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THE FORMULATION OF NATIONAL ECONOMIC POLICY

Dr. Carl Kaysen

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INDUSTRIAL COLLEGE OF THE ARMED FORCES
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THE FORMULATION OF NATIONAL ECONOMIC POLICY

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GENERAL STOUGHTON: Gentlemen: Our speaker today, Dr. Carl Kaysen, has such a renowned reputation as a nationally known economist that further elaboration from me is hardly necessary.

Of course I could make one of the current quips about the high truancy rate of Harvard Professors, but I think that has been kind of overdone.

But seriously, we are very happy that Dr. Kaysen would come back to Washington at least long enough to come to talk to us national economic policy.

Dr. Kaysen, it is a pleasure to welcome you to the Industrial College.

Gentlemen, Dr. Kaysen.

DR. KAYSEN: Thank you, General Stoughton. Gentlemen: I want to talk to you this morning about The Formulation and Coordination of National Economic Policy.

In thinking about this subject and talking about it, we are really going to be paying attention more to the facts of politics and the concepts of political science than to the substance of economics itself. We are really going to be looking at the question: How do we use the political machinery to put economic ideas to work? I think perhaps the first important observation to make is that the "we" in that sentence has a very wide reference. One thing to bear in mind as I go over some of the institutional and organizational arrangements of the question is just who we are in particular circumstances who are making use of the machinery.

Now, we also have to observe that we are talking about economic policy in peacetime, in the context of a decentralized substantially private enterprise economy, one in which the ruling principle of organization is that, wherever there is not some very strong and clear reason otherwise, economic decisions ought to be made through the market mechanism, and they ought to reflect the individual decisions of households and business firms. So that the Government in national economic policy, government policy, comes in only as a guide, a correcter, a supplement to the workings of private economic policy, if you will, in those cases in which there is some clear reason for it.

This is important to remember. The fact represents a strong political preference for, on the whole, less rather than more government in economic activity, other things being equal. This is not to say, of course, that when a strong, clear reason exists for government activity there won't be government activity, but just that the preference runs the other way.

Further, I think it is necessary to observe that even government in our society is relatively decentralized. We have to remember, for example, that the civilian expenditures of the Federal Government, the expenditures on everything but defense and atomic energy and intelligence, are only about half the expenditures of State and local governments. So that, when we speak of government economic policy, national government economic policy, we are speaking again of a small sector of the total government economic policy. This again is an important difference.

If we look at this in a comparative perspective in relation to other countries--France, for example, or England--where there is much more central control over spending on what we consider to be objectives of local and State governments--schools, highways, hospitals, and the like--this sets a constraint on what is done nationally and limits the range of national activity.

Now, within that context, we can mention perhaps four very broad classes of economic policy which have rather different kinds of machinery for dealing with them. The first, about which Dr. Poppe I know was talking this morning, is stabilization policy, policy aimed at promoting, in the language of the statute, maximum employment and production, with some attention paid, although not enshrined in statutory language, to the goal of price stability as well. Here we are talking mainly about fiscal and monetary policy, although there are other kinds of policy that are relevant, as well.

Second, there is income redistribution policy, various kinds of government activity whose purpose is to see that people get more in some cases and less in other cases than they earn by the operations of the market. The most important kind of income redistribution policy, of course, is taxation, but there are others--the social security system, the agricultural price-support system, in part, although it it can be viewed as having other functions as well, the system of assistance to veterans, and some more restricted, specialized income redistribution policies--dependent children, mothers, and so on.

The third class of policies, which are perhaps the most diverse and the hardest to bring together in any single conspectus, are the policies that have to do with resource allocation and market functioning, policies which are designed to make individual markets function better. Some of these policies have a range over the whole economy. For instance, when the Labor Department sponsors a retraining program and we spend Federal funds on retraining, or when we operate a U. S. employment service, we are trying to make the labor market function better. We are trying to enable people to move from one job to another job and from one kind of job to another kind of job more readily. To the extent that we succeed in doing this, we can utilize our labor force more efficiently. To the extent that we succeed in doing this, the target figure we might set for unemployment, which you discussed this morning, could be lower.

Now, other kinds of resource allocation policy look at particular markets, the regulation of pipelines in the oil and gas industry, the regulation of the electric power industry, the airlines industry, and the like. Still other kinds of regulatory policy cover the economy in principal, although they operate in practice on a case-by-case basis, such as the anti-trust policy or the regulatory activity of the Federal Trade Commission.

The fourth general kind of policy, which is becoming increasingly important, is national policy to promote economic growth. Here again there are some activities which are aimed at the economy in aggregate, and we can talk here about the stimulation of research and development activity, for example. We can talk here again about certain features of tax policy--the question of the bearings of the structure of taxes on investment incentives, for example.

Other kinds of growth-promoting policies are particular and relate to given industries. For example, we have policies in many of the transportation industries, by which Federal money provides for more and better service than probably would be provided for without government money. The FAA constructs airports, operates an airways communication system, and provides other services to the air-transport industry which in total are designed to promote the growth of that industry. We could easily think of other examples of policies directed toward the promotion of the growth of particular industries. We might, for example, look at percentage depletion in the taxation of income from mineral-producing industries. This is viewed by some as growth promoting and by others as an unnecessary redistribution of income. It's an arguable subject, but certainly the professed intention of Congress in enacting this particular feature of the income-taxation structure was to promote the growth of production in the mineral industry.

