APPENDIX

The following answers to later questions from Senator Javits were subsequently submitted for the record by the Council of Economic Advisers:

Question 1. It is generally agreed that the Federal Reserve prematurely eased monetary policy after the tax surcharge and expenditure ceilings were enacted last year. To what extent did this easing vitiate the restraining effects of the fiscal measures?

Do you believe this easier monetary policy the result of poor coordination between the Federal Reserve and the Administration?

What measures can be taken to reduce the possibility of fiscal and monetary policies working at cross purposes in the future?

Answer. The intention of the Federal Reserve to ease money conditions upon the enactment of the tax surcharge and expenditure ceilings in June 1968 is clear from the policy record of the Federal Open Market Committee. Thus, at its meeting of June 18, 1968, the Committee voted to maintain "generally firm but orderly conditions in the money market; provided, however, that if the proposed fiscal legislation is enacted operations shall accommodate tendencies for short-term interest rates to decline, . . ." In fact, interest rates did decline until about September, after which time they rose sharply. On the other hand, the money supply remained fairly constant from the time the surcharge was enacted until late October, when it began a rapid rise. Thus it is difficult to tell whether or not monetary influence in the few months after enactment of the surcharge was "easier." In any case, it seems unlikely that either the fiscal action at the middle of the year or the monetary action which followed it had much influence on the overall behavior of the economy in the second half of 1968. Their effects have only recently begun to be felt. Insofar as the second half of 1968 was influenced by policy it was the policy of earlier months, including the expansion of the money supply in the first half of the year.

We are not privy to the discussions that went on between the Federal Reserve and the Administration in 1968 and therefore cannot be sure whether there was a lack of coordination between them. As far as we can judge from the public record coordination was not lacking. The Administration and the Federal Reserve seem to have had a common view of the economic situation and of the appropriate policy. Although there may be a need for better coordination that is not the main lesson of 1968. The main lesson is the need for better understanding of the consequences of both fiscal and monetary policy.

Question 2. During the last two decades, the balance of employment has shifted dramatically from manufacturing industries to service industries. Whereas at the end of World War II, four out of every ten American workers were employed by service industries, now six out of ten work there. Even in manufacturing, the portion of employees in service-type jobs has doubled. Is it true as some maintain, that this change has increased general employment stability, since service-type jobs have proved relatively safe in economic slowdowns?

What does this mean for the so-called "trade-off" between unemployment and inflation?

Answer. In 1950 about 59 percent of nonagricultural employment was in the service-producing industries. Today the figure is 65 percent. Over the next decade, about 85 percent of the new jobs in the economy may well be created in this service sector. Employment is more stable in the service-producing industries than in goods-producing industries. During the four post-war recessions service employment rose, with the exception of a slight decline in 1957–58, while employment in goods-producing industries declined from 3 to 7 percent. The continued shift to service employment leads the Council to expect a corresponding increase in stability of total employment.