



AN ECONOMIC ADVISERS' COUNCIL (EAC)

The purpose of this paper is principally to set out the most important practical questions about how an Economic Advisers' Council (EAC) might operate and be organised. Wider issues such as how it might relate to other bodies such as NEDC or Parliament are only touched on in passing.

2. An EAC would be intended to serve several objectives:
 - ✓ a. to provide an authoritative and independent opinion on issues of economic policy both to the Government, to Parliament and to the public generally;
 - ✓ b. to promote a wider and deeper understanding of some of the most important topical economic issues of the day; and
 - ✓ c. in particular, perhaps, to help in creating wider understanding and acceptance of the need to overcome inflation, and of the policies that requires.

It could be introduced on its own, or as part of wider moves to set in motion the process of economic education and information associated with the "Forum" idea. The issues explored below are consistent with either alternative.

TERMS OF REFERENCE AND AGENDA

3. It would be natural to expect the EAC to undertake two kinds of work, and for them to be reflected in its terms of reference: first, regular reports on the central issues of economic policy; and second, a number of ad hoc reports on important issues of the day.



i. The regular reports could be once or twice yearly, but probably not more frequent. Their form and timing would depend on a variety of matters, many of which can only be resolved at a later stage. Relevant factors include whether or not there is a Forum, the timing of the Budget, the timetables for setting monetary targets, and the annual pattern of the wage round.

ii. Subject to these reservations and assuming two regular reports a year, it would be natural to produce one shortly after the New Year in time to catch the Budget making season, and one in the late Summer as a background to the resumption of pay-bargaining in the Autumn.

iii. The ground to be covered in a regular report would include an appraisal of the economic prospect and the various forecasts and judgement made about it by others. The real purpose would be to focus implicitly or explicitly on policy issues. The reports might spell out the constraints imposed by economic reality, the implications of Government policy or of important policy proposals of general interest and, perhaps, shed light on more particular economic problems.

iv. Special studies could be initiated in a variety of ways. They could be commissioned or requested by Ministers, Parliament or the participants in the Forum, or started by the EAC itself without outside pressure; or both could be permitted. Examples of issues which might, in the past, have benefited from such treatment include: the adjustment to the 1973/74 oil crisis; use of North Sea Oil; the collapse of profits; public and private sector pay; the "case for shorter working hours" and so on.



v. All these reports would ideally be written with more than usual emphasis on presentation. The reticence of some official prose and the somewhat academic style used by most economists, by the German Wise Men or the American CEA must be avoided as far as possible.

vi. Past experience suggests that the EAC will be most likely to establish itself firmly if it has a well defined destination to which it must report. This point is made more fully in a brief note by Treasury officials which is annexed to this paper.

4. To fulfil the education task properly, the EAC Members - and particularly its chairman - would have to present their views to the outside world from time to time both in public and in private: on television and radio; before select committees; at occasional conferences and seminars; and probably play a central role in the Forum. This would have to be clearly understood from the start and should either be a feature of the terms of reference, or of any letter of guidance given by Ministers at the outset.

LOCATION AND STATUS

5. Where the EAC is based has a considerable bearing on its status, how its work would be regarded by the outside world and how its members are appointed. Given a particular location, its relationship with its parent body could be close, involving for example shared staff; or it could be distant, involving little more than "pay and rations" in common. In weighing up these alternatives, it has to be borne in mind that there are many cheaper and simpler ways of increasing the range of economic advice available internally to Ministers than creating an EAC. However, much of the purpose of an EAC is to have a public impact. To do that requires a genuinely independent body, which is seen to be and believed to be "free standing", and not merely a stalking horse of the authorities.



6.

i. It could be based in some way in the Treasury. To some extent this might help access to data and the Treasury's own model.

ii. Another range of alternatives would be attachment to No 10, the CPRS, or the Cabinet Office. This kind of location has a number of precedents. It would crudely parallel the American CEA, which reports direct to the President.

No
iii. It could be created as an adjunct to a Parliamentary body, for example an Economic or Treasury Select Committee if one were ever created. However, such a formal link might make it more awkward to get the right members and staff, at least until Select Committees have become more stable and consistent bodies. Furthermore, it is in no way necessary if one wants an EAC with a Parliamentary link, which could be assured almost regardless of location. Were there to be direction or control by a Select Committee the EAC could well become seriously constrained in unpredictable ways.

No
iv. It could be related - loosely or closely - to the NEDC and NEDO. There would be a certain logic in this if an enlarged NED Council were to be the nucleus for the "Forum", since the EAC would presumably provide important input into the Council, but the same kinds of argument would point the other way if the Forum were to be located elsewhere. The EAC's activities would not fit in very naturally with the normal work of the NEDO organisation, and there might be awkward questions about separating its role and management from that of NEDO. Furthermore, its part in the activities of the Forum could be supported almost equally well from the other locations, regardless of where the Forum is based.



v. Finally it could be formally quite "independent" like a Standing Royal Commission or Quango. This could have some disadvantages. But it is the only arrangement which seems to be fully consistent with the EAC's basic objectives. All the other alternatives discussed above are difficult to reconcile fully with the appearance or reality of independence, though not always seriously so.

POLITICS AND DOCTRINES

7. The political and doctrinal balance to be sought in setting up an EAC are important issues. While it would be unrealistic to expect that the EAC should be totally apolitical, it would, equally, be ineffective if it were seen as in essence a politically partisan organisation. How to find the "juste milieu" is something to be worked out in practice rather than defined in principle. But it would clearly be reasonable to envisage an EAC one or two of whose members were known to be sympathetic to the Government*.

