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Stabilization Politics in the Twentieth-Century United States: Corporatism, Democracy, and Economic Planning, 1945-1980

A dissertation submitted in partial satisfaction of the

requirements for the degree Doctor of Philosophy

in History

by

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September 2021

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July 2021

Stabilization Politics in the Twentieth-Century United States: Corporatism, Democracy, and Economic Planning, 1945-1980

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by

Andrew Yamakawa Elrod

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ABSTRACT

Stabilization Politics in the Twentieth-Century United States: Corporatism, Democracy, and Economic Planning, 1945-1980

by

Andrew Yamakawa Elrod

Historians of ideas have long considered the mixed economies established after World War II to be characterized by a form of "commercial Keynesianism" in which the shape of growth was left to the "indirect" controls of government budgets and credit policy. In this history, the political conflict between organized workers and business cartels that defined the North-Atlantic world during the period between the world wars is said to have given way to the consensual management of national economies characterized by a "postcapitalist" debates over social, racial, and gender inclusion. Considerable scholarship argues that the politics of the era that followed World War II were conditional on the rapid economic growth of postwar reconstruction and expanding world trade. The collapse of North Atlantic growth rates after 1973 thus explains the fate of post-World War II social, political, and economic history, as demands for inclusion in a political economy in which employment and incomes rose more slowly than before became increasingly difficult for institutions to mediate.

But what explains the collapse of North Atlantic growth during the 1970s? There are two dominate explanations: the expansion of national budgets to accommodate the social-democratic responsibilities of postwar welfare states and the overcapacity of industrial manufacturing. Neither explanation acknowledges the national experiments in income planning that emerged within the OECD nations during the early 1960s, when the difficulties of maintaining full employment in a world of liberal trade and capital movements first appeared. In the US, such income planning represents a continuity with the interwar struggle over the "problem of monopoly" and "structural reform" that characterized the New Deal. Rather than departing from these efforts at "direct" controls over centers of accumulation and employment, the guiding concepts of the US political-economy after World War II accelerated their orbit around a set of ideas about the role of the state in guiding and structuring economic life, ideas that had emerged earlier during the 1930s. Price manipulation and wage restraint were necessary accoutrements of fiscal-monetary stabilization policy in these postwar decades. This domain of policymaking is entirely absent from existing histories of post-World War II economic policy in the US.

This pattern was the particular manifestation in the US of what scholars of comparative political economy describe as "corporatism." The first half of this dissertation explores the development of this North American corporatism between World War II and the Korean War. It argues that the fusion of corporatism in the US with military mobilization complicated the politics of macroeconomic stabilization, hiving off fiscal policy from wider democratic control over the composition of demand. In the scale of values associated with this order, fiscal expansion and high employment were tied to military production, price-and-wage control to social sacrifice necessary to constrain civilian consumption. This order

produced the racial politics of the US South and the migration of African Americans to industrial cities, as the wing of the Democratic party dominate in the legislature came to oppose expansions of social insurance and employment that jeopardized the Jim Crow society of their home states and the social order of the nation's largest cities.

This historically variegated political economy created large wage differentials that threated to destabilize production costs in times of rising employment. As employment expanded and wages increased in the unorganized service sector during the Vietnam-war boom of 1965-73, organized workers in the industrial and construction industries fought to maintain historic income differences, raising production costs and turning the inflationary wage-price spiral. Thus, the imperative of stabilization exacerbated the instability of the managed economy.

At the OECD, the understanding that effective national planning of wages and profits required renewed democratic legitimacy produced two decades of experiments in "incomes policy" to reconcile the imperatives of economic stability and high employment. The second half of this dissertation examines the fate of the idea of an "incomes policy" in the US context. During the Vietnam War, the Johnson and Nixon administrations vacillated between informal guidelines and compulsory controls over corporation profits and union-negotiated wages. As continued international payments imbalances threatened the role of the dollar as world reserve asset, and as the geopolitical and ideological motivation for military production waned, so did the legitimacy of the US stabilization apparatus. US industrial-relations thinking formed in the era of military Keynesianism failed to adapt to the era of détente. The consequences for the development of the US mixed economy were profound.

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Introduction: State and Society in the History of Economic Thought

" The economy of World War II.... involved a great acceleration of public and private demand and associated pressures on supply. It ....tells us that the industrial concentration and trade union power that allows corporations and unions to increase their prices and wages also simplifies the task of control....it is relatively easy to fix prices that are already fixed"

- John Kenneth Galbraith, 1980[1]

"I think no one should aspire to manage the economy—the Secretary of the Treasury or whatever. That is, I think the basic idea about our economy is that it manages itself."

- George P. Shultz, 1974[2]

This study is a history of wage and price controls in the United States during the middle decades of the twentieth century. It argues that the US shared in a global process by which capital accumulation became increasingly subject to conscious public direction—to a "controlled economy"—by national governments after World War II. The particular mode of state-society interaction in the US between 1945 and 1980 openly implicated the federal government in the business decisions and political strategies of the largest economic organizations —industrial corporations, labor unions, and agricultural associations—shaping the social and political history of the country, transforming the idea of the state in the popular imagination, and decisively moving the global political economy. In the process, the problem of economic stabilization grew to challenge the very bases of public authority and national sovereignty. As this study argues, much of the apparent travail of the American state in the neoliberal era that arose after the 1970s can be attributed to the particular way the challenges raised by the emergence of a controlled economy were overcome.

[1] John Kenneth Galbraith, "Introduction: 1980," *A Theory of Price Control* (Harvard: 1980 [1952]), p. 9.
[2] "George Shultz: Looking Back on 5 Years in Government," *Washington Post*, April 14, 1974, p. A21.

The epigraphs above convey two representative opinions on the idea of the controlled economy at the end of its twentieth-century career. John Kenneth Galbraith, deputy director of price control during World War II, held that proper macroeconomic management required federal guidance of the enormously consequential decision making by large corporations and their trade union antagonists. The size and power of these organizations deprived them of pretense that their goals and policies deserved the independence and autonomy reserved for purely private affairs. Galbraith's view of national economic controls represented a commonplace assumption of intellectuals and politicians forged during World War II that the concentration of power in product and labor markets required a transformation of the institutions governing the marketplace to open these organizations to public scrutiny and influence. Only through the centralization and augmentation of state authority could society restrain competing interests, subordinate them to conscious direction, and freely choose its future path of development. This worldview accompanied the price controls of the Korean and Vietnam wars, the intermittent "jawboning" of seven Presidential administrations from Truman to Carter, and incipient programs in public enterprise, from health provision to education and transport.

Compare the opinion of George P. Shultz, Secretary of the Treasury during the Nixon administration and the most senior cabinet official entrusted with that era's wage-and-price controls. Confronted with the domestic problem of inflation, the international challenge to US hegemony represented by the continuation of the war in Vietnam, the rising world price of petroleum, and the growing European restrictions on international finance, Shultz argued

for relieving national authority of the responsibility for the direct and speedy pursuit of social objectives such as higher employment, stable prices, or expanded access to social services. Instead, he argued, "the basic idea about our economy is that it manages itself." Social and economic power in society should be left to its own devices, he argued. Federal intervention into corporate pricing and union wage bargaining did not represent the freedom of the public to determine its own future, but rather was evidence of larger failures of public administration to ensure the orderly development of a free society. As President Carter remarked during the double-digit inflation of winter 1980, price controls were "counterproductive" and "out of the question."[3] Price controls could be tolerated no longer. As Carter's economic advisers and Federal Reserve Chairman Paul Volcker made clear, the alternative policy to price control, that of engineering a recession and enduring the wave of bankruptcies and rising unemployment it produced—once unthinkable—was now official Washington policy. "We have opted for recession, and I think we'll get it," longtime Democratic Party economist Otto Eckstein explained. As another Carter adviser put it, "We'll probably need to run a fairly slack economy for some time."[4]

In the period since 1980, the basic assumptions that emerged from the era of the controlled economy have anchored national political discourse. Thus, a question of historical interpretation naturally poses itself as to how the apparently inevitable became politically intolerable and how the once unthinkable became the accustomed status quo.

[3] "Covering Bets?," *Wall Street Journal*, February 29, 1980, p. 1.
[4] "Support Grows for Wage, Price Curbs as Costs Surge," *Los Angeles Times*, p. A1.

To the degree that any organizing consensus exists for understanding the history of the post-World War II economy, it has used the ideology of "neoliberalism" to account for declining union power, increasing privatization of pricing and finance, and the global subordination of national governments to international organizations through conditional access to balance of payments financing. Political historians have traced the "rise of the right" during the 1970s and 1980s in the elections of Richard Nixon and Ronald Reagan, interpreting these changes as the result of a business-conservative movement organized around the Republican Party and a sprinkling of private foundations and business associations during the 1930s and 1940s, augmented by a second wave of foundations during the 1970s.[5] Others locate the operative forces in legal and cultural debates over racial integration, interpreting elections of 1966, 1968, 1972 and 1980 as referenda on Great Society project to include African Americans, Latinos, and a great variety of other ethnic, sexual, and gender categories into the layers of social and economic citizenship achieved by white and immigrant workers from Eastern and Southern Europe during the New Deal.[6] Critically, historians and cultural critics have noted the contradiction this inclusionary movement posed to the family structure of social reproduction, as the "family wage" on

[5] The literature on the rise of neoliberalism is too great to list here, but a few notable entries include David Harvey, *A Brief History of Neoliberalism* (Oxford: 2006), Kim Philips-Fein, *Invisible Hands: The Businessmen's Crusade Against the New Deal* (Norton: 2009), Nancy MacLean, *Democracy in Chains* (Penguin Random House: 2017), Jane Mayer, *Dark Money: The Hidden History of the Billionaires Behind the Rise of the Radical Right* (Anchor: 2017).

[6] Rick Perlstein, *Nixonland: The Rise of a President and the Fracturing of America* (Scribner: 2009), Matthew Lassiter, *The Silent Majority: Suburban Politics in the Sunbelt South* (Princeton: 2006), Thomas Sugrue, *The Origins of the Urban Crisis: Race and Inequality in Postwar Detroit* (Princeton: 1996).

which it was founded entailed the subordination of women and single people to the heteronormative household.[7]

While there is considerable agreement that a neoliberal period followed World War II, there is less consensus about the goals of the Democratic Party or the motivation of the workers and their unions who turned away from it during the 1960s and early 1970s. Structural explanations divide between the national-cultural and the global-geopolitical. In the first camp are accounts of the rise of the "sunbelt" of southern and western cities that rose up around military contracting during World War II. These regions, many argue, financed the conservative foundations; elected politicians opposed to integration and feminist political demands; and reoriented capital accumulation nationally away from the "industrial archipelago" of the New England, the North Atlantic, the Midwest and California, and toward the new offices, shopping malls, and suburban housing developments in the states of the Confederacy and a few western political allies.[8] These shifts in the national centers of political and economic power are rarely examined in relation to domestic struggles over economic management or larger global processes. Global explanations turn on military and diplomatic decisions of the Cold War; the importance to the US State Department of economic integration with an anti-communist bloc in Western Europe, East Asia, and Latin

[7] Robert O. Self, *All in the Family*. Melinda Cooper, *Family Values*.

[8] Elizabeth Tandy Shermer, *Sunbelt Capitalism: Phoenix and the Transformation of American Politics* (University of Pennsylvania: 2015); Nelson Lichtenstein, *Retail Revolution: How Wal-Mart Created a Brave New World of Business* (Macmillan: 2009); Jefferson Cowie, *Capital Moves: RCA's Seventy-Year Quest for Cheap Labor* (New Press: 2001); Tami J. Friedman, "Exploiting the North-South Differential: Corporate Power, Southern Politics, and the Decline of Organized Labor after World War II," Journal of American History, v. 95, no. 2 (Sep., 2008).

America; and the growth of the multinational corporations and internationally branched US commercial banks that underwrote global economic integration.[9]

Though often argued separately, both theses—the growth of the sunbelt and the growth of US capitalist empire—share a particular understanding the US mixed economy their subjects displaced in time. The orthodox assumption about the fate of the mixed economy that emerged during the 1970s holds that US fiscal burdens accumulated under the multiplicitous demands of democracy itself. Flourishing in the prosperity of the 1960s, the US raised its social aspirations toward civil rights and social welfare, embarking on the programs of Lyndon Johnson's Great Society. The return to stagnation during the 1970s defeated these aspirations, many argue, leaving the American people frustrated and confused, the national fabric distended by its numerous and competing interests and beliefs.[10] According to this story, expanding government spending on social entitlement programs contributed to runaway inflation, a problem exacerbated by the duplicity of the Johnson administration in hiding the cost of the Vietnam war. Taxes were raised belatedly and price controls only intensified inflation. The stagflation of the 1970s resulted from a "lagged" effect of fiscal "overshooting" during the Great Society and Vietnam war.[11] Great Society entitlements, continued deficit spending, a tax system designed to support an overweening

[9] Judith Stein, *Pivotal Decade: How the United States Traded Factories for Finance in the Seventies* (Princeton: 2010); Jefferson Cowie, *Capital Moves: RCA's Seventy-Year Quest for Cheap Labor* (New Press: 2001); Leo Panitch and Sam Gindin, *The Making of Global Capitalism: The Political Economy of Global Empire* (Verso: 2013); Richard J. Barnet and Ronald E. Mueller, *Global Reach: The Power of the Multinational Corporations* (Simon & Schuster: 1974).

[10] Allen J. Matusow, *The Unravelling of America: A History of Liberalism in the 1960s* (Harper & Row: 1984).

[11] Alan Blinder, *Economic Policy and the Great Stagflation* (Academic Press: 1979).

central government all contributed to slower business investment and created unemployment and stagnation in the core manufacturing industries of the Northeast and Midwest. As a famous report of the Trilateral Commission put it in 1973, the "syndrome of values" of the advanced industrial countries had left national publics skeptical of political leaders and alienated from the political process. An "excess of democracy" threatened the "governability" of nations. As welfare states became burdened with the demands of citizens, necessary reforms pointed toward reversing the scope of social programs and business regulation, removing greater areas of social life from fractious democratic control.[12]

The history of the controlled economy in the US offers a different perspective from which to understand the post-World War II pattern of political economy and its transformation during the 1960s and 1970s. The expiration of controls and the repeal of single-industry regulatory bodies mark clean breaks in the nation's economic history; more importantly, as this study argues, attention to the full range of controls—from fiscal-monetary policies and agricultural supply management to price controls and foreign exchange and currency regulations—demonstrates how the state transformed itself over the long run. The development of the economic-management state of the middle decades of the twentieth century was tied up with balance of payment financing in the dollar-led, postwar order of multinational corporations and developmental states. In this context, controls over wages and prices were domestic counterparts to federal sanctions on foreign direct investment and international lending. Inflation at home was tied to the currency policies of

[12] Michael J. Crozier, Samuel P. Huntington, Joji Watanuki, *The Crisis of Democracy: Report on the Governability of Democracies to the Trilateral Commission* (New York University: 1973), pp. 7 and 113-115.

Western Europe and Japan. What we have come to see as the ideology of neoliberalism was itself reliant on transformations in state capacity historians associate with the New Deal, whether in the Treasury's Exchange Stabilization Fund, established in 1935 to enable the US to manage its currency exchange rates with Britain and France; the Truman administration's Defense Production Act; the Kennedy administration's Trade Expansion Act, establishing the Office of the US Trade Representative; or the tremendous deficit spending of the Reagan, Bush, and Trump administrations. In these, we can see how the era that followed the New Deal Order was constructed by the New Deal state. The very form of the transitional event between eras, the Volcker Shock—a recession engineered by fiscal-monetary contraction, followed by fiscal expansion geared toward private investment—depended on the tools of macroeconomic management designed and tested in the mixed economy.

These shifts all reflect transformations of both economic reality and the knowledge used to guide economic actors, subjects of considerable depth and breadth. A reader is justified in wondering what another study of the history of the economy and of economic thought can contribute. The existing history of wage and price controls in the US, however, treats only those periods of formal wartime control—World War II, the Korean War, and the late period of the Vietnam War—to the exclusion of the informal and ad-hoc pressures the White House and the Congress brought to bear on corporations and labor unions in the intervening years.[13] As this study demonstrates, both form and informal "microeconomic" controls persisted during both the fiscal-monetary expansion that accompanied the Marshall

[13] Hugh Rockoff, *Drastic Measures: A History of Wage and Price Controls in the United States* (Cambridge: 1984).

Plan and the Kennedy and Johnson phases of the war in Vietnam, as well as during the fiscal-monetary contractions under Presidents Eisenhower and Carter. These periods of formal and informal control form a continuous historical process in the national project to maintain high employment without jeopardizing the global value of the dollar, a process that ended with the recessions of the 1970s and the turn away from high-employment fiscal policy during the 1980s.

A similar division between war and peace dominates the history of economic thought after World War II. Michael Bernstein's history of the American Economic Association (AEA) and its relationship to public policy, for example, does not mention the wage-price guideposts that were central to the Kennedy-Johnson program of planned economic expansion, nor does it consider experience of the Nixon wage-and-price controls.[14] The prevailing perspective on the history of economic thought was by Herbert Stein a half-century ago: the rise of fiscal policy followed by the rise of monetary policy.[15] In developing this basic interpretation, few historians have acknowledged just how central the question of supplementing fiscal and monetary policies was to the American pattern of economic management before 1980, or how directly the US state intervened in global commodity markets during this period through raw materials stockpiling. Such efforts to use economic knowledge to guide the uses of social and political power were nevertheless defining characteristics of an entire historical era.

[14] Michael Bernstein, *A Perilous Progress: Economists and Public Purpose in Twentieth-Century America* (Princeton: 2001).

[15] Herbert Stein, *The Fiscal Revolution in America: Policy in Pursuit of Reality* (1969) and *Presidential Economics: The Making of Economic Policy from Roosevelt to Reagan and Beyond* (1984).

While categories more traditionally understood in the malleable terms of cultural analysis such as gender, sexuality, race, and nationality have undergone considerable historical reconstruction and critical scrutiny, the categories invoked to describe the relationship of state to society—"indirect" versus "direct" control, "authoritarian," "laissez faire," "market," and "non-market"—have only recently become objects of critical historical inquiry.[16] As such terms continue to be used in debates over the structure and policies of government in the early twenty-first century, these categories should be subjected to similar critical study. Most economic histories do not account for the political determinates or sociological assumptions of the national economic planning process, preferring instead to read back into the historical record current macroeconomic or sociological hypotheses. The history of wage and price controls, from this perspective, is a textbook example of the impotence of public authority to alter social trends and market forces. And yet for four decades, such dollars-and-cents ceilings, percentage guidelines on wage and price changes, and capacity-and-supply targets for producers endured as a mainstay of national planning. They even persist today in the principle of public utility regulation. In an era when decisions over fiscal and monetary policies and questions about the structure of the society they govern return to live political discussion, this history of the use of economic knowledge can be particularly timely.

[16] Adam Tooze, *Statistics and the German State, 1900-1945: The Making of Modern Economic Knowledge* (Cambridge: 2001); Timothy Mitchell, *Carbon Democracy*: *Political Power in the Age of Oil* (Verso: 2011); Timothy Shenk, "Inventing the American Economy," in Romain Huret, Nelson Lichtenstein, and Jean-Christian Vinel, eds., *Beyond the New Deal Order: U.S. Politics from the Great Depression to the Great Recession* (University of Pennsylvania: 2020).

This introduction proceeds along three lines. First, it will argue that the historical-sociological assumptions of most histories of economic thought—of the growth of an administrative state independent from society—is wrong for understanding the trajectory of the controlled economy in the twentieth century. Instead, I will argue that "corporatism" is a more useful concept for tracking the development of the US during the twentieth century and the theoretical knowledge produced to guide it. Second, it will explore how understanding the US political economy as a corporatist historical formation alters our understanding of the strains on the international monetary system after World War II. Third, it will explore the influence a corporatist structure had on planning thought, challenging existing ideological explanations for national and international economic change during the second half of the twentieth century. Finally, I conclude with a chapter summary.

Corporatism and Economic Knowledge

The public basis of economic control is the collection and evaluation of survey data. The impetus for such data collection in the US was the growth of the large-scale, bureaucratically managed business corporation that emerged after the Civil War. The social dislocation and class conflict produced by the emergence of these industrial behemoths made economic knowledge indispensable for legislative debate and administrative action, as the very survival of communities came to depend on rates charged by railroad corporations, world prices of manufactures and agricultural competitors, and wages paid by employers.

Historians and social scientists usually describe the emergence of new forms of economic knowledge in the US as part of the story of the construction of an "administrative state," emphasizing the autonomy and prerogatives of state officials in the establishment of agencies such as the Interstate Commerce Commission (ICC) and the Federal Reserve System. The earliest government-organized surveys of employment and wages in the US began with the founding of various state-level bureaus of labor statistics during the 1870s and the establishment of the federal Bureau of Labor Statistics (BLS) in 1884.[17] This chronology of the emergence of a distinctly statist conception of economic knowledge coincides with the transformation in social knowledge Ira Katznelson describes, in writing about Great Britain, as "the development of an autonomous zone for the study of politics in [the] nineteenth century" between government agencies, universities, and the new sectors of social organization. Those who operated in this autonomous zone, such as the members of the British Social Science Association (founded in 1857)—or the German Verein fur Sozialpolitik (founded in 1872) and the American Economic Association (founded in 1885)—functioned as a "conduit between politicians and an expanding citizenry with political rights."[18]

The dominance of private enterprise in the history of US politics has left most interpretations of "state building" preoccupied with questions of business independence and

[17] Thomas Stapleford, *The Cost of Living in America: A Political History of Economic Statistics, 1880 – 2000* (Cambridge: 2009).

[18] Ira Katznelson, "Knowledge about What? Policy Intellectuals and the New Liberalism," in *States, Social Knowledge, and the Origins of Modern Social Politics*, eds. Dietrich Rueschmeyer and Theda Skocpol (Princeton: Russell Sage Foundation, 1996), pp. 29 and 31.

government compulsion, of the legal basis of regulation, and of the goals of regulatory initiatives. Stephen Skowronek's study of the development of independent regulatory agencies in the US at the federal level during the late-nineteenth century, for example, concludes that the legal authority the ICC won from the judiciary to establish rates charged by railroad corporations represented a "mundane pluralism" reconciling public and private interests.[19] Whereas national administration in the European and colonial contexts existed as a legacy of monarchical estates and imperial corporations, in the US military requirements have served as the engine of the growth of national administration.[20] Thus, a crucial achievement in domestic administration is the calculation and proliferation of index numbers, a technique accelerated by the Wilson administration's mobilization for the Great War in 1917. As the Wilson White House raised unprecedented demands on the nation's factories and farms for military procurement for the armies of Europe, the President established a War Industries Board (WIB) to license cartels, fix prices, seize the railroad corporations, and proceed to centrally administer production of war materiel. The Price Section of the WIB under the direction of Wesley Mitchell marks a crucial turning point in the emergence of a

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[19] Stephen Skowronek, *Building a New American State: The Expansion of National Administrative Capacities, 1877-1920* (New York: Cambridge, 1982), p. 29.

[20] Charles Francis Adams, *Railroads: Their Origins and Problems* (1877), pp. 94-100 on the Belgian railroad system. As Adams notes of early British parliamentary debates on private railroad regulation, "the Duke of Wellington is reported to have said that in dealing with [the railroad companies] it was above all else necessary to bear in mind the analogy of the king's highway." Ibid, p. 82. On military enterprise in the US during WWI, see Mark R. Wilson, *Destructive Creation: American Business and the Winning of World War II* (2016), pp. 7-47, on public ownership of the railroads see Jordan A. Schwarz, *New Dealers: Power Politics in the Age of Roosevelt* (1993), pp. 3-56. On the decline of colonial state enterprise and the growth of general incorporation in the nineteenth-century US, see Robert E. Wright, "Capitalism and the Rise of the Corporate Nation," in *Capitalism Takes Command: The Social Transformation of Nineteenth-Century America*, eds. Michael Zakim and Gary Kornblith (2011). On the US Civil War as an accelerant for the growth of industrial corporations, see Eric Foner, *Reconstruction: America's Unfinished Revolution, 1863-1877* (1988), pp. 20-1.

modern administrative state in the US. In this story, knowledge production is imagined as a public good wrested from private society, the creature of an independent state that is "relatively autonomous" from society. The index number techniques there developed were indispensable to the later calculation of theoretical concepts such as industry output and labor productivity. Empirical measurements of labor productivity—output per manhour—were not widely available until the late 1920s, when Ewin Clague, a graduate student at the University of Wisconsin, produced the first industry-specific estimates in a series of papers for the BLS's *Monthly Labor Review* beginning in the summer of 1926.[21] Such industry-specific price and production indexes immediately became the stuff of Congressional argument, as trade association leaders—in particular farmers—learned how their industries' prices fell in relation to those of their suppliers and customers. With the financial crisis of 1929 and the depression that followed, such inter-industry price trends served as a critical diagnostic tool: while prices in agriculture and wages across the nation fell, manufacturing prices appeared to have a floor.[22]

[21] "Index of Productivity of Labor in the Steel, Automobile, Shoe, and Paper Industries," *Monthly Labor Review*, Vol. 23, No. 1 (July, 1926), pp. 1-19. "Productivity of Labor," *Monthly Labor Review*, Vol. 23, No. 4. (October, 1926). "Productivity of Labor," *Monthly Labor Review*, Vol. 23, No. 5. (November, 1926.) "Productivity of Labor," *Monthly Labor Review*, Vol. 24, No. 1. (January, 1927). The U.S. Bureau of Foreign and Domestic Commerce and the Census Bureau both published studies of output per manhour in 1927 and 1928, respectively. See Gregory R. Woirol, "New Data, New Issues: The Origins of Technological Unemployment Debates," *History of Political Economy* (Fall 2006). Under Commissioner Royal Meeker, the Bureau of Labor Statistics had earlier published single studies of output per manhour, effective hourly rates, and wage-costs per unit in the lumber, saw mill, and boot and shoe industries as part of the Wilson administration's program of labor reform. Joseph P. Goldberg and William T. Moye, *First Hundred Years of the Bureau of Labor Statistics* (US Department of Labor, 1985), p. 94.

[22] US Congress, Senate, *Industrial Prices and their Relative Inflexibility: Letter from the Secretary of Agriculture*, 74th Cong., 1st session, 13, January 17, 1935. Thedore Rosenof, *Economics in the Long Run: New Deal Theorists and Their Legacies*, 1933-1993 (Chapel Hill: University of North Carolina, 1997), Chapter 3.

The development and standardization of national income accounting techniques during the 1930s and 1940s represents an equally momentous achievement in histories of the administrative state. While the concepts of "national wealth" or "national product" long predated the emergence of large-scale industrial corporations and the organizational problems of mechanized warfare and industrial depression, the first US government report to estimate national income and its contributing factors was not published until 1934 and not published regularly until 1937.[23] It was the challenge of mobilizing the nation's factories for World War II without disrupting production of civilian goods that forced the integration of statistical tables measuring national income and national product into their modern forms. As government procurement mushroomed, a method for measuring the flow of money and goods through standardized economic categories—households, government, business firms, individuals—became necessary for the new War Production Board. If the Roosevelt administration was to stabilize the war economy, prevent demand from overcoming controlled prices, improve rationing, and ensure adequate and timely production of both war materiel and civilian goods, tools for relating industrial capacity and employment to public and private spending were of critical importance. "If the war gave the medical profession antibiotics," Mark Perlman writes, "it gave economists new tools and techniques and

[23] Mark Perlman, "Political Purpose and the National Accounts," in William Alonso and Paul Starr, eds. *The Politics of Numbers* (Russell Sage, 1987), p. 139. Carol S. Carson, "The History of the United States National Income and Product Accounts: The Development of an Analytic Tool," *Review of Income and Wealth*, June 1975. On the earlier history of national income concepts during the 18th and 19th centuries, see John W. Kendrick, "The Historical Development of National-Income Accounts," *History of Political Economy* (Fall 1970).

comparable optimism about what their future role would be."[24] As John Kenneth Galbraith argued, by enabling better planning for greater war production the Anglo-American techniques of national income accounting were "the equivalent of several infantry divisions in their contribution to the American was effort."[25] By 1947, the Commerce Department's Bureau of Economic Analysis began monthly publication of an integrated set of accounts—the National Income and Product Accounts, or NIPA tables—that made use of the wartime advance, tables that formed "the keystone to the economists' arch—theory and observation now fit nearly together."[26]

Historians of economic thought treat the development and regular publication of NIPA tables as an instrumental event in the emergence of the mixed economy, a tool that enabled the fiscal and macroeconomic planning that characterized the postwar world. The very logic of postwar reform—of the federal government calculating a "full employment" volume of spending to stabilize civilian production and employment—flowed from the new accounting techniques. The concepts they embodied informed the centerpiece of the Roosevelt coalition's postwar legislative agenda, the Full Employment Act of 1944. While the law did not pass as written, the underlying rationale has informed all subsequent discussion of fiscal and monetary policy in the US. Advising policies to expand "national income" immediately became the prerogative of the Council of Economic Advisers (CEA) that the act, as finally passed in 1946, established. By the 1960s, the economic theory

[24] Perlman, "Political Purpose and the National Accounts," p. 146.

[25] John Kenneth Galbraith, "The National Accounts: Arrival and Impact," in *Reflections of America; Commemorating the Statistical Abstract Centennial* (US Department of Commerce, 1980), p. 80.

[26] Perlman, id.

developed to explain observed movements in national income and product was canonized as official government doctrine in the publication of "potential GNP" forecasts in the CEA's annual economic reports.[27]

Historians have interpreted the turn towards fiscal-monetary policy as a retreat from the Progressive-Era and New-Deal impulses toward "structural reform" and "planning." Because the knowledge that guided the Treasury and the Federal Reserve after World War II was produced by a wave of foundation-backed studies and institutions formed during the 1930s and 1940s, historians tracing the development of macroeconomic thought usually center their narratives on the career of John Maynard Keynes—whose *General Theory of Employment, Interest, and Money* was published in 1936—and on the intellectual battles over the interpretation of his ideas that occurred in these institutions. University professors and private associations directed by business and labor, such as the Committee for Economic Development (CED) and the National Planning Association (NPA), are the crucial actors in this story. Multiple generations of historians have followed Herbert Stein, a career CED staff economist, in describing the course of US economic thought between the 1920s and the 1960s as one of the "fiscal revolution," in which federal deficit spending came to be understood as an instrument of economic policy capable of regulating business cycles and influencing the rate of growth without threatening the business system in ways earlier New Deal planning efforts had. In addition to World War II and the Employment Act of 1946, the third central event in this story is the tax-cutting Revenue Act of 1964. As Robert Collins has

[27] US Council of Economic Advisers, *Economic Report of the President*, 1947, 1962.

argued, the spending ideas associated with John Maynard Keynes underwent a profound reconceptualization during the debate over the Employment Act. The style of government-managed economic expansion that occurred during the Kennedy-Johnson era, in this account, was foreordained by this earlier narrowing of Keynesian thought. "While the seed of deficit spending was of necessity planted," Collins writes, "the twig was early bent, its growth carefully nurtured so as to minimize changes in the distribution of power and wealth."[28]

Nevertheless, even with the tools of national income accounting and the guidance of Keynesian theory, the problem of economic stabilization bedeviled governments across the range of political opinion between the 1940s and the 1970s. Inflation and the threat of its acceleration stalked the nation even before the formal expiration of World War II price controls. Far from relieving government of earlier preoccupations with private behavior, the concepts of a full-employment volume of spending, of an "output gap" to be met by a federal deficit, only necessitated further studies of industry-specific contributions to national income and product necessary to understand the functional relationships beneath price and employment trends and improve the possibilities of improving government planning. As Craufurd Goodwin has noted, the Congressional mandate to the new CEA to develop a program for full employment and price stability without implementation powers posed a central contradiction. The new agency was "asked to do both too much and too little."[29] As a result, federal price control appeared an ominous inevitability for governments across the

[28] Collins, *Business Response to Keynes*, p. 16.

[29] Craufurd Goodwin, "Attitudes Toward Industry in the Truman Administration: The Macroeconomic Origins of Microeconomic Policy," in Michael Lacy, ed. *The Truman Presidency* (Woodrow Wilson International Center, 1989), p. 101.

range of political opinion between the 1940s and the 1970s: it was something both mandated yet seemingly unachievable under existing institutions.

The idea of developing permanent institutional machinery for managing the wage-price problems created by Keynesian full-employment commitments would linger long into the second half of the twentieth century. Galbraith's admission that the organization of powerful groups locked in struggle over money incomes required public supervision was only the most forthright statement of a widespread acknowledgement that the apparent norms of peacetime government were inadequate if US society was to achieve its self-declared goals. "We are fully aware that fiscal and monetary policies cannot be the whole of a program for economic stability," the Committee for Economic Development (CED), an influential foundation endowed by liberal businessmen, noted in 1948.[30] President Eisenhower's Council of Economic Advisers (CEA) declared in 1957 that "The full burden of avoiding price inflation…cannot be successfully carried by fiscal and monetary restraints alone."[31] Former Kennedy CEA member James Tobin described the problem bluntly in 1971: "Macro-economic policies, monetary and fiscal, are incapable of realizing society's unemployment and inflation goals simultaneously."[32]

What has obscured this history is the rise of what Dwight Eisenhower described as the "military-industrial complex"—the network of defense planning, procurement agencies,

[30] *Monetary and Fiscal Policies for Greater Economic Stability* (New York: Committee for Economic Development, 1948), p. 22.
[31] *Economic Report of the President* (Washington: GPO, 1957), p. 3.
[32] James Tobin, "Inflation and Unemployment," *American Economic Review*, Vol. 62, No. 1/2 (March, 1972), p. 17.

Congressional committees, and manufacturing corporations that came to dominate as much as half of the federal budget during the 1950s and 1960s. Economic stabilization for military purposes altered the earlier conception of unemployment, inflation, and growth as essentially political problems. Military spending rendered what had been a political problem of "economic stabilization" into the prerogative of an independent administrative state entrusted with national defense. The contradiction between these views of stabilization drives the development of the US mixed economy after World War II, yet it has hardly registered among historians. Instead, histories of macroeconomic planning in the US have retained a "state-centered" approach to historical change, in which bureaucratic jealousies, intellectual opinion, and technocratic calculation (or miscalculation) play operative roles.[33] The effect of this interpretation is to see the era historians describe as the New Deal Order as the culmination of a cumulative process of the growth of the administrative state, in which the National Labor Relations Board (NLRB), the Social Security Administration (SSA), the Civil Aeronautics Board (CAB), or the Agricultural Adjustment Administration (AAA) contribute to the development of a national regime that oversaw an unprecedented period of social stability and economic equality before ostensibly falling into abeyance during the Vietnam War and the OPEC oil price increases of the 1970s. The strains of that regime are interpreted as a struggle between government with its own interests and the multiplicity of interests within the wider society in which it acts. The fate of the New Deal, writes Alan Brinkley, turned "largely within a world of elites," while William Leuchtenberg cites approvingly the

[33] Theda Skocpol, "Political Response to Capitalist Crisis: Neo-Marxist Theories of the State and the Case of the New Deal," *Politics and Society* (March, 1980). For "state-centered," see Brinkley, *infra*, note 34.

conclusions of political scientist Eric Nordlinger that the "preferences of the state are at least as important of those of civil society in accounting for what the democratic state does and does not do."[34] Accordingly, the failure of macroeconomic stabilization policy during the 1970s can be taught as largely a failure of ideas, in which the liberal "Keynesianism" guiding the administrative state failed to apprehend the problems of inflation and globalization, allowing the conservative "neoliberalism" to explain events and propose solutions to politicians and administrators.

