

NATIONAL BUREAU
report



NATIONAL BUREAU OF ECONOMIC RESEARCH, INC. NEW YORK, N. Y. 10016

PRESIDENT'S
REPORT

Wesley C. Mitchell in 1920 saw the National Bureau as an organization in the service of the nation and the economics profession. He focused on the most critical economic problems of his time, bringing to bear the unique analytical capabilities of the Bureau. In his annual President's Report to the Directors of the National Bureau on March 18, John R. Meyer reviewed the present work of the Bureau and discussed its future research program in this perspective.

The work of the Bureau must continue to be objective; it must exploit the strengths and skills developed over many years. Also, said Meyer, it must be in the forefront of economic research, attacking those problems which are as critical now as economic fluctuations were when the Bureau was founded.

Much of the current work meets all the standards proposed, but Meyer saw at least four areas in which the Bureau has an opportunity to establish or enlarge research programs. The Bureau should investigate the related problems of poverty, racism, urban change and decay, as well as the economic and social forces acting to promote rural-to-urban migration. The Bureau should enlarge its studies of growth processes. It should explore the many implications of technological change. And it should engage its efforts in the understanding of the economic and social implications of environmental improvement.

Meyer affirmed his belief that the Bureau is in the service of the economics profession and that it can best serve by expanding its ability to provide data, computational skills and capabilities through the use of computers and related equipment, advanced techniques of measurement, and the widest

possible exchange of information in the United States and abroad.

He noted also that the Bureau can better serve the profession and its own interests by augmenting the junior staff. "I would hope," said Meyer, "that we could have a rotation of young men at the Bureau serving for a period of one to three years, shortly after they receive their Ph.D.'s and before their return to permanent academic or other posts. Such a policy would be at least as beneficial to the Bureau as to the young men. Youth and rotation will help keep the Bureau from stagnating in its research interests and techniques."

The full text of the President's Report will be published next month in the 48th Annual Report of the National Bureau.

ANNUAL
BOARD
MEETING

At the annual meeting of the Board of Directors, a new set of by-laws was enacted, incorporating structural changes in the administrative composition of the National Bureau. The reorganization is primarily intended to increase the administrative flexibility of the Bureau and to provide a framework within which new research proposals can be easily accommodated.

As part of the organizational restructuring, several NBER officers were elected to newly created posts: Geoffrey H. Moore, Vice President—Research; Victor R. Fuchs, Vice President—Research; Douglas H. Eldridge, Vice President—Administration; Hal B. Lary, Director of International Studies. Geoffrey Moore was also named Senior Vice President to act for the President in case of any emergency that gave rise to the President's prolonged absence or disability. Twelve directors were elected for the ensuing three-year term, including five new members of the Board, and three members were added to the Executive Committee.

Directors. ROBERT A. CHARPIE, President of Bell and Howell Co., and EUGENE P. FOLEY, President of International Ore and Fertilizer, were elected Directors at Large. Mr. Charpie is a distinguished physicist with a long-standing interest in problems of economic and social policy who has served on several Presidential science advisory committees. Mr. Foley is a lawyer who has rendered outstanding public service, first as head of the Small Business Administration, then as founder of the Economic Development Administration, most recently as author of *The Achieving Ghetto* (The National Press, 1968).

Vice Chairman THEODORE O. YNTEMA, who formerly represented the Committee for Economic Development, also became a Director at Large. Now a professor of economics at Oakland University in Michigan, Mr. Yntema was first elected to the Board in 1941 as the representative of the University of Chicago.

EMILIO G. COLLADO, Executive Vice President of Standard Oil Company, replaces Mr. Yntema as the CED's representative on the Board.

A. G. ABRAMSON, Director of Economic Planning for SKF Industries, was chosen to represent the National Association of Business Economists, a new appointing organization.

ROBERT J. LAMPMAN of the University of Wisconsin was nominated by that institution to fill the seat that will be open in June when HAROLD M. GROVES retires from Wisconsin and becomes an NBER Director Emeritus. A member of the board for 29 years, Mr. Groves has served both as Vice President and as Chairman.

The senior member in tenure, HARRY W. LAIDLER of the League for Industrial Democracy, announced his intention to become a Director Emeritus. Mr. Laidler was elected to the Board at the first annual meeting in 1920. He has served as a director continuously since then, and has also been NBER Vice President, President, Chairman of the Board, and Executive Committee Member.

