and as a chairman of 116 Congressmen of the House of Representatives, cosponsors of the original bill, I would like to look back just a moment at our original objectives.

Just two of them. First, we were wholeheartedly committed to the principle that every American who is able to work and desires work has the right to work, the opportunity for useful, remunerative, regular, and full-time employment. And I quote the then Secretary of Agriculture, now Senator Anderson, "the right to a job which this bill proposes to make a basic policy of our Government, is as important to the preservation and sound functioning of democracy as are the time-honored rights of free speech, free press, and freedom of religion."

[Applause.]

Secondly, and I quote again, this time from the much-emasculated statement of policy in section 2—"it is the policy of the United States to secure the existence at all times of sufficient employment opportunities to enable all Americans who are able to work and willing to work freely to exercise this right to employment."

Thank you very much.

[Applause.]

Dr. ENSLEY. Thank you.

I now recognize Professor James Tobin of Yale University, and a member of the Council of Economic Advisers from 1961 to 1962.

Professor Tobin.

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Professor TOBIN. You have good eyesight. I will ask the question of my colleague, Mr. Gordon.

When I heard him list the purposes of the guideposts, one reflection I had as one of the authors of the original 1962 report was that I would scarcely have predicted they would be a major source of discussion 4 years later. We felt, in fact, a little scared to face our colleagues in the economic profession whom we knew would make the usual cynical remarks of academicians about the ineffectuality of moral suasion. I know Professor Gross said we shouldn't worry about that. I am reminded of Ted Sorensen's saying that the most expendable things you fellows bring to Washington are your professional reputations.

But I see that guideposts are still being discussed so perhaps they were not so empty after all.

The serious question is this: Isn't one major purpose, which Mr. Gordon didn't mention, that the Government itself needs guideposts? Does the Government not need them when it is in any case for other reasons inextricably involved in wage and price negotiations or wage and price decisions? For example, it seems clear that regardless of guideposts, there are certain industries and certain kinds of collective bargaining and other processes in the economy so important that no government of whatever party is going to remain just a spectator. National labor disputes in major industries will not be permitted to be solved by industrial warfare without Presidential or Vice-Presidential intervention at some stage. Government mediation or arbitration is involved in many other cases, by statute and by practice. In other cases, the Government is involved as a purchaser, as a giver of subsidies, as a manager of stockpiles, or as the executor of legislation such as the Davis-Bacon Act already referred to.

In summary, doesn't the Government itself need some guides to how it acts, or how its mediators act, in whatever interventions the Government has for other reasons to make in wage and price decisions or negotiations?

Dr. ENSLEY. Thank you very much. That is in the form of a question which Kermit Gordon should address himself to.

Dr. GORDON. I always find it very difficult to disagree with Professor Tobin. In this case I fully accept his amendment to my earlier remarks. I think it is a very important amendment.

We should bear in mind that the Federal Government's involvement in labor disputes and collective bargaining did not begin with guideposts. There have been many, many episodes of Federal involvement going back over the years. The guideposts have helped to clarify the objectives which the Federal Government should seek when it does become involved in these situations.

In the absence of a clear awareness of the cost and price implications of particular collective bargaining solutions, there is a tendency for the Federal Government to enter these disputes with an objective which was put by another of my former colleagues as the goal of peace at any price level. Labor peace at any price level is not the appropriate guide for the Federal Government when it does become involved in a labor dispute situation.

I would also like to add to what Professor Tobin said, the relevance of the canons of conduct in the guideposts to such matters as civil

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service salary determinations. Another example which I alluded to briefly in my talk is the question of maritime wages, in which the Federal Government, through the operating subsidy formula, tends to bear the burden of increases in the level of maritime wages. In both of these cases, the guideposts have in fact been invoked, I think, in a constructive direction—so that I would freely accept Professor Tobin's amendment to my earlier list of objectives of the guideposts.

Dr. ENSLEY. Dr. Saulnier, would you like to comment on this also?

Dr. SAULNIER. Just to say, in reference to Jim Tobin's question, that we did establish in 1958 a Committee—it is described in the Economic Report of January 1959—on Government Actions Affecting Costs and Prices.

However, I would not be describing the life of that Committee and its affairs correctly if I said that its activities were popular with the Government agencies affected. Most of those whose actions had an impact on costs and prices were anything but enthusiastic about it. But a committee of this sort is a good, sound idea, and I think it is a piece of machinery that we would be well advised to build into the operation of the Council of Economic Advisers. The Council seems to me to be the best place for it, and I can't think of a better name than the Committee on Government Actions Affecting Costs and Prices.

Dr. ENSLEY. Thank you very much, Dr. Saulnier. I recognize Dean Stephen Bailey of the Maxwell School of Citizenship, Syracuse University, who wrote the prize-winning book, "Congress Makes a Law," which is the story of the legislation of the Employment Act.

Mr. BAILEY. I want to address my remarks to Dr. Heller's stunning speech this afternoon and particularly to that section which deals with the need for greater flexibility in the application of fiscal policy. I am particularly concerned about the role of the U.S. Congress in this regard.

We have been told for years that there was no chance of having the Congress delegate to the President responsibility for adjusting tax rates, and yet we all know that the present machinery for adjusting tax rates is an extraordinarily cumbersome one. It is time consuming. By the time the legislative process has run its course on tax legislation, the fiscal result may be contraproductive.

Obviously, the need is for speed and dispatch in manipulating tax rates, and this seems to me inevitably to mean that some delegation of responsibility for tax adjustments must be granted to the President.

I am wondering under these circumstances whether it is not possible for Congress to apply to this area a device which unfortunately I think has been misapplied in many other areas: the device of committee clearance. Essentially, this would mean that the President would recommend, say, a short-run tax reduction or tax increase which would go into effect within 30 to 60 days unless a House committee, a Senate committee, or a joint committee had in the meantime vetoed the Presidential proposal.

The number of instrumentalities in the Congress to handle this kind of committee clearance is substantial—the Joint Committee on Internal Revenue Taxation, the Joint Economic Committee, the Senate Finance Committee, the House Ways and Means Committee. It seems to me that this is an area of public policy in which committee clearance of administration proposals would be both useful and germane.

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I hope that the U.S. Congress will take a hard look again at this question of whether it is not possible to devise some protections for the Congress at the same time that increased discretion in fiscal affairs is given to the President.

Dr. ENSLEY. Thank you very much, Dr. Bailey. Dr. Heller, would you like to comment on this question?

Dr. HELLER. Dean Bailey's proposal is an extremely interesting one, and yet the experience in the parallel proposal made in President Kennedy's Economic Report in January 1962 does not generate a great deal of confidence that the Congress is willing to accept this kind of interference with its revenue prerogative, even with the safeguards suggested. Because, indeed, what President Kennedy called his "program for sustained prosperity"—standby public works expenditure programs, standby tax cuts, and recession-induced step-ups in unemployment compensation payments—got a very frigid reception in Congress, in spite of the fact that something similar to the safety device you suggest was built in; namely, that the President would be given the power to temporarily lower the individual income rates by up to 5 percentage points but only after his proposal had lain in the Congress for 30 days, during which time, in effect, the Congress as a whole (not a special committee, as Dean Bailey suggests) would exercise veto power.

And I remember—if I can personalize this for a moment—only too painfully, when I appeared before the Senate Finance Committee in November 1963, and was ready for questions on the proposed tax cut, and, instead, one of the first—if not the first—questions came from Senator Smathers, who said, "professor," and I knew I was in for trouble, he said, "professor, were you a professor of law or a professor of economics?" This is a free translation. And then I got a lesson in congressional prerogatives from Senator Smathers. I think this consideration may have played a considerable role in the successive modifications of this proposal that have come from the White House.

President Johnson last year suggested that Congress and the executive branch should figure out how to speed up their procedures, and this year suggested rather that the Congress and the Executive in effect, precook or partially precook a tax package for possible use if inflationary developments or further Vietnam costs were to require it.

I still hold, I think, with Dean Bailey, to the hope that we can develop not only some precooking but some speeding of procedures by close cooperation between the Executive and the Congress, always with proper protection of the congressional prerogative.

Dr. ENSLEY. Thank you very much.

There is a question down here. Will you identify yourself for the record, please? Indicate whom you would like to have answer a question.

Mr. STIEBER. My name is Jack Stieber. I am director of the School of Labor and Industrial Relations and professor of economics, Michigan State University.

Dr. ENSLEY. To whom do you wish to address your question?

Mr. STIEBER. Any member of the panel who wishes to may answer it.

Dr. Gordon has pointed out that the guideposts were not designed for a period during which unemployment was much below 4 percent; in other words, the period that we are now entering. What is an

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appropriate wage-price policy for such a period and how can it be implemented?

This is not the time to discuss such a difficult or controversial kind of issue; however, one thing is clear. Any policy that is developed to replace or modify the guideposts, and I think such a policy is inevitable, must have the cooperation of labor and management, something which the current guideposts do not have. This indicates that consultation with labor and management in the development of any policy would be essential.

I suggest that the best available body to effectuate such consultation is the President's Advisory Committee on Labor-Management Policy, which was established with a great deal of fanfare by President Kennedy in 1961, but which has been allowed to lapse into inactivity during the last 2 years.

In its early deliberations, the committee, despite its diversity of membership has shown that it is able to reach a consensus on such controversial issues as the tax cut, the handling of emergency labor disputes and measures to deal with the impact of automation. In establishing the committee, President Kennedy asked it to make recommendations on a sound wage and price policy. Why not throw this problem to the committee now?

Dr. ENSLEY. Thank you very much.

I am going to ask Leon Keyserling to address himself to that question.

Dr. KEYSERLING. Well, first of all, I want to make clear that I am not against the idea of guideposts. In fact, I was recommending guideposts long before they were adopted, on the ground that no set of fiscal and monetary policies could regularize and promote our economic growth satisfactorily, without adjustments in the private economy, and that the Government did have an interest in promoting such adjustments.

But I think the current guideposts have been profoundly wrong because they, for all practical purposes, have regarded the problem of price movements and wage movements as ends in themselves and not recognized that they are not ends at all; nor is control of "inflation" an end in itself.

The very first question that should be asked in national economic policy is, how are we going to get full use of our resources, because this is the real wealth of nations.

The second question to be asked, within the proper limits of Government responsibility, is how do we want to divide and allocate those resources to meet the priority needs of a great people.

I think the guideposts neglect these considerations, and, as I said, this is the most shocking thing happening today, and indicates a tremendous diversion from the socialmindedness of 20 years ago. If we did ask these two questions first, then we could devise proper guidelines as to prices and wages and profits, because we would then be relating these mere mechanics to the resource allocations which are the end purposes. Then we would have something with which we could go to labor and management and others on the basis of indicating why we want to do what we want to do, which is the first precondition to a sense of responsiveness on the part of an informed people.

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Now, because the guideposts do not do that, of course, they have been atrociously unfair and misguided in other respects. They were projected at a time when the Council itself recognized that we were suffering from a deficiency in demand. Yet, they were designed entirely to restrain demand and not at all addressed to the problem of the function of wages in the consumer economy. As I said before, this doesn't pass an elementary test in economics.

Secondly, insofar as the guideposts tried to restrain wage increases in the most highly productive industries in accord with a nationwide productivity average, but imposed no restraints upon the resultant excess profits, they failed to acknowledge that wages should be related to profits and not just to prices. It is wages and profits that determine ultimately the relationship between investment and consumption, which is so important. Because the guideposts neglected this, they resulted in swollen and exacerbating profits in the high production industries and, therefore, could not even win or ask for the assent of labor.

The guideposts would not have been so vulnerable if after having General Motors grant wage increases far less than the productivity advances in that industry, as clearly indicated by their fantastic profits, we had drained off those profits through an excise profits tax and used the proceeds to develop programs for the poor, or forced the auto companies to reduce their prices. Instead of that, we plied them with more tax concessions, and we did nothing about bringing the wage earners in the low-productivity industries up to the nationwide average productivity gains. You can't expect anything like this to appeal to any fair person.

Let's get the guideposts on some kind of a sensible and fair basis, and then let us ask the question, which again could only be done against the screen of a "nation's economic budget," should the Government, even in times like the present, intrude itself into the price-wage structure at all on an ad hoc basis, when it is not devolving adequately its fiscal and monetary policies? Shouldn't it try to straighten out its own house in the field of established Government policies? I still maintain that, in a situation short of total war, if the Government had a good fiscal policy, a good monetary policy, a good social security policy, a good housing policy, a good agricultural policy, a good international economic policy, it could get by very well, and let labor and management engage in collective bargaining and pricemaking.

I may be wrong on this, but at least the Government should do what it has been doing well, before it gets into trying to do everything; and then, if it does have to get into price-wage management, it should do it by established statutory authority with a firm set of rules and not have an advisory body to the President, on an ad hoc, random basis, getting into prices and wages.

I was trying to get a better wage for transport workers in New York, and the CEA didn't go along with the results. It didn't say anything when some more powerful unions went above the guidelines to a much more elaborate extent, and I do not imply that these unions were not justified, as the current guideposts are all wrong anyway. But the CEA decided instead to pound these people, working under the ground, and paid inadequate wages because the subways were being

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run at a fare below costs. This is what is going to happen when you have these kinds of policies evolved by this kind of body. I think, if we are going to have wage controls, we have to apply the controls to wages, prices, and profits and we have to do it by an established regularized standardized legislative procedure.

I am against assigning to the President the discretionary authority to raise and lower taxes, and here is why. First of all, let's look a little bit at the experience.

President Kennedy, who pledged to be a vigorous President, and who came into office at a time when there was tremendous unemployment—and it got worse for a while under him—took 2 years to make up his mind whether to ask for a tax decrease. It took him 2 years. Congress processed it twice as fast as it took him to make up his mind. Twice as fast. He had the advice of all the economic advisers who were urging him to do it.

I want a vigorous and effective President, but I raise this question: Aren't there some fundamental questions of economic policy, going to social values, that are legislative in their grounds? I think that determining how much taxes the people should pay, and how these should be distributed—I think this is legislative in its grounds and, furthermore, on the whole over my 33 years in Washington, I think the Congress, at least as much as the Executive, has been a force on the side of progressive and equalitarian polices. [Applause.]

Dr. ENSLEY. Thank you very much.

Who has the next question? Will you identify yourself?

Mr. KORETZ. My name is Sidney Koretz. I am a dues-paying member of the American Economic Association.

My question follows up the question of Dr. Tobin to Dr. Gordon. As a matter of fact, I asked some people here whether I should ask this question and they said "No," since this was a session on macroeconomics, not microeconomics. My question has to do with a new program that is coming into effect next July; namely, the medicare program.

Now, just before this program was passed, Senator Russell B. Long said on the Senate floor that this "comprehensive, far-reaching, and imaginative program will be better judged by an economist than by an actuary" (p. 15582, Congressional Record, July 9, 1965).

The question that Dr. Tobin raised was about guidelines to Government programs, as well as what Government tells private business to do.

In the discussion of the medicare program, if you look through the records of the House Ways and Means Committee and the Senate Finance Committee, you will find that whenever there was consideration whether a certain measure involving costs should be adopted, a question was asked of the actuaries of the Social Security Administration, and they came up with some answer about a certain percentage of payroll or something like that. This was used as a basis for choice between adoption and rejection of any measure. Presumably, the main consideration was "actuarial soundness." According to the only book I have been able to find on the subject, Prof. Dorrance C. Bronson's *Concepts of Actuarial Soundness in Pension Plans* (1957), there is no agreement what the term "actuarial soundness" (or related terms) means (see ch. 2, "Concepts of Actuarial Soundness—Various View-

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points"). It is true that "economic feasibility" hasn't been defined clearly either. Nevertheless, it is recognized that "economic feasibility" has an element in it of human activity rather than being limited to actuarial passivity.