This focus on expert decision making within the administrative state is in marked contrast to historical studies of the emergence of mixed economies beyond the United States, where the growth of new forms of public authority is described as an outgrowth of class struggles within society. Rather than histories of "the administrative state," many comparative histories invoke the concept of "corporatism"—the name historians and social scientists have given the historical fusion of political and economic representation under public authority within nation states that occurred during the first half of the twentieth century. In countries where competing social interests were less reconcilable, and organized labor more powerful, the historical problem that has produced accounts of the administrative state is often reformulated. Rather than a question of the relative balance of public and private power between the state and society, the historical problem becomes one of the balance of power within society among classes and their expression through the state. While ideology plays a role in these accounts in the cohesion of groups engaged in social struggle,

[34] Alan Brinkley, *The End of Reform* (1995), p. 13. William Leuchtenberg, "The 'Seven Little TVAs'," in *The FDR Years: On Roosevelt and His Legacy* (1995), p. 189.

the outcome of particular struggles is rarely reducible to the particular ideas guiding any individual group.

There is widespread agreement that a fusion of political and economic representation began in the early-twentieth century US, a local expression of a broader disjuncture in the patterns of parliamentary government that characterized the North Atlantic world since the late eighteenth century. In fact, the pioneering statistical studies of the US economy before World War I emerged not from administrative agencies but from the Congress, an institution whose members have historically been more integrated into local social organizations than the judiciary or executive branches of government. Organized around discrete questions, in particular the cost of "dutiable goods," these US data-gathering projects were inseparable from the regional and political interests of the congresspeople who commissioned them. More systematic studies of discrete patterns economic activity—labor turnover, strikes, employee discipline—were undertaken around the turn of the century under the auspices of specially created congressional investigating commissions in 1898-1902 and 1913-15, explicitly concerning the subjects of class struggle and taking as their subject the broad topics of "industrial relations."[35]

Whereas federal authority in the nineteenth century was primarily characterized by legislative action, at the dawn of the twentieth century the growth of large private

[35] Thomas A. Stapleford, *The Cost of Living in America: A Political History of Economic Statistics, p. 1880-2000* (Cambridge University Press, 2009), pp. 22-51. Mary Furner, "Knowing Capitalism: Public Investigation and the Labor Question in the Long Progressive Era," in The State and Economic Knowledge: The American and British experiences, eds. Mary Furner and Barry Supple (New York: Woodrow Wilson International Center for Scholars, 1990).

corporations brought the question of public control of industry and agriculture from congressional to executive discretion, to federal regulatory boards and commissions.[36] Thus historians who invoke the concept of corporatism pay particular attention to the way the collapse in prices that followed the Great War stimulated an intense wave of defensive organization among businessmen and farmers to stabilize product markets through experimental marketing arrangements, informal cartels, trade associations, and cooperative purchasing organizations—and judicial reinterpretation of the antitrust laws to allow "cooperation in promotion of trade."[37] By 1923, for example, even before the new legal status of many of these trade associations was confirmed, the National Industrial Conference Board found "between 800 and 1000 trade associations of a national or interstate character."[38] Responsibility for production, investment, and disposal of surplus commodities fell within a new matrix of authority, on the one hand between central, coordinated administration and decentralized, competitive markets, on the other between public and private sanctions over particular cartel, monopoly, or competitive industries. Ellis Hawley, for example, describes the efforts of Commerce Secretary Herbert Hoover to coordinate and publicize industry statistics and trade-association rules as the construction of an

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[36] Robert Wiebe, *Search for Order* (1967). Stanley Skowronek, *Building a New American State* (1982). Theda Skocpol, *Protecting Soldiers and Mothers* (1992). Louis Galambos and Joseph Pratt *The Rise of the Corporate Commonwealth: United States Business and Public Policy in the 20th Century* (New York: Basic Books, 1988). Daniel T. Rodgers, *Atlantic Crossings: Social Politics in a Progressive Age* (Cambridge: Belknap, 1998). Ellis Hawley, "Herbert Hoover, the Commerce Secretariat, and the Vision of an. "Associative State," 1921-1928," *Journal of American History*, Vol. 61, No. 1 (Jun., 1974).

[37] Redfield quoted in Colin Gordon, *New Deals*, p. 136. Cases include Maple Flooring, Hardwood and Linseed Oil.

[38] National Industrial Conference Board, *Trade Associations: Their Economic Significance and Legal Status* (1923).

"associational state" which attempted to harmonize competing business interests around a shared economic stabilization program of private cartel control of prices, government-sponsored export corporations, and loans to foreign governments.

As Guy Alchon has shown, the political bases for the production of economic knowledge in this period arose out of a Progressive Era milieux that linked business-funded philanthropy and organized labor's interests. Financed by the Russell Sage and the Rockefeller Foundations, and managed by a board of directors selected from the American Federation of Labor, the Chamber of Commerce, and a variety of other business and professional associations, the National Bureau of Economic Research (NBER) became the preeminent national authority on economic statistics during the 1920s. It was to NBER director Wesley Mitchell that Herbert Hoover turned for the earliest estimates of national income, at the behest of Congress, in 1932. Since agreement on empirical description of the system of production was necessary for political debate over its terms to proceed, such knowledge production had to be grounded in pluralist agreement. As Alchon writes, this was a "legitimating process" for a "techno-corporatist state."[39]

Yet explanations for social and political change during the second half of the twentieth century have been strangely amputated from this earlier history of North American corporatism by the invocation of such totalizing concepts as "social democracy," the "welfare state," or even "neoliberalism" as having fixed abstract meaning. In the hands of political scientists and sociologists, "corporatism" became one more concept to describe a

[39] Guy Alchon, *The Invisible Hand of Planning: Capitalism, Social Science, and the State in the 1920s* (Princeton: Princeton, 1985), p. 5.

type of system among many—one which pointedly did not describe the US. It was distinguished from "liberal democracy" by the definition social scientists gave it, as a government that extended representational monopolies over particular industries and workers' organizations. Describing the US system of political-economic decision making in 1969, for example, the political scientist Theodore Lowi wrote that the term's "history as a concept gives it several unwanted connotations, such as conservative Catholicism or Italian fascism." While it might be appropriate to describe the US system of regulatory commissions and control by business- and labor-aligned political parties, these historical connotations left him to describe the US as a system of "interest-group liberalism" rather than the illiberal concept of "corporatism."[40] Undoubtedly this sensitivity to historical plasticity of corporatist systems and their interwar legacy in the managed economies of fascist Italy, Spain, Romania, and Germany is the reason for the exceptionalist perspective of US scholars of the "administrative state."

The attachment to understanding the postwar US in terms of "liberalism" defined by the absence of government monopolies or compulsory controls on private organizations, except in emergency periods of wartime control, is an historiographic artefact of the Cold War era. It has disfigured our understanding of the nature of the post-World War II managed economy in the US. In contrast to historians of the postwar US, comparative historical scholarship—perhaps reflecting the eschewal of national-essentialist explanations for change over time—has come to use the concept of corporatism freely to describe the construction of

[40] Theodore Lowi, *The End of Liberalism: Ideology, Policy, and the Crisis of American Public Authority* (New York: W.W. Norton & Co., 1969), p. 70 and 80.

the managed economies of the twentieth century. Some students of the US labor movement, for example, trace the cultural origins of US patterns of political-economic thought to the Catholic origins of the industrial working class of the 1920s and 1930s in Italy, Ireland, and French Canada. "At bottom," Ronald Schatz summarizes, "corporatist theories rely on the notion that society is like the human body, all parts of which depend on each other: like the arm, the leg, and the head, so businesspeople, farmers, and workers."[41] As Charles Maier writes, "The major role of corporatist arrangements has been to settle competing claims among classes and interests that tended to overburden traditional institutions," arrangements that entailed "the routinization of potential civil war into cumbersome negotiation, the transcending of Armageddon through political economy."[42]

Historians of the US who invoke corporatism agree: the historical impulse had its fullest expression in the US during World War II in the "tripartite" industry boards established to negotiate management policies over industrial enterprises during the war mobilization. US labor historians describe career of the labor movement of the twentieth century as one climaxing in what Michael Denning has called the "Age of the CIO," a political impulse lasting from the 1930s to around 1948, when the workers' organizations in

[41] Ronald Schatz, "From Commons to Dunlop: rethinking the theory and field of industrial relations," in *Industrial Democracy in America* (Cambridge: Woodrow Wilson Center, 1996), eds. Nelson Lichtenstein and Howell John Harris, p. 96; Nelson Lichtenstein, "From Corporatism to Collective Bargaining," in Fraser and Gerstle, *The Rise and Fall of the New Deal Order*, 1930-1980 (Princeton, 1989). For a contrasting account, see Colin Gordon, "Why No Corporatism in the United States? Business Disorganization and its Consequences," *Business and Economy History*, Fall 1998.

[42] Charles Maier, "'Fictitious Bonds…of wealth and law': on the theory and practice of interest representation," in *In Search of Stability: Explorations in Historical Political Economy* (New York: Cambridge, 1987), p. 226. "Preconditions for Corporatism," in *Order and Conflict in Contemporary Capitalism*, ed. John H. Goldthorpe (Oxford: Clarendon, 1984), p. 39.

the mass-production industries, transportation, and communications succeeded in forcing congressional debate on public enterprise, national health insurance, and the independence of shareholder-appointed boards in managing industrial corporations. They have shown how the rise of private welfare schemes in 1947-8 marked a critical turning point in closing this period of working-class radicalism—an ostensible "eclipse of social democracy"—survived only by the gradual dissipation of a laborist cultural dispensation during 1960s and 1970s in the context of the New Left and the Great Society.[43] The Congress and the NLRB play crucial roles in this history, curtailing the substantive scope of employers' duties to bargain and the autonomy of labor unions' administration, financing, and capacity to organize. The 1947 Taft-Hartley and 1959 Landrum-Griffin amendments to the National Labor Relations Act are identified as signposts denoting organized labor's declining power. The McCarthy period—of which the Taft-Hartley law is a premature expression—marks the crucial turning point, as the CIO itself expelled a third of its membership and as labor sympathizers were purged from government and the cultural industries with devastating consequences for the nation's imagination of labor and its role in society.[44]

Yet, the concept of "tripartism" has survived in US legal thought. The Truman administration's endeavor to establish public-enterprise legislation in 1949; the Kennedy-

[43] Michael Denning, *Cultural Front: The Laboring of American Culture in the Twentieth Century* (Verso: 1996). Nelson Lichtenstein,"Labor in the Truman Era: Origins of the Private Welfare State,'" in Lacy ed. *The Truman Presidency* (Woodrow Wilson, 1989), "From Corporatism to Collective Bargaining: Organized Labor and the Eclipse of Social Democracy in the Postwar Era," in Gary Gerstle and Steve Fraser, eds. *The Rise and Fall of the New Deal Order*, 1930-1980 (Princeton, 1989), and *State of the Union: A Century of American Labor* (Princeton: 2003). Jennifer Klein, *For All These Rights: Business, Labor, and the Shaping of America's Public-Private Welfare State* (Princeton: 2003).

[44] Ellen Schrecker, *Many Are the Crimes: McCarthyism in America* (Princeton: 1998). Landon Storrs, *The Second Red Scare and the Unmaking of the New Deal Left* (Princeton: 2012).

Johnson interest in wage-and-price restraint, what the OECD called "incomes policies"; the Nixon experiment in controlled wages and prices; and the Carter-era project in industrial planning, reimagined during the 1980s as "industrial policy"—all of these indicate the prevalence of structural pressures over the terms of economic management in the US after the 1940s and efforts to stabilize employment, production, and prices by bringing representatives of organized labor and business into the policy-making level of administrative agencies charged with devising stabilization policy. None fit into the conventional master narrative of a deradicalization of economic thought that accompanied World War II.

This study extends the analysis of corporatism in the US to the second half of the twentieth century. I use the concept of the "laboristic society" to periodize the era of the Cold War in the US that coincided with wage-and-price controls. Invoked by the economist Sumner Slichter during the late 1940s—then perhaps the most popular economic writer in the country— the concept was advanced to describe the gargantuan shift in social power achieved by organized labor during 1930s and 1940s and the particular version of New-Deal politics associated with it after World War II. "A community in which employees are the principal influence will have its own ways of looking at things, its own scale of values, its own ideas on public policies, and, to some extent, its own jurisprudence," Slichter wrote. "It will also have new and distinctive problems and its own ways of dealing with them. Hence, the rise of trade unions means that the United States stands on the threshold of major changes in its economic and political institutions." Drifting away from the language of "socialism" or

even the universalistic rhetoric of the New Deal in the incipient Cold War atmosphere of 1946 and 1947, an alternative description was needed for the goals and mood of US workers and their unions. Rather than a socialistic society, he concluded, a "laboristic society is succeeding a capitalistic one."[45]

The remainder of this introduction will trace out the implications of understanding US macroeconomic management in corporatist terms for both the history of the international monetary system and the history of planning. Finally I conclude with a summary of the chapters to follow.

Corporatism and International Political Economy

Reinterpreting the history of US macroeconomic management after World War II as one shaped by corporatist impulses casts new light on central problems in the history of the international monetary system during the twentieth century. Scholars of international political economy agree that the US and allied powers imposed an "international regime" on Western Europe and East Asia that provided the legal and political structure for nation states to coordinate their national development policies and negotiate financing of their balances of payments with international organizations and commercial banks.[46]

[45] Sumner Slichter, "Trade Unions in a Free Society," Revision of a paper prepared for the Bicentennial Conference on the Evolution of Social Institutions at Princeton University, October 8, 1946, and "Are We Becoming a 'Laboristic' State?," both reprinted in *Potentials of the American Economy: Selected Essays of Sumner H. Slichter*, edited by John T. Dunlop (1961), quotes on pp. 233 and 255.

[46] See the articles by Stephen Krasner, Robert Keohane, John Gerard Ruggie, and Benjamin Cohen in the spring 1982 issue of *International Organization*, Vol. 36, No. 2. For a critical take on the concept of an international regime, see Susan Strange's contribution to this issue.

Nearly all structural explanations for the trajectory of the mixed economies of the North Atlantic and Japan—the Global North—during the second half of the century begin with a version of these descriptions of the international system of trade and finance. Charles Maier has described this international regime as one unified by a shared "politics of productivity," in which US policymakers and economists proselytized that productivity growth would enable Western Europe and Japan to expand their national economies and eschew the internal class conflict that dominated the first half of the 20th century. A related and influential argument is that the international regime established after World War II is what John Ruggie describes as an "embedded liberalism." Ruggie's argument is grounded in the thought of Karl Polanyi, who famously theorized markets as "socially embedded," by which he meant structured and limited by custom and law. The growth of markets during the nineteenth century, their penetration of local communities organized on non-market bases, and the social disintegration that followed, Polanyi argued, represented a "disembedding" of markets from the social contexts. The global movement of nation states to raise tariffs, extend government regulation over corporations and labor, and reduce the autonomy of entrepreneurs and capitalists during the first half of the twentieth century, for Polanyi and Ruggie, thus represented the common effort by society to protect itself from the disorganizing force of markets—to re-embed markets in land, labor, and capital that had become disembedded during the laissez-faire era. During the second half of the twentieth century, Ruggie argued, Global hegemony in the non-Communist world was likewise defined by the shared commitment among the postwar nations to simultaneously pursue domestic

fiscal-monetary expansion for full employment, while reducing barriers to the flow of goods and money between states. These later liberal commitments were "embedded" in the social norms of full employment.

Less agreement exists, however, over the fate of either the "politics of productivity" or the theory of "embedded liberalism" during the era of neoliberalism. At the highest level of global organization, the fundamental institutions of global governance that took their shape during the era of the controlled economy persisted through the transformations of the second half of the twentieth century. The world economy remains in the early twenty-first century structured by nationally measured and managed geographic units—nation states—regulating the growth of GDP, unemployment, and inflation by calculated fiscal and monetary policies, coordinated through regional organizations such as the OECD, and guided by balance-of-payment financing extended on terms set by the International Monetary Fund, US commercial banks, and multinational corporations. Though political and cultural historians recognize a shift in national politics globally during the 1970s, the question of whether such a shift in international regime occurred remains a subject of controversy among scholars of international political economy. Many argue the purposes of the post-World War II international regime did not shift with the decline of US military influence and the restructuring of the international monetary system around floating exchange rates in 1971-3. Rather, floating rates merely represented a temporary limit on the US power as a "hegemon" to manage the global system by providing global liquidity and military security.[47] Others

[47] John Ruggie, "International Regimes, Transactions, and Change: Embedded Liberalism in the Postwar Economic Order," *International Organization* (Spring 1982).

argue that the global monetary transformations of the 1970s strengthened the US role as the anchor of international finance, as the dollar remained the primary global reserve currency after the US Treasury defaulted on its gold obligations in 1971. As Eric Helleiner has shown, from the moment of the founding of the IMF and the launching of the Marshall Plan, Western European financial ministers and US bankers disagreed over the appropriate extent of liberalism in financial markets.[48] While the rapid growth of dollar-denominated commercial-bank financing of national balances of payments during the 1970s settled this debate in favor of liberalism and "disembedded" capital markets, scholars of international finance continue to debate the meaning of the independence the US state thereby won to act unilaterally in fiscal and trade policies that had little risk to the value of its own currency.

A study of the controlled economy in the US offers an account of this global process from the perspective of the managers of the world's primary reserve currency—the US Congress, the Federal Reserve, and the White House. While Marxist scholars have seen the exercise of US hegemony after the 1970s as evidence of an imperialist international regime, the multilateralist efforts of the Kennedy and Johnson administration to expand global liquidity and restrain US multinational corporations through capital controls complicates this diagnosis. Neither the New Deal-historians' thesis of early liberal decline, nor the historians of neoliberalism and conservatism, are able to account for process of transition itself between the two periods they have drawn in late-twentieth century history. After all, it was the Nixon administration that moved toward a compulsory incomes policy during 1971-3 and that

[48] Eric Helleiner, *States and the Reemergence of Global Finance: From Bretton Woods to the 1990s* (1994). On debates over the postwar order within the Marshall Plan, see Michael Hogan, *The Marshall Plan* (1987).

provided global liquidity by detaching the dollar from gold—solutions considered as radically Keynesian during the sixties. Likewise, it was the Truman administration that disavowed peacetime price controls in 1946 and the Kennedy administration that established the US Office of the Trade Representative in the executive branch, depriving the Congress of its traditional prerogatives in translating regional interests into tariff policy. These were both market-oriented strategies that would later be seen as close to the heart of neoliberal thought.

Histories of economic thought are thus limited in their ability to explain real economic change, as societies are rarely able to realize ideas in their pure form. The category of "controlled economy," as a real-world object of political struggle and instrument of statecraft, existed beyond the world of academic debate. As such, tracing the history of this construct can show the influence that different sets of interests had in constraining or advancing its growth, as well as the effects that the actually existing controlled economy had in shaping social and economic thought. The controlled economy offers a turning point in the history of the post-World War II global order, as the experience of the Korean and Vietnam wars taught the American working class that the corporatist system established to absorb the CIO challenge and accommodate the laboristic society had passed beyond their control. After Nixon's wage-and-price controls, no presidential administration has seriously considered the imposition of selective controls over prominent industries vulnerable to public exhortation. Nor have balance-of-payments constraints forced such considerations since the capital inflow of the Volcker Shock ratified the role of US banks in intermediating global savings.

Corporatism and Planning

At the crossroads of the history of economic thought and the history of the state-society relationship is the history of planning. This subject has not received as much critical historical attention as either of the historiographies here considered—that of the administrative state or international political economy—yet the subject dominated the intellectual world of Anglophone liberalism and socialism during the period between World War II and the end of stagflation during the 1980s. In fact, informed opinion during the 1960s and 1970s saw the trend of the managed economy toward greater central control over incomes—over national wage rates, price structures, and investment patterns—as not only unavoidable but a desirable. "The existence of monopolistic combines as such was always recognized as implying the usurpation of the state's power of taxation, which could not be permitted," Gunnar Myrdal wrote in 1960. The reaction of nation states to the profusion of monopoly, he observed, had not been to restore competition "but to take such measures to regulate its course that the public interest in both order and equity would be protected. And thus a powerful but state-controlled infra-structure of collective organizations has come into being, beneath the constitutional frame of the state."[49] Myrdal was unambiguous that he considered the process incomplete:

> "I believe that, as years pass by, such forms of general income settlements among the main organized interest groups in a national community will gradually become the rule. All prices and wages and, in fact, all demand and supply…are then in a sense 'political.' We are as far away as possible from the 'free market' of liberal economic theory. The government and the administration, representing the

[49] Gunnar Myrdal, *Beyond the Welfare State* (1960), pp. 38-9.

> point of view of central economic planning and backed by a parliament with sovereign powers to legislate, will then gradually find it as important to lead the negotiations and to control the compromises between the nationwide organized power groups, as it is to lead parliament itself."[50]

Myrdal's view entered the global mainstream over the next two decades. If the fusion of corporation and state was to jell, the old order of unemployment and class conflict might be brought to an end, subordinating business principles to other purposes. Such a new form of social organization captured the intellectual imagination of the period. As *Financial Times* writer and Chairman of the US-based Social Sciences Research Council Andrew Schonfield wrote in 1965, "there is no reason to suppose that the patterns of the past [of unemployment and the business cycle] will reassert themselves in the future." The North Atlantic world had entered a "new era of capitalism" characterized by "the conscious pursuit of full employment" and "the accelerated pace of technological progress [that] will continue and may accelerate." The question confronting national governments during the second half of the twentieth century, Schonfield argued, was not whether continued prosperity was possible, but whether it was probable. "The answer to this depends very largely on political will and skill: specifically on the management of the institutional apparatus which guides Western economic life."[51] Robert Heilbronner's argued that "American capitalism" had outlived its usefulness as it approached the limits of what could be pursued by profit-seeking businesses. Galbraith developed the concept of a "technostructure" in which knowledge and style came to replace capital as the scarcest resources earning the highest returns. Daniel Bell argued

[50] Ibid, p. 41.

[51] Schonfield, *Modern Capitalism* (1965) pp. 62-63.

that a "post-industrial society" in which the "key group" had become the scientists and engineers of the "knowledge class" employed by the university, itself "the primary institution of the post-industrial society," was imminent.[52] In all such visions, the economic problems of unemployment, class conflict, and growth were displaced by new social projects, as the function of economic planning was routinized and gradually improved.

Business problems would return with a vengeance, but American economic planners were not unprepared for stagflation or unaware of the problems of economic stabilization in a laboristic society. While histories of economic thought that focus on academic theory have converged on an interpretation of the origins of the neoliberal era that places Keynesianism and "social democracy" as unprepared for the challenges of international economic integration, the history of planning casts the events of neoliberal transformation in an altogether different light. It was in the corporatist planning process that the assumptions about state and society in economic thought operated, revealing the interests at play in the types of stabilization policies adopted. Debates over central-bank independence, wage-and-price controls, a civilian "fiscal authority" or national development bank, so-called "incomes policies"—the hallmarks of mature economic planning after World War II—reveal how assumptions about the state's relationship to society changed in this period. The very terms of discussion over the controlled economy, of the state "intervening" in society, rather than

[52] Robert Heilbroner, *The Limits of American Capitalism* (Harper Collins: 1967), John Kenneth Galbriath, *The New Industrial State* (Houghton Mifflin: 1967), Daniel Bell, *The Coming of Post-Industrial Society: A Venture in Social Forecasting* (Basic: 1974). Other examples include George Soule, *Planning USA* (New York: Bantam, 1967), Otis Graham, *Toward a Planned Society* (1975).

of society or its dominate parts using government in mutual social struggle, reveal the consequences of those assumptions.

Historians of the state in recent years have recovered a pragmatist epistemology in their search for explanations about the survival of democracy in a world of seeming geopolitical and technocratic domination. Drawing on the work of John Dewey and Pierre Rosanvallon, the study of state-society relations in the US has only recently passed from the essentialist sociological categories of "capitalism," "socialism," "liberalism," or "conservatism" towards treatment of these ideas as concepts in history.[53] This study takes the concepts of macroeconomic debate after World War II on such terms, treating ideas such as "direct" versus "indirect" controls as ideas in history with real social consequences rather than as general categories to describe institutions across all mixed economies. "We need guidance with dealing with particular perplexities in domestic life," wrote Dewey. But he warned against ideas of social science and philosophy that "are not proffered for what they may be worth in connection with special historic phenomenon." Those ideas taught as "general answers supposed to have a universal meaning that covers and dominates all particulars….do not assist inquiry."[54] The conceptions of modern macroeconomics—of the Phillips Curve, the "natural rate of unemployment," or the "sustainable ratio of debt-to-GDP"—remain in use today to similar effect. During the Cold War, such concepts as "free collective bargaining" or even a "free society" were offered as limitations to social action

[53] Pierre Rosanvallon. *Democracy: Past as Future* ed. Samuel Moyn (Columbia: 2006). James Sparrow, Stephen Sawyer, William Novak, "Introduction" in Sparrow, Sawyer, Novak, eds. *Boundaries of the State in US History* (Chicago: 2015).

[54] John Dewey, *Reconstruction in Philosophy* (Beacon: 1957 [1920]), p. 189.

against the problem of reconciling rising employment with stable prices. Such concepts do not assist inquiry, but understanding their origins in their particular time and place may help us to see how people in the past approached problems that may appear similar to those confronting us today. After all, as Dewey argued, it is the problems themselves, not the concepts, that should guide inquiry. This historical reconstruction of those problems is offered in this spirit.

The organizing problems of this study are those set by the Congress in passage of the Employment Act of 1946 and in reaction to the experience of wartime mobilization. As the Declaration of Policy of the Employment Act asserted, the federal government would "use all practicable means…with the assistance and cooperation of industry, agriculture, labor, and state and local governments, to coordinate and utilize all its plans, functions, and resources for the purpose of creating and maintaining, in a manner calculated to foster and promote free and competitive enterprise and the general welfare, conditions under which there will be afforded useful employment for those able, willing, and seeking work, and to promote maximum employment, production, and purchasing power."[55] The numerous clauses in this capacious legislative construction are for the government to 1.) plan, 2.) towards three goals of maximum employment, production and purchasing power, 3.) in a way that promotes free and competitive enterprise. Thus, the first chapter opens with the mobilization experience of World War II that provoked the insertion of this language into the modern authorizing legislation for civilian economic planning in the US, with particular

[55] The text of the act as passed, with the particular language noted by origin in the House, Senate, and Conference Committee, is included in Stephen K. Bailey's *Congress Makes a Law*, p. 228-232.

attention to congressional debates over price controls and their extension over agricultural commodities. While considerable scholarly attention has focused on the industrial strikes in defiance of union leaders and the Roosevelt administration, this study confirms the earlier findings of Barton Bernstein that it was the Farm Bloc and the Department of Agriculture who obstructed the price-control program, contributed to the rapid increase in the cost of food, and generally sabotaged the reconversion program.

Chapter 2 examines the administrative problems confronting the first Council of Economic Advisers (CEA) established by the Employment Act, in particular the domestic price pressures created by the Marshall Plan. In the context of intense congressional and CIO pressure for a return to price control, the CEA under the chairmanship of Edwin Nourse pursued a strategy of "stabilized prosperity" in which voluntary price reductions were urged on business leaders and wage increases were opposed by the administration. The result was an accelerating inflation that redistributed income upward and compelled congressional New Dealers to consider new legislative solutions. These are the subject of Chapter 3: proposals for public enterprise and government-financed private capacity expansion followed Truman's increasingly militant campaign promises during the 1948 presidential election. The failure of the Fair Deal program in Congress coincided with a mild depression during the first half of 1949, in which the preservation of "business confidence" supplanted the campaign promise for national economic planning. The experience of the Korean War in which these events culminated, I argue, represents the triumph of modern macroeconomics as a discipline in which the existing relationship between state and society became conceptually fixed and

passed beyond consideration. That triumph extended to the first venture in Federal Reserve "independence," begun during 1948 and completed by 1951, when the explosion of military spending brought a consideration of different anti-inflation policies than those that had accompanied mobilization for World War II or the Marshal Plan.

Chapter 4 traces the response across the North Atlantic to the challenges of raising employment through fiscal-monetary policies alone, in the context of liberalizing trade and international finance. Confronting cost pressures in manufacturing and a recalcitrant national working class, governments during the Eisenhower era came to understand that some government control over incomes would have to supplement fiscal-monetary policies if nations were to earn sufficient foreign exchange to allow import competition and unregulated currency convertibility. This lesson was hard learned, as governments aligned with employers confronted national labor movements capable of raising hourly wage rates even amid periods of rising unemployment engineered by fiscal-monetary contraction. Chapter 4 concludes with the entrance of labor-aligned governments into power in the early 1960s, in particular the administration of John F. Kennedy, attempting to use the lessons of anti-inflation policy learned during the stagnant years of their conservative predecessors by devising national wage, price, and investment "guidelines" to assuage inflationary pressure in an economy undergoing expansion from fiscal-monetary fundamentals.

The strategy of voluntary "guideposts" established by CEA and tested during the Johnson administration is the subject of Chapter 5. The guideposts were designed to supplement fiscal-monetary expansion, enabling employers to earn stable profits on greater

volumes without raising prices, equally distributing the new income produced by economic growth between capital and labor. In practice, the guideposts proved acrimonious for the Johnson administration which found the CEA and senior Cabinet members regularly in conflict with corporate executives over profits the government thought excessive. By 1966, organized labor began to demand price and profit controls in exchange for the wage restraint it had conceded to the government since 1961. In contrast to nearly every history of the Great Society, I argue that the beginning of inflation in this period stemmed from Johnson's refusal to impose price controls or to move toward an "incomes policy," rather than from the failure to secure fiscal restraint in the context of growing military spending on the war in Vietnam, either through reductions to social programs or higher taxes. As I show in Chapter 6, fiscal restraint *was* applied in November 1966, a point too-little emphasized among historians of the period. It was Johnson's political failure to secure the allegiance of the nation's working class, by imposing price controls or seizing struck industries, that led to the Democratic defeat in the 1966 midterms, which in turn led to the wage-price spiral that gained momentum between 1967 and 1971. This spiral and its effect on the nation's banking system is the subject of Chapter 6. A Presidential transition in the middle of an inflationary war economy, combined with the Nixon administration's initial reluctance to impose price control, I argue, further unraveled the nation's wage-price structure until controls were finally imposed in 1971.

Chapter 7 turns to the Congressional politics of free trade and détente in the context of the stagflation of the Nixon years. Attributing increasing joblessness in the industrial

North to the “runaway” shops of multinational corporations, organized labor’s political strategy shifted in these years toward protection and financial repression. For the entirety of Nixon’s time in office, the administration struggled to gain majorities in the Congress to grant it authority to negotiate tariff reductions at the Tokyo Round of the GATT, a forum of increasing importance in the context of parallel negotiations among the largest economies’ finance ministers over the structure of exchange rates in the international monetary system. Defeating such legislation in the short term, the AFL-CIO offered instead its own program to restrict US foreign direct investment abroad. The Burke-Hartke Act of 1974 would limit the ability of multinational corporations to relocate production outside of the country. In a devastatingly consequential defeat, in part a product of divisions among Democrats, the legislation failed. At the same time, the scandals of corporation influence in the Nixon administration revealed in the affairs of ITT, the Watergate break-in, and the implantation of employer-friendly wage controls, brought many erstwhile proponents of a controlled economy to reconsider the role of the central state in national life. The apparent autonomy of the Pentagon and the association of Vietnam legacy with the Democratic Party only furthered this turn away from central planning on the left as well as the right.

Chapter 8 provides the coda in the continuing inflation of the Ford and Carter years and in the stillborn proposals for “national economic planning” that emerged on the left-wing of the Democratic Party and among New Left intellectuals in these years. Those proposals sought to return to the earlier project of democratic control of economic life through public finance and government-led restructuring of beleaguered manufacturing industries and the

reconstruction of the nation's urban centers. Instead, the state-society relation had shifted in the public historical imagination, and the idea of planning was recast in the shade of totalitarianism. While the decade's planning debate culminated in the election campaigns of 1980—both Ted Kennedy and Ronald Reagan campaigned on the promise to "Reindustrialize America"—it did so only to the eclipse of the idea of an economy controlled by a democratic state that had been conceived a generation before. Rather than invite the nation's competing power centers to Washington to coordinate stabilization policies, Jimmy Carter appointed Paul Volcker to the Federal Reserve to engineer a deep monetary contraction, raising the unemployment rate to levels unseen since the Great Depression and interest rates to double digits. Winning that years' election, Reagan swiftly moved against organized labor, firing ten thousand striking air traffic controllers and blacklisting them from future employment. The Reagan administration program for economic expansion entailed a large redistribution of income upward through the tax system, policies that depressed spending, created unemployment, and fueled financial speculation. With the defeat of both planning and organized labor, the idea of the controlled economy fell into abeyance.

Chapter 1: The First National Incomes Policy in the United States

"This is the issue: Are we American citizens, proud of our part in victory sure to come or are we, as Hitler claims, not a nation but an aggregate of pressure groups interested only in obtaining self-advantage at the expense of each other? If it is essential to ease the social and political tension that is created by the competitive demands of agriculture and organized labor on the consumer, it is essential that the link between farm prices and wages be broken."

- Federal Reserve economist Kenneth B. Williams to James Byrnes, February 9, 1943[1]

"Marx saw no contradiction in believing that to preserve peace, it may sometimes be necessary to fight for it. A class struggle, e.g., which gives victory to one group, under certain conditions will more readily abolish classes than will class collaboration which by negotiating class interests tends to perpetuate them."

- Sidney Hook, 1936[2]

Many historians have interpreted the Truman administration's handling of reconversion and the wage-price spiral that followed as evidence of the ebbing of a reform impulse in the twentieth century US during the Progressive and New Deal eras. Considerable historiographic consensus exists that the Roosevelt and Truman administrations, divided over the problem of corporate power during the New Deal and the war, turned away from the problems of "structural reform" and towards the Keynesian justifications of government spending and "fiscal policy" to raise employment and guide the expansion of industrial production during the late 1940s. "In view of these ambivalent attitudes and the difficulty of doing much of anything about the existing economic structure," writes Ellis Hawley about

[1] Kenneth B. Williams, "The Wage-Price Spiral," February 9, 1943, Folder 6, Box 30, Marriner S. Eccles Papers, University of Utah, J. Willard Marriott Library, Special Collections Department, digitized https://fraser.stlouisfed.org/archival/1343/item/462864.

