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NOMINATION OF WARREN L. SMITH

HEARING

BEFORE THE

COMMITTEE ON BANKING AND CURRENCY

UNITED STATES SENATE

NINETIETH CONGRESS

SECOND SESSION

ON

THE NOMINATION OF WARREN L. SMITH TO BE A MEMBER
OF THE COUNCIL OF ECONOMIC ADVISERS

MAY 20, 1968

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(II)

NOMINATION OF WARREN L. SMITH

MONDAY, MAY 20, 1968

U.S. SENATE,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D.C.

The committee met at 10 a.m., in room 5302, New Senate Office Building, Senator John Sparkman, presiding.

The CHAIRMAN. Let the committee come to order, please. Senator Bennett, our ranking minority member, called me this morning to tell me that he was not going to be able to be here today. In fact, we might not have any other Senators with us today so I think we had better get started.

The first item of business would be the nomination of Mr. Warren L. Smith, of Michigan, to be a member of the Council of Economic Advisers. Will you come around, Mr. Smith.

Mr. Smith's nomination has been approved by both Senator Hart and Senator Griffin, the Michigan Senators.

Mr. Smith, do you have any statement to make or anything you would like to say to us?

Mr. SMITH. No, sir.

The CHAIRMAN. Do we have the biographical statement—it will be made a part of the record.

(The information follows:)

BIOGRAPHICAL SKETCH OF WARREN L. SMITH

Warren L. Smith was born in Watertown, New York, on March 23, 1914, and attended the Watertown public schools. He served in the Army Air Force from 1942 to 1945, with overseas duty in England.

Mr. Smith received his education at the University of Michigan where he earned a Bachelors Degree in 1947, a Masters in 1949, and a Ph.D. in 1952.

Prior to joining the faculty of the University of Michigan in 1957, he was an Associate Professor at Ohio State University and an Assistant Professor of Economics at the University of Virginia. He was a visiting lecturer at Harvard University in 1958-59, and he has been a Professor of Economics at the University of Michigan since 1959. He was Chairman of the Economics Department at Michigan for the period, 1963-67.

Mr. Smith is the author of many articles, papers and monographs mainly in the area of monetary policy and debt management, including *Debt Management in the United State*, Study Paper No. 19, Study of Employment, Growth, and Price Levels, Joint Economic Committee, 1960.

He was a staff member of the Council of Economic Advisers 1962-63 and has been a consultant to the Council since 1963. In addition, he has been a consultant to the Federal Reserve, the Commission on Money and Credit 1960-61, the Joint Economic Committee 1959-60, and the U.S. Treasury Department since 1961.

Mr. Smith is a member of the American Economic Association, the Econometric Society, the American Finance Association, Phi Beta Kappa, and the American Association of University Professors.

He is married to the former Ann Elizabeth Schwartz and is the father of three children: Andrew, age 20; Samuel, age 18; and Catherine, age 10.

The CHAIRMAN. Have you checked to see whether or not you have any interests that would conflict with your work?

Mr. SMITH. Yes, sir. I have discussed it with Mr. Warden, Special Assistant to the Chairman, and he has advised me that no conflict exists.

The CHAIRMAN. That is what I mean. You have discussed it?

Mr. SMITH. Yes.

The CHAIRMAN. And have disclosed to him what your holdings and interests might be?

Mr. SMITH. Yes, and I filed a financial statement with the committee this morning.

The CHAIRMAN. Very well. Senator Proxmire?

Senator PROXMIRE. We are delighted to see you here this morning. You certainly have a remarkable background as chairman of the Economics Department of the University of Michigan, an eminent academic background, you served as a staff member of the Council of Economic Advisers.

Mr. SMITH. Yes, I did.

Senator PROXMIRE. You also served as a staff member of the Joint Economic Committee?

Mr. SMITH. Yes.

Senator PROXMIRE. You also served on the staff of the Federal Reserve Board?

Mr. SMITH. No, not exactly. I have been a consultant for the Federal Reserve Board, but not a member of the staff.

Senator PROXMIRE. And you have written a number of articles on monetary policy?

Mr. SMITH. Yes, sir.

Senator PROXMIRE. This is, I think, just what we need. We are losing an awfully good man in Professor Duesenberry, who has done a superb job.