This shouldn't be a speech, but a question. The question is for Dr. Kermit Gordon since he has been appointed Chairman of the Health Insurance Benefits Advisory Council. The question is whether up to now the economist hasn't been completely crowded out? I want to present one bit of evidence and then I will sit down. The Budget Bureau informs me that they intend to classify medicare payments for hospital and other medical services as transfer payments, not as purchases of goods and services. It seems to me that if you were only concerned with costs to funds, but not to people, this would be OK. But when you consider, as an economist, real costs to real people, you have to consider that now for the first time social security money is going to be spent for the beneficiaries and not by them. Don't we delay coming to grips with the economic problem of getting the most from limited resources by classifying this as "transfer payment" rather than a purchase of goods and services?

Dr. ENSLEY. I will toss the ball to Dr. Gordon.

Dr. GORDON. I will be very brief. I think to pursue this question very far would be a little outside the bounds of our discussion today, although I would be happy to discuss the administration of the medicare program with the gentleman who asked the question.

I judge that the central question is whether the actuaries have elbowed the economists out. I don't think this is the real issue here. I think there are some very important actuarial issues involved in planning the medicare program, and actuaries are pretty good at analyzing actuarial issues.

If the gentleman is willing to stretch a point and accept the proposition that I am an economist, I would point out that I am chairman of the committee that advises the Secretary of HEW on the administration of the program, and I did testify on the program when it was under consideration, I think the economists have at least a foot in the door.

Dr. ENSLEY. Thank you, Dr. Gordon. Will the next questioner please identify himself for the record?

Mr. MATHER. Mr. Chairman, and fellow travelers down the broad Keynesian highway of permanent economic boom. I am not a professor. That leaves me in the minority. My name is Louis K. Mather and I am an economics writer. I would like to say that I am very happy to have been present at this great second enlightenment, the second dawning of Keynesian economics in America. It makes me feel 25 years younger.

Keynesian economics means more than stimulation of demand. There is a certain misunderstanding of Mr. Keynes here in America today. In the New York Times recently an editorial bitterly attacked Keynes and the new economics for our present problems. Keynes faced up to problems like ours in his day. He wrote a book, a very small book, called "How To Pay for the War."

Does the distinguished panel think that this is a good time right now for people to read this book?

Dr. ENSLEY. Shall we refer your question to one of our tax people? Do you want to comment on that, Dr. Saulnier? Dr. Heller?

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Dr. HELLER. Apparently, the great second enlightenment didn't strike the questioner today. In the course of my comments today, I was plainly referring to Keynes' "How To Pay for the War," when I noted that Keynesian economics had been on the Washington firing line in World War II in fighting inflationary gaps. That, as I recall, is about 25 years ago.

Dr. ENSLEY. Thank you very much. Mr. Long, I believe you have a question?

Mr. LONG. My name is Richard Long, Federal Reserve Bank, Atlanta.

The news media recently noted that some textile union leaders did not feel obliged to stay within the guideposts. Are greater guideposts to wage increases justified in a low-wage industry, even if the industry isn't growing, in one of the best periods of prosperity and has a very high level of demand?

Dr. ENSLEY. Thank you. Would you like that addressed to Dr. Gordon?

Dr. GORDON. This is not a session, I hope, on the interpretation of the guideposts. I would point out, however, that the guideposts, as originally enunciated and repeated each year since then, cover in one of the several exceptions the case in which wages are abnormally low because of the weakness of labor organization in particular local labor markets.

I confess I am not sufficiently well informed about the specific characteristics of this case to say whether the case is covered by that exception, but the exception was directed to cover the principles of the kind of case you raised.

Dr. ENSLEY. All right, next question.

Mr. FREUND. My name is William Freund of the Prudential Insurance Co.

I think it would be appropriate here to recognize Grover Ensley for the outstanding work that he has done, especially from 1951–57. [Applause.]

Professor Heller said that we have contingency planning. If it is true that it will be time consuming to get legislation through Congress to raise taxes, should the need be recognized later? Isn't it necessary to have more than contingency planning to anticipate this need through forecasting? That is, to act early rather than to wait for the appearance of firm signs of inflation because of legislative delays.

Dr. HELLER. As I reviewed in the course of my paper, Mr. Freund, I suggested there are two possibilities on the inflation front; one that we could ride it out, that a good deal of pressure may be concentrated in a short period right now, a good many of the price adjustments may be one-time adjustments, that the concentration of the Vietnamese expenditures, and particularly of the contract-letting and so forth may be peaking very soon if today's budget projections hold firm.

On the other hand, we do risk a great deal on the inflationary side if it gets out of hand. There are some disquieting signs. If they were the beginning of a spiral, we should act now. But I don't think it is clear enough at the moment that we ought to take further restrictive actions right now to slow down our further progress in production and in employment. But what we should lose no time in doing is to get a

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program ready to go fast, if it proves that the ride-it-out posture is wrong. And, consequently—I put that under contingency planning. That means people in the Treasury, people in the White House, people in the Council of Economic Advisers, should today—if they haven't already—put together a package that would be ready to go at a moment's notice, working with the congressional committees on this score for the purpose of moving it through the Congress in the shortest possible time.

Dr. ENSLEY. Thank you, Dr. Heller.

Does any member of the panel have a further brief observation?

Dr. Kyserling?

Dr. KEYSERLING. My objection to it has been that we are thinking of taxes as a means of stabilizing the economy. Taxes, as Mr. Justice Holmes said, is the price we pay for civilization.

We talk about deferring tax increases until there is an inflationary threat, but don't ask whether we need tax increases to meet the much greater threats of the Watts all over the country, or to meet the needs of the old people living on a miserable poverty benefit payment, three-quarters of them in poverty, or to remedy the blighting of our cities. We are really saying that these things are not an emergency. I happen to think that they are as great an emergency as the war in Vietnam, and that the two are interconnected in terms of our objectives as a Nation and a people.

As long as we remain in the frame of talking about tax increases or reductions, only to fight inflation or deflation, but not at all to meet the basic purposes of a great nation, we couldn't be more wrong. [Applause.]

Dr. ENSLEY. Professor Gross would like 30 seconds.

Dr. GROSS. I shall merely comment on the question raised by former Chairman Nourse concerning the effect of the Employment Act on the constitutional separation of powers.

The act as it was passed represented a complete break with the old-fashioned public administration which viewed rational action as something that must take place only under Presidential hierarchy and centralized decisionmaking.

It embodied and built upon the constitutional principle of separation of branches of government. But Dr. Nourse, I do not think that is sufficient unto the future. Truly rational decisionmaking in the next years requires a much greater rebirth of congressional initiative than I see on the horizon at this moment.

Dr. ENSLEY. Professor Wallich has 30 seconds that he would like to use at this time.

Dr. WALLICH. On the question of tax increase, it seems to me we have to count on a substantial lag in the effect of any action we take. So, looking toward the future, and trying to guess the probabilities, it seems clear to me that 6 months from now we will be facing substantial pressures. We have to act on this admittedly uncertain information, uncertain forecast, and I would say, therefore, that we should now move toward a tax increase. This, incidentally, is also a way of meeting certain needs that have been written into the budget, and we find that since we can't have these without paying taxes, we have reason for facing the raising of taxes now.

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Dr. ENSLEY. Dr. Colm has 30 seconds that he would like to use now.

Dr. COLM. On the question of flexibility, I would suggest that Congress now begin consideration of a tax increase, perhaps on the basis of a bill which has no effective date. The effective date could then be determined by a congressional joint resolution to be signed by the President; or if conditions develop that make such a tax increase unnecessary, it will remain on the shelf. That I think is much preferable to any proposal for discretion which Congress would never consider—I also think that it is preferable to this clearance procedure which has been proposed.

By the way, this proposed joint resolution would give the Joint Committee for the first time a legislative function.

Dr. ENSLEY. Thank you very much, Dr. Colm.

As you can see from the clock, it is near 5:30.

We conclude this afternoon's session. Those of you who wish to attend the evening session and have not yet purchased a ticket, might still be able to get one at the information desk.

The proceedings of today's symposium will be quickly put into volume form and sent to all ticket purchasers for whom we have addresses.

The special committee looks forward to seeing you all on the terrace of The Washington Hilton at 6:30 where the reception will be held preliminary to the dinner which will get underway promptly at 7:30.

Be sure and be in your assigned dinner seats at 7:30.

We now stand recessed.

(Whereupon, at 5:30, the symposium recessed to reconvene at 7:30 for dinner.)

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Dinner Session, 7:30 p.m., International Ballroom, The Washington Hilton

The dinner session was held in the International Ballroom of The Washington Hilton, the program commencing at 8:45 p.m., Dr. Grover W. Ensley presiding.

Dr. Ensley. Secretary Fowler, Chairman Patman, Dr. Ackley, honored guests, ladies and gentlemen. Welcome to this evening session of the economics symposium, commemorating the 20th anniversary of the Employment Act of 1946.

The special committee appointed by the Joint Economic Committee to plan and carry out this occasion is deeply appreciative of the opportunity to develop today's program.

Walter Heller, Raymond Saulnier, Henry Wallich, Gerhard Colm, and I wish to acknowledge the assistance that we have received in shaping today's program from Government, from research and interested groups, and from many private citizens.

In particular, we express our thanks to the bipartisan leadership of the Joint Economic Committee and the Council of Economic Advisers for their enthusiastic support.

We are most fortunate tonight to bring together so many public officials and private citizens who were instrumental in the passage of the Employment Act and who have participated in the drama of the past 20 years since the act was signed into law.

You have been given a list of the distinguished people seated at the head table. I will not take the time for their separate introductions. Their names will be included in the record of today's proceedings. We are particularly honored, of course, to have so many members of the President's Cabinet here tonight.

Let's all join in giving those at the head table and our guests a special round of applause. [Applause.]

There is one gentleman at the head table, however, that I would like to have stand for your special recognition. He was the first Chairman of the Council of Economic Advisers, serving from 1946 to 1949—Dr. Edwin G. Nourse. Won't you stand? [Applause.]

Thank you very much, Dr. Nourse.

Seated on the Dais

(LOOKING FROM LEFT TO RIGHT—FROM THE FLOOR TO THE DAIS)

First tier

The Honorable James S. Duesenberry
Mrs. Arthur M. Okun
Mr. Gerhard Colm
Mrs. William McChesney Martin, Jr.
Mr. James W. Knowles
Mrs. Arthur F. Burns

Second tier

The Honorable Robert F. Ellsworth
The Honorable Martha W. Griffiths
The Honorable Kermit Gordon
Mrs. Paul McCracken
The Honorable Henry C. Wallich
Mrs. Hale Boggs

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SEATED ON THE DAIS—Continued

First tier—Continued

The Honorable Thomas B. Curtis
The Honorable Charles L. Schultze
Mrs. William B. Widnall
The Honorable Richard Bolling
Mrs. Carl Albert
The Honorable Roy Blough
Mrs. Paul H. Douglas
The Honorable Wright Patman
Mrs. Gardner Ackley
The Secretary of the Treasury, The Honorable Henry H. Fowler
Mr. Grover W. Ensley
Mrs. Henry H. Fowler
The Honorable Gardner Ackley
Mrs. Grover W. Ensley
The Honorable Paul H. Douglas
Mrs. Roy Blough
The Honorable Jacob K. Javits
The Honorable Carl Albert
Mrs. Richard Bolling
The Honorable William B. Widnall
Mrs. Charles L. Schultze
The Honorable Arthur F. Burns
Mrs. James W. Knowles
The Honorable William McChesney Martin, Jr.
Mrs. James W. Duesenberry
The Honorable Arthur M. Okun

Second tier—Continued

The Honorable Leon H. Keyserling
Mrs. Jack Miller
The Honorable Edwin Nourse
Mrs. Raymond J. Saulnier
The Honorable Walter W. Heller
The Secretary of Commerce, The Honorable John T. Connor
Mrs. Walter W. Heller
The Secretary of Housing and Urban Development, The Honorable Robert C. Weaver
Mrs. Leon H. Keyserling
The Honorable Jack Miller
Mrs. Kermit Gordon
The Honorable Hale Boggs
Mrs. Henry S. Reuss
The Honorable Raymond J. Saulnier
Mrs. Robert F. Ellsworth
The Honorable Henry S. Reuss.
Mrs. Henry C. Wallich
The Honorable Paul W. McCracken

In the audience there are a number of distinguished people who, in addition to the number of those seated at the head table, were instrumental in the passage of the Employment Act and I name but a few.

William A. Barrett, Representative from Pennsylvania; Daniel J. Flood, Representative from Pennsylvania; Alvin H. Hansen, Littauer professor of political economy, emeritus, Harvard University; Chet Holifield, Representative from California; Frank E. Hook, former Representative from Michigan; George E. Outland, former Representative from California; H. Christian Sonne, chairman of the National Planning Association; Mrs. Chase Going Woodhouse, former Representative from Connecticut.

Let's all join and give them a good hand. [Applause.]

There were those who gave leadership and displayed great statesmanship in moving the legislation in the Congress. They are no longer with us but all of us pay tribute to their memory. They include, and I list them alphabetically, Senator and Vice President Alben W. Barkley, Senator James E. Murray, Senator Joseph C. O'Mahoney, Senator Robert A. Taft, Senator Albert D. Thomas, Senator Charles W. Tobey, Senator Robert F. Wagner, Vice President Henry Wallace, and Secretary of the Treasury and Chief Justice Fred M. Vinson. [Applause.]

I would like to present two stalwart staff people who have served continuously for the 20 years in the administration of the Employment Act. They are Miss Frances James, senior economist for the Council of Economic Advisers; and Mrs. Marian Tracy, financial clerk of the Joint Economic Committee.

Will these two ladies please stand and receive our recognition. [Applause.]

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Today's symposium is conducted under the auspices of the Joint Economic Committee. To bring greetings from the committee are two national leaders.

First I will call on the distinguished chairman of the committee, a member since its formation and one of the original sponsors of the legislation in the House—the Honorable Wright Patman of Texas. [Applause.]

GREETINGS FROM HON. WRIGHT PATMAN

Representative PATMAN. Chairman Ensley, Secretary Fowler, and other members of the President's Cabinet, my colleagues in Congress, distinguished guests, ladies and gentlemen, it is a great pleasure and privilege to welcome you this evening. It would take too long to mention by name the number of distinguished people who are here tonight, and I shall not try to do so; but your presence is a tribute to the great importance that the Employment Act has assumed in the development of our Nation.

One gentleman, I believe, is entitled to special recognition. He was in Congress. I worked closely with him at the time. He is now a professor of economics at the San Francisco State College, and he came all the way from San Francisco to attend this meeting. He did more than just an ordinary Member. He testified before the Senate committee and the House committee in favor of this act and he was elected chairman and served as chairman of the steering committee in the House of Representatives of more than 100 members. He did so much toward the passage of this act that I think he is entitled to special recognition. I refer to Prof. George Outland, of California. Will you stand up, please? [Applause.]

Naturally, I am very proud. It was my privilege to sponsor and be the author of the Employment Act in the House in 1946. While I never dreamed at that time that 20 years later we would be celebrating its great success in this fashion, I do know that all of us who worked on it were deeply aware of the necessity for this legislation. But it was beyond my fondest hope that I would have the honor of chairing so distinguished a committee as the Joint Economic Committee—or look back on such a tremendous record of constructive performance as this act has given us over the last 20 years.

This day has been devoted to an intensive review and analysis of the Employment Act's performance over the last 20 years by a group who should know best—the able economists who have been associated with its operation for the last two decades. If those of us who participated in the formation of this act can take some credit, it is a piece of legislation that has stood up remarkably well. Your review is proof of that. Whatever reforms are suggested—they do not run to the heart of the legislation nor are they urgent. And this is one of the reassuring messages that your convocation has given us.

Now, we still have a lot to do and more people to hear, so I am not going to use any more time. You know how deeply your attendance here is appreciated. On behalf of the committee, I want to thank and commend those of you who participated in this symposium. You have participated in creating a permanent record to aid lawmakers and public officials in future years. We are grateful, too, to Dr. Grover Ensley and his distinguished associates. It is their initiative

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and energy that has brought about this magnificent occasion today. At this point, I will ask Dr. Ensley to resume his chairmanship. [Applause.]

