

Appendix A
REPORT TO THE PRESIDENT ON THE ACTIVITIES
OF THE
COUNCIL OF ECONOMIC ADVISERS DURING 2006

LETTER OF TRANSMITTAL

COUNCIL OF ECONOMIC ADVISERS
Washington, D.C., December 29, 2006

MR. PRESIDENT:

The Council of Economic Advisers submits this report on its activities during calendar year 2006 in accordance with the requirements of the Congress, as set forth in section 10(d) of the Employment Act of 1946 as amended by the Full Employment and Balanced Growth Act of 1978.

Sincerely,

Edward P. Lazear, *Chairman*
Katherine Baicker, *Member*
Matthew J. Slaughter, *Member*

Council Members and Their Dates of Service

Name	Position	Oath of office date	Separation date
Edwin G. Nourse	Chairman	August 9, 1946	November 1, 1949.
Leon H. Keyserling	Vice Chairman	August 9, 1946	
	Acting Chairman	November 2, 1949	
	Chairman	May 10, 1950	January 20, 1953.
John D. Clark	Member	August 9, 1946	
	Vice Chairman	May 10, 1950	February 11, 1953.
Roy Blough	Member	June 29, 1950	August 20, 1952.
Robert C. Turner	Member	September 8, 1952	January 20, 1953.
Arthur F. Burns	Chairman	March 19, 1953	December 1, 1956.
Neil H. Jacoby	Member	September 15, 1953	February 9, 1955.
Walter W. Stewart	Member	December 2, 1953	April 29, 1955.
Raymond J. Saulnier	Member	April 4, 1955	
	Chairman	December 3, 1956	January 20, 1961.
Joseph S. Davis	Member	May 2, 1955	October 31, 1958.
Paul W. McCracken	Member	December 3, 1956	January 31, 1959.
Karl Brandt	Member	November 1, 1958	January 20, 1961.
Henry C. Wallich	Member	May 7, 1959	January 20, 1961.
Walter W. Heller	Chairman	January 29, 1961	November 15, 1964.
James Tobin	Member	January 29, 1961	July 31, 1962.
Kernit Gordon	Member	January 29, 1961	December 27, 1962.
Gardner Ackley	Member	August 3, 1962	
	Chairman	November 16, 1964	February 15, 1968.
John P. Lewis	Member	May 17, 1963	August 31, 1964.
Otto Eckstein	Member	September 2, 1964	February 1, 1966.
Arthur M. Okun	Member	November 16, 1964	
	Chairman	February 15, 1968	January 20, 1969.
James S. Duesenberry	Member	February 2, 1966	June 30, 1968.
Merton J. Peck	Member	February 15, 1968	January 20, 1969.
Warren L. Smith	Member	July 1, 1968	January 20, 1969.
Paul W. McCracken	Chairman	February 4, 1969	December 31, 1971.
Hendrik S. Houthakker	Member	February 4, 1969	July 15, 1971.
Herbert Stein	Member	February 4, 1969	
	Chairman	January 1, 1972	August 31, 1974.
Ezra Solomon	Member	September 9, 1971	March 26, 1973.
Marina v.N. Whitman	Member	March 13, 1972	August 15, 1973.
Gary L. Seevers	Member	July 23, 1973	April 15, 1975.
William J. Fellner	Member	October 31, 1973	February 25, 1975.
Alan Greenspan	Chairman	September 4, 1974	January 20, 1977.
Paul W. MacAvoy	Member	June 13, 1975	November 15, 1976.
Burton G. Malkiel	Member	July 22, 1975	January 20, 1977.

