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A Paper to be Presented to the Annual Meeting of the
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"Come sit at my knee
And talk of policy"

That less than heroic couplet may correspond to the public's view of the basic relationship between the President of the United States and his Council of Economic Advisers. But it hardly describes the reality or complexity of the role of the CEA. Under the circumstances, it is not surprising that the conduct of the CEA in practice often differs substantially from the general expectation of its performance. Let us explore some of the reasons why this situation obtains.

First of all, picture a decision-making process in which a wide and varying assortment of official and informal groups and individuals provide advice to the President. After all, few economic questions are devoid of political, social, or foreign policy implications, and most non-economic issues -- domestic and international -- contain some significant economic aspects.

Thus, not many decisions in governmental policymaking are made solely or even primarily on the basis of economic analysis or information from economists. On the other hand, few such decisions are so devoid of economic premises or consequences that economic expertise is irrelevent.

Secondly, it should be recognized that whose advice the President follows at any given time and on any specific issue depends on a large and varying number of factors. These range from the desires of the chief executive to the ability and past relationships of his other advisers to the requirements of the circumstances. For example, several CEA chairmen with strong backgrounds in government regulation participated actively in policymaking in that area, while others concentrated more on tax matters.

Thirdly, the formation of public policy takes place at many levels. Interagency committees are constantly meeting, with differing mandates to develop, recommend, review and, sometimes, approve policy. Meetings are the basis -- and bane -- of a bureaucrat's existence. It is at this level that many advisory units exert their greatest influence.

These meetings, of course, are not open to the public. On occasion -- far too numerous for the orderly conduct of government -- a version of the results is "leaked" to the press by an interested party. This garbled report may come to represent the public's understanding of what has occurred. I am reminded of the Japanese movie Rashomon, in which the viewer sees the story successively from the different viewpoint of each of the participants. In that case, however, they all "leaked."

Fourthly, the public role of the Council of Economic Advisers is normally the proverbial tip of the iceberg. Usually, the CEA chairman is expected to develop public understanding of and thereby enhance the popular support for the President's economic program. Yet some of the most successful chairmen kept the lowest profiles, avoiding speechifying and press conferences.

The notion that CEA chairmen often use the bully pulpit to publicly educate the President and his administration is a figment of the imagination.

CEA chairmen have normally conducted their intellectual battles inside "the family." Occasionally, a CEA member may get in front of current administration policy, but that is done with the knowledge that he or she was walking down a dangerous path, and that any trial balloon launched may easily be popped.

In effect, there is a trade-off -- between sounding off in public and being an effective member of the Administration's decision-making process in private. Recent experience has underscored the existence of this tradeoff, although most CEA chairmen have instinctively sensed the nature of the subtle relationships involved.

The Role of the Chairman

With this extensive introduction, I would now like to present my understanding of the key aspects of the role and function of the chairman of the Council of Economic Advisers. As you may know, a reorganization plan in 1953 lodged all of the authority of the council in the chairman and specified that he (or she) would be the link to the President.

1. To advise the President on the course of the economy. This is the only statutory function assigned to the Council of Economic Advisers, aside from the writing of the Economic Report. A rather vague statement of authority is contained in the CEA's charter, the Employment Act of 1946.

In addition to sending him a regular flow of analytic reports, the CEA chairman alerts the President to impending releases of economic news. Thus, the evening before the Consumer Price Index report for a given month is issued, the President has on his desk a memo from the CEA chairman setting forth the highlights and often suggesting how the White House could respond to press inquiries.

At times the President will call for amplification. For example, President Reagan and I had a pleasant -- but spirited and extended -- difference of views on the matter of seasonally adjusted versus unadjusted reports on employment and unemployment. We ultimately resolved this matter by my providing him both sets of data, together with suitable caveats.

Of course, the direct contacts with the President are of very special importance. Because of the confidential nature of the role of trusted adviser I will treat this aspect very lightly. When I joined the Administration, I decided not to keep a diary or write memoirs. The opportunity cost seemed too high in view of the wide array of policymaking activities I was involved in at the time. Some of my colleagues in the Administration, with large support staffs, obviously decided otherwise.

