

Washington University in St. Louis

Washington University Open Scholarship

Murray Weidenbaum Publications

Weidenbaum Center on the Economy,
Government, and Public Policy

Policy Brief 169

4-1-1996

The Employment Act of 1946: A Half Century of Experience

Murray L. Weidenbaum

Washington University in St Louis

Follow this and additional works at: https://openscholarship.wustl.edu/mlw_papers



Part of the [Economics Commons](#), and the [Public Policy Commons](#)

Recommended Citation

Weidenbaum, Murray L., "The Employment Act of 1946: A Half Century of Experience", Policy Brief 169, 1996, doi:10.7936/K7571960.

Murray Weidenbaum Publications, https://openscholarship.wustl.edu/mlw_papers/143.

Weidenbaum Center on the Economy, Government, and Public Policy – Washington University in St. Louis
Campus Box 1027, St. Louis, MO 63130.

NOT FOR RELEASE
BEFORE 2:00 E.S.T.
APRIL 26, 1996

Center for
the Study of
American
Business
CSAB

*The Employment Act of 1946:
A Half Century of Experience*

Murray Weidenbaum

Policy Brief 169
April 1996

Contact:
Robert Batterson
Communications Director
(314) 935-5676

The Employment Act of 1946: A Half Century of Experience

by Murray Weidenbaum

The first half century of experience under the Employment Act of 1946 (originally the Full Employment Bill of 1945) likely has disappointed both the proponents and the opponents of that innovative law. The impact on national economic policy is neither as bad as the opposition feared nor as substantial as the sponsors had hoped.

Viewed in the most fundamental light, however, the legislation has been successful: the two institutions the 1946 act established are still in operation and the act's then-controversial statement of policy has become accepted as part of the federal government's bureaucratic fabric. A substantial government responsibility for the overall performance of the American economy is now widely assumed. In fact, politicians of the opposition party readily hold the administration in office accountable for whatever economic shortcomings occur.

The Council of Economic Advisers

Of the two organizations established by the 1946 act — the Joint Economic Committee (JEC) and the Council of Economic Advisers (CEA) — the council has tended to be the more visible and perhaps more influential, but it has traversed a very rocky path.

Formally, the CEA has little power. It is a very modest-sized constituent unit of the Executive Office of the President, dwarfed in number of employees and budget by the Office of Management and Budget, the National Security Council, and the U.S. Trade Representative Office. The council's only statutory functions are to give the president economic advice (of course, he is under no compulsion to

Murray Weidenbaum is Chairman of the Center for the Study of American Business and Mallinckrodt Distinguished University Professor at Washington University in St. Louis. This paper was presented to the Jerome Levy Economics Institute, Bard College at Annandale-on-Hudson, New York on April 26, 1996.

follow it) and to help the president write the annual economic report. Early on, the formal presidential report became a very short and rather political summary communicating the annual report of the Council of Economic Advisers. The latter comprises the bulk of the document, including both substantial analyses of economic issues and a widely used compendium of statistical data.

The first chairman, Edwin Nourse (who came from a very different Brookings Institution than today), tended to view the council's role in a rather purist sense, limited to providing professionally and essentially nonpartisan information. The Nourse council was more an adornment than a participant in the government's policymaking process.

As Nourse wrote to President Truman in accepting the position, "There is no occasion for the council to become involved in any way in the advocacy of particular measures." Nourse conceived of the council as "a scientific agency." The second chairman (attorney Leon Keyserling) took the opposite extreme and tried to play a very partisan role as an active member of President Truman's team.

The Republican Congress that soon after took over reacted very adversely to the Keyserling approach. It initially refused to appropriate any money for the CEA and the council went out of existence in early 1953. In an episode that few recall, Arthur Burns, the CEA chairman-designate, was appointed economic adviser in the Eisenhower White House. The CEA employees became White House staff for the period. In one of his unheralded accomplishments, Burns convinced the skeptical Congress that he would conduct a highly professional operation and the CEA's appropriation was restored. True to his word, Burns avoided public controversy. Even his official testimony to congressional committees was given in closed executive session.

CEA chairmen and members since have taken a more activist and public role. Yet they have tried to avoid the two extremes of the Truman administration so as not to be pegged as either advocate or oracle. Political constraints, of course, color the language of every CEA Economic Report. As stated by the Council of Economic Advisers in its March 6, 1961, testimony to the Joint Economic Committee:

The Council has a responsibility to explain to the Congress and to the public the general economic strategy of the President's program, especially as it relates to the objectives of the Employment Act. . . . It is not appropriate or necessary for the Council to go into the details of legislative proposals or of Administrative actions which fall primarily in the domain of operating Executive departments or agencies. . . .

The influence of the CEA has ebbed and flowed. Soon after leaving the CEA, Nourse wrote "the actual position of the Council has undergone such progressive attrition or debasement that it bids fair soon to be negligible." Yet, perhaps a golden age was reached in the early 1960s during the chairmanship of Walter Heller in the Kennedy administration — a time when the council preached the gospel of the new economics.