[2] Sidney Hook, *From Hegel to Marx: Studies in the Intellectual Development of Karl Marx* (Columbia: 1994 [1950]), pp. 18-19.

the period following the 1937 recession, "the spending solution became increasingly attractive."[3] Alan Brinkley extends the argument to encompass the character of liberal government during the entire postwar period from 1945 until the 1990s, writing that the Keynesian influence was central to "the process by which liberalism assumed its modern form in last years of the New Deal."[4] Meg Jacobs argues that the inflation that resulted from Keynesian policies "paid little attention to the relationship between wages, prices, and profits," and that such programmatic lacunae represented the "Achilles heel" of the "redistributive ideology" of labor liberalism that influenced US politics "from World War I through the Nixon administration."[5] Writing about the 1960s, Allen Matusow argues that "if inflation was underrated and the forces governing the economy misunderstood, the liberals paid the political price for Keynesian error." Distilling his interpretation of the postwar period to the congressional elections of 1966 and the presidential election of 1968, he continues, "Keynesian ideas played no small role in the unraveling of both liberalism and the economy—and no small role, therefore, in the unraveling of America."[6]

These interpretations rest on the historical record of an influential business executives' lobbying organization, the Committee for Economic Development (CED), its staff economist Herbert Stein, and one of its critical historians, Robert Collins. As Collins

[3] Ellis W. Hawley, *New Deal and the Problem of Monopoly: A Study in Economic Ambivalence* (Princeton: 1966), p. 459.

[4] Alan Brinkley, *End of Reform: New Deal Liberalism in Recession and War* (Vintage: 1996 [1995]), p. 14. For those historians who argue that fiscal thinking supplanted efforts at structural reform, see essays by Brinkley and Lichtenstein in *The Rise and Fall of the New Deal Order, 1930-1980,* eds Steve Fraser and Gary Gerstle (Princeton: 1989); Robert Collins, *More: The Politics of Economic Growth in Postwar America* (Oxford: 2000); Ira Katznelson, *Fear Itself: The New Deal and the Origins of Our Time* (Liveright: 2013).

[5] Meg Jacobs, *Pocketbook Politics: Economic Citizenship in Twentieth-Century America* (Princeton: 2005), p. 261.

[6] Allen J. Matusow, *The Unraveling of America: A History of Liberalism in the 1960s* (University of Georgia: 2009 [1984]), p. 179.

argues, it was during the period of military demobilization and reconversion to civilian production between 1945 and 1949 that liberal businessmen led by the CED came to accept passive federal budget deficits in times of declining tax revenues as "an answer to the left-wing formulations of Keynes which had dominated the fiscal policy debate under the New Deal and during World War II." The "defeated alternatives" of expanded government spending and wage-price controls, Collins argues, were supplanted by a "Keynesian consensus" in the United States which "would leave to the private sector the basic decisions about resource allocation, production, prices, and wages," "would minimize further concentration of economic and political power in Washington," and would find "culmination" in the Kennedy-Johnson tax cut of 1964. Collins states his argument laconically: "America defined its postwar political economy by embracing the right wing of the Keynesian spectrum." Where government discretion in economic policy was tolerated, it was in monetary policy, which "had a particular appeal because it offered a technique for fighting inflation while avoiding higher taxes and/or direct wage and price controls."[7] Stein, himself hardly a neutral observer, argued as early as 1969 that "the postwar consensus removed those features of early Keynesianism which had been most controversial and objectionable—its leanings toward big government and egalitarian policy and its skepticism about the function of profits and interest in the economy system." Not least among these features was a willingness to tolerate "price-wage controls."[8]

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[7] Robert Collins, *The Business Response to Keynes, 1929-1964* (Columbia: 1981), pp. 15-17, 139 and 141, and *passim*.

[8] Herbert Stein, *The Fiscal Revolution in America* (University of Chicago: 1969), pp. 200 and 462.

The problem of corporate autonomy in American society, however, was not eclipsed by World War II or the conversion to civilian production that followed. It persisted as a central preoccupation of official government thinking well into the 1970s, augmented and altered by the spread of fiscal thinking nurtured by the wars in Korea, and Vietnam. Rather than supplanting the deep historical impulse towards "structural reform," the promise of fiscal policy exacerbated rather than diminished older problems of corporate power and business independence in American society, while introducing new questions about the social role of organized labor and the peacetime use of federal powers over industrial procurement, enterprise finance, and price control. Unlike Stein's characterization of the "fiscal revolution" in US economic thought, such questions were inextricably tied to the continuing project of maintaining high employment and price stability. Any serious study of the historical development of the mixed economies bequeathed by World War II and the Cold War must confront them.

Historians have recognized the endurance of price control as a campaign issue and administrative challenge during the two Truman administrations. Jacobs, for example, has drawn professional historians' attention to the influence of the Office of Price Administration (OPA) on conservative thought after World War II, while Barton Bernstein's studies of post-World War II economic demobilization argued persuasively that New Dealers within the Truman administration divided fiercely with the military, its suppliers, and the controlling faction of the Cabinet in the Departments of the Treasury and Agriculture over economic

strategy in 1945 and 1946.[9] But only recently have historians begun to trace into the later decades of the century the efforts by federal politicians and administrators to apprehend the pervasive upward pressure on prices by means other than fiscal and monetary policy. Norikazu Takami, for example, argues that the "new inflation" in the period of "apparent lack of excess demand" during the late 1950s was ubiquitously understood in terms of "cost-push" factors. For this reason, Takami argues, stabilization policy during Eisenhower and Kennedy administrations entailed Presidential and congressional threats of wage-price controls where public exhortations for private restraint failed.[10] James Forder has similarly argued that the social-scientific hypothesis of the Phillips Curve—a hypothetical trade-off between inflation and unemployment—which is frequently invoked in historical explanations of inflation as the guide to fiscal and monetary policies never actually enjoyed in the influence historians and economists subsequently attributed to it.[11] In addition to these historians of economic thought, the social and political historians Kristoffer Smemo, Samir Sonti, and Gabriel Winant have shown how collective bargaining in the steel industry—a

[9] Meg Jacobs, "'How About Some Meat?': The Office of Price Administration, Consumption Politics, and State Building from the Bottom Up, 1941-1946," *Journal of American History*, Vol. 84, No. 3 (Dec., 1997), pp. 910-941. Barton J. Bernstein, "The Postwar Famine and Price Control, 1946," *Agricultural History*, Vol. 38, No. 4 (Oct., 1964), pp. 235-240; "The Removal of War Production Board Controls on Business, 1944-1946," *Business History Review*, Vol. 39, No. 2 (Summer, 1965), pp. 243-260; "The Truman Administration and its Reconversion Wage Policy," *Labor History*, Vol. 6, No. 3 (1965), pp. 214-231; "The Truman Administration and the Steel Strike of 1946," *Journal of American History*, Vol. 52, No. 4 (Mar., 1966), pp. 791-803; "Clash of Interests: The Postwar Battle Between the Office of Price Administration and the Department of Agriculture," *Agricultural History*, Vol. 41, No. 1 (Jan., 1967), pp. 45-58; "The Debate on Industrial Reconversion: The Protection of Oligopoly and Military Control of the Economy," *American Journal of Economics and Sociology*, Vol. 26, No. 2 (April, 1967), pp. 159-172; "Charting a Course Between Inflation and Depression: Secretary of the Treasury Fred Vinson and the Truman Administration's Tax Bill," *The Register of the Kentucky Historical Society*, Vol. 66, No. 1 (January, 1968), pp. 53-64.

[10] Norikazu Takami, "The Baffling New Inflation: How Cost-Push Inflation Theories Influenced Policy Debate in the Late-1950s United States," *History of Political Economy*, Vol. 47, No. 4 (2015).

[11] James Forder, *Macroeconomics and the Philips Curve Myth* (Oxford: 2014); "Textbooks on the Phillips Curve," *History of Politics Economy*, Vol. 47, No. 2 (2015).

supplier of a basic input to the industrial economy—attracted White House intervention at the height of the period during the late 1950s conventionally described in terms of consensual economic growth and fiscal-monetary stabilization. As they write, "collective bargaining could not remain outside of politics for long."[12]

This chapter argues that World War II laid the intellectual and political scaffolding of the postwar era which historians increasingly understand as characterized by a conflictual inflation. Rather than emerging during the recessions of 1957-60, it was World War II that insinuated controls over income into macroeconomic management and cast the die for the mixed economy of the United States for the next forty years. The experience of mobilizing resources for military production and the imperative for stabilizing the changes it brought forced politicians to confront problems of income, employment, and prices for their particular constituencies for the first time in relation to a quantifiable whole available for civilian consumption. This occurred in relation to three sectors inextricably related to the total war program: the total size of the military procurement program, the price level for raw agricultural commodities targeted by the New Deal apparatus of farm supply management, and the wage level administered by the War Labor Board. Because the Army-Navy Munitions Board took goods produced by the other two sectors, the total size of its budget came to have a direct bearing on what remained for civilian consumption. Because federally managed agricultural prices determined the real purchasing power of the wages of urban industrial workers, the farm program set the terms of distribution of the remaining civilian

[12] Kristoffer Smemo, Samir Sonti, Gabriel Winant, "Conflict and Consensus: The Steel Strike of 1959 and the Anatomy of the New Deal Order," *Critical Historical Studies* (Spring 2017), p. 42. See also Samir Sonti, "The Price of Prosperity: Inflation and the Limits of the New Deal Order," PhD Dissertation (University of California, Santa Barbara, 2017).

product between the cities and the countryside. When farm prices increased, the newly organized working class exercised their power against the War Labor Board in an unprecedented wave of wartime strikes. Thus, all three flows of income had to be coordinated to stabilize spending within the constraints of existing supply and strengthen the wartime price control program.

These problems were perceptible to informed observers in 1945. Between 1939 and 1945, as the total of government spending underwent a sevenfold increase, federal purchases for national security rose from 6 percent to more than 40 percent of Gross National Product (GNP). Advances in industrial statistics and the standardization of national income accounting during the late 1930s had made “inflationary pressure” a measurable object of public policy—as concepts like “aggregate effective demand,” “savings-expenditure patterns,” “national product,” “national income,” and “industrial capacity” became subject to estimation and use in calculating such derivative concepts as the country’s “capacity utilization,” “excess demand,” and “inflationary gap.” The difference between the sum of planned government expenditures and expected consumer and business expenditures, on the one hand, and expected national product, on the other hand, represented a forecast of excess purchasing power for Congress to tax away if prices were to hold stable. Of equal importance for OPA, the share of national product diverted from civilian production in a period when incomes were expanding represented a pressure on consumer prices that could only be met with price control and rationing. While workers’ incomes continued to rise and personal

consumption expenditures grew absolutely by nearly half between 1940 and 1944, as a percentage of national product these expenditures declined from around three fifths to half.[13]

The wartime experience plays no small part in the historical thinking about price controls, full employment, and the relationship of centralized power to democracy in the United States. By contrast to the familiar language of fiscal policy and industrial planning, the term "incomes policy" which would characterize the debate over economic stabilization in the advanced industrial countries later in the century, did not yet exist during the 1940s. The idea of coordinating incomes was then limited to the nation's farms, understood as the problem of achieving "parity" between the prices of farm goods and industrial manufactures to stabilize agricultural income during the era of falling farm prices in the 1920s and 1930s. What would later come to be described as an "incomes policy" regulating relative incomes across the entire national economy was produced by the problem of fiscal policy during World War II and its interaction with the expanded Department of Agriculture created by the New Deal. Before the national level of wages and profits could be debated later in the century with the language of "incomes policy," the battle over shares of national income played out in the congressional politics of determining the level of parity prices for agricultural goods during wartime. Economic historians and historians of political economy characterize the arrangements that emerged during World War II as a high-water mark for "corporatist" or "neo-corporatist" tendencies—for the merging of political and economic

[13] For GNP breakdown see Table 2 of Selma Goldsmith's "New Estimates of National Income, 1946-57," *Survey of Current Business* (July, 1958). For distributive shares of national income, see Table 1. The share of employee compensation in national income rose from 63.8 percent in 1940 to 66.4 percent in 1944. In the same period, personal consumption expenditures as a share of gross national product fell from 71.44 to 51.89 percent (author's calculations.)

representation by organized interests engaged in high-level national bargaining over public policy. But the nature of that bargaining during wartime gave corporatism in the US a peculiar character, as fiscal expansion after 1941 no longer coincided with an increase in the civilian share of goods and services—though in absolute terms civilian consumption did continue to grow. In this regard, the method of war finance prefigured the fraught twentieth-century career of Keynesianism in the United States. Once organized labor markets and public procurement pulled wages and industrial prices up during the economic mobilization for war, the problem of agricultural parity was profoundly altered. That alternation, the subject of this chapter, would characterize the postwar problematic of "economic stabilization."

The Problem of Full Employment in a High-Savings Economy

By 1944, eighteen million workers were employed in producing goods and services for the military.[14] Under the stimulus of war production, a prewar employed population of some 46 million had expanded to 66.5 million people. Recruitment into the armed forces accounted for half of this increase, as a total military force of 300,000 in 1940 expanded to over 12 million in the summer of 1945, comprising 8 million soldiers and 4 million seamen.[15] The remainder came from the reduction in measured unemployment, which fell from 8 million to less than 1 million, and from new workers, such as women, youth, and former agricultural

[14] US Congress, House, Special Committee on Postwar Economic Policy and Planning, *Economic Problems of the Reconversion Period: Fourth Report*, 78th Cong. 2nd Sess., 1944, H. Rep. 1855, p. 4

[15] Minutes of the Advisory Board of the Office of War Mobilization and Reconversion, August 21, September 5-6, 1945 (hereafter OWMR Advisory Board Minutes), Box 5, George W. Taylor Papers, Ms. Coll 1210, Kislack Center for Special Collections, University of Pennsylvania.

workers, who would not otherwise have been counted in labor force.[16] The rapid recovery of employment and production under the influence of this government spending carried natural lessons for those preoccupied with the problems of the depressed thirties. "I can't miss this opportunity of pointing out that the things we insisted were true in the thirties have been proved up to the hilt and beyond," OPA economist Richard Gilbert said in an address to his department in December 1942. "[T]he war has demonstrated conclusively that unemployment is now an unnecessary and therefore an intolerable evil," wrote Walter Lippman in his nationally syndicated newspaper column. "The prime lesson of the war in domestic affairs will be that by the proper use of a small fraction of the funds now devoted to engines of destruction, the country can become productive beyond anything ever imagined, and on that productiveness can maintain a high and rising level of prosperity." "[I]f this country had attained and maintained the high level of income of 1944 in the thirties, this country might have had 1 trillion dollars more of income than it actually had," wrote Seymour Harris of the Harvard Department of Economics. "It is… a significant figure in that it indicates what might have been achieved through a full-employment policy in the thirties." As William H. Davis, Director of Economic Stabilization, told the Advisory Board to the Office of War Mobilization and Reconversion in March 1945, "the task… is one of financing the transition between the level of war production and total civil production."[17]

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[16] US Congress, House, Special Committee on Postwar Economic Policy and Planning, *Economic Problems of the Reconversion Period: Fourth Report*, 78th Cong. 2nd Sess., 1944, H. Rep. 1855, pp. 15-16. Statement of Seymour Harris to Senator Robert Wagner, US Congress, Senate, Committee on Banking and Currency, *Full Employment Act of 1945*, 79th Cong., 1st Sess., pp. 1095-1100.

[17] OWMR Advisory Board Minutes, March 20, 1945, George W. Taylor Papers, Ms. Coll 1210, Kislack Center for Special Collections, University of Pennsylvania. Statement of Seymour Harris to Senator Robert Wagner, US Congress, Senate, Committee on Banking and Currency, *Full Employment Act of 1945*, 79th Cong., 1st Sess., pp. 1095-1100. Walter Lippmann, "The Great Adventure," *New York Herald Tribune*, November 26,

Who should finance the transition? Before the war, the problem of raising consumption spending and private employment had stalled the recovery program as the Roosevelt administration constrained itself within the politics of an annually balanced federal budget during the 1936 presidential election. The turn towards anti-trust solutions to raising consumption through lower prices competed with theories of raising industrial sales through higher farm incomes, raising the general price level, or greater government spending on relief and public works, instigating a vigorous search for empirical descriptions of the structure of society and theoretical explanations for its functioning. Between 1933 and 1935, the Brooking's Institution published a four-volume analysis of a survey of the nation's physical productive capacity, distribution of income, and disposition of savings which found "a maladjustment of basic significance" in the "distribution of purchasing power." During the twenties, the survey found, the rate of capacity utilization had fallen consistently below potential, while personal savings had far outpaced the demand for business investment in capacity expansion. This problem of unspent savings, Brookings staff concluded, was a direct product of the nation's distribution of income: two-thirds of the nation's total savings at the peak of the boom of the 1920s had been made by the top 2.3 percent of families whose incomes were above $10,000 that year, while the 70 percent of families earning less than $2,500 per year had spent the majority of their income on necessities and saved practically nothing. "If the great mass of the population has incomes too small to enable it to buy what it wants and if an infinitesimal minority has incomes larger than it can spend," wrote Brookings

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1942, p. 33A. Richard Gilbert, "Price Control and Fiscal Policy," in US Office of Price Administration, Training Program for Price, *A Manual for Price Control* (Washington: 1943), p. 25.

Institution director Harold Moulton, "then consumption will be less than it could be and production also less." The reason for the maldistribution, he argued, was the failure of the business managers in the most productive corporations—predominantly in the manufacturing sector—to pursue the "price reduction method of distributing income." As corporation profits and dividends rose under stable prices, the nation's consumer purchasing power dwindled and production and employment fell below capacity. "The trouble with capitalism is the capitalists," editorialized the staff of *Fortune* magazine in presenting the Brookings research. "They have violated the first rule of their being which is: Decrease Prices."[18]

The Brookings studies were the culmination of over fifteen years of research in American universities. The divergence between high manufacturing prices and low consumer incomes had long been understood as a problem of national importance, particularly by farmers whose incomes tended to fall with agricultural prices. Between 1915 and 1919, farm price more than doubled. The price of cotton rose from about 7 cents per pound to about 35 cents per pound, of wheat from 97 a bushel to $2.16 a bushel, and of corn from 67 cents a bushel to $1.44 a bushel. Land values rose precipitously under the expectation of future high prices. When these speculative markets collapsed—falling to around 17 cents for cotton, $1.03 for wheat, and 46 cents for corn by 1920; the ratio of mortgage debt to equity on farms rose to 30 percent—both the House of Representatives and the Senate resolved to establish a

[18] "The Trouble with Capitalism Is the Capitalists," *Fortune*, November 1935, beginning pp. 77. Figures from Harold Moulton, "Economic Progress Without Economic Revolution," *Fortune,* November 1935, table, p. 79. This Fortune article summarizes material from the following volumes: Edwin Nourse, *America's Capacity to Produce* (Washington: Brookings, 1934), Maurice Leven, Harold G. Moulton, and Clark Warburton, *America's Capacity to Consume* (Washington: Brookings, 1935), Harold G. Moulton, *The Formation of Capital* (Washington: Brookings, 1935), and Harold G. Moulton, *Income and Economic Progress* (Washington: Brookings, 1935).

Commission of Agricultural Inquiry in response to the distressed selling and bankruptcies produced by the decline in farm income.[19] The next year, President Harding's Secretary of Agriculture Henry C. Wallace convened National Agricultural Conference of over 300 representatives of farm organizations, university professors, state farm agencies, journalists and businessmen. Since the Populist Party of the 1890s, the solution to raising the farmers' income had been imagined as requiring an increase in the prices of raw agricultural goods. With the agricultural inquiries that followed World War I, this was given a new statistical basis in terms of index numbers. By constructing an index of the price of farm-produced goods and comparing its movement against an index of other prices—first the all-commodities index of the Bureau of Labor Statistics, after 1928 a special index of "prices paid by farmers" produced by the Department of Agriculture—farmers could determine the "disparity in purchasing power of farm products." To facilitate such comparisons, the Department of Agriculture began in 1922 to publish an index of "prices received by farmers."[20] As the final report of the National Agricultural Conference concluded, "The manufacturer has in the past quickly adjusted his production [downward] to price recessions while the farmer has not."[21]

[19] Price figures are in Bill Winders, *The Politics of Food Supply: US Agricultural Policy in the World Economy* (Yale: 2012 [2009]), pp. 33-4. Mortgage debt to equity on farms, see John D. Black, *Parity, Parity, Parity* (Harvard: 1942), table, p. 19.

[20] Black, *Parity, Parity, Parity*, pp. 45-51 reviews the history of the construction of different indexes in the invention of farm parity.

[21] Wesley McCune, *Farm Bloc* (New York: Double Day, 1943), pp. 15-17, quote on p. 17. For additional accounts of the emergence of the Farm Bloc in the deflation that followed World War I and the political economy of declining farm prices, see Chester C. Davis, "The Program of Agricultural Adjustment," *Journal of Farm Economics*, January 1934, Vol. 16, No. 1, pp. 88-92; John D. Black, *Parity, Parity, Parity* (Harvard: 1942), pp. 45-66 and *passim*; Arthur M. Schlesinger, Jr., *The Crisis of the Old Order, 1919-1930* (Heinemann: 1957), pp. 107-113; Jordan A. Schwarz, *The New Dealers: Power Politics in the Age of Roosevelt* (Vintage: 1994 [1993]), pp. 32-56; Bill Winders, *The Politics of Food Supply,* pp. 31-50; Gary Gerstle, *Liberty and*

Discussion of the nation's decades-long farm problem was one of the primary rhetorical settings in which concept of the distribution of income entered national politics in the United States during the interwar era. In its annual report for 1921, the Department of Agriculture's published a diagram purporting to show that "the average annual per capita income of the people engaged in agriculture during the 10 years 1909-1918 was only a little over half of that of the people engaged in the other major industries."[22] The study from which this figure was drawn was a gargantuan and novel undertaking that proposed to check "income received" (measured by income-tax reports; public and private surveys of wages, profits, and rents; and Census data on occupations) against "income produced" (measured by industry surveys, price indexes, the Census of Manufactures, etc.) to develop a single annual figure for "national income."[23] Theoretically, farm prices alone held no necessary

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Coercion: The Paradox of American Government from the Founding to the Present (Princeton: 2015), pp. 185-216. The account of Black and Schlesinger relies on Arthur Capper, *The Agricultural Bloc* (Harcourt, Brace and Company: 1922), the Kansas Senator and sponsor of the 1922 Capper-Volstead act exempting agricultural cooperatives from antitrust prosecution. For a sympathetic account of Hoover's opposition to McNary-Haugenism, see Joan Hoff Wilson, "Herbert Hoover's Agricultural Policies, 1921-28," in *Herbert Hoover as Secretary of Commerce: Studies in New Era Thought and Practice*, ed. Ellis W. Hawley (University of Iowa Press: 1981), pp. 115-147.

[22] U.S. Department of Agriculture, *Yearbook 2021*, Washington DC: GPO, 1921, p. 2. The figure, drawn from the National Bureau of Economic Research study of Wesley Mitchell, Willford King, Oswald Knauth, and Frederick Macauley, was first publicized during the Commission of Agricultural Inquiry. Arthur Capper, *The Agricultural Bloc* (Harcourt, Brace and Company: 1922), p. 44.

[23] "Among the important bodies of data that can be used in estimating the income of the United States in recent years are the Internal Revenue Bureau's tables of personal and corporate incomes, many records of wages per hour, day or week, scattered reports on the salaries of teachers and clergymen and the annual earnings Of physicians and engineers, a few investigations into the incomes of farmers, the rent surveys of many towns made by the American Telephone & Telegraph Company, collections of family budgets, the Census statistics of occupations, the quinquennial Census of Manufactures, the Department of Agriculture 's annual estimates of the value of the crops, the Geological Survey 's data on mineral products, the Interstate Commerce Commission's reports on transportation, monographs on special industries investigated by the Tariff and Federal Trade Commissions, various state and municipal documents dealing with government expenditures, production, wages and the like, statistics compiled by the national associations or service bureaus of leading industrie8, and the files of technical journals. From all of these sources and from others too numerous to list materials must be collected, compared, criticized and fitted together….The collections of data listed…are of two kinds. One kind shows income received—the income-tax returns, reports on wages and salaries, investigations of the profits of

relationship to the share of income collected by farmers. Agricultural sales volumes could expand, for example, with farmers earning greater income on a larger crop at lower prices. The rate of change of per-capita income for farmers depended on the rate of growth or decline in the number of farms. If the prices of raw agricultural goods rose as total national income increased, then the farmers' share of national income might not change at all or might even decline. This is, in fact, what happened during the recovery of farm prices between 1921 and 1925 and during the recovery of 1939 and 1940.[24]

The theory of national income and output, however, was too abstract for these distinctions during the era of Harding, Coolidge, and Hoover. The first time-series studies of national income to receive widespread analysis—on which the Department of Agriculture based its findings on the distribution of income—were published by the National Bureau of Economic Research in 1920. Regularly updated estimates were not available until 1927, when the National Industrial Conference Board, a private association of business executives, began publishing a different measure constructed from six indexes of industrial output. In 1926, the Federal Trade Commission became the first agency of the federal government to publish an estimate of national income, but these studies were not continued.[25] In the

farmers, and the like. The second kind shows income produced—the statistics of coal and metals mined, lumber cut, crops grown, raw materials transported or manufactured, and the like," *Income in the United States: Its Amount and Distribution, 1909-1919*, National Bureau of Economic Research (Harcourt, Brace and Company: 1921), pp. 2-3 and 9.

[24] John D. Black, "The Agriucultural Situation, March, 1940," *The Review of Economics and Statistics*, Vol. 22, No. 2, pp. 56-9 and 63-4; *Parity, Parity, Parity,* pp. 13-22 and 330-341.

[25] Carol S. Carson, "The History of the United States National Income and Product Accounts: The Development of an Analytical Tool," *Review of Income and Wealth*, Vol. 21, No. 2, Jun 1975, p. 154. John W. Kendrick, "The Historical Development of National-Income Accounts," *History of Political Economy*, Vol. 2, No. 2, Fall 1970, p. 306-7.

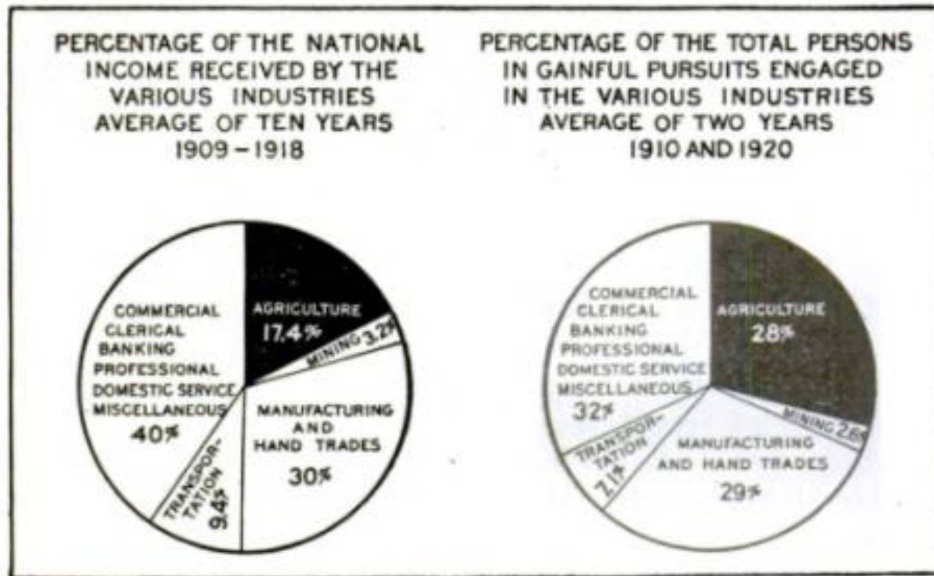

FIG. 1.—Twenty-eight per cent of the people of the United States gainfully employed are engaged in agriculture, but they receive only about 17 per cent of the total national income. The average annual per capita income of the people engaged in agriculture during the 10 years 1909–1918 was only a little over half that of the people engaged in the other major industries. These figures are taken from the U. S. Census of Occupations and from a survey of "Income in the United States," prepared by Mitchell, King, MacCauley, and Knauth, and published by the National Bureau of Economic Research.

Figure 1: From the opening of Henry C. Wallace's introduction to the Department of Agriculture's Yearbook 1921.

meantime, the practical problem of raising farm income continued to be imagined purely in terms of raising farm prices by strengthening farmers' bargaining power against processors and distributors. In 1922, the Congress exempted marketing cooperatives for raw agricultural commodities from antitrust exemption, and in 1927 and 1928 passed legislation to establish a federal foreign-marketing agency to dispose of surplus farm goods abroad at discount prices. President Coolidge vetoed both of these, the McNary-Haugen bills. In 1929, the Hoover administration continued these efforts by signing the Agricultural Marketing Act, which established a Federal Farm Board to finance new selling cooperatives and to make purchases of surplus commodities. But agricultural surpluses grew after the collapse in private consumption following the stock market crash, exacerbated by the Board's very price-supporting purchases. By 1930, the Board had exhausted its resources and farm prices collapsed: cotton sold for 5.7 cents per pound in 1931, wheat for 37.5 cents per bushel in 1932, and corn for 32 cents per bushel in 1932.[26] The objective of raising farm prices to restore their "fair exchange value" as calculated by specific price indexes increasingly took on the language of raising the "farmers' share of national income"—even though each concept was theoretically distinct and based on different statistical constructions.

The confusion became apparent during 1931, when Congress held hearings on the causes of the collapse in prices and employment and invited testimony from the nation's economics profession. Before members of the Senate Committee on Manufactures, the

[26] Figures from Winders, *The Politics of Food Supply*, p. 35. Cf. Black, *Parity*, *Parity, Parity*, pp. 288-9; Bruce L. Gardner, *American Agriculture in the Twentieth Century: How it Flourished and What it Cost* (Harvard: 2002), p. 215.

Director of Research and Statistics of the Federal Reserve Board admitted that he had no estimates of national income beyond those of the National Bureau.[27] In the summer of 1932, to shore up discussion on sounder foundations, the Senate resolved to request the Secretary of Commerce to report "estimates of the total national income" for the past three years "including estimates of the portions of the national income originating from agriculture, manufacturing, mining, transportation, and other gainful industries and occupations, and estimates of the distribution of the national income in the form of wages, rents, royalties, dividends, profits, and other types of payments."[28] When this report was delivered and published in January 1934, the various attempts at developing a system of national income accounts remained schematic and disunified. Would wages on the farm, for example, count towards the income of agriculture or as a cost against net income on farms? Would unspent corporation earnings count as income or as savings?[29]

The solution that arrived as the Federal Farm Board failed neglected these concerns in favor of practical action. Rather than disposing of agricultural surpluses, economists had begun to argue for curtailing plantings—what came to be called "agricultural adjustment." After the elections of 1932, the new Congress granted the Department of Agriculture powers

[27] U.S. Congress, Senate, Committee on Manufactures, *Establishment of a National Economic Council: Hearings Before a Subcommittee of the Committee on Manufactures*, 72nd Congress, 1st Session, 1931, p. 39.

[28] Quoted in Carson, "The History of the United States National Income and Product Accounts," *Review of Income and Wealth*, Jun. 1975, p. 156.

[29] Such problems are necessarily irresolvable for users of any interlocking system of national income and product accounts. For contemporary discussion, in addition to sources cited in n27 and n23, see: Morris A. Copeland, "Some Problems in the Theory of National Income," *Journal of Political Economy*, Feb. 1932, Vol. 40, No. 1., pp. 1-15; "How Large is Our National Income?," *Journal of Political Economy*, Dec. 1932, Vol. 40, No. 6, pp. 771-795; "National Wealth and Income—an Interpretation," *Journal of the American Statistical Association*, Jun. 1935, pp. 377-386; "The Distribution of Wealth and Income," *Proceedings of the Academy of Political Science*, Vol. 18, No. 1 (May, 1938), pp. 70-83. For discussion during World War II, see Black, *Parity, Parity, Parity*, pp. 100-117. For discussion of more recent measurement problems in an identical vein, see Gardner, *American Agriculture in the Twentieth Century*, pp. 250-254.

to control production on farms in the Agricultural Adjustment Act (AAA) of 1933. Three devices were authorized for supply planning: commodity allotments regulating the planted acreage for each crop; financing plantings through non-recourse loans to farmers (so-called because the USDA had no recourse against farmers who defaulted other than seizing the pledged collateral of the future crop), made contingent on participation in the allotment program; and payments for acreage restrictions paid out of a tax on processors. These efforts at price manipulation through supply controls were strengthened by USDA marketing agreements, in which farmers, under government supervision, cartelized their markets by sales quotas.[30] Under the AAA, the USDA offices expanded to become one of the central agencies in Washington—before the construction of the Pentagon it occupied the world's largest office building—responsible for programs which held an acute interest for particular commodity growers and their representatives in Congress.[31] These early New Deal programs were an amalgamation of Progressive Era business planning—acreage restrictions, marketing quotas—and late nineteenth century Populism—in the form of cheap credit and agricultural stockpiling through a government corporation. Their unifying impulse was protection of the farm population from bankruptcy and absorption into the proletarianized cities by ensuring this market income.

[30] Black, *Parity, Parity, Parity*, pp. 12-22 and 274-329; Schlesinger, *The Crisis of the Old Order*, pp. 112-113; Ellis W. Hawley, *The New Deal and the Problem of Monopoly: A Study in Economic Ambivalence* (Princeton: 1966), pp. 191-4; Gardner, *American Agriculture in the Twentieth Century*, Chapter 7 *passim*, especially pp. 215-17; Winders, *The Politics of Food Supply*, pp. 54-69.

[31] Gerstle, *Liberty and Coercion*, pp. 205. The South Building of the USDA complex, to which this refers, contains some 2.5 million square feet of office space. The Pentagon houses 4 million square feet of office space. Ira Katznelson, *Fear Itself: The New Deal and the Origins of Our Time* (Liveright: 2014 (2013)), p. 368.