Executive Committee. The three new members of the Bureau's Executive Committee are: WALTER D. FISHER, professor of economics at Northwestern University; DOUGLAS G. HARTLE, professor of political economy at the University of Toronto; ROBERT M. SOLOW, professor of economics at Massachusetts Institute of Technology.

The National Bureau, preparing to commemorate its 50th Anniversary in 1970, has initiated a campaign to raise \$15 million over the next three years. Although the drive for funds is aimed principally at broadening the range of research activities and enlarging the research staff, it is anticipated that an increase in unrestricted funds will also enable the Bureau to provide a wider variety of services to the economic community at large.

DEVELOPMENT
EFFORT

The first commitment toward fulfillment of the campaign goal was made in February when the Alfred P. Sloan Foundation announced a grant of \$1 million to the National Bureau. Half of the Sloan grant is contingent on the Bureau's raising \$9 million by 1970.

GRANTS
RECEIVED

Another grant, not a part of the current development effort, was received in January. The U.S. Department of Health, Education and Welfare announced an award of \$327,470 (plus indirect costs) to support the Economics of Health Research Program underway at the National Bureau. The grant is for the four-year period that began January 1, 1968.

In May, the Economic Development Administration (U.S. Department of Commerce) approved a research grant of approximately \$200,000 in support of National Bureau studies of regional economic development problems. The grant will permit the Bureau to investigate more intensively the human capital and labor force aspects of areal differentials.

NEW
STUDIES

The addition of new staff members, including the 1967 Research Fellows, is reflected in a number of new studies at the Bureau.

Evaluation of Econometric Forecasts: Yoel Haitovsky, a Research Fellow from Technion-Israel Institute of Technology, and Michael Evans of the University of Pennsylvania are investigating the short-term prediction record of several econometric models of the U.S. Their project includes a comparison of conditional with unconditional *ex ante* estimates that are based on quarterly and annual data. One of the issues the study should help illuminate is the question of whether predictions from an econometric system are superior to single equation forecasts.

Diffusion of Industrial Technology: In collaboration with economic research institutes in six European nations, the National Bureau is examining the possibility of conducting a joint investigation of technical diffusion. At present, Alfred H. Conrad and Donald S. Shoup are exploring the feasibility of developing common research designs and objectives and of securing the required data for the project. The primary aim of the investigation will be to explain why the major industrial innovations in technology have been adopted more quickly in some countries than in others.

Interest Rates: As part of the Bureau's study of interest rates, Thomas Sargent is working on the term structure and the relation between prices and rates of interest.

Agricultural Productivity: Franklin M. Fisher and Peter Temin are conducting research into the changing supply functions for wheat in the U.S. over a long historical period. Their project will examine regional differences in wheat supply at various points in time and changes in the efficiency of wheat production over time.

Labor Markets: Sherwin Rosen, a Research Fellow from the University of Rochester, is undertaking a study of short-run variations in employment and hours of work in manufacturing industries. By constructing a model of the labor market, Rosen intends to explain the observed variations in hours of work per man. Though the initial phase of the project utilizes aggregate manufacturing time series for the postwar era only, it is anticipated that the sample period will later be extended.

Another of the Research Fellows, Mohammed I. Nadiri from Northwestern University, has begun an analysis of the factors determining the level of employment in manufacturing industries. The study focuses on the effect of real wages and user costs, capital stock and rate of utilization, and deals as well with the adjustment process underlying employment behavior in different industries. Ultimately, the scope of his project may be further enlarged by the development of a model incorporating both the employment and the investment decisions of the firm.

Forecasting and Recognizing Business Cycle Turning Points

by RENDIGS FELS and C. ELTON HINSHAW

131 pp., Publication date: June 1968

As part of the Bureau's research into the quality of economic forecasts, Rendigs Fels and C. Elton Hinshaw investigate the degree of accuracy in predicting business cycle turning points in forecasts made by recognized analysts of the economic outlook.

Though the authors examine separate areas of forecasting, they both focus on a definition of turning point "recognition"—i.e., the time when forecasters believe the odds that a peak or trough will occur are better than even. Results of their investigation indicate that troughs are recognized earlier than peaks, generally about a month before their actual occurrence.

Rendigs Fels bases his analysis on the published opinions of ten of the country's major business cycle forecasters. C. Elton Hinshaw uses the same method to study the forecasting record of the Federal Reserve Board's Open Market Committee, as revealed in its minutes, and compares its record with that of the forecasters studied by Fels.