Council Members and Their Dates of Service

Name	Position	Oath of office date	Separation date
Charles L. Schultze.....	Chairman.....	January 22, 1977.....	January 20, 1981.
William D. Nordhaus.....	Member.....	March 18, 1977.....	February 4, 1979.
Lyle E. Gramley.....	Member.....	March 18, 1977.....	May 27, 1980.
George C. Eads.....	Member.....	June 6, 1979.....	January 20, 1981.
Stephen M. Goldfeld.....	Member.....	August 20, 1980.....	January 20, 1981.
Murray L. Weidenbaum.....	Chairman.....	February 27, 1981.....	August 25, 1982.
William A. Niskanen.....	Member.....	June 12, 1981.....	March 30, 1985.
Jerry L. Jordan.....	Member.....	July 14, 1981.....	July 31, 1982.
Martin Feldstein.....	Chairman.....	October 14, 1982.....	July 10, 1984.
William Poole.....	Member.....	December 10, 1982.....	January 20, 1985.
Beryl W. Sprinkel.....	Chairman.....	April 18, 1985.....	January 20, 1989.
Thomas Gale Moore.....	Member.....	July 1, 1985.....	May 1, 1989.
Michael L. Mussa.....	Member.....	August 18, 1986.....	September 19, 1988.
Michael J. Boskin.....	Chairman.....	February 2, 1989.....	January 12, 1993.
John B. Taylor.....	Member.....	June 9, 1989.....	August 2, 1991.
Richard L. Schmalensee.....	Member.....	October 3, 1989.....	June 21, 1991.
David F. Bradford.....	Member.....	November 13, 1991.....	January 20, 1993.
Paul Wonnacott.....	Member.....	November 13, 1991.....	January 20, 1993.
Laura D'Andrea Tyson.....	Chair.....	February 5, 1993.....	April 22, 1995.
Alan S. Blinder.....	Member.....	July 27, 1993.....	June 26, 1994.
Joseph E. Stiglitz.....	Member.....	July 27, 1993.....	
	Chairman.....	June 28, 1995.....	February 10, 1997.
Martin N. Baily.....	Member.....	June 30, 1995.....	August 30, 1996.
Alicia H. Munnell.....	Member.....	January 29, 1996.....	August 1, 1997.
Janet L. Yellen.....	Chair.....	February 18, 1997.....	August 3, 1999.
Jeffrey A. Frankel.....	Member.....	April 23, 1997.....	March 2, 1999.
Rebecca M. Blank.....	Member.....	October 22, 1998.....	July 9, 1999.
Martin N. Baily.....	Chairman.....	August 12, 1999.....	January 19, 2001.
Robert Z. Lawrence.....	Member.....	August 12, 1999.....	January 12, 2001.
Kathryn L. Shaw.....	Member.....	May 31, 2000.....	January 19, 2001.
R. Glenn Hubbard.....	Chairman.....	May 11, 2001.....	February 28, 2003.
Mark B. McClellan.....	Member.....	July 25, 2001.....	November 13, 2002.
Randall S. Kroszner.....	Member.....	November 30, 2001.....	July 1, 2003.
N. Gregory Mankiw.....	Chairman.....	May 29, 2003.....	February 18, 2005.
Kristin J. Forbes.....	Member.....	November 21, 2003.....	June 3, 2005.
Harvey S. Rosen.....	Member.....	November 21, 2003.....	
	Chairman.....	February 23, 2005.....	June 10, 2005.
Ben S. Bernanke.....	Chairman.....	June 21, 2005.....	January 31, 2006
Katherine Baicker.....	Member.....	November 18, 2005.....	
Matthew J. Slaughter.....	Member.....	November 18, 2005.....	
Edward P. Lazear.....	Chairman.....	February 27, 2006.....	

Report to the President on the Activities of the Council of Economic Advisers During 2006

The Council of Economic Advisers was established by the Employment Act of 1946 to provide the President with objective economic analysis and advice on the development and implementation of a wide range of domestic and international economic policy issues.

The Chairman of the Council

Edward P. Lazear was appointed by the President on February 24, 2006 as Chairman of the President's Council of Economic Advisers. Dr. Lazear succeeded Ben S. Bernanke, who was appointed by the President as Chairman of the Federal Reserve Board on February 1, 2006.

Dr. Lazear is on a leave of absence from the Stanford Graduate School of Business where he is the Jack Steele Parker Professor of Human Resources Management and Economics. He also serves as the Morris Arnold Cox Senior Fellow at the Hoover Institution.

Dr. Lazear is responsible for communicating the Council's views on economic matters directly to the President through personal discussions and written reports. He represents the Council at daily White House senior staff meetings, a variety of inter-agency meetings, Cabinet meetings, and other formal and informal meetings with the President. He also travels within the United States and overseas to present the Administration's views on the economy. Dr. Lazear is the Council's chief public spokesperson. He directs the work of the Council and exercises ultimate responsibility for the work of the professional staff.

The Members of the Council

Katherine Baicker and Matthew J. Slaughter are Members of the Council of Economic Advisers. Dr. Baicker is on leave from the University of California in Los Angeles, where she is an Associate Professor in the Department of Public Policy. She also served as a Faculty Research Fellow for the National Bureau of Economic Research. At the Council, Dr. Baicker's responsibilities include work on public finance, labor, and health issues.

Dr. Slaughter is on leave from the Tuck School of Business at Dartmouth College where he is an Associate Professor of Business Administration. He also serves as a visiting Fellow at the Institute for International Economics and has served as a Research Associate at the National Bureau of Economic Research. Dr. Slaughter's responsibilities at the Council include work on international finance and trade, and industrial organization issues.

Macroeconomic Policies

As is its tradition, the Council devoted much time during 2006 to assisting the President in formulating economic policy objectives and designing programs to implement them. In this regard the Chairman kept the President informed, on a continuing basis, of important macroeconomic developments and other major policy issues through regular macroeconomic briefings. The Council prepares for the President, the Vice President, and the White House senior staff regular memoranda that report key economic data and analyze current economic events. Council staff also regularly provides assistance with economic data to other offices of the Executive Office of the President.