Now, if we look at this large variety of policies which we have categorized in four general types, the most important single thing we can say about national economic policy in time of peace, in ordinary times--and here I include the present kind of cold-war activity as peacetime, because I think rightly we have come to think of this as normal, we have come to think of a situation in which we will have large security in international expenditures by the Federal Government as the at least--I won't say permanent--prospective feature of our national economy for as far ahead as seems reasonable to look at the moment--is that there is no general coordinating machinery. There is no economic equivalent of the National Security Council. As you know, it is the purpose of the National Security Council to coordinate all our policies in the security field, whether they be military policies, diplomatic policies, intelligence policies, information policies, and the like. This is a new idea. It's an idea that was created out of the problem of World War II and the sequence problems of the cold war.

We don't have a similar economic NSC, so to speak, which coordinates at the highest level of national government all economic policies. I think it is worth a little time to ask why not. The most important coordinating mechanism in national economic policy is that set up to give effect to the Full Employment Act. The Full Employment Act declared as an instrument of national policy the goal of maximum employment and production. It created, to assist in implementing this policy, a Council of Economic Advisers with the statutory duty of making a report to the President which the President in turn transmitted to the Congress and the public. It also created a joint committee of the Senate and the House which, so to speak, received and commented upon this report.

But the Council itself has no executive powers. It doesn't operate anything. It is an advisory, staff mechanism. The main functions of the Council fall within the field of stabilization policy. If you look at a typical annual report you will see that the Council comments on other aspects of government policy, but its main thrust, its main target is stabilization policy.

Why is this? I think the answer is not only because of the statutory declaration in the Employment Act of 1946 but also because this is the field in which the powers of the Executive are relatively the greatest. I emphasize "relatively the greatest." By some absolute standard of what powers an economist might like to have if he wished to fulfill his dreams of running the economy as he thought it should be run, the powers of the Executive Branch are limited in many important ways, which I'll come to in more detail in a moment.

But, if we look at the powers of the Executive Branch with respect to stabilization policy, they are much greater than the powers of the Executive Branch with respect to other kinds of policy---income redistribution, resource allocation, and the promotion of economic growth.

The reason for this is that, partly out of tradition, partly out of constitutional background in which the power of the Congress to regulate the value of money has been delegated to executive and quasi-executive agencies more fully than most other powers they have delegated to the Executive, there is an area of freedom of action by executive decision in stabilization policies.

If we look, for instance, at income redistribution policy, you will remember that a major instrument of income redistribution policy is taxation. The revenue-raising power of the Legislature, which the Legislature rightly views as the foundation stone of legislative power and the essential political principle of democracy that only the Legislature can levy taxes and only the Legislature can ultimately decide how money is to be spent, is just not delegated at all to the Executive in our system of government.

So that the executive ability to move directly on income distribution, as opposed to moving by proposing to the Congress legislation, is very low indeed.

If we look at resource-allocation policy we find that this set of policies has been disbursed among a large number of agencies and that in some cases these agencies have been given overlapping jurisdictions. For example, if you look at who has the jurisdiction over bank mergers, you will find that the Comptroller of the Currency has jurisdiction, the Federal Trade Commission has jurisdiction, and the Antitrust Division of the Department of Justice has jurisdiction. In addition to these overlapping jurisdictions, there are often divergent--I won't say conflicting, but divergent--statutory purposes. So, to stick with the example of bank mergers, the criteria which are given to the Comptroller of the Currency for passing on bank mergers by statute are somewhat different than the criteria given by other statutes to the Federal Trade Commission or to the Department of Justice for passing on mergers in general, which include bank mergers.

The result of this is that, in the area of regulatory policy, and resource-allocation policy in general, there is little central purpose. One reason for this is that much of regulatory policy reflects legislation that has been enacted in response to particular problems in particular industries.

The Congress, when it enacts legislation dealing with the problem of Industry A, tends to focus on Industry A. It tends to listen in its committee processes and other legislative processes to those concerned with Industry A. When it enacts at another time and under different circumstances legislation relative to Industry B, a different set of concerns comes into focus. And the problem of getting consistency and centrality of purpose in a large variety of regulatory statutes passed under different pressures in different situations, in answer to different needs at different times, is one which the design of our political structure does not lend itself to very well.

Let me inject here that I am not passing judgment, I am not trying to suggest that this is bad. It is obvious that, if the highest value is consistent economic policy in the regulatory field, this is bad.

But it is not at all obvious that the highest value is consistent economic policy in the regulatory field. There are other values involved, including important political values. And what I am saying is that a system which is designed primarily to serve these other values doesn't serve very well the value of consistency in economic regulation in this area.

Now let's turn for a minute from these general remarks to the more specific question of how we do secure the degree of coordination we have in the major areas of policy. I remind you that the area in which we have both statutory provision for and polital machinery for achieving the highest degree of coordination is the area of stabilization of fiscal and monetary policy.

One reason for this is that this is the area of widest interest and greatest importance. It is much more of a problem to the Nation as a whole if we have serious unemployment or serious inflation in general, if--to use the economic lingo--we are out of equilibrium in the aggregate in a serious way. This is a much more important problem than if we are out of equilibrium in a serious way in some particular industry, even though that particular industry is an important one.

The nature of our political system, the geographic structure of legislative representation, the close orientation of the legislator, and especially the members of the House of Representatives, to the interests of their particular constituents assure that attention will be paid to the particular problems of particular industries when they hit hard in a specific area. It doesn't however, assure that any coordinated attention will be given to these problems.

