

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

January 27, 1963

MEMORANDUM FOR THE PRESIDENT

Subject: Bill Martin

If there's still room for maneuver with Bill Martin, here are three points worth making with him:

1. That he should embrace the basic Presidential strategy for economic expansion, particularly as reflected in your tax program. (His JEC testimony Friday is a good place to start.) This strategy has three parts:
 - a. Expand demand, markets for both consumer and investment goods -- at the Business Council, Martin spoke disparagingly of the "New Frontier economics" of purchasing power, etc., according to both Kermit Gordon and Elmer Staats. Each concluded, independently, that Martin hurt more than helped the cause of tax reduction there. (Doug Dillon has already opened this subject with Martin.)
 - b. Expand incentives for risk-taking and effort -- Martin's all for this.
 - c. Use monetary policy, as needed, for balance-of-payments or price stability reasons, but don't offset the expansionary effect of tax cuts. Your Economic Club speech gave Martin lots of aid and comfort on the first part of this, perhaps not enough emphasis on the second. He's done pretty well so far, but may need some stiffening at this point.

2. Monetary policy coordination: Martin should consult with the President and/or his major economic policy advisers before making significant policy changes -- he does a good deal of this now with Treasury, but use of our "Quadriad" group for such coordination would be appropriate.
3. Class C directors: Martin should use his influence to achieve some leavening of the boards of directors of the 12 Federal Reserve Banks by at least occasional appointment of New Frontier types to "Class C" directorships -- e. g., a Jim Tobin or Bob Solow at the Boston Fed. One liberal or moderate intellectual on each 9-man board really shouldn't threaten the foundations of the Federal Reserve System.

When you do re-appoint Martin, we'll all need a stout defense against his easy-money critics. The attached summary (prepared by a CEA staff member to arm me for tomorrow's tilting with Douglas, Patman, Proxmire, and Reuss) may be useful in that connection.

Walter W. Heller