Public intervention to restore agricultural to "parity"—the relationship between farm and non-farm prices or incomes that held in a base period, initially the five years before WWI—still begged the question of how parity was to be calculated. During the drafting of the AAA, farmer organizations such as the National Farmers' Union, the American Society of Equity, and the Farmers Holiday Association had pushed Congress to order the new adjustment program to pay "parity income" rather than "parity prices," with market prices manipulated towards rates determined by unit-costs of production rather than historical ratios to non-farm prices. Such cost-of-production prices would be paid only on domestically sold production; for export crops, such as cotton, they promised a lower income, while paying greater incomes to lower volume farms, particularly the family farms of the midwestern wheat belt. Senator George Norris of Nebraska succeeded in passing an amendment to the AAA in the Senate Agricultural Committee empowering the Secretary of Agriculture to determine payments in this way, but the opposition of southern Democrats precluded final passage. President Roosevelt and Secretary of Agriculture Henry A. Wallace (son of Henry C. Wallace) personally intervened to prevent its inclusion.[32] In 1934 the administrator of the Agricultural Adjustment Administration could describe the goal of the agency's enabling law as guided by "the principle that farmers shall receive a share of the national income commensurate with their contribution to the national welfare" even though the language of the AAA stated that the USDA should "reestablish prices to farmers at a level that will give

[32] Black, *Parity, Parity, Parity*, pp. 53 and 172; Winders, *The Politics of Food Supply*, pp. 60-61; Jonathan Coppess, *The Fault Lines of Farm Policy: A Legislative and Political History of the Farm Bill* (University of Nebraska: 2018), pp. 23-5.

agricultural commodities a purchasing power with respect to articles that farmers buy, equivalent to the purchasing power of agricultural commodities in the base period."[33]

Nevertheless, the concept of "parity income" remained. When the Supreme Court struck down the AAA in the *Hoosac Mills* case of 1936, Congress amended the AAA to target income rather than prices, ordering the "reestablishment…of the ratio between the purchasing power of the net income per person not on farms that prevailed during the five-year period August 1909 - July 1914" as determined by the USDA. The Department did not publish such per-capita income figures until 1941; in late 1936, the Director of the Division of Statistical and Historical Research at the Bureau of Agricultural Economics in the USDA could still complain that there were "too many 'national income' figures in circulation, and partly on this account it is too difficult for many to know much if anything about our national income." Yet even before such figures were published, the USDA began "parity payments" to farmers once agricultural prices began to fall in the downturn of 1937-8 to supplement income for those selling below parity prices.[34]

Just as the USDA sought to raise the income of farmers, those studying non-farm areas began to publish their own studies of the distribution of income. In 1936, the Bureau of Home Economics and the Bureau of Labor Statistics conducted a joint survey of national

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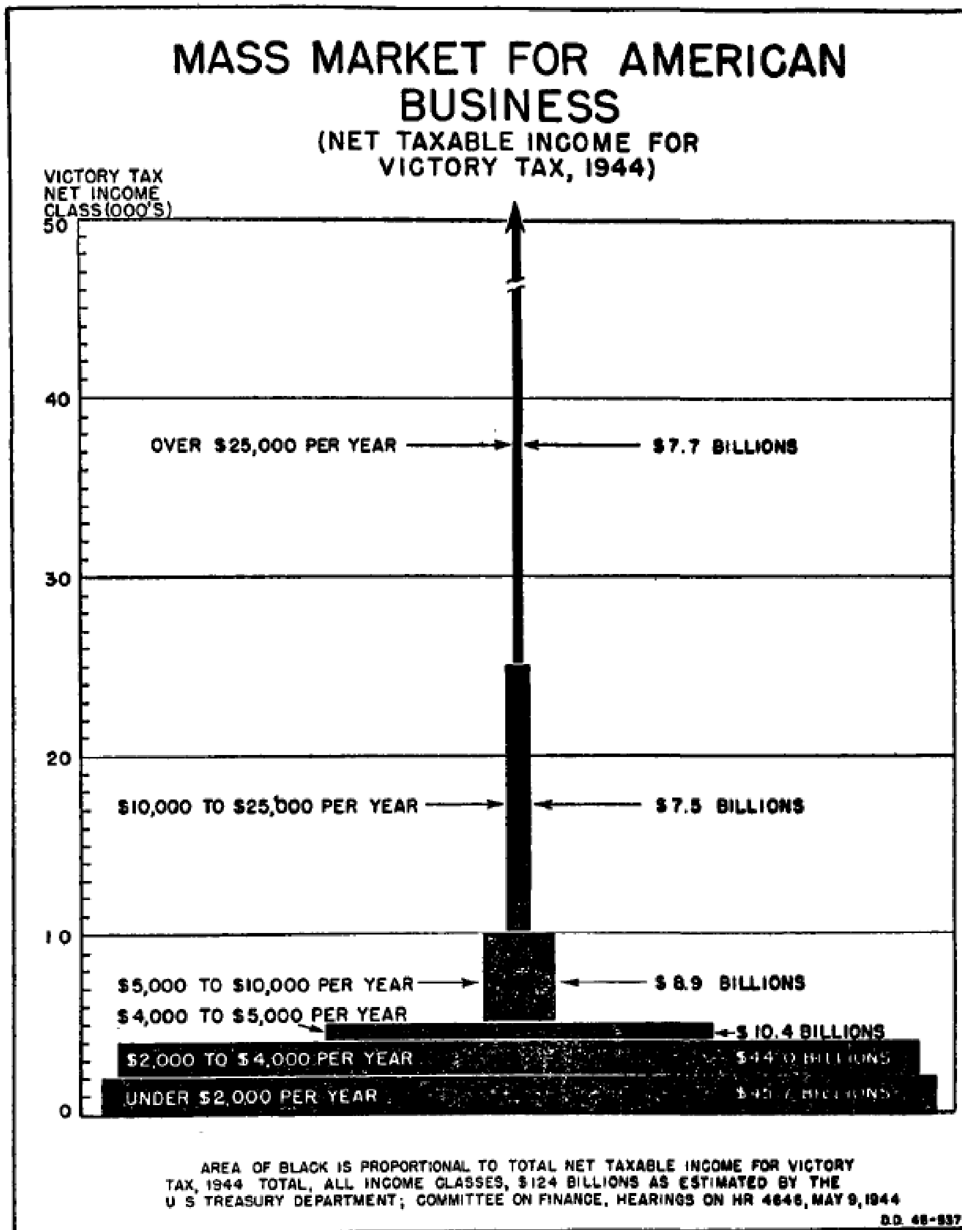
[33] Chester C. Davis, "The Program of Agricultural Adjustment," *Journal of Farm Economics*, Jan. 1934, Vol. 16, No. 1, p. 95. Statutory language reprinted in Black, *Parity, Parity, Parity*, pp. 54.

[34] Statute language in O.C. Stine, "Income Parity for Persons on Farms," *Proceedings of the Annual Meeting Western Farm Economics Association*, Vol. 10 (Jun. 1937), p. 35; Black, *Parity, Parity, Parity*, pp. 57-8 and 95, and "The Agricultural Situation, March 1940," *Review of Economics and Statistics*, Vol. 22, No. 2 (May 1940), p. 64; Coppess, *Fault Lines of Farm Policy*, pp. 57-9. Quote is O.C. Stine, "The National Income, and What Do We Know about It?," *Journal of Farm Economics*, Nov. 1936, Vol 18, No 4, p. 745. In 1938 Congress again amended the AAA to define "'Parity,' as applied to income, shall be that per capita net income of individuals on farms from farming operations that bears to the per capita net income of individuals not on farms the same relation as prevailed during the period from August 1909 to July 1914." Black, *Parity*, p. 57.

income and consumer spending through the Works Progress Administration. The sample comprised 60,000 families in 51 cities, 140 villages, and 66 farm counties across the country. Two years later, an analysis of this survey by the National Resources Committee (NRC) of the Department of the Interior confirmed many of the empirical findings of the surveys on the nation's "capacity to produce" and "capacity to consume" conducted by the Brookings Institution between 1933 and 1935. Households in which the "income head" earned $1,250 or less saved none of their income, Brookings had found. Those earning between $1,250 and $1,500—a rough approximation of the sixth decile of families—saved 1 percent of their income.[35] Now, the Department of Interior group demonstrated that more than half the total population spent $1,250 or less annually. Not until families reached the $2,600 threshold, the top ten percent of households, did income begin to outpace consumption expenditures to generate savings. These families were responsible for more than the total—125 percent—of the nation's total of savings, offsetting the gifts and borrowing of those in the bottom half of all families, who spent more than they earned.[36] As Chester Bowles, a young advertising executive on New York's Madison Avenue during the 1930s, later remembered about the businesses of his industrial-manufacturing clients, "Private capitalism was detaching itself from its markets by too-high prices." Mass producers of consumers goods "were pricing themselves on small volume, not on large volume, and this meant that whole new factor in the economy, government, was moving in to prop up the bottom third of the economy… your bottom 40 percent. And this bottom 40 percent could not afford to buy the packaged soaps,

[35] Supra, n18., *Fortune* (November, 1935), p. 79.

[36] U.S. Department of Interior, National Resource Committee, *Consumer Incomes in the United States: Their Distribution in 1935-1936* (Washington: 1938), pp. 14-22. Tables 1, 10, and 15.


MASS MARKET FOR AMERICAN BUSINESS
(NET TAXABLE INCOME FOR VICTORY TAX, 1944)
VICTORY TAX NET INCOME CLASS (000'S)
50
40
30
20
10
0
OVER $25,000 PER YEAR
$7.7 BILLIONS
$10,000 TO $25,000 PER YEAR
$7.5 BILLIONS
$5,000 TO $10,000 PER YEAR
$ 8.9 BILLIONS
$4,000 TO $5,000 PER YEAR
$ 10.4 BILLIONS
$2,000 TO $4,000 PER YEAR
UNDER $2,000 PER YEAR
AREA OF BLACK IS PROPORTIONAL TO TOTAL NET TAXABLE INCOME FOR VICTORY TAX, 1944 TOTAL, ALL INCOME CLASSES, $124 BILLIONS AS ESTIMATED BY THE U S TREASURY DEPARTMENT; COMMITTEE ON FINANCE, HEARINGS ON HR 4646, MAY 9, 1944

the washing machines, the consumer goods, all the things you would see advertised in the *Saturday Evening Post* or *Ladies Home Journal* of that period…"[37]

The USDA's difficulty in raising farm prices and incomes during the New Deal dovetailed with the emerging study of national income to form a powerful diagnosis of the causes of the Great Depression. For many studying the distribution of income during the 1930s, the persistent divergence in farm and non-farm prices revealed that the emerging structure of corporate enterprise diverted income towards the new manufacturing companies and their managers. In famous study of industry price differentials prepared for Agriculture Secretary Henry Wallace, the economist Gardiner Means had found in late 1934 "that there are two essentially different types of market in operation" in the US: "the traditional market in which supply and demand are equated by a flexible price and the administered market in which production and demand are equated at an inflexible administered price." Means used price and output series for industrial and agricultural goods and measured the frequency of price changes between them to show that farmers were compelled by flexible prices to raise output and compete for a share of sales, whereas many wholesalers, retailers, and manufacturers adjusted their sales volumes around inflexible—or "administered"—prices that changed much less frequently.[38] Yet the problem of correcting for the effect of such growing areas of inflexible prices in absorbing larger shares of income and depressing output

[37] Reminiscences of Chester Bowles (1963), Oral History Archives at Columbia, Rare Book & Manuscript Library, Columbia University in the City of New York, pp. 30-1. The language of "purchasing power" was often marshalled to lower prices in addition to raising incomes, as contemporary popular writers like Stuart Chase demonstrated. Cf. Meg Jacobs, *Pocketbook Politics: Economic Citizenship in Twentieth-Century America* (Princeton: 2004); Colin Gordon, *New Deals: Business, Labor, and Politics in America, 1920-1935* (Cambridge: 1994); Steve Fraser, "The 'Labor Question'," in *The Rise and Fall of the New Deal Order, 1930-1980* (Princeton: 1989).

[38] Gardiner C. Means, *Industrial Prices and their Relative Inflexibility* , Senate Document 13, 74th Congress, 1st Session.

and employment was far from self-evident. Given the problem of diverging farm and non-farm prices, one solution to raising real incomes and employment was to bring price administration under public control, compelling manufacturers to manage their business on a high-volume, low-price basis. In May 1938, just after the 1937 tax returns reported record corporate profits, Montana Senator James Murray argued on the floor of the Senate that it was the pricing policies of large corporations during the recovery of 1933-6 that precipitated the recession. High prices, Murray argued, enabled manufacturing corporations to absorb the New Deal's relief spending before it could reach the public and strengthen the recovery. "We have to spread purchasing power," he said. "We have to get the money out into the hands of the people, and enable them to buy the things the manufacturers are making." Citing the Brookings studies of 1933-5, Murray argued that "the royal road to prosperity" lay in corporations "allow[ing] wages to be raised without raising prices."[39]

But whereas the prices of agricultural commodities could be manipulated through supply controls and public purchasing, downward manipulation of industrial prices for a much smaller group of producers posed more difficult political obstacles. Given the problem of high savings among a small class of families, another solution to raising real incomes and employment was to raise wages and the incomes of non-savers who might spend and

[39] Senator Murray's quote in full is worth reprinting: "The Government was spending enormous sums of money for the purpose of putting people back to work and stimulating industry. The industries should have recognized the situation as an unusual and an abnormal one and should have been satisfied with lower prices and should have cooperated with the Government in putting men to work. They could have done that by restraining themselves from raising their prices. The Brookings Institution has made a study of this subject and has arrived at the conclusion that the royal road to prosperity in this country is for the corporations to allow wages to be raised without raising prices, and that in that way, and only in that way, are we going to have prosperity in the country. We have to spread purchasing power…" Senator James E. Murray, on May 23, 1938, 75th Cong., 3d Sess, *Congressional Record* Vol. 83, p. 7252.

consume. Yet raising wages had the effect of raising manufacturing prices. [40] This was the dilemma in which the Roosevelt administration found itself on the eve of World War II. The turn towards anti-trust solutions during the recession of 1937 was one response to the problem of redistributing income: the alternative to lowering prices through public price administration was market competition. Beginning that year and continuing into the spring 1941, the Temporary National Economic Committee (TNEC) of the Congress, chaired by Wyoming Senator Joseph C. O'Mahoney, held hearings to investigate the theme of corporate oligopolies siphoning income into a narrow class of high earners, contributing to a national pattern of high savings, low production, and low employment. Altogether 37 volumes of hearings and 43 research monographs were published from the work of the TNEC investigating the concentration of power; rates of investment, profits, and returns; and the pricing and employment policies in every substantial branch of industry in the US.[41] Yet just

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[40] As the 1920s had demonstrated, wage-rate increases were rarely reversed. Those increases in hourly rates won by labor during the Great War and the strikes that followed remained near their 1920 peak throughout the decade, putting a floor under both the BLS cost-of-living index and the USDA index for prices paid by farmers. From a parity base of 100 for 1910-1914, hourly wages maintained a level between 210 to 230 in the 1922-9 period. Though hourly rates for labor dipped in 1930-3, they began a sharp upward increase in 1934. That year saw an eruption of industry- and city-wide strikes across the nation, shutting down the west coast ports, the southern textile industry, and the cities of Minneapolis, San Francisco, and Toledo. The wage index fell to 190 in 1932 before rising back to 230 in 1935 and 260 in 1938, the first year of the federal minimum wage. The recession of 1937-8 kept down both indexes of the cost of living and prices paid by farmers—but at the expense of growing unemployment in the cities. Rising wages had thus created a political impasse. Real farm income, eroded by manufacturing prices that did not fall, would not increase with wages. For many farmers—especially cotton growers who hired labor for large estates—rising wages would actually squeeze income. From an index level of 160 in 1929, farm incomes had fallen to 60 in 1932, rising to just 125 in 1938. For most of the New Deal, farm incomes remained below parity with the pre-World War I period. Figures from Black, *Parity, Parity, Parity*, pp. 71-3, Charts II, III, and IV.

[41] Thirty-one volumes of hearing transcripts, six supplemental studies, and forty-three monographs. U.S. Congress, Senate, Temporary National Economic Committee, *Investigation of Concentration of Economic Power: Description of Hearings and Monographs of the Temporary National Economic Committee*, 76th Cong., 3d Sess., 1941, Committee Print 55357.

as solutions to the problem of redistributing income ran aground political limits during the 1930s, during the war programmatic responses to economic problems divided.

The Patter of Wartime Thought

Students of the period's thinking might consider the division over the question of income along two axes. First was the problem of administrative controls on prices and quantities: of extending the wartime pattern of direct management of the corporate sector into the postwar period. On one end of this spectrum of opinion were those who considered US institutions capable of adjusting wages and prices voluntarily to levels eliciting a full-employment volume of production. As Brookings Institution Vice President Edwin Nourse told the Senate in May 1944, the necessary changes in business practices to ensure full employment after the war could be achieved "within capitalism itself."[42] This group focused popular attention on the relationship of wages to prices within the corporate sector of the economy, where profit margins formed the basic pool of savings and influenced the investment decisions of corporate managers. Those businessmen and their allies, such as General Motors chairman Charles Wilson, Truman advisers John Steelman and John Snyder, and Roosevelt holdovers Fred Vinson and James Byrnes, understood the problem of unemployment and inflation in terms of rising labor costs and inadequate industrial capacity. The solution to postwar adjustment, they argued, lay in persuading union leaders to moderate wage demands, corporation managers to lower prices and recoup profit margins on higher sales volumes.

[42] U.S. Congress, Senate, Committee on Military Affairs, *Mobilization and Demobilization Problems: Hearings Before a Subcommittee of the Committee on Military Affairs*, 78th Cong., 2nd Sess. 1944, S. 1730 and S. 1823, p. 97.

They encouraged what Moulton of Brookings called a "low-price, expanding market philosophy."[43] To achieve these ends, business executives preferred decentralized and competitive labor markets to ease wage pressures and opposed any overt drift towards cartelization beyond agriculture that might provide a rationale for public oversight of industry pricing policies. Businessmen behaved as if it were better to leave prices to informal agreements or the appearance of competitive relationships. Importantly, many of those emphasizing a voluntary "wage-price-profit" policy, and particularly business executives themselves, thought in the long run such reforms could *not* come from government mandate: Washington influence over profit margins and corporation pricing policy would sap business confidence and discourage the very investment in expanded capacity and new equipment the "expanding market philosophy" was designed to elicit.[44]

On the other end of the spectrum of those who emphasized the importance of "wage-price" policy to postwar full employment were those with less confidence in businessmen to voluntarily adopt a high-volume, low-profit-margin strategy. These saw a permanent role for a peacetime price-control agency. They included such New Dealers as Gardner Means of the NRPB, Chester Bowles of OPA, William H. Davis of the WPB, and Robert Nathan of the WPB and later OWMR, and the new labor leaders of the CIO. Was it a "safe assumption" that manufacturing prices could be made flexible?, asked John D. Black, one of the authors of the AAA and a consultant to the Roosevelt administration. Was "the trend…not in the other direction," and should economists not therefor "be giving part of their thoughts to

[43] "Synder Finds Gains in Inflation Fight," *New York Times*, October 17, 1945, p. 33.

[44] Arthur Krock, "Truman Stand Called Threat to Capitalism," *New York Times*, December 23, 1945, p. E3. Dr. S.H. Slichter Calls on Top Industrialists to Take Part in Wage Parleys," *New York Times*, Feb. 13, 1946, p. 15.

methods of making partly inflexible price systems function right"?[45] Public officials meeting with the new labor leaders, these officials and advisers emphasized the importance of subjecting public influence over informal cartel-controlled product markets. They understood the goal of the new industrial unions to standardize wage rates across geographic regions and job classifications, and as a rule favored high and rising wages as a path towards greater consumption and production. Among this group, the most conservative was probably Sumner H. Slichter of Harvard, who saw the need for a "national wage policy" to restrain wage increases—a form of cooperative intervention that required negotiations with the new labor leaders which many of the voluntarists opposed on principle.[46]Many of those who sought public wage-price guidance openly embraced antitrust enforcement as a path towards lower product prices and profit margins. During the partial-reconversion period that would accompany the Marshall Plan, as the next chapter investigates, a number of price controllers would openly break with the antitrusters. Such thinkers as John Kenneth Galbraith or Richard Gilbert would argue that the lesson of the New Deal and the TNEC had been that industrial concentration was too ingrained in the American economic pattern, and that in the debate between cartels and antitrust, a regulated version of the former was the only viable solution to the full-employment problem.

Cutting across the wage-price policy debate was a second axis of opinion on the future role of the government budget. On one end were those who would lobby for reducing expenditures and taxes to their prewar levels. These included many of the large businessmen

[45] Black, *Parity, Parity, Parity*, p. 278.

[46] Sumner H. Slichter, "Wages, Prices, and the People's Savings," *The Commercial and Financial Chronicle*, Vol. 167, No. 4700, May 20, 1948, p. 3 and 32-33.

opposed to both cartel control and further antitrust prosecution, such as Charles Wilson, Alfred Sloan, and Roger Blough, as well as the middle-size businesses who exerted influence through the National Association of Manufacturers (NAM). The more liberal members of this group—Bernard Baruch, for example, and those associated with the Committee for Economic Development such as Jesse Jones—countenanced temporary deficit spending on programs such as unemployment insurance, but actively opposed any continuation of civilian federal procurement or obligatory public-works spending approaching the scale of the wartime budgets. During the war, this group would have direct control over federal procurement. In the summer of 1940, in an overture to his political opponents during the Presidential election campaign, Roosevelt appointed Republican Wall Street attorney Henry Stimson as Secretary of War. He asked Henry Knox, the vice-presidential candidate for the Republican Party in 1936, to serve as Secretary of the Navy. These men would hire their staff out of the law firms and corporate bureaucracies of many of their former partners and clients. As Baruch, Slichter, and the CED argued, reflecting their views, wartime savings had built up a full-employment volume of consumer demand. Key to sustaining employment was reduction in taxes and encouragement of savings and investment for entrepreneurs to enter the labor market and absorb transition unemployment. [47]

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[47] Stephen Bailey, *Congress Makes a Law: The Story Behind the Employment Act of 1946* (Columbia: 1950), pp. 129-178; Karl Schiftgeisser, *Business Comes of Age: The Story of the Committee for Economic Development and Its Impact Upon the Economic Policies of the United States, 1942-1960* (Harper and Brothers: 1960); Robert M. Collins, *The Business Response to Keynes, 1929-1964* (Columbia: 1981). Sumner H. Slichter, "How to Stimulate Postwar Employment," *Annals of the American Academy of Political and Social Science*, March 1935, pp. 158-166. For Baruch's views, see Jordan A. Schwarz, *The Speculator: Bernard M. Baruch in Washington, 1917-1965* (University of North Carolina: 1981), pp. 448-484. Brinkley, *End of Reform*, p. 179.

The opposite position on fiscal policy held a permanent role for government budget in the form of investment expenditure to targeted industries, public works, and rising consumption spending. This group—which included Harold Smith and Gerhard Colm of the Budget Bureau and Federal Reserve Chairman Marriner Eccles, among others—tended to focus on the overall level of spending to be expected by the distribution of income in the economy and used the concepts introduced by Keynes in his *General Theory of Employment, Interest, and Money*. As Alvin Hansen, who from the Harvard economics department helped to popularize Keynes in the US, wrote in 1941, "What is required is that the gap between the volume of consumption at a full income level, which gap is fixed by the savings pattern of the community, must be filled by investment expenditures." As a consultant to the Department of Interior's National Resources Planning Board (NRPB), the wartime successor to the NRC, Hansen wrote in 1943 that "In the postwar period, the problems is how to fill the gap left when war expenditures are curtailed."[48] While understanding the arguments of Moulton and Nourse that a voluntary wage-price policy might raise consumption and investment, many of this group had learned from the New Deal experience the difficulty of influencing the boardrooms of the steel, auto, rubber, and other mass production industries to narrow profit margins and allow consumption to rise.[49] For some in the Keynesian group, the promise of raising the total level of spending was precisely to avoid the New Deal problems

[48] Alvin Hansen, *Fiscal Policy and Business Cycles* (W.W. Norton: 1941), p. 329; U.S. Department of Interior, National Resources Planning Board, *After the War—Full Employment*, by Alvin H. Hansen (1943), reprinted in U.S. Congress, Senate, Committee on Labor and Public Welfare, *History of Employment and Manpower Policy in the United States*, 88th Cong, 2d Sess, 1965, Committee Print 27-419, p. 2088.

[49] For the NRPB, Hansen had argued that a sustained period of full employment would "automatically" redistribute the income between profits and wages to levels necessary to stabilize a high level of spending over the long term. This would occur, he argued somewhat obliquely, owing to the combination of price competition and trade union pressure. Hansen, *After the War—Full Employment*, supra n47, p. 2089.

of corporate price and wages by adjusting the rest of society to the large corporate units, which could then be left to pursue their private prerogatives so long as profit opportunities opened for them and consumer spending on their products continued at the existing levels provided by income-savings ratios. Hansen and Colm saw the prospect of adjusting the large corporate units to the demands of the community—by regulating their prices to meet the current mass market, their wages to help bring that market into existence, and their profit and investment decisions, where private discretion proved too cautious for the job—as unlikely or undesirable. Adjusting total spending by manipulating private investment with government contracts, public enterprise, and tax policy offered more desirable alternative.

Authority for Fiscal-Monetary Control

Decentralizing control of cartels and wage and price decisions, however, had its counterpart in centralizing control over spending and especially credit. To manage employment, Keynesian economists needed to determine what Keynes referred to as the “three fundamental psychological factors” of the propensity to consume, the preference for liquidity, and expectations of profit.[50] If these could be estimated, the theory provided a way of reliably relating a given amount of government expenditure to a given amount of employment. Roosevelt administration Keynesians like Hansen or Moredcai Ezekiel believed the empirical studies of the thirties provided them with sufficient data to estimate these variables: Hansen compared the 1938 NRC report on consumer expenditures with more recent Commerce Department data and found a “fairly constant” pattern existed between the

[50] John Maynard Keynes, *The General Theory of Employment Interest and Money* (1936), Chapter 18, Section 1.

ratio of total consumption to national income during the 1921-1939 period.[51] Raising consumption spending, from this perspective, could be achieved by raising total income, out of which new spending would flow from constant income-savings patterns. Rather than redistributing existing income between profits and wages or across industries within the corporate sector, the government might attempt to raise investment and maintain a higher level of total income. The upshot, Keynesians argued, was to avoid the necessity for a comprehensive system of physical controls in managing the economy.

"[T]here are wide fields of activity which are unaffected" by the theory, Keynes had written.

> "The State will have to exercise a guiding influence on the propensity to consume partly through its scheme of taxation, partly by fixing the rate of interest…. Furthermore, it seems unlikely that the influence of banking policy on the rate of interest will be sufficient by itself to determine an optimum rate of investment. I conceive, therefore, that a somewhat comprehensive socialization of investment will prove the only means of securing an approximation to full employment; though this need not exclude all manner of compromises and of devices by which public authority will co-operate with private initiative. But beyond this no obvious case is made out for a system of State Socialism which would embrace most of the economic life of the community. It is not the ownership of the instruments of production which it is important for the State to assume."[52]

With such language a generation of university professors were backwards into attempting to manage national economies with high levels of employment.

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[51] Hansen, *Fiscal Policy and Business Cycles*, p. 237. On the very next page, Hansen advises against the attempt to change the consumption share of national income: "The superficial view that the persistence of vast unsatisfied consumer wants is an answer to the problem of limited investment outlets—outlets inadequate to fill the gap fixed by the consumption-savings pattern—overlooks the stubborn fact that this pattern is, according to all the available evidence, a highly stable one."

[52] Keynes, *General Theory*, Chapter 24, Section 3.

Early in the mobilization process, Federal Reserve chairman Eccles saw the trade-off between central control of money or administrative control of prices. "We must devise means for directing voluntary efforts into the necessary channels and limiting the intrusion of the state," Eccles wrote to Roosevelt in June 1940. Brinkley interprets the quote as evidence of the waning popularity of planning in the New Deal reform rhetoric, but the "means for directing voluntary efforts" to which Eccles referred entailed a dramatic centralization of regulatory controls over banking supervision—over the creation of credit and how people could use their savings. Eccles argued for two centralizing measures. First, authority for banking supervision should be consolidated into a single government office, reducing the independence of the FDIC, the RFC, and the state-level banking systems regulated by the 48 states.[53] This had long been a goal of the Federal Reserve Chairman, who as an assistant in the Treasury had helped to draft the 1935 law that gave the Federal Reserve System its current form. Second, banking supervision should be brought into closer coordination with taxing, spending, and borrowing by the Treasury. To this end, Eccles proposed forming an "Advisory Committee to the President on Economic Policy…to coordinate the various monetary and fiscal agencies of the Government and to work out plans for dealing with monetary, fiscal, and price problems relating to the defense program and to the ultimate transition to a peace-time basis."[54] Throughout the war he argued forcefully for placing a much larger share of Treasury debt issues with individuals as non-negotiable securities rather

[53] Eccles to Roosevelt, June 21, 1940. Folder 10, Box 5, Marriner S. Eccles Papers, University of Utah, J. Willard Marriott Library, Special Collections Department. (Hereafter MSEP.) Digitized https://fraser.stlouisfed.org/archival/1343/item/465458. Alan Brinkley offers an interpetation in *End of Reform*, p. 162.

[54] Eccles to Roosevelt, December 21, 1940. Folder 10, Box 5, MSEP. Digitized https://fraser.stlouisfed.org/archival/1343/item/466760.

than with commercial banks—a policy that would have the effect of limiting both individuals use of savings (controlling what the Keynesians' called "liquidity preference") and commercial banks' capacity to extend loans.[55]

As early as 1939, liberal economists had proposed a savings program for the public as a guarantee against postwar depression. As the industrial relations professor Sumner Slichter wrote in a 1941 report on defense mobilization commissioned by the Rockefeller family, "If the Treasury, with the co-operation of unions and employers, does a good job of selling bonds during the next two or three years, millions of small savers should hold a total of $10 billion, $15 billion, or possibly $20 billion national defense bonds which they could gradually liquidate as the defense program subsidies to pay for postponed purchases of automobiles, radios, refrigerators, and furniture, to make first payments on houses, and to pay for postponed vacation trips." Eccles wrote in Fortune that "The sale of Government securities to the public, other than commercial banks, will have the same effect on buying power as taxation that otherwise might go to the market place…. purchases of such securities have the advantage of storing up buying power—in effect of deferring demand—until such time as our productive machinery can revert from defense to civilian production."[56] The alternative of the Treasury issuing bonds to commercial banks would have the effect of expanding bank reserves and lending capacity—there very opposite effect of that desired by

[55] Sidney Hyman, *Marriner S. Eccles: Private Entrepreneur and Public Servant* (Stanford: 1976), pp. 267-306.

[56] Sumner H. Slichter, *Economic Factors Affecting Industrial Relations Policy in National Defense* (Industrial Relations Counsellors: 1941), pp. 102. Two years earlier, Slichter wrote that in any coming war employers should support a "campaign to encourage workers to increase their purchases of United States savings bonds." Slichter, *Economic Factors Affecting Industrial Relations Policy in the War Period* (Industrial Relations Counsellors: 1939). Eccles, "Price Fixing is Not Enough," *Fortune*, August 1941.

a wartime savings-bond drive. Yet to effectively place government debt in the hands of individuals, rather than banks, the monetary powers of the Federal Reserve and the Treasury would have merge.

The pre-war trust-busting patterns of New Deal thinking, which had lent a quasi-proletarian flavor to Roosevelt's 1936 campaign and to the TNEC investigations in the Congress, diverged sharply from the centralizing tendencies over money and credit of the emerging Keynesian pattern. Even before war spending began, business opponents of the New Deal and the southern and western populists who had supported the Roosevelt administration in 1934 and 1936 unified in opposing centralized control over money and credit. In 1939, for example, Republican Ohio congressman and New-Deal opponent Clarence Brown, in a move designed to head-off Eccles's designs over wartime credit policy, proposed legislation to place all bank supervisory powers in the FDIC, further complicating the division of credit controls between the FRB, the Federal Loan Administration in the RFC, and the deposit insurance corporation. New York's Senator Robert Wagner, an Eccles ally and Chairman of the Senate Banking and Currency Committee, countered the measure in the Senate by passing a resolution to hold hearings considering the entire structure of banking supervisory powers rather than extending the powers of the FDIC.[57] When the Roosevelt administration proposed a Works Finance Bill in 1939 to encourage government lending and direct spending for recovery, it met vigorous opposition in the Congress from erstwhile allies. Wyoming Senator Joseph C. O'Mahoney, Democrat and chairman of the TNEC, denounced the spending bill in a nationally broadcast radio address as evidence of further the

[57] Hyman, *Marriner S. Eccles*, pp. 261-3

drift towards "bureaucracy" and planning and away from the small-business competition that he preferred and imagined could be restored to US marketplace. "It seems to me plain that no small group of men, whether they gather about a table in a director's office in New York City or Chicago, or in the office of a Bureau chief in Washington, have wisdom enough to foresee and to plan the development of a race," he said during Congressional debate on the so-called "spending-lending" bill. "Regimentation, whether by monopolies or by [government] bureaucrats, is the foe of democratic development."[58] Opposition to centralized monetary control came even from within the Cabinet. When in early 1941 a newspaper correspondent asked Treasury Secretary Morgenthau if the Federal Reserve's requests for greater credit-control powers over the nation's banks represented "an attempt to take control of the money market from the government and give it to New York Bankers," Morgenthau replied, to Eccles's frustration, "It raises an interesting thought."[59]

In addition to requiring a centralization of monetary powers, the fiscal thinking that accompanied war spending accelerated the project of "structural reform" of those concerned with public price administration and raising wages. This was most clearly articulated by Montana Senator James Murray, sponsor of the New Dealers' wartime legislation, in particular the administration's program for postwar full-employment planning. During congressional debate over postwar full-employment legislation in May 1944, the lesson of the early New-Deal deficit spending was that private corporations left unsupervised would

[58] Joseph O'Mahoney, "Unemployment and the Presenvation of Free, Private Enterprise: Real Jobs at Real Wages," Deliverd over the Colubmia Broadcasting System, August 2, 1939, *Vital Speeches of the Day*, Vol. 5, Issue. 21, August 15, 1939, pp. 667.

[59] Eccles to Roosevelt, December 31, 1940, Folder 4, Box 4, MSEP. Digitized https://fraser.stlouisfed.org/archival/1343/item/467894. Hyman, *Marriner S. Eccles*, pp. 261-3, quote on 275-276.

inflate away the additional purchasing power the government spent into the economy. "While we were attempting to combat the Depression, and the Government was spending billions of dollars to bring about reemployment, the corporations advanced their prices and skimmed the cream off the Government's spending…This shows a very glaring defect, it seems to me, in our economic system."[60] From Eccles and Hansen to Murray and the new labor leaders of the CIO, those who emphasized the importance of "purchasing power" or "aggregate demand" divided amongst themselves over the relative importance they gave to the accumulating pool of liquid and semi-liquid wartime savings, the need for a new "fiscal authority" or permanent spending agency, the propriety of additional public enterprises such as the TVA or "yardstick" plants in oligopoly industries, and their preference for some division between the Federal Reserve and the Treasury.

Pearl Harbor ended the debate over government control of goods and money in a mobilized economy. War production planning and price stabilization had been on the government agenda since before the fall of France. In May of 1940, Roosevelt appointed an eight-member Advisory Commission on National Defense (NDAC) under World War I-era authorizing legislation.[61] Donald Nelson, an executive of the Sears Roebuck company and a liberal businessman sympathetic to the New Deal who had participated in the NRA, quickly got to work as a member of the Commission in charge of purchasing for the government

[60] U.S. Congress, Senate, Committee on Military Affairs, *Mobilization and Demobilization Problems: Hearings Before a Subcommittee of the Committee on Military Affairs*, 78th Cong., 2nd Sess. 1944, S. 1730 and S. 1823, p. 95.

[61] It's members: William S. Knudsen, Edward R. Stettinius, Sidney Hillman, Chester Davis, Ralph Budd, Harriet Elliot, and Leon Henderson. Elliot Janeway, *The Struggle for Survival: A Chronicle of Economic Mobilization in World War II* (Yale: 1951), pp. 114-9; Schwarz, *The Speculator*, pp. 366-7; Brinkley, *End of Reform*, pp. 180-1.

program. By July 1940, Congress appropriated $12 billion for armaments. Nelson brought Leon Henderson, the curmudgeonly anti-business New Dealer who, as staff director of the TNEC, had added to his trust-busting reputation, to Washington set up a price-control team within the NDAC under John Kenneth Galbraith.[62]

The order of the day for those producing raw materials, processed commodities, and manufactured goods was to expand capacity and production. For the NDAC this posed two problems: financing production and preventing inflation. Funds had to be appropriated for government procurement, and capital had to mobilized to invest in industrial production and expansion of industrial capacity. As General Motors chairman Alfred Sloan told an audience in September 1940, "The point has long since been reached where the profit motive is in jeopardy because so little profit actually remains" after the New Deal's increased taxes. Without greater profits, Sloan implied, firms like GM would not have a reason to expand their plants.[63] Secretary of War Henry Stimson, himself a Wall-Street attorney, made the same point privately, writing in his diary that "If you are going to try to go to war, or to

[62] William J. Barber, *Designs within Disorder: Franklin D. Roosevelt, the Economists, and the Shaping of American Economic Policy, 1933-1945* (Cambridge: 1996), pp. 140-1. Hugh Rockoff, *Drastic Measures,* p. 87; Meg Jacobs, *Pocketbook Politics*, pp. 181-2; John Kenneth Galbraith, *A Life in Our Times* (Houghton Mifflin: 1981), pp. 106-127. On Nelson, see Brinkley, *End of Reform*, 181-191. On Henderson, see Brinkley, *End of Reform*, *passim* and Jacobs, *Pocketbook Politics*, *passim*.

