

**NATIONAL BUREAU OF  
ECONOMIC RESEARCH  
FIFTIETH ANNIVERSARY DINNER**

**Transcript of Proceedings**

**A Supplement to National Bureau Report 6**



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**NATIONAL BUREAU OF ECONOMIC RESEARCH  
FIFTIETH ANNIVERSARY DINNER**  
Starlight Roof – Waldorf-Astoria Hotel  
New York, New York  
February 27, 1970  
**PRESIDING:**

**MR. THEODORE O. YNTEMA:** Honored guests, ladies and gentlemen: We are here to celebrate the Fiftieth Anniversary of the National Bureau of Economic Research and to honor Arthur Burns for his distinguished leadership of the Bureau for so many years. This is also an occasion on which we are happy to greet new friends and to recognize and thank all of you, literally hundreds of you here, who have supported the Bureau and participated in its work.

Sometimes, in statistics, as Thomas Reed Powell has said, "Thinkers don't count and Counters don't think." But, properly done, the enumeration, measurement, and classification of events provide the building blocks of our science and in considerable part the basis for its architecture. This is really the mission of the Bureau. In the Bureau thinkers do count and the counters do think. As you will hear this evening, the Bureau has been preeminent in bringing economics into being as a science – a fledgling science to be true – but still a science.

Our work is rarely spectacular. We are not always in the van of new developments, but often we are. And the new developments would generally have been impossible without our prior work. On this Fiftieth Anniversary of the National Bureau we shall take the light out from under the bushel and let it shine forth. There are too few people who know what the Bureau has done and is doing, and far too few who appreciate how important the work of the Bureau is to the quality of our life, not only our wellbeing, but even our freedoms.

Now I have the honor to convey to you a message from the President of the United States.

"The White House, Washington, Feb. 20, 1970

At a time when we insist more than ever that crucial economic decisions for government and business policy be based on accurate and timely information, it is fitting to pay tribute to the research organization that has contributed so much to economic knowledge in America. So my special congratulations are addressed to the members of the National Bureau of Economic Research on your 50 remarkable years of pioneering development in economic statistics and techniques of analysis.

Your outstanding spirit of public service began with your illustrious founder, Wesley Clair Mitchell, and has continued to this day. I am pleased that my administration has been able to draw on the talents of your former Director of Research, President and Chairman of the Board, and my good friend, Arthur Burns, as well as those of your former Director of Research, Geoffrey Moore. (Applause)

It is particularly fitting that as part of your Golden Anniversary you have chosen to honor Dr. Burns who, for so many years, guided your work, and who best exemplifies the constructive contributions you have made to better government and to a sounder economy. I know that in his new and important assignment as Chairman of the Board of Governors of the Federal Reserve System, Dr. Burns will continue to bring credit both to us and your own illustrious reputation.

As I salute your past accomplishments, I particularly look upon them as evidence that you will continue to give your best efforts to the increasingly complex problems of this new decade. The need for better economic and social statistics has never been so great. And the opportunity for your members to make another distinguished mark in our nation's history is unsurpassed. I know that you will seize it enthusiastically and that America and the world will continue to benefit from your work. (signed) Richard M. Nixon" (Applause)

Among the other messages that we have received, there are two especially worthy of note. The first of these I wish to read both for its substance and for its symbolism of our unpartisanship. It is from Hubert Humphrey. (Applause)

"In your five decades of creative economic research, you have not only set high standards of objectivity and excellence for the economics profession but also provided many of the quantitative tools that permit economic practitioners and policy makers to ply their trade.

For these and other achievements, you deserve the country's gratitude and congratulations on your 50th Anniversary. Hubert H. Humphrey, Feb. 27, 1970." (Applause)

The only surviving member of the original Board of Directors of the National Bureau is Harry Laidler. In his letter he explained that he could not be with us because of ill health, and he concluded, "It will be a great affair and I regret that I will not be there. Extend to Arthur and the Committee responsible for the dinner arrangements my heartiest congratulations. And may I express my gratitude for the 50 years of association with the dedicated leaders of the Bureau from Wesley Mitchell to the present administration — an incomparable group. Sincerely yours, Harry W. Laidler" (Applause)

Tonight, as you can see, we have a stellar cast. And since it is the only chance I have to do so, I wish to salute each one of you on the program for your distinguished contributions, both to the improvement of economic science and the shaping of economic policy. And I am most grateful to you, our honored guests, for your presence and your participation in this program.

Our Master of Ceremonies is Walter Heller. Introducing him is a little like carrying coals to Newcastle; you all know him and his achievements and his honors. So instead of reciting them, let me say a few words in admiration and affection.

Walter Heller is a gentleman and a scholar in the richest meanings of both words. His wit, wisdom, and warmth are soon apparent. With so wide a spectrum

of talents he could have had an eminent career in almost any field. As I've often told him, he could have made a fortune in TV and put his competition to shame.

Happily for us, if not for the tube audience, he has elected to be a scholar and an educator, a dedicated public servant when called, and a generous participant in worthwhile enterprises. In the Bureau he has been a stalwart. I am fortunate, and you are fortunate, that he has consented to be the presiding officer tonight. Walter? (Applause)

**MR. WALTER HELLER:** Ted Yntema, thank you very much. Ted, Arthur Burns, John Meyer, members and friends of the National Bureau: My first assignment this evening is a pleasant but impossible one. In my opening ten to fifteen minutes I've been asked to cover, indeed to cover with glory, two giants of American economics: the National Bureau and Wassily Leontief. But I understand the need for brevity. If we're to get to the dessert of this evening's rich and nostalgic menu by the scheduled hour of 11:25 — when my secret timetable tells me we're to hear from John Meyer under the heading "Forward Looking Remarks," in contrast I suppose with my backward-looking ones — if we're to get to that terminus on time, I'll have to be as terse as Chief Justice Murdock of the Tax Court was when he heard a defendant wind up his plea by saying, "As God is my judge, I do not owe this tax." And Murdock shot back, "He's not; I am; you do." (Applause and laughter)

More than any other economic research organization in the country — and I hope it's not too chauvinistic to say, in the world — the National Bureau's contributions can rightfully be measured not so much in its invaluable research and in its 600 distinguished publications as in its impact on the quality and standards of American economics and economists, and in its development of quantitative measures that make modern fiscal and monetary management possible.

Its high standards of objectivity and integrity are legend, and the legend really begins with the very birth of the Bureau.

Malcolm Rorty, in approaching N.I. Stone in 1915 with the gleam in his eye that led to the founding of the Bureau, said this: "Despite a large fund of statistical data, there is no agreement on the purely arithmetical question, what part of the national income goes to each element of society. Would it not be a great step forward if we had an organization that devoted itself to fact-finding on controversial economic subjects of great public interest?"

And in a letter to Wesley Clair Mitchell two years later, he added: "The plan should be carried through on an absolutely scientific basis and without any attempt on the part of those financing it to control either the findings or the composition of the committee."

On the subject of financing, by the way, I hesitate to mention in the presence of past, present, and potential donors — but in the best Bureau tradition of disclosing all the facts, I will mention — that the target of the first fund drive to launch the Bureau in 1920 was a princely \$10,000. Though the sums have increased a bit — to \$2 million a year nowadays — the Bureau has maintained the

firm policy of accepting no money whatsoever from questionable sources, not even when it gets disarming assurances like the one that Billie Sol Estes recently offered a judge in Texas: "I never sold anybody anything that was nonexistent that they didn't know about it." (Laughter) Now *there* are standards.

Soon after Stone, together with T.S. Adams, John R. Commons, Harry Laidler, Wesley Clair Mitchell, and Allyn Young, launched the Bureau in 1920, the first studies were already coming out: Volume I of the Mitchell, King, Macaulay, and Knauth income study in 1921, and Volume II in 1922. And, sure enough, that very first brace of studies exploded Scott Nearing's assertion that the division between service and property income was about 50-50. Rather, they found it to be about 2 to 1, a finding that was pretty hard on Marxist doctrine in America.

Come to think of it, when one bears in mind what the Friedman-Schwartz studies of money purported to do to Keynesian fiscal policy, and what Sol Fabricant's study of productivity and prices does to wage-price guideposts, one might almost conclude that confronting leftist heresy (or orthodoxy) with unpleasant facts is another great Bureau tradition.

This is perhaps the appropriate point at which to note that for my glimpse of the Bureau's history I am drawing on a Bureau memo which was transmitted to me with a caveat that will strike Bureau devotees as most characteristic. The caveat read, "Please understand that it is an in-house draft copy that has met with no one's approval." (Laughter) But it went on to give the usual type of National Bureau assurance, "However, the facts contained in it are accurate." So I can rely on those.