FORTHCOMING
PUBLICATIONS

Economic Aspects of Pensions: A Summary Report

by ROGER F. MURRAY

156 pages (approx.), Publication date: July 1968

Public and private pension systems in the U.S. have become powerful influences in the structure of income distribution. This study examines the characteristics and financing of the various pension programs and their past and projected growth. It also explores the economic implications of pension funds, especially the effect on savings, the capital markets, and income transfers among classes.

Murray's research supports the proposition that pension saving represents a net addition to personal saving. However, the extension of this conclusion to total national saving is, in the author's view, a more uncertain result.

Within the private pension field, Murray notes a distinction between the investments of insured and noninsured or trustee plans. Insured funds have been investing new money in directly placed business term loans and in mortgages on commercial and industrial properties. Trustee funds have been investing primarily in common stock. In the future, these differences will become less marked.

In the public sphere, the retirement systems of state and local governments are now emerging as major participants in the capital markets. The report points out that ten individual state and city retirement systems each have more than a billion dollars of assets. State and local government systems have entered the private capital markets on a large scale—notably the corporate bond market and the mortgage market—and have ceased to be captive markets for government securities.

**Pension Funds of Multiemployer Industrial Groups,
Unions, and Nonprofit Organizations**

by H. ROBERT BARTELL, JR., and ELIZABETH T. SIMPSON

72 pages (approx.), Publication date: July 1968

Three groups of pension funds that have heretofore received relatively little attention are examined in this dual report. They are multiemployer and union funds (which have much in common) and the pension plans of non-profit organizations.

The study by Bartell discloses that multiemployer and union pension funds, concentrated in nonmanufacturing industries and in apparel and other finished textile products, are growing rapidly and maintaining investment portfolios comparable to those of corporate pension funds. The main difference between the pension funds studied by Bartell and corporate funds is that, in 1964, the former held a larger proportion of government bonds and mortgages, while the latter held a larger share of common stock. The report also reveals that multiemployer and union funds are generally noninsured.

In her investigation of nonprofit pension funds, Elizabeth Simpson finds that almost 50 per cent were insured—20 per cent with agency life insurance companies and 30 per cent with Teachers Insurance Annuity Association. The latter's affiliate, College Retirement Equity Fund, which is not included above because it is not an insurance company, accounted for 9 per cent. The 1964 portfolio distribution of the remaining 41 per cent in noninsured funds was similar to that of multiemployer and union noninsured funds, except that the nonprofit funds held a larger proportion of corporate and other bonds.

The NBER report finds that multiemployer and union funds, coupled with nonprofit pension funds, accounted in 1964 for more than 8 per cent of all private pension funds, with a total value of \$6.5 billion. Both types of funds have expanded greatly in recent years, and the authors predict a continuation of this growth.

This study and the Murray volume are the final reports in an NBER series of studies of the economics of pensions. Both reports also appeared in a compendium of papers on *Old Age Income Assurance (Part V: Financial Aspects of Pension Plans)*, Subcommittee on Fiscal Policy of the U.S. Congress' Joint Economic Committee (1967).

**Balance-of-Payments Adjustment Policies: Japan, Germany,
and the Netherlands**

by MICHAEL MICHAELY

Price: \$2.75, 112 pp., 10 tables, 7 charts

The experience of three major trading nations in dealing with balance-of-payments disturbances is the focal point of this study. It examines the policy responses of Japan, Germany, and the Netherlands during the 15-year period from 1950 to 1965.

RECENT
BUREAU
PUBLICATIONS

Japan and the Netherlands are found to adhere closely to the classical prescription: when in deficit, deflate; when in surplus, inflate. With almost unfailing consistency, the Bank of Japan and the Netherlands Bank raised the discount rate when a deficit appeared in the balance of payments and reduced that rate when the deficit turned into a surplus. And in both countries money supply ultimately followed a typical pattern of response: its rate of expansion fell with a deficit and rose with a surplus.

In Germany, no such response was evident. The key monetary factors—discount rate, minimum-reserve ratios, open-market operations, money supply, or credit supply—were not dependent, except in few instances, on the country's balance-of-payments position. Though Germany had a surplus in balance of payments during about half of the period studied, she did not adopt an expansionary monetary policy, which, according to the traditional rules of the game, is required to restore equilibrium.

The study also finds that in none of the three countries has budgetary policy responded to balance-of-payments fluctuations. However, in all three the principle of a balanced budget was generally adhered to.