[63] "Proposes Defense Without Inflation," *Baltimore Sun*, September 25, 1940 p. 12; "Sloan Says Rebuilt Economy is the Only Way to Full Defense," *New York Times*, September 25, 1940, p. 1. This was one of several press conferences in late September and early October in which Harold Moulton of Brookings, Sumner Slichter of Harvard, Alfred Sloan, Charles Kettering, and other corporate executives spoke publicly about military preparedness. On September 23, Harvard announced that Sumner Slichter "enters tenure as the first holder of the Lamont University Professorship" just established with a gift of $500,000 from New York banker Thomas W. Lamont. "Dean's Office Changes," *Harvard Crimson*, September 23, 1940.

prepare for war, in a capitalist country, you have got to let business make money out of the process or business won't work."[64]

The Roosevelt administration responded with two conflicting strategies which would strain the program for postwar planning. First, Henderson and Nelson proposed "accelerated depreciation" for taxes on new investments. In effect, this was a Treasury subsidy to those purchasing large capital assets: the costs of constructing new plant and purchasing equipment would be written off corporate tax liabilities in five years rather than twenty. To prevent the accumulation of war fortunes, accelerated depreciation was tied to an "excess-profits" tax in the Second Revenue Act of 1940, which the President signed in October. The entirety of the funds collected through the excess-profits tax, however, would not be taken permanently from the corporate sector. Instead, excess profit tax revenues were to be held in reserve as a credit available to corporations posting losses in future fiscal years, as a form of insurance against postwar depression.

The second strategy was for the administration to directly invest in the construction of new plants through the Reconstruction Finance Corporation (RFC), which established a subsidiary, the Defense Plant Corporation, capable of issuing its own bonds and extending credit for the purpose. Between June and December 1940, the historian Mark Wilson finds, the US government invested $1.4 billion in manufacturing facilities compared with about $1 billion from private firms. Over the course of the war, the Defense Plant Corporation spent a total of $9.2 billion on some 2,300 factories and mills across 46 states and abroad. When

[64] Quoted in Mark Wilson, *Destructive Creation: American Business and the Winning of World War II* (University of Pennsylvania: 2016), p. 159. Cf. Nelson Lichtenstein, *Labor's War at Home: The CIO in World War II* (Temple: 2003 [1982]), p. 39.

combined with the investment expenditures of the RFC and its other subsidiaries such as the Smaller War Plants Corporation (SWPC), over two-thirds of the $25 billion invested in industrial facilities in the US during WWII came directly from public sources.[65] After the war, disposal of these government-owned factories would become a political flashpoint. As private corporations exited military contracts and filed for credits against their wartime profit taxes, they had sufficient liquid funds to wait out any pressure from organized labor to shape the reconversion program.

At first, the Roosevelt administration devised two methods for attempting to restrain the total level of spending within the physical constraints of productive capacity. First was to control the government's share of spending—that is, to determine the appropriate size of the military budget for the mobilization period—a problem for which the methods of national-income accounting pioneered by Simon Kuznets and Robert Nathan for the NBER naturally lent themselves. This task would begin under Nelson in a statistical office set up by Robert Nathan and Simon Kuznets during 1941, and was in early 1942 formalized into a Planning Committee of the War Production Board, one of the agencies to supersede the NDAC during the course of the war.[66] In conjunction with this new budgeting method, the administration could control its own contribution to spending by withdrawal funds through taxes or a national savings policy. The excess-profits tax that accompanied accelerated depreciation in

[65]Janeway, *Struggle for Survival*, pp. 162-72; Roy and Gladys Blakey, "The Two Federal Revenue Acts of 1940," *American Economic Review*, December 1940, Vol 30, No 4, pp. 724-35. Wilson, *Destructive Creation*, pp. 61 and 160-1. Jesse Jones, *Fifty Billion Dollars*, p. 315. Gerald T. White, "Financing Industrial Expansion for War: The Origin of the Defense Plant Corporation Leases," *Journal of Economic History*, November 1949, p. 156.

[66] John E. Brigante, *The Feasibility Dispute: Determination of War Production Objectives for 1942 and 1943* (Committee on Public Administration Cases: 1950), pp. 1 – 34. Maury Klein, *A Call to Arms: Mobilizing America for World War II* (Bloomsbury: 2013), p. 305.

the Second Revenue Act of 1940 was devised towards this end, and as economic expansion accelerated Congress increased this excess-profits tax in the Revenue Act of 1942.

A second way of contracting spending was regulation of credit: over half of all automobiles, for example, were financed using about half of the nation's 3 billion in outstanding installment credit during 1939. Such installment buying, by sustaining purchasing, also had an effect on prices. In June 1940, the Board of Governors of the Federal Reserve system unanimously agreed that Chairman Eccles should request from the President an executive order vesting powers to control installment credit, except for housing. By July, with outstanding installment credit a quarter greater than at the end of 1939, Federal Reserve staff had drafted such an order. Debate ensued as officials in the Treasury wanted to ensure that the Federal Reserve consult them about controls over consumer credit and to retain a veto over their use. On August 9, 1941 the President signed Executive Order 8843 without binding language on veto powers for the Treasury. By the end of the month the Board issued its Regulation W setting maximum credit amounts for sellers, term schedules, and minimum down payments.[67]

Yet by the summer of 1941, neither taxes, scientific budgeting, nor consumer-credit controls would restrain rising prices. Private incomes generated out of private investment, accelerated depreciation, and public finance increased the level of spending, production, and

[67] Wilson, *Destructive Creation*, p. 162. Barber, *Desgins*, p. 141. Eccles sought the power to control home mortgages and construction lending but such language was left out of the executive order. Mr. Carpenter to Eccles, June 26, 1941; "Confidential Executive Order," July 2, 1941; untitled memo on consumer installment credit, July 9, 1941; Mr. Dreibelbis to Eccles, July 17, 1941; unsigned memo to self, August 1, 1941 (August 9, 1941); M.H. McIntyre to Eccles, August 11, 1941 all in Folder 3, Box 41, MSEP. Digitized https://fraser.stlouisfed.org/archival-collection/marriner-s-eccles-papers-1343. Franklin D. Roosevelt, Executive Order 8843 Directing the Federal Reserve Board to Curb Installment Purchasing. Online by Gerhard Peters and John T. Woolley, The American Presidency Project https://www.presidency.ucsb.edu/node/209812.

employment. Stepped-up investment spending propelled consumer purchases, as industrial expansion pulled up employment and wages. Income payments—the total of wages, salaries, rents, profits and dividends—rose from an annual rate of 71 billion in the fall of 1939, to around 80 billion in the spring of 1940 and 104 billion in December 1941. Consumer purchases of automobiles in 1941 rose by 35 percent over their 1939 level; vacuum cleaners by 45 percent, electric washing machines by 63 percent, household refrigerators by 69 percent, and kitchen stoves by 110 percent.[68] With production increasingly diverted to the military during 1941, these rising incomes contributed to rising prices, further raising procurement costs and the cost-of-living for industrial workers.

Here was a paradox of managing the level of demand without attention to the distribution of incomes. Methods of restraining inflation would have to fall to new agencies charged with directly intervening into the private policies of business and labor. In the fall of 1940, Henderson's office began meeting with producers—primarily raw materials such as aluminum scrap, iron, steel, and copper, but also those manufacturing cotton cloth, farm implements, and machine tools—to discourage price increases beyond suggested ceilings. Under pressure to assure the flow of materials and supplies to the new military plants and for foreign aid, in January 1941 Roosevelt established an Office of Production Management (OPM) over Nelson, with authority to issue compulsory priorities for government contractors, a form of raw material and equipment rationing. Compulsory priorities were necessary as production in many industries met capacity and shortages developed. The Federal Reserve's index for industrial production rose from a base period of 100 for the

[68] U.S. Office of Price Administration, *First Quarterly Report for the Period Ended April 30, 1942* (Washington: 1942), pp. 5-7, figures on p. 10. Barber, *Designs within Disorder*, pp. 140-1.

TABLE 1.—*Operations as percentage of capacity in selected industries*

[Without seasonal adjustment]

	August 1939	May 1940	February 1941	June 1941	October 1941	March 1942
Steel-ingots production	61.0	71.0	97.0	98.0	99.0	98.0
Pig-iron production	65.0	76.7	98.2	97.7	98.1	103.3
Copper-refinery production	57.6	86.4	98.7	88.6	86.7	89.6
Zinc-slab production	63.0	79.2	79.9	91.9	98.8	102.6
Lead-refinery production	55.3	57.4	74.4	61.8	59.5	81.4
Cotton-spindle activity	85.1	89.4	114.0	121.5	125.8	134.3
Woolen and worsted manufactures	49.4	34.1	72.5	83.8	107.4	107.2
Shoe production	81.1	54.4	76.6	70.7	79.9	78.3
Passenger cars	10.9	57.6	79.2	80.3	58.9	1.0
Pneumatic-casings production	78.2	76.8	81.1	100.2	77.0	18.1
Cement production	56.6	58.0	43.4	74.0	78.6	60.0
Glass-containers production	71.4	70.5	70.8	96.0	102.2	103.1
Paperboard production	72.4	77.1	81.5	92.3	98.9	98.6
Wheat-flour production	60.3	55.2	60.3	58.9	62.2	55.7
Bituminous-coal production	62.6	64.0	82.0	83.5	95.8	91.2
Furniture production (percent of normal)	59.0	62.0	73.0	82.0	90.0	79.0
Rayon filament yarn deliveries	84.4	85.7	95.5	97.0	101.0	97.0

Source: Office of Price Administration. Division of Research.

Figure 2: Capacity utilization for selected industries between August 1939 and March 1942, from U.S. Office of Price Administration, *First Quarterly Report*, p. 11.

1936-9 period to an index of 167 in December 1941. By March 1941, when Congress appropriated $7 billion for the Lend-Lease aid program to Great Britain, purchases in many markets were already constrained by capacity production. During the ten months between the first tax act in June 1940 and the Lend-Lease bill in March 1941, the BLS index of wholesale prices rose just 3 percent. Yet by the spring and summer of 1941, unemployment was dwindling and the CIO leadership had embarked on a vast organizing campaign to raise wages in the defense industries. “February 1941,” Henderson’s staff latter wrote, “marked a turning point in the behavior of prices.” The increase in the wholesale price index accelerated to 2 percent a month, and the price surge spread to retail prices and the cost of living. [69]

Reflecting the political pressures generated by the controlled expansion, OPM had two directors, auto executive William Knudsen and needle-trades union leader Sidney Hillman. Both the interests of business and labor would to be formally represented in the management of the war economy. Yet during 1942, reflecting deeper concerns about the interests of the military and civilian sectors, powers for industrial rationing would be severed from those for price and wage control. In the weeks after Pearl Harbor, Rationing Boards were established across the country at the county level to oversee the distribution of rubber tires, private sale of which was promptly outlaw.[70] Following an eruption of strikes in the new defense industries in the winter and spring, the President in March established a National Defense Mediation Board to maintain production and limit wage increases. In April,

[69] Barber, *Designs within Disorder*, pp. 140-1. U.S. Office of Price Administration, *First Quarterly Report for the Period Ended April 30, 1942* (Washington: 1942), pp. 5-7, production figures, including the Federal Reserve index of production, on p. 10, figures for capacity utilization on p. 11. Wholesale and retail price index figures are on pp. 7 and 9.

[70] On tire rationing, see Bowles, *Promises to Keep*, pp. 13-28; Galbraith, *A Life in Our Times*, pp. 147-156.

to publish maximum price schedules, Roosevelt established an Office of Price Administration and Civilian Supply. By August, the consumer rationing powers of this office were lost to a newly established Supply Priorities and Allocations Board. At the base of the cost structure were prices manipulated by one agency that had survived the political vicissitudes of the New Deal, the Department of Agriculture.

Farm Incomes and the Authority for Price Control

In no sector were price increases more problematic than in agriculture. With Europe's descent into war, US agricultural prices, which had sunk below parity throughout the thirties, were finally rising to the goals the New Deal had been pursuing for nearly a decade. Cotton, which had been selling for 8 cents a pound in the fall of 1938, was up to 10 cents a pound in spring 1940 and 16 cents a pound in the month before Pearl Harbor. Corn, at 40 cents a bushel in November 1938, was selling at 64 cents a bushel in November 1941. In the same period, the price of wheat rose from 52 cents to 93 cents a bushel. Prices received by farmers rose above parity with prices paid in September 1941.[71] In the months after Pearl Harbor, the price wheat and corn prices jumped another 12-20 percent along with the general surge in foodstuffs.[72] Between December 1940 and December 1941, the price of hogs rose 75 percent,

[71] As Black noted, when index weights for the new base period of 1935-9 are substituted for those of 1910-14, the measurement of farm prices received surpassed prices paid in July 1941. Though the new weightings were already completed, as of May 1942 the Department of Agriculture had yet to incorporate them into its monthly publication because of their effect in lowering parity prices. John D. Black, *Parity, Parity, Parity*, pp. 57-9.

[72] U.S. Department of Agriculture, Bureau of Agricultural Economics, *The Agricultural Situation*, Vol. 23, No. 1 (January, 1939), p. 3, table; Vol. 24, Nos. 4-5 (April and May, 1940), p. 3, table; Vol. 26, Nos. 1 and 3 (January-March, 1942), pp. 3, table.

dry edible beans 76 percent, soybeans 82 percent, potatoes 51 percent, milk 28 percent, and eggs 27 percent.[73]

Higher prices elicited expanded volumes. As war engulfed the continent during 1940, export markets closed and government agricultural stockpiles grew precipitously as planned acreage changed little between 1939 and early 1941.[74] Corn stocks held by the USDA shot up from a few million bushels in 1938 to around 475 million bushels in 1940. Agriculture Secretary Wickard responded to these corn surpluses by raising pig prices, to try and influence farmers who preferred to sell their corn to the government at guaranteed prices rather than risk using it to grow pork. [75] Yet not all commodities could be so easily diverted to other uses, and this one in particular exacerbated the planning problem by contributing to the increase in the cost of living. Across the nation's factory districts, manufacturing workers paychecks suddenly purchased less.

The saga of wartime production rapidly politicized USDA priorities. Opposed to the New Deal image of geographic "balance" between city and country was a starkly futurist conception of rapid growth of industrial farms and urban manufacturing, an acceleration of wartime trends expanding industrial production and employment, what Charles Maier has referred to, in the European context, as a vision of "society as factory." Above-parity farm prices that would keep people on the land hand had no place in the vision. "We have in the United States a surplus of at least 2,000,000 farm families and 75,000,000 to 100,000 acres

[73] United States Department of Agriculture, "Relation between Agricultural Prices and Increased Production of Foodstuffs," January 22, 1943, p. 9, table 1, Folder 6, Box 31, MSEP, Digitized https://fraser.stlouisfed.org/archival/1343/item/466877.

[74] U.S. Department of Agriculture, Bureau of Agricultural Economics, *The Agricultural Situation*, Vol. 24, No. 1 (October 1940), p. 1.

[75] McCune, *Farm Bloc*, pp. 77-78.

of [marginal] farm land," said W.L. Clayton, a banker with the Export-Import Bank of the Reconstruction Finance Corporation (RFC), and partner of Anderson, Clayton and Company, then the world's largest cotton brokerage. In November 1940, Chester Davis, the agricultural member of the NDAC, proposed that five million of the nation's thirty million farmers, those working primarily as low-income, single cash-crop farmers, be encouraged to leave the land to work in defense factories. Such a redistribution of the population across sectors and regions would have added benefits. National per-capita farm incomes were so low in part because so much of the farm population lived in the south, where incomes generally were lower. "Migration of very large numbers of its workers North and West will help more than anything else to raise southern per capita incomes, both farm and non-farm," reasoned John D. Black, "and with this the general national average of agricultural income. The war should hasten such migration." In his history of the war mobilization, journalist Eliot Janeway explained that ""Nothing could have been more uneconomic and devitalizing than to continue freezing a couple million marginal families on marginal land. If greater food production was needed, the efficient way to get it was by increasing the yields of the nation's economic farms….once relocated in plants, this reserve of unskilled, marginal labor could (and did) produce farm equipment for mechanized farms faster than they could produce food for others to eat…"[76]

At a time when the nation had to feed an enlarged army and industrial labor force, crop reduction to maintain high market prices made little strategic sense. High prices

[76] Janeway, *Struggle for Survival*, p. 154. Clayton and Davis quoted in Janeway, p. 153. As Assistant Secretary of State, Clayton would play a major role in shaping the Marshall Plan. William Appleman Williams, *The Tragedy of American Diplomacy*, p. 233-4. Compare Black, *Parity, Parity, Parity*, p. 116.

agricultural commodities, however, were a boon to farmers, those on small and marginal farms in particular. This was the very population whose stability had been a cornerstone of national policy during the thirties. Many considered above-parity prices justified given the numerous years during the 1920s and 1930s when prices were below parity. Equally concerned, a politically much more potent, were southern cotton planters who relied on wage labor. Such a redistribution of the farm population threatened to dramatically increase their costs, for which only higher prices, they argued, could ensure the protection of their incomes. "When the Wage and Hour Division sets 35 cents or 40 cents an hour as the minimum wage in southern textile mills, and farmers are paying 18 cents an hour for cotton hands in the surrounding area—and seemingly unable to pay any more at current cotton prices—and camp contractors not far away are paying 60 cents an hour for common labor, then indeed is there a need for high-powered explanation in five-dollar words," wrote Black.[77]

As farm prices rose, members of Congress moved to direct USDA to raise the floor of income for agriculture by increasing the value its non-recourse loans—the guaranteed price. The Congress had appropriated $200 million in 1938 for "parity payments" to farmers whose goods were selling below parity—these primarily cotton. These payments were driven by Senators and Congressmen from the south, where acreage reductions had not succeeded in adequately reducing output or raising sales prices and where more efficient farms and higher wages challenged the apartheid regime enforced by the Jim Crow laws on the books since the 1890s and 1900s.[78] Senator Ellison DuRant Smith of South Carolina, for example, was the

[77] Black, *Parity, Parity, Parity*, pp. 9-10.

[78] When USDA had attempted to make acreage-reduction payments to tenant farmers rather than landlords, Smith explained to the AAA attorney sent to speak with him that "You can't do this to my niggers, paying

chairman of the Committee on Agriculture and Forestry that oversaw the USDA legislation. Senator Richard B. Russell of Georgia chaired the Agriculture Subcommittee of the Committee on Appropriations. In the House, Representative Henry Steagall of Alabama chaired the Committee on Banking and Currency, from which he oversaw the Commodity Credit Corporation (CCC) that issued USDA loans. All were Democrats, yet as leaders of the Jim Crow society of the south they jealously guarded USDA policy and guided it towards the interests of the southern ruling class. There, greater farm income was needed, in part because in exchange for greater crop reductions in the 1937 amendments to the AAA, the Congress had allowed USDA to adjust the value of its non-recourse loans to prevent continued expanded production of surplus goods. This primarily effected cotton, where the surpluses were the greatest; USDA guaranteed corn prices at 75 percent of parity, but cotton at only 52 percent.

By 1941, the southern congressional delegation organized to rectify this compromise. Agriculture Secretary Claude Wickard (who replaced the recently elected Vice President Henry A. Wallace) was urging the Congress to legislate penalties against farmers for overplanting and contributing to surpluses. In response, the House Agriculture Committee amended the agriculture bill to mandate a minimum loan rate of 75 percent of parity for all

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checks to them. The money should come to me. I'll take care of them. They're mine." Alger Hiss was the attorney, quoted in Richard Parker, *John Kenneth Galbraith: His Life, His Politics, His Economics* (Farrar, Straus, Giroux: 2005), p. 65. Jealousy of this racial order only intensified during the 1938 midterms, when Roosevelt championed a failed attempt to primary Southern Democrats in an attempt to realign the Democratic Party around organized labor and New-Deal liberalism. First Lady Eleanor Roosevelt made her tolerance and approval of racial integration known, inviting black sharecroppers to the White House and publicly participating in the founding of the Southern Conference on Human Welfare, a political organization in the southern states devoted to civil rights and linked to the CIO labor federation. During the midterm election campaign, a popular rumor ran across the region that black women were organizing "Eleanor Clubs" to withdraw from domestic service, with a goal of compelling southern white women to take on housework in their own homes by 1943. Joseph P. Lash, *Eleanor and Franklin* (Signet: 1971), p. 684 and 867.

commodities. In the Senate, the proposal was increased to a mandatory minimum of 100 percent of parity. The conference committee split the difference, mandating minimum 85 percent parity loans for the five basic controlled commodities.[79] In the meantime, wages were increasing under a militant and successful organizing drive led by the CIO, many of whose new unions had not won wage increases since before the recession of 1937. The decentralizing labor situation and the threat of a rising floor under agricultural prices would force the Roosevelt administration to act.

Rising wages were of neuralgic significance to many farm leaders and southern Democrats. In late 1940, the United Auto Workers (UAW) had directed organizers to the California airplane factories of the North American Aviation and Douglas Aircraft, where wages varied tremendously by employer. In January 1941, the dismissal of union leaders at the Milwaukee engine manufacturer Allis-Chalmers kicked off what would become a 76-day strike requiring the intervention of the National Guard. In February and March, steelworkers at the Bethlehem steel company in Bethlehem, Pennsylvania and Lackawanna, New York initiated what would become the first successful strikes in the six-year history of the Steel Workers' Organizing Committee (SWOC). Existing signatories to CIO contracts, such as General Motors and U.S. Steel, resisted union demands for a 10-cent wage increase throughout the spring. After several CIO unions in the metal-using, metal-producing, and coal industries announced a coordinated strike deadline for April, and with the intervention of the NDMB, these large employers relented. That month, the UAW won its first contract from the Ford Motor Company after a series of strikes and factory occupations, while the

[79] Coppess, *Fault Lines of Farm Policy*, pp. 64-5.

United Mine Workers (UMW) struck the nation's coal industry to equalize wages between northern and southern companies.[80]

To stabilizes prices, President Roosevelt on April 11, 1941 replaced the NDAC's Price Stabilization Division with an independent Office of Price Administration and Civilian Supply (OPACS) outside of the Office of Production Management. Executive Order 8734 establishing OPACS appointed Henderson administration and authorized him to make comprehensive studies of the nation's industries, publish maximum prices, and recommend executive actions for their enforcement. Such actions did not include direct penalties for violators, but did include withdrawal of OPM-issued priorities.[81] The order had developed out of the acceleration in prices that began in February, fueled by the March passage of Lend-Lease legislation, and authorized activity already under way in Henderson's office. On February 17, the Price Stabilization Division had published its first maximum price schedule, for second-hand machine tools. This was followed by maximum prices for secondhand and scrap aluminum, zinc, and steel. On April 2, after the UMW strike began, Henderson published his fifth price control schedule, on bituminous coal. EO 8734 strengthened these and future schedules. The effectiveness of conditional access to priority materials in securing cooperation with price schedules would decrease the closer to it was to the retail level. But for the large concentrated manufacturing industries, such controls over civilian supply could

[80] Nelson Lichtenstein, *Labor's War at Home: The CIO in World War II* (Temple: 2003 [1983]), pp. 44-51. Robert Zieger, *The CIO: 1935-1955* (University of North Carolina: 1995), pp. 127-8.

[81] "Determine and publish, after proper investigation, such maximum prices, commissions, margins, fees, charges, or other elements of cost or price of materials or commodities, as the Administrator may from time to time deem fair and reasonable; and take all lawful and appropriate steps to facilitate their observance." Franklin D. Roosevelt, Executive Order 8734 Establishing the Office of Price Administration and Civilian Supply. Online by Gerhard Peters and John T. Woolley, The American Presidency Project https://www.presidency.ucsb.edu/node/209516

prove decisive. On April 16, anticipating price increases after the recent weeks' wage concessions, OPACS issued its first price ceiling, for all iron and steel products at the levels prevailing on that date. "This action was in many ways," Henderson's staff later wrote, "the most important single action taken by the Office during the entire year."[82]

Control by OPCAS expanded rapidly. In May, ceilings were issued for cotton yarn and nickel scrap. In June, for hides, kids, calfskins, pig iron, and cotton grey goods. In July, brass mill scrap. In August, raw silk, Douglas fir plywood, southern pine lumber, copper, raw cane sugars, and burlap, among others. By August 1, both formal price ceilings and informal industry agreements covered a full 22.5 percent of the total wholesale price structure. Prior ceilings were selectively amended every month. Yet by July it was clear that the OPACS operation and its method of requesting OPM priorities from the President was inadequate for the task of maintaining the cost of living, a pressing objective given growing number of strikes—the BLS reported 4,288 for the year involving 2.4 million workers, the most since 1919. It was in this context of expanding OPACS price orders that Representative Steagall introduced his amendment to the agriculture bill mandating an across-the-board minimum of 85 percent of parity for farm loans. This was expanded to include any agricultural commodity whose production targets were increased for the sake of the defense program. This increased the number of raw agricultural commodities eligible for price supports from six to twenty. Given the difficulty of controlling the price of foodstuffs, the BLS cost-of-living index continued its monthly 2 percent increase through the expansion of OPACS

[82] U.S. Office of Price Administration, *First Quarterly Report for the Period Ended April 30, 1942* (Washington: 1942), pp. 7-8.

controls. This itself raised the parity standard. By the end of July, the cost-of-living index was 24 percent its level in January and 50 percent above August 1939.[83]

On July 30, the President sent a message to Congress requesting stronger price control powers. "[E]xisting authority over prices is indirect and circumscribed," the message read. "It has further been weakened by those who purport to recognize need for price stabilization yet challenge the existence of any effective power." The President requested passage of legislation with "authority to establish ceilings for prices and rents, to purchase materials and commodities when necessary, to assure price stability, and to deal more extensively with excesses in the field of installment credit." As early as February, OPACS counsel David Ginsburg had outlined the powers needed for more effective control, and statutory language was drafted for presidential consideration by Harold Leventhal. Orders of the administrator would be enforceable by fines and jail sentences of up to two years. Rents were included. An Emergency Court of Appeals would be established to hear complaints, appointed by the President. On August 1, House Banking and Currency Committee chairman Steagall introduced the legislation on behalf of the administration and on August 5 opened hearings to consider the measure. Henderson, Ginsburg, and Galbraith spoke for the White House. "None of this much interested Steagall," Galbraith later remembered, "but farm

[83] U.S. Office of Price Administration, *First Quarterly Report for the Period Ended April 30, 1942* (Washington: 1942), pp. 6 and 13, for the full list of price orders see Appendix A, pp. 79-103. Lichtenstein, *Labor's War at Home*, pp. 46. On the Steagall Amendment, see Robert H. Shileds, "Federal Statutory Provisions Relating to Price Support for Agricultural Commodities," *University of Chicago Law Review*, Vol. 12, No. 1, p. 64-79; Black, *Parity, Parity, Parity*, p. 24; Coppess, *Fault Lines of Farm Policy*, pp. 64-6; Winders, *The Politics of Food Supply*, p. 69. List of farm legislation in OWMR Advisory Board minutes, October 2, 1945, Attachment #1: "Existing Legislation to Protect Farm Prices and Income," George W. Taylor Papers, Ms. Coll 1210, Kislack Center for Special Collections, University of Pennsylvania. CPI figures are in President Roosevelt's message to Congress of July 30, 1941, *infra* n83.

prices did concern him very much." Under the new powers, the Alabama representative argued, no price ceiling for agricultural goods should be set below 110 percent of parity. [84]

The Congress did not act. Instead, all the unresolved problems of the New Deal burst into the resulting Congressional debate. The committee wanted oversight powers on appointments to the new price-control agency. It drew into question Henderson's past support for the Soviet-backed Spanish Republic during the Spanish Civil War. It urged powers to control wages accompany powers to control prices. Alternate legislation was introduced, debated, and discarded. To appease Henderson's opponents, who were then scandalized by the price administrator's public announcement to curtail civilian auto production, in late August the President issued Executive Order 8875 clarifying the location of rationing powers. The order established a new Supply Priorities and Allocations Board to absorb the "civilian supply" functions of OPACS, which became thereafter simply the Office of Price Administration (OPA). Nevertheless, the authority to "purchase materials and commodities when necessary, to assure price stability" in the new price-control law appeared equally threatening. In September, Secretary Wickard announced revised production goals for 1942, expanding production of corn, cotton, eggs, milk, and chickens. How could farmers be sure market prices would remain above the AAA floors if the USDA or some new war agency could purchase and sell commodities below cost?[85]

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[84] Franklin D. Roosevelt, Message to Congress on Price Control Legislation. Online by Gerhard Peters and John T. Woolley, The American Presidency Project https://www.presidency.ucsb.edu/node/209795

[85] Galbraith, *A Life in Our Times*, p. 140-4. US Department of Agriculture, *The Agricultural Situation*, February 1942, Vol 26, No. 2, p. 1-2. On the creation of SPAB, see Galbraith, *A Theory of Price Control*, p. 49 and *A Life in Our Times*, pp. 150-1; Bowles, *Promises to Keep*, p. 32; infra n86.

Nevertheless, Henderson agreed to Steagall's demand to effectively exempt farm goods from price control. On November 28, the House passed the Emergency Price Control Act, referring the bill to the Senate. Among intellectuals, Keynesians had divided during the preceding year over the propriety of higher farm income during the wartime expansion. For some, such as Gardner Means or John Kenneth Galbraith, the first years of rising market prices in agricultural commodities signaled the triumphant, if belated, achievement of a refined New Deal philosophy. Rising agricultural prices was the long-awaited success of an embattled New Deal. The problem of managing the cost of living in the proletarianized cities during summer of 1941 dwarfed this perspective in the minds of administration officials. Agricultural price "regulations had to be approved by the Department of Agriculture," Galbraith later remembered in frustration, "a process that almost invariably involved concessions to the inflationary preferences of political hostages of members of that Department."[86]

Six months passed between Roosevelt's request for price control legislation from Congress and the passage of the Emergency Price Control Act in late January 1942. As finally passed, the bill established a new Office of Price Administration empowered to declare ceiling prices. Ceilings on agricultural goods prices were limited to Steagall's 110 percent of parity and required approval of the Secretary of Agriculture. Yet because farm prices had stood around 75 percent of parity in the closing months of 1939, a price ceiling around even the parity level entailed a dramatic allowance for farm commodity prices to

[86] Galbraith, *A Life in Our Times*, p. 140-4. U.S. Office of Price Administration, *First Quarterly Report for the Period Ended April 30, 1942* (Washington: 1942), pp. 14 and 27-8. Galbraith, *A Theory of Price Control* (Harvard: 1952), p. 46. "Price Curb Plan Rushed as Bill; May Affect Installment Sales," *New York Times*, August 1, 1941, p. 1.

increase. Between January 1941 and January 1942, the retail price of eggs rose 33 percent, lettuce 51 percent, potatoes 61 percent, lard 69 percent, onions 74 percent, work shirts 33 percent and percale dresses 44 percent. Retail prices had increased 15 percent since February. And as the indexes for the cost of living and prices paid by farmers increased with these goods, so too did the parity level to which farm prices were allowed to rise in a self-perpetuating spiral. As Henderson complained to the President in the weeks before the price-control bill's passage, "…food and fiber price increases, by making wage increases inescapable, will force OPA to increase industrial prices, which as you know will raise the parity price. We will then be in the vicious spiral—and forbidden by law to do anything about it! In other words, we are worse off with this bill than we are under your Executive Order!" During summer 1941, Henderson's staff estimated that, given the rate of inflation and the growth of OPM priorities, real civilian consumption would fall from $74 billion for 1941 to $65 billion in 1942.[87]

Devising a method to elicit greater production of grains and livestock without higher prices posed the first problem in US history of what would be known by the 1960s as an "incomes policy." The principle of agricultural parity entailed the basic concept necessary for controlling shares of national income between the farm and manufacturing sectors. "Parity

[87] U.S. Office of Price Administration, *First Quarterly Report for the Period Ended April 30, 1942* (Washington: 1942), pp. 25-8. Henderson to FDR, January 12, 1942, quoted in Barber, *Designs Within Disorder*, p. 148. In July, Henderson attempted to secure priority orders to reduce production in the automobile industry by half. OPM director Knudsen was chairman of the board of General Motors. Likewise, Lend-Lease director Edward Stettinius was chairman of U.S. Steel. The program for converting auto production to military use originated within the UAW under the influence of Walter Reuther. Though Knudsen delayed Henderson, beginning in August 1941, OPM issued priority orders curtailing production of metal-using consumers durable goods, from automobiles and refrigerators to stoves in clothing. This reduction in metal-using consumer durables made up a substantial portion of the decline in the real value of civilian consumption that began in the summer of 1941. Between August 1941 and March 1942, the annual rate of civilian consumption in 1941 dollars fell from $78 billion to $71 billion. *First Quarterly Report*, pp. 27-8.

for Agriculture alone is impossible," Black explained in 1942, as the inflationary spiral was in full swing. "Parity is a balance concept…If Agriculture gets more than its share and tips the scales downward in its favor, then the rest of society must get less than before…Three parities must be considered—Parity for Agriculture, Parity for Labor, Parity for Capital." The solution—urged by Galbraith and Henderson at OPACS and OPA—was to ensure "parity income" for farmers through federal subsidies, while allowing their market income to fall below the levels they would earn at "parity prices." Such OPA subsidies had already been used in a select number of industries, such as copper production, and USDA had paid "parity payments" for cotton since 1938. By adjusting the terms of trade between the agricultural and manufacturing sector—paying farmers directly from the Treasury the shortfall in market income—the USDA offered the federal government a blueprint for regulating sectoral incomes in relation to a defined total. Chester Bowles later explained the Roosevelt administration's solution to the problem: "by paying a sum directly to the farmer, we were able to roll back the price, leaving the income of the farmer untouched."[88]

The proposal to allow prices to fall and subsidize producers proved deeply controversial. The prospect of massive federal agricultural purchases and the disposal of existing USDA stocks posed an enlargement of public authority over farm incomes. Subsidizing farmer income in this way was deeply controversial among the legislators from

[88] Black, *Parity, Parity, Parity*, p. 1, for subsidies p. 161 and 269. U.S. Office of Price Administration, *First Quarterly Report for the Period Ended April 30, 1942* (Washington: 1942), pp. 45-6. Reminiscences of Chester Bowles (1963), Oral History Archives at Columbia, Rare Book & Manuscript Library, Columbia University in the City of New York, p. 118. OPA wrote of subsidies: "Relief for the retailer within the framework of [General Max] may require that prices at the manufacturing level be reduced to a point at which production would be impeded. In such cases it will be impossible to achieve the twin objectives—a stable cost of living and maximum production—without the use of subsidies. Such subsidies must be provided." Though USDA retained control over financing, the lesson held no less strongly for agriculture. US Office of Price Administration, *First Quarterly Report*, p. 44.

farm states, whose control over USDA policy had hitherto allowed them to determine incomes in their regions. In January 1942, Secretary Wickard brought this prospect closer to reality in announcing a second revision of wartime agricultural production goals. Eggs, hogs, corn, cotton, tobacco, rise, sugarcane—all were to expand acreage and output. During Senate debate on the price-control bill that month, the issue of below-parity prices for agricultural goods dominated Senate debate. “We ought to take back every bit of power Congress delegated to those rascals,” Senator Ellison Durant Smith said of Henderson and Nelson. During House debate, Senator Bankhead had joined with Smith in urging a freeze on USDA stockpiles, prohibiting sales of surplus cotton and wheat. [89] Only the interruption of Pearl Harbor had finally closed debate, but not before Senator O’Mahoney attempted to push the Senate revolt against the administration’s proposals one final step further. In December and January, O’Mahoney proposed his own amendment to raise the price floor for USDA agricultural sales to 120 percent rather than Steagall’s 110 percent of parity. The higher ceiling, he argued, would guard against “any new philosophy of the new authoritarian order.” Labor’s organizing offensive, he argued, necessitated higher farm prices. As O’Mahoney put it during Senate debate on the Emergency Price Control Act, “To criticize [my] amendment….as a cause of inflation when wages are left utterly without control is just putting the cart before the horse. It is the uncontrolled factor only which causes inflation.”[90] This was not only a response to wartime exigencies; it dated to his drifting away from the

[89] McCune, *Farm Bloc*, pp. 24, 37, 100, and *passim*; US Department of Agriculture, *The Agricultural Situation*, February 1942, Vol 26, No. 2, p. 2; “Firm on Freezing Crop Loan Stocks,” *New York Times*, August 6, 1941, p. 11.