The contrast one can have in mind, the political contrast, in looking at this kind of problem is the way a parliamentary system works, let's say, in England. Here the particular legislator is only moderately strongly oriented to the problems of his constituency. He has to be elected by his constitituency, but he has to be selected by the central committee of his party, and his job and his tenure are as dependent on the Cabinet and the Prime Minister as they are on the constituents. Every President knows that the number of Congressmen or Senators whose jobs he can significantly affect is vanishingly small. The history of Executive "purges" of the Legislature in the United States is not a fortunate one.

Given the political situation and the structural situation in parliamentary governmental systems, it is much more possible for the Executive to be coordinated about many more kinds of economic policy. So it is for this reason that in the political setting it is worth while singling out stabilization policy, and it's also for the reason of its general importance..

I indicated to you that the Council of Economic Advisers is a staff agency which plays a very important role in this policy process. The operating agencies, however, are the Treasury and, even though it is technically a staff agency and not an operating agency, the Bureau of the Budget, and the Federal Reserve Board. Now, of course, the Federal Reserve Board is not a part of the Executive Branch, strictly speaking. It's an independent body. It's not proper for the President to give orders to the Chairman of the Board of Governors, in the sense that it is proper for the President to give orders to the Secretary of the Treasury or the Director of the Budget or the Chairman of Economic Advisers. On the other hand, the practice is that the Federal Reserve Board works very closely with the other agencies concerned.

Now, in addition to the Executive Branch actors there are the Congressional actors, the committees of the two Houses and the Houses themselves, and here again one should contrast the Joint Economic Committee which, in a certain sense, is a staff committee with the operating committees, which are the Committees on Finance and the Appropriations Committees of the two Houses. They are the ones who do the initial business is levying the taxes and setting the expenditures.

Finally, of course, we have outside the Government the public, the households, the business firms, the labor unions, and the other organized and unorganized groups.

Now, if we contrast the two traditional instruments of stabilization policy, monetary policy and fiscal policy, in terms of the scheme I sketch, we see that monetary policy is almost entirely within the control of the Executive and the Federal Reserve System. I observed before that Congress had made an unusual delegation to these two agencies.

Now, it is true that there has been a discussion, which got very active about 10 years ago, about the so-called independence of the Federal Reserve System. I think in substance this discussion, although it had the form of a discussion of independence, wasn't really a discussion of independence. It was a discussion of which set of policy views should prevail, because the actions of the Treasury and the actions of the Federal Reserve System in monetary policy are so intimately related that it doesn't make sense to talk of the independence of the Federal Reserve System. I think that the famous discussion that ended up in 1951 was really a discussion of which set of views should prevail, the then prevalent soft money, easy money, low interest rate views of the Treasury or the Federal Reserve views which suggested at that time that there should be somewhat tighter money. In effect, at the end of this particular controversy, the Federal Reserve view prevailed.

The instruments, which I think you are aware of, in monetary policy are the Federal Reserve mechanism for making credit easier or tighter, their control over rediscount rates, which they don't change very often, their control over reserve requirements, which they change even less often, their open-market operations, by which they buy securities to put a larger supply of money in the hands of the public or sell securities to contract the money supply in the hands of the public.

Now, this is an operation which moves from day to day. I think you are all aware of the machinery of the Open Market Committee which meets once a week within the Federal Reserve System to discuss the week's security operations--how much should be bought, if we are in a buying mood, or sold if we are in a selling mood, and what kinds of securities should be sold.

On the Treasury side what the Treasury does is manage the Federal debt. The debt is big. It consists of a wide spectrum of assets. Some debt is always falling due. The Treasury's policy in refunding the debt and turning it over, whether it is selling longer maturities or shorter maturities, and what its initial offer prices are ~~all~~ tie in with the Reserve Board's policy in determining the interrelated variables of money supply and interest rates. It is for this reason that I say that the theoretical independence of the Federal Reserve and the Executive Branch has as its practical significance an assurance that the Federal Reserve views will be heard but not the aim of allowing the Federal Reserve and the Treasury to pursue separate policies. This would make no sense.

As a matter of practice in this Administration--and I understand this a new step in coordination over the practice immediately after the war, although I am not clear whether it developed earlier than 1960 or not--there is a regular consultation between the two operating agents involved, the Treasury and the Federal Reserve Board, and the two staff agencies involved, the Chairman of the Council of Economic Advisers and the Director of the Bureau of the Budget, on monetary policy. This has customarily taken place on the order of once a month.

This is different from the day-to-day contact which is necessary between the Treasury and the Federal Reserve Board, since both of them, day to day, are operating in the money market.

Now, if we talk about fiscal policy rather than monetary policy, the other half of the classic set of instruments, we observe, of course, that the Executive Branch is much less powerful in this respect, and that the basic power lies in the Congress. Taxes are determined by the Congress. The Legislative disposes; the Executive can only propose. Expenditures are determined by the Congress, that is, appropriations are determined by the Congress.

None the less there is still an important role for coordination within the Executive Branch. In the first place, there is the question of forecasting the level of anticipated national income on the basis of which both revenue and expenditure forecasts are made. If you are proposing fiscal policy, that is, shaping the expenditures in taxes with a view to affecting the level of aggregate economic activity, the first need is to get some agreement on the estimate of what the expected level of economic activity will be in the forthcoming period. There is a coordination machinery within the Government which was created shortly after the Employment Act was passed, whereby the Treasury, the Council of Economic Advisers, and the Budget Bureau get, each quarter, agreed forecasts for the next several quarters ahead.