The Council, the Department of the Treasury, and the Office of Management and Budget (OMB)—the Administration's economic "troika"—are responsible for producing the economic forecasts that underlie the Administration's budget proposals. The Council, under the leadership of the Chairman and the Chief Economist, initiates the forecasting process twice each year. In preparing these forecasts, the Council consults with a variety of outside sources, including leading private sector forecasters.

In 2006, the Council took part in discussions on a range of macroeconomic issues. The Council contributed significantly to discussions of the macroeconomic impact of unexpected oil supply shocks, the effects of a potential pandemic flu, and proposed mitigation plans.

The Council works closely with the Department of the Treasury, the Federal Reserve, and other government agencies in providing analyses to the Administration on these topics of concern. It also works closely with the National Economic Council, the Office of Management and Budget, and other offices within the Executive Office of the President in assessing the economy and economic policy proposals.

International Economic Policies

The Council was involved in a range of international trade and finance issues, and was an active participant in discussions at the global, regional, and bilateral levels. On the international trade front, the Council provided

empirical analysis of forthcoming free trade agreements and the recently released top-to-bottom review of U.S.-China bilateral economic relations spearheaded by the United States Trade Representative. Staff also conducted a landmark study exploring the prevalence and effects of non-tariff barriers in conjunction with the Department of Commerce.

Further involvement included extensive analysis and participation in deliberations related to the U.S. economic interaction with China. The Council participated in the inaugural U.S. Treasury-led Strategic Economic Dialogue in Beijing where a host of bilateral economic issues with China were discussed, ranging from financial liberalization, to energy and the environment, to bilateral trade relations.

The Council participated in the development of U.S. proposals for securing global energy security and combating the spread of pandemic disease at this year's G8 Summit held in St. Petersburg, Russia. The Council also prepared in-depth analyses for the President's international itinerary, including the annual Asia-Pacific Economic Cooperation (APEC) summit, and travel to Europe, India, and Mexico. The Council participated in discussions concerning the need for greater international financial and trade liberalization with both advanced and emerging market economies. Council members regularly met with representatives of the Council's counterpart agencies in foreign countries, as well as with finance ministers, other government officials, and members of the private sector.

The Council is a leading participant in the Organization for Economic Cooperation and Development (OECD), the principal forum for economic cooperation among the high-income industrial economies. Chairman Lazear and Dr. Slaughter participated in meetings of the OECD's Economic Policy Committee (EPC), as well as meetings of the OECD's Working Party 3 on macroeconomic policy and coordination.

Microeconomic Policies

A wide variety of microeconomic issues received Council attention during 2006. The Council actively participated in the Cabinet-level National Economic Council and Domestic Policy Council, dealing with issues including health care, labor issues, energy policy, legal reform, the environment, homeland security, education, pensions, transportation, and technology among others.

The Council was involved in a plethora of discussions related to health care. These included examination and policy proposals relating to the tax treatment of health insurance, analysis and development of Administration efforts to enhance Health Savings Accounts, analysis of potential Medicare and

Medicaid reforms, and promotion of transparency in health price and quality. The Council investigated the causes and consequences of rising health care costs and examined potential remedies including greater consumer involvement in health care, opening access to insurance across state lines, Association Health Plans, and encouraging high quality health care when the government is the payer.

The Council was also especially active in energy and environmental policy discussions, where it analyzed energy markets, fuel economy issues, and alternatives to oil. This included issues such as the President's Advanced Energy Initiative, bio-energy, the Outer-Continental Shelf, the Renewable Fuels Standard, CAFE, the Strategic Petroleum Reserve, regulatory reforms, global climate change, and the international trade of energy.

The Council examined transportation policies relating to airports, hybrid vehicles, and congestion pricing. The Council also played a role in the analysis of policy for telecommunications, broadband, and spectrum allocation. Council staff also provided analyses related to agricultural issues.

The Council participated in discussions related to catastrophic risk insurance relating to natural disasters and attacks. The Council also participated in ongoing policy discussions relating to the government's role in terrorism risk insurance.

On labor policy, the Council was involved in the development of the President's comprehensive immigration policy and other proposed immigration reforms. The Council also assisted in Administration evaluation of higher education policies, as well as in the examination of the No Child Left Behind program.

The Council was active in tax policy discussions relating to comprehensive tax reforms, business tax credits, and corporate taxation, as well as tax issues related to entitlement programs such as Social Security. Many additional tax policy discussions were involved in other microeconomic discussions including labor, insurance, pensions, and health care.