[90] Joseph O’Mahoney, “The Price Control Bill and the Farmer: Parity is Not Equality,” *Vital Speeches of the Day*, February 15, 1942, pp. 286-8. This speech was broadcast over the National Broadcasting Company’s Blue Network on January 29, 1942.

Roosevelt administration during his time as TNEC Chairman and his opposition the spending-lending bill of 1939.

In the winter and spring of 1942, the *de facto* exclusion of agricultural prices from OPA control allowed the price level to continue rising. Wages, which had bulged upward during the wave of pre-Pearl Harbor strikes, continued to trail the rapidly increasing cost of living. In November, the CIO had quit participation in the NDMB over the issue of "union security"—mandatory membership as a condition of working under union agreements—and power to grant this contract clause was given to the new National War Labor Board the President established in December. At the invitation of the White House, national union leaders and corporate executives had come to Washington immediately after Pearl Harbor and agreed to a "no-strike, no-lock out" pledge. Disputes would be settled by the NWLB, on which labor leaders sat. First among their concerns was restoring the real value of wages.[91]

On March 17, Roosevelt asked Morgenthau, Henderson, Eccles, Agriculture Secretary Claude Wickard, and Budget Director Harold Smith to formulate a new anti-inflation program to stabilize the price-wage spiral. Morgenthau objected publicly to any scheme for wage controls. On April 17, 1942, Vice President Henry Wallace and the other four advisers, without Morgenthau, signed final recommendations for inflation control delivered to the President that day. "If the cost of living is to be fully stabilized," the group explained, "the 110 percent parity limitation must be stricken from the price law." The price of grain feed for livestock had to be held "well below parity" to ensure a supply of meat, and the Congress "must be persuaded that the sale of government-owned [grain] stocks should

[91] Lichtenstein, *Labor's War at Home*, pp. 67-72.

not be restricted." Roosevelt's anti-inflation committee wanted to freeze wages above 40 cents an hour, allowing those below this level to rise to at least that ceiling. "Unless wage rates are controlled, we believe that increased consumer demand will shatter the price ceiling and thereby discredit price administration and government in general." Excess profits taxes should be "tightened" beyond the rates Congress was then debating in hearings just begun in the House Ways and Means Committee on the 1942 Revenue Act. Congress, the group urged, should legislate a compulsory savings plan on the nation's workers: a "Universal Savings plan" of non-negotiable bonds to absorb 5 percent of income, to be stepped up later to 10 percent of income, for single individuals earning over $500 and married couples earning over $1000.[92]

The UAW had just begun organizing an "Equality of Sacrifice" program to tie union concessions—the no-strike pledge and premium pay incentives—to a maximum salary. The UAW figure for a maximum annual salary was $25,000. Roosevelt, hoping to shore up electoral support for the 1942 midterms, embraced the call for such a salary maximum. His anti-inflation committee raised the salary cap, however, writing in March that Treasury should prohibit deduction of "unreasonable salaries" from business liabilities, and a ceiling of $50,000 after taxes should be placed on individual incomes.[93]

On April 27, 1942, Roosevelt delivered a seven-point anti-inflation message to Congress on the basis of these recommendations. "The time has definitely come to stop the

[92] "Memorandum for the President Urging an Anti-Inflation Program," Folder 11, Box 5, MSEP. Digitized https://fraser.stlouisfed.org/archival/1343/item/468911. Roy G. and Gladys C. Blakey, "The Federal Revenue Act of 1942," *The American Political Science Review*, Dec. 1942, Vol. 36, No. 6, p. 1701.

[93] Nelson Lichtenstein, Labor's War at Home, p. 99. For the feelers between the Roosevelt administration and the CIO on the salary cap, see Steve Fraser, Labor Will Rule: Sidney Hillman and the Rise of American Labor (Free Press: 1991), pp. 495-501. Supra n91.

spiral," the President said. "While the cost of living, based on the average prices of necessaries, has gone up about 15 percent so far since the autumn of 1939, we must now act to keep it from soaring another 80 percent or 90 percent during the next year or two—to hold it to somewhere near the present level." To maintain existing prices, he continued, "we must tax heavily" and "keep personal and corporate profits at a reasonable level." This entailed lowering the personal exemption from the income tax to reach the vast majority of earners who paid no income tax at all. The President called for ceilings on retail and wholesale prices and rents in regions with war industries; stabilization of wages, salaries, and farm prices; encouragement of mass purchase of war bonds; rationing of "all essential commodities of which there is scarcity"; and reduction in installment credit. Dramatically, he called for lessening "discrepancies" between low and high personal incomes, urging the CIO's maximum salary: "in time of this grave national danger, when all excess income should go to win the war, no American citizen ought to have a net income, after he has paid his taxes, of more than $25,000 a year."[94]

The next day, April 28, 1942 OPA issued under the powers of the Stabilization Act its "General Maximum Price Regulation" setting ceiling prices at their March rates and extending rent control to over 300 defense industry areas including 20 large cities. Congressional exemption of agricultural prices from January's Price Control Act, however, allowed food prices to continue their upward spiral; farm prices rose 7.2 percent in the three

[94] "Message to Congress on an Economic Stabilization Program," April 27, 1942. https://www.presidency.ucsb.edu/documents/message-congress-economic-stabilization-program. James Sparrow, *Warfare State: World War II and the Age of Big Government* (Oxford: 2011), p. 177. Ira Katznelson incorrectly writes that "Government agencies and policies…limited maximum salaries after taxation to $25,000." In fact, the Congress voted to repeal the order implementing Roosevelt's salary cap. *Fear Itself*, p. 345. Cf. Roland Young, *Congressional Politics in the Second World War* (1956), p. 99.

months after the arrival of “General Max,” as the order came to be known. Wholesale food prices increased 1.9 percent, and retail food prices 3.7 percent in the same period. In July, hoping to stabilize wages as OPA finalized dollars-and-cents ceilings across industrial categories, the NWLB finally issued its wage ceiling in a ruling over a dispute in the steel industry. The so-called “Little Steel formula,” named for the half of the industry comprised of firms other than U.S. Steel, stabilized all wages nationally to their level of real purchasing power on January 1, 1941. This was before the bulge in wage increases granted after the strikes of March and April. Those gains counted against allowance of the increase in the cost of living, which by July 1942 was 15 percent.[95]

The Failure to Centralize Monetary Control in 1942 and 1943

Centralized coordination of federal expenditures and revenues became unavoidable in early 1942 as the administration wrestled with Congress and organized labor over price and wage control. In January, the Federal Reserve Board met with the governors of the New York, Richmond, and Philadelphia Federal Reserve regions to discuss “a program of Treasury financing that might be followed during the war period.” As Eccles wrote to Morgenthau of the meeting, the group had resolved that it was “desirable, and the existing situation in the money market and the Government security market makes it practicable, to determine and establish a pattern of rates for Untied States Government securities which will fix, for the present, the general terms of Treasury financing.” What Eccles called “price control…in the field of credit” would be necessary, both to reduce the Treasury’s interest liabilities to

[95] U.S. Office of Price Administration, *First Quarterly Report for the Period Ended April 30, 1942* (Washington: 1942), p. 3. Lichtenstein, *Labor’s War at Home*, p. 72.

bondholders and to preserve the growth of commercial bank credit which, in the mobilized war economy, would contribute to investment and consumer spending, increasing prices and ultimately the cost of military procurement.[96] The measures called for maintaining a low rate of interest to ease Treasury financing, but also for control over placement of war bonds to prevent the expansion of bank credit. In March, the Presidents of the Regional Reserve banks voted their unanimous approval of this statement. Yet the terms of the agreement was only delicately preserved for the duration of the war, particularly as the Treasury sought to maintain control over the bond-marketing organization. As Morgenthau would later remind Eccles, he and New York Federal Reserve President Allan Sproul agreed on March 20 in Morgenthau's office "that the Federal Reserve System could and would execute any pattern of rates which I might decide was required…"[97]

Historians and economists generally describe the relationship of the Treasury to the Federal Reserve during the war period as one in which the executive branch dominated the central bank. During the winter and spring of 1942, for example, New York Federal Reserve Bank President Allan Sproul argued a .375 or .38 percent interest rate on six-month bonds would be preferable as a way of encouraging holders of money to invest in government securities, rather than the .26 percent short-term interest rates that Morgenthau proposed to offer on Treasury issues. Similarly, bank officials argued long-term issues of 15 years or more should pay 2½ percent. These were the rates actually targeted by the bank's open-

[96] Eccles to Morgethau, January 28, 1942. Folder 5, Box 10, MSEP. Digitized https://fraser.stlouisfed.org/archival/1343/item/468885.

[97] Morgenthau to Eccles, December 22, 1944, Folder 1, Box 11, MSEP. Digitized https://fraser.stlouisfed.org/archival/1343/item/462805. On the broader dispute between Treasury and Federal Reserve over placement of war debt and management of bond prices, see Hyman, *Marriner S. Eccles*, pp. 283-299.

market operations. As the economist Paul Samuelson wrote in 1944, "This war is a 2-percent war. *It should have been a 1-percent war*." Far from adhering to Morgenthau's low-interest preference, the pattern of interest rates in the government bond market the Federal Reserve targeted (maintaining the "peg" as it came to be known) emerged from collaboration with the Treasury department.[98]

What disagreement existed between the offices of the Treasury and the Federal Reserve during the war emerged not out of the goal of maintaining an interest-rate pattern, but over the methods jointly used to control the bond sales which influenced that pattern. The failure to achieve greater coordination over these primary Treasury sales and over the supervision of the secondary sales in the money market prefigured the conflict that would emerge after reconversion began in 1945. That conflict began in autumn 1942 during the Victory Fund Drive sponsored by the Treasury. Prior to the bond-selling campaign, Treasury subscriptions had gone predominately to the commercial banking system. "Borrowing from nonbank investors must be increased to the fullest possible extent in order to avoid the inflationary implications of an unrestrained increase in the volume of bank credit," the Federal Reserve Board had advised the Treasury in late April 1942, in preparation for the bond drive.[99] Of the $13 billion of bonds sold during the Victory Fund Drive, later known as the First War Loan, $7 billion would be placed with nonbank investors—insurance funds,

[98] Eccles to Morgenthau, January 28, 1942; Sproul to Eccles, March 18, 1942, both in Folder 5, Box 11, MSEP. Digitized https://fraser.stlouisfed.org/archival-collection/marriner-s-eccles-papers-1343. Paul Samuelson, "The Effect of Interest-Rate Increases on the Banking System," *American Economic Review*, March 1945, Vol. 35, No. 1, p. 26.

[99] "Financing Program Agreed upon at Meeting at the Federal Reserve Board on the Afternoon of April 28, 1942, with Suggested Modifications," Folder 6, Box 10, MSEP, digitized https://fraser.stlouisfed.org/archival/1343/item/462765. Sidney Hyman, *Marriner S. Eccles*, pp. 290-306.

trusts, and wealthy individuals. Five billion dollars-worth of bonds would be placed with commercial banks.[100] Eccles considered this excessive: every security placed with commercial banks increased its reserves held at the Federal Reserve System and thus its potential level of lending.

Of equal consequence for controlling spending was the conflict between the War Department and the civilians in the WPB over the total size of the program the Treasury and the Federal Reserve had agreed to finance. Treasury revenue requirements flowed directly from the procurement targets costed out by the War Department's Services of Supply, headed by Lt. General Brehon Somervell. Throughout the summer and fall of 1942, Somervell and General Lucius Clay had refused to reduce munitions objectives in spite of regular reports from the War Production Board's Planning Committee that monthly spending could not continue without further curtailing civilian consumption. Since March, Nathan, the Planning Committee's director, had urged a reduction by $15 billion in the 1942 munitions program to a ceiling of $45 billion and a ceiling of $80 million for 1943, a reduction from the $87.4 billion planned. "Each Service and each Procurement Branch proceeds merrily along in an effort to attain its portion of a program inflated by the unrestrained claims of the separate agencies," Nathan wrote to Nelson in September 1942. It was "an impossible job" to assume industrial priorities and allocations alone could accomplish existing goals. "There is no other way of meeting this problem than through a direct attack on the size of the program."[101] Clay

[100] US Department of the Treasury, *Annual Report of the Treasury for 1943* (Washington: 1944), Table 33, p. 601.

[101] Brigante, *Feasibility Dispute*, pp. 45-8, 58, 68, 71-2, and 87-8.

and Somervell ignored the Planning Committee's warnings that munitions targets were not feasible and demanded production beyond the physical limits of production.

By October 1942, federal expenditures had risen to $6 billion a month, $200 million a day. Soon this would be stepped up to $6 ½ or $7 billion a month. "Of the $200 millions a day which we are spending, only about one-quarter of it is being raised in taxation, while two-thirds of it is being borrowed, and of the two-thirds which is borrowed we are getting only about one-half of it from nonbank sources," Eccles wrote in late October to Stabilization Director Byrnes. "The rest comes from what is the equivalent of turning the printing presses to create new money." Gross National Product for 1943 was projected at $175 billion. The Federal Reserve estimated after-tax income for the public for 1943 at between $110 and $130 billion, with only $70 billion in goods and services available for civilian purchase. The difference of $40 to $60 billion represented the "inflationary gap" the authorities had to close if prices were to be stabilized. Yet even if these funds were raised in taxes, if commercial banks continued to absorb Treasury debt, adding to their lending capacity, national income could rise to $260 billion by the end of 1944, "or nearly $100 billions more than the nation can produce in physical volume at present prices," Eccles warned. "The banks should be a last resort and not a primary source of funds," the central bank chairman continued. "Credit created by banks in buying Government securities is the principle source of excessive purchasing power."[102]

While economists in the WPB urged spending reductions, the White House continued to press Congress for revenue increases—from both corporate profits and the general public.

[102] Eccles to Byrnes, October 29, 1942 and November 13, 1942, Folder 5, Box 31, MSEP.

On July 14, the Ways and Means Committee of the House reported the Revenue Act of 1942. Senate debate further delayed tax increases, however, as the question of whether to raise revenues through new federal sales taxes or through lower exemptions for personal income taxes absorbed the upper chamber. In July, Beardsley Ruml, executive of Macy's, director of the Laura Spellman Rockefeller Foundation, and founding member of the recently established Committee for Economic Development, spoke before the Senate Finance Committee urging not only that income taxes be extended downwards to the vast majority of wage earners, but that they be collected "at the source" through employer withholding from payrolls of estimated employee tax liabilities. Once actual liabilities for the tax year were calculated, individuals could settle-up with the Internal Revenue Service, either through returns or additional payment. At first, the Treasury rejected the radical proposal. But after the Senate reported the Revenue Act of 1942 on October 2, lowering the personal income-tax exemption from $2,000 to $600, the need for a new collection method was unquestionable. Only seven million earners had paid income tax in 1941. With exemptions for 1942 lowered to $600, the number of individual income-tax returns mushroomed to 26.5 million. To collect these sums, the Treasury embraced Ruml's "pay-as-you go" collection device, and in April 1943 Congress passed the supplemental Current Tax Payment Act. For the first time in U.S. history, income-tax liabilities for 1943 were withheld from current paychecks and paid to the IRS on behalf of employees. The number of individual returns collected in 1943 grew to 37 million individuals.[103]

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[103] Collins, *The Business Response to Keynes*, pp. 146-7; Schwarz, *The Speculator,* pp. 413-4; William L. O'Neill, *A Democracy at War: America's Fight at Home and Broad in World War II* (Harvard: 1995 [1993]), pp. 94-5; Geoffrey Perrett, *Days of Sadness, Years of Triumph: The American People, 1939-1945* (University of

From "General Max" to "Hold the Line"

In the absence of greater public holdings of war bonds, curtailed military procurement, or current income-tax withholding, greater consumer incomes during 1942 invited the very forms of minute regulation businessmen themselves hated most. Unable to control agricultural prices, with expanding government expenditures and bank credit, and under pressure of a rising cost of living, the OPA evolved into an elaborate bureaucracy, employing 70,000 staff nationally and 250,000 volunteers, and businessmen from the smallest retailers up had to accommodate to an unprecedented volume of paperwork. For the first time during the war, the General Maximum Price Regulation had extended price controls to the retail level.[104] The Roosevelt administration's decision to ground the defense program in the pecuniary motive of the nation's capitalist tradition inflected patterns of thought about the contradictory relationship of state to society during the 1940s—of the federal government's responsibility to both mobilize national resources for national defense *and* preserve a system of market-based exchange guided by individuals freely pursuing their privately conceived interests. "It was a practical way of adapting modern capitalism…to the wartime imperative," explained Galbraith. Money hunger was thought the most preferable device for bringing more and more people into the labor force and for securing business cooperation: "Viewed in relation to the objective of developing maximum military potential, the

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Wisconsin: 1973), p. 260. US Department of Treasury, *Annual Report of the Secretary of the Treasury* (Washington: 1943), pp. 82-6 and 240.

[104] Meg Jacobs, "'How About Some Meat?': The Office of Price Administration, Consumption Politics, and State Building from the Bottom Up, 1941-1946," *Journal of American History*, Dec. 1997, Vol. 84, No. 3, pp. 910-941, and *Pocketbook Politics*, pp. 179-220; Black, *Parity, Parity, Parity*, pp. 268-9.

accumulation of some volume of excess demand was not undesirable." As Galbraith's OPA colleague Richard Gilbert argued, "At a time when the need for output is as urgent as it is today and will be during the coming year, it would seem folly to eliminate entirely the pressure of demand which is the basic driving force of a competitive economy."[105]

The very safeguard of income incentives which the tribunes of private enterprise had hoped would preserve property rights instead invited a quasi-socialization of all property itself in an expanding web of price regulations. As John Maurice Clark of the Columbia Department of Economics, a technical consultant to the OPA, explained, "when the standard of living of a community is threatened by disaster, so that it can afford only the necessities and large groups are in danger of losing those, community does not leave these things to the free play of the market, but steps in to assure the necessities to all, not matter what the market might do." Price controls were a necessary accoutrement of stabilizing civilian consumption during the war expansion, since "the distortion of dollar demand by unequal purchasing power…becomes an evil too serious to be tolerated in the matter of the necessities of life, health, and strength, to which the civilian economy may be largely reduced."[106] The embrace of a sort of hypertrophied regulatory state to protect these money savings, however, shaped public perceptions of government during the war. "No economy in the world is more vulnerable to the destructive effects of price inflation than our own," Hansen wrote in March 1943. "Our population, by far more than mass populations elsewhere, has accumulated vast

[105] Galbraith, *Theory of Price Control*, pp. 34-5; Richard Gilbert, "Price Control and Fiscal Policy," *A Manual of Price Control*, p. 27.

[106] John Maurice Clark, "Contribution of Price Theory to Price Control," in *A Manuel of Price Control* (OPA: 1943), p. 6-7.

savings in insurance funds, in government bonds, and in savings deposits."[107] Eventually, the release of those savings, by eating away the living standards of the workers' accumulating them, would likewise imperil the very decentralized arrangements the proponents of "pent-up savings" hoped to protect.

On Labor Day, September 7, 1942, as the Congress debated the Revenue Act and as rising prices continued to threaten strikes, Roosevelt sent a message to Congress requesting new price-control legislation. "I ask the Congress to take this action by the first of October," a clerk read to the chamber. "Inaction on your part by that date will leave me with an inescapable responsibility to the people of this country to see to it that the war effort is no longer imperiled by threat of economic chaos. In the event that the Congress should fail to act, and act adequately, I shall accept the responsibility, and I will act."[108] In the Senate Committee on Banking and Currency, New York's Robert Wagner and Michigan's Prentiss Brown introduced the administration's proposals for appropriating funds for agricultural subsidies and lowering agricultural parity ceilings. To counter this, Representative Steagall introduced legislation in the House raising minimum agricultural commodity loans to 100 percent rather than 85 percent of parity, and mandating the USDA calculate parity income by including the cost of wages for farm labor. Administration allies in the House Banking and Currency Committee forced a compromise, reducing commodity loan floors to 90 percent of parity and removing the higher parity formula. This soon passed the House.

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[107] Hansen, Box 31, Folder 7.

[108] McCune, *Farm Bloc*, pp. 58-9; Fraser, *Labor Will Rule*, p. 497. Franklin D. Roosevelt, Message to Congress on Stabilizing the Economy. Online by Gerhard Peters and John T. Woolley, The American Presidency Project https://www.presidency.ucsb.edu/node/210858.

In the Senate, however, Bankhead, Thomas, and Carl Hatch of New Mexico continued to urge the recalculation of parity to include farm wages. This would raise farm price ceilings to 116 percent of their current relationship to the general price level. Debate continued until September 29, when the Senate finally approved the Thomas-Hatch amendment, 48 to 43. With thirty hours before the President's deadline, Senator Barkley of Kentucky proposed an alternative to the Thomas-Hatch amendment which would grant authority to include wages in parity calculations, subject to the discretion of OPA—a sharp compromise that would ultimately result in congressional investigations to purge the agency's staff. Senators denounced the compromise; Elbert Thomas of Utah said that under Leon Henderson the new powers would "drive the country into a food shortage." On September 30, the Senate approved the Barkley amendment and sent the Stabilization Act of 1942 to the House. On October 2, the House passed the Senate bill and the President signed it that day along with the Revenue Act of 1942.[109]

Under the Stabilization Act of October 1942, farm commodity prices ceilings could be imposed when prices rose to 90 percent, rather than 110 percent, of parity as calculated by the USDA. To ensure high farm prices did not contribute to a rising cost of living, the President directed both the use of subsidies for farmers and "war models" and "grade labeling" for manufacturers and food processors to economize on scarce and expensive raw materials.[110] On October 3, Roosevelt issued Executive Order 9250 establishing a new Office of Economic Stabilization (OES) oversee the NWLB and the OPA. The new office was

[109] This and the previous paragraph draw from McCune, *Farm Bloc*, pp. 62-8.
[110] Jacobs, *Pocketbook Politics*, pp. 193-4; Ransom to Eccles, "Report of Meeting of the Economic Stabilization Board this Morning," March 19, 1943. Box 31, Folder 8, Eccles papers.

guided by an Economic Stabilization Board comprised of members of the Cabinet, the Chairman of the Federal Reserve, and six representatives from the public—two for labor, two for business, and two for agriculture. A new Stabilization Director was empowered to "direct any Federal department or agency...to use its authority to subsidize and to purchase for resale."[111] The President asked Supreme Court Justice James Byrnes to step down from the bench to head the new agency, explaining the need for a judge in "the jurisdictional disputes which increased with the creation of every new agency." When priorities, subsidies, price or wage orders from one agency conflicted with the goals of another, Roosevelt explained, "I want you to act as a judge and I will let it be known that your decision is my decision, and that there is no appeal."[112]

October 1942 also represented the beginning of a turning point in the dispute between the military and the civilian planners within WPB over the total size of the military procurement program. On October 6, 1942, the question of munitions targets was settled at a meeting of the War Production Board. Having refused throughout spring and summer to consider the WPB planning committee's feasibility reports, General Somervell attended the meeting with a signed letter from George C. Marshall defending the War Departments requests. "Maybe if we can't wage a war on 90 billion, we ought to get rid of our present Joint Chiefs and find someone who can," Leon Henderson remarked after a prolonged

[111] Franklin D. Roosevelt, Executive Order 9250 Establishing the Office of Economic Stabilization. Online by Gerhard Peters and John T. Woolley, The American Presidency Project https://www.presidency.ucsb.edu/node/209961. The advisory board membership included "the Secretary of the Treasury, the Secretary of Agriculture, the Secretary of Commerce, the Secretary of Labor, the Chairman of the Board of Governors of the Federal Reserve System, the Director of the Bureau of the Budget, the Price Administrator, the Chairman of the National War Labor Board, and two representatives each of labor, management, and farmers to be appointed by the President."

[112] Quoted in William Lasser, *Benjamin V. Cohen: Architect of the New Deal* (The Century Foundation: 2002), p. 255-6.

presentation in which the military officials appeared to persuade the board. The next day, Undersecretary of War Robert Patterson, aware of the dressing down of military officers by the civilian administrators, and undoubtedly aware of the disintegrating political and social situation at home, wrote to Somervell advising that the "WPB position, that production objectives ought not to be far in front of estimated maximum production, is believed to be sound" and that the Joint Chiefs of Staff would determine reductions in the Army and Navy programs.[113]

These New Deal advances within the wartime mobilization apparatus stalled with the November congressional elections. The Democratic Party lost 45 seats in the House of Representatives and 8 seats in the Senate. Among those defeated Senators was Prentiss Brown of Michigan, sponsor of the Stabilization Act. Though the Democrats retained their party majorities, the contingent of southern Democrats and anti-New Deal Republicans could now veto any extension of the powers granted by the 76th and 77th Congresses. Nominally a New Dealer, O'Mahoney himself had given voice to this impulse, taking to the radio in a national broadcast in December warning that an "unrestrained bureaucracy subject to strong central leadership would be an easy avenue to state socialism of either Nazi or Communist variety."[114]

Acting before the opening of the 78th Congress, in December Henderson proposed to the OES board a more extensive policy for use of subsidies, selling agricultural commodities to canning companies below parity prices while paying farmers the high floor price.[115]

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[113] Brigante, *The Feasibility Dispute*, pp. 91-103. Janeway, *The Struggle for Survival*, pp. 314-5.
[114] Joseph O'Mahoney, *Vital Speeches of the Day*, December 1942.
[115] Folder 5, Box 31, MSEP.

Production subsidies were necessary across sectors, wherever producer or distributor margins were now squeezed by retailers. Rationing accompanied augmented price-control powers, as demand began to overshoot supply in many markets of the mobilized economy during 1942. Price control after General Max, Galbraith lectured to OPA staff in December, had "not had to deal with the absolute absence of goods, but with the accelerated liquidation of stocks." The "stage now threatening," however, was "the stage of black market control." Where consumers and distributors were unable to acquire goods at controlled prices, they would sell outside regulations. Grade-labeling and war-model orders had been designed to police the early evasion of price controls, when producers reduced the quality of goods. The arrival of shortages elicited a more comprehensive response. "Here, to some extent," Galbraith explained, "the problem of price control passes out of the hands of the Price Department and into the hands of the Rationing Department."[116] Under the powers of the Stabilization Act, OPA staff calculated the entire available supply and where commodity shortages threatened, issued allocations for local Ration Boards. Rationing preserved order in many markets, where such calculations preserved individuals access to a minimum of supply. Where shortages nonetheless appeared, as with meat, they were located in those markets where supply was estimated and controlled by USDA. "When this happened," Galbraith later lamented, "the entire purpose of rationing was defeated, for rationing is meant to assure a supply—a smaller supply but a certain one."[117]

Immediately the new Congress set to work on plans for reversing the incipient trend toward central control of incomes and rationing of distribution. In January 1943, Farm Bloc

[116] Galbraith, "General Principles of Price Control," in *A Manual of Price Control*, p. 47.
[117] Galbraith, *A Theory of Price Control*, p. 50; *A Life in Our Times*, pp. 154-6.

pressure in Congress forced Henderson's resignation. The President appointed Prentiss Brown his replacement. Immediately, the new OPA director found himself the target of Congressional opposition in a series of hearings on the "grade labelling" program that sought to ensure a minimum quality for canned food and other manufactured products. In March, OPA announced its "point rationing" system, under which local Ration Boards issued households red and blue stamps to use in acquiring foods from retailers. The private distribution system of wholesalers, distributors, and retailers remained intact: only the currency for exchanging controlled goods changed. Each consumer received the same number of stamps, allocated out of a total calculated by OPA staff. To ensure quality on price-controlled and rationed goods, OPA hoped to license manufacturers. Lou Maxon, a Detroit advertising executive Brown brought with him to OPA, denounced his own agency's attempt to secure orders for quality standards from WPB as "a drive to eliminate brands, trademarks, and eventually free enterprise." Privately, Labor Secretary Frances Perkins worried that elimination of the "'fashion' element" and of trademarks from US firms would harm the garment industry. At meetings of the governing board of the OES, Donald Nelson argued that allowing high-priced consumer goods would help to absorb currency from other uses.[118]

In the Senate, Bankhead proposed new legislation excluding federal subsidies from the calculation of agricultural parity prices. In February, the Senate passed the measure. In

[118] Hugh Rockoff, *Drastic Measures*, pp. 94-5. For the views of Perkins and Nelson, see Ransom to Eccles, "Report of Meeting of the Economic Stabilization Board this Morning," March 19, 1943. Folder 8, Box 31, MSEP. Perkins described the view of the economists in her department as "feeling that the crisis was developing too rapidly for comfort." US Office of Price Administration, *Fifth Quarterly Report* (Washington: 1943), p. 14 and 19.

March, the House passed a companion bill, sending the measure to the President's desk. Senators Bankhead, Russell and Congressmen Cannon argued that the calculation of the parity formulas for farm income should not only exclude USDA subsidies, but should include the costs of farm labor—a "super parity" that ensured any bargaining power field hands gained in the full-employment economy would not amount to reduced income among landowners. Farm incomes, the farm politicians argued, should be paid by consumers rather than the federal government. By May, despite the Stabilization Act, food prices had increased 13 percent above their September level. Fresh fruit and vegetable prices rose 58 percent in the same period.[119]

At root, disagreement among the power centers of national life had two clear causes. First, lower-level in the emerging bureaucracies of the new industrial unions in the mass-production industries were demanding 30 percent wage increases and revision of the Little Steel formula. These demands coincided with a general wage drift as employers throughout industry surreptitiously reclassified job titles to raise wages for existing work. "The war is taking goods off the shelves and higher wages cannot put them back," Eccles wrote to Byrnes on February 6. These threats were compounded by actual work stoppages in the coal industry. In December, over 20,000 anthracite coal miners in Pennsylvania closed the mines in protest against their own union. The strike quickly transformed into a demand against the employers for wage increases. In January, UMW president John L. Lewis ingeniously adopted the demand for a $2-dollar daily wage increase for the entire 600,000-person union.

[119] Janeway, *Struggle for Survival*, pp. 327-9. Klein, *A Call to Arms*, pp. 569-571; US Office of Price Administration, *Sixth Quarterly Report* (Washington: 1943), p. 8

The current master contract expired in March, and Lewis raised his wage demands in open defiance of both the administration and the CIO's wage restraint program.[120]

Second, organized farm leaders' scrutiny of their balance sheets, articulated through the Congress, intensified dramatically. This grew out of the wage question: farmers, unable to circumvent WMC orders as easily as manufacturers by upgrading labor classifications, faced slowly rising costs.[121] The Bankhead bill to recalculate parity on the basis of farm costs would protect large farms against any such wage increases. But large farm owners' frustration was also motivated by the new subsidy, grade-labeling and rationing program of the OPA. Congressional debates over commodity prices during World War II therefore foreshadowed many of the late-twentieth century problems of coordinating the complex industrial economy under political institutions bequeathed by the eighteenth and nineteenth centuries. "This is the issue," Federal Reserve economist Kenneth Williams wrote for Eccles and Byrnes in February 1943 as Congressional measures to prohibit farm income ceilings continued through the winter, "Are we American citizens, proud of our part in victory sure to come or are we, as Hitler claims, not a nation but an aggregate of pressure groups interested only in obtaining self-advantage at the expense of each other? If it is essential to ease the social and political tension that is created by the competitive demands of agriculture and organized labor on the consumer, it is essential that the link between farm prices and wages be broken."[122]

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[120] Lichtenstein, *Labor's War at Home*, pp. 157-8. "Pending Demands for Wage Increases," memo left by Eccles for Byrnes, February 6, 1943, Folder 8, Box 31, MSEP.

[121] Martin Krost to Eccles, January 21, 1943, Folder 8, Box 31, MSEP.

[122] Kenneth B. Williams, "The Wage-Price Spiral," February 9, 1943, Folder 6, Box 30, MSEP, digitized https://fraser.stlouisfed.org/archival/1343/item/462864.

On February 9, 1943, as production delays mounted under the built-up orders of the military's unfeasible 1942 procurement schedules, President Roosevelt issued an order for a 48 hour-minimum work week in 32 defense areas covering about 9 million workers.[123] To expand output within existing manpower constraints, existing plants would run overtime. At 10 p.m. that evening, James Byrnes delivered a nationally broadcast radio address to place the order within the existing stabilization program as it had evolved since October. "A frantic race between rising wages and rising prices, far from helping labor, will only ruin and degrade the worker and his family, depriving them of all the gains they have so painfully built up over the years," Byrnes warned. Victory, however, was endangered by "the threat of creeping inflation" in rising farm prices, rising wages, and participation in black markets. The nation was in the midst of a "people's war," Byrnes declared, and hoped to win a "people's peace."[124]

Pressure came to a head in April, when the Congress delivered the Bankhead bill to the President's desk. On April 2, Roosevelt vetoed the measure. The next week, in preparation for a possible mineworkers' strike for wages increases above the Little Steel ceiling, he issued Executive Order 9238, the so-called "Hold-the-Line Order" freezing all wages and prices. The order directing the NWLB to prevent all future wage increases, ending the board's practice of allowing above-guideline increases to correct for inequities between plants or occupations. It required Stabilization Director Byrnes to approve all NWLB orders, effectively ending the boards legal autonomy. The order also authorized OPA rollback of

[123] Marriner S. Eccles, "Economic Effects of Mandatory 48-Hour Week," February 19, 1943, Folder 8, Box 31, MSEP.