This report represents the first stage in a larger NBER program designed to discover whether or not there is a general pattern in the international monetary system as a whole and to analyze the reasons for similarities or differences among countries. The project, supported by the Ford Foundation, will ultimately examine experience in Belgium, France, Italy, Sweden, the United Kingdom, and the United States, as well as the three nations initially studied.

Industrial Composition of Income and Product

JOHN W. KENDRICK, editor

Price: \$14.00, 512 pp.

Recent advances in national accounts reporting prompted the studies collected in this conference volume. The issuance of official national product estimates by industry, in current and constant dollars, and the more recent publication of input-output tables consistent with the income and product accounts led to a 1966 conference to analyze and appraise the newly available information.

The eight research papers that comprise the conference proceedings fall into three categories. The papers in the first part discuss the uses of input-output tables in linking changes in expenditures for and prices of final products with changes in real products and prices by industry. The second part deals with industry changes in labor and nonlabor costs (total and per unit of real product) and in factor shares by industry. Part three describes the U.S. and Canadian estimates of industry product, discusses the conceptual and statistical problems encountered in their preparation, and suggests directions for further improvement.

AVAILABLE
PAPERS

The following papers are available at the National Bureau in either reprint or mimeographed form. Kindly address requests for copies of these papers to the Subscription Department.

REPRINTS

Burns, Arthur F., "Business Cycles," *International Encyclopedia of the Social Sciences*, 1968

Conrad, Alfred H., and Meyer, John R., "Slavery and Southern Economic Growth," *Journal of Economic History*, December 1967

Fuchs, Victor R., "Redefining Poverty and Redistributing Income," *The Public Interest*, No. 8, Summer 1967

_____, and Leveson, Irving, "Motor Accident Mortality and Compulsory Inspection of Vehicles," *The Journal of the American Medical Association*, AMA, Vol. 201, August 1967

Meyer, John R., "An Experiment in the Measurement of Business Motivation," *Review of Economics and Statistics*, August 1967

_____, and Kain, John F., "Computer Simulations, Physio-Economic Systems, and Intra-Regional Models," *American Economic Review*, May 1968

Moore, Geoffrey H., "Some Needed Improvements in Economic Statistics," *The American Statistician*, ASA, December 1967

_____, "What is a Recession," *The American Statistician*, ASA, October 1967

UNPUBLISHED PAPERS

Burns, Arthur F., "The Perils of Inflation"

Conrad, Alfred H., "Econometrics and Southern History"

Diller, Stanley, "Seasonal Variation of Interest Rates"

_____, "Anticipations and the Term Structure of Interest Rates"

Grossman, Michael, "The Role of Efficiency Parameters in Consumer Demand for Health"

NEW
SUBSCRIPTION
RATES

On April 1, 1968, the National Bureau put into effect a series of revisions in the structure of its subscription rates. In keeping with the Bureau's traditional desire to make its publications readily available to interested businessmen and scholars, and particularly to students, the following rates have been announced.

1. A new Student Subscription rate of \$10.00 per year, renewable for a total of three years, was initiated. Under this plan, students receive copies

of all NBER publications issued during the subscription year. In addition, they are entitled to a 33⅓ per cent discount on purchases of titles that have appeared in previous years.

2. The Special Subscription, at \$35.00 per year, is now available to government employees and to employees of nonprofit, research/educational organizations, as well as to faculty members. Under this plan, subscribers receive a copy of each new publication issued during the subscription year. The discount privilege remains the same, with an allowance of 33⅓ per cent on any publication purchased from the Bureau.

3. The Occasional Paper Subscription rate has been raised from \$4.00 to \$10.00. As in the past, subscribers receive copies of the next five Occasional and/or Technical Papers issued from the date the subscription is entered. Now, however, this subscription carries with it the discount privilege heretofore not available to Occasional Paper subscribers. For the duration of the subscription, 33⅓ per cent is allowed on purchases of NBER publications, including those issued before the subscription was entered.

The Standard Subscription rate of \$75.00 and the Contributing Subscription rate of \$100.00 or more are not affected by the revisions. These subscribers continue to receive a copy of each new Bureau publication and are entitled to a 33⅓ per cent discount on all titles purchased.

ALFRED H. CONRAD, chairman of the Department of Economics at City College of the City University of New York, has joined the research staff. Mr. Conrad has been an economic advisor and consultant to government agencies in Pakistan, Argentina, Ghana, and Israel, as well as to the International Bank for Reconstruction and Development.