Dr. ENSLEY. Thank you very much, Mr. Patman.

Also here to bring greetings from the Joint Economic Committee is the distinguished senior Senator from New York, and the ranking minority member of the committee, the Honorable Jacob Javits.

Senator Javits.

[Applause.]

GREETINGS FROM HON. JACOB K. JAVITS

Senator JAVITS. Thank you very much, Dr. Ensley. I join my chairman, Wright Patman, in expressing our gratitude to you for making this a magnificent celebration, truly commemorative of a great piece of legislation.

I also join with our chairman in expressing gratitude to the members of the Cabinet who distinguish this occasion by their presence, and to the members and former members of the Council of Economic Advisers, led by Dr. Ackley, and to all of those who have been associated with its work. Their contributions are evident in the work we do in the symposium today—and in the total result of our efforts in the economic and social fields.

Our committee has been called the "think committee." I would like to add to what our distinguished chairman has said to you about the durability and effectiveness of the legislation which created our economy.

We do not have legislative jurisdiction in the Joint Committee and you would think, therefore, that it might be dismissed as just another advisory committee. On the contrary, assignments to the Joint Economic Committee are sought assiduously by Members of the House and Senate, many of whom are here today; I, too, am honored to be a member. The places are kept when Members join the committee; it is considered a mark of privilege, indeed a mark of distinction, to be a member of the Joint Economic Committee because, in a sense, you have been chosen by your party to be a member of a committee which is distinguished by its intellectuality, its deep interest in the major economic issues facing the country, and the very real amount of homework which it does in such complex fields.

Thus the act is not only durable in terms of its results for the country but also in terms of its impact on the Congress.

I speak here today to extend greetings and thanks to those who authored the law, who have made it work in past years, and to those who do so today, and to you who participate in our celebration here today. I extend these greetings on behalf of the Republican members on the committee—Representatives Tom Curtis, Bill Widnall, and Bob Ellsworth, and Senators Jack Miller and Len Jordan, who are all here.

This was essentially a bipartisan or nonpartisan act. The chairman has already read the roll of those who were its principal stimulators. Among them were distinguished members of both parties, Senator Alben Barkley, Senator Bob Wagner, Senator Murray, Senator Taft, and Senator Vandenberg.

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I had a conversation with one of the economists who is here today—a distinguished former member of the Council of Economic Advisers—during our reception and I said, "We don't want national planning. We prefer the kind of approach laid down in the Employment Act through the development of our economic thinking and economic activities." And he said, "It is a shame that we had to give the Communists such a good word as 'planning.'" He continued, "I am against central planning, but this is the democratic equivalent of planning."

And perhaps a good deal more needs to be done in terms of the definition of economic goals and efforts to pursue them.

The act has been durable because it has met the test of time. The objectives and principles of the act remain and survive thoroughgoing discussion like today's with the same validity that they had 20 years ago.

We understand that the means to implement these objectives and ideas must be adequate to meet the new conditions. We must harness automation to the benefit of all our people. We must define our national economic goals, both short and long term, and we must invoke service in the public interest from the private sector in order to realize these goals.

This committee is one of the great links between government and business and in using the term business, we must never forget that the only way the term should be used is to include not only management and labor, but nonprofit organizations, farmers, trade unions, and also the enormous complex of foundations and voluntary organizations.

We need to improve the quality of our statistical information about ourselves—and the committee has rendered yoeman service in this—and also about those who would subvert our system: the Soviet Union, the central European bloc, and I hope tomorrow we will even analyze carefully Communist China and its own economy, and what it means to our economy, and to our objectives in the world.

And so the Joint Economic Committee—of which I have been a member for the past 7 years and in which I take enormous pride (and I might say that goes for all my colleagues in the minority)—together with the Council of Economic Advisers, has been a vital instrument in focusing the attention of the Congress and the American people on our problems and it has been so vitally important today in developing the answers.

I express the gratitude of, certainly, the people of my State. I hope you will forgive me if I feel that it is the gratitude of the Nation that I also express to all of you who participated in our work, to those who have been on the Council, to those who testified before our committee—and that is an enormous labor, because this is a very exacting committee and a very exacting task—and to those who helped in studies and in staff work. Finally, I express gratitude to the wives of these men whose support has been invaluable in our work. To all of you, our gratitude.

Thank you.

[Applause.]

Dr. ENSLEY. Thank you, Senator Javits.

It is a great honor for me and for the members of the Special Committee that the two living former Presidents of the United States have seen fit to contribute to this commemorative symposium.

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From former President Harry S Truman, who signed the Employment Act on February 20, 1946, comes the following message, to be read by the Honorable Richard Bolling, of Missouri, and a member of the Joint Economic Committee.

Congressman Bolling.

Representative BOLLING. Mr. Chairman, Mr. Secretary—I quote:

MESSAGE FROM FORMER PRESIDENT HARRY S TRUMAN

"Twenty years ago today, as President of the United States, I signed into law the Employment Act of 1946. It was a gratifying moment. It was made especially so by the fact that a few years earlier as a Senator from Missouri I served on a subcommittee that in a time of war looked forward to a time of peace and developed the essentials of what was to become the Employment Act.

"When I signed the act nearly a generation ago, I observed that 'the Employment Act of 1946 is not the end of the road, but rather a beginning.' That road has been a long one and not always smooth, but we have navigated its hills and hollows, ruts, detours, and sudden curves with increasing skill and always in the right direction.

"In this pursuit of our national goals we have learned that success requires courageous government, vigorous private enterprise, and imaginative labor leadership and—most important—active and enlightened cooperation among them to serve the common interest of sustained economic growth and increased opportunity. The ultimate success of the Employment Act will take nothing less than total dedication to the service of individual freedom and human dignity.

"It is significant that the Joint Economic Committee has chosen this anniversary date for a bipartisan rededication to the great objectives of the Employment Act and a reconsideration of our national goals and the means of achieving them.

"It is useful to look back in a candid appraisal of accomplishments and errors. It is even more important to look ahead. There is still a great deal of unfinished business. There is still much to learn about the policies that can be used.

"And, perhaps most important of all, there is still the need for a general recognition that what must be done can be done. I believe this anniversary celebration can serve these purposes and thereby take an important step toward the realization of the objectives of the act, and that means toward the realization of a greater and better society."

[Applause.]

Dr. ENSLEY. Thank you very much, Mr. Bolling.

During his 8 years in the White House, President Eisenhower administered the Employment Act with dedication and conviction. From General Eisenhower has come the following message which I have asked the Honorable William B. Widnall, of New Jersey, and a member of the Joint Economic Committee, to read to us now.

Congressman Widnall. [Applause.]

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Representative WIDNALL. Dr. Ensley, fellow guests at the head table, and friends of the Employment Act of 1946. [Reading:]

MESSAGE FROM FORMER PRESIDENT DWIGHT D. EISENHOWER

"I am happy to send greetings to a meeting called to celebrate the 20th anniversary of the passage of the Employment Act.

"That our Federal Government is explicitly committed under that statute to use its full resources to achieve vigorous, inflation-free economic growth is a fact that is continuously proving its worth.

"There are vitally important values also in the agencies that were created by the Employment Act. The Joint Economic Committee of the Congress through special studies and public hearings has become a major instrument in promoting better economic understanding. And the Council of Economic Advisers is an indispensable means by which the executive branch of Government can obtain the trained economist's objective advice on economic and financial questions.

"I am especially grateful for this opportunity to register my personal appreciation of the services rendered to me and to my administration by the members and staff of the Council of Economic Advisers, under the leadership of Dr. Arthur Burns and his successor, Dr. Raymond Saulnier. Their work was done in the best tradition of the professional counselor and precisely in the manner contemplated by the Employment Act.

"With the dedication of Government policy to full employment within the framework of an enterprise system with a stable currency that the Employment Act makes explicit, and with the facilities for shaping and evaluating policies and programs that the act created in the Joint Economic Committee and the Council of Economic Advisers, the Nation is without a doubt in a greatly strengthened position to achieve the best economic performance of which it is capable and to play a fully constructive role in the world's economy."

[Applause.]

Dr. ENSLEY. Thank you very much, Mr. Widnall.

Now, ladies and gentlemen, a high point of this 20th anniversary celebration—greetings from the President of the United States, Lyndon B. Johnson—which will be brought to us by the Secretary of the Treasury.

The distinguished Secretary of the Treasury, the Honorable Henry H. Fowler. [Applause.]

Secretary FOWLER. Dr. Ensley, Chairman Patman, Senator Javits, ladies and gentlemen, the President's message is as follows:

MESSAGE FROM PRESIDENT LYNDON B. JOHNSON

Your symposium today celebrates one of the great turning points in the economic and political history of this Nation.

Twenty years ago, the Nation's economy had just emerged from almost 4 years of test by fire, immediately following a decade of test by

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ice. Men of vision and good will in both political parties, in labor as in business, in the universities and professions as in Government, were resolved that we should learn from these experiences; that depression and mass unemployment equally with unbridled inflation must be and could be mastered; and that only the Federal Government's leadership could accomplish it.

Their resolution was reflected in the Employment Act of 1946.

To be sure, some regarded the declaration that the Federal Government must accept a share of responsibility for the performance of the American economy as a revolutionary threat to our system of free enterprise. Others regarded the commitment to maximum employment as a pious gesture toward a visionary objective.

The last 20 years have demonstrated that the Employment Act was neither dangerous nor visionary. Instead, the act, and the machinery it created, have allowed us to develop an increasingly fruitful partnership between business, labor, and Government in the great task of building a better society for all Americans.

The success of that partnership is demonstrated by the present state of our economy. Our prosperity is unequaled; and our growth rate and price stability are the envy of the world.

Our recent gains prove the dynamism of our prevailingly private economy. They also show the contribution of sound and positive Government policies.

In developing an awareness of problems, in improving our knowledge and understanding, and in designing appropriate policies, the machinery created by the Employment Act has proved its value many times over. Hearings and reports of the Joint Economic Committee have educated the Congress and the Nation on all aspects of our economy. The advice of the Council of Economic Advisers has helped four Presidents and their administrations to propose and to carry out policies that have preserved and advanced our economic strength. And the requirement of an annual Economic Report of the President has spurred coherence and consistency in the farflung activities of the many agencies of Government, and, at the same time, made a major contribution to public understanding of economic policy.

But most important of all was the spirit of the act: the recognition that all plans and policies of Government should be bent toward protecting and promoting the health of our economy.

The knowledge we have gained and the policies we have designed to achieve and maintain full employment, to avoid inflation, to speed our economic growth, and to eliminate poverty, demonstrate man's ability to master his social as well as his physical environment. They are achievements worthy of celebration.

After 5 years of record expansion, we now face the new task of sustaining full employment without inflation. I have recommended a budget and fiscal policy which, in the best judgment of my advisers and myself, will allow us to sustain solid expansion without overheating the economy. But this is an area where, in spite of all we have learned over 20 years, we still have little experience. We have no choice but to advance with courage tempered by caution. We will need to watch unfolding events closely, and to remain flexible in our tax and other policies so that we can change quickly if the need should arise.

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The task of managing economic policy so as to achieve high employment without overheating will always be difficult.

It is made more difficult at the moment by the fact that we are in a transitional period. The rapid growth of output which has enabled us to reduce unemployment has placed special—and temporary—strains on some of our raw material resources. And the problems of matching men and jobs during the transition to an era of high employment are more difficult now than they will be after we have maintained high employment for sometime.

To make the transition to sustained high employment without inflation will test our energy and ingenuity. And it requires us to seek new ways in which business, labor, and Government can cooperate to avoid inflationary wage and price movements.

These are grave challenges, but I am confident that we shall meet them.

The years ahead can bring economic and social achievements which will far outpace the gains of the past. It is our task so to set the goals and to lay the plans that 20 years from tonight men looking back can honor our vision and our resolution as we tonight celebrate the events of 20 years ago. [Applause.]

Dr. ENSLEY. Thank you very much, Secretary Fowler, for bringing us this inspiring message of the President.

Today has been, we think, a most productive one, with many thoughtful and perceptive views presented and many significant issues raised.

To try to summarize these presentations is probably well nigh impossible. Here to try to do so is a distinguished economist, one who has served the Joint Economic Committee since 1949 and who, along with others of his efficient committee staff, has been our right arm in planning and carrying out this commemorative symposium.

I introduce at this time the executive director of the Joint Economic Committee, Mr. James Knowles. [Applause.]

SUMMARY OF SYMPOSIUM BY JAMES W. KNOWLES, EXECUTIVE DIRECTOR, JOINT ECONOMIC COMMITTEE

Mr. KNOWLES. Mr. Chairman, Mr. Patman, Secretary Fowler, distinguished guests, ladies and gentlemen.

When President Harry S Truman signed the Employment Act on February 20, 1946, some viewed it as without substance, while others saw a giant step toward destruction of free enterprise.

After 20 years, there is a wider area of agreement about the act, its objectives, its institutions, and economic policy than anyone would have believed possible 20 years ago. However, the past 7 hours of discussion by 12 of the most outstanding individuals who ever served under any one piece of legislation has provided ample proof not only of this wider agreement but also that there is continued healthy divergence of views.

Since I have been asked to summarize these 7 hours in 15 minutes, I cannot hope to do justice to every nuance of today's papers. Instead, I shall extract for your consideration a few strands of thought which seem to me to run through the entire woof and warp of the discussion.

I can only say I hope I have a few friends left after I finish these comments on the brilliant papers they gave this day.

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First, at the start of the day the question was raised as to whether it is necessary and/or wise to rewrite, qualify, or add to the economic objectives spelled out in section 2 of the act in an attempt to provide explicit language and directions for successive generations of policymakers.

Among the candidates for addition heard today were economic growth, price stability, equilibrium in our international balance of payments, the efficient allocation of resources, the balanced distribution of income, and several related social objectives. These have been dealt with from the beginning by the President and the Council of Economic Advisers in the Economic Reports, as well as by the Joint Economic Committee. The first subject for hearings by the committee was the problem of rising prices; and another early subject was low-income families, a foreshadowing in 1949 of today's war on poverty.

In fact, in the first full Congress following the establishment of this committee, all but one report was on the subject of inflation from the committee created to discuss unemployment.

The issue seems to be whether to attempt periodically to rewrite the objectives of the Employment Act in the language and perspective congenial to successive generations of policymakers, or to keep to more general language like that in the present section 2, reinterpreting it from time to time in the light of changing conditions.

Second, in view of the increased level of economic literacy of today versus that of 20 years ago, it is a bit surprising to find economists still talking with sweet reasonableness about the appropriate "trade-off" between rising prices on the one hand and unemployment on the other.

I am puzzled by the suggestion that more poverty, disease, filth, and discrimination imposed upon the disinherited is an acceptable alternative to some modest loss of the value of savings or income from inflation. Are we still under the illusion, despite classic marginal utility analysis, that the increased suffering that we would force on the defenseless, who start each day wondering whether they can survive, is comparable to the disutility to the well provided for from a small loss of income or value of assets from inflation? It would be more useful to the Joint Economic Committee, I am sure, as well as to the executive branch, to hear how we can improve the economy so as to eliminate *both* structural inflation and structural unemployment.

Let us make no mistake; our problem is not one of determining how large a general price rise we will trade for so many jobs for the unemployed, nor is it one of agreeing on the number of people we will throw into involuntary unemployment in order to "buy" some added price stability. Rather, our task is to comply fully with section 2 of the Employment Act, working tirelessly to discover and put into effect policies that sooner or later will lead to realization simultaneously of a stable general price level and jobs for all those able, willing, and seeking to work. We cannot in good conscience rest content with any lesser achievement.

[Applause.]

Third, there have been suggestions—and many before this day—that the act be altered to specify in greater detail the contents re-

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quired in the annual Economic Reports and to provide neatly laid out mechanics for the determination and execution of policy by the Council and the joint committee.

As far as I can see, there has been not a single suggestion for added information, a new procedure, or a new policy for which reasonable men could not find in the original statute the injunction to proceed, the power to proceed, and the institutions to carry matters forward. It is amazing to me that this should be so.