It is on the basis of these agreed forecasts of revenue, national income, and expenditures that the tax and budget proposals of the Administration are made each year to the Congress. But, because of the great lag between both the tax proposals and the tax enactments and the budget proposals and appropriations, these instruments of fiscal policy are not delicate instruments. They are not ones that can be varied continuously and quickly in response to changing situations.

Only the monetary policy instruments are quickly flexible. But there is some limit within which the Executive can independently operate on fiscal policy, and this is the limit of rate of expenditure within given appropriations, so that the President can direct that expenditures under existing commitments be speeded up, or that expenditures under existing commitments be slowed down. In times of impending inflation the Government has slowed down the rate of expenditure; in periods when recession threatened the Government has speeded up the rate of expenditure, but this, of course, is within the ceiling set by existing appropriations.

Now, there gave been efforts to give the Executive somewhat more flexibility in fiscal policy. President Kennedy proposed in the first session of Congress a so-called automatic tax authority whereby the President, by proclamation, would have the authority to vary over a period of time the whole income-tax structure--not change the relative rates but essentially move taxes up five points or move taxes down five points, depending on fluctuations in employment. This proposal was met with a very cool reception indeed in the Congress.

Here I think you meet with a very important conflict between two sets of objectives. From a purely economic point of view, I think, you could get a consensus that it is desirable to have this kind of fiscal flexibility if you want to achieve stabilization goals. If we look at the difference between, again, what happens in the parliamentary system and what jappens in our system, we see that in the parliamentary system the

British Chancellor of the Exchequer comes in with his budget knowing that the House of Commons will pass the budget as he proposed it, and he can change taxes quite radically, too, each year. So that, for instance, in those frequent periods in which the United Kingdom has been faced with an inflationary situation and a balance-of-payments problem, the Chancellor comes in with a heavy new set of consumer taxes. A year later he removes them. This is something we can't do.

The reason we can't do it is not because we are stupid and people don't understand stabilization. It's because there are conflicting values, and the conflict here is the question of Congressional control of expenditures and the very jealous balance of power between the Congressional and the Presidential branches of the Government.

Now, I don't say that the President's decision is the wise one or the right one, but merely that it is not a conflict between knowledge and ignorance; it's a conflict of some substance which has economic and political dimensions.

On the less day-to-day basis, the annual report of the Council of Economic Advisers to the President and the President's economic report, which is usually a short commentary on the longer report of the Council--both of which are transmitted to the Joint Economic Committee and then made public--are the major instruments for coordinating and expressing coordinated policies in a broad framework for the year ahead. Here again, although these reports typically deal with a broad range of policies, their important focus in on monetary and fiscal policies, because these are the most important policies politically and in some sense economically, and also because they are the ones most within the power of the Executive.

Now, in the last few years since 1958 our stabilization policies, fiscal and monetary policies, have been complicated by a new dimension, that is, the international dimension. Although the United States had technically been running a balance-of-payments deficit for some time before 1958, we did not worry about that balance-of-payments deficit; in fact, we created it. It was an object of our international economic policy in the period after the war to get some of the large accumulation of gold we had in the United States out of our hands and to build up the reserves of the European countries. We succeeded in this object and perhaps we succeeded a little too well. Since 1958 we have felt concern about the deficit in the balance of payments, connected with our concern about the movement of gold from our monetary reserves to the monetary reserves of especially the European countries--France, until very recently Italy, Germany, Belgium, to a lesser extent Holland, Austria, and Spain.

In this Administration the problem has been viewed as especially serious and steps have been taken to create some extra coordinating machinery to deal particularly with the impact of policy decisions throughout the Government on the balance of payments.

Here you have, too, a double aspect. One is that monetary and fiscal policy decisions, as well as having an impact on the domestic economy, may have an impact on our international accounts. Sometimes the goals in the two sectors are somewhat conflicting. From the point of view of domestic policy, in a situation of slack employment, we would like to have low interest rates. From the point of view of international policy, in a period in which we are interested in stopping the loss of reserves, we would like to have higher interest rates than our principal trading partners in order to attract short-term balances of liquid capital to the United States rather than send it out to European holders.

What we have tried to do is a matter of compromise between these two conflicting aims---- to serve them both in the best combination-- to get short-term rates up a little on the grounds that it is short-term balances, bank balances, which are most mobile between one country and another, while holding long-term rates down. We are trying to perform the twist on interest rates.

The other aspect of this is that the Government itself, in the military and foreign-aid accounts, especially, is a major spender abroad, so that here government policy works directly on government accounts rather than indirectly through interest rates or taxes or the budget, to influence the spending, saving, exporting and importing behavior of the private units in the economy.

Now, I think a word ought to be said about the special role of the Joint Economic Committee in this process of coordination. The Joint Economic Committee is an unusual standing committee of the Congress in two respects. It is a joint committee, one of a few. It is also, however, a nonoperational committee, in the sense that it has no jurisdiction over legislation. No legislation originates from the Joint Economic Committee. The relevant economic legislation originates in the other standing committees of the two Houses, as I said, the Ways and Means Committee of the House and the Finance Committee of the Senate for taxation, the Appropriations Committees for the budget, the Commerce Committee of the Senate and the Ways and Means Committee of the House for trade legislation, the Currency and Banking Committee, for matters of international transactions, legislation, for instance, that would affect our participation in the International Monetary Fund or change the terms on which we participated, or matters of this sort.