To a degree, the success of the Heller council has bedeviled its successors. By demonstrating the important role that could be played by economists at the highest levels of government, its achievements encouraged the various cabinet departments to upgrade existing economics staffs and to set up new positions of undersecretary or assistant secretary for economics. Enhanced employment opportunities for economists are an attractive prospect. In this case, however, it meant a new form of competition for the CEA in presenting its views in the inner councils of the government. It also made possible a cacophony of administration economists, at times confusing the public as to where the administration stood on a given issue.

The recent past provided another period of uncertainty as to the future of the CEA. In an action reminiscent of the 1953 experience, in 1995 the House of Representatives refused to pass the appropriation for the CEA. The council, however, continued to operate on the basis of temporary funding, and a regular appropriation has recently passed. The new chairman (a distinguished economist from Stanford University, Joseph Stiglitz) seems to be taking a low public profile, although not quite as self-effacing as did Arthur Burns. It is interesting to note that when the CEA's future was being debated in 1995, every active Republican ex-chairman came to the defense of the CEA as well as the Democratic economists who served on the council.

The universal feeling in the profession is that the council plays a unique and important role. Of course, it is the profession's key window into Washington. Far more important, the CEA is a source of professional advice to the president from a group that has little, if any, special-interest baggage; thus, it can serve as a proxy for the public interest. The CEA does more than provide up-to-date statistics. It examines controversial issues of public policy from the viewpoint of the president rather than a specialized department.

To some extent, it is a tribute to the power of mainstream economic analysis to note that, on a great many issues, the work of Democratic and Republican councils is interchangeable. With the fewest exceptions, the CEA can be counted on to present the serious arguments against subsidies (whether to business, labor, or agriculture), against restrictions on foreign trade, against outmoded regulation of industry, and against inefficient social regulation that fails to pass a benefit-cost test. Indeed, I have called the CEA a damage-limitation mechanism. But, also predictably, the council is steadfast in favor of economic incentives and competition in the marketplace as the most effective ways of achieving high levels of economic welfare.

Without the large staff support available to department heads who promote specific programs, the task of the CEA is not an easy one. Posing difficult problems of choice to a president constantly bombarded with easy answers is surely a challenging assignment. The council does not win all the battles it wages, nor does it lose them all. We can take some solace in the observation of the late Arthur Okun, a former CEA chairman. He noted that economists can coexist with politicians in the same manner that lambs coexist with lions; you need a big supply of lambs.

Joint Economic Committee

The other institution set up by the Employment Act of 1946 is located in the legislative branch and was originally called the Joint Committee on the Economic Report. True to its name, it held

hearings on the president's economic report and issued its findings. It has no authority to vote on legislation.

The committee gradually expanded its purview — to hold hearings and commission studies on a wide variety of economic matters. After a while, the current title — the Joint Economic Committee — was adopted to reflect its broader range of activities.

Indeed, some of the hearings, committee reports, and compendia issued by the committee have been influential in generating public and congressional support for reforms in a variety of areas — monetary and fiscal policy, international economics, defense procurement, taxation, and budget matters.

Although never nonpartisan, the JEC, in its earlier years, tended to focus on specific issues of economic policy that transcended party positions. While continuing its tradition of sponsoring professional economic analysis, the activities of the committee in recent years seem to reflect more fully the party in power in the house that selects the chairman (which is rotated between the Senate and the House of Representatives).

A special development may have led to this situation. The establishment of separate committees on the budget in each house resulted in a new forum where economic policies can be debated and, very telling, in a committee that has the power to report out the important budget resolutions. Thus, the new budget committees have become a powerful competitor to the JEC as a place where key legislators and senior government officials can debate the major issues of economic policy. Nevertheless, the Joint Economic Committee remains the only institution in the Congress which focuses its interests on economics — and one of the few where members of both houses interact regularly.

The Policy Declaration in the 1946 Act

At the time of its enactment, most of the debate on the Employment Act focused on the long-winded declaration of policy. That long and run-on sentence reads in part:

. . . that it is the continuing policy and responsibility of the Federal Government to use all practical means consistent with . . . other essential considerations of national policy... to coordinate and utilize all its plans, functions, and resources . . . to promote maximum employment, production, and purchasing power.

The prevailing Keynesian orientation of the times focused on macroeconomic — and especially fiscal — policy, reflecting the desire to avoid the large-scale unemployment of the 1930s. Little attention was given either to inflation or monetary policy or microeconomic issues (such as regulation, trade practices, etc.). The Policy Declaration did contain — among a great many other statements of concern and interest — a sop to the supporters of private sector responsibilities. All the good things done under the Employment Act are to be accomplished “in a manner calculated to foster and promote free competitive enterprise and the general welfare.”

The debates of the 1960s and 1970s on the relative effectiveness of monetary policy and fiscal policy changed the basic focus of economic policy in the United States. The Federal Reserve Bank is now looked to as the primary mechanism for achieving short-term economic stability, while tax and budget policies are viewed in terms of the longer-run impacts on investment, economic growth, and income distribution.