As an example of the advice to the President, I do recall discussing the subject of gold with him on several occasions, a matter that he himself had studied at some length over the years. During the 1980 presidential campaign and earlier, he had indicated strong interest in restoring the gold standard. As a member of the Gold Commission (set up under a 1980 law), I told him that I would pursue the matter with an open mind. Subsequently, we reported that the majority of the Commission opposed a return to gold. That disposed of the matter.

Similarly, I often wound up urging the President and other senior members of the Administration to keep our disagreements with the Federal Reserve System within the government. It became clear, I thought, that financial markets were reacting badly to almost any Administration statement on monetary policy that remotely could be considered critical of the Fed. In any event, I had frequent opportunities to present our views to Fed chairman Paul Volcker on a one-to-one basis.

These two episodes are examples of the CEA's function of taking advantage of the opportunity to help the President avoid economic harm.

2. To participate in top level decision-making on economic, budget, and financial policy. Typically, the chairman of the CEA participates in numerous high level formal (e.g. cabinet) and informal (e.g. budget policy) meetings at which the President reviews or makes policy decisions. The effectiveness of the CEA on any specific issue depends in large part on the cogency of its analysis.

But that is not always the case. For example, in 1981, we won the battle to eliminate import restrictions on shoes, but lost the struggle to contain restrictions on imports of textiles. Quite candidly, I did quite a bit of politicking on these issues, occasionally obtaining aid from cabinet members that I had supported on other matters. But I doubt that it was merely coincidental that the Congressional delegation to the White House which successfully urged textile quotas was led by a senior southern Republican who was diligently working for the enactment of the President's program, while the unsuccessful shoe delegation was chaired by a prominent Northeastern liberal Democrat.

The determination of the economic assumptions to be used for making revenue and expenditure estimates is a key and early aspect of the annual policy cycle. In early 1981 especially, as we were fleshing out the details of Reaganomics, I found myself in recurring battles with both supply-siders and monetarists. I still vividly recall the fervor of those doctrinal disputes, which at times bordered on the theological. For example, my insistence that a modest period of recession would accompany the imposition of monetary restraint was viewed by the supply-siders as a lack of faith in the instantaneous nature of the economy's response to the tax cuts.

I interpreted the role of the chairman of the CEA not as a means of preaching supply-side economics or monetarism, but rather of helping the President develop and carry out his economic program. Thus, the economic assumptions we adopted were a compromise which satisfied neither the monetarists nor the supply-siders. It is fascinating to note that the more modest economic scenario that I settled for was simultaneously attacked by many of the supply-siders as far too pessimistic and by most private economists as wildly optimistic. Subsequently, I reported to the President that I had converted an economic scenario which was "off-the-wall" to one that was merely "way out."

In the Reagan Administration, the main role of the CEA has not been to develop additional, brave new programs, but to operate what we called an economic damage-limitation mechanism. Thus, the CEA is expected to, and predictably does, oppose each and every proposal to subsidize some segment of the economy, or to shield a specific industry from competition.

We did not win all of these battles during my term of office, but each proponent of additional government involvement in the private sector knew that he or she would have to do battle. At times, a Cabinet member proposing some additional form of government intervention in the economy would start off by saying, "Mr. President, Murray will probably give you a different view, but . . ."

3. <u>To supervise the preparation of the Economic Report</u>. The President's economic message, usually written by the CEA, has for many years been quite short. The great bulk of the document consists of what is technically the Annual Report of the Council of Economic Advisers. This is a joint effort of the three members of the Council and the entire Council staff; at least that is the procedure that I followed.

In the case of the 1982 report, all three members of the Council saw it as an opportunity to explain the Reagan economic philosophy and program to the public and to the economics profession. Although the reaction in the professional journals was mixed, virtually all commentators concluded that we succeeded in focusing the central thrust of the Economic Report on Reaganomics.

The Annual Report also provides some opportunity to raise new issues and to move policy along. For example, it was widely known in Washington that I had advocated making sizeable reductions in the rapidly expanding military budget. This was a subject area in which I had done research for over two decades. The 1982 Economic Report was, I believe, the first one that raised serious questions about the economic feasibility of the defense program of the Administration then in office.

4. <u>To administer the Council of Economic Advisers</u>. The work of the CEA is carried on in an atmosphere of professionalism and, in large measure, nonpartisanship. As is customary with a change in administration, I inherited the staff recruited by my Democratic predecessor. Except for career statisticians and secretaries, the staff traditionally consists of non-career appointees, most of whom are on leave from their respective universities and research institutes. I found each one of them a loyal and dedicated professional economist. In fact, I asked several of them to stay on beyond their initial appointments.