Moving from the intangible to the more concrete, the Bureau really has a proud record of assisting government, not just by forging new statistical tools, but by providing statistical and analytical underpinnings for national policy decisions. That too started during the Bureau's infancy, when in 1921 a study entitled "Business Cycles and Unemployment" was prepared at the request of President Harding's Conference on Unemployment. It was followed by various studies for President Hoover's and Roosevelt's conferences on unemployment.

Now, noting the conspicuous gap represented by the Coolidge Administration, I began to wonder what might have occasioned it when I chanced to recall some Cal Coolidge quotes on unemployment that suggested the reason. It was his historic revelation that "For a man to have a job, someone has to hire him." And coupled with that was his acute analysis of the mass unemployment problem, which ran something like this: "When more and more people are out of work, unemployment rises." Clearly, since he already had the revealed truth, there was no point in calling on the National Bureau.

The Bureau's close work with the government has gone far beyond the field of unemployment and cycles, including an appraisal of the national economic accounts in 1957 and of government price statistics in 1961, and the preparation of national and sectoral balance sheets for the SEC, and flow-of-funds data for the Fed.

But transcending these special projects are the contributions to the economic tool kit of the nation and its government, for example,

- the seminal work done in measuring the national income and its distribution, with which we all associate Simon Kuznets;

- the development of the net national product and capital consumption series now published quarterly by the Department of Commerce;

- the consumer credit estimates published by the Fed, the business indicators published by Commerce, and the indexes of labor productivity published by Secretary Shultz.

It's all part of the vital role of the Bureau in transforming economics into an empirically-oriented discipline - and discipline is truly the right word in the Bureau context. For the Bureau has really become the guardian of the country's statistical conscience in economics.

Thus, it plays the unique role of the watchdog of the business cycle. No recession is official until the Bureau has spoken. For example, will it or won't it shade the business cycle charts for 1970? Heeding neither the strange coalition of monetarist economists and Democratic politicians who say "yes," nor yet the cabal of "new economists" and Republicans who say "no," the Bureau in its competence and wisdom will decide whether 1970 stays out of the valley of the shadows or enters the annals as the fifth postwar recession. And the world will accept its verdict without question.

This role is not new. When the *New York Times* of May 6, 1958, wanted to comment on the 1957-58 recession, it began its editorial as follows:

"The National Bureau of Economic Research undertook a survey of consumer buying intentions in early April under the supervision of Dr. F. Thomas Juster, and it has now made public its findings. It can hardly be said that these lend much comfort to Washington in its wait-and-see policy." I should note that it ended the editorial by lampooning Washington officialese. It said, "The curve of business activity is showing signs that it might be getting ready to approach an initial stage of deceleration that could conceivably lead ultimately to a condition favorable to the first phase of the process of flattening out." (Laughter and applause)

Quite apart from the business cycle and national income areas, the Bureau's pioneering research has blazed one new path after another to the great enrichment not only of economics as an empirical science, but to the great improvement of economic decision-making in government, in business, and in finance. The Bureau has pioneered, for example,

- in measuring the quantity and quality of credit;

- in measuring investment in human capital and the economic benefits of education;

- in analyzing the conditions conducive to growth and price stability;

- in tracing the quantitative relations between wages and productivity.

And that brings me to a final point on the distinguished half-century of National Bureau contributions, the prickly arena of economic policy. Here the

Bureau's position is clear: It will contribute data, interpretation, and analysis to the policy-maker (and will even contribute a policy-maker now and then), but it will not take policy positions.

Yet, as I read the 49th Annual Report last Fall, I thought that Sol Fabricant was coming perilously close to policy as he threw one statistical or analytical dart after another into the heart of the wage-price-guideposts – and mine in the process, Sol! But Sol judiciously tried to maintain the Bureau's hands-off policy with these words: "I should add that no final judgment on the deficiencies of the guideposts may be made without comparing them with the deficiencies of other ways to do what the guideposts attempt to do." (Laughter and applause) And Sol, I do have to tell you that I believe your words exhibited the same delicacy – and in much the same vein – as the recent British newspaper headline on a grisly murder of a beautiful model which read, "Model Beheaded, Dis-membered, but Not Interfered With." (Laughter)

Yet the Bureau must always strive, as it has in the past, for policy relevance. Indeed, that's a major theme of its Golden Anniversary Year. And as it does, the fine line between fact and evidence on the one hand and value preferences on policy on the other is bound to be crossed from time to time. Let's at worst label it a sin, not a crime (even when it's a sin against the guideposts).

Now, having given you a 10 minute kaleidoscope of the Bureau's five illustrious decades, let me turn to one of its most significant contributions of all to American economics, namely Wassily Leontief, whom the Bureau brought to these shores as a Research Associate in 1931. Indeed, it was Simon Kuznets who went to Ellis Island to greet him.

Born in Leningrad and a graduate of its University with a degree we can all envy – they call it "Learned Economist" – Wassily completed his doctorate at Berlin in 1928. After a tour of duty at the Institut für Weltwirtschaft and as an economic adviser to the Chinese government (I see we have to compare notes some time), he joined the Bureau for a limited tour of fulltime duty before beginning his brilliant career at Harvard.

I don't need to dwell on his enormous contributions to economics. We all know him as Mr. Input-Output, as President of the American Economic Association, from which he brings greetings tonight, and as Director of the Harvard Research Project. Among his many daring innovations at Harvard, *Current Biography* tells us, was that of calling a staff meeting only when there was something to hold a staff meeting about!

What you may not know is that among his many honors and honorary degrees there is one that seems particularly apt: in 1953, the University of Pisa had the good grace to confer upon him the "Order of the Cherubim." Wassily Leontief. (Applause)

**MR. WASSILY W. LEONTIEF:** I feel thoroughly humbled by these introductory remarks. And I dare to continue only because I have the privilege to bring greetings to all those present from the American Economic Association. Of course, I'm fully aware that most, if not all of you, are members of the

Economic Association, so in a sense I am greeting you in your own name, which is quite appropriate, I think, because a kind of a collective position is much stronger than individual positions. I certainly would like particularly to bring these greetings to Arthur and the other members and workers and advancers of the work of the National Bureau.

The few minutes during which I can claim your attention should best be devoted to the actual business the National Bureau is engaged in. I suppose that the attempt to introduce specificity and objectivity in economic analysis by bringing in figures, data, and information is the credo on the banner that was hoisted for the first time fifty years ago. And as Walter suggested, the need for such stress on impartiality very often came from current controversies, like that of who was really reaping more of the bounty this country earned in 1915, '16, '17, and '18 when it was the great supplier of goods and services to its allies. This is how really the interest in national income computation arose and this was the first — possibly the magnum opus — of the National Bureau.

Since then things have changed a little. We became more and more accustomed to try in our controversies not to use different sets of figures for different sides of the argument, but to build the arguments — which might lead to different conclusions — so far as possible on the same set of figures. Although not always achieved, this is a very important practical goal of any factual research; be it a typical situation in an individual corporation when different division managers might want to advocate different policies, each presenting his own set of figures like a lawyer bringing in his own witnesses; be it within the government's different departments; or in the national arena, with the many combative defenders of public interest. As long as each side comes with its own set of figures, the judge — the decision-maker — is really not yet on firm ground.

It is interesting that fifty years ago the emphasis was on objectivity. Already at that time one could speak of "countervailing judgments," each representative of the point of view of a particular interest group, but all referring to the same set of facts. The directors of the National Bureau were drawn from different walks of economic life.

I consulted the charts and came to the conclusion that fifty years is a long enough period to discern a trend and even to be able to extrapolate it. However, there is a nasty Russian by the name of Kondratieff who says it might be just a small part of a long cycle — 500 years up, 500 years down.

Walter quoted all his figures from memory. I just looked up what happened to national income between 1920 and 1970, and found that then it was 61 billion dollars, now we're hitting a thousand billion dollars. And, of course, on this occasion we won't deflate anything. (Laughter)

The moment all of us begin to use the same information, the same sets of basic figures, we will be well on the way towards a truly objective argument. The National Bureau has initiated this movement; by now it has become a tradition in government work also. As long as we have sets of figures which are made public, they can be verified; anybody who finds errors in them can say so and

ask for correction. As long as we have agreed on a common set of facts, there is a possibility of reaching judgments and rational policy decisions on economic matters.

I might parenthetically remark that, of course, by now we all fully understand — as a matter of fact Wesley Mitchell and Commons, and other founders of this movement realized — that economic data are not enough. We have to go far beyond strictly defined economic information. Technology and on the other side demography, family structure, all kinds of social data are drawn more and more into the circle, and let us hope that the National Bureau will move quickly and on as sure a footing in this wider area as it did up till now in the narrowly defined economic fields.