So that the joint committee can be viewed in a sense as parallel to the Council of Economic Advisers. It is a staff committee. Its function is to inform the Congress and the public rather than to act in a legislative way. As such I think it has had a very interesting history. From the point of view of the economics profession, two judgments, I think, can be made, and I think that perhaps these judgments could be made from a wider point of view: (1) It has had a very high level of staff competence. (2) It has had a very high level of Congressional interest and participation and continuity on a bipartisan basis. That is, the character, interest, et cetera, of the joint committee have not shifted radically when the majority in the Congress has shifted from Republican to Democratic and Democratic to Republican.

I don't mean to suggest that there are not significant party differences about economic policy. I am well aware that there are. I am
there
suggesting that/has been enough of a range of consensus so that this committee has not become merely a battleground for party argument but has continued to perform this interesting and rather unusual staff function,

unusual in terms of the ordinary structure of Congressional committees, over the whole period since the legislation was enacted.

When we talk about stabilization policy we talk about fiscal and monetary policy. In recent years we have ventured some new experiments in stabilization policy. I think the most interesting of these is the wage-price guidelines of the Council of Economic Advisers and the attempt to use the Labor-Management Advisory Committee as an instrument of persuasion and suasion to give effect to the wage-price guidelines.

Here again the balance-of-payments situation in which the United States has found itself for the last 5 or 6 years has been a very important factor in creating the need or the recognition of the need for wage-price guidelines.

The problem here is the extent to which autonomous movements of wages and prices not originating in excess aggregate demand are pushing prices up even though there are still significant unemployed resources in the economy. As I say, this problem gets especially sharp in a situation in which our international competitive position is important, in which we wish to increase our export capacity, which means maintaining our competitive position, especially our competitive price levels, in relation to the European industrial countries who are our international competitors.

In 1961, in the first report of the Council, there was a suggestion made, directed at both unions and management, about noninflationary wage policies and noninflationary price policies. The President created an advisory committee, the chairmanship of which is rotated among the members of the Cabinet. This is called the Labor-Management Advisory Committee, and it contains the members of the Cabinet from the economic departments--the Secretary of Commerce, the Secretary of Labor, the Secretary of the Treasury, as well as the Director of the Budget and the Chairman of the Council of Economic Advisers. It contains a representative selection of bueinsssmen and a representative selection of union leaders, and, as I say, this committee has been used, if you will, as a propaganda device, or, if you will, as an educational device, to try to get a consensus with an adherence to the wage-price guidelines.

Now, if we move from the field of stabilization policy to the other fields of policy that I mentioned earlier--income redistribution, resource-allocation, and the promotion of growth--we find no correspondingly well articulated and powerful machinery of coordination in the Executive Branch. Again I emphasize that in part this is because the powers of the Executive Branch in these spheres are relatively weak. There isn't much value in working hard to coordinate what you can't do.

On the other hand, I don't want to leave the impression that these policies are strictly ad hoc, without any coordination at all. In the first place, I think the Bureau of the Budget has a very important role as a general coordinator of policy in this respect. Let me give you one example of how this works. If you look at transportation as an example, there are at least three government agencies with major regulatory powers in the transportation field--the Interstate Commerce Commission, the

Maritime Commission, and the Civil Aeronautics Board. In addition there are two agencies, or one agency ... and one department, which have major promotional responsibilities in the transportation field--the Commerce Department and the Federal Aviation Administration.

How do you put together the viewpoint, interest, and concern of these five agencies? Well, their jurisdictions and their concerns and their problems overlap in a variety of ways, and they have a variety of day-to-day operating contacts to manage these. But every once in a while some effort is made in this connection, as, for instance, a year ago, when the President sent to Congress a transportation message proposing a variety of measures in different fields of transportation. In the formulation of such a message the Budget Bureau will typically play an important coordinating role in weeding the discussion and trying to achieve the maximum possible agreement and recommending decisions where there is disagreement in this field.

Another ad hoc example which is worth thinking about is the decision the Administration recently made to support the development of a supersonic transport. This is a major decision in money terms. It is a decision which under our categorization would come under the heading of economic growth. A great number of different agencies of the Government are interested in this. In this particular case it was the Space Council, of which the Vice President sits as Chairman, which was used as the coordinating mechanism to get the views of the interested agencies. Here you had a problem, obviously, which affected the FAA and the CAB, the Space Agency, and the Defense Department. Because it promised to be a major balance-of-payments item it affected the Treasury Department. It affected the State Department because its most important application would be in international air transportation. So here you had ad hoc policy coordination through the machinery of the Space Council.

I think I want to close by observing two parts of the subject, and to make the point that the problems of regulatory policy, the problems which I classified under the heading of resource allocation, are from the point of view of neatness and logic the messiest problems. I gave you the example of the potential conflicts of jurisdiction in bank mergers. You can find other examples of potential conflicts in jurisdiction between each and all of the regulatory commissions on the one hand and the two agencies charged with the general policing of competition--the Antitrust Division of the Department of Justice and the Federal Trade Commission. So almost every industry which is regulated by a particular commission also has to deal with these general supervisory bodies.

