

Approved
2/20/46

EXECUTIVE OFFICE OF THE PRESIDENT
BUREAU OF THE BUDGET
WASHINGTON, 25, D. C.

FEB 15 1946

My dear Mr. Latta:

On February 8, 1946, you advised this office that S. 380, "To declare a national policy on employment, production, and purchasing power, and for other purposes," had been received at the White House and requested reports and recommendations as to the approval of the bill.

The title of the bill indicates its general purpose. The bill corresponds in scope to the legislation recommended by the President as item No. 5 of his legislative program set forth in his message of September 6, 1945, and repeated in his message of January 14, 1946. While the language of the bill is not as forthright as the language of the original Senate version endorsed by the President, it is similar in substance. There is transmitted herewith an appraisal of the bill which explains in detail the main points in which it differs from the original Senate version.

A facsimile of the enrolled enactment has been referred to the Office of War Mobilization and Reconversion, and the Departments of State, Treasury, Labor, Agriculture, and Commerce. Each of these agencies has advised this office that it recommends approval, or interposes no objection to the approval, of the bill.

I recommend that the bill be approved.

I understand that the Secretary of the Treasury has submitted a proposed statement, a copy of which is attached. Although I agree that the issuance of a statement is desirable, I consider that certain aspects of the proposed statement may not be expedient. I have prepared a statement, which is attached, in which I have made some use of the draft of the Secretary of the Treasury.

I am also attaching a memorandum for the President in which I bring to his attention certain problems which I believe must be solved in the implementation of this legislation.

Mr. M. C. Latta,

The White House.

Very truly yours,

Dwight D. Davis
Director.

Enclosures:

- Letters from O.W.M.R. and Departments of State, Treasury, Labor, Agriculture and Commerce.
- Appraisal of S. 380.
- Proposed statement by Secretary of Treasury.
- Proposed Statement by Bureau of the Budget.
- Memorandum for the President.

February 13, 1946

APPRAISAL OF S. 380, "TO DECLARE A NATIONAL POLICY ON EMPLOYMENT,
PRODUCTION, AND PURCHASING POWER, AND FOR OTHER PURPOSES"
(The Employment Act of 1946)

The "Employment Act of 1946," now before the President, is similar in scope to the legislation recommended by the President as item No. 5 of his legislative program set forth in his message of September 6, 1945, and repeated in his message of January 14, 1946. Signature of this bill is recommended although its language is not as forthright as the language of the original Senate version endorsed by the President, and although it may create certain administrative difficulties.

This recommendation results from the following appraisal of the bill:

The bill declares a Federal policy with regard to employment, production, and purchasing power (Section 2); it provides for an Economic Report to the Congress by the President (Section 3); for a Council of Economic Advisers to the President (Section 4); and the establishment of a Joint Committee (of the House and Senate) on the Economic Report (Section 5).

The declaration of policy, while not as forceful as the language of the original Senate bill, is a great improvement over the version originally passed by the House. It does not contain the words "full employment" and avoids direct reference to government investment and expenditures as a supplement to private expenditures. The bill, however, does declare: "that it is the continuing policy and responsibility of the Federal Government . . . to coordinate and utilize all its plans, functions, and resources for the purpose of creating and maintaining . . . conditions under which there will be afforded useful employment opportunities, including self-employment, for those able, willing, and seeking work, and to promote maximum employment, production, and purchasing power." This declaration really contains what amounts to a definition of full employment opportunities, and also directs use of all resources of the Federal Government, which obviously includes tax policies and expenditure policies and all other devices in the tool chest of government.

The final version of the bill is preferable to the Senate version in that it omits the very involved proviso which required the President to submit tax programs designed to balance the budget over a number of years.

The provision that the President shall submit an Economic Report is for all practical purposes a workable equivalent of the provision for submission of a "National Production and Employment Budget" in the original Senate version. The requirements as to the contents of the Economic Report are much better than the requirements in the House bill and approximate closely those of the original Senate bill. The only difference is that the term "National Production and Employment Budget" has been replaced by "Economic Report" and that instead of quarterly reports the President may submit supplemental reports at his discretion. The latter modification is an improvement.

The provision creating the Joint Committee on the Economic Report to analyze the President's report to Congress contains certain improvements over both the Senate and House bills. It establishes a committee of seven members from the Senate and seven members from the House--an improvement over the 30-member provision in the Senate bill--and leaves appointments to the discretion of the President of the Senate and the Speaker of the House--an improvement over the House bill.