Mr. SMITH. We certainly are.

Senator PROXMIRE. He has been one of the monetary experts we have had. So it is good to have you as a replacement.

I would like to ask a couple of questions. We have just had hearings on monetary policy in the Joint Economic Committee in the last 2 weeks. One of the things that concerned us a great deal and concerned Senator Sparkman and me—the Constitution gives the Congress authority over the money power, as you know, not the executive but the Congress. We have delegated that authority to the Federal Reserve Board which has not, in my view, given us a very satisfactory analysis and report on their use of monetary policy. We have proposed a couple of measures to meet this.

One is that the Federal Reserve Board should try to increase the money supply between 2 and 6 percent per year and to the extent that they do not increase it at an annual rate of 2 percent in any quarter or by more than 6 percent they come up before the Joint Economic Committee and tell us why. This does not limit them. It just means that they make an explanation.

Number 2, we are thinking of legislation that would require the Federal Reserve Board to make a monetary policy report at the beginning of each year similar to the President's Economic Report. This would not hold them to any line. It would simply mean that they would tell us what their analysis was of the outlook for the monetary policy

and to the extent that they vary sharply from this outline they would come again to the Joint Economic Committee and say why. How do you feel about this kind of requirement by the Congress?

Mr. SMITH. Well, I think full reporting by the monetary authority, in our case the Federal Reserve Board, of the actions it has taken in an attempt to explain why it took those actions is extremely important. For myself, I do not tend, to regard the money supply as the best or most useful indicator of monetary conditions. It is certainly one thing that everybody should keep his eye on, but I tend to take the view that a monetary policy states primarily the terms of lending and interest rates. These should be what we keep our eye on primarily, because all the studies of monetary policy indicate that those credit factors influence spending in the economy—not the money supply, itself. There is a considerable substitution between money and other assets constantly going on within the monetary sector of the economy and this makes for a somewhat loose relationship between the stock of money narrowly defined and the level of expenditures in my way of thinking. So I do not think you can conduct a satisfactory monetary policy by simply looking at the money supply.

Senator PROXMIRE. We would not expect them to. We thought that would be a fairly simple way. It is in the Constitution that we have the power to coin money and regulate the value of it. We have seen, in hindsight, a very perverse performance by the Federal Reserve Board decreasing the money supply in the recessions of 1949, 1954, 1958, and 1961, and of course drastic decrease in the 1930's, all of which I think have been wrong.

At any rate, it is good to have you as a member of the Council. I am sure you will do a fine job. I think you have remarkably good qualifications for it and experience and background. Thank you, sir.

Mr. SMITH. Thank you, sir.

Senator PROXMIRE. Thank you, Mr. Smith. We appreciate your being before us. We wish you well in your new task.

Mr. SMITH. Thank you.

(Thereupon at 10:05 a.m. the committee proceeded to other business.)
(Excerpts from the Employment Act of 1946 and related laws follow:)

EMPLOYMENT ACT OF 1946, AS AMENDED, AND RELATED LAWS

(60 Stat. 23)

[PUBLIC LAW 304—79TH CONGRESS]

AN ACT To declare a national policy on employment, production, and purchasing power, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SHORT TITLE

SECTION 1. This Act may be cited as the "Employment Act of 1946".

DECLARATION OF POLICY

SEC. 2. The Congress declares that it is the continuing policy and responsibility of the Federal Government to use all practicable means consistent with its needs and obligations and other essential considerations of national policy, with the assistance and cooperation of industry, agriculture, labor, and State and local governments, to coordinate and utilize all its plans, functions, and resources for the purpose of creating and maintaining, in a manner calculated to foster and

promote free competitive enterprise and the general welfare, conditions under which there will be afforded useful employment opportunities, including self-employment, for those able, willing, and seeking to work, and to promote maximum employment, production, and purchasing power. (15 U.S.C. 1021.)