Few people outside of Washington appreciate how small the CEA is in relation to its large mandate. Its staff of 30-40 includes economists and statisticians, as well as secretarial and support staff. In terms of size, the CEA is dwarfed by the thousands of economists employed in the Departments of Agriculture, Commerce, Labor, and State. Personally, it hurt to administer a 12 percent budget cut to what was already the smallest CEA staff in over a decade. Nevertheless, as I explained at the time in a speech to the American Council on Education, "the republic will survive and even prosper."

The chintzy budget for the CEA makes the chairmanship both intellectually stimulating and physically grueling. It did give me an opportunity, however, to one-up the Washington press corps on one occasion. At a joint press conference with then Secretary of the Treasury Donald Regan, we were asked to comment on the high cost of the government chauffering senior government officials from their homes to their offices and back. My response, which disposed of the matter at the time, was that I gave the subject a great deal of thought on the bus on the way to work that morning!

5. To participate in international economic policymaking. There is an important international dimension to economic policy. A wide array of ambassadors and economic and finance ministers from other nations frequently come by the CEA for discussions ranging from the courtesy call to the substantive. The chairman of the CEA carries at times a significant representational load. For example, he also serves as chairman of the U.S. delegation to the Economic Policy Committee of the Organization for Economic Cooperation and Development. It is also customary to elect the chairman of our delegation chairman of the OECD Economic Policy Committee.

This activity provides a good opportunity to work with counterparts in other nations to develop positions and draft communiques, much of which can serve as preliminary input to planning for the annual economic summits. I found the many informal discussions at OECD meetings helpful in giving the President an indication of the current thinking on the part of other countries.

6. To serve as an administration spokesman to Congress, the media, and the public. Following the release of the Reagan Administration's proposed economic recovery program in 1981, the CEA chairman became one of the three major "salesmen" (along with the Treasury Secretary and the Budget Director) for the President's economic program -- aside from the "number one communicator" himself. There followed an almost endless array of joint and individual congressional testimonies and press conferences; White House briefings to the Cabinet, other officials, and numerous visiting interest groups; and speeches to all sorts of organizations -- business, consumers, agriculture, ethnic, regional, religious, etc.

It reached a point that, when I was out for a meal and the waiters began to clear the tables, I automatically got ready to stand up and speak. As I had participated in developing the 1981 economic program, I initially felt very comfortable in carrying out this high-priority presidential assignment of economic "marketing." In 1982, as the gap between the execution of the policy and its original enunciation widened very substantially, I reduced my public involvement. In August 1982, with the prospect of having to defend extended triple digit deficits, I quietly returned to my academic position.

Conclusions

If there is any dominant characteristic of the Council of Economic Advisers it is that, on virtually all issues reaching the President, it does not represent any specific constituency. Unlike each of the departments and major agencies, the CEA carries little if any special-interest baggage and thus it is a good proxy for the public or consumer interest. In the upper reaches of any administration, there are few centers of analysis or advocacy with that substantial amount of detachment.

The President benefits from the CEA's independent voice, to the extent that he listens to it. Surely the need is compelling for high level decision makers to hear and consider views that avoid easy answers and that pose difficult problems of choice.

It is hard to ascertain the specific influence that a given Council of Economic Advisers or its chairman exerts on national policy. All senior appointees -- be they Cabinet officers or White House officials -- believe that their contributions are central, and many of them can be expected to denigrade the role of others. I claim no exception from this mortal shortcoming. Also, other former CEA chairmen would likely provide very different viewpoints, based on their respective expectations and experiences.

How much of a successful economic policy (however measured) can be attributed to the CEA then in office is of course a matter of judgment. But the same holds true for less happy economic outcomes. Ideally, we would like to know the difference between actual economic performance and what would have occurred in the CEA's absence. I am not aware of any analytical mechanism available to accomplish this task, however. Any outsider inevitably relies on a sample of impressionistic and anecdotal observations.

I returned to the private sector with no grand lessons. I came away grateful for the opportunity to speak my mind and to know that decision makers in government were listening to at least one economist before making up their minds.