The statute, after all, was drafted 20 years ago.

I think we should all be prepared to make changes when a case can be made for change, but we should be careful not to lose in the process the broad sweep and the great flexibility that the present language incorporates.

None of us can forecast the future with precision.

The glory of the Employment Act is that, whether they knew it or not, the drafters of this statute created a basic and enduring law of great flexibility in its procedures and in the institutions it created.

Fourth, there was widespread agreement that one of the principal benefits of the act was the education of policymakers in and out of Government.

Today's discussion again revealed how far we have come in developing economic debate at a level of literacy, factual precision, and analytical rigor that would have been unknown 20 years ago. This does not show, however, in some neat formulation that the Council or the joint committee can present to the Appropriations Committee in justifying our budgets.

It has been suggested that the distinguished members of the Joint Economic Committee have for many years been teaching professors of economics what is relevant when a policy decision must be made against a deadline, and, in turn, professors have educated the committee, and through them the Congress, and the public, in many of the issues of modern economic analysis. This activity will doubtless continue to have more to do with the achievement of the objectives of the Employment Act than the specific recommendations from year to year by the Council of Economic Advisers and the Committee.

Fifth, running through these papers is the realization that these two institutions created under the act have been centers of research, innovation, and experiment.

New ideas have been welcomed and have been spread throughout Government and the private economy. In Congress, the Joint Economic Committee has pioneered the use of the panel discussion form of hearing, the compendium of papers by the witnesses published in advance of hearings, the staff study paper, and a myriad of other devices before unknown, or known but little used. Today's economic symposium is one more of these experiments. Both the Council and the Committee have been active in developing and in taking up from the best economic thought and literature ideas to put into general policy debate such as potential gross national product, the full employment budget, what is sometimes called "fiscal drag," and many others.

Both experience and today's debate suggest that the two institutions must continue to be alert to improvements in knowledge of how the economy operates, and how policy instruments work, so as to bring to

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bear the maximum of objective fact and rigorous economic analysis to the problems of public and private economic policy.

Sixth, economic policymaking—public and private—can be improved only by making sure that those who must make decisions have the most accurate, most up-to-date, and most complete factual information possible.

This requires the finest system of public and private statistical reporting that science can design and our wealth support. I am happy that my principals on the Joint Economic Committee have given nonpartisan support to a long series of improvements in statistical reporting. I believe it is clear from today's discussion that we should all continue to be alert to every opportunity to improve this system, for failure to do so will have real perils.

Seventh, our speakers today stressed the need for keeping the longer term look constantly before policymakers. Changes in expenditure programs or tax policy have effects not merely for a few months but for many years into the future.

Furthermore, the economy is constantly changing in ways that often send waves of change through the economy in a predictable as well as unpredictable fashion over long periods. Whether practice follows the advice of those who advocate very explicit statistical projections, or of those who prefer a more general literary format, may turn out to be less important than that we periodically take a look at where we seem to be headed in future years. I think most would agree that the analysis in such models is far more important than mere numbers. The numbers are a vehicle for concise expression and a tool for insuring logical consistency. The analysis generates the enlightenment that helps the policymakers.

An eighth strand of the debate concerned the relative roles of broad aggregate monetary and fiscal policies on the one hand, and precise economic surgery upon structural problems on the other.

I hope the participants will pardon me if I summarize their debate as a meaning that all of these are necessary for success, that it is dangerous to put too much reliance on any one policy tool separately, and, simply put, good policy is a carefully coordinated blend of every tool you can find.

This is a hard enough job without throwing anything away.

Ninth, when the economy reaches full employment and our problem becomes one of maintaining stable prices and economic growth, private policymakers must carry an increasing share of the total burden of policy formulation and execution.

This point found expression today mainly in differences over the formulation of wage-price guidelines and their role in the economic policy mix. I gather that all would agree, however, that no matter what Government officials do, full employment, stable prices, and economic growth cannot be realized year after year if private wage-price policies are formulated and carried out in a manner significantly inconsistent with these objectives. The free market economy does not operate like some sort of mechanism, foreordained to success regardless of the fallibility of the participants. Policymakers, I find from experience in both business and Government, seem to be no more infallible when on a private payroll than when on a public payroll. There

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are rules of the game within which management and labor must learn to operate if the free private market economy is to provide maximum profits, maximum employment, and maximum real wages, and do this without inflation. But this debate and our economic history suggest to me that if we do not learn the rules of the free market economy and acquire the will to live together within them, sooner or later political extremists will mobilize support for efforts to substitute dictation for freedom as the basis for our political and economic system.

Last, and not least, anyone observing these 20 years must be struck by the role played by individuals.

It really does make a difference to the history of this act that there was a Truman, an Eisenhower, a Kennedy, and a Johnson. It made a difference that there was an O'Mahoney, a Taft, and a long series of distinguished successors on the Joint Economic Committee. It made a difference that there was a Nourse, a Keyserling, a Burns, a Saulnier, a Heller, an Ackley, and a host of others of great ability on the Council. And I think it made a real difference that the Joint Economic Committee insisted on a professional and supporting staff of distinguished abilities, headed in its formative years by Hardy, Kreps, and Ensley. The act worked the way it did with its successes and its failures because people made right decisions and, unfortunately, a few wrong ones. In the future, the act will be a greater success, not merely because the machinery is remodeled, or the statement of objectives sharpened, but mainly because of the quality of the personnel who administer it. Our successors must be better than we are, with more wisdom, knowledge, integrity, and courage, if performance under the act is to improve.

This seems a suitable place to stop, ending with lines that hark back to an earlier era of a more literary style of public discourse. John Masefield, the English poet laureate, supplied poetic lines which, I am sure, you will recall:

"I must go down to the seas again,
To the lonely sea and the sky,
And all I ask is a tall ship,
And a star to steer her by."

The economic sea can indeed be lonely for the private or public policymaker trying to navigate the economic shoals when economic visibility is low. We, indeed, have a tall ship to steer—the richest, most productive, most dynamic and free economy the world has ever known. And we should all pray that the Lord will grant vision to us and our successors that we may find a clear channel between the shoals of depression and deflation on the one side, and the rocky reefs of inflation and speculative boom on the other, holding our course with an eye ever on that shining star of economic navigation, the Employment Act of 1946.

Thank you. [Applause.]

Dr. ENSLEY. Thanks very much, Jim.

We have asked three dedicated Americans and distinguished economists in their own right to respond to this summary.

First, I will call on the vice chairman of the Joint Economic Committee, who has been a member of the committee since 1949, the Honorable Paul H. Douglas, Senator from Illinois. [Applause.]

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RESPONSE TO SUMMARY BY HON. PAUL H. DOUGLAS, VICE CHAIRMAN, JOINT ECONOMIC COMMITTEE

Senator DOUGLAS. Dr. Ensley, ladies and gentlemen, friends. In one of his essays Anatole France remarked that the dead lend themselves very readily to reconciliation and that it is a happy instinct of history and of mankind, after the passage of time, to join together in loving unity both the proponents and the original bitter opponents of measures, and to classify them as deep and undying friends who all worked together for the same end.

This is fortunate, that mankind does this, because it lessens the tensions of history.

But it is also well to remember that the Employment Act, like all institutions, was born out of conflict, struggle, and a good deal of bitterness.

It so happens that my wife was the politician of the family when the Employment Act was passed. She was a Member of Congress and furnished me with copies of the Congressional Record which I read in great detail.

I am delighted that there are so many of the veterans who helped to pass the Employment Act—both on the floor of Congress and in work behind the scenes—who are here tonight; and also for the tribute that has been paid to men like Bob Wagner and Jim Murray, no longer with us, who helped so tremendously in the passage of that act. These men and women still bear on their bodies and in their souls some of the attacks which were made upon them because they dared to initiate a measure calling originally for full employment and compromising on "maximum" employment.

But now, after 20 years, the bitterness is dying away and nearly all groups in the community not only accept the measure, but also believe that they originated it. [Laughter.]

I would not be one for a minute to rob them of their happy illusion, except to say that history must be served.

Now, I believe that the procedures which were set up and the institutions which were created have enormously raised the level of economic literacy. The work of both the Council of Economic Advisers and the Joint Committee has, I think, made the bureaucrats downtown, the members of the departments, and the attachés of the White House, somewhat more aware of what the issues before the Nation actually are, and has alerted them to some of the problems which have been involved.

I am quite certain that we in Congress have benefited from the act. We have been forced to devote ourselves to issues which might have been passed by. We have received expert advice. We have argued with each other. In the process, with the materials that have been developed, the discussions in Congress now are far more deliberate, far more informed, more closely approach the realities of life, than was true 30 or 40 years ago.

I think we have also had a very good influence on the economists themselves, and that they are a much better educated group of men than they were some years ago. [Applause.]

If there have been any confined in the ivory towers, they at least make ventures out of those towers, and they now see some of the difficulties involved.

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I believe we have helped our newspaper friends. There are a few good newspapers in the country and we have improved them; perhaps we have made some newspapers that were not so good better than they otherwise would have been. [Laughter.] It has been a constant source of joy to me to be a member of the committee. I must admit that I take a great deal of pleasure whenever I see my dear friend, Wright Patman, unload on the Federal Reserve Board. [Applause.]

I think at times people may have thought that Wright was not fully informed, but when he goes into the intricacies of the operations of the Federal Reserve Board, I have discovered that there is no one in that handsome palace who can keep pace with him and that those who come to scoff, remain to tremble. [Laughter.]

I think it was Dick Bolling who first stressed the importance of growth, over 15 years ago, and I must say when he first mentioned this, I stared at him with some amazement. But through the years he kept pushing this emphasis and it has helped.

I want to pay tribute to the minority, also. I think through the years we have come to understand each other better and to agree that we want truth. Now, truth is a many-sided, many-faceted thing, but we want a common body of facts which can be accepted as correct so that we will drink pure water in our discussions, and what we carry through will be solidly based.

I want to say also that the staff of the committee has been of extraordinarily high quality. I have never known the politics of a single member of the staff. I never want to know the politics of a single member of the staff—although I sometimes suspect them. [Laughter.]

The committee and the staff have together spaded into the public consciousness a lot of issues which would otherwise have been neglected: the issue of monopoly, about which we have not been able to do anything, but which is a good thing for the American public to keep in mind; the issue of poverty, because the study on low-income families to which Dr. Ensley and others referred furnished really the basis for the extraordinarily moving book by Mr. Michael Harrington, "The Other America," which in turn prodded the New Yorker and John Kennedy into action.

In attempting to understand the balance of payments and the problems which arise in this connection, I think our hearings and the material which we have developed have been of enormous value. We have even been able to prod the Treasury into favoring an international currency. Of course, the Treasury never admits that, and no governmental bureaucrat ever admits that Congress has a good idea or provides any stimulation. But some day I want to write a book, in reply to those who believe in the administrative state, about how Congress educates the civil servant. [Applause.]

Well, has it all been talk, has it all been publication, has it all been words—or has it actually paid off?

Let me ask this question: "Is it wholly without significance that we have now passed 20 years since the conclusion of the greatest war in history without a severe depression?"

As I see economic history, every great war of the past has been followed by a depression within not more than 10 years. This was true of the War of 1812, true of the little Mexican War, true of the Civil

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War, which was followed in 1873 by the prolonged panic, and true of World War I.

We came through World War II with its tremendous dislocations and its price inflation, which was partially concealed in the Consumers Price Index which the Government cooked up. And yet there was no subsequent depression. This has been an enormous gain in the conditions of human life, and we should keep in mind that the impetus which gave rise to the Employment Act came not from the economists but came from the people contemptuously referred to as "do-gooders," and from the unions, who knew the hardships which millions and tens of millions of people had suffered in the great depression which broke out in 1929, and who were determined that so far as they were concerned, it should not happen again.

They, in a sense, as in many of these matters, are the unsung heroes of the origin of the act.

Well, we have gone for 20 years without a depression and the gain, not merely in economic prosperity, but in human happiness, has been enormous.

Has this been purely accidental? Possibly, but I doubt it. I think that one major reason has been that the country, whether consciously or unconsciously, has adopted the compensatory theory that governmental expenditures and monetary policy should be used to prevent depressions. While there may be differences on the surface about the degree of action or the emphasis upon one factor or another, this has been a policy of the Government, whether admitted or not, under both political parties and various schools of thought.

Now, I do not want to rub salt in present political discussions but I would like to ask a second question.

Is it accidental that in the last 5 years there has been no recession? We had four recessions—not depressions, but four recessions—from 1949 to 1960. The first was in 1949. Many of my Democratic friends were very angry at me because I called it a recession at the time, but it was one. Then came the recession of 1954, the recession of 1958, and the recession of 1960.

We have now operated for 60 months without a recession. We have not only operated without a recession but we have operated at a very high rate of economic growth, well over 5 percent last year, probably on the 5-year average very close to 5 percent. And on a per capita basis, three and a half percent a year.

We have attained a tremendous rate of economic growth—and while our reduction in unemployment has not been as great as many of us had hoped, it has been considerable. And we have done it with comparatively stable prices—at least up to date—the most stable wholesale and retail price level of any industrial nation in the world.

But we should not boast too much, because I remember that there were many economists who, in the summer of 1929, were saying that we lived in a new economic era. My dear friend, Irving Fisher, was making speeches and writing pamphlets saying that depressions had vanished from the American scene—and then he lost his shirt in the great depression which broke out a few weeks afterward. And millions suffered far more.

But while the jury is still out, I suggest the question of whether this absence of recession is purely accidental is proper to ask.

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In addition, I think that it is worthwhile inquiring whether, in addition to the compensatory policy—which in my judgment has demonstrated itself as a guard against depression—whether if you have a considerable amount of unemployment and a considerable percentage of idle capacity, an expansionary fiscal and monetary policy may create monetary purchasing power which otherwise would not be there and help to join capital and jobs and produce more goods than would otherwise be produced.

At least that is a question for us to ask and it should not be shirked. Those who object should have full opportunity to be heard.

One of the excellent things I believe we have introduced at the joint committee is that we have offered full scope for conflicting points of view. We have asked that the facts be accurate and that there be no personal attacks, but we welcome a divergence of opinion. And even those of us who feel very strongly and have a given point of view like to take as our maxim the doctrine of Jefferson which he wrote as the guiding principle for the University of Virginia: "Here we are not afraid to tolerate error so long as reason is left free to combat it."

Now, as to what is error and as to what is truth, Pilate asked that question long ago, but he would not stay for an answer. We not only stay for an answer, we seek that answer. And I believe we are getting closer approximations.

So in conclusion I want to thank the pioneers, those here and the many scattered over the Nation, who wanted the act, fought for it, and carried it on. We are in their debt for the fact that in the midst of many differences we can get as great a degree of reconciliation, and as great a degree of united purpose, as we have.

Thank you very much. [Applause.]

Dr. ENSLEY. Thank you very much, Senator Douglas.

Next, to give us his response to this summary, the Honorable Thomas B. Curtis, senior minority member of the Joint Economic Committee, and a member of the committee since 1955.

The Congressman from Missouri, Mr. Curtis. [Applause.]

RESPONSE TO SUMMARY BY HON. THOMAS B. CURTIS, SENIOR MINORITY MEMBER, JOINT ECONOMIC COMMITTEE

Representative CURTIS. Mr. Chairman, my distinguished colleagues in the executive branch of the Government, and my colleagues in the legislative branch of the Government, good citizens and friends of the Employment Act. It is a great pleasure to be here, and particularly to listen to the history of the Employment Act which I can only hear about because I did not have the pleasure of living it.

My response, however, to the summary is a brief look ahead into the future.

I agree that the Employment Act of 1946 indeed was a milestone in our economic history because it established a viable procedure for the formulation and review of economic decisionmaking at the highest levels, both in the legislative and the executive branches.

It is important to review the past—and the past record of the Employment Act has been one of success. But the record is not cloudless. Our stake in the future—in the 1970's and 1980's—requires a hard look at ways to improve the established procedures.