ECONOMIC REPORT OF THE PRESIDENT

SEC. 3. (a) The President shall transmit to the Congress not later than January 20 of each year an economic report (hereinafter called the "Economic Report") setting forth (1) the levels of employment, production, and purchasing power obtaining in the United States and such levels needed to carry out the policy declared in section 2; (2) current and foreseeable trends in the levels of employment, production, and purchasing power; (3) a review of the economic program of the Federal Government and a review of economic conditions affecting employment in the United States or any considerable portion thereof during the preceding year and of their effect upon employment, production, and purchasing power; and (4) a program for carrying out the policy declared in section 2, together with such recommendations for legislation as he may deem necessary or desirable.

(b) The President may transmit from time to time to the Congress reports supplementary to the Economic Report, each of which shall include such supplementary or revised recommendations as he may deem necessary or desirable to achieve the policy declared in section 2.

(c) The Economic Report, and all supplementary reports transmitted under subsection (b) of this section, shall, when transmitted to Congress, be referred to the joint committee created by section 5. (15 U.S.C. 1022.)

COUNCIL OF ECONOMIC ADVISERS TO THE PRESIDENT

SEC. 4. (a) There is created in the Executive Office of the President a Council of Economic Advisers (hereinafter called the "Council"). The Council shall be composed of three members who shall be appointed by the President, by and with the advice and consent of the Senate, and each of whom shall be a person who, as a result of his training, experience, and attainments, is exceptionally qualified to analyze and interpret economic developments, to appraise programs and activities of the Government in the light of the policy declared in section 2, and to formulate and recommend national economic policy to promote employment, production, and purchasing power under free competitive enterprise.¹ The President shall designate one of the members of the Council as Chairman.

(b) The Council is authorized to employ, and fix the compensation of, such specialists and other experts as may be necessary for the carrying out of its functions under this act, without regard to the civil service laws and the Classification Act of 1949, as amended, and is authorized, subject to the civil service laws, to employ such other officers and employees as may be necessary for carrying out its functions under this act, and fix their compensation in accordance with the Classification Act of 1949, as amended.

(c) It shall be the duty and function of the Council—

(1) to assist and advise the President in the preparation of the Economic Report;

(2) to gather timely and authoritative information concerning economic developments and economic trends, both current and prospective, to analyze and interpret such information in the light of the policy declared in section 2 for the purpose of determining whether such development and trends are interfering, or are likely to interfere, with the achievement of such policy, and to compile and submit to the President studies relating to such developments and trends;

(3) to appraise the various programs and activities of the Federal Government in the light of the policy declared in section 2 of this title for the purpose of determining the extent to which such programs and activities are contributing, and the extent to which they are not contributing, to the achievement of such policy and to make recommendations to the President with respect thereto;

¹ The Postal Revenue and Federal Salary Act of 1967 provides that the annual rates of basic compensation shall be \$30,000 for the Chairman and \$28,750 for the other two members of the Council of Economic Advisers.

(4) to develop and recommend to the President national economic policies to foster and promote free competitive enterprise, to avoid economic fluctuations or to diminish the effects thereof, and to maintain employment, production, and purchasing power;

(5) to make and furnish such studies, reports thereon, and recommendations with respect to matters of Federal economic policy and legislation as the President may request.

(d) The Council shall make an annual report to the President in December of each year.

(e) In exercising its powers, functions, and duties under this act—

(1) the Council may constitute such advisory committees and may consult with such representatives of industry, agriculture, labor, consumers, State and local governments, and other groups as it deems advisable;

(2) the Council shall, to the fullest extent possible, utilize the services, facilities, and information (including statistical information) of other Government agencies as well as of private research agencies, in order that duplication of effort and expense may be avoided.

(f) To enable the Council to exercise its powers, functions, and duties under this act, there are authorized to be appropriated such sums as may be necessary.

* * * * *

REORGANIZATION PLAN No. 9 OF 1953

(Prepared by the President and transmitted to the Senate and the House of Representatives in Congress assembled, June 1, 1953, pursuant to the provisions of the Reorganization Act of 1949, as amended)

COUNCIL OF ECONOMIC ADVISERS

The functions vested in the Council of Economic Advisers by section 4(b) of the Employment Act of 1946 (60 Stat. 24), and so much of the functions vested in the Council by section 4(c) of that act as consists of reporting to the President with respect to any function of the Council under the said section 4(c), are hereby transferred to the Chairman of the Council of Economic Advisers. * * *