The Staff of the Council of Economic Advisers

The professional staff of the Council consists of the Chief of Staff, the Chief Economist, the Director of Macroeconomic Forecasting, eight senior economists and one economist, and seven junior staff of analysts and research assistants. The professional staff and their areas of concentration at the end of 2006 were:

Chief of Staff
Gary D. Blank

Chief Economist
Keith Hall

*Director
of
Macroeconomic Forecasting and Statistics*
Steven N. Braun

Senior Economists

William J. Collins	Labor, Immigration, Education, Welfare
Erik A. Heitfield	Finance, Telecommunications
Bradley J. Herring	Health
Kristin McCue	Labor, Small Business, Economic Development
Robert F. Martin	Macroeconomics, International Finance and Development
Christine A. McDaniel	International Trade
David P. Richardson	Public Finance
Wolverton, Maryann	Agriculture, Environment, Natural Resources

Economist

Benjamin T. Ho	Energy, Transportation, Legal Reform
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Analysts

Dagmara K. Tchalakov	International Finance and Trade
Diana C. Wielocha	Public Finance, Finance, Legal Reform
Jonathan A. Wolfson	Health

Research Assistants

- Eric B. Cragun..... Labor, Macroeconomics
- Nikola D. Kojucharov..... Macroeconomics
- Gregory E. Stein..... Energy, Transportation, Environment,
Agriculture
- Lucas D. Threinen International Finance and Trade, Technology

Statistical Office

The Statistical Office maintains and updates the Council's statistical information, oversees the publication of the monthly *Economic Indicators* and the statistical appendix to the *Economic Report of the President*, and verifies statistics in Presidential and Council memoranda, testimony, and speeches.

- Linda A. Reilly..... Program Analyst (Statistical)
- Brian A. Amorosi Program Analyst (Statistical)
- Dagmara A. Mocala Research Assistant

Linda Reilly retired from Federal service on December 29, 2006. She had worked at the Council for 36 years and had been with the Statistical Office since 1981. Linda's dedication to the Council has been extraordinary, and her knowledge of statistics and their applications are greatly appreciated by CEA staff past and present.

Administrative Office

The Administrative Office provides general support for the Council's activities. This includes financial management, human resource management, and travel, facility, security, information, and telecommunications management support.

- Rosemary M. Rogers Administrative Officer
- Archana A. Snyder Financial Manager
- Doris T. Searles Information Management Specialist

Office of the Chairman

- Alice H. Williams..... Executive Assistant to the Chairman
- Sandra F. Daigle..... Executive Assistant to the Chairman
and Assistant to the Chief of Staff
- Lisa D. Branch..... Executive Assistant to Dr. Slaughter
- Mary E. Jones Executive Assistant to Dr. Baicker

Staff Support

- Sharon K. Thomas Administrative Support Assistant and Assistant
to the Chief Economist

Jane Tufts and Anna Paganelli provided editorial assistance in the preparation of the 2007 *Economic Report of the President*.

Student Interns during the year were: Daniel M. Cohen, Shana N. Dougherty, Stacy L. Droms, George Kim, Bryan C. Hoppe, Grace C. Hou, Lindsay A. Philbrick, Joni Perdue, Jennifer Scallion, Timothy Simmons, Michael S. Verne, and Sajid S. Zaidi.

Fellows during the year were: Michael Chow and Therese C. Scharlemann.

Departures

The Council's senior economists, in most cases, are on leave of absence from academic institutions, government agencies, or private research institutions. Their tenure with the Council is usually limited to one or two years. The senior economists who resigned during the year and returned to their previous affiliations were: John Anderson (University of Nebraska), William Block (Department of the Treasury), Daniel Covitz (Federal Reserve Board), Joseph Cooper (Department of Agriculture), William H. Dow (University of California, Berkeley), Wayne Dunham (Department of Justice), Dino Falaschetti (Montana State University), and Richard Newell (Resources for the Future). Rebecca Kalmus, an economist, resigned to pursue studies at the University of Texas.

The economists are supported by a team of junior staff made up of staff economists, analysts, and research assistants who generally work with the Council for one or two years before returning to school. Those who served as staff economists at the Council and resigned during 2006 were: Soren Anderson, Faisal Z. Ahmed, and Andrew Hanson. Those who served as research assistants at the Council and resigned during 2006 were: Jeffrey P. Clemens and Sarena F. Goodman.

Public Information

The Council's annual *Economic Report of the President* is an important vehicle for presenting the Administration's domestic and international economic policies. It is available for distribution as a bound volume and on the Internet, where it is accessible at www.gpoaccess.gov/eop. The Council also publishes the monthly *Economic Indicators*, which is available on-line at www.gpoaccess.gov/indicators. The Council's home page is located at www.whitehouse.gov/cea.