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PART I

**The Uses of
Economic
Research**

This year, as much as any year, men will debate the economic issues that trouble and divide them. How to deal with unemployment, how to speed up economic growth, how (or whether) to maintain a stable dollar, how to avoid the injurious effects of concentrated economic power—the problems are large, the issues raised are difficult. Yet, as they must, citizens will express their opinions. And, as is human, they will do so with the force of conviction. Economic controversy already blows a gale.

In this quiet room we take leave to doubt. Whatever points of view we hold and feel compelled to express elsewhere, here we admit of uncertain vision. Here, together, because we wish to see more clearly, we pay tribute to the methods of science.

We know, of course, that economic issues can never be fully resolved by scientific analysis. The personal views and private interests of each of us, and the views and interests of men generally, will always differ in some degree; not all objectives lie in the same direction. Even the goals we all broadly accept are often seen differently; there will be differences of opinion concerning their relative merits and their costs in terms of one another. Further, economic knowledge can never be wholly adequate to deal with the problems, new or old, that confront us; there will always be room for diversity of opinion on how best to proceed.

But while we acknowledge limits on the usefulness of economic science, all of us here feel that it has a significant part to play in resolving economic issues. We believe that economics is an instrument for the betterment of human life. We believe that economic research can strengthen this instrument, that economic research is worthwhile.

True, there is much intellectual pleasure to be derived from observing the ways of men even in "the ordinary business of life." The economic organization of humankind is not less interesting than the economic organization

NOTE: This report was presented at the annual meeting of the Board of Directors of the National Bureau held in New York City, February 25, 1963. I am indebted to my colleagues for their contributions to its several parts.

of the bees. But knowledge for its own sake is not the main objective of economic research. The work of the National Bureau is to be judged by the help it provides—directly or indirectly, sooner or later—in dealing with the practical problems of policy.

As prologue to our review of the current activities and plans of the Bureau, therefore, let us take a moment to recall what economic research can do to improve the nation's capacity to deal with its economic problems.

Briefly, economic research can help:

- by clarifying the concepts and terminology we use in discussing and dealing with economic problems;
- by devising and testing the measurements we need to ascertain the dimensions of our problems and the relative importance of the factors involved;
- by compiling and systematizing the facts on economic organization and economic change, here and abroad, that are significant for policy;
- by observing and explaining the economic behavior of which policy can make use or with which it must contend;
- by drawing the implications, for economic policy, of changes in the structure and organization of our economy and the economies of other countries;
- by providing useful clues to the future; and
- by analyzing and comparing present and proposed policies.

Permit me to expand a bit on these variously interrelated tasks, and to cite a few illustrations from our work.

Because economic concepts are often vague, and economic terms frequently misused, economic research can help to lessen—even to avoid—confusion by subjecting concepts and terms to critical inspection and sharper definition. Our studies therefore devote attention to clarification of concepts and terms, whenever this appears necessary. No one who has glanced at the National Bureau's studies of productivity, for example, will fail to understand that the term "productivity" refers to a family of concepts; that a distinction must be made between the productivity defined by output per

man-hour and the productivity defined by output per unit of labor and capital combined; that these are different things, each with its special use. Nor, to cite another example, will any one who examines the differences we are finding in our study of interest rates—between yields on new as compared with seasoned bonds, between yields on bonds placed directly with lenders and yields on publicly offered bonds, between market rates at the time mortgage funds are committed and rates when the funds are transferred—no one who studies these differences will speak of "the interest rate," or even of "the long-term interest rate," without understanding how much is being slurred over.

Another modest, yet essential, purpose of economic research is to devise measurements that permit objective assessment of significant economic quantities, proportions, and changes. To make measurements on a current basis is a task which research bureaus are not usually equipped to perform. The task of exploring and developing useful measurements, however, is one for an institution like the National Bureau. Among such measurements are national income and product, to which the Bureau devoted its first study over forty years ago, and which it developed further in later studies. The measurements, kept currently by the Department of Commerce, are now widely used. Without these comprehensive measurements it would be more difficult than it is to follow the course of events, for economic life is invariably characterized by diverse movements of the economy's several parts. Recently also, in several important economic areas, the National Bureau has undertaken to test existing information, to develop new information, and to devise measurements that deserve to be compiled regularly by governmental or private agencies. The study of trends in import and export prices and quantities just completed, the international price comparison study just begun, and the study of productivity trends in the service industries that is under consideration have this among their aims.

Not less important than to devise measurements is to specify their limitations and seek to improve them. This has always been an

objective of ours, and of the government agencies that carry most of the day-to-day burden of compilation. The annual meetings of the Conference on Research in Income and Wealth, which the National Bureau organized almost thirty years ago and in which all major economic and statistical branches of the government are represented, have provided a useful forum for discussing needed improvements and extensions. So, too, have the special committees which we set up at the request of the Bureau of the Budget to review the official national income accounts and price indexes.