Now, let us look at still another aspect of the National Bureau's work. There is always a dialogue going on — sometimes friendly, sometimes not so friendly — between the theorists and the interpreter of the observed facts; the fellow who thinks that by strict logic he can draw conclusions from self-evident assumptions — at least self-evident to him — and the empiricists who insist on facts and nothing but facts.

Now — and not speaking as President of the American Economic Association because I naturally do not want to offend any of the members of my constituency — my own feeling is that a set of pure facts, facts alone, objective clean facts, are just like a pile of bricks. So long as they are not interpreted, just certified and registered, they don't speak for themselves. On the other hand, pure theory indeed is only a blueprint, it's not a building. When one tries to put a building together according to a blueprint, one often discovers that the door doesn't open because it hits the fireplace and the roof sags because it has not enough support. Pure blueprints are very often designs for castles in Spain that actually do not and cannot exist.

It is very much to the credit of the National Bureau that in its development it tried and occasionally even succeeded in bringing together these two elements — fact-finding and analysis — into an organic whole. Indeed in these complicated processes you don't have direct progress. As in riding a bicycle you sway left and right to keep the equilibrium, so in the development of our discipline one can observe cycles. We develop theories, run a little short of facts and get into trouble. Then we turn around and begin to grub for facts. One piles up facts, only to discover that one doesn't know what to do with them. Again, we swerve in the direction of analysis, of theoretical interpretation.

Now looking at the present state of economics — and this is, of course, a more or less subjective impression — we are still a little long on theory and a little short on fact. Of course, the hunger for facts never abates, and there are those who say enough is enough, you have to stop. But I do not think there is a limit. As our theory acquires greater ability for handling facts, we'll require more and more of them.

But let us not be mistaken. There is a limit to the amount of facts a theory can absorb or digest at any given time. And if too many are stacked up it gets

indigestion. It begins to raise facts; it begins to compute averages, indexes, and to resort to many other devices which reduce a thousand facts to one, losing in the process all important individual details. Today, we certainly commit much less of this crime of killing facts by averaging them than we did in the past. And here, a very important contribution of technological progress comes in – the computer; the computer which enables us to handle practically unlimited amounts of quantitative information, with great virtuosity without resorting to averaging devices, i.e., without any or with only very little loss of relevant and valuable detail.

Looking through my old correspondence I came across a letter addressed to me from someone in the Bureau of Labor Statistics in Washington. "Professor Leontief," it said, "we heard that you have some kind of machine that can perform computations much faster and cheaper than we with our desk computers can" (you see governments always were very economical). Electronic computers were not yet invented at that time, but mechanical, large mechanical, computers were already in use – they were very clumsy, but did enable us to compute faster.

Let me add that then, as now, to induce the government to accept something new required a certain amount of cunning. Obviously the Budget Bureau did not provide a special appropriation for paying computing machines or for the services of computing machines; so in order to justify such an expenditure, it appeared in the budget as an expenditure for constructing and transporting a matrix from Cambridge to Washington. I'm sure that the comptroller in the accounting office of the B.L.S. visualized a big van rolling up, loading, and transporting a huge object which was actually only a piece of paper in my pocket.

But levity aside, the problem as far as fact-finding activities are concerned is a very serious one. Let me devote my concluding remarks to what we must probably envisage in this field in the years ahead. Information is exceedingly expensive, much more expensive than computations. I think many of my colleagues will agree that in an average piece of research involving gathering of factual information which is not yet available, 90 per cent of all efforts will be absorbed by this task – by efforts I mean costs, dollars – and possibly 10 per cent, or even less, will be spent on computations. At the present time, we are probably in a phase where, in order to keep on even keel and to advance, we must dedicate our major efforts to deepening and widening the flow of facts.

In contrast to natural sciences, economics deals with factual information – with "parameters" – which are perishable. We have to reproduce them all the time. Newton could have measured acceleration and this would have been good for always. We have to measure and remeasure and go on observing and measuring. Economic analysis could be visualized as an intellectual enterprise which absorbs the flow of facts like a turbine that utilizes the force of flowing water processes them and delivers the results. That continuous flow of facts is indispensable for us and, if our knowledge is to advance, that flow must steadily increase.

This task is so difficult and so vast that we cannot leave it to the government alone. In the United States, we transfer some functions from private business to the government, others we transfer occasionally in the opposite direction. We have a very large information industry in the United States already. Economists should, now more than ever, encourage and help to organize the production of relevant fact for economic analysis by private business.

Mailing lists are being marketed. Why not market much more sophisticated information which can be produced and has to be used by economists, in independent institutions like the National Bureau, by governmental agencies, and also more and more by private business? On the one hand there is a trend toward greater use of economic analysis on the government, on the other hand every large corporation now has fast-growing planning and market-analysis divisions dealing with economic facts. We are moving into a new phase — a phase of truly large-scale economic research. The business community that supported the National Bureau should be called to contribute generously not only as it did by providing financial resources, but even more important, by voluntarily providing factual information to which it has exclusive and direct access. Certainly the National Bureau could play a central role in bringing such a supplementary information system into being.

In conclusion let me give a parting personal glance into the past. Thirty-eight years ago when I was escorted off Ellis Island by Professor Kuznets, and brought directly to the National Bureau, it was, of course, located like all the good businesses and important institutions downtown. I remember very well that it was Madison Square. However, there were two insurance companies on Madison Square; one was the Metropolitan Life and the other the New York Life. Was the National Bureau located in the Metropolitan Life or New York Life building? (New York Life — answer from the floor). You see, this proved to be a more portentous question for me than you might think. Soon after my arrival I met a girl I liked very much. We agreed to meet again in the lobby of "my" building, but I forgot which of the two insurance companies this was. (Laughter) We didn't meet that evening since the girl was waiting for me in the New York Life when I was in the Metropolitan. But an economist cannot be put off by a small factual error; the girl now sits a few tables from me among you. And the National Bureau is now located forty blocks uptown from Madison Square. If northward moves continue to mark prosperity and progress, I hope that on its hundredth anniversary the National Bureau will be located in Boston. (Applause)

**MR. HELLER:** Thank you very much, Wassily. You spoke of working from the same set of facts, and of the sad truth that even when we are all working from the same set of facts, uninterpreted, they remain just a pile of bricks. You bring to mind the man who became a bit unstrung in trying to interpret some current business statistics. Noting that freight car loadings for the month of June were down 22 per cent while alcoholic consumption was up 14 per cent, he concluded: "As I see it, that proves that more people are getting loaded than freight cars." Interpretation *is* important.

You reminded me also of the fellow who took me through the computer installation at the National Bureau of Standards one time. As he showed me their marvelous new computer, he patted it on the head affectionately and said, "Right or wrong, it's always accurate." (Laughter)

It's now my pleasure to introduce George P. Shultz, who has done — that was an unintended but perhaps not entirely irrelevant sequence — such conspicuous honor to the profession of economics through his intelligent and skillful management of the Department of Labor and his leadership in President Nixon's manpower policies, that it really seems almost superfluous to introduce him to you — almost, but not quite. Because how else would you find out, for example, that he, like the Bureau, was born in that economic vintage year, 1920? Second, that at the age of 12, in the depths of the depression, he launched a bold business enterprise, a mimeographed newspaper? It came a cropper when a neighbor refused to pay a nickel for it, pointing out that he could get the *Saturday Evening Post* for that same price. He was just about 30 years too early. Strange to say, out of that experience grew a great belief in the market system and a hands-off policy on labor-management relations. (Laughter) I wish he'd explain that.

Third, how would you find out that he has the highest qualification a Republican cabinet member can have, namely, service as a senior staff member of Arthur Burns' Council of Economic Advisers?

And fourth, that mild-mannered as he is, he plays an aggressive game of tennis? And, by the way, he must have felt particularly aggressive when he read the caption of the recent action shot of him in *Business Week*. I'll read it to you: "On the tennis court George Wirtz is hard-hitting." George Wirtz — that's bipartisanship carried too far.

And fifth, how would you know that in 1969 he beat out Mayor Daley by an eyelash for the Junior Chamber of Commerce Award of "Chicagoan of the Year"?

Of course you do know George Shultz as a PhD and then Director of Industrial Relations at M.I.T., as Dean of the Business School at the University of Chicago, and as a great public servant, indeed, as everybody's favorite cabinet officer — well, *almost* everybody's. I decided to limit myself to just three unpleasant words, George, in introducing you tonight, and they are respectively: oil, import, and quotas.

May I say, Mr. Secretary, that even if you talk here about a "cooling economy," which you probably won't, or about "gently rising unemployment" and "a price trend that is on the verge of turning down," we promise you a warmer reception than you seemed to be getting at the AFL-CIO Executive Council in Miami Beach last week.