8. A somewhat similar issue arises over what breadth of economic philosophy and doctrine the membership should embrace. Were it only to include one narrow school of thought, whether monetarist, Keynesian or any other, the EAC's authority and credibility would not be very great. At the other extreme, a membership embracing both a near Marxist member of the "New Cambridge" Group and a pure Friedmanite would make it unlikely that the EAC could agree about anything of interest.

9. The means by which the key members of the EAC are selected has a bearing on both issues. If nomination is in the hands of Ministers, then a coherent body can be constituted, though at the

* The "five wise men" in the German Advisers Council (known as the Sachverständigenrat) are all independents politically, while the more senior members of the American CEA are normally well-known Democrats or Republicans. This difference in composition reflects a difference in roles. The CEA is geared above all to advising the President, hence the unavoidably political nature of its membership. The German Council is intended to educate the public, for which purpose the less political colouring the better.



risk of their being swept away and replaced "en masse" whenever the Government changes. Were there to be seats effectively in the gift of the CBI and TUC or a Select Committee, then striking a proper political or doctrinal balance would be much more a matter of chance. And the effects of elections might not be that different.

MEMBERSHIP

10.

i. In practice the EAC would inevitably have as its kernel a small number of key figures. It would have to have some staff backing, though not necessarily much or entirely full time.

ii. There would be room for choice in drawing the dividing line between "members" and "staff". The Germans have five "members" and a small anonymous supporting staff, which is based on the Bundesamt für Statistik, for whose role there is no exact British analogue. The American CEA consists of more than a dozen economists, of whom the chairman and his two deputies are public figures of some real weight.

iii. Assuming there are to be "members" and "staff", the obvious alternatives would be three or five members, including the chairman. More would be unwieldy. The question of staff numbers cannot be determined so simply. For it will depend on the term and reference, working methods and decisions on a number of other practical issues, some of which are discussed elsewhere.

iv. The Chairman would obviously have to be a person of some weight, and a good organiser of work; on top of recent economic developments, both in policy and analysis; and, importantly, a competent public performer.



v. The members could be full-time, a mixture, or entirely part-time with, perhaps, only the head putting in more than two or three days a week on average throughout the year. On any plausible assumptions, the pattern of work is likely to be fairly seasonal. This could matter a lot, particularly if university posts are at stake, or members (and staff) have outside occupations, whether teaching, research or consultancy, which they cannot or would not wish to abandon.

vi. The members should not be solely professional economists or academics, though they should, perhaps, be regarded as economists in the widest sense of the word. One might also aim to include some of the following occupations: financial journalist; City person; ex-economist politician; management consultant; or economically literate businessman.

STAFF AND METHOD OF WORK

11.

i. The supporting staff would best be drawn partly from University or private sector circles, partly from Government statisticians and economists on secondment. Probably only three or four full time graduates would be needed. It would, in any case, be desirable to define firmly in advance the limits of staff and funding within which the organisation was to operate.

ii. The EAC must be expected to draw on work and ideas from a variety of outside sources, whether institutions or individuals, and whether in the UK or elsewhere.



This might not be very expensive particularly if such studies were as a rule published, as would in any case be desirable for some routine work. Access to the forecasting models of the Treasury and London Business School - and, no doubt, of other bodies if need be - could doubtless be arranged without difficulty. The EAC should, as a rule, be able to obtain basic statistics and material from the official machine at negligible cost whether in terms of money or the workload of officials.

iii. A decision would have to be made about whether the EAC was to hold hearings or publish evidence, particularly if it is to be set up on lines not unlike those of a Royal Commission. There seems to be little point, and some danger, in requiring it to do so. But equally there would be no reason for ruling out either course of action in the terms of reference or guidance.

STARTING UP

12. There are a number of unrelated but important points worth stressing:

i. to secure members or staff in time to begin work by this Autumn and, therefore, to be in time to publish next Spring would, if it is possible at all, require fairly swift action;

ii. some of the details of the EAC's shape and modus operandi may in practice have to be a matter for negotiation with the chairman designate. So, a fortiori, may the staff.



iii. Decisions about an EAC would have implications for the way in which the Treasury undertakes and publishes its own forecasts, for the evolution of Parliamentary Committees, and for moves towards the Forum idea.

iv. This note deliberately does not go into questions of personalities. But a little thought makes it quite clear that there is not a very wide range of suitable candidates from which to choose members or a chairman.

CONCLUSIONS AND RECOMMENDATIONS

13. To sum up the key recommendations of this paper, if an EAC is set up it should:

- be independent
- have 3 or 5 members and a small supporting staff
- prepare one or two regular reports a year, and do some ad hoc studies either at the request of others or on its own initiative; and
- the final details should not be fixed without consulting the chairman designate, or ensuring consistency with other related plans.

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ECONOMIC ADVISERS' COUNCIL - PAST EXPERIENCENote by Treasury Officials

1. There have been other attempts by Conservative administrations to set up advisory bodies which would encourage an understanding of the economic problems facing the country. But they have foundered or proved short-lived usually because of opposition from the trade unions.

2. The closest parallel to what we now have in mind was the Council on Prices, Productivity and Incomes (COPPI) set up in 1958 - "to keep under review changes in prices and productivity and the level of incomes" while "having regard to the desirability of full employment and increasing standards of life based on expanding production and reasonable stability of prices". Its first two reports, strongly influenced by Sir Dennis Robertson, aroused a storm of protest from the trade unions. Its third and fourth reports, reflecting the views of a labour market economist, Professor Henry Phelps Brown, were less unpalatable to the unions but had little impact generally. The Council was wound up in 1961 when it had become clear that it had no further useful life.

3. Two lessons can be drawn from this experience: first, that the membership of the council needs to embrace the main stream of economic thinking while avoiding the extremes at either end of the spectrum if it is to avoid the charge of being partisan; second, to make a widespread public impact the reports need to be presented and discussed in a wider economic forum, which includes both employer and employee representation.