Now, I would like to suggest to you the somewhat negative conclusion that we cannot expect an evolution of regulatory policy to a higher degree of consistency and coordination, although, again, the logical economist would probably like to see this happen. I think the reason for it is that regulatory policy does serve genuinely conflicting purposes, and different statutes are enacted with different ends in view. Essentially you can say that Congress does not itself wish to make a final determination of what weight should be given to these not completely consistent purposes, and therefore it creates two bodies and lets the weight be determined by the process of regulation, if you will. If you wish to put it more sharply, you can say it lets the weight be determined by the struggle between the bodies.

So there are some times, let's say, when the regulatory commissions are on top, and there are some times when the Antitrust Division and the Federal Trade Commission are on top--sometimes when we encourage mergers and consolidations, sometimes when we discourage them.

This leads me to a general comment on the prospects for more coordination. In a comparative perspective, if we look at the major industrial countries, only Germany shows as weak or limited or restrained a machinery, depending on your prejudices--you can choose your adjectives--for economic policy and economic coordination as the United States. In the UK, as I have indicated, it is much stronger. In France it is even stronger than that. It is typical in France for the government to discuss with individual industries their investment goals and matters of this sort--what the French call indicative planning on a rather large scale.

If you ask, "What are the prospects for our having a more powerful coordinating machinery and a more unified economic policy covering a broader range of the possible range of economic policies?" I would suggest that, as long as the economy performs reasonably well, we probably will not advance toward a higher degree of coordination, that in general the basic political rule of no more government in these matters than is necessary means that, only under the pressure of some sense of crisis, some really pressing problem, do we move forward in this respect.

Now, this may be too skeptical a view. It may be that I am assigning too little to education, to the evolution of public thought, on the desirability of rational economic policy as such. Perhaps I am too close to my several years of Washington experience to have a proper view of the power of thought at the moment, but my present conclusion would be that any evolution toward an increasingly systematic, a more widely ranging, and a more powerful set of instruments of economic policy in the United States will be a very slow one, at no faster a pace than we have observed in the past.

Thank you.

COLONEL VAUGHT: Gentlemen, Dr. Kaysen is ready for your questions.

QUESTION: Would you care to comment in reference to the fact that you were using exhortations to obtain certain waves of price stabilization by your advisory committee? Would you care to comment on the use of the club in the back room for antitrust legislation?

DR. KAYSEN: I think that the thing to which you refer was the Grand Jury investigations in New York, which is a fairly standard operation, looking at things which appear, at least at first look, to be in violation of the antitrust laws. I don't think there is any connection.

QUESTION: Doctor, are there any major differences of opinion between the staff of the Joint Economic Committee and the Council of Economic

Advisers?

DR. KAYSEN: I don't think there are any major differences in the sense of permanent differences in point of view. There is generally a fairly, you know, good working relation. There have been issues on which there have been different opinions. I'll give you an example. In the Joint Economic Committee, certainly some of its members--Senator Doublas and Congressman Rice in particular--have been more skeptical about the advantages of the Trade Expansion Act than the Council of Economic Advisers and the Government in general.

That's an example which comes to mind. I think almost every important economic issue is sufficiently complicated so that it would be surprising if everybody always agreed. So I think there are frequently differences of judgment and evaluation. But, if I catch the drift of your question, I think it is fair to say that there are no systematic differences where you can say, "These fellows are always on one side of the issue and those fellows are always on the other side."

QUESTION: Doctor, we have heard many differences of opinion as to whether or not we should balance our budget. Will you give us your opinion?

DR. KAYSEN: I'll be glad to. I think that, from the point of view of sensible economic policy, we shouldn't try to balance our budget in any particular year. I would judge that there is probably virtue in saying that we should set our tax and revenue policies in such a way as to balance our budget at full employment, recognizing the difficulties of defining full employment, which Dr. Poppe talked about this morning.

On this I'd like to mention one particular point. The particular accounts we use and that are public, the so-called administrative budget, are really a bad set of accounts to use. If we were to promote a more rational and more informed discussion, we should use either the cash budget, which shows the actual flow in and out of the coffers of the Government in cash, or we should use the national income budget, which shows how much the Government is buying from or selling to the rest of the economy. The administrative budget is a mixture of cash transactions and bookkeeping transactions, and it is quite an arbitrary mixture that is determined by the course of legislative history on how particular things are treated, in the budget--social security, trust funds, and other trust funds, and the assets of various financial corporations, like Fannie May, FHA, and so on--instead of being determined on some consistent, rational basis.

But here again we have the problem of tradition versus reason. They don't always come out on the side of reason.

QUESTION: We have heard a wide range of views from this platform on the balance of payments. I wonder if you will tell us how you view this alarming state of affairs.

DR. KAYSEN: Well, I notice, I think, that you are going to hear very shortly from Under Secretary Roosa, the Under Secretary of the Treasury, who, more than any other single man in the Government, has this problem right here, living with it day and night, and I think I'll let you hear how he views it with alarm. I would say that it is a serious but not desperate problem. It's a serious problem and we are making progress in dealing with it.

QUESTION: Doctor, you spoke about a balanced budget from the standpoint of one year to the next. What about in the overall long-haul period with respect to the total national debt? Do you think we should have an objective on an absolute basis to whittle it down or to keep it about the same as the gross national product, or what?

DR. KAYSEN: Well, I don't think it is a matter of primary importance. If we had as an objective whittling it down, we would get into some kind of trouble, because public debt is private assets. You know, for the national debt, the securities or the assets of a good many financial institutions are a particularly useful kind of assets to have. If we whittled this down we would probably find ourselves pushed to create some other kinds of assets for them to hold.