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Today I propose that we refine these procedures in order to establish a better public dialog on economic affairs. I propose for the consideration and response of this distinguished group that a new, additional, advisory, research and information organization be established under the Employment Act to enable minority party representatives in Congress better to analyze and present minority alternatives to our administration economic policy decisions. This "minority economic council" would be responsible to whichever party does not control the White House, and would be funded by Congress.

At the heart of the procedures of the 1946 Employment Act is the idea that debate and discussion about economic objectives is a healthy and constructive goal. This is one of the principal themes of the literature on the Employment Act.

In spite of these Employment Act procedures, debate on economic issues is today not extensive enough or thorough enough. It needs further development: principally, it needs a better informed, institutionalized challenger able to create more intelligent public discussion even of the most technical issues. Through such improved debate, economic policy issues would be refined and clarified.

The complaint is often heard that Congress has abdicated one of its most important constitutional functions—full debate in a public forum where cross-examination and rebuttal are possible. The reasons for this are in part institutional, to be sure; most issues are "debated" in congressional committees rather than in the House of Representatives and the Senate. But even in committees the process of debate is hampered by the lack of adequate professional staff, and the resort to closed executive rather than public committee sessions open to the press and concerned citizens.

The need for "help for Congress" has become a commonplace, as public awareness of the complex organizational problems of Congress grow. I hold that one of the most urgent organizational needs of the Congress is for professional staff, especially for the minority.

The need is especially acute in the area of economic policy. The size and diversity of the economy and of the Government's role in it require better understanding. In 1948, 2 years after the Employment Act when the economy had "cooled off" after the years of wartime spending, the gross national product (in 1958 dollars) was $323.7 billion and the fiscal year 1948 Federal administrative budget was $32.955 billion. 1965 GNP was $609 billion in 1958 dollars and the fiscal year 1967 Federal administrative budget is an estimated $112.847 billion. The budget for this tremendous amount, to which should be added for completeness trust fund account expenditures of $32.153 billion, is both an economic document of very great complexity and a political document of great importance. Adequate understanding of the economic impact of the budget as a whole is as important as understanding it program by program, item by item, yet congressional facilities do not exist for analyzing the effects of the total budget.

The Employment Act's sponsors correctly saw the need even in 1946 for proper procedures through which to manage the huge new economic power of the Federal Government. Correspondingly, the President's Council of Economic Advisers has become accepted as one of the most important offices in the executive. Though the Council is

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itself small, it can draw on the almost limitless statistical and program resources of the other 14 executive departments and countless other agencies. The Council of Economic Advisers, rooted in academic institutions, has kept open its line of communication with academic and other economic thinkers. It and the executive departments which also retain consultants are lodestones for professional economists throughout the country. Thus, while the executive has at its command vast internal resources and a strong attraction for private advisers, the minority party in Congress by comparison has no such resources, nor innate attraction.

This is a problem of the preponderance of executive branch knowledge, combined with power, over the minority, and, essentially, this problem is an institutional one. No mechanism in our society can now focus dissent on economic issues. The minority in Congress must have the research resources necessary to suggest workable alternatives to Government policy in all important economic areas. I believe there is considerable dissent in our society, within its broader consensus. Our problem is how to channel that dissent—to create a way to bring informed dissenters together to devise and propose creative alternatives based on their expert knowledge.

The institution I propose would provide a means of using existing knowledge to refine existing programs and to create new and better ones. It should be financed by congressional appropriation. It should assist whichever party does not control the White House. It should have a full-time professional staff which would establish a research organization extending to centers of learning and economic thought throughout the country. It should provide travel money for persons contributing their time and knowledge, and a center in Washington in which to meet. It should be a means whereby business, labor, agriculture, and academic economists, and any other practicing economists, could influence public policy through contributing to sound decisionmaking.

This "minority economic council" would report to a "board of directors" comprised of the minority leaders of the House and Senate, the ranking minority members of the House-Senate Joint Economic Committee, the House Ways and Means and the Senate Finance Committees, the House and Senate Appropriations Committees, and the House and Senate Banking and Currency Committees. Its resources would be made available to all the Minority Members in Congress. It would be established formally by amendment to the Employment Act.

Of course, there are obstacles to such a plan. There will be objections both from members of the other party and from within my own party. There will be difficulties convincing those persons—whose talents we would wish to utilize—that their abilities are needed. The greatest single problem may well be encouraging private persons to speak out publicly, to stand up and be counted no matter what party is in power. But the merit and advantages of what I propose should be apparent and persuasive.

The effects of the growing role of the Federal Government in the colleges and universities are becoming serious. Substantial proportions of the budgets of academic institutions come from the Federal

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Government. Competition for such funds among universities is strong.

At the same time Government finances *programs* at universities it finances *individuals* at those universities. College presidents, department heads, and students enjoy the reflected prestige of the professor called to consult with the administration in Washington.

These pressures could militate against the bright, ambitious scholar, businessman, labor or civic official coming to Washington to contribute his knowledge to the minority party.

The fundamental problem is again a systemic one. The present system reduces the incentive to criticize by creating allegiances between private consultants and Governments; thus it operates to favor the party in power. The losers, in terms of better performance of our economy, are American men and women. A countervailing change in the present system is required to allow latent voices of dissent and constructive suggestions to be heard.

Other obstacles against creation of the institution I propose would be determining its role when Congress is held by one party and the executive by the other. Also we can ask, what would be the role of the organization when one party controls one House and the other party controls the other? These structural problems can be solved.

Among the problems a newly formed minority economic council might turn its attention to are the following:

1. Generalized wage and price "guidelines" are being applied without having been understood or sanctioned as a valid instrument of economic policy, and I would argue, the means of their enforcement have been illegal.

2. In concentrating on aggregate economic policies equally valid specific approaches that can also reduce unemployment have been minimized. Manpower development and training programs are uncoordinated and redundant and so are grossly inadequate to meet needs. No effort, for example, has been made to integrate manpower trained for the Armed Forces with civilian skill categories and demands. In my book, "*87 Million Jobs*," (Durell, Sloan, & Pierce, 1963), I proposed a computerized inventory of job vacancies which is still an urgent need.

3. The economic impact of the Nation's war effort is not understood. Beyond its budgetary costs, war spending is having reallocative effects on the Nation's resources which are vital but largely ignored.

4. Inflation is an immediate and pressing concern. Prices, especially of food, have risen sharply. The Bureau of Labor Statistics reported recently that the wholesale price index for January 1966 increased by 0.5 percent, or at an annual rate of 6 percent. The importance of this rise is that it is generalized—it includes the industrial, as well as the agricultural commodities. Moreover, this increase hides the suppressed price increase which would have occurred in the absence of artificial and arbitrary administration intervention to hold down selective industrial price increases in the face of generalized inflationary pressures.

5. The tax system is elaborate to the point where too many economic decisions are made on the basis of their tax consequence rather than on their economic merit.

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6. A decade of public housing efforts has not solved the poverty-related problem of adequate housing for low-income groups and other directly related environmental problems. Our previous efforts may, in fact, have aggravated the housing problem. This problem, largely one of the supply of the commodity of housing, has been badly mishandled in a period when rapid suburbanization has taken precedence over the older problems of urbanization and "derustification" of our population.

7. The Negro is our greatest underutilized resource, representing as a group a vast untapped reservoir of human talent and productive ability. The Negro is the unfortunate legatee of the withdrawal of economic power and ability from the city to suburbia and he bears the brunt of the age-old problem of rural man's adjustment to urban society. The lack of jobs, the Negro's most urgent need, is mostly a structural problem. Unions and other economic, as well as social, forces have retarded this utilization. Aggregate economic policies cannot hope to solve these basic structural problems—nor can politically motivated, misguided "poverty" programs which are not based on adequate understanding of who is poor and how the poor can be helped. We must provide job training and basic education programs directly related to local industry needs and pull down the organizational barriers that stand between the man on the street and the man at work producing for a greater America.

8. The "aged," increasing in proportionate size and retained agility, represent a vast economic resource which to a large measure is discarded at great economic and human cost beyond an arbitrary age limit. We forget that age is a relative concept, and that age limits built into Federal and other programs misrepresent the ability to contribute to society.

9. The large number of new programs for the promotion of education has left educational institutions gasping in bewilderment, yet we have not defined the objectives of our education systems or related them to the vast amount of training and retraining done in the non-academic and military worlds. A burning, unresolved issue is, "How is our educational system to be guided and coordinated?"

10. Foreign economic policy is bankrupt. Supposedly based on principles, it is a succession of ad hoc responses to immediate needs. As a congressional delegate to the current trade negotiations under the General Agreement on Tariffs and Trade (GATT), I am aware at firsthand that we have not begun even to talk about and understand, much less to meet, the needs of developing countries through trade. Nor, after years of trying, have we found the key to success in development aid policy. Instead of helping countries increase per capita wealth we have, through our programs, increased their reliance on artificial temporary income resources, often substituting U.S. Government funds for local private funds, without creating in them the will and the ability to solve their own problems. Administration fiscal and monetary policies generate inflationary price rises which increase pressure to buy cheaper imports and discourage export sales.

All of these issues, and many more, deserve the attention of the minority research organization I propose. These comprehensive research efforts could be mounted in different ways, depending on the nature of the problem. An example of the kind of project I have in

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mind is "Operation Employment," an effort of Republicans in the House of Representatives in 1961 to address the structural problems of unemployment in the most enlightened way. About 60 House Republicans established committees to study all the associated problems of employment and unemployment. Each committee was aided by a panel of private experts. These committees reported and debated their findings in the House of Representatives. The result was the Manpower Development and Training Act of 1962.

Essentially this proposal for a minority economic council is an appeal for your ideas and comments. I propose it fully aware that as a concept it faces many of the same obstacles that Senator Murray and his Employment Act faced 20 years ago. But what I propose is a logical corollary to the Employment Act. Its result would be better decisionmaking in economic affairs.

The legislative year 1946 was a time of great ferment. It saw passage both of the Employment Act and also of the Congressional Reorganization Act. Twenty years later the substantive and institutional problems facing us are as great as they were then, and they require equally bold solutions. I am convinced that what I propose would help meet these problems. [Applause.]

Dr. ENSLEY. Thank you very much, Mr. Curtis.

Finally, and with the last word, I can think of no one I am happier to call upon than the Chairman of the Council of Economic Advisers, who has been a member of the Council since 1962, and chairman since 1964, the Honorable Gardner Ackley. [Applause.]

RESPONSE TO SUMMARY BY HON. GARDNER ACKLEY, CHAIRMAN, COUNCIL OF ECONOMIC ADVISERS

Dr. ACKLEY. Mr. Chairman, Mr. Patman, I think no one should envy my role as the last speaker in a day very full of words—brave words, wise words, laudatory words, critical words, scholarly words, even political words.

By now the chance that I might present any new thought or reflection is completely obliterated. And in your sated condition, you might not recognize it if I did. I stand on the borderline between the great work that has been done here today and the more mundane work that will be done here in a few minutes—when a crew will descend on this room to clean up, throw away the debris, sweep the floor, and rearrange the room for another meeting tomorrow.

This feeling of standing on a borderline in time extends to a large dimension. I am the sixth of the Chairmen of the Council of Economic Advisers, happily all here tonight. But tomorrow morning I will be the only chairman to enter that granite pile at 17th and Pennsylvania Avenue. Arthur Okun and Jim Duesenberry and I feel a kinship with the 18 others who have preceded us as Council members, many of them here today. But tomorrow, we are the Council. We bridge the past that has been celebrated today and the future that must be wrestled with tomorrow.

And if we have learned anything today—it is that the future will not duplicate the past. The years since 1946—like the 20 preceding them of which Roy Blough reminded us—have been years of continuous change. Evolving, adapting, digesting; buffeted, swayed, transmuted; the machinery and the meaning of the Employment Act

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come down to this hour the product of all those men and ideas and events that have shaped our past. And they move into a future dimly seen in a dark glass—that crystal ball that Dave Lusher and Frances James keep so assiduously polished, but which remains so cloudy.

And as I mention her name let me pause to pay tribute to the Council's chief statistician, Miss James. The Council's twin institution at the other end of the avenue has several distinguished links with the earliest days of the Employment Act. But at our end, only Frances James preserves our tie with the founding of the Council. And she remains, as she has at all times been, one of the most valuable and dedicated members of the Council's staff.

As I have tried to sort through the often divergent—even conflicting—views expressed here today I find only two points of unanimity. But they are the two most fundamental points about the Employment Act.

First, despite all our disagreements and diversity, there has been no challenge to the central thesis of the Employment Act—that the Federal Government has an affirmative, positive, continuing responsibility for helping our economy to prosper and to grow.

Today almost no one—certainly none of our principal speakers here—dissents from this central proposition. Yet 20 years ago there were many who had doubts, and 40 years ago there were no doubts—almost everyone who mattered knew that the Government had *no* responsibility that extended beyond the efficient management of its own affairs.

The second central point of agreement is that the goals and tasks of economic policy must evolve and alter over time. They could not have been set down in detail for all time in 1946; they cannot be spelled out today to be applicable for the years to come.

Some feel that we should codify what we have already learned through amending the act; others see no gain and possible danger in such amendment. But all of us agree that the goals and instruments of economic policy 10 or 20 years hence will differ from those of today by as much as our concerns differ from those of 1946.

This second point of agreement leads into what is a recurrent though far from universal theme of many comments today. Since change is the ceaseless condition of our economy, the Council and the Joint Committee should spend more of their effort looking farther down the road ahead.

I am more inclined to agree with Dean Jacoby that we should be making longer term studies than with Colm or Keyserling that we should publish long-range projections. But I agree with them all that our horizons need lengthening.

One limitation on the Council's ability to take the longer look that I agree we need is that we have become much too useful in dealing with short-range, immediate problems. Our small resources are constantly strained in helping to put out fires that, if we had been better able to forecast 1, 2, or 5 years ago, might have been at least partially avoided. Yet clearly it is important to put out fires, and to use the best resources at hand to do it.

If we could enlist or free up the resources to do it, we should certainly be devoting more of our effort to the medium and longer run. In cooperation with the Budget Bureau, we should be exploring more

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fully the future impact of Federal programs, especially the new and growing ones—both the overall demands they will make and the contributions they will achieve, and their particular impacts on industries, regions, and skills. We need to do more work than we have done on the capital requirements, both public and private, of an expanding economy, so as to provide better guidance for fiscal and other policies that affect our ability to accumulate capital. We need to know more than we do know about the occupational requirements of the future in order to provide better guidance for today's programs of education and training.

What these examples suggest is not only the need for us to have a better telescope—to let us look further ahead—but also a better microscope—to look in a more disaggregated way at the pieces and parts of the economy. Both of these might seem to imply a relative shift of the Council's efforts from firefighting to more basic studies aimed at fire prevention.

One solution perhaps would be to enlarge the Council staff, which is now little if any bigger than it was 5 or 15 years ago. But if we were to become much larger we would lose the flexibility, adaptability, and speed which are our greatest assets. And members of our staff might tend to lose that sense of identification with and participation in the great problems of national economic policy which spur them to a quantity and quality of effort no larger organization could command.

But what the Council itself does is less important than what gets done in the Federal Government, with the cooperation and the initiative of all the economic talent in all the agencies. By placing economists close to the White House, the Employment Act enlarged the role of economists in Federal policymaking. It gave economists in the research and operating agencies more confidence that their findings will have an impact on decisionmaking right up to the Presidential level. At the same time, the Council is in a unique position to channel to the rest of the Government's economic intelligence apparatus ideas about the types of data and studies most needed for key policy decisions. Many of these agencies have considerably greater depth of personnel than the Council, and some are more insulated from pressures for quick day-to-day decisions. I must confess, however, that the Council has not in all cases fully discovered how best to mobilize and focus and coordinate this work to contribute to the larger policy issues that lie down the road ahead.