STAFF
APPOINTMENTS

FRANKLIN M. FISHER, professor of economics at Massachusetts Institute of Technology, has joined the research staff and is working on a study of agricultural productivity. Mr. Fisher has spent a year at the Netherlands School of Economics as a National Science Foundation Postdoctoral Fellow, and in 1966 he was a Ford Foundation Faculty Research Fellow in Economics. His most recent book was *The Identification Problem in Econometrics* (1966).

ROBERT J. GORDON of the Department of Economics at Harvard University has joined the research staff and is engaged in a study of problems in the measurement of fixed capital.

DAVID T. KRESGE, assistant professor of economics at Harvard and former staff member at the Council of Economic Advisors, has joined the staff on a part-time basis to work on economic growth models.

NANCY AND RICHARD RUGGLES of Yale University have been appointed to

the senior research staff. Affiliated with the Bureau since 1966, the Ruggleses are currently working on a project that deals with the design of national economic accounts.

DONALD S. SHOUP, who joined the staff in September as Assistant to the President, has in addition assumed the newly created position of Director of Administration.

PETER TEMIN of the Department of Economics at Massachusetts Institute of Technology has joined the research staff to work with Franklin Fisher on the NBER agricultural productivity study. He is the author of *Iron and Steel in Nineteenth Century America: An Economic Inquiry* (1964).

STAFF
ACTIVITIES

Phillip Cagan delivered a paper entitled "Theories of Continuing, Mild Inflation: A Critique and Extension" at a symposium sponsored by the Kazanjian Economic Foundation at New York University in January. The proceedings will soon be published as a pamphlet.

Jesse Jackson of the Editorial Department has written a new novel for teenagers: *Tessie*. It was published by Harper and Row on May 8. Three of Mr. Jackson's previous books—*Call Me Charley*, *Anchor Man*, and *Charley Starts from Scratch*—were recently issued in paperback form by Dell Publishing Co.

In November, Dun and Bradstreet, Inc. announced the appointment of NBER President John R. Meyer to its board of directors. Mr. Meyer succeeds Keith S. McHugh, who retired from the board.

On March 22, Victor R. Fuchs spoke on "The Growing Demand for Medical Care" at the Second National Congress on the Socio-Economics of Health Care, held in Chicago. At the invitation of Senator Ribicoff, Mr. Fuchs testified on April 23 before a Senate Subcommittee on Executive Reorganization. He spoke on "Building a Better System of Health Care for the American People."

On March 28, the National Bureau and the National Association of Business Economists cosponsored a one-day conference on Forecasting and Recognizing Turns in the Business Cycle. Ilse Mintz, Rendigs Fels, and Victor Zarnowitz presented papers on their National Bureau studies.

Chairman Arthur F. Burns, on leave from Columbia University, is spending the spring semester as visiting professor at Stanford University. On April 23, he delivered an address on "The Perils of Inflation" at the Town Hall, Los Angeles, California.

On March 25, Alfred H. Conrad spoke on "The Developing World" at a New York meeting of the Foreign-Policy Association.

On February 6, Geoffrey Moore addressed a Vanderbilt University meeting

of the Middle Tennessee Chapter of the ASA on the subject of indicators, indexes, and econometrics. On April 17, he spoke to the Albany Chapter of ASA on forecasting turns in the business cycle.

Solomon Fabricant is the author of the introduction to a forthcoming reprint of *The Wealth and Income of the People of the United States, 1915* by Wilford I. King, one of the first Bureau staff members. The book will be issued by the Johnson Reprint Corporation.

Douglas H. Eldridge participated in an international seminar on "Land Taxation, Land Tenure, and Land Reform in Developing Countries," sponsored by the John C. Lincoln Foundation in Taiwan last December.

Daniel M. Holland, on leave from the Massachusetts Institute of Technology, is spending the spring term at the London School of Economics.

John R. Meyer and John F. Kain are organizing an investigation of the relation between urban transportation and poverty at a seminar of the American Academy of Arts and Sciences.

On March 9, Hal B. Lary gave a paper on "Tariff Preferences for Less Developed Countries" at the Tenth Anniversary World Conference of the Society for International Development (distributed as a supplement to this issue of NBER Report).

Professor Vladimir Shamberg of the Institute of World Economics in Moscow visited the National Bureau on May 17. Professor Shamberg, who is especially interested in the growth rate of the United States, spent some time at the Bureau in Autumn 1965.