Let me put it this way. There is no reason to worry about the national debt as long as it is not growing rapidly in relation to the gross national product. I think that it isn't sensible to pick that as a target variable. You ought to pick other things as the target variable and then say, "Well, how is the national debt behaving? Is it within this reasonable range? O.K."

Now, you are aware, of course, that since about 1937 the national debt has been declining as a share of the gross national product. So there is concern which the national debt might properly evoke, which is one that is internally held, and that is that we are spending an awful large share of our fiscal machinery to take some interest out of some people's pockets and put it into other people's pockets. This is a problem. This is not serious concern as long as this thing stays proportionate or less proportionate.

QUESTION: Dr. Kaysen, you mentioned that France is a country that has more central economic coordination, and yet apparently at the moment France is having her problems. Can you give us a better understanding of the economic forces at work in France and what if anything we could learn from them?

DR. KAYSEN: Well, this is a very complicated question and I am not going to do justice to it in a very short answer. I think it is true that the French are having some inflation problems and some agricultural problems. On the other hand, when we look at French economic performance over the last 6 or 7 years, it has been terrific--a very high rate of growth and a very large balance-of-payments surplus, if you like that kind of thing, and a big accumulation of gold reserves.

In part the French have had the same stimulus of growth that the other continental European countries have had. They suffered a lot of destruction during the war so this was a reinvestment period. In part they have had the stimulus of income rising to the level that the United States experienced some years before, in the late twenties, to the level where the ordinary worker started to have a car and a refrigerator and a lot of other durable goods, and this gave a big impulse to the economy. Then they had a kind of catching-up process in technology, and all that.

If you talk about the relation of this to planning, you have to start with the proposition that the whole French political spirit, the way business is done, is quite different from ours. There is more centralized government. I am sure you have heard that the inspector of schools in Paris can look at his watch and say that at this moment in every school in France every child in the fourth grade is now reciting the following sentence. We just don't do business that way. It doesn't occur to us to ask the question, "Is this a more efficient school system?" We aren't interested in that question. We just think that the spirit of a diffuse and decentralized organization has got something to recommend it.

Now, my point here is that in our industrial life we place a large and we think a correct emphasis on competition, on people doing things for themselves, of rivalry, and so on. The French method of planning involves a considerable diminution of competition, because the businessmen do get together in this planning process. We don't think that is the way to do things.

My point is that the differences are so wide-ranging that it would be difficult to make a judgment simply on economic grounds. The judgment extends over into the political and the social areas. One perhaps ends up with a not very illuminating conclusion that Frenchmen are

Frenchmen and we are not.

QUESTION: Sir, would you comment onthe proposal that labor unions should be brought under antitrust legislation?

DR. KAYSEN: I am glad to say something about this. This happens to be a field in which I have done some work. I think this proposal really arises from a misconception of what the problem is. There is a problem about union power in relation to the context of economic stabilization, about the power to raise wages autonomously. But, if you look at the purposes of a union, one set of purposes, a very important set of purposes, is to deal with the, if you will, social and political, not only the economic, relations between an employer and an employee--the whole business of what the union people like to call in-plant jurisprudence: When should a guy get fired: When should he get his pay docked? Has he goofed off, or hasn't he? Is this a justifiable action? There are all these problems. This is one of the most important features of the union.

If you talk about that and you look at what it does, and you ask the question, "What do you mean by putting unions under the Antitrust Act?" you find this doesn't have any real content. Now, you could say you could translate this notion of putting unions under the Antitrust Act into the notion of saying that there should be no industry-wide bargaining, or there should be no company-wide bargaining, that a union would have to deal with one plant at a time.

Here, such evidence as there is suggests that the prople who proposed this would get the opposite results from their proposal than the ones they want. There seems to be a good deal of evidence that the greater the centralization of union organization the less the militancy of unions in the bargaining process. In fact, when we talk about this wage-price policy in the Labor-Management Advisory Committee, we look at a situation in the United States that is very different from the situation in Britain, Holland, and Sweden. Let me give you Holland for an example. There is a very strong trade-union federation, and the officals of the central trade-union federation sit down with the government. Professor Tinbergen, when he was Chairman of the Economic Planning Councel, would say, "You know, I think there ought to be a 1.5 percent wage cut." The trade-union officials would look at the figures and agree, and they would tell their members to take a 1.5 percent wage cut, and they would do it.

I can't conceive of that happening in the United States. One reason it doesn't happen is the power of the AFofL-CIO central organization, the fellows over on 16th Street, is very little. The powerful fellows are the heads of the international unions and the heads of the big locals, and they would say, "Thanks, but no thanks." So that there might be arguments, again, perhaps, of a political character, for saying that the power of national unions is too great.

If what you are interested in is the economic process of wage-bargaining, the notion that by breaking up the bargaining unit you would do better seems to be contradicted by the available evidence.

QUESTION: Do you consider that the goal of full employment consists of price stability?

DR. KAYSEN: I am tempted to answer this question in the broad terms in which you ask it, and say, yes. But I think I ought to be concerned and say a little more. I heard part of the question period this morning. Dr. Poppe talked about this. I think you have to say how full employment and how stable price stability. What you are really concerned with is picking the right combination of price changes and level of employment. At some point each increase in employment is going to bring with it a more substantial increase in price.

Let me just throw some figures out, noting that they are illustrative and not exact. It might be that you can go from 7 percent unemployment to 6 percent unemployment to 5 percent unemployment with no price rise at all. Over that range you can say more employment is consistent with price stability. Suppose you go from 5 to 4 percent. You could say this was going to kick the wholesale price index up one-half percent and decide whether that is worth it. Suppose you tried to go from 4 to 3 percent. This would get you up 1.5 percent higher, and so on, and so on.