But the problems of the day and hour remain. They have been the subject of much comment today. Does our present mix of fiscal and monetary policies strike the right balance between stimulus and restraint? How can we deal most effectively with the tendency for prices to creep upward and wages to advance more rapidly than productivity whenever the economy comes reasonably close to its employment goals? Are we moving as fast as we should with our manpower and related programs? How can we make markets more competitive without actions which would destroy the delicate consensus on which effective policies must rest?

On all of these questions we need the most thorough analysis of which economists within or without the Government are capable. On many of them we also need—as Arthur Burns reminds us—better and more timely data than we have.

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Anyone who feels any responsibility for economic policy in this 21st year of the Employment Act—and all of you must or you would not be here—recognize that today's problems are more difficult than any we have faced in recent years.

When the economy is slack and unemployment is high, it is not hard to know what policies to recommend. The problems of sustaining high-level prosperity are far more difficult. Still, as the President said in his Economic Report, they are "the problems we have been *waiting* to encounter * * * the *welcome* problems of prosperity."

As we study the words that have been said today—the wise words and the critical words—we in the Council of Economic Advisers will find much to guide and inspire us as we go back to work tomorrow, determined to do our part to help carry out the mandate the Council received 20 years ago:

"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."

[Applause.]

Dr. ENSLEY. Thank you very much.

Ladies and gentlemen, honored guests, and all who have helped to make this 20th anniversary of the Employment Act a rewarding experience, again permit me to thank you on behalf of the special committee for your cooperation and courteous attention.

May I remind you that the entire verbatim proceedings of this symposium will be published by the Joint Economic Committee and will be mailed, where addresses are available, to all here tonight.

We trust it will be a significant contribution to economic literature and to the development of public and private policies in the best interests of the people.

The hour is late.

This economic symposium now stands adjourned. Thank you very much.

(Whereupon, at 10:20 p.m., the symposium was adjourned.)

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APPENDIX

History of the Employment Act of 1946 [1]

Even at the height of the war years, the sharp memories of depression spurred ideas of postwar planning to avoid unemployment. On January 6, 1944, a year before the introduction of the Employment Act, and 2 years before its final passage, Congressman Patman, the House leader in the subsequent fight for this legislation, advised his constituents that "employment is the most serious postwar problem ahead of us." Two weeks later, he said:

"If our postwar industry does not absorb the unemployed, jobs must be created. Unemployment will create an internal problem more insidious and dangerous than war. Violence, hatreds, and persecutions between races, groups, and nationalities will flare into bloodshed. Booming of cannon and blockbusters will have been less destructive than mass unemployment. Our first postwar consideration must be jobs or we shall face disunity and incredible suffering."

The idea of a separate full employment bill evolved from the early planning for reconversion and the debate over the proper role of the Federal Government in the postwar economy. Congressman Patman, as chairman of the House Small Business Committee, endorsed the establishment of the Postwar Planning and Economic Committee of the House of Representatives, and commended its efforts to "give great heed to all programs which might better insure full employment and maximum utilization of our productive facilities after the war" (vol. 90, Cong. Rec. p. 7025, 78th Cong., 2d sess. (1944)).

However, the first specific legislative proposal for full employment is to be found in the August 1944 "Patton amendment" [2] added to Senator Kilgore's reconversion bill (S. 1823).

The Kilgore bill included ambitious and far-reaching provisions to cope with postwar economic adjustment. Of particular note was the proposal for the establishment of a Bureau of Programs which was to be responsible for "full employment and full production planning." The Patton amendment provided a specific framework for attaining full employment. It established a $40 billion investment level as that necessary for attaining full employment. The Joint Committee on Internal Revenue Taxation, with the assistance of the executive agencies, was to be charged with the responsibility of determining the level of prospective total investment and, if a deficiency existed, compensatory measures would be undertaken.

[1] This brief history has been compiled from the following sources: (1) "Congress Makes a Law: The Story Behind the Employment Act of 1946," by Stephen K. Bailey, Columbia University Press (1950); (2) the Congressional Record; (3) files, press releases, and correspondence files of Hon. Wright Patman, Member of Congress.

[2] Based on a draft written by Russell Smith and James Patton, of the National Farmers Union.

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In October 1944, the Congress passed a much narrower measure establishing an Office of War Mobilization and Reconversion. The employment provisions of the Kilgore bill were stripped from the legislation.

However, there was considerable feeling that the limited reconversion legislation was inadequate. Senator Murray had been particularly impressed by the "Patton amendment" which he felt had brought a new frame of reference to the thinking about the problems of postwar employment. He therefore sent the "Patton amendment" to the executive agencies and departments for their reactions, with the idea of drafting a new legislative proposal.

The first published draft of Senator Murray's full employment bill appeared in December 1944, in a yearend report of the War Contracts Subcommittee of the Senate Committee on Military Affairs, entitled "Legislation for Reconversion and Full Employment." Using this working draft, Senator Murray sought the support of cosponsors for his bill in the Senate. On January 22, 1945, he introduced a revised draft—the full employment bill (S. 380)—in the Senate under the cosponsorship of Senators Wagner, Thomas, and O'Mahoney. (On July 28, an official announcement was made of the cosponsorship of Republican Senators Morse, Tobey, Aiken, and Langer.) Following the reading of the bill, it was referred to the Banking and Currency Committee chaired by Senator Wagner.

Due to its activities concerning the Bretton Woods Agreement and the OPA, the Senate Banking and Currency Committee was unable to hold hearings on S. 380 until the summer of 1945. Preliminary hearings by a subcommittee headed by Senator Wagner were set for July 30 and 31, to be followed by more extensive hearings after the summer recess. The witnesses for the first 2 days consisted of five Senators and two Representatives who sponsored the bill in the House. Further hearings, originally planned for early October, were quickly rescheduled for August 21 when the war came to a sudden end. Between August 21 and September 1, 63 witnesses were heard by the Senate subcommittee. (A full listing of the witnesses appearing is attached.) On September 18, Senator Wagner submitted the subcommittee report, and the full committee met to discuss and vote on a series of amendments the following 2 days.

A motion to report the bill favorably passed on September 20, and the Senate began consideration of S. 380 on September 24. The bill was passed by a majority of 71 to 10 on September 28.

Progress in the House of Representatives was not so rapid. The original full employment bill, H.R. 2202, was introduced by Congressman Patman, on February 15, 1945.

During the spring, Congressman Patman worked at securing cosponsors for the bill. By June he had secured the support of about 75 of his colleagues. An informal meeting was held by the sponsors at the end of May, at which Representative Patman was delegated to name a steering committee for the activities of the group. The members of the steering committee were as follows: Representative George Outland, chairman; Representative Andrew Biemiller, secretary; Representatives Walter Brehm, John Fogarty, Walter Granger, Estes Kefauver, Matthew Neely, Mary Norton, Luther Patrick, George Sadowski, Charles Savage, and Wright Patman, ex officio. This

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group was able to enlist 116 Congressmen as cosponsors of the bill. (The entire listing is attached.)

At the June 11 meeting of the steering committee held in Congressman Patman's office, he urged his colleagues, "We must make this a great crusade for the most constructive single piece of legislation in the history of this Nation." Throughout the period surrounding Congressman Patman's introduction of the full employment bill there were many meetings and conferences held in Speaker Rayburn's "Board of Education" room and Congressman Patman's office. The participants at these meetings included the congressional sponsors of the legislation, staff personnel, and representatives of the interested public groups.

This seemingly auspicious start, however, was soon to bog down. Of crucial importance was the committee to which the bill was assigned. After its introduction in February, H.R. 2202 was referred to the Committee on Expenditures in the executive departments. Committee Chairman Carter Manasco from Alabama was not favorably disposed to the bill and the committee as a whole was heavily weighted against the original version.

Hearings on the bill were held from September 25 through November 7, during which time 40 witnesses were heard. In comparison to testimony before the Senate committee, the House witnesses were considerably more hostile to the bill. As a result, the committee voted 17 to 3 against reporting H.R. 2202 to the floor. A motion carried to draft an acceptable House substitute and the succeeding month was spent in drafting a new bill. On December 5, the committee reported out a considerably amended H.R. 2202.

The new bill was acceptable neither to the steering committee nor to the opponents in the House, and it became questionable whether a full employment bill could be passed. The strategy of the steering committee to force a rollcall vote on either the original H.R. 2202 or the Senate version, S. 380, failed, as did all efforts to amend the modified H.R. 2202 reported by the committee. During the House debate on December 13 and 14, it became clear that either the modified H.R. 2202 would be passed or no bill at all. Consequently, with urging from the administration, the House passed the committee's version of H.R. 2202 on December 14 by a vote of 255 to 126.

It then became the task of the House-Senate conference committee to work out a compromise bill acceptable to both Houses. The conference committee members were Senators Taylor, Barkley, Murdock, Tobey, Taft, Radcliffe, and Buck, and Representatives Cochrane, Bender, Whittington, Manasco, and Hoffman. The wide split reflected in the committee and the divergence of the two bills made a successful outcome of the conference somewhat doubtful. Members in each House announced that they were insistent upon a version close to their bill, while the administration was pushing for a version closer to the Senate bill. The conference discussions began on January 22, in Senator Barkley's office, and continued through February 2. It was largely as a result of the skillful redrafting efforts of the Senate sponsor's staff, under the direction of Bertram M. Gross, that a stalemate was avoided, and agreement on a revised bill entitled the "Employment Act of 1946" was reached. The conference bill was passed by the House by a vote of 320 to 84 on February 6, and by the Senate

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on February 8 without a record vote. President Truman signed the Employment Act of 1946 into law on February 20.

Although both sides claimed a victory in the drafting of the conference bill, it was cear that a significant advance had been mad in outlining the economic policy and responsibility of the Federal Government. The debate over the Employment Act continues, but there is little question today that the passage of the act in 1946 marked a milestone in the course of responsible economic policy in the United States.

COSPONSORS OF S. 380 IN THE U.S. SENATE

James E. Murray, Montana
Robert F. Wagner, New York
Elbert Thomas, Utah
Joseph C. O'Mahoney, Wyoming
Wayne Morse, Oregon
Charles Tobey, New Hampshire
George D. Aiken, Vermont
William Langer, North Dakota

THE 116 COSPONSORS OF H.R. 2202 IN THE HOUSE OF REPRESENTATIVES

Alabama:
Luther Patrick
Arizona:
Richard Harless
John R. Murdock
California:
Helen G. Douglas
Clyde Doyle
Frank R. Havenner
Ned R. Healy
Chet Holifield
Ed V. Izac
Claire Engle
Cecil R. King
Gordon McDonough
George P. Miller
George E. Outland
E. E. Patterson
H. R. Sheppard
J. H. Tolan
Jerry Voorhis
Richard J. Welch
Connecticut:
James P. Geelan
H. P. Kopplemann
Clare Booth Luce
Joseph F. Ryter
Chase Going Woodhouse
Delaware:
Philip A. Traynor
Illinois:
Emily Taft Douglas
William L. Dawson
Thomas S. Gordon
Martin Gorski
Edward A. Kelly
William A. Link
Thomas J. O'Brien
Melvin Price
Alexander J. Resa
William A. Rowan
Adolph J. Sabath
Indiana:
Ray J. Madden
Kentucky:
Joe B. Bates
Earle C. Clements
Massachusetts:
Thomas J. Lane
Michigan:
John Lesinski
John D. Dingell
Frank E. Hook
George D. O'Brien
Louis C. Rabaut
George G. Sadowski
Minnesota:
William J. Gallagher
Frank T. Starkey
Missouri:
A. S. J. Carnahan
John J. Cochran
John B. Sullivan
Montana:
Mike Mansfield
Nevada:
Berkeley L. Bunker
New Jersey:
Edward J. Hart
Mary T. Norton
Charles A. Wolverton
New York:
Joseph Clark Baldwin
William B. Barry
Charles A. Buckley
William T. Byrne
Emanuel Celler
James J. Delaney
Samuel Dickstein
Walter A. Lynch
Vito Marcantonio
Joseph L. Pfeffer
Adam C. Powell
Peter A. Quinn

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THE 116 COSPONSORS OF H.R. 2202 IN THE HOUSE OF REPRESENTATIVES—Continued

New York—Continued
Leo F. Rayfiel
George F. Rogers
John J. Rooney
James H. Torrens
Ohio:
George H. Bender
Walter E. Brehm
Edward J. Gardner
Walter B. Huber
Michael Kirwan
Homer A. Ramey
William R. Thom
Michael A. Feighan
Oklahoma:
William G. Stigler
Victor Wickersham
Oregon:
Homer D. Angell
Pennsylvania:
William A. Barrett
Michael J. Bradley
Herman P. Eberharter
Daniel J. Flood
William T. Granahan
William J. Green, Jr.
Daniel K. Hoch
Augustine B. Kelley
Herbert J. McGlinchey
Thomas E. Morgan
John W. Murphy
Samuel A. Weiss
Rhode Island:
John E. Fogarty
Aime J. Forand
Tennessee:
Albert Gore
Estes Kefauver
J. Percy Priest
Texas:
J. M. Combs
Wright Patman
Utah:
Walter K. Granger
J. W. Robinson
Virginia:
John W. Flannagan
Washington:
John M. Coffee
Hugh De Lacy
Henry M. Jackson
Charles R. Savage
West Virginia:
Cleveland M. Bailey
E. H. Hedrick
John West Key
Matthew M. Neely
Jennings Randolph
Wisconsin:
Andrew J. Biemiller
Alvin E. O'Konski

WITNESSES APPEARING BEFORE A SUBCOMMITTEE OF THE COMMITTEE ON BANKING AND CURRENCY, U.S. SENATE, 79TH CONGRESS, 1ST SESSION, ON S. 380, JULY 30, 31, AUGUST 21, 24, 28–31, AND SEPTEMBER 1, 1945

Anderson, Hon. Clinton P., Secretary of Agriculture.
Avildsen, chairman of the board, Republic Drill & Tool Co., Chicago, Ill.
Bell, Ulric, executive vice president, Americans United for World Organization.
Bolte, Charles G., chairman, American Veterans Committee.
Bradley, Gen. Omar N., Administrator of Veterans' Affairs.
Brown, Francis J., consultant, American Council on Education.
Burgess, Ernest W., professor of sociology, University of Chicago.
Caulkins, Mrs. J. B., president, Young Women's Christian Association.
Clark, Hon. Tom C., Attorney General of the United States.
Donnelly, James L., executive vice president, Illinois Manufacturers' Association.
Downey, Hon. Sheridan, Senator from the State of California.
Dunn, Miss Loula, president, American Public Welfare Association; commissioner, Department of Public Welfare, State of Alabama.
DuShane, Dr. Donald, secretary, Defense Commission of National Education Association.
Finletter, Thomas K., former Special Assistant to the Secretary of State.
Flanders, Ralph E., president, Jones & Lamson Machine Co. and Bryant Chucking Grinder Co.; Chairman, Boston Federal Reserve Bank; and Chairman, Research Committee, Committee for Economic Development.
Fleming, Maj. Gen. Philip B., Administrator, Federal Works Agency.
Golden, Harry, president, Magna Products Corp. of New York, N.Y.
Goss, Albert S., master of the National Grange.
Green, W. Cooper, mayor of Birmingham, Ala.
Green, William, president, American Federation of Labor.
Hall, Miss Helen, director, Henry Street Settlement, New York City.
Harrison, George, chairman, Postwar Subcommittee of the Railway Labor Executives Association; president, Brotherhood of Railway Clerks.