Ladies and gentlemen, the Honorable George P. Shultz. (Applause)

**THE HONORABLE GEORGE P. SHULTZ:** Walter, I need hardly thank you for that introduction! It is wonderful to be back in the academic atmosphere, I must say, here at the Waldorf. People have wondered how I ever got in the

Cabinet, and the story really is that I had to do something so that it didn't come true in my case that old deans never die, they just lose their faculties. (Laughter)

I was speaking to the Women's National Press Club the other night - Walter, you remember that that's the sort of thing we political economists do all the time - and I started out without quite realizing it - and they're always asking you how things are in the office and so forth - and I started out by saying "Well, after a little more than nine months in labor - I feel like my theme song should be 'I've been working on the railroad.'" What's really true is that they've been working on me. And there's very little to be said for either one of us after the ordeal that we've been through.

Now, it is a great privilege for me to take part in this dinner honoring the National Bureau. The whole country, and certainly all economists owe the organization a tremendous debt of gratitude. We think of the works of scholarship, which are many, that have been talked about here, the ideas, the statistical series, and a banner of genuinely careful empirical work that the Bureau has carried for so many years.

And I suppose particularly this evening we think also of the many men that the Bureau has produced. I'm conscious in the Department of Labor of Geoff Moore, and, of course, since he's been combing everything that I send over to the White House for the last year, I'm especially conscious of Arthur Burns. But we're all his students, and I think especially those of us who've had the privilege of a close personal association with Arthur - we know what a great teacher he is, what a great economist he is, and what a great American he is.

So it's a great pleasure for me to take part in this ceremony honoring him, and, of course, we wish that all - all of us wish that we knew, even though the market is closed, exactly what Arthur is thinking. (Laughter)

I thought I would do two things: I'm a little put off about the first one. I think I'm going to talk about guideposts alright, but naturally, I have a certain point of view on that, and I don't know whether it's still worth expressing, since even Walter Heller is poking fun at the guideposts these days. But I do want to talk a little bit about that subject, since it's been brought up a great deal.

And then I thought I might give a little lecture to any Federal Reserve Board staff members present on what I would regard as Burns' Laws.

But if we turn to the question of inflation - I certainly don't want to come out in any detail, or talk about the over-all strategy of the Administration - that's been done a great deal. You all know that story. I think it is broadly evident that the strategy is working; certainly there are lots of problems, and the delicate balances involved are nowhere better expressed than in the testimony Arthur Burns himself gave recently before the Joint Economic Committee.

The fiscal and monetary policies pursued in 1969 have set the stage for further progress in the inflationary battle during 1970. The excessive demand pressures which have fed the inflation in recent years have now been cooled. Since this cooling of demand pressure is now fairly well recognized, there is no need for elaborate documentation at this time. I would, however, like to point

briefly to a number of indications of what has happened in this area. The broadest measure of the cooling in demand pressure has been the slowdown in the growth of real Gross National Product during 1969 — real GNP grew at an annual rate of about 2.4 per cent from fourth quarter 1968 to first quarter 1969, and had stopped increasing by the fourth quarter of 1969. The composite index of twelve leading indicators compiled by the National Bureau of Economic Research reached its peak in September. Private nonfarm housing starts, which are directly affected by restrictive monetary policy, were one-third below the January peak by December of 1969. The index of industrial production has been dropping since July 1969 and, despite price increases, dollar sales of retail stores leveled off or declined slightly in the last half of 1969. This list could be extended, but the general picture that emerges is the same — demand pressures cooled appreciably in 1969.

The Administration's strategy in bringing about this cooling, which is expected to achieve further and more dramatic results on the price front in 1970, has been based on moderating fiscal and monetary policies. The reason for relying on fiscal and monetary policy is that such policies are fundamental determinants of inflation and economic activity. This conclusion is strongly supported by both economic theory and the real world facts of economic history. Despite the impressive evidence of the power of fiscal and monetary policy in fighting inflation, many people have urged the Administration to take other steps ranging from outright wage and price controls to more informal techniques such as "jawboning" by the President or other officials of the Administration. The Administration has rejected such techniques. I would like to take this opportunity to make more clear the reasons for not taking such steps.

#### *Jawboning*

I will restrict my comments to jawboning since many people who feel wage and price controls are unacceptable do urge jawboning.

Jawboning is usually taken to mean the practice of calling people into the White House or somewhere else in Washington and having the Administration apply various pressures ranging from simple oral persuasion to threats of political, economic, and other reprisals in an effort to prevent or moderate price increases. The last Administration jawboned both openly and covertly and, in a number of instances, directed public attention to the success of these efforts. Recently, Arthur Okun, the last Chairman of the Council of Economic Advisers, made public his statistical analysis of the effect of jawboning on various industries whose prices are included in the Wholesale Price Index.

As always, he is careful in his work and professional in his approach. Since his is one of the very best minds in our profession, his work deserves careful study. Even though I have a different view on this matter, I respect his view.

Okun examined changes in the wholesale prices of twenty-two selected industrial commodities which he believed were responsive to White House

persuasion from 1966 to 1968. In the "jawboning" period (1966-68), these prices rose 1.7 per cent compared to a price rise of 2.3 per cent for all other industrials. In contrast, the prices of the "responsive" products rose 6.9 per cent, and the prices of other industrials rose 3.5 per cent in 1969 when there was no jawboning. Okun concludes his analysis with an estimate that the cost of not jawboning in 1969 was an increase of from 0.5 to 1.0 per cent in wholesale prices of industrial commodities.

I question the validity of this estimate and urge caution in attributing these differences mainly to jawboning. Numerous other factors are at work.

Four of the twenty-two selected prices (i.e., more than 18 per cent) either decreased or increased less in 1969 than during the 1966-68 jawboning period. For example, sulphur prices decreased by a third in 1969 following a rise of over 18 per cent in the 1966-68 years, apparently because of increased supplies. Similar changes in the supply and demand factors are obviously always occurring and, without a more detailed analysis than Okun's over-all comparison provides, it is difficult to determine with any precision the actual impact of jawboning. The following summaries indicate the multitude of factors affecting prices and suggest that in many cases, such as steel, copper, and aluminum, jawboning in 1969 would have had limited success at best. In other cases such as tires and tubes and sulphur, it is difficult to identify the impact of jawboning during the 1966-68 period.

#### *Selected Steel Products*

Steel price increases during the Kennedy and Johnson Administrations took place in an environment of relatively stable domestic and world steel markets, making it most difficult to disentangle relative effects of jawboning and other forces. During 1969, any possible impact of jawboning probably would have had little influence on steel price increases, primarily because of three factors: reduced foreign competition, actual and potential, in the domestic market as a result of informal import quotas; a substantial increase in world demand which enabled the industry to increase exports considerably, especially of semifinished steel products; and the nickel strike in Canada, which directly caused significant increases in prices for steel alloy products. The import controls, though informal, appear to be highly effective, at least in the context of strong world demand. According to an article in the *Journal of Commerce* of August 22, 1968 "Steel imports have risen each year since 1961 with an annual tonnage increase averaging more than 40 percent." In sharp contrast, latest AISI figures indicate that in the first 11 months of 1969, imports of steel mill products to the U.S. were of by 22 per cent.

#### *Selected Nonferrous Metals*

Jawboning apparently had some effect on attempted price increases for both aluminum and copper in the past. However, it is unlikely that it would have had much effect on copper prices in 1969, since several significant influences were at

work. Production of domestic copper was lower than anticipated. This forced U.S. users to seek additional copper supplies from higher priced sources including imported, secondary, and copper scrap. Prices of these copper raw materials followed the free market where prices rose by more than 40 per cent in 1969. Moreover, jawboning can be applied only to producer prices and these amount to only about a half of all copper sales. The remainder – dealer and scrap sales – are free market prices and both are currently above producer prices. The current supply shortage of copper may in part be attributed to jawboning and the resulting increases in dealer and scrap copper prices are an interesting example of spillover effects.

*Selected Petroleum Products*

The petroleum industry is always under close scrutiny by the Federal Government because of petroleum's importance in terms of national security and foreign policy. Since 1959, imports have been regulated by the Federal Government and these controls determine in large part the level of domestic prices. Insofar as the Government already occupies a central role in the determination and maintenance of domestic petroleum prices at high levels, analysis of the additional influence that jawboning may have seems somewhat pointless.

*New Passenger Cars*

Using the October to October over-the-year comparisons (which has been the first month after new car introduction in recent years) affords a more realistic comparison than December to December when rebates for some models have already begun to appear:

	October to October	December to December
1967	1.9	1.9
1968	1.5	1.2
1969	1.6	1.9

In 1968, rebates in December were significantly greater than in 1969, thus, distorting the December to December comparison. Rebates, of course, reflect directly market competition. Jawboning resulted in rollbacks of announced price increases by Chrysler and Ford in 1966 on 1967 models and by Chrysler in 1968 on 1969 models, and G.M. was said to have been persuaded to reduce the amount of increase they had anticipated making in January 1968, when shoulder belts were added to 1969 models as required by a Federal Safety Standard. Note, however, that the net increase of 1.6 per cent from October 1968 to October 1969 was less than the average of 1.7 per cent the two previous years. Quite probably, failure to raise prices more than 1.6 per cent on 1970 models reflected manufacturers' uncertainty about demand and continued, perhaps accelerated, competition from foreign producers.