At some point it will be obvious that you are getting not much more employment and you are pushing prices up pretty fast. It's a question of just what that point is. It's partly a question of values, and it's partly a question of some technical institutions.

I mentioned earlier the employment service. One of the virtues of having a good employment service and a good retraining apparatus is that you can get employment up higher with less price rise because you can move people around to new jobs. One of the things that are done inside the structure of the military services which we don't know how to do as well inside the structure of the economy is a lot of retraining. There are a lot of schools which enable you to take a man who has had one assignment and put him through a school--depending on what level and what kind of assignment--for maybe two weeks or a year, and move him into another assignment.

We are doing something of this sort inside of the private economy, in some of the bigger companies. They have in-firm retraining programs, when they move plants, when they change the machinery, and so on. Perhaps we can do more of it.

My point is that it isn't an all or nothing matter. It's a continuum and it's a question of picking the right combination in the continuum. It is also a question of trying to change the institutions so that we can have lower unemployment and still not be faced with rising prices.

QUESTION: Doctor, you mentioned one of the national economic policies is to promote national growth. This has manifested itself in supporting the transport industry in certain ways. You meneioned the FAA, but there was one item which wasn't mentioned, and I would like to ask you to comment on it. That is the railroad industry. It seems to me it might need all of the support it can get.

DR. KAYSEN: Well, this is a hotly debated subject about what is the best thing to do for the railroads. My own judgment would be that the best thing we can do for the railroads is to combine the removal of some of the regulatory inhibitions we put on them with some sets of stimuli to managements. In less polite language, there are many examples that suggest that railroad managements need a kick in the pants.

One of the virtues of removing some of the regulatory inhibitions and restraints is that some of them need a competitive stimulus of some sort. The history of regulation has been such that it has dampened some of the drive of competitive spirit. I have probably said more than is discreat already, but I think it is some combination of these things rather than more of the Government doing something for the railroads that is desirable.

QUESTION: There seems to be some conflict between the figures being put out by the Department of Labor and those of the Council of Economic Advisers as to the extent of structural unemployment. This, of course, has significance in terms of what the impact of the tax cut is going to be. Will you please comment on that?

DR. KAYSEN: I'd be glad to. In the first place, structural unemployment isn't something you can measure directly. It's an inference; it's a judgment you make. So that you can't say that you can measure structural unemployment. You are guessing at what it is.

Now, I think the difference between the Council and the Labor Department reflects two sets of things. One, it reflects the different responsibility. The Labor Department is interested in a lot of programs that deal with job retraining, mobility, and things of this sort. The Council is interested in fiscal and monetary policy. I don't want to suggest that everybody, entirely, has thoughts and ideas that are determined by his interest in the job, but I also don't want to suggest that they are determined by unemployment. In other words, it would be very surprising if it was the Council that had structural theories and the Labor Department which had an aggregate of theories. It would be very surprising if the Army felt that we should have 20 carriers while the Navy felt we should have 12.

So there is that element, and it's worth paying some attention to. It's a serious problem in any complicated organization. The parts of the organization get a certain parochial viewpoint.

Now, the other point I would make is that there isn't this much conflict between the notion that unemployment is structural and unemployment is aggregate. When the level of aggregate output is higher, it's easier for everybody to get a job. It's certain true that as jobs decline the first people to lose jobs are people over 50, Negroes, handicapped workers, women. The last people to get jobs are boys fresh out of school who have had no experience, boys from the back country in the Apppalachians and in the South who have been in a rural area and have had no industrial experience, et cetera.

So in this sense you can look at the figures and say, "The unemployment rate among Negroes is twice what it is among whites," or "X"--I don't know what percent "of youths graduating from high school last June still don't have jobs compared with unemployment in the labor force as a whole." This is all true. These are the kinds of figures that are often cited.

On the other hand, it is perfectly clear that if you increase the aggregate of jobs it's easier for everybody to get a job.

My own judgment would be that the way to deal with these problems is to deal with them on both fronts. You have both to increase the level of aggregate demand and then to get special programs in. I think you can see the connection by looking at this proposition. It isn't going to be very good to say that we are going to have a retraining program which will take, let's say, workers out of textile factories and train them to work in electronics industries if people aren't hiring in the electronics industries. For this reason these two approaches complement each other rather than compete with each other.

QUESTION: Along those lines, if the aggregate increase stems from less wage increase in the increased force of labor, and if, however, the process of mechanized production cuts forces which are not really needed, we perhaps are wasting natural resources. What approach do you think is most likely to come to grips with this problem?

DR. KAYSEN: I think there is a problem in this question. We have operated our economic system on the proposition that goods are needed whenever somebody wants to buy them, with a few exceptions, I mean. There are certain limits by law and we prohibit the production and sale of some few things, very few. But within the legal framework we simply assume that whenever a consumer wants to buy something and is willing to pay what a businessman asks it is needed.

You are implying some other criterion of need. This is possible.

It's logically possible. I just think it goes against the way we have customarily organized our economy. So I find it a little hard to come to grips with this question, because I am not sure what the word "needed" means except in its conventional sense that somebody is willing to pay the cost of producing it.

COLONEL VAUGHT: Dr. Kaysen, thank you very much for sharing with us your vast knowledge on this subject.