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Hoffman, Paul G., president, Studebaker Corp.; Chairman, Board of Trustees, Committee for Economic Development.
Isserman, Abraham J., counsel, National Federation for Constitutional Liberties.
Keller, L. E., research director, Brotherhood of Maintenance of Way Employees.
Kelly, Edward J., mayor of Chicago.
Ketchum, Omar B., national legislative representative, Veterans of Foreign Wars of the United States.
King, Willford I., chairman, Committee for Constitutional Government, Inc.
Kleitz, William L., vice president, Guaranty Trust Co. of New York.
LaGuardia, Fiorello H., mayor of New York City.
Lewis, John L., president, United Mine Workers of America.
Malisoff, Dr. Harry, a member of the Disabled American Veterans.
Menninger, Col. William C., U.S. Army, Chief, Psychiatric Division, War Department; psychiatrist, Menninger Clinic.
Miller, Martin H., national legislative representative, Brotherhood of Railroad Trainmen.
Morse, Hon. Wayne, Senator from the State of Oregon.
Mosher, Ira, president, National Association of Manufacturers.
Murray, Hon. James E., Senator from the State of Montana.
Murray, Philip, president, Congress of Industrial Organizations.
O'Grady, Rt. Rev. Msgr. John, secretary, National Conference of Catholic Charities.
O'Mahoney, Hon. Joseph C., Senator from the State of Wyoming.
Opher, Rabbi Ahron, assistant to the president, Synagogue Council of America.
Outland, Hon. George E., Representative from the State of California.
Oxnam, Bishop G. Bromley, president, Federal Council of Churches of Christ in America; bishop of the Methodist Church, New York, N.Y.
Palmer, Charles F., president, Palmer, Inc., Atlanta, Ga.
Patman, Hon. Wright, Representative from the State of Texas.
Patterson, Ernest Minor, professor of economics, Wharton School of Finance and Commerce, University of Pennsylvania.
Patton, James G., president, National Farmers Union.
Pogoloff, David, national service officer trainee, Disabled American Veterans.
Rice, Millard W., national service director, Disabled American Veterans.
Ruml, Beardsley, treasurer, R. H. Macy & Co.; chairman, Federal Reserve Bank of New York; member, Research Committee, Committee for Economic Development.
Sanders, Col. Lewis, industrial engineer.
Schacter, Harry W., president, Kentucky Merchants Association; president, Kaufman-Straus, Inc., Louisville, Ky.
Schwellenbach, Hon. Lewis, Secretary of Labor.
Shapley, Dr. Harlow, vice president, Independent Citizens Committee of the Arts, Sciences, and Professions; director, Harvard Observatory, Harvard University.
Sheil, the Most Reverend Bernard, auxiliary bishop of Chicago; director, Catholic Youth Organization, Archdiocese of Chicago.
Sifton, Paul, director, Washington Bureau of the Union for Democratic Action.
Smith, Hon. Harold D., Director of the Budget.
Snyder, John W., Director of War Mobilization and Reconversion.
Swiggett, Mrs. Glen L., representing the National Congress of Parents and Teachers.
Thomas, Hon. Elbert, Senator from the State of Utah.
Thorp, Dr. Willard, Deputy to the Assistant Secretary of State for Economic Affairs.
Vinson, Hon. Fred M., Secretary of the Treasury.
von Windegger, F. R., president, the Plaza Bank of St. Louis.
Wagner, Hon. Robert F., Senator from the State of New York.
Wallace, Hon. Henry A., Secretary of Commerce.
Warburg, James P., writer, Greenwich, Conn.
Waxter, T. J. S., director, Department of Public Welfare, Baltimore, Md.; chairman, National Committee on Public Social Policies.
Wheeler, Walter H., president, Pitney-Bowes, Inc., Stamford, Conn.
White, Walter, secretary, National Association for the Advancement of Colored People.
Wolf, Benedict, chairman, Postwar Planning Committee, National Lawyers Guild.

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WITNESSES APPEARING BEFORE THE COMMITTEE ON EXPENDITURES IN THE EXECUTIVE DEPARTMENTS, HOUSE OF REPRESENTATIVES, 79TH CONGRESS, 1ST SESSION, ON H.R. 2202, SEPTEMBER 25–28, OCTOBER 2, 9, 10, 16–19, 23–26, 29–31, NOVEMBER 1, 5, AND 7, 1945

Anderson, Hon. Clinton P., Secretary of Agriculture.
Anderson, Joseph P., executive secretary, American Association of Social Workers.
Ball, Dr. Carleton R., member, Legislative Committee, Council for Social Action, Congregational Christian Churches.
Benson, Dr. George S., president, Harding College; chairman, Executive Committee, Arkansas Public Expenditure Council.
Bradley, Gen. Omar N., Administrator of Veterans' Affairs.
Brown, Millard D., chairman, Legislative Committee, Philadelphia Textile Manufacturers' Association.
Carpenter, Herbert L., vice president, Commerce & Industry Association of New York, Inc.
Cowan, Nathan E., legislative director, Congress of Industrial Organizations.
Crawford, Frederick C., president, Thompson Products Co., Cleveland, Ohio.
Donnelly, James L. executive vice president, Illinois Manufacturers' Association.
Eaton, Charles A., Jr., president, National Association of State Chambers of Commerce.
Flanders, Ralph E., President, Federal Reserve Bank of Boston; Chairman, Research Committee, Committee for Economic Development.
Goss, A. S., Master of the National Grange.
Hastings, Hudson G., professor of economics, Yale University.
Hewes, Thomas, former Under Secretary of the Treasury; former treasurer of the State of Connecticut.
Hines, Lewis G., national legislative representative, American Federation of Labor.
Kane, Joseph W., Detroit Chamber of Commerce.
LaFollette, Hon. Charles M., Representative from the State of Wisconsin.
Levy, Austin T., president, Harrisville Combing Mills, Inc., Harrisville, R.I.
McHale, E. J., executive secretary, American Veterans' Committee.
Marston, R. B., director, Legislative-Federal Relations Division, National Education Association.
Milliman, Elmer E., president, Railway Brotherhood of Maintenance of Way Employees.
Mosher, Ira, president, National Association of Manufacturers.
Ogg, W. R., director, Washington office, Farm Bureau Federation.
Outland, Hon. George E., Representative from the State of California.
Patman, Hon. Wright, Representative from the State of Texas.
Rice, Millard W., national service director, Disabled American Veterans.
Schramm, James S., co-owner and manager, J. S. Schramm Co., Burlington, Iowa.
Schwellenbach, Hon. Lewis B., Secretary of Labor.
Schultz, Dr. Arch D., Ohio Chamber of Commerce.
Scott, Thomas J., veteran, World War II.
Smith, Hon. Frederick C., Representative from the State of Ohio.
Smith, Hon. Harold D., Director of the Budget.
Smith, Russel, legislative secretary, National Farmers Union.
Snyder, Hon. John W., Director of War Mobilization and Reconversion.
Spahr, Walter E., professor of economics, New York University, on behalf of National Association of State Chambers of Commerce.
Terborgh, George, research director, Machinery & Allied Products Institute.
Vinson, Hon. Fred, Secretary of the Treasury.
Voorhis, Hon. Jerry, Representative from the State of California.
Wallace, Hon. Henry A., Secretary of Commerce.

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[Press release, dated August 6, 1965]

JOINT ECONOMIC COMMITTEE, CONGRESS OF THE UNITED STATES

On behalf of the entire membership of the Joint Economic Committee, the four ranking members today announced the formation of a committee of five distinguished economists from outside the Government to formulate specific plans for a bipartisan observance, next year, of the 20th anniversary of the enactment of the Employment Act of 1946.

Chairman Wright Patman, Democrat of Texas, of the Joint Economic Committee, and one of the original members of the committee when it was established 20 years ago, was joined in the announcement by Senator Jacob K. Javits, Republican of New York, ranking minority member; Senator Paul H. Douglas, Democrat of Illinois, vice chairman; and Representative Thomas B. Curtis, Republican of Missouri, senior minority member in the House of Representatives.

"The Employment Act of 1946," the group noted, "was signed by President Truman on February 20, 1946. It passed the Congress after extensive debate and thoughtful compromise, by voice vote in the Senate and by nearly a 4-to-1 margin in the House of Representatives. The act, passed in the shadow of military demobilization, as 12 million men and women returned to the civilian work force in an atmosphere still haunted by the specter of large prewar unemployment, has been flexible and useful in minimizing economic instability, and has provided a foundation for growth. The act's success over two decades deserves recognition and a rededication to the policy of cooperation, responsibility, and freedom which it represents."

The five economists who have agreed to serve on the panel to plan and carry out an observance of this anniversary are all distinguished Americans who, by intimate experience, have knowledge of the trials and successes of the Employment Act and of the U.S. economy, dating back to a point well before its enactment. This committee consists of:

Dr. Grover W. Ensley, who will act as chairman of the panel, is now executive vice president of the National Association of Mutual Savings Banks. He was executive director of the Joint Economic Committee from 1951 to 1957 and associate director from 1949 to 1951. He served, therefore, under both Democratic and Republican leadership of the committee.

Dr. Walter W. Heller, professor of economics, University of Minnesota; formerly Chairman of the Council of Economic Advisers, 1961–64.

Dr. Raymond J. Saulnier, professor of economics, Barnard College; formerly, Chairman of the Council of Economic Advisers, 1956–61, and a member of the Council, 1955–56.

Dr. Gerhard Colm, chief economist, National Planning Association; and a senior staff member of the Council of Economic Advisers, 1946–52.

Dr. Henry C. Wallich, professor of economics, Yale University, and a member of the Council of Economic Advisers, 1959–61.

This group has been assured of support from Members of Congress, the Council of Economic Advisers, academicians, and representatives of business and labor. It will formulate plans as to the type of anniversary observance most appropriate under the circumstances. In part this may take the form of a dinner symposium, or some other program as the plans develop. It has been suggested also that the group arrange for a commemorative volume of essays appraising past experience and future problems and opportunities under the Employment Act.

The bipartisan support of the membership of the Joint Economic Committee and the balanced composition of this arrangements committee reflect the general agreement among the American people which brought the act into existence and has characterized its administration and growth during the 20-year period.

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[Press release, dated October 22, 1965]

JOINT ECONOMIC COMMITTEE, CONGRESS OF THE UNITED STATES

Twentieth anniversary of the Employment Act of 1946 to be marked by all-day economic symposium

The four senior leaders of the Joint Economic Committee, in a bipartisan action, today announced plans for an economic symposium to be held February 23, 1966, to commemorate the 20th anniversary of the Employment Act of 1946. The plans for this occasion have been developed by a special five-man committee of distinguished economists whose appointment to plan and carry out an observance of this anniversary was announced recently by the committee. Today's announcement, like the preceding one, was made by Representative Wright Patman, Democrat, of Texas, chairman of the Joint Economic Committee; Senator Jacob K. Javits, Republican, of New York, ranking minority member; Senator Paul H. Douglas, Democrat, of Illinois, vice chairman; and Representative Thomas B. Curtis, Republican, of Missouri, senior minority member from the House of Representatives.

The special committee, after extensive consultations with the Joint Economic Committee, the Council of Economic Advisers, and former members of both groups, and other interested parties, has arranged a program which includes morning, luncheon, and afternoon sessions of the symposium in the New Senate Office Building, and a reception and dinner at the Washington Hilton in the evening. The subjects to be discussed include (1) the Employment Act objectives—after 20 years; (2) aggregative or structural approaches to achieving Employment Act objectives; (3) using fiscal and monetary policies to further Employment Act objectives; (4) sharing the increasing productivity of our economy in a manner consistent with Employment Act objectives; (5) administration of the Employment Act.

Each subject will be discussed by at least two persons who have had intimate experience and responsibility under the act during the past 20 years. Time has been allowed for audience participation.

Following the reception and dinner a summary of the day's symposium will be presented by the executive director of the Joint Economic Committee and discussed by two ranking members of the committee and the Chairman of the Council of Economic Advisers. President Lyndon B. Johnson and former Presidents Dwight D. Eisenhower and Harry S Truman have been invited to attend and participate. Details of the all-day program are attached.

The Joint Economic Committee plans to publish the proceedings. Copies will be sent to research groups and scholars with a request for their comments. The responses, along with other statements prepared by various groups on the occasion of the 20th anniversary, will be published as a followup volume to the proceedings.

The sessions will be open to the public. There will be no registration or admission charges, except for meals. Luncheon will be at the New Senate Office Building. The capacity of the room for the luncheon is limited to a maximum of 200, and tickets will be on a first-come, first-served basis. As soon as the capacity of the room has been sold out, the admission to the luncheon will be closed. Tickets will be $4. Tickets for the reception and dinner at the Washington Hilton will be $15. Requests for tickets for the luncheon as well as the reception and dinner should be sent to: Special Committee, room 908, Colorado Building, 14th and G Streets NW., Washington, D.C. Checks should be made payable to: Special Committee on 20th Anniversary of the Employment Act.

The special committee chosen to plan and carry out the observance consists of Dr. Grover W. Ensley, chairman, now executive vice president of the National Association of Mutual Savings Banks and formerly executive director of the Joint Economic Committee from 1951 to 1957 and associate director from 1949 to 1951—serving under both Democratic and Republican leadership of the committee and the Congress; Dr. Walter W. Heller, professor of economics, University of Minnesota, and Chairman of the Council of Economic Advisers, 1961–64; Dr. Raymond J. Saulnier, professor of economics, Barnard College, and Chairman of the Council of Economic Advisers, 1956–61, and a member of the Council, 1955–56; Dr. Gerhard Colm, chief economist, National Planning Association, and a senior staff member of the Council of Economic Advisers, 1946–52; and Dr. Henry C. Wallich, professor of economics, Yale University, and a member of the Council of Economic Advisers, 1959–61.

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89th Congress } JOINT COMMITTEE PRINT
1st Session }

THE JOINT ECONOMIC COMMITTEE

OF THE

UNITED STATES CONGRESS

is privileged to announce
a unique experiment in congressional hearings
in the format of

AN ECONOMIC SYMPOSIUM

on the occasion of

THE TWENTIETH ANNIVERSARY

of the

EMPLOYMENT ACT OF 1946

to be held in

WASHINGTON, D.C. FEBRUARY 23, 1966

Printed for the use of the Joint Economic Committee

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AN ECONOMIC SYMPOSIUM

on the occasion of

THE TWENTIETH ANNIVERSARY OF THE EMPLOYMENT ACT OF 1946

Washington, D.C. February 23, 1966

Presiding: GROVER W. ENSLEY, Executive Vice President, National Association of Mutual Savings Banks; Executive Director of the Joint Economic Committee, 1951–57; Associate Director, 1949–51

MORNING SESSION 9:30 a.m. Auditorium, New Senate Office Building

Introduction: HON. WRIGHT PATMAN, Chairman, Joint Economic Committee, and member of the Joint Economic Committee since 1946

The Employment Act Objectives—After Twenty Years

ROY BLOUGH, Professor of International Business, Graduate School of Business, Columbia University; Member of the Council of Economic Advisers, 1950–52

HENRY C. WALLICH, Professor of Economics, Yale University; Member of the Council of Economic Advisers, 1959–61

Aggregate or Structural Approaches to Achieving Employment Act Objectives

LEON H. KEYSERLING, President, Conference on Economic Progress; Chairman of the Council of Economic Advisers, 1950–53; Vice Chairman, 1946–50

ARTHUR F. BURNS, President, National Bureau of Economic Research, Inc.; Chairman of the Council of Economic Advisers, 1953–56

LUNCHEON SESSION 12:00 noon Room 1202, New Senate Office Building

Using Fiscal and Monetary Policies To Further Employment Act Objectives

WALTER W. HELLER, Professor of Economics, University of Minnesota; Chairman of the Council of Economic Advisers, 1961–64

RAYMOND J. SAULNIER, Professor of Economics, Barnard College; Chairman of the Council of Economic Advisers, 1956–61; Member, 1955

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AFTERNOON SESSION 2:30 p.m. Auditorium, New Senate Office Building

Price-Cost Behavior and Employment Act Objectives

KERMIT GORDON, Vice President, The Brookings Institution; Member of the Council of Economic Advisers, 1961–62

PAUL W. MCCRACKEN, Professor of Business Conditions, School of Business Administration, University of Michigan; Member of the Council of Economic Advisers, 1956–59

Administration of the Employment Act

BERTRAM M. GROSS, Professor of Political Science, and Director, National Planning Studies, The Maxwell Graduate School of Citizenship and Public Affairs, Syracuse University; Executive Secretary of the Council of Economic Advisers, 1946–52

GERHARD COLM, Chief Economist, National Planning Association; Senior Staff Member of the Council of Economic Advisers, 1946–52

NEIL H. JACOBY, Dean of the Graduate School of Business Administration, University of California; Member of the Council of Economic Advisers, 1953–55

JOHN W. LEHMAN, Regional Director, U.S. Bureau of Labor Statistics, Cleveland, Ohio; Member of the Staff of the Joint Economic Committee, 1947–62

Questions and Observations From the Audience

Recess 5:30 p.m.

