

The Role of the Council of Economic Advisers

BY AARON STEELMAN

The Employment Act of 1946 is best known for stating that the federal government has a responsibility to, among other things, “promote maximum employment, production, and purchasing power.” That will sound familiar to many: It closely resembles the Fed’s “dual mandate” that was adopted in 1977 and reinforced with the passage of the Humphrey-Hawkins Act of 1978, itself an amendment to the 1946 Act. Less well known is the 1946 law’s creation of the Council of Economic Advisers, or CEA.

The CEA is part of the Executive Office of the President and has three members, including a chair, as well as staff economists who report to them. The chair is nominated by the president and confirmed by the Senate, and the other two members are appointed by the president. The CEA’s role is largely what the president makes it. Preparation of the annual *Economic Report of the President*, which contains forecasts of economic activity and analysis of economic issues the administration deems important, is its only statutory responsibility.

The CEA got off to a rocky start. According to a chapter in the 2016 *Economic Report of the President* discussing the CEA’s 70th anniversary, there was significant internal policy disagreement among members during the Truman administration. Such turmoil was exacerbated by the fact that the chair and the other two members had functionally equivalent roles, each effectively with one vote, making it difficult for the CEA to provide coordinated advice. It wasn’t clear that the CEA would survive during the Eisenhower administration. However, the CEA adopted a new structure and under the direction of Chair Arthur Burns received significant credit for providing advice to help end the 1953-1954 recession. (Burns would chair the Federal Reserve in the 1970s, the first of four CEA chairs to later move into that role. Alan Greenspan served as CEA chair in the Ford administration, Janet Yellen in the Clinton administration, and Ben Bernanke in the George W. Bush administration.)

The CEA perhaps enjoyed its greatest influence during the Kennedy administration. Kennedy worked closely with Chair Walter Heller on many issues, most notably a significant tax reduction that was eventually adopted in 1964, during the early part of the Johnson administration. Martin Baily, chair of the CEA from 1999 to 2001, says that the “effectiveness of the CEA depends to a large degree on the curiosity of the president, whether he has a natural inclination to value technical advice. And it also depends on personalities — how well the CEA chair gets along with the president.”

The closeness between the CEA and the president has been a point of contention. Is it the job of the CEA to provide neutral scientific analysis or to act in support of the administration’s goals? At a 2016 conference on the history of the CEA held at the Brookings Institution, several past chairs and members said it’s a bit of both: to use the tools of economics to examine issues objectively but also to present arguments in a way that’s understandable and persuasive to not only the president and his staff but also Congress. The potential for CEA members to veer too heavily in the direction of advocacy is mitigated by a desire to maintain professional reputations, since most will later return to academia.

While the CEA does advocate policies it thinks would be helpful, it frequently finds itself in the opposite position. As Randall Kroszner, a member of the CEA from 2001 to 2003 who later served as a governor of the Federal Reserve Board, told this magazine in 2003, “I think the tradition at the CEA basically has been to prevent bad policies from being implemented. Often proposals can sound great and very creative, but economists have a framework to look at them and explain their unintended consequences.”

The CEA works closely with the National Economic Council (NEC), created in 1993 largely to help monitor implementation of the president’s economic policy agenda. As such, the NEC is often headed by a noneconomist with more practical political experience. Baily says the NEC can be valuable in “coordinating interaction among the various agencies charged with handling economic issues and to synthesize the views they present.”

At the Brookings conference, Martin Feldstein, CEA chair from 1982 to 1984, argued that the CEA has also played the important role of training “large numbers of senior economists about economic policy ... how the policy process works, but also understanding many of the technical issues involved.” For instance, future Nobel Prize winner Paul Krugman worked at the CEA while Feldstein was chair, and fellow Nobel laureates Kenneth Arrow and Robert Solow were on the CEA staff during the Kennedy administration.

While the influence of the CEA has waxed and waned over its more than 70 years, it has proved remarkably resilient. Roger Porter of Harvard University’s Kennedy School of Government told the Brookings audience that of “the more than four dozen entities that have been lodged at one time or another in the Executive Office of the President, there are only 11 which remain today.” **EF**