[124] "The War Against Inflation," by James F. Byrnes, Director of Economic Stabilization, delivered over the Columbia Broadcasting System on February 9 1943, at 10 o'clock P.M, copy in Folder 6, Box 31, MSEP.

selected prices to their September level. Four hundred million dollars of Reconstruction Finance Corporation funds were set aside for payments to minerals and agricultural producers, whose goods would be sold by the government at a controlled price below USDA parity rates. (Chester Davis, as director of the War Food Administration a liaison with the farm bloc within the administration, had been excluded from the decision.) As Krost and Williams of the Federal Reserve Board staff wrote, "the Order may serve the immediate purpose of preventing a break-through in the Little Steel formula in the Mine Workers' case."[125]

Federal Reserve staff interpreted the decision as the culmination of a process that had begun early in 1942 with the initial attempt to freeze wages and prices. In a fully employed war economy, they wrote, wages held the burden for stabilization, as workers inevitably endured the hardship of declining production for civilian use. "The Order," judged Krost and Williams, "reflects the conviction that economic stabilization requires rigid stability in wage rates and that such stability cannot be enforced without equally rigid stabilization of all prices entering into the cost of living."[126] The inevitable limit to civilian consumption required extensive federal intervention into civilian industries to squeeze greater production from existing capacity and reduce the income required to consume it. When the UMW struck the

[125] Franklin D. Roosevelt, Veto of a Parity Computation Bill. Online by Gerhard Peters and John T. Woolley, The American Presidency Project https://www.presidency.ucsb.edu/node/209939. Franklin D. Roosevelt, Executive Order 9328 on Prices and Wages. Online by Gerhard Peters and John T. Woolley, The American Presidency Project https://www.presidency.ucsb.edu/node/209951. Janeway, *Struggle for Survival*, pp. 328-9; Melvyn Dubofsky and Warren Van Tine, *John L. Lewis: A Biography* (University of Illinois: 1986 [abridged edition]), p. 308; Lichtenstein, *Labor's War at Home*, pp. 116; Martin Krost and Kenneth Williams to Eccles, "Effects of 'Hold-the-Line' Executive Order," April 16, 1943, Folder 8, Box 31, MSEP. Subsides were paid from the Defense Supplies Corporation, a subsidiary of the RFC.

[126] "Effects of Hold-the-Line Executive Order," Martin Krost and Kenneth Williams to Eccles, April 16, 1943, Folder 8, Box 31, MSEP.

coal mining industry at the end of April, the President directed Secretary of the Interior Harold Ickes to seize control of the mines to maintain fuel production. As OES General Council Benjamin Cohen wrote during a new wave of coal strikes in June, "I really fear that if we don't do a better job in holding down the cost of living we are going to have great domestic trouble at the close of the war which may greatly jeopardize the chances of creating a good peace."[127]

On May 7, OPA announced a 10-percent reduction in the retail price of butter, coffee, and meat, with producers compensated for losses by federal subsidy. Rollbacks continued throughout the next two months on over thirty items. Yet by early June, the wage increases the "Hold-the-Line Order" had been issued to prevent were becoming a national scandal. On April 22, Labor Secretary Frances Perkins had referred the mineworkers' negotiations to the NWLB, which immediately held hearings that Lewis boycotted. By April 26, sixteen-thousand miners in Alabama, Kentucky, and Pennsylvania had walked off the job of their own accord. Two days later, when the NWLB suspended hearings until the miners returned to work, over seventy-five thousand miners were outside the collieries. On May 1, in response to the spreading work stoppages in coal, the President ordered Interior Secretary Harold Ickes to seize ownership of the mines and to operate them in the public interest until the threat of a strike subsided. Though Lewis immediately opened negotiation with Ickes, the mine's new owner, and sent the miners back to work with a one-month contract extension, Roosevelt forbid the government from becoming party to any agreement. By June 1, the entire industry was closed as a half-million miners put down tools. Long-stalemated disputes

[127] Lasser, *Benjamin V. Cohen*, p. 260. Nelson Lichtenstein, *Labor's War at Home*, pp. 160.

across the Great Lakes and East Coast began to emulate Lewis's tactics; in the Akron rubber industry alone, 50,000 workers struck for a week only to return under Presidential threat of military occupation. Fearful of a government-sanctioned wage increase, Senator Bankhead reintroduced his "superparity" bill to raise farm prices in the Senate, where on June 11 it failed by a single vote. "Holding the line is one thing, attaining and maintaining parity is another," said Senator Burton K. Wheeler of Montana. "You are breaking faith with the farmers when you don't give it to them."[128]

To apprehend the turning spiral, at Byrnes's urging on May 27 Roosevelt issued Executive Order 9347 establishing an Office of War Mobilization (OWM) as a new umbrella agency overseeing the civilian war agencies: the OES coordinating NWLB and OPA, the War Food Administration (WFA), and the War Production Board (WPB) would fall under a single directorate. James Byrnes was promoted to direct the new office.[129] To replace him at OES, the President asked Fred Vinson, a former Kentucky Congressmen, to step down from his appointment as a federal judge and take Byrnes's position overseeing the wage-price field. As in the months following the arrival of General Max in April 1942 and the establishment of OES in October 1942, retailers with frozen prices now face the prospect of renegotiating prices with their suppliers backwards through the supply chain. But after April's "Hold-the-Line Order," Washington's authority not only to freeze prices, but to roll them back to earlier levels, was proven in practice. Under Prentiss Brown, the Defense

[128] US Office of Price Administration, *Sixth Quarterly Report*, p. 8-10; "Senate 'Holds the Line' on Prices, Balking Plan to Bar Roll-Backs," *New York Times*, June 12, 1943, p. 1. Dubofsky and Van Tine, *John L. Lewis*, pp. 309-14; Lichtenstein, *Labor's War at Home*, pp.

[129] William Lasser, *Benjamin V. Cohen: Architect of the New Deal* (Century Foundation: 2002), pp. 255-61.

Supplies Corporation financed subsidies to dairies, ranchers and meatpackers to offset the squeeze from retailers.

The Search for an Agency in the Corporate State

While prices did not rise after the April 1943 "Hold the Line" order, the political stars were realigning against the stabilization apparatus. For southern and western Democrats, opponents of organized labor, and business Republicans, the summer that followed Roosevelt's hold-the-line order and the creation of OWM stimulated a vicious reaction against executive power. Already, in January, Secretary of Commerce Jesse Jones had recruited Studebaker president Paul Hoffman to serve as chairman of a new lobbying organization, the Committee for Economic Development (CED), which joined the businessmen of the WPB together with liberal philanthropists such as Beardsley Ruml, the originator of the income-tax withholding plan for the Revenue Act of 1942. The CED proceeded to establish a national field operation to forestall any continued growth of the New Deal, surveying businessmen about their planned investments after the war and calibrating them to absorb war workers and returning soldiers by creating 29 million jobs.[130] In March, near the height of the dispute over OPA's grade-labelling assault on "free enterprise," the White House belatedly released a report by the NRPB on postwar planning that proposed methods of ensuring "full employment" after the war.[131] That month, Georgia Senator and

[130] Karl Schriftgiesser, *Business Comes of Age* (Harper & Brothers: 1960), p. 28-33. "Plan Mapped to Provide Postwar Jobs," *Washington Post*, January 2, 1943, p. 1.

[131] Warken, *A History of the National Resources Planning Board* (Garland, 1979), pp. 224-226, quoted in Clawson, *New Deal Planning: The National Resources Planning Board* (Routledge: 2011), pp. 137-138. Originally drafted in December 1941, the NRPB report would sit unused for fifteen months.

Chairman of the Senate Finance Committee Walter F. George established his own Special Committee on Postwar Economic Policy and Planning to secure jurisdiction over any such legislative proposals.[132]

The corporatist or corporativist arrangements brought by war mobilization appeared, to many in Congress, to resemble a government independent of the legislature. They were equally a measure of organized labor's fundamental weakness during World War II: reliant on Roosevelt's war boards, rather than won through the legislature, the legal basis for labor's advance would remain tenuously founded. Defending or defeating it diverted the class struggle beyond the urban factory districts to the hundreds of legislative races across the country in the 1942 midterms. The 78th Congress that convened in 1943 responded to the wartime powers—the Stabilization Act, the Revenue Act of 1942, the NWLB, the Hold-the-Line Order, and the proposals for postwar planning—by cutting appropriations for the executive branch. New-Deal era agencies such as the Works Progress Administration, the National Youth Association, and the NRPB had their budgets eliminated and soon closed shop. Agencies with jurisdiction over agriculture such as the Federal Security Agency and the Commodity Credit Corporation came under sustained attack led by Senator Harry Byrd of Virginia for their payment of subsidies to farmers.[133]

In July 1943, at the impetus of Ohio Senator Robert Taft, Congress amended the Stabilization Act to prohibit grade labeling and the use of any appropriated funds to pay the salaries of OPA officials without at least five years of "business experience." The effect was the replacement of the agency's senior staff—predominately university faculty—with an

[132] Bailey, *Congress Makes a Law*, p. 28.
[133] Fraser, *Labor Will Rule*, p. 500.

influx of business officials from the regulated industries.[134] The Congress, wrote the editors the *New Republic*, the house organs of the New Dealers remaining in Washington, was behaving as if the executive administration were its creature. "It nullifies decision after decision made by the President's deputies under general authorizations previously made by itself, it attempts by personal attack and denial of funds to oust his appoints, and it is even engaged in the effort to dictate all appointments at the policy level." The effect was as if were "turning over the direction of postwar planning for American security and well-being to American business."[135]

At the center of this obstructionism was the desire to shape the structure and the powers of the offices created to plan postwar adjustment spending. Labor's program had long been known. When administration of the mobilization program polarized in the months before Pearl Harbor, particularly as the auto manufacturers delayed converting their plants to war production, the head of UAW's GM department, Walter Reuther, had circulated his own industry-specific joint-management program. Promising "500 planes a day," the program of public control of the auto industry won the acclaim of New Deal administrators and liberal journalists. Reuther's plan was just one of a variety of proposals during the onset of war mobilization reflecting a broadening of liberal opinion to consider including labor leaders in the oversight boards responsible for making the basic industry-wide or national production, investment, and pricing decisions.[136]

[134] Klein, p. TK. Rockoff, p. 94-5.

[135] "Can Congress Run the War?," *New Republic*, March 8, 1943, pp. 302-3. Schiftgeisser, p. 33.

[136] "Industry Committees," *New Republic*, December 30, 1940, p. 899; John K. Jessup, "Labor and Management," *New Republic*, April 15, 1940, p. 512; Lichtenstein, *Labor Will Rule*, pp. 41 and *Walter Reuther*, p. 154-74. When the Pabst Brewing Company announced a contest for the best essay on "post-war employment

In a 1940 book, CIO president Philip Murray and Morris Llewelyn Cooke, former vice president of the American Society of Mechanical Engineers, described this joint decision making as a "new type of collective bargaining" in which organized labor, due to the sheer size of its organizations, could no longer pursued the interests of particular groups of workers. General wage increases across entire sectors would pay less in real income as employers passed on the costs in higher prices. Because the older union goals "cannot be applied to employees organized on an industrial basis where bargaining involves the total wage bill," they argued, the past ideas of "pure and simple collective bargaining [were] becoming obsolete." In place of these old ideals, the CIO unions advanced "so-called 'industrial stabilization' ventures, social legislation and increased political activity." Where successful, such stabilization ventures provided a "wider opportunity for participation of union employee representatives in matters of plant and business management, as well as in industry economics." The new institutions afforded "organized labor the fullest status and widest hearing consistent with unified direction and control of the enterprise."[137]

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plans" in December 1943, one of the winning essays proposed the creation of a fourteen-member "American Economic Committee" comprised of three Senators, three Representatives, three Cabinet members, and six representatives of organized interests, two each from agriculture, business, and labor. Leon Keyserling, "The American Economic Goal," in *The Winning Plans in the Pabst Postwar Employment Awards* (Pabst Brewing Company: 1944), pp. 11-15.

The National Production-Employment Board to oversee the spending program proposed in the legislation Kilgore introduced in late March 1943 was to be composed of representatives of agriculture, labor, business, and government. Cf. Bailey, *Congress Makes a Law*, pp. 22 and 80 and *passim*.

[137] Morris Llewellyn Cooke and Philip Murray, *Organized Labor and Production: Next Steps in Industrial Democracy* (Harper and Brothers: 1946 [1941]), pp. 191-2. For Cooke's influence in American engineering on the though of Thorstein Veblen, see Edwin Layton, "Veblen and the Engineers," *American Quarterly*, Vol 14, No. 1, p. 66-8. While Lichtenstein and Brinkley argue that this wartime experienced marked the peak of labor's influence in liberal thinking about industrial planning, the impulse represented by Murray's "industrial councils" survived well into the postwar period in the careers of such union officials as Harold Ruttenberg (who became a member of the board of the Portsmouth Steel Company), Leonard Woodcock (who as UAW president during the late 1970s was appointed to the board of the Chrysler Corporation), and in the jointly administered "automation funds" established by the West Coast longshoreman and the meatpacking workers of the lower

Opposed to labor's program of continued federal financing for industry after the war governed by tripartite boards of union and management representatives was a wide variety of business opinion. Political organization for smaller manufacturers channeled through the National Association of Manufacturers (NAM), which was eager to curtail organized labor's advance into production and pricing decisions. The Chamber of Commerce was financed by larger firms, whose President, the liberal executive Eric Johnston, was eager to cooperate with the administration and the new union leaders over unemployment insurance. Jones's CED, whose research director was Sumner Slichter, began to promise a future of abundance led by the masculine virtues of entrepreneurship after the war—if only the federal government would enable them to lead. Elected president of the American Economics Association (AEA) in 1941, Slichter publicly recast the lessons of the war mobilization as teaching the possibilities, the "potentialities," of a business civilization led by enterprising spirits. "No generation which must face the issues we are called upon to face, or which must re-explore the basic worthwhileness of things as we are compelled to do, which must engage in the battles that we are going to, will ever produce a dark and stagnant age," he told a conference of businessmen at Stanford in July 1941. "[S]uch men" who lead generations, he explained, "will be content only with innovation and with experimentation on a great scale—in all walks of life, in the arts, in the industries and in the sciences and not just business alone. If it be true that great issues mold men, and I think they do, then the disturbances we

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Midwest and Texas in the late 1950s and early 1960s. During the Korean War, the question would return when President Truman ordered the seizure of the steel industry to grant a wage increase without a price increase; under Nixon's Cost of Living Council of 1972-3, organized labor would be invited to participate in national wage setting through that umbrella agency's Pay Board. Lichtenstein, "From Corporatism to Collective Bargaining," in *The Rise and Fall of the New Deal Order, 1930-1080*, eds Steve Fraser and Gary Gerstle; Brinkley, *End of Reform*, pp. 203-9.

are going through must be the prelude to the great events and the dawn of one of the world's great ages must not be far distant."[138]

At CED, Slichter was joined by members of the executive boards of the country's largest firms: Charles E. Wilson of General Electric, then executive vice-chairman of the War Production Board; W.L. Clayton, cotton broker of Houston; Marion B. Folsom, director of human relations at Kodak; Jay Hormel of the meatpacking corporation; Charles Kettering, General Motors vice president; Thomas McCabe, president of Scott Paper; William Benton, founding member, with Chester Bowles, of Benton & Bowles; Harrison Jones, chairman of Coca Cola; and Chester Davis, president of the Federal Reserve Bank of St. Louis. While publicly embracing the goal of high employment after the war, the CED made sure to exclude representatives of organized labor from its board: before Hoffman agreed to chair the new organization, Jones has asked Owen Young of the Radio Corporation of America, who suggested it be formed along the tripartite lines of the National Planning Association. Jones vetoed the proposal and selected Hoffman instead.[139]

"Small business" became the ideological fig leaf uniting these disparate elements in the debate for "full employment." During the 1940 election campaign and the 77th Congress, Senator Murray had argued that the WPB was concentrating power in a small handful of large corporations to mount his own foray into the executive bureaucracy, sponsoring legislation to establish a Smaller War Plants Division in WPB and a Smaller War Plants Corporation to steer war business toward firms with fewer than 500 workers. Patman sponsored parallel legislation in the House, and by summer 1942 the federal government had

[138] "Postwar Slump Forecast Hit," *Los Angeles Times*, July 26, 1941, p. 11.
[139] "Plan Mapped," *Washington Post*, Jan. 2, 1943. Schifgeisser, *Business Comes of Age*, p. 25.

entered the business of financing small business. In September 1943, Murray secured appointment to a newly formed War Contracts Subcommittee with jurisdiction over any postwar demobilization legislation. [140]

Small-business partisans of the south and west, liberal businessmen, southern opponents of the New Deal, and organized labor—these were the forces arraigned before the Congress and the war boards of Washington by the winter of 1943, when the Russians rebuffed the Wermacht at Stalingrad and the British and the Americans advanced toward Cairo in North Africa and secured the island of Guadalcanal in the Pacific. For thirteen months, between the spring of 1943 and the fall of 1944, the Senate debated the proper location of and powers for an administrative office to oversee settlement of canceled war contracts. Senators Murray and George proposed to establish an Office of Contract Settlement, refashioned as an Office of Demobilization, independent of Byrnes's OWM. In the meantime, the office of West Virginia Senator Harvey Kilgore, a fellow member of the Military Affairs Committee, became a focal point for liberal efforts to include full-employment provisions in any demobilization program. Kilgore introduced legislation

[140] The New Dealers themselves had created the topic, both as a congressional jurisdiction and rhetorical device in anti-trust crusade of the TNEC. During the 1940 campaign, Senator James Murray persuaded Roosevelt to add a "small business" plank to the Democratic platform on the grounds that it "might add a million votes" to the election. In 1941, Murray became the chairman of the Senate's own small-business committee, a role in which he would lobby, together with Senators O'Mahoney and Harry Truman and Representatives Celler of New York and Patman of Texas, for greater access to federal procurement contracts for small firms. By February 1942, Senator Murray's Small Business Committee found that just 56 manufacturing corporations had received three-quarters of all defense contracts. Jonathan Bean, *Beyond the Broker State*, Chapter 5. Quote on p. 102, figure p. 105.

The "small business" issue has blinded historians understanding of the political and economic alignments within the US in this period. Many include O'Mahoney among such small-business conservatives as Robert Taft or Homer Capeheart: it was O'Mahoney's statements in support of the bill during hearings in July that Bailey considers critical to Senate passage of the original S. 380, the Full Employment Act, as Chapter 2 demonstrates. E.g. Jonathan Bean's *Beyond the Broker State: Federal Policies Toward Small Business, 1936-1961* (University of North Carolina: 2001), pp. 90-95 and Bailey, *Congress Makes a Law: The Story Behind the Employment Act of 1946* (Columbia: 1950), p. 119-20.

expanding the powers of OWM to include two new offices—a Bureau of Programs to plan public works projects and a National Production-Employment Board—and to include expanded unemployment benefits to be administered by the federal government after the war.

As hearings on these bills were being held in the Congress in October and November 1943, Byrnes, on Roosevelt's request, secured the services of Bernard Baruch to draft a report for the WPB on the proper procedure for reconverting the nation's industries to civilian production. At Baruch's recommendation, Byrnes selected Clayton to direct a new War Surplus Property Administration (WSPA) established by executive order, an idea emerging in Congressional debate to handle government-owned plant and equipment. "It looks to me as if it is a build-up for big business," Harold Ickes wrote of the final Baruch-Hancock report, released in February 1944. As Baruch's biographer Jordan Schwarz writes, "Baruch was an advocate of rational planning, too…as long as the planners were entrepreneurs or investors with a stake in cooperation."[141]

By July 1944, the thinking within the civilian planning departments of the Roosevelt government—the WPB planning committee, the Bureau of the Budget, and the Federal Reserve—was predisposed toward an investment-driven, full-employment economy. At the Bretton Woods conference that month, Hansen, as a member of the US delegation, spoke with Federal Reserve Chairman Marriner Eccles "about doing something on an American 'White Paper' on Full Employment" to codify administration thinking, as William Beveridge had done to great publicity for the British government. Eccles suggested Hansen contact Gerhard Colm, a staff member of the Bureau of the Budget, while Hansen suggested Eccles

[141] Jordan Schwarz, *The Speculator: Bernard Baruch in Washington, 1917-1965* (University of North Carolina: 1980), p. 458-9, and 464.

engage Colm's superior Harold Smith, the Budget Bureau's director. The week after the New Hampshire monetary conference, Smith met with President Roosevelt and "urged," as Hansen later explained to Eccles, "that in the next four years a systematic long-range program was urgently necessary and indeed, without it, the course of events might prove disastrous." Roosevelt, Hansen explained, "appeared to be sympathetic with this idea."[142]

Delivered in August 1944, the first draft of the "Full Employment" White Paper argued that a fall in postwar income to the level before the war would leave twenty million workers unemployed. The federal government "must be prepared, therefore, to vary its expenditures to offset fluctuations in private expenditures, and to place a cushion under the total volume of expenditures so as to ensure an adequate total demand for goods and services." Full employment through "private business expenditures" could be secured by "underwriting a high level of consumption but also by opening up new private investment outlets," a combination which included "underwriting a national minimum of social services and of individual income," government expansion of "basic development projects," government research financing, and "by appropriate tax policies."[143]

The final report Smith placed on Roosevelt's desk in October 1944 specified those tax policies as "repeal [of] the excess profits tax and overhaul the structure of the corporate income tax" to "encourage a high volume of private investment." Crucially, the original report had proposed the establishment of a "national investment board or fiscal authority." In

[142] Hansen to Eccles, July 29, 1944, Folder 12, Box 7, MSEP. Cf. Gerhard Colm, introduction to "Postwar Employment, a White House staff paper prepared for President Roosevelt with an introductory note by Gerhard Colm," printed in U.S. Congress, Senate, Committee on Labor and Public Welfare, *History of Employment and Manpower Policy in the United States: Twenty Years of Experience Under the Employment Act of 1946*, 89th Cong, 2d Sess (Washington: 1966), p. 1.

[143] Hansen to Eccles, "American White Paper," August 18, 1944, Folder 12, Box 7, MSEP.

cooperation with a "joint congressional fiscal committee," the board would plan public construction projects five or ten years in advance and be authorized to "make variations in income tax rates and in social security pay roll taxes" and "adjust and fluctuate the total expenditure so appropriated" in response to private business conditions. By the final October report, the recommendation for a "fiscal committee" had been altered to "legislation to provide suitable executive and legislative machinery for varying rates of expenditure within fairly short periods," and proposed for this machinery "a public institution authorized to guarantee public loans" for financing projects in accordance with a continuously updated 6-year program, subject to Congressional reconsideration, of public-works projects timed to speed or slow construction at variance with the pace of private business activity. [144]

These aspirations found a minority of friends in the 78th Congress, and numerous enemies among the chairmen of its postwar planning committees. Under George's leadership, the bill reported by the Senate Committee on Postwar Planning left administration of unemployment benefits with the states and refused powers over federal spending from any demobilization office. Instead, in July the Congress passed the War Contract Settlement Act establishing the Office of Contract Settlement to oversee negotiations with private contractors over the termination of war contracts. Under the law, each contracting agency appointed a three-person board to negotiate termination, the decisions of which contractors could appeal to the director of the new office. This divorced the spending provisions in the

[144] "Postwar Employment, a White House staff paper prepared for President Roosevelt with an introductory note by Gerhard Colm," printed in U.S. Congress, Senate, Committee on Labor and Public Welfare, *History of Employment and Manpower Policy in the United States: Twenty Years of Experience Under the Employment Act of 1946*, 89th Cong, 2d Sess (Washington: 1966), p. 10; "Postwar Employment," October 9, Folder "Employ. Act of 1946, Origins of the," Box 1, Edwin G. Nourse Papers, HSTL. Draft report in Hansen to Eccles, "American White Paper," August 18, 1944, Folder 12, Box 7, MSEP.

Kilgore bill from the final legislation. Unwilling to establish new spending authority in the demobilization legislation, the Congress in October 1944 passed a hasty compromise, establishing an Office of War Mobilization and Reconversion (OWMR) to expand the responsibilities of Byrnes's office and an Advisory Board to the Director's office to guide him. The Advisory Board was composed of twelve members, three from each of business, labor, agriculture, and the government. Under separate legislation, the Congress authorized a War Surplus Property Administration (WSPA) to manage the disposal of government-owned property. On October 3, 1944, the President signed both laws, establishing the OWMR and the WSPA.[145]

Like the agency it supplanted, the OWMR was responsible for the entirety of the civilian controls apparatus, including OPA, WLB, WPB and WFA. The new office lacked powers over spending and contract cancellation. As Senator Murray's War Subcontracts Subcommittee of the Senate Committee on Military Affairs reported, "The blunt fact is that all three measures [contract settlement, surplus property disposal, and creation of OWMR] are basically aimed at liquidating war production. They are purely transition measures—yes, important transition measures—but nothing more. None of them attempts to assure a sound post-war economy." Nevertheless, for organized labor it signaled a confirmation of their new role in society. In January 1946, Murray and Cooke wrote that "This increasing recognition of labor in our national counsels is best exemplified by the legislation setting up the Office of

[145] Bailey, *Congress Makes a Law*, p. 35. Herman Miles Somers, *Presidential Agency: OWMR, the Office of War Mobilization and Reconversion* (Harvard: 1950). Under Congressional suspicion of the "corporate state," the George bill specified that all twelve members of the new Advisory Board be representatives of the public; though chosen from its various functional constituencies, the interests of the members should not be considered those of the functional economic groups themselves but rather of informed private citizens of the republic.

War Mobilization and Reconversion—known as the George bill—wherein membership is provided for both labor and agriculture with the appointees confirmed by the Senate." In their estimation, "A new pattern for the organization of our democracy seems to be evolving."[146]

For western Democrats openly drifting away from centralized planning, such as Wyoming Senator O'Mahoney, the pattern was a source of considerable discomfort. For businessmen who had made the Republican Party their permanent home, the law promised nothing good except what it withheld from the new agency. In a premonition of the coming debate, O'Mahoney had taken to the CBS radio network after the 1942 midterm elections. "Congress will seek to put a curb on growing federal bureaucracy," he announced. "An unrestrained bureaucracy subject to strong central leadership would be an easy avenue to state socialism of either Nazi or Communist variety."[147] In 1944, the President campaigned on the postwar employment issue, making his famous speech for "sixty million jobs" in late October in Chicago. The 1944 election brought liberals such as Democrat J. William Fulbright of Missouri and Republican Wayne Morse of Oregon into the Senate. Nevertheless, as O'Mahoney's declaration revealed, late-war politics had become a referendum on government planning.

In December 1944, Roosevelt reorganized the State Department, appointing General Motors executive Edward Stettinius to the secretaryship. "I remember at that time [Roosevelt] had just made six new appointments to the State Department, six new Assistant

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[146] "Building the Postwar Economy," Senate Subcommittee Print No. 12A, 78th Cong, 2d Sess, reprinted in US Congress, Senate, Committee on Banking and Currency, *Full Employment Act of 1945: Hearings Before a Subcommittee of the Committee on Banking and Currency*, 79th Cong, 1st Sess (Washington: 1945), p. 11. Morris Llewellyn Cooke and Philip Murray, *Organized Labor and Production: Next Steps in Industrial Democracy* (Harper and Brothers: 1946 [1941]), pp. xi-xii.

[147] O'Mahoney, December 8, 1942; *Congressional Digest*, January 1943, p. 3.

Secretaries of State," Bowles later remembered. "They were in everybody's opinion…purely a business group that had been brought in just the way we are doing now [in the 1960s], same types of guys." This was an intensification of a trend begun during the 1940 election. As Galbraith later wrote about the recruitment of businessmen into upper echelons of the Cabinet departments, "This was the beginning of the partnership that was to have such significance in the Cold War and Vietnam years to come." In February, Roosevelt appointed officially Clayton to direct the now-statutory SWPA, responsible for over $15 billion worth of government-owned plant, about 20 percent of the nation's manufacturing capacity. That month Senate Democrats selected O'Mahoney as chairman of the party's senatorial campaigns committee. Southern Democrats celebrated the apparent shift in the party's power. Harry Byrd told the *New York Times* he was "delighted" by the selection. "The change," the paper reported, "marked the end of New Deal domination of one phase of the political machinery."[148]

The New Deal that O'Mahoney found so politically profitable to oppose had itself undergone a considerable transformation. Not a week after Congress had passed the George bill, Republican Party nominee for the 1944 Presidential election Thomas Dewey warned an audience in a Charleston, West Virginia campaign speech that "little by little the New Deal [was] developing its own form of corporate state." Such pejorative allusions to the Mussolini government had resurfaced throughout the late New Deal. A prevailing interpretation of the effect of World War II on economic and political thought in the US explains this by arguing

[148] "O'Mahoney Named Campaign Director," *New York Times*, February 4, 1944, p. 32; "O'Mahoney Has Replaced New Dealer," *Austin American Statesmen*, February 4, 1944, p. 8. Wilson, *Destructive Creation*, p. 249. Bowles Oral History, p. 171. Galbraith, *A Life in Our Times*, p. 150.

that the elaborate system of controls accompanying fiscal expansion during the war—government priorities, limitation-of-use orders, wage-and-price ceilings, and extensive rationing of consumer goods—alienated the public and accelerated the popular drift away from the New Deal promises of a planned society. The experience of detailed regulation and bureaucracy, many historians argue, weakened public support for the Roosevelt administration. A considerable body of research demonstrates the way wartime controls spurred and strengthened the anti-statist businessmen's consciousness that had emerged during the New Deal. "From the point of view of business leaders," writes Mark Wilson, "wartime price and profit control turned out to be among the most intrusive and disturbing aspects of wartime government-business relations."[149] As James Sparrow explains, "Starting in World War II, rights claims directed at the federal government became an increasingly pervasive, even paradigmatic feature of politics because national power rested more firmly than ever on a state that obscured the sources of its power."[150]

Others have argued that World War II consolidated the power and authority of social-scientific expertise, particularly the national-income accounting methods developed by Kuznets and Nathan to aid budgetary planning. Michael Bernstein, for example, argues that the experience of wartime mobilization provided an "epiphany" for professional economists: "neoclassical analysis was requited in the historical accident of a command economy."[151] Did the war popularize or undermine the popularity of the idea of economic planning? The difficulty of answering this question stems from the immobilizing political alliances

[149] Mark Wilson, *Destructive Creation*, p. 159.
[150] James Sparrow, *Warfare State*, p. 259.
[151] Bernstein, *Perilous Progress*, p. 81 and 89

necessitated by the war setting. During 1941 and 1942, the business presence within the Cabinet and the war mobilization boards precluded serious consideration of the national-income accounts. Budgetary decision remained in military hands until after a considerable inflation was underway. Similarly, the impossibility of controlling agricultural prices before April 1943 grew inexorably out of the New Deal political coalition, which combined the leaders of the Jim-Crow south with the family farms of the middle west, mountain-state Progressives, bankers of the south and west, and the new labor unions of the cities. What collective discipline this group could exercise over income would only emerge after nearly 26 months of accelerating inflation compelled the White House to reach for greater custodial war powers. Rationing and producer subsidies were ingenious makeshift solutions to the inevitable weaknesses of price control under such divided administrative authority over production and supply. But as such, they too became political objects of the legislature.

Chapter 2: "The Philosophy of Stabilized Prosperity," Truman and the Evanescent Hope of Voluntary Controls

"…the steel industry still refuses to expand capacity because it is convinced that full employment will not last."

– Emil Rieve, 1947[1]

"During the inflation of 1947 and 1948, expansion of production was of vital importance, and it did not occur despite the high profits which in a competitive economy would usually bring it about. Did the concentration of much of our manufacturing in a few large business firms account for the failure of production to increase?"

– John D. Clark, 1949.[2]

The question of corporatism dominates historical evaluations of both the North Atlantic nation states and global capitalism during the middle of the twentieth century. Historians of the US have described the late 1940s as the period of decline for "corporatism" in the national political economy, in which the "social democratic" impulse of organized labor was eclipsed by the turn towards private bargaining and exclusion of labor leaders from the powerful offices of the Truman administration.[3] The continuation of price control atop organized labor's demands through the Korean War, however, complicates the notion that unions abandoned an encompassing, class-wide political program. In contrast to many

[1] Congress of Industrial Organizations, press release, July 24, 1947, in Folder "Daily Diary — 1947-25," Box 4, Edwin G. Nourse Papers, Truman Library.

[2] Quoted in Craufurd Goodwin, "Attitudes toward industry in the Truman administration: the macroeconomic origins of microeconomic policy," in *The Truman Presidency*, ed. Michael Lacey (Woodrow Wilson International Center for Scholars: 1989), p. 111.

[3] Nelson Lichtenstein, "From Corporatism to Collective Bargaining," in *The Rise and Fall of the New Deal Order*, eds. Steve Fraser and Gary Gerstle (Cambridge: 1989); Steve Fraser, *Labor Will Rule* (Free Press: 1991); Gregory Hooks, "The United States of America: The Second World War and the Retreat from New Deal Era Corporatism," in *Organising Business for War*, eds. Wyn Grant, Jan Nekkers, and Frans van Waarden (St. Martin's Press: 1991), pp. 75-105.

historians of organized labor's decline, economic sociologists characterize the postwar settlement in the US as an organized "pluralism" of the quasi- or proto-corporatist variety that defined many European countries. Historians of economic thought see more continuity between 1945 and 1964 than change in this pattern. Robert Collins, for examples, writes of a "pervasive influence [of] the postwar corporatist version of Keynesianism" formed during the forties, which, he argues, found its purer expression in the fiscal expansion of the Kennedy-Johnson era.[4] Scholars of US foreign relations and European history make similar judgements, describing the North Atlantic settlement after World War II as the outcome of an "evolutionary progression" of international political economy. From the Progressive Era to a "New Deal synthesis," they argue, business self-regulation and state authority were consistently subordinated to class-wide capitalist goals, such as financing foreign trade and repayment of European sovereign debt, sustaining consumer markets, and even raising wages. Michael Hogan, for example, describes this "hybrid economic order" created by the New Deal and World War II as "an American brand of corporative neo-capitalism." Charles Maier describes "a new consensus on interventionist planning" in the US, entailing the abandonment of the political stalemates of the New Deal in favor of the lesson of the experience of wartime growth, which taught that "American society could transcend the class conflicts that arose from scarcity" with the "supposedly apolitical politics of productivity."[5]

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[4] Robert Collins, *The Business Response to Keynes, 1929-1964* (Columbia: 1981), pp. 200-208, quote on p. 200. In his *More*, Collins argues that "it was the ambivalence of New Deal economic policy that made the subsequent emergence of growthmanship seem like a striking departure." Collins, *More: The Politics of Economic Growth in Postwar America* (Oxford: 2002 [2000]), p. xi.

[5] Michael J. Hogan, *The Marshall Plan, American, Britain, and the reconstruction of Western Europe, 1947-1952* (Cambridge: 1987), pp. 1-25, quote on p. 3. Charles Maier, "Politics of Productivity," reprinted in *In Search of Stability: Explorations in Historical Political Economy* (Cambridge Syndicate: 1987), pp. 128-9.