RECEPTION AND DINNER 7:00 p.m. International Ballroom, The Washington Hilton

Greetings from

Hon. WRIGHT PATMAN
Hon. JACOB K. JAVITS

Messages from

President LYNDON B. JOHNSON
Former President DWIGHT D. EISENHOWER
Former President HARRY S TRUMAN

Summary of Symposium

MR. JAMES W. KNOWLES

Responses to Summary

Hon. PAUL H. DOUGLAS
Hon. THOMAS B. CURTIS
Hon. GARDNER ACKLEY

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THOMAS B. CURTIS, Missouri	JACOB K. JAVITS, New York
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SPECIAL COMMITTEE ON THE 20TH ANNIVERSARY OF THE EMPLOYMENT ACT OF 1946

GROVER W. ENSLEY, *Chairman*

GERHARD COLM	RAYMOND J. SAULNIER
WALTER W. HELLER	HENRY C. WALLICH

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[Press release, dated January 20, 1966]

JOINT ECONOMIC COMMITTEE, CONGRESS OF THE UNITED STATES

Economic Symposium of February 23 Moved to Downtown Hotel Because of Space Limitations at the Capitol

The Joint Economic Committee today announced that because of the overwhelming public interest in the economic symposium on February 23, 1966, commemorating the 20th anniversary of the Employment Act of 1946, and upon the strong recommendation of the special committee appointed to plan and carry out this celebration, the symposium will be held at The Washington Hilton.

The committee acceded to the request of the special committee with some reluctance, and only after being assured that there would be no additional expense in connection with these hearings as a result of the shift of location.

The committee released plans for the economic symposium several weeks ago. Additional copies of the program are available at the committee office.

* * * * * * *

Following is a schedule of the sessions:

Morning session, 9:30 a.m.	International Ballroom East.
Luncheon session, 12 m.	International Ballroom Center.
Afternoon session, 2:30 p.m.	International Ballroom East.
Reception, 6:30 p.m.	Terrace.
Dinner, 7:30 p.m.	International Ballroom Center.

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Biographies of Members of the Joint Economic Committee and of Participants at Economic Symposium

Wright Patman (Democrat, Texarkana, Tex.), U.S. Representative, 1928—
LL.B., Cumberland University, 1916; U.S. Army, 1917–19; member, Texas Legislature, 4 years; district attorney, Fifth Judicial District of Texas, 5 years.
Committee assignments: Banking and Currency, chairman; Joint Economic Committee, chairman; Joint Committee on Defense Production; Select Committee To Conduct a Study and Investigation of the Problems of Small Business.

Paul H. Douglas (Democrat, Chicago, Ill.), U.S. Senator, 1948—
A.B., Bowdoin College; Ph. D., Columbia University, 1921; member, Economics Department, University of Chicago, 1920–48; alderman, Chicago City Council, 1939–42; U.S. Marine Corps, 1942–46; president, American Economic Association, 1947.
Committee assignments: Banking and Currency, Finance, Joint Committee on Defense Production, Joint Economic Committee, vice chairman.

HOUSE MEMBERS

Richard Bolling (Democrat, Kansas City, Mo.), U.S. Representative, 1948—
B.A. and M.A., University of the South; graduate work, Vanderbilt University; teacher and coach, Sewanee Military Academy; veterans' adviser and director of student activities, University of Kansas City; U.S. Army, 1941–46.
Committee assignments: Rules, Joint Economic Committee.

Hale Boggs (Democrat, New Orleans, La.), U.S. Representative, 1946—
B.A., Tulane University, 1935; LL.B, 1937; U.S. Representative from the State of Louisiana, 1941–42; U.S. Naval Reserve and U.S. Maritime Service, 1942–46; vice chairman, Democratic National Committee, 1954; Democratic whip since 2d session of the 87th Congress.
Committee assignments: Ways and Means, Joint Economic Committee, Joint Committee on Internal Revenue Taxation.

Henry S. Reuss (Democrat, Milwaukee, Wis.), U.S. Representative, 1954—
A.B., Cornell University; LL.B. Harvard University; assistant corporation counsel, Milwaukee County, 1939–40; assistant general counsel, Office of Price Administration, 1941–42; U.S. Army, 1942–45; Chief, Price Control Branch, Office of Military Government for Germany, 1945; deputy general counsel, Marshall plan, 1949; former director, Marshall and Ilsley Bank, Milwaukee, and Niagara Share Corp.
Committee assignments: Banking and Currency, Government Operations, Joint Economic Committee.

Martha W. Griffiths (Democrat, Detroit, Mich.), U.S. Representative, 1954—
A.B., University of Missouri; LL.B., University of Michigan; member, Michigan Legislature, 1949–52; recorder and judge, recorder's court, 1953.
Committee assignments: Ways and Means, Joint Economic Committee.

Thomas B. Curtis (Republican, St. Louis, Mo.), U.S. Representative, 1950—
A.B., Dartmouth, 1932; LL.B., Washington University, 1935; U.S. Navy, 1942–45; member, State board of law examiners, 1948–50; life trustee, Dartmouth College.
Committee assignments: Ways and Means, Joint Economic Committee, Joint Committee on Internal Revenue Taxation, Joint Committee on the Organization of Congress.

William B. Widnall (Republican, Saddle River, N.J.), U.S. Representative, 1950—
Ph. B., Brown University, 1926; LL.B., New Jersey Law School (now part of Rutgers University), 1931; member, New Jersey House of Assembly, 1946–49.

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Committee assignments: Banking and Currency, Joint Economic Committee, Joint Committee on Defense Production.

Robert F. Ellsworth (Republican, Lawrence, Kans.), U.S. Representative, 1960—
B.S. (in mechanical engineering), University of Kansas; LL.B., University of Michigan; active duty, U.S. Naval Reserve, World War II and the Korean conflict; legal assistant to the Vice Chairman, Federal Maritime Board, 1953–54; since 1954 private practice of law at Lawrence, Kans.; faculty, University of Kansas School of Business, 1956–57.
Committee assignments: Post Office and Civil Service; Veterans Affairs, Joint Economic Committee.

SENATE MEMBERS

John Sparkman (Democrat, Huntsville, Ala.), U.S. Senator, 1946—
A.B., University of Alabama, 1921; LL.B., 1923; A.M., 1924; U.S. Representative from the State of Alabama, 1936–46; Democratic candidate for Vice President, 1952.
Committee assignments: Banking and Currency, Foreign Relations, Joint Committee on Defense Production, Joint Economic Committee, Joint Committee on the Organization of Congress, Senate Select Committee on Small Business, chairman.

J. W. Fulbright (Democrat, Fayetteville, Ark.), U.S. Senator, 1944—
B.A., University of Arkansas; B.A. and M.A., Oxford University, Rhodes scholar; LL.B., George Washington University; attorney, U.S. Department of Justice; instructor in law, George Washington University; president, University of Arkansas, 1939–41.
Committee assignments: Foreign Relations, chairman; Finance, Joint Economic Committee.

William Proxmire (Democrat, Wisconsin), U.S. Senator, 1957—
B.A., Yale University, 1938; M.B.A., Harvard University, 1940; M.P.A., 1949; Wisconsin State Legislature, 1951.
Committee assignments: Appropriations, Banking and Currency, Joint Economic Committee.

Herman E. Talmadge (Democrat, Lovejoy, Ga.), U.S. Senator, 1957—
LL.B., University of Georgia, 1936; practiced law in Atlanta; U.S. Navy, World War II; Governor of Georgia, 1948–55.
Committee assignments: Agriculture and Forestry, Finance, Joint Economic Committee.

Jacob K. Javits (Republican, New York, N.Y.), U.S. Senator, 1956—
LL.B., Columbia University, 1946; Chemical Warfare Service, U.S. Army, 1941–45; U.S. Representative from the State of New York, 80th, 81st, 82d, 83d Congresses; attorney general, State of New York, 1954–56.
Committee assignments: Government Operations, Judiciary, Labor and Public Welfare, Joint Economic Committee, Senate Select Committee on Small Business.

Jack Miller (Republican, Sioux City, Iowa), U.S. Senator, 1960—
A.B., Creighton University, 1938; M.A., Catholic University, 1939; LL.B., Columbia University School of Law, 1946; U.S. Air Force, 1942–46; Office of Chief Counsel, Internal Revenue Service, 1947–48; assistant professor, University of Notre Dame College of Law, 1948–49; member, Iowa State House of Representatives, 1955–56; Iowa State Senate, 1957–60.
Committee assignments: Agriculture and Forestry, Armed Services, Joint Economic Committee, Special Committee on Aging.

Len B. Jordan (Republican, Boise, Idaho), U.S. Senator, 1962—
U.S. Army, World War I; A.B., University of Oregon, 1923; owner-manager, Jordan Motor Co., Inc.; member, Idaho Legislature, 1947; Governor of Idaho, 1951–55; member, International Joint Commission, 1955–57; member, International Development Advisory Board, 1958–59.
Committee assignments: Aeronautical and Space Sciences, Interior and Insular Affairs, Joint Economic Committee.

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PARTICIPANTS

[In order of appearance]

Grover W. Ensley, executive vice president, National Association of Mutual Savings Banks, 1957—

B.A. University of Washington, 1937; M.B.A., 1938; M.S. University of Denver, 1940; Ph. D. New York University, 1947; economist, Tax Foundation, Inc., 1940–41; fiscal analyst, Bureau of the Budget, 1941–47; technical adviser to Senator Ralph E. Flanders, 1947–49; associate director, Joint Economic Committee, 1949–51; executive director, 1951–57.

Roy Blough, professor of international business, Graduate School of Business, Columbia University, 1955—

A.B. Manchester College, 1921; A.M. University of Wisconsin, 1922, Ph. D., 1929; director of tax research, Department of the Treasury, 1938–46; professor of economics and political science, University of Chicago, 1946–52; member, President's Council of Economic Advisers, 1950–52; director, Department of Economic Affairs, United Nations, 1952–55.

Henry C. Wallich, professor of economics, Yale University, 1951—

Oxford University, 1932–33; M.A. Harvard University, 1941; Ph. D., 1944; Foreign Research Division, Federal Reserve Bank of New York, 1941–45; Chief of Division, 1946–51; assistant to the Secretary of the Treasury, 1958–59; member, President's Council of Economic Advisers, 1959–61.

Leon H. Keyserling, president, Conference of Economic Progress, 1954—

A.B. Columbia University, 1928; LL.B., Harvard University, 1931; legislative assistant to Senator Robert F. Wagner, 1933–37; Deputy Administrator, General Counsel, and Acting Administrator, U.S. Housing Authority and Federal Public Housing Authority, 1937–42; General Counsel, National Housing Agency, 1942–46; Vice Chairman, President's Council of Economic Advisers, 1946–50; Chairman, 1950–53.

Arthur F. Burns, president, National Bureau of Economic Research, Inc., 1957– ; professor of economics, Columbia University, 1941—

A.B. and A.M. Columbia University, 1925; Ph. D., 1934; faculty, Rutgers University, 1927–41; director of research, National Bureau of Economic Research, Inc., 1945–53; Chairman, President's Council of Economic Advisers, 1953–56.

Walter W. Heller, professor of economics, University of Minnesota, 1964—

A.B. Oberlin College, 1935; A.M. University of Wisconsin, 1938; Ph. D., 1941; fiscal economist, Department of the Treasury, 1942–46; consultant, 1946–53; faculty, University of Minnesota, 1946–50; professor of economics, 1950– ; chairman of the department, 1957–61; Chairman, President's Council of Economic Advisers, 1961–64.

Raymond J. Saulnier, professor of economics, Barnard College, Columbia University, 1949– ; director of financial research, National Bureau of Economic Research, Inc., 1946—

B.S. Middlebury College, 1929; M.A. Tufts College, 1931; Ph. D. Columbia University, 1938; faculty, Columbia University and Barnard College, 1934– ; special adviser, Board of Governors of the Federal Reserve System, 1950–52; consultant, President's Council of Economic Advisers, 1953–55; member, 1955; Chairman, 1956–61.

Kermit Gordon, vice president, The Brookings Institution, 1965—

A.B. Swarthmore College, 1938; Rhodes Scholar, Oxford University, 1938–39; postgraduate, Harvard University, 1940–41; Office of Price Administration, 1941–43; special assistant, Office of Economic Affairs, Department of State, 1943–45; faculty, Williams College, 1946–55; professor of economics, 1955–62; member, President's Council of Economic Advisers, 1961–62; Director, Bureau of the Budget, 1962–65.

Paul W. McCracken, professor of business conditions, School of Business Administration, University of Michigan, 1950—

A.B., William Penn College, 1937; A.M., Harvard University, 1942; Ph. D., 1948; financial economist and research director, Federal Reserve Bank of Minneapolis, 1943–48; faculty, University of Michigan, 1948–50; member, President's Council of Economic Advisers, 1956–59.

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Bertram M. Gross, professor of political science and director, national planning studies, the Maxwell Graduate School of Citizenship and Public Affairs, Syracuse University, 1960—

B.A., Pennsylvania State University, 1933; M.A., 1935; executive secretary, President's Council of Economic Advisers, 1946–51; chairman, National Capital Regional Planning Council, 1952–53; economic adviser, Office of the Prime Minister of Israel, 1953–55; Ministry of Finance, 1955–56; visiting professor of public and business administration, Hebrew University, 1956–60.

Gerhard Colm, chief economist, National Planning Association, 1952—

Dr. Rer. Pol. University of Freiburg, 1921; postgraduate. University of Berlin, 1921–23; statistician, German Federal Service, 1922–26; professor of economics and deputy director, Research Institute of World Economics, Keil University, 1927–32; professor of economics, New School for Social Research, 1933–39; fiscal adviser, Department of Commerce, 1939–40; fiscal analyst and Assistant Chief, Bureau of the Budget, 1940–46; senior economist, President's Council of Economic Advisers, 1946–52.

Neil H. Jacoby, dean, Graduate School of Business Administration, University of California at Los Angeles, 1948—

B.A., University of Saskatchewan, 1930; Ph. D., University of Chicago, 1938; officer, Department of Finance of Illinois, 1933–36; professor of finance and vice president, University of Chicago, 1938–48; member, President's Council of Economic Advisers, 1953–55.

John W. Lehman, regional director (Cleveland), Bureau of Labor Statistics, U.S. Department of Labor, 1962—

B.A., University of Wisconsin, 1932; M.A., 1933; assistant economist, Tennessee Valley Authority, 1935–40; economist, National Resources Planning Board, 1940–41; economist and Assistant Chief, Price Division, Bureau of Labor Statistics, 1942–47; Joint Economic Committee, 1947–62, serving as clerk, acting executive director, and deputy executive director.

James W. Knowles, executive director, Joint Economic Committee, 1963—

B.S.S., College of the City of New York, 1936; M.A., Columbia University, 1939; faculty, College of the City of New York, 1938–44; director of retail trade and price analysis, Econometric Institute, 1944–50; economist, Joint Economic Committee, 1950–63.

Gardner Ackley, Chairman, Council of Economic Advisers, 1964—

A.B., Western Michigan University, 1936; M.A., University of Michigan, 1937; Ph. D., 1940; instructor, Ohio State University, 1939–40; instructor, University of Michigan, 1940–61; professor of economics, 1952; chairman of the department, 1954; economist, Office of Price Administration, 1941–46; economic adviser and Assistant Director, Office of Price Stabilization, 1951–52; Fulbright research scholar, 1956–57; Ford Foundation faculty research fellow, 1961–62; member, President's Council of Economic Advisers, 1962–64.

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