Information on key economic facts, developed on the basis of clear concepts and suitable measurements and presented in systematic form, is essential if discussion, formulation, and administration of policy are to be effective. When a President's Advisory Committee on Labor-Management Policy, for example, or a Cabinet Committee on Economic Growth, or an Interagency Committee on Corporate Pension Funds and Other Private Retirement and Welfare Programs, or a Joint Economic Committee, or an American Assembly meets to consider a question of national policy, its first need is always for one or another body of organized, relevant, and authentic facts—facts on the growth of production and productivity here or abroad; on the changing size, composition, and distribution of the nation's wealth; on the volume, types, and fluctuations of inventories; on the amount, sources, and uses of funds; on interest rates, prices, and unit labor costs in this and other countries; on the changing organization of industry or labor; on the growth of pension systems and their investments. These are all subjects on which the National Bureau's staff has worked; they are, in fact, the subjects of studies on which we report this year.

Of obvious value for policy is better understanding of the economic behavior of consumers and producers, savers and investors—behavior that makes the tasks of policy sometimes easier and sometimes harder. Of obvious value, too, is better understanding of the way in which changes in economic structure and organization—planned and unplanned, here

and in other countries—affect behavior. A central part of our research is devoted to acquiring this valuable knowledge. This year we have completed two major sections of a study of changes in the money stock of the United States and the determinants and consequences of these changes; a study of the response of capital movements to profit differentials; a study of the cyclical behavior of orders for goods and the relation of this behavior to fluctuations in unfilled orders and in prices; a study of consumers' purchase plans, the factors influencing them, and the extent to which the plans correspond to actual purchases; and a study which helps to explain why long- and short-term interest rates differ. There are also some of the conference volumes in this year's list—a report of the Universities-National Bureau Committee for Economic Research, which we sponsor in collaboration with some thirty leading universities, on the economic and social factors that influence the rate and direction of inventive activity, and another on the determinants and consequences of investment in human beings; and an Income Conference volume on "models" of income determination.

Another major objective of economic research is to uncover clues to the future, and—also worthwhile—to examine critically forecasting methods in use. Many of our studies, of course, conclude with the implications of their findings for the future, and most of those that stop short of doing this nevertheless contribute their mite—as does all scientific work—to eventual improvement of the ability to see ahead. But certain of our studies are devoted more directly to the question of forecasting. Outstanding among these are the now well-known studies of business cycle indicators, many of the results of which are being put to wide use in *Business Cycle Developments*, published by the Department of Commerce. Another of our studies, on population and labor force, devotes a major section to an examination of the official labor-force projections. The study of pension systems also devotes a substantial section to implications for the future—in this case, of current and prospective trends in coverage, beneficiaries, and accumu-

lated funds—which should be of help (and, we know, are already being used) in judging the probable effects of this rapidly growing institution on the capital markets, the distribution of income, and the rate of savings. Still another study, which we are just starting, is designed to test the accuracy of short-term forecasts of the general economic situation and to see what can be learned from this experience to improve matters.

A major task of economics is to estimate the probable consequences of policies—consequences that may be indirect as well as direct, long term as well as short—and thus provide some of the vital information needed for choosing among the host of proposals that are constantly being offered. This is the immediate objective of the study of taxation and economic growth. The recently published study of the international economic position of the United States also touches on matters of policy. In addition, some of our recent conferences have focused on policy questions, notably the special conference on philanthropy and public policy, which we ran with the cooperation of the Merrill Center, and the Universities-National Bureau conference on monetary economics.

While describing the uses of economic research, I have taken the opportunity to point to a number of our studies. Yet I have been able to refer, and only briefly, to but a fraction of them. Since the beginning of last year we have published twenty-one separate reports, we have ten more in or about to go to press, and in the hands of the Board there are or will soon be another ten or twelve for review. The studies under way, and the conferences being organized, lengthen the list.

The completed studies and the continuing work of the conferences are all described briefly

in Part III of this annual report, and in Part IV something is said about each of the studies in process. In addition, to assist the Board in its review of the year's work, I have asked several of my colleagues to convey some of the flavor and some of the results of the particular parts of our enterprise for which they bear primary responsibility, and each does so in his own way. Their reports appear in Part II.

Before we turn to this, however, it is well to ponder again the fact with which we started—the fact that during the year, in one way or another, decisions will be made on each of the economic issues that confront the American people. Policies will be set, or decisions postponed, with less than adequate knowledge of the facts and of the implications for the country's future of the action taken or not taken. It is true, for example, that studies here and elsewhere have added significantly to what is known of the economic implications of the country's tax system, but it cannot yet be said that it is clear how the tax system affects the rate of economic growth. Were it already clear, we would not have planned a study of the question, we could not have obtained support for it, we could not have enlisted the help of the busy members of our advisory committee—we would not be conducting the study.

This study, and the other studies we have not yet completed, can contribute little to the information that is needed now. But we should look to the future. We have reasons to believe—I have mentioned a few—that what we have learned in the past is being put to effective use. If we persevere in our efforts, there is a good chance that the studies we now carry on will help make later decisions sounder than they could otherwise be. This is worth working and waiting for.

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