The part of the bill that calls for most careful consideration is Section 4 which creates in the Executive Office of the President, a Council of three economic advisers appointed by the President, with the advice and consent of the Senate, and receiving compensation at the rate of \$15,000 per year. The original Senate version left the administrative provisions for determination by the President. In this respect the Senate version would have been preferable. As a matter of fact, this provision may become a source of serious difficulties.

In the first place, there may be difficulties in the Executive-Legislative relationship. The three advisers must be confirmed by the Senate. Senate confirmation should not be required for advisers and assistants to the President. It is particularly unwise in cases where advisers have no direct statutory responsibility to discharge in relation to Congress, but have the sole function of aiding the President in the discharge of his duties. While this feature of the Act is a serious defect, it is not sufficient reason for withholding signature. Moreover, the House bill provided that Congress could request submission of the reports of the Council to the Joint Committee. This provision has been dropped in the final version, a considerable improvement.

In the second place, the establishment of the Council is based on the theory that policies designed to create and maintain maximum employment, production, and purchasing power can be separated from other aspects of the Federal Program, and that responsibility for advising the President on employment policies can be separated from responsibility for counseling him on other aspects of his economic and fiscal program. This again is a very serious defect of the bill. It probably can be obviated or mitigated, however, by presidential action, particularly by the selection of the presidential appointees and by staff arrangements within the Executive Office of the President.

In this connection the President may wish to give consideration to various problems involved in the implementation of the bill and operations thereunder, especially with respect to the function of the Council. These problems embrace:

- (a) The relationship of the Council to the Cabinet
- (b) The position of the Council in the Executive Office of the President
- (c) The relationship of the Council to the Office of War Mobilization and Reconversion

- (d) The relationship of the Council to various economic groups (farmers, labor, business, and consumers) and to State and local governments

The Council and the Cabinet

The functions of the Council are in addition to those of the Cabinet and are not in substitution for the Cabinet. The Council is evidently intended by Congress to devote its whole time to the preparation and formulation of advice without being hampered by the responsibilities for current operations that weigh heavily on all members of the Cabinet. The Council's task also differs from that of any single Cabinet member because the Council is concerned with economic policy clear across the board.

In developing its functions the Council will be concerned with the interrelations of many areas of policy which individual Cabinet departments regard as their special concern. The Council must consider questions of foreign economic policy, tax and credit policy, agricultural policy, etc. The Council must advise the President on all these policies in their relationship to a consistent national economic policy.

It may become necessary to develop channels through which policy recommendations of the various departments can be reviewed and appraised in the light of a consistent employment program similar to the procedure developed for the formulation of a consistent and integrated budget program.

The Council as part of the Executive Office

With the enactment of this bill, the permanent units of the Executive Office of the President will consist of the White House Office, the Bureau of the Budget, the Council of Economic Advisers, and the Liaison Office for Personnel Management.

In order to perform its functions the Bureau of the Budget has found it necessary to do exactly the kind of staff work the Council will be organized to carry on. The Bureau gathers economic information, makes analyses of the agency programs, examines legislative proposals and prepares recommendations to the President. The facilities of the Bureau have not been adequate for this job but have been steadily strengthened. It would be highly desirable if the Council's special facilities for economic analysis and the existing facilities in the Bureau of the Budget can be made to complement each other. The preparation of the President's Economic Report and the preparation of the President's Budget must obviously be closely interrelated operations. The same policy questions will arise in both cases. To achieve both economy and consistency of effort, it is essential that there be closest cooperation between the staffs of the Budget Bureau and the Council.

A successful employment policy requires not only the formulation of programs, but also a constant check-up on their execution. For this latter purpose, it would be well to rely on the reporting facilities in the Bureau of the Budget. It is my hope that the Council and the Bureau can work as a team in pursuing closely interrelated objectives.

The Council and the OWMR

Although the Office of War Mobilization and Reconversion is an action agency with its own statutory powers, it also has a special status as an economic agency advisory to the President. As such, there will be a considerable area of overlap between the OWMR and the Council of Economic Advisers.

Whether this will be a serious problem depends mainly on whether the OWMR is to be continued beyond the date on which its statutory powers expire, June 30, 1947. If it is to be assumed that the OWMR is to expire on that date, the Council can concern itself meanwhile with its initial studies, focussing on recommendations to be made early in 1947 for the program in the following fiscal year.

The Council and various economic groups and State and local governments

The bill authorizes the Council to establish advisory committees and to consult with representatives of industry, agriculture, labor, consumers, State and local governments, and other groups. Provision will have to be made either for advisory committees attached to the Council or for consultation through operating departments or, most likely, through both channels. This is probably one of the matters to which the Council will have to give early consideration.