Still others interpret this "internationalization of the New Deal" as a form of imperialism: a diplomatic project to resist and "outmaneuver" the development of "national capitalisms" in foreign countries between the US and the Soviet Union, where governments prioritized domestic full-employment over economic openness to international trade and finance.[6]

What agreement that does exist over the character of the international political economy after World War II focuses on the emergence of an ethos of expanding production as an all-encompassing social project after World War II. As Maier writes, a global postwar "emphasis on output and growth emerged as a logical result of New Deal and wartime controversies" over power and representation, an emphasis that released nations from "unresolved disputes" and "brought contestants to apolitical areas of common endeavor."[7] In a similar vein, Matthias Schmelzer identifies a global "postwar growth paradigm" in the statistical accounting standards developed by the OEEC (later OECD) under the Marshall Plan.[8] The notion that the prosperity of the postwar period accommodated and alleviated national political and social conflict—whether imagined as class struggle or contending interest-group claims—has come to define historical understanding of the second half of the twentieth century.

What was the place of the nation state in this process? The principle of national economic growth was anything but apolitical during the Truman era. As the administration

[6] Leo Panitch and Sam Gindin, *The Making of Global Capitalism: The Political Economy of Global Empire* (2010), p. 69. Fred Block, *The Origins of International Economic Disorder: A Study of United States International Monetary Policy from World War II to the Present* (University of California: 1977), pp. 8-10.

[7] Maier, "Politics of Productivity," reprinted in *In Search of Stability*, pp. 123 and 125.

[8] Matthias Schmelzer, *The Hegemony of Growth: The OECD and the Making of the Economic Growth Paradigm* (Cambridge: 2006)

would learn, achieving the long-run goals of a "free economy" demanded some continuation of the very central planning mechanisms many businessmen had seen as the wartime price of a future of free enterprise. For organized labor, the legislation for postwar planning and foreign aid represented an unmistakable opportunity to regain political and economic losses during reconversion: the restoration of price control, the maintenance of full employment, and the furtherance of labor's political power globally. These were political obstacles for businessmen large and small to navigate. For organized agriculture, retailers, and many smaller business associations, continued Congressional discussion of price control and the growing diplomatic unfriendliness with the Soviet Union offered a new and powerful domestic political formula that would see important gains in Congress in California and the Midwest in 1946 and 1948.

Compared to the postwar governments in western Europe or Japan—where military occupation continued until 1952—the politics of economic growth sharply divided the US public. In the context of demobilization and European reconstruction, national economic planning in the US would be guided not by Congress but by what Edwin Nourse, the first CEA Chairman, described as the "philosophy of stabilized prosperity." The Council's reports, Nourse explained to Truman early in his tenure, should have "a background character designed primarily for public education."[9] An agricultural economist by training, Nourse was the former president of the Brookings Institution and of the American Economics Association (AEA) and an opponent of the late New Deal drift towards spending

[9] Nourse, "Memorandum of Personal Conversation with the President," February 12, 1947, Box 3, Folder "Daily Diary 1947-10," Edwin G. Nourse Papers, Harry S. Truman Library (Hereafter HSTL).

and controls. His trust in voluntary restraint among organized power centers to guide national development distinguished those Progressive-era economists from the New Dealers employed in the federal agencies and congressional offices charged with reforming the social structure.[10] Joining these old-line operators from Brookings (Carnegie-endowed), Industrial Relations Counsellors (Rockefeller), and the Twentieth Century Fund (Filene), as well as the business lobbies of the Chamber of Commerce and the National Association of Manufacturers, was the new organization formed out of Jesse Jones's Department of Commerce: the Committee for Economic Development (CED).[11] As we will see, the CED bridged the two worlds of the New Deal and business, hiring onto its research staff such advocates of government controls as Gardner Means and of collective bargaining as Sumner Slichter.

Nourse imagined the nation's economic planning process as primarily a pedagogical activity intended to guide the voluntary private decision-making of the great organized power centers—the manufacturing corporations, the industrial labor unions, and the organized farmers—towards a mutually beneficial and consensual participation in expanding production, consumption, and the development of greater productive capacity. By widely disseminating economic knowledge about the inflationary situation that followed the war—the status of inventories, capacities, and profits in particular markets—the new CEA, Nourse argued, would serve to encourage businessmen, workers, and farmers to voluntarily adjust

[10] Otis L. Graham, Jr., *An Encore for Reform: The Old Progressives and the New Deal* (Oxford University Press: New York, 1967).

[11] Karl Schriftgeisser, *Business Comes of Age: The Story of the Committee for Economic Development and Its Impact upon the Economic Policies of the United States, 1942-1960* (Harper & Brothers: 1960); Collins, *The Business Response to Keynes*.

their production and prices into the national pattern that would bring forth the greatest volume of sales with the lowest increase in prices and the cost of living. Persuading businessmen to raise their break-even points and expand industrial capacity, operating their firms for high-capacity utilization and lower profit margins, many Progressive-era economists argued during the late 1940s, would bring the nation's growing product into the reach of its domestic market. Where businessmen insisted on existing profit margins and workers struck for wage increases, economists such as Nourse preferred rising prices rather than any government-ordered maintenance in the cost of living. Above all, Nourse held both continued deficit spending and the political power of organized labor in suspicion. On both counts he was a man out of his times.[12]

Voluntary agreements over wages and prices proved impossible: the pedagogical method could not overcome the basic struggle over incomes that inhered in the fully mobilized wartime economy. Nor could the economists themselves in the new CEA agree on the principles of the good society to which their economic advice was directed. Freedom, for those thinkers and businessmen who entered government with Harry Truman, entailed a society in which corporation managers held sole discretion over pricing, profit policies, and investment decisions. This could not occur where prices and profits were subject to community control over markets, or where the state entered into the field of financing the

[12] Joseph G. Knapp, *Edwin G. Nourse: Economist for the People* (Interstate: 1979), pp. 175-276. Michael Bernstein, *A Perilous Progress: Economists and the Public Purpose in Twentieth-Century America* (Princeton: 2001), pp. 112; Edwin G. Nourse, *The 1950's Comes First* (Hold: 1951). Though Nourse's career is often addressed lightly for the apparent lack of influence he held within the Truman administration, on the questions of wage-price policy his views were some of the most eloquent official expressions of the administration's thinking.

expansion of enterprise. Nourse and many of like-minded thinkers were partial to these businessmen's views. The electoral coalition built up during the 78th Congress—the CIO PAC, the OPA, and agricultural groups such as the National Farmers Union—drew very different lessons from the war and the political struggle over reconversion. To these later-day New Dealers, the war taught that national control of economic decision making was indispensable, not only to the pre-war dreams of reform but to the wartime objectives of stability itself. This impulse, as chapter 3 shows, revitalized during the 1948 election.

The impasse of the Truman era produced a wildly inflationary situation. In characterizing the postwar expansion, most historians focus on the relatively high employment levels and the unprecedented boom in corporation profits. But for the working class in the US, the period following World War II was one of marked disappointment. The new labor organizations survived, to be sure, but in as an embattled and dependent appendage of the vacillating Truman administration. Between 1946 and 1948, the labor market experienced three full "rounds" of catch-up wage increases, patterned around the gains of the new industrial unions in steel, auto, rubber, and coal and the competition of southern textile firms desperate to hold on to their non-union workers. Rising prices eroded all of these gains: the average workers' real income in late 1948, when the postwar recession finally began, was no higher than it had been in 1945.[13] In the process, the White House

[13] In December 1947, after the second "round," the Bureau of Foreign and Domestic Commerce reported that "the postwar increase in money wages has not resulted in a corresponding gain in real wages, as prices and living costs have advanced along with the increased earnings." In November 1948, after the third round, the Bureau reported "In both periods [from Q2 1946 to Q2 1947 and from Q3 1947 to Q3 1948, roughly the second and third rounds, respectively] the relative increase in average hourly earnings approximates that in the consumers' price index." US Department of Commerce, Bureau of Foreign and Domestic Commerce, *Survey of Current Business*, Vol. 27, No. 12 (December, 1947), pp. 5-9, quote on p. 6 ("Changes in Labor Income"); *Survey of Current Business*, Vol. 28, No. 11 (November, 1948), pp. 7-10 ("Components of Wage and Salary

groped for a middle way between the organizations created by the New Deal and the corporate executives in the Cabinet. In response to labor's defensive wage campaign, the Truman administration convened the Congress for two special sessions, in November 1947 and July 1948, fusing a campaign for price-control legislation to requests for greater spending appropriations for the escalating Cold War. This chapter evaluates the attempts of the Nourse CEA to proselytize the "philosophy of stabilized prosperity" through these debates, from the drafting of the Employment Act of 1946 through the first special session and the passage of the Marshall Plan on the eve of the 1948 election. It traces the problem of stabilizing prices and wages that accompanied reconversion to civilian production and the expansion of the foreign aid spending under the European Recovery Program. Rather than the stable, planned expansion that captivated the minds of those New Dealers who remained in government during Truman's first term, the upturn in the business cycle was dominated by a recurrent spiral of rising prices chased by rising wages.

Debating Reconversion: Summer 1944 to Summer 1945

On the eve of the German defeat and Japanese surrender in the winter and spring of 1945, three questions remained for Congressmen and administrators considering the nation's reconversion program. First was disposal of government plant and cancellation of war

Increases") The percent increase in the average hourly wage for all private non-agricultural workers was about 11.2 percent in the first round, 10 or 9.8 percent in the second round, and 8.3 percent in the third round. Though hourly gains in the second round outpaced the those of the third, these were offset by a reduction in hours worked so that total payrolls increased by similar amounts in both periods. Altogether, the three rounds increased wages less than the 34 percent increase in the CPI between 1945 and 1948, from a level of 128 to 171. The price index for food increased by an even greater amount, from 139 to 205, or 47 percent.; US Department of Labor, Bureau of Labor Statistics, *Monthly Labor Review*, Vol. 69, No. 4 (April 1949), Table D1, p. 492.

contracts. Second was determination of new spending to offset these lost production orders for the nation's employers. Third was the question of wages and prices: how business executives and the new labor leaders would adjust to the shifting of production away from massive military spending.

Initially, planning for the disposal of government plant and cancellation of war contracts fell to WPB. Championed by James Murray's Small Business Committee, Harry Truman's Special Senate Committee to Investigate the Defense Program, and Director of the Smaller War Plants Corporation Maury Maverick, the reconversion program had advanced to a stage of planned re-allocations for civilian use during the summer of 1944. Under Chairman Nelson, the WPB in June announced "spot authorizations" for allocated materials, directing intermediate goods and raw materials to idle plant reconverting to civilian production. Plans were drawn up for priority allocations and "limitation of use" orders, during the war used for military industries, to now direct production to expand in civilian markets, allocating metals, building materials, and rationed commodities to targeted reconverting industries producing consumer goods. Primarily, these producers were subcontractors—parts suppliers—of the few hundred large corporations holding prime contracts with the Army and Navy. As the Office of Contract Settlement reduced prime contracts for final military goods, these corporations cut procurement from the business population of subcontractors, now eager for materials to begin civilian production. But as smaller firms, few could acquire the supply orders allocated for military use until Nelson's "spot authorization" program began.

Nelson's early planning for postwar reconversion ran aground the interests of his staff at WPB. Lemuel Boulware, executive of building insulation manufacturer Celotex and a vice-chairman of WPB, countered Nelson's initiative, proposing limitations on spot authorizations to a subcontractors' prewar volumes. This rule would have preserved existing patterns of civilian production and protected prime contractors tied to military customers from the competition of new businesses for greater shares of their civilian markets. Defying their superior, in July 1944 WPB vice-chairman Charles E. Wilson, president of General Electric, refused to issue Nelson's spot authorizations. Somervell and Clay of the Army and James Forrestal of the Navy supported Wilson's position, arguing that the continuation of the war made any such early reconversion of industrial plant to civilian use ill-advised. Stalemated, Byrnes intervened in the dispute, transferring authority for spot authorizations out of WPB altogether and assigning it to the War Manpower Corporation. His monopoly on industrial rationing broken, in August Wilson resigned the government.

The dispute over spot authorizations delayed reconversion until the fall, but this had a second effect. In winter 1944-5, the German military launched a counteroffensive against the Allied forces in the Ardennes Forest—the Battle of the Bulge. Suddenly, military and prime contractors' claims about the urgency of continued military production carried weight: in December 1944, Byrnes suspended spot authorization orders altogether.[14] In the meantime, the Congress had granted authority over contract settlement and disposal of government

[14] This and the preceding paragraph are based on Barton J. Bernstein, "The Debate on Industrial Reconversion: The Protection of Oligopoly and Military Control of the Economy," *The American Journal of Economics and Sociology* (April, 1967), p. 164, 167, p. 171; Jordan A. Schwarz, *The Speculator: Bernard M. Baruch in Washington, 1917-1965* (University of North Carolina: 1981), pp. 462-3; Lichtenstein, *Labor's War at Home*, pp. 201-6. On earlier disputes between Nelson and Wilson, see Brinkley, *End of Reform*, pp. 195-8.

property to offices independent of OWMR. As late as August 2, three months after the fall of Germany, Max O. Gardner, chairman of the OWMR Advisory Board, complained that "the volume of manpower, materials and facilities released from war purposes have been so small as to make impossible a substantial beginning in reconversion."[15]

After current contract cancellation, the second problem of postwar planning was future government spending. What public funds, if any, would supplant military orders financing current production and employment? "Private enterprise [is the] primary factor in our economy," the original August Hansen-Colm draft "American White Paper" declared. "Government must act as balancing, contributing and sustaining factor." But when did "balancing, contributing, and sustaining" shade into direction, control, and—as business leaders and "small-business" Congressmen argued—domination? Who would set the terms on and purpose of public contracts? The first decisive moment in this debate came during debate over Senator George's OWMR bill. As passed in October, the George bill divided fiscal questions from those of representation in the administrative control agencies. Labor and agriculture would gain influence in oversight of allocations, price controls, and wage policy—but not over public spending.

By December 1944, Senator Murray salvaged the spending obligations excised from the George bill. With a committee of co-sponsors, including Senators Wagner, Thomas, and O'Mahoney, he drafted new spending powers in a second postwar planning bill. Murray and

[15] Minutes of the Advisory Board of the Office of War Mobilization and Reconversion, August 2, 1945, Box 5, George W. Taylor Papers, Ms. Coll 1210, Kislack Center for Special Collections, University of Pennsylvania. (Hereafter OWMR Advisory Board Minutes.)

his allies pressed for enlarged postwar government spending during the annual budget appropriations process. In January 1945, the White House requested a $75 million appropriation for public works during reconversion. To Byrnes's staff, OWMR Advisory Board complained about the inadequacy of the sum. According to the board's meeting minutes, "the consensus [was] that the requested $75,000,000 was conservative." In February 1945, the Congress reduced the amount to $5 million.[16]

On January 22, Murray introduced S. 380, the Full Employment Act of 1945, to the Senate Committee on Banking and Currency and scheduled hearings for late April and May. Drafted by Bertram Gross of Senator Wagner's office; general counsel of the National Housing Agency Leon Keyserling; and Edward F. Prichard, aide to then-Stabilization Director Vinson, the Murray bill embodied the ideas of establishing a new "fiscal authority" that had been percolating in the Roosevelt White House under Budget Director Harold Smith and adviser Alvin Hansen. On February 15, Representative Patman of Texas introduced the same legislation in the House Committee on Expenditures in the Executive Departments. By September, Banking and Currency reported and the Senate voted to approve the original bill. House debate in the Committee on Expenditures began in November, where it the bills progress bogged down in opposition to mandatory spending requirements.[17] By this point, the reconversion process had reached a boiling point, as employers, facing reduced war orders, reduced working time and announced planned wage cuts.

[16] OWMR Advisory Board minutes, February 19, 1945. Bailey, *Congress Makes a Law*, Chapters, 4, 5, and 6.

[17] Bailey, *Congress Makes a Law*, Chapter 5, dates on pp. 104, 116 and 150. Herman Miles Somers, *Presidential Agency: OWMR, the Office of War Mobilization and Reconversion* (Harvard: 1950), p. 85.

This was the third problem confronting reconversion planners: determining how labor income nationally would adjust to the cancellation of war contracts. Since February 1943, factories in war industries had been operating at a mandatory 48-hour week. Under the Fair Labor Standards Act of 1938, ever hour worked per week above 40 paid a half hour's extra in overtime, which amounted to 52 hours pay for 48 hours. The question confronting the war agencies and the Congress was how to sustain labor income once war orders began to fall off, as civilian factories both cutback overtime production and reduced hourly wage rates in preparation for lower-priced civilian orders. For the new union leaders, the question was how to retain control of their increasingly disorderly organizations straining under the collective discipline of wartime wage ceilings and the no-strike pledge.

Organized labor appeared the great new institutional force in national life in 1945. Membership nearly doubled under the National War Labor Board (NWLB), from 8 million to 15 million workers. Since 1933, it had increased more than five-fold since. Over two-thirds of all workers in manufacturing worked under collective-bargaining agreements by the end of the war. In industries such as mining, transportation, steel, automobiles, meat packing, and rubber unions negotiated on behalf of 80 to 100 percent of the workforce. "Measured in numbers, political influence, economic weight, or by any other yardstick," the Chamber of Commerce remarked in 1944, "labor is a power in our land."[18] Yet many of the new labor leaders, having surrendered strikes for three and half years in exchange for participation on NWLB, were eager to press for hourly wage increases to recoup the lost overtime pay and

[18] Quoted in David Brody, "The Uses of Power I: Industrial Battleground," in *Workers in Industrial America: Essays on the 20th Century Struggle* (Oxford: 198), p. 174.

give the direction of campaigning to increasingly militant memberships. In this, the lesson of John L. Lewis, who had finally broken the Little Steel formula for mineworkers in November 1943, was fresh.

Wage policy, however, was inseparable from the wider constellation of decisions over contract cancellation, surplus property, and employment. At the February 1945 meeting of the OWMR Advisory Board, Ted Silvey, director of the CIO's postwar planning program, commented on the need to privilege new and smaller businesses when disposing of war plant and adjusting WPB materials allocations. "Regarding the disposal of surplus plants," the minutes note, "Mr. Silvey stated that they should not be operated by the government even as yardstick operations, but should be sold to private corporations and individuals seeking to go into free competitive business, although it may be advisable for a period of time to lease them for private operation." Silvey recommended government loans to private enterprise, and continuation of GOCO arrangements "until questions of title and appraisal can be determined." "Principles" of demobilization, he continued, should be

> "calculated to prevent the unwinding of this terrifically tight steel spring that we have got coiled up, too quickly. We have wound up this war economy in our whole American system until people can get injured in the rapid uncoiling of it. It should not take much time to unwind the thing gradually. It can be accelerated but it ought to be unwound gradually. These [priorities] are the principles to effect the unwinding."[19]

Given the instrumental role wages played in stabilization, many of the beleaguered stabilization officials in the war agencies and economists at the Federal Reserve held hope

[19] OMWR Advisory Board minutes, February 5-6, 1945, p. 15. Attachment No. 5 to this date includes Silvey's remarks.

that organized labor could provide political leadership to ensure an orderly transition to civilian production. But labor leaders' political demands for control of contract cancellation, government property, and the Murray Full Employment Act, found opposition in both the WPB and the Congress. In May 1945, Philip Murray warned that "if the pronouncements of Mr. Krug [Nelson's replacement at WPB after the spot authorization fiasco] about the probable elimination of controls are carried out, the country will see a wild scramble for scarce materials in which large industries will fare better than small ones." Under such a situation, "strikes and dislocations will ensue." The solution was a managed and planned reconversion: "controls must be continued until the country can move forward without disturbance."[20]

"There is Need for the Enunciation of a New Policy"

Securing restraint from organized labor would require deft use of the mobilization bureaucracy, first among them a managed wage increase. As OES Director William H. Davis explained in March, "it is fundamental that the real wages of workers—standards of living—must rise else a $150,000,000,000 national income can not be consumed; prices and wages must rise to consume it…." Philip Murray advised the Advisory Board "it would be difficult to maintain the confidence of labor organizations in" the OPA and WLB "without reassuring them [labor organizations] that the agencies had V-E Day plans ready or in process of preparation for early announcement."[21] By May, NWLB chairman George Taylor had come

[20] OMWR Advisory Board minutes, May 28, 1945.
[21] OWMR Advisory Board minutes, March 6, 1945.

to agree with the labor representatives. Despite the 20 percent upward drift in employers' wage schedules, an evasion of wage ceilings through reclassification, he told the Advisory Board, the cost of living stood 30 percent higher than the Little Steel formula's base period. The public members of the NWLB had not recommended a "general increase in wages up to now. At this point, however, there is the need for the enunciation of a new policy…"[22]

Within months of Roosevelt's death in April, disagreement in the White House over the degree of compulsory guidance over corporation pricing and production policies exploded into the open. The key decisions were all made during Truman's first six months in office, when presidential attention was absorbed with completing the war and negotiating postwar diplomatic and military claims. In June, Truman appointed former Washington Senator and federal judge Lewis B. Schwellenbach Secretary of Labor. In July, the President appointed Byrnes Secretary of State, and Fred Vinson, who had replaced Byrnes at OWMR just before Roosevelt's death, as Secretary of the Treasury. To replace Vinson atop the stabilization program as Director of War Mobilization and Reconversion, Truman appointed John Snyder, a conservative Missouri banker who had worked his way through Jesse Jones's RFC to become vice president of the Defense Plant Corporation (DPC).[23]

Snyder confronted an agency already preparing for a controlled conversion to civilian production. New-Deal holdovers such as Davis, OPA director Chester Bowles, NWLB chairman George Taylor, and Edward Prichard had prepared a program of allocations to civilian productions, allowing negotiated wage increases to compensate for reduced war

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[22] OWMR Advisory Board minutes, May 28, 1945.

[23] Herman Miles Somers, *Presidential Agency: OWMR, the Office of War Mobilization and Reconversion* (Harvard: 1950), pp. 89-91.

orders, and the maintenance of price ceilings until OPA estimations of supply and demand indicated orderly markets would follow decontrol. "New civilian production would be programmed in much the same way military production has been scheduled," the *Wall Street Journal* reported about the New-Dealers' plans. "As materials become available, the Government would determine what goods they are to be used to produce. Then, each manufacturer would be given a quota and would be given priority assistance to get scarce raw material." Though quotas would be set by industry labor-management committees, the *Journal* reported alarmedly that under the proposed procedure, "the Government would control what is produced, where it is produced and how much is produced." Snyder quickly moved to preclude any such continuation of central allocations, in May suspending allocations for iron and steel and in May and June relaxing priorities for lumber. In July, Snyder appointed the president of the National Association of Real Estate Boards, an ally of business rather than labor, to the office of Construction Coordinator within OWMR. "A close observer said," a former staff economist wrote about the period, "that OWMR was having more trouble coordinating itself than in coordinating the rest of the government."[24]

When the OWMR Advisory Board met in on 13 July, one of the Federal Reserve staffers attending wrote to Federal Reserve chairman Eccles: "Things rocked along pretty easily for a while on generalities, but the meeting was finally galvanized into action with a

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[24] Planners, Labor Fight to Retain Restrictions and Shape Reconversion," *Wall Street Journal*, August 1, 1945, p. 1. US Department of Commerce, Bureau of Foreign and Domestic Commerce, *Survey of Current Business*, Vol. 26, No. 2, p. 18. "Ample Steel Due for All Needs After V-E Day," *New York Herald Tribune*, May 5, 1945, p. 17. Bernstein reports that by May 10, Krug had lifted more than 130 orders. Barton J Bernstein, "The Removal of War Production Board Controls on Business, 1944-1946," *Business History Review*, Vol. 39., No. 2 (Summer 1965), p. 248. Herman Miles Somers, *Presidential Agency: OWMR, the Office of War Mobilization and Reconversion* (Harvard: 1950), p. 91.

statement by Alan Haywood of the CIO." The union officer had just returned from a tour through Akron and Detroit and found that "unless the Little Steel formula was promptly scrapped we could count on trouble." Corporation profits were too high, Haywood argued, and worker leaders made sure their coworkers knew it. Unless the government redistributed these revenues to wages through the OPA and the NWLB, he explained, workers would attempt to secure it for themselves by striking to compel negotiations. Such action, Haywood warned, was imminent.[25] On 7 August, the day after the first atomic bomb was dropped, the Advisory Board expressed "deep misgivings about the soundness of the military procurement program" that had continued after victory in Germany, urging cutbacks in military orders to ease inflationary pressure and proposing "forced execution of special measures to break reconversion bottlenecks." Patton of the Farmers Union, a political organization of farmers sympathetic to the New Deal, urged the Board to call a meeting of "highest ranking chiefs of military and civilian programs" to plan reconversion and to develop wage-price policy, including "retention of price control and rationing on an economic basis—not on a calendar basis."[26]

To whom would labor and industry turn for final decision on the impeding wage-price showdowns? In late June, Schwellenbach arrived in Washington to replace Frances Perkins as the Secretary of Labor. To the members of the NWLB, Schwellenbach's intent to subordinate their independence to Departmental judgement was a cause for discomfort. Before the dropping of the atomic bombs over Japan, NWLB chairman George Taylor had

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[25] Ronald Ransom to Marriner S. Eccles, July 13, 1945, Folder 7, Box 32, Marriner S. Eccles Papers, University of Utah, J. Willard Marriott Library, Special Collections Department. (Hereafter MSEP.)

[26] OWMR Advisory Board minutes, August 7, 1945.

met with Truman to preserve his board's autonomy, which was an indispensable condition for securing private compliance with its decisions by the memberships of the represented organizations—preventing strikes. Schwellenbach aspired to a greater portfolio in the Truman Cabinet than Perkins had under Roosevelt, however. In this, he was urged on by John Steelman.

Steelman was a former sociology professor at Alabama College who served under Perkins as director of the Mediation and Conciliation Services, the agency that attempted to secure voluntary agreements before disputes were submitted to the NWLB. An Arkansas-born, life-long Republican during the era of Harding and Coolidge, Steelman considered his role within the Roosevelt and Truman administrations as that of an apolitical civil-service functionary—when not explicitly as a conservative in what he considered the "helpful position" of liaison between the White House and the administration's opponents in the 79th and 80th Congresses. "Republicans on the Hill, if they wanted to know something at the White House they'd call me," he later remembered. "They'd call up and say, 'On this message Truman sent up here last night, is that the real McCoy or is it politics?' I'd say, 'Well, that's the real McCoy. I helped write that message. We've gotta have this done,' and I'd show them why it's needed, and they'd say 'OK.' Or if it was some political message somebody got the President to send up, I'd say, 'Well, to tell you the truth, Senator, I didn't work on that, I just don't know what the origin of that was.'"[27]

[27] William O. Wagnon, Jr., "John Roy Steelman: Native Son to Presidential Advisor," *Arkansas Historical Quarterly*, Vol. 27, No. 3, pp. 205-25. Quote in Oral History interview with John R. Steelman (1968), *Eisenhower Administration Project*, p. 15, Oral History Archives at Columbia, Rare Book & Manuscript Library, Columbia University in the City of New York.

From Mediation and Conciliation Services, Steelman had mediated, among others, the early stages of the dispute between Lewis and the coal operators during 1943. After leaving Washington to begin a private industrial-relations consultancy, Schwellenbach invited Steelman back to government service during summer of 1945 to help reorganize the Department of Labor. Steelman soon found himself at the center of the convulsing corporatist pattern, working directly with President Truman on an ad-hoc basis to handle large strikes in steel, meatpacking, electrical equipment, coal and railroads. He was a college professor, wrote *Newsweek*, "but nobody has ever called him a brains truster, probably because he looks and sounds more like a big, backslapping Arkansas businessman than like an academician." As Truman explained to reporters in announcing Steelman's appointment, "He is going to be a Special Assistant to the President, to act in any field in which I want to use him." [28]

When Snyder met with Davis, Taylor, and Schwellenbach to discuss wage policy on August 10, Davis and Taylor urged Snyder not to place the NWLB under Schwellenbach's control. "We were in general agreement as to what needed to be done," Bowles later remembered, "that is, that the government should take the leadership and make an adjustment, or propose an adjustment, of wages up to about 10 percent on wage rates on the promise from the unions that they would not strike before a period of, say, 18 months, and they would stick to their jobs."[29] Rather than subordinate NWLB to Schwellenbach, Davis and Taylor urged the board be used to convene a national conference of labor and business

[28] "From the Capital," *Newsweek*, September 2, 1946, p. 25. Harry S. Truman, The President's News Conference Online by Gerhard Peters and John T. Woolley, The American Presidency Project https://www.presidency.ucsb.edu/node/230838.

[29] Reminiscences of Chester Bowles (1963), Oral History Archives at Columbia, Rare Book & Manuscript Library, Columbia University in the City of New York, p. 195-6.

leaders to hammer out an agreement on wage policy for the transition period that would preserve industrial peace. Schwellenbach, however, was jealously opposed to this idea.[30]

On August 13, when Schwellenbach, Davis, and Taylor met with President Truman to discuss the proposal, the Secretary of Labor brought his Arkansas counselor as a witness to the meeting. The Secretary began to read a memorandum laying out his position on the matter of NWLB autonomy. During the war, he began, "the Department of Labor lost nearly everything but its name. Labor boards and labor agencies grew like weeds all through the Federal government—except in the Department of Labor. For a variety of reasons, it seemed wise to create a War Manpower Commission, a War Labor Board, and labor units in the Army, Navy, and War Production Board to mention only a few. Bureaus and bureaucracies flourished, payrolls increased, and the consumer of labor service, when not utterly confused, had an opportunity to 'shop around' among agencies to see where he could get the best deal…" Schwellenbach asked that "all significant labor functions in the Federal government be transferred to the Secretary of Labor" and that "the War Labor Board be transferred to the Secretary of Labor for immediate liquidation." Then Schwellenbach paused, realizing a blunder he was about to make, and continued reading: "After a lifetime of study and seventeen-and-a-half years of experience in labor relations…" The memorandum had been

[30] This details of the meetings between Truman, Schwellenbach, Davis, and Taylor between August 10 and August 15 are taken from J.A. Livingston, "Was a Labor Crisis Necessary?," November 21, 1945, pp. 1-26, Folder 2, Box 2, George W. Taylor Papers, George W. Taylor Papers, Ms. Coll 1210, Kislack Center for Special Collections, University of Pennsylvania.

written by Steelman on the Secretary's behalf, as Davis, Taylor, and Truman all now learned.[31]

The President agreed with Taylor to issue a call for a national conference of labor and business leaders to agree to principles for a national wage policy for the reconversion period. The conference would be scheduled, at Taylor's advice, one month hence on September 15. The next morning, 14 August, Snyder sent Davis and Taylor to meet with Schwellenbach to finalize the agreement over the conference and the future of the NWLB. The board would remain independent, under the control of its members, the President would announce a labor-management conference That evening, Davis prepared a statement for the President explaining the procedures for continuing the operations of the NWLB to preserve labor peace until the September conference. He delivered the memorandum to Snyder, who opposed the entire program. [32] Then, on 15 August, Japan surrendered.

The next day, 16 August, Truman announced a new national wage policy. He called for a national conference of labor and management leaders to meet after September 5, when Congress reconvened from its summer recess, "for the purpose of working out by agreement means to minimize the interruption of production by labor disputes in the reconversion period." The NWLB would approve all voluntary wage increases by employers, on the

[31] "Conversion Parley Held by Truman," *Washington Post*, August 14, 1945, p.1. This and the next paragraph draw on Livingston, "Was a Labor Crisis Necessary?," November 21, 1945, Folder 2, Box 2, George W. Taylor Papers.

[32] As Snyder later explained, Bowles and the New Dealers in Washington had "wanted to control materials and direct where they would go, which was an impossible procedure in a free enterprise system in peacetime. They were going to decide where every piece of lumber should go, where every brick went, and to say that you could build a building here for the purpose of selling groceries and deny another man material for doing something else that this particular group didn't' think was necessary at the time. They wanted to make judgements on what could be done and what couldn't be done, which I thought was completely inequitable in times of peace." Oral history interview, John W. Snyder, January 10, 1968, p. 233, Truman Library.

condition they not be used as the basis for petitions to OPA for price increases. In dispute cases, the ceiling for wage increases ordered by the board would be lifted. Finally, the President explained that after the conclusion of the labor-management conference, the "War Labor Board should be terminated." Truman was attempting to find consensus between his advisers where none was possible, splitting the difference between Schwellenbach and Davis. The concession to Schwellenbach, however, vitiated the program. For how could the NWLB expect adherence from employers who knew of the imminent expiration of its authority? Further undercutting the authority of Davis and Taylor, the President further explained the new administration would end the wartime practice of plant seizures in industrial disputes, the primary recourse for the government to ensure production from recalcitrant employers and adherence to OES orders.[33] The next day, Truman issued Executive Order 9599 directing Stabilization Administrator Davis to approve wage and salary increases "where the percentage increase in average straight time hourly earnings in the appropriate unit since January 1941 has not equaled the percentage increase in the cost of living between January 1941 and September 1945"—a rough rule of thirty percent. Under the order, Davis would hold ultimate discretion over wage and price decisions.[34]

Because Byrnes, Snyder, and Julius Krug of the WPB had refused to authorize allocations of industrial materials for the civilian market before victory in Europe and Japan,

[33] "Truman Gives Authority to Raise Wages," *Los Angeles Times*, August 17, 1945, p. 1. Harry S. Truman, Statement by the President Proposing Measures To Insure Industrial Peace in the Reconversion Period. Online by Gerhard Peters and John T. Woolley, The American Presidency Project https://www.presidency.ucsb.edu/node/231272.

[34] Harry S. Truman, Executive Order 9599—Providing for Assistance to Expanded Production and Continued Stabilization of the National Economy During the Transition from War to Peace, and for the Orderly Modification of Wartime Controls Over Prices, Wages, Materials and Facilities Online by Gerhard Peters and John T. Woolley, The American Presidency Project https://www.presidency.ucsb.edu/node/278117.

the fall off of military orders was immediate. Within days of the Japanese surrender, the WPB began to remove the rationing orders on raw materials and industrial goods that had kept prices below OPA ceilings throughout the war. All but 40 of the agency's 400 orders were removed by August 16. The board soon repealed order L-41, effective October 15, which had set price ceilings on new construction, limiting residential housing to $8,000 per unit, in order to limit total demand to necessary housing construction. The ceiling on construction prices was raised to $25,000 and immediately lumber shortages spread as commercial and industrial projects secured materials from smaller home builders. Where WPB priorities were maintained, such as for the auto manufacturers' steel orders, they privileged many large buyers and preserved wartime relationships. Scarcities appeared in industrial and building materials. [35]

Snyder and Schwellenbach therefore came into sharp conflict with the corporatist momentum of the OWMR and the stabilization agencies beneath it. As the government gave employers the "go-ahead" for uncontrolled production, unions across the nation announced strike deadlines to negotiate higher wages and preserve wartime incomes. The day after the Japanese surrender, the director of the union's General Motors department in Detroit, Walter Reuther, announced a bargaining position of a 30-percent hourly wage increase without a change in auto prices. Already, in June, Reuther had submitted this argument in "voluminous

[35] "Plans Given As Controls Are Reduced," *Hartford Courant*, August 15, 1945, p. 1; "Truman Lays Down Policy for Return to Free Economy," *New York Times*, August 19, 1945, p. 1; "Industry Gets Go-Ahead Sign On Production," *Christian Sciecne Monitor*, August 21, 1945, p. 1. Barton, J. Bernstein, "The Removal of War Production Board Controls on Business 1944-1946," *Business History Review*, Vol. 39, No. 2 (Summer 1965), p. 252. On L-41, see Bernstein, "The Removal of War Production Board Controls," pp. 254-6