In an interesting informal but universal reinterpretation, the reference in the Employment Act to “purchasing power” has been cited as the basis for government concerning itself with controlling inflation. Subsequently, the Humphrey-Hawkins Act of 1978 formally added the goal of eliminating inflation. The original primary emphasis on “maximum employment” — which was a legislative compromise to break the deadlock over the more controversial term “full employment” — has generally taken a back seat in federal economic priorities. Perhaps this is a compliment to the flexible language of the legislation. More basically, the new emphasis may reflect changing national priorities resulting from the nation’s success in avoiding the massive unemployment of the 1930s and earlier periods.

The 1982 Economic Report highlighted the growing tendency to give greater weight to the limits of the effective role of government in the economy. For example, the mainstream of the economics

profession now believes that government efforts to intervene directly in wage and price decisionmaking in the private sector are usually ineffective or inefficient. Moreover, government cannot fully anticipate the future course of the economy. In this view, neither can government direct economic outcomes with any degree of precision.

Annual economic reports, by advisers to Democratic and Republican presidents, usually now contain one or more chapters on microeconomic issues. Typically, these sections of the report focus on government regulation of private economic activity. It seems that we currently have a more appropriate opportunity to raise once again the subject of employment. What I have in mind is in the spirit of the opening policy declaration of the Employment Act but consistent with a more modern interpretation.

Thus, I hope that, in the near future, a section of the council's report attempts to link the earlier concern with achieving "maximum employment" with the current emphasis on improving economic efficiency. Specifically, I urge some long overdue attention to a phenomenon that we can call "the discouraged employer." This would deal with the many aspects of government regulation and ancillary activity that discourage employers from directly adding to their payrolls.

For example, the effort to shield smaller businesses from often byzantine regulation of the workplace has resulted in the creation of serious barriers to expansion of an organization's work force. Thus, some employers are on record that they will avoid hiring their 50th worker because of the onerous regulations that would be triggered by that otherwise desirable action. Such governmental obstacles to "maximum employment" do serve the attention of both of the agencies created by the Employment Act.

Conclusion

Taken as a whole, the Employment Act of 1946 has turned out to be a durable contribution to government policymaking in the United States. From its passage, it signaled the notion that national economic policymaking is a continuing function of the federal government. That this proposition is so commonly accepted as a matter of fact is a tribute to the workings of this compromise legislation.

Similarly, the fact that the two organizations established by the 1946 act — the Council of Economic Advisers and the Joint Economic Committee — are alive if not well underscores the point.

After half a century, should the legislation be revised? Personally, I think not. The experience of the Humphrey-Hawkins Bill is compelling. In effect, that was an attempt to expand the 1946 legislation into a commitment to undertake national economic planning on a formal basis. In practice, the compromise (enacted as the Full Employment and Balanced Growth Act of 1978) was a hodgepodge of wishful thinking and special interest pleading but without any real teeth in it. In recent years, the Council of Economic Advisers has ignored or soft-pedaled the mandate to forecast all the good things required by the law and particularly to set numerical goals for key economic indicators over a five-year horizon. Nobody seems to have missed that wheel-spinning exercise.

As required by the act, the Federal Reserve does testify before the banking committees of the Congress, presenting the required target range for monetary policy and economic performance. But little attention is paid to those numbers. There is no effort by the Congress or the Fed to look back and even note the extent to which actual Fed policy differed from the forecasts, much less ask why. A simple repeal of the Humphrey-Hawkins Act would be a contribution to slimmed down government.

Having criticized the efforts of liberals to modify the Employment Act, it is only fair to turn attention to my fellow conservatives. There is no need to modify the statement of policy with regard to the Federal Reserve System. Yes, the Fed should focus its efforts on controlling and subduing inflation. Indeed, it does so in the secure knowledge that it is the only effective anti-inflation agency in the federal government.

However, it is just wrong to say that the Fed ignores other aspects of economic activity, such as growth and employment — or that it should. Surely, during periods of monetary restraint the system is itself restrained by the knowledge that the effects of its actions extend beyond the price indices. The

incremental manner in which the Fed reduces (or increases) the discount rate is clear evidence of the care with which monetary policy changes are made.

The problem is that the financial markets react — it is more accurate to say overreact — to any statement from anyone in the Federal Reserve System acknowledging the Fed's concern about the progress of the real economy. Perhaps it is harmless to continue playing along with that mild case of paranoia. Nevertheless, I see no benefit from encouraging that silliness by statutory requirement.

To conclude: the flexibility of the Employment Act of 1946 is a continuing testament to the occasional benefits of compromise.

Sources

1. Martin Feldstein, "How the CEA Advises Presidents," *Challenge*, November-December 1989, pp. 51-52.
2. Edwin G. Nourse, *Economics in the Public Service* (New York: Harcourt, Brace & Co., 1953).
3. Herbert Stein, "What Economic Advisers Do," *The American Enterprise*, March/April 1991, pp. 6-12.
4. Herbert Stein and Charles Schultze, "Good Advice Cheap," *Washington Post*, July 3, 1995, p. A23.
5. James Tobin and Murray Weidenbaum, editors, *Two Revolutions in Economic Policy* (Cambridge: MIT Press, 1988), especially pages 18-20.
6. Murray Weidenbaum, "The Role of the Council of Economic Advisers," *Journal of Economic Education*, Summer 1988, pp. 237-243.