### *Sulfur and Sulfuric Acid*

One commodity expert during these years was not aware until he read the article that jawboning was ever used in connection with sulfur and sulfuric acid prices. Certainly it had no appreciable effect during the 1966-68 period, as prices of crude sulfur and sulfuric acid rose more than 18 per cent. During 1969, sulfur prices declined by about one-third.

### *Tires and Tubes*

Price weakness shown by tires and tubes during the first half of the 1960 decade was a continuation of a longer term declining trend which began in 1959. Since demand remained strong, these decreases reflected lower unit costs achieved by high productivity and the effect of competition for market share, particularly between private-label tires and major manufacturers' brands. Price recovery in the second half of the 1960 decade reflected the industry's ability to pass through the market price structures current increases in cost without impairing demand which remained strong. However, in the final quarter of 1969, prices were still below levels prevailing in the 1956-58 period.

### *Paperboard*

Price decreases over the period 1960-68, but particularly in the years 1966-68, were due to overcapacity in the industry. Overcapacity has been a problem since 1957-59. The increase in 1969 has followed a reduction in the rate of additions to capacity with the consequent catching up of demand. Limited additional capacity slated for the next two years will assure firm prices during that period. As indicated above, the price level in December 1969 was significantly below the 1957-59 base period.

### *Glass Containers*

Prices of glass containers have been characterized by relatively long periods of stability. Such was the case in the years through 1967. A strike lasting nearly two months, which occurred in the first part of 1968, depleted manufacturers' stocks and resulted in higher wages. Prices were adjusted upward immediately. Further increases occurred at the end of the year and particularly in January 1969, in the industry's words, "to adjust to higher costs."

### *Cigarettes*

Cost pressures for a general price increase were building for about two years before the increase that occurred in June 1969. Jawboning may have delayed the increase which otherwise might have taken the form of two separate increases in the two years rather than one big increase. However, jawboning probably had little to do with net price behavior since wholesale price changes are infrequent for cigarettes and manufacturers may simply have waited as long as possible before raising prices, especially in the face of declining sales and greatly increased taxes at retail.

### *Newsprint*

Prices of newsprint were held down in the period 1960-68 by increases in capacity in both Canada and the United States. Capacity increases were particularly important in the southern states and were reflected in stable prices in the years 1966-68. Reasons given for the January 1969 increase were higher pulpwood and manufacturing costs.

### *Photographic Supplies*

Since the industry is dominated by one firm, Eastman Kodak, it would be an easy industry in which to attempt jawboning techniques. There are, however, three factors that might explain the differences in the annual rates of changes for prices aside from any jawboning pressures. Film prices and prices of photo papers using silver halides have risen in the past two years due to higher silver prices. Film manufacturers blamed silver for increases in both years, but the majority of film produced was color types which use only a small fraction of the silver salts consumed by black and white films. Mounting labor and transportation costs had a lot to do with the increase and these cost pressures were stronger in 1969 than in 1968. In addition, the initial price increases for film were not met by any consumer resistance which encouraged manufacturers to announce further increases. Finally, a price war of sorts in the photocopy field caused some reductions in prices of photocopy paper in 1968.

### *Laundry Equipment*

In laundry equipment, the 1961-65 change of -1.3 per cent and the 1966 change of -.1 per cent appear to support the thesis that jawboning did work in this industry; but the contrast of 1967 and 1968 increases of 2.4 per cent and 2.8 per cent with the 1969 increase of 1.2 per cent would not support the contention. Supply and demand tend to dominate in this competitive industry.

It is significant that Okun's analysis contains no discussion of attempts at jawboning in the areas where really large price increases have occurred such as construction, food, and medical care. Equally significant is the absence of any discussion of jawboning with respect to wage increases. The reason for these conspicuous gaps is quite obvious – jawboning simply would not work in these areas. In 1968, the consumer price index rose 4.7 per cent and in 1969 it increased about 6.1 per cent. The difference of 1.4 per cent is explained entirely by more rapid increases in prices of food, housing, and private transportation during 1969 – prices which, by and large, cannot be "jawboned."

In view of these considerations it is difficult to assess just how successful jawboning really is. At the same time, I do not mean to imply that jawboning has absolutely no effect. It is clearly possible to intimidate producers in selected cases and thereby alter prices. However, it does not follow from these particular instances that jawboning is really useful in stopping the over-all inflation, which is, by definition, a widespread phenomenon.

An even greater danger is the tendency to view jawboning as an activity which, at worst, is ineffective and innocuous. In fact, there are many undesirable effects of jawboning, and these add up to too high a price to pay for the spotty and limited success that jawboning has. There are at least the following five undesirable aspects of jawboning.

a) *Jawboning directs attention away from the fundamentals.* The use of jawboning in a few highly visible situations may lead to the impression that something is being done about inflation, when, in actuality, the problem is getting worse because fundamental causes are ignored or at least relegated to a less prominent position. This is something like plugging a thermometer to stop a patient's fever instead of attacking the underlying illness. As the previous tables on price increases show, the rate of price increase generally accelerated during the jawboning years and appears to have stopped accelerating when jawboning was abandoned in favor of fiscal and monetary restraint.

b) *Jawboning is highly selective and inequitable.* Jawboning is applied to those who it is easy to jawbone and not necessarily to such exceptionally high price-increase industries as food, medicine, and construction. This is an inequitable allocation of the responsibility for halting inflation which is widely spread throughout all sectors of the economy.

c) *Jawboning is regulation without representation.* Jawboning provides no representation to those "jawboned" but is otherwise very similar to formal government regulation in setting standards, selecting targets, and applying pressures. No standards are set for the selection of organizations to be regulated by jawbone and no open process of appeal or representation is established. The target is dictated by the procedure as is the regulatory result to be sought.

d) *Jawboning is a misuse of executive power.* The President does not have any direct legal sanction for jawboning and, as a principle of government, it is not desirable to use powers that have been granted for other purposes to intervene in areas where specific authority

has not been given. Indeed, in some cases meetings held under government auspices to discuss prices amount to official encouragement for violation of antitrust laws.

e) *Jawboning interferes with, and may seriously disrupt, the operation of the price system which is essential to the allocation of resources in a free society.* By dealing with selected prices rather than the movement of the over-all price level, jawboning can lead to undesirable shortages or surpluses in certain markets. A related example is the effect of interest rate ceilings on time deposits and savings and loan shares, ceilings which have tended to keep badly needed funds out of the home mortgage market in recent months.

It has been argued that there is an appreciable range of discretion in the determination of many important prices and wages and that the government should act to keep any such decisions at the lower end of this range especially in periods of inflation. Even if such discretion exists (and the extent of it is far from clear) this does not provide a justification for jawboning. In addition to the disadvantages of jawboning listed above, no formal attempt appears to have been made in the case of the jawboned industries to determine the nature of the wage-price structure or the multitude of factors that affect wage and price decisions. Such analyses are important in order to provide well-informed public judgment on what is happening in key wage and price areas and to provide a monitor on the functioning of the free price system. The Administration undertook such an analysis of the sharp lumber price increases last year and was able to identify certain factors which, when rectified, would help ease the upward pressure on prices in that industry. These factors involved certain government controllable supply constraints and demand influences which could be modified without recourse to jawboning. In this case there was no interference with the price decision process per se, but it was possible to correct some of the factors influencing these price decisions.

The Administration is now considering proposals for establishing such evaluative and analytical capabilities on a more formal basis, not with the intention of intervening in the wage and price decisions of the market but to provide information on what underlies these decisions. Such analysis may suggest modification in government activities and practices or other factors that could ease those problems that are uncovered. The sudden and sharp increase in 1969 of the spread between farm and retail beef prices is an example of the type of problem that bears investigation. The influence of government on the market is discussed in greater detail in Chapter 4 of the 1970 *Economic Report of the Council of Economic Advisers*.

Well, so much for my little essay into guideposts, and now let me talk for a moment about Burns' Laws, and here I'm talking to the Federal Reserve Board staff, of course. (Laughter)

Well! First, all calculations must be checked at least twice, independently.

Second, we must develop measurements of all the key variables. Be sure they're as good as possible, and understand their strengths and limitations.

Third, always identify the logical structure of the argument, and if it has none, discount it and him. (Laughter)

Fourth, be willing to live with ambiguity, have patience, suspend judgment, wait for the facts to come in.

Fifth, certainly don't be satisfied with examination of the aggregates. Look below the aggregates and the over-all movement of the figures; at the components, as certainly the components may be the most revealing, let alone appealing.

And finally, it's important to examine the facts, and as Professor Leontief stated, to have a good conception for the relationship of the facts to the theory.

And so I would like to close with a little song, which I will try to sing to you. And this is by way of a sort of a ballad for Arthur Burns, and it's my nomination for the alma mater, at least for the old National Bureau, if not for the new, and the theme song for the new Federal Reserve Board. And I'll tell you I'll give it a riffle through the first verse, and then I expect especially the head table, which has some briefing, to at least join me on the second, but I expect all of you to join me, too.

Ready? (Laughter)

A fact without a theory,  
Is like a ship without a sail,  
Is like a boat without a rudder,  
Is like a kite without a tail!  
A fact without a theory  
Is like a tragic final act.  
But if there's one thing worse  
In this universe

It's a theory — I said a theory — I mean a theory —  
Without a fact! (Laughter and applause)

MR. HELLER: I assume you're applauding his song and not his logic. (Applause) Now you can see why George Shultz was my favorite candidate for Secretary of Labor in Mr. Nixon's Cabinet — and why I kept it so quiet.

George, I am of course tempted to reply on the guideposts but feel barred by time and circumstance. I'll reply only to your question about political economics in 1961-62, that is, the thought that we could get those fellows on Constitution Avenue to come over to our side on expansionary policy by this kind of structural device known as the wage-price guideposts. So far as I know — and memory is a treacherous thing — this is the first time that the thought has ever crossed my mind. Don't misunderstand me, George, it's a pretty good thought. But it's 8 or 9 years too late.

I'll permit myself one other comment. Much as I believe in the guidepost principle, both then and now, I've never been one of those defenders of the guideposts who pretends that they are a perfect, even-handed, instrument. Far from it. Ted Yntema will remember that CED conference out in Los Angeles when I commiserated with John Harper, head of Alcoa, after he was hit with the aluminum stockpile. I suggested that he must feel like the fellow next to Irving in summer camp. The Camp Director had written to Irving's mother as follows: "Please give us written permission to administer corporal punishment — I suppose they really would have preferred 'capital' — to Irving. He is a terribly disruptive force in the camp." Quickly, she wrote back, "Please don't hit my Irving, he is a sensitive boy. Hit the boy next to him, and he'll get the point." Well, the guideposts are like that, there's no denying that. (Laughter and applause)

It's a bit like the answer to the question, "How do you like growing old?" "Not much, but it's better than the alternative." One defends the guideposts not as the best of worlds but rather in terms of Churchill's well-worn cliché about democracy; "It's the worst form of government except for all the others." So much for the guideposts, at least tonight.

John Meyer, I certainly don't need to introduce you to this audience. This man, who has the best of three worlds — his degree from Harvard, his appointment at Yale, and his job at the National Bureau — has several pleasant tasks to perform before he makes his "forward-looking remarks." Yet, before I turn the meeting over to him, I want to say just a word about the exciting sixth decade of the Bureau that we look to under his leadership.

As we enter it, I am reminded so vividly of those exciting days in the thirties when the national income concepts and components, their inclusions and exclusions, were being hammered out. In that connection, I was fortunate as a graduate student doing some work on income taxes to attend National Bureau meetings at Hillside, ones that served as a window on this fascinating process. One particularly intriguing and vigorous controversy was over the inclusion in national income of illegal earnings, specifically those from the oldest profession. After the most careful research — field research I presume — and due deliberation, they were included. There were to be no moral judgments in national income statistics!

And now, as we move from a decade where growth and quantity were in a sense king into one where, I hope, the *uses* of growth and quality — priorities, as President Nixon and his Council of Economic Advisers have emphasized — will be in focus, the National Bureau in general, and John Meyer in particular, will be launched on a new quest for modifications of GNP concepts, on an attempt to measure social welfare and the quality of life. As Arthur Burns, whom we gratefully honor here tonight, is quoted in *Time* this week: "I look forward to the day when statisticians add up the national accounts to take account of the depreciation of the environment . . . . When we learn to do this we will discover that our gross national product has been deceiving us."

Now, there are many who say that the job can't be done, either analytically or statistically. But, I submit, if there is any man that has what it takes to do it, it is John Meyer — John. (Applause)

**MR. JOHN R. MEYER:** Thank you, Walter. You've stated it very well. My task tonight is indeed a very pleasant one; that of honoring individuals who have made especially important contributions to the National Bureau's development.

One striking feature of the Bureau is that it has been able over the years to meld and draw on the talents of many diverse personalities, intellects and points of view. And it's long been that way. Malcolm Rorty and N.I. Stone, who were mentioned as among the important founding fathers of the Bureau, illustrate this point very aptly. Stone was a student of Karl Marx. Rorty was long a business economist with AT&T. The two gentlemen first met, as the story goes, when testifying before the New York State Senate Committee on minimum wage legislation. As you might expect, in the best tradition of the Bureau, one was for it and one was against. But in spite of that, they became lifelong friends and did much to develop the Bureau.

Now, that same tradition, I think it is quite obvious from our discussion of guideposts, holds true today. When I first came up to this podium tonight I was a bit astounded to find that I was seated right beside the microphone. When I asked the young lady who had made these arrangements why, she told me it was because I had to jump up and down while making the presentations and therefore had to be near the microphone. Since listening to the discussion, I think there may be other reasons. It is probably the most dangerous seat in the house!

Having said this, that the Bureau's importance as an institution derives much from the fact that it is a collectivity of many different people, it is nevertheless fair, I think, to observe that certain individuals have contributed importantly and in special ways. Indeed, only four people have had the privilege or the duty before me of creating and directing the National Bureau's research program. These four are: Wesley Clair Mitchell, Arthur Burns, Solomon Fabricant, and Geoffrey Moore. And we're very privileged tonight to have the three living members of that quartet with us; Arthur, Sol, and Geoff.

It is too much to review the whole story of the Bureau over the past 25 years, that is since our last celebration. The Bureau really is a terribly parsimonious organization: we have parties once every 25 years. That's exactly our regularity; it has a certain cyclical aspect to it. But basically the story of the Bureau over the past 25 years is really the story of the contribution and creativity of Arthur Burns, assisted by Geoff and Sol; that's the simplest way of summarizing it. If the first 25 years were really Wesley Clair Mitchell's, as I think they were, the second 25 have been the work of Arthur, Geoff, and Sol.

It would take much too much time to go through a long list of the things they have done over those 25 years. It has been 25 years of very rapid growth at the Bureau. For example, much of the increase in the budget that Walter referred to, from \$10,000 to a little over \$2,000,000, occurred mainly during that period. It was a period when important new grants and important new studies came to the Bureau.

Just to recite some of them, it was during this period that the Bureau formally launched its studies of human capital under the direction of Gary Becker, studies which have been so important in so many ways to the Bureau and to economics generally. It was also during these 25 years that Simon Kuznets, Moses Abramovitz, and Raymond Goldsmith did so much to improve our understanding of the processes of economic growth and of capital formation.

There was also the International Program which was launched a little more recently. This was a program under the direction of Hal Lary, who is sitting here at the end of the podium tonight. The work ranges from preliminary investigations of overseas investment by U.S. firms and its impact upon American trade patterns and balance of payments to attempts to improve international comparison of price statistics, to trying to better measure the actual capital and labor content of our exports.

It was also during this period that much was done to launch studies on the quality of credit, on the contribution of various taxes to the growth or lack of growth of our economy. It's also during this period that Victor Fuchs' very important studies on health economics were undertaken with a grant from the Commonwealth Foundation. Indeed, I think it would be remiss of me if I didn't point out that so much of this growth was due to the generosity of several foundations: Rockefeller, Ford, Sloan, Carnegie, the Sherman Foundation, Mellon; there are many others and I'm sure I'm missing some and I apologize for those I've missed.

But, let me really get down to the heart of the matter tonight; that is of saying what these three people have contributed. Indeed, these brief listings of the new studies that they have helped create just scratches the surface.

In many ways I suspect that they would like to be best remembered not so much for the new studies that they started but rather for the young people they encouraged and helped and the high standards of objectivity and quality that they maintained both in their own personal research and in their overseeing of the Bureau's program. Indeed, I suppose that in many ways it's easy to forget about the special nature of the contributions they've made to the Bureau. They are all three best known – and I suppose that this is proper in research – for their own personal research contributions. But tonight it seems proper to redress this balance just a tiny bit and to note the very special contributions they made in organizing and administering the research of the Bureau. In many ways these are thankless chores and that's why redressing this imbalance is especially appropriate on this night. And in keeping with that, I'd like to make a few presentations to them. Now in these presentations, I'm really acting as the agent of the staff of the Bureau. A good deal of discussion, in fact, went into just what they should be presented with, what was appropriate, etc. After due deliberation, the staff commissioned me to do the following.

First of all to present to Geoff and Sol these silver trays which are specially engraved in remembrance of this occasion and in particular remembrance of their contributions.

It simply says, to Geoffrey H. Moore, or Solomon Fabricant, in appreciation by the National Bureau of Economic Research, on the occasion of its Fiftieth Anniversary. That's small payment, indeed, for all the many hours, the many heartaches, too, and the many special aids they've rendered to all of us here, at the Bureau. Sol. Geoff. (Applause)

Now, Arthur, our very special guest tonight is known to the world at large for many other accomplishments and achievements. But as I have already pointed out, tonight we wish to stress the many unique contributions he's made to the Bureau.

By way of characterizing that contribution, let me repeat to you something that he once said to me, in private conversation. I don't think he'll feel this is a violation of any confidence. I remember it well. "There's only been one thing," he said, "that I've always stressed and have been unwilling to sacrifice when making decisions concerning the Bureau. That is the quality and basic integrity of our work." He has, in short, always sought the best, been a perfectionist when evaluating and designing the Bureau's research efforts. More importantly, he has succeeded uncommonly well in achieving that goal. It is for that reason as well as for many others that we honor him tonight.

Now the staff, Arthur's former colleagues at the Bureau, thought long and hard as to what would be the best way of recording our thanks. This was no simple task. It is not easy to know how to honor a man who's had so much variety and achievement in his professional career. The only thing that seemed clear was that some remembrance of his many years and contributions to the Bureau seemed appropriate. Toward that objective it is my great pleasure to present to you, Arthur, on behalf of the Bureau and your former colleagues and friends there, a specially bound set of all the many writings and contributions you've made to Bureau publications. I've been told that if I try to pick this up and ask Arthur to hold it that I will change the old academic motto of "Publish or Perish" to "Publish and Perish." (Laughter) So instead of giving you the whole box, and besides we'd lose our podium, I'll just pull one out. These works are a truly impressive collection. I must say, I learned a great deal going back over them. I did not, however, I think I should hasten to add, find any early indicators on monetary policy. (Laughter) I'm not surprised because I suspect everyone else may have been looking through much of the same source material, recently, for exactly the same kind of clues.

Let me, then, not hesitate anymore. Let me just simply say thanks Arthur and without further ado present this to you on behalf of everyone at the National Bureau. Arthur. (Standing applause)

I should point out that a terribly grievous error occurred in the haste of assembling and publishing our program tonight — an error that is totally unfair to Arthur. We said he'd be a speaker and it should have read: He will respond informally.

This is a night for very personal, very informal and, for the Bureau, very private reminiscence. Arthur.

**THE HONORABLE ARTHUR F. BURNS:** Thank you John. Thank you very much John. These volumes look very handsome. I don't know when I'll have a chance to read them again. (Laughter) But I'm honored and pleased to have them.

As I stand before you, I keep wondering first, what to say, and second, where am I? I'm not entirely sure about that. I left Washington this morning, but when I look around this room my colleagues of the Federal Reserve Board seem to be all here. (Laughter) And undoubtedly they are here to make sure that if I, suddenly, speak loosely or commit some indiscretion, they can gather, hold a meeting — they have a quorum here — and announce to the world that their new Chairman is being indiscreet once again. (Laughter)

I've heard a wonderful history of the National Bureau but I didn't expect that from Walter Heller, and that confuses me. (Laughter) And as I listened to my good friend and colleague, George Shultz, I kept wondering: Am I in Washington or am I in New York, and where is Arthur Okun, after all? (Laughter) I don't see Arthur here. I think in view of George Shultz' very interesting analysis of the guidelines, if telepathy has any place in life, Arthur should have appeared on the scene to defend himself. Walter tried to do something about that but he's toastmaster on this occasion, very gracious besides, and here am I and I wonder if it isn't my duty, honoring the traditions of the National Bureau (Laughter), to come to Arthur Okun's defense. (Laughter)

And then I heard George sing a song, second time I heard it, and I'm puzzled. I asked George, sitting beside him, what would be the subject of his address tonight? And he mumbled, oh, something about guidelines. I said, "Oh no, you ought to sing that song, George." Now I don't know whether I inspired George to sing that song or whether the thought occurred to him independently. Somehow George and I have been on the same wavelength for so long, that thought communicated itself from one to the other. You see, I am very much confused.

Now, George spoke about Burns' Laws. I have no quarrel with those laws, but I can say this: I have never profited monetarily from any of those laws, but there is another Burns' Law, perhaps of lesser fame, that has brought me many financial rewards. That Burns' Law is — it's a Law of Transportation, I think that's over in your field, John — namely, that if a plane is late, it will be later. (Laughter) Now Geoffrey Moore can testify that he's lost money, and that I have some of his money, betting on Burns' Law. He had no faith in it, he has now (Laughter), so have others.

I listened to Walter Heller refer to his relationship to the Federal Reserve Board, at least on one occasion. And if I may dare generalize, Walter conveyed — never mind history — that the thought never crossed his mind to influence the Federal Reserve. I say never mind history because I like that writing of history. I find it most convenient, and I say to my colleagues in Washington who happen to be here tonight, I hope that they will respect and remember this very simple thought, the Executive must never try to influence the Federal Reserve. (Laughter)

Now, I think it was Walter, I'm not sure, who referred to the National Bureau as being the guardian of the chronology of business cycle recessions. In fact, we can't have a recession in this country — Did you say that Walter? —

**MR. WALTER HELLER:** That's right, I said it.

**THE HONORABLE ARTHUR F. BURNS:** Can't have a recession in this country unless the National Bureau declares that a recession has occurred. Now I'm going to tell you a secret. This is a very special art. Geoffrey Moore and I are the masters of this art. We're the High Priests, and we have kept this knowledge pretty much to ourselves. In any case, we don't recognize anyone else as a member of the Priesthood. Now both of us are in Washington. Whether or not this is a Republican plot, I can't say. But I can say this, I don't see how we can have a recession now. (Laughter and applause)

And I listened, with admiration, to my good colleague, Wassily Leontief. I didn't meet him in Ellis Island, but I did meet him right after he got off the Island, and brought him to my home. And how well I remember Wassily pacing up and down the room and expounding his economic theories, partly in English, partly in Latin, partly in German; he did it beautifully. Well, he spoke beautifully tonight. I became a little worried when he talked about data production and I wondered now that these machines have been created, does Wassily want to make sure that these computers are kept busy? I had a little experience years ago with very elementary computers, myself. I taught at Rutgers, and I learned something about budget making, as a young Professor, there. The head of my Department came to me one day and he said, "Arthur, I've got some money left over, what can I do with it. Will you help me spend it because if I don't spend it, I will lose a line on the budget, and I can't afford to do that." Well I said, "Yes, I can help you, we need a Monroe Calculator." "Oh," he said, "That's wonderful, that helps me." So we got a Monroe Calculator. The next year, the head of my Department had more money left over, and this time we got two additional Calculators. Within a few years, I think we had on of the best statistical laboratories in the country. We didn't have the students, but we had the equipment. (Laughter) And then, something wonderful happened, one of the machines was stolen, the head of my Department still had extra money that he wouldn't turn back to the University, because he'd lose a line on the budget. But, since the machine was stolen, we now had to hire a student to guard the machines, and we had to buy a special case to house the machines, and in that way we kept our statistical laboratory going, and the line on the budget was never lost.

And so I kept wondering — after all, I have been interested in the budget lately. I was pleased to hear Wassily say that fact finding cannot be left entirely to the government, that he wants the business firms to gather facts to feed his machines; but they're going to do that at government expense anyhow. As Secretary Fowler knows, that will be counted as a business expense, corporate income will go down, and then it'll all come out of the hands of the government, after all.

Well, where am I, Washington, at the National Bureau? Possibly at the

Waldorf? And Arthur Okun isn't here. (Laughter) George Shultz spoke of several cases, different industries, different price experiences, and he was very kind to Arthur when it came to oil. There Arthur apparently had a case. Can it be that the oil industry is *the* one industry that George Shultz has special knowledge of? That's a very unkind thought, George. (Laughter)

Well, the hour is late and I want to say a word about jawboning. I've been opposed to it, consistently. When Walter was there, Walter heard from me, from time to time. I don't take back one word I said; it wouldn't do me any good, if I tried. But now I have a certain responsibility at the Federal Reserve Board and everyone wants the Federal Reserve Board to do the right thing.

Now I look to the Treasury and I want to see the Treasury do the right thing, so the job of the Federal Reserve Board will be less difficult. And then I look to the Labor Department, and I look to the White House. I want the Labor Department to do the right thing — go after the Trade Unions, for example. And I want the White House to do the right thing. And these days I find myself even entertaining the thought that jawboning, done properly of course (Laughter), may possibly be useful.

I had something to do with a very unpopular measure which the President recommended in his Budget Message, namely, a postponement of salary increases for our civil servants in the government, for a period of six months. Oh, I strongly urged that. In fact, I strongly urged still stronger measures. But I urged this one, first on the ground that there would be a financial saving of \$1.2 billion. There was also another reason why I took this measure very seriously, hoped that the President would adopt it, which he finally did, and the second reason was that here is the government saying to its civil servants and, therefore, indirectly to business people, to working people, to Trade Union leaders, that in this time of inflationary pressures it would be desirable to practice some moderation. I think that's the essence, the essential meaning, of that budgetary measure. And I continue to hope that the President will, one of these days, make a ringing speech, explain this budgetary measure to the country, and urge business leaders and working people and Trade Union leaders to follow this example, not necessarily in that specific way, but practice some moderation on the wage side.

Now, as for prices, there my conservative streak or possibly my economic analysis points in a somewhat different direction. With excess demand now eliminated, businessmen to be sure will be trying, are trying now, to pass on to their customers the increases in their costs. But after awhile, before very long, they will discover that it is difficult, with weakening markets, to do that, and price concessions, discounts, absorption of freight costs, etc., will take place. Our price indexes will not register these developments quickly, or fully. But I think developments of this kind are now in the making.

Well, I've now had my quarrel with everyone around this table, except with John Meyer. He's been so kind and gracious, I can't do that to him and this, after all, is the Bureau's Fiftieth Anniversary. It's a time for remembrance, time for reflection, and a time for resolution.

I remember, very vividly, my first visit to the Bureau. I came to the Bureau one year before Wassily Leontief, in the fall of 1930, and I knew what insurance company building to go to. (Laughter) But then, again, I was already married at the time. (Laughter) I didn't have his special problems. And to me, this visit to the Bureau, which turned out to be a rather long visit, brought a sense of fulfillment. As a graduate student and as a young instructor of economics, I had read with a sense of joy and wonder and excitement the publications of the National Bureau on the national income, on the behavior of prices, on the business cycle, and to join this family of scholars was an extraordinary privilege. I stayed longer than I thought I would and I think I have been the most fortunate man to have lived with these devoted scholars so many years and so harmoniously.

This evening Wesley Mitchell's name came up, more than once. The Bureau's first quarter century was credited to him, and justly so. I, together with Geoffrey Moore and Solomon Fabricant, received credit for the second quarter century. I am grateful for that and yet I think that I and my good colleagues, Fabricant and Moore, were credited with too much.

I jotted down, this afternoon, a few sentences that I composed shortly after Wesley Mitchell's death in 1948. Let me read them to you:

"Mitchell's steady striving to make his own best efforts obsolete had a subtle and cumulative influence on the working habits of the staff. A sense of social responsibility, precision of thought and expression, a repugnance of shoddy work, ability to profit by criticism, passion for objective evidence, even fairness and generosity are in some degree habits that will grow in one environment and wither in another. Mitchell set the moral and scientific tone of the National Bureau, so that these habits grew naturally and unobtrusively."

I dare say that Wesley Mitchell's influence on the Bureau was so great that even now, some twenty years later, the Bureau is still living, in large part, on the rich moral and scientific legacy that he left behind him.

Now I want to say one thing more. During the years that I presided over the Bureau's affairs I, now and then, found it necessary to defend the Bureau against some criticisms that came its way. The Bureau, over the years, chose to devote itself to basic research. The Bureau deliberately chose to eschew study of current issues, despite their lively interest. And the Bureau has, frequently, been criticized for neglecting vital problems of our economy. As I made my trip to this city — and now I don't know where I am, as I've advised you — I kept reading the *Wall Street Journal* (my wife had the other newspapers). And then I read this in this morning's *Wall Street Journal*:

"Most economists are aware of the fact that a substantial part of the increase in the Gross National Product, during the last two decades, has come not solely from increases in productivity but, also, from increases in the rate of participation of women in the labor force."

Now this is a correct generalization, a profoundly correct generalization. On the face of it this generalization has nothing, whatever, to do with the National Bureau. Yet, this generalization rests fundamentally on the pioneering studies of the Gross National Product by Simon Kuznets, on the studies of Productivity by Fabricant and Kendrick, both of whom are here tonight, and on the studies of the Labor Force by Clarence Long – I didn't see Clarence – and Jacob Mincer – he's right before me.

Let me read another sentence from this morning's *Wall Street Journal*:

“One of the fascinating statistics about New York City is that fewer persons were employed in domestic service in 1968 than in 1960.”

I don't know how many of you know this but the basic research on domestic servants was done at the National Bureau some years ago by George Stigler.

Here is still another sentence in this morning's *Wall Street Journal*:

“The Government's index of leading economic indicators fell 1.8% in January.”

Now this index is the direct descendant of systematic research that the National Bureau commenced in the 1930's, and I might say at the request of Secretary Henry Morgenthau. And this research has been carried forward with great resourcefulness, perseverance, and ingenuity by Geoffrey Moore, my devoted colleague over so many years, and also Julius Shiskin.

I have several more sentences from the *Wall Street Journal*, I read it rather carefully, since my wife held on to the *Washington Post* and to the *New York Times* and to the *Christian Science Monitor*. There is one sentence in the *Wall Street Journal* which suggests that the newest member of the Federal Reserve Board stresses the importance to the economy of such monetary aggregates as bank reserves and the money supply. Now, to the extent that such an emphasis exists, then it can surely be traced, at least in some degree, to the basic writings of Milton Friedman – whom I don't see here tonight – and Anna Schwartz – who is here with us tonight.

Now I don't want to suggest to you that every sentence in this morning's *Wall Street Journal* (Laughter) is traceable to something that we've done at the National Bureau, either during the first quarter century or the second quarter century.

Thus, I also read in the *Wall Street Journal* that a recent study has demonstrated, or at least strongly suggested, that Rock and Roll music can have, or is having, a deafening effect, producing deafness, to a significant fraction of young music lovers. The Bureau has nothing to do with that study (Laughter) – unless John tells me that something has happened at the Bureau, within the past year or two. And I also read that something is happening to the hem line, that it will be at least a few inches longer, that it may be very much longer, and that the Textile industry is bound to benefit from this development – I know of no such study by the National Bureau.

I think it's time to give up this podium. Not knowing where I am, quite, and having served as a Professor for a good many years — these are very dangerous fellows — when they get before a podium they have a sort of clock built into them, you see. When fifty minutes are up they will be sure to stop. Before that time there is a bit of uncertainty. (Laughter)

I just want to say one thing more. An Anniversary is a time not only for, particularly a Fiftieth Anniversary, not only a time for remembrance and reflection, it is also a time for making resolutions. But I shall not engage in that exercise, this evening; that is a privilege, a unique privilege, of our new and very talented President, Dr. John Meyer.

I'm not at all sure, well I'm not entirely sure, whether I will be able to attend the Bureau's Seventy-Fifth Anniversary. I've taken an appointment for fourteen years, Congress may choose to change the law and make it a twenty-eight year appointment, problems may multiply, so I may be unable to get here on the Seventy-Fifth Anniversary. But many of you, I hope most of you, will be able to come, and when you do I'm confident that you will hear a report from John Meyer that will make you feel that he not only has brought great new achievements to the National Bureau but that he has also advanced the Science of Economics for the benefit of all mankind.

Thank you very much. (Applause)

**MR. JOHN R. MEYER:** Well the hour is late so I'll only pick up one sheet of forward looking remarks.

I should also make one announcement, however. It is, that economists abhorring monopolies, and liking the market place, we at the Bureau have already created a new three man Committee to officially review this question of when and if a recession occurs. I hate to break that monopoly but? (Laughter)

I've only given the Committee one instruction and that is, my hope that I won't hear from them before mid-November. (Laughter)

Much of what I would have said in my forward looking remarks has already been said. Arthur has referred to it, Wassily has referred to it, Walter has touched on it, quite explicitly. We will try to do something more on social measurement, we will try to improve the data bases upon which factual materials in economics are developed.

It is to these studies and, I'm sure, other new ones that will emerge from events as they occur and from our Fiftieth Anniversary deliberations, that we will devote our attention over the next few years.

My only hope or desire is that we can do as well in meeting these new problems in research during the next fifty years as the Bureau has done during the last.

With that, may I bid you good night and convey to you our many, many thanks for joining us for these festivities which we hope mark both the end of one half century of productive effort and the start of another.

Thank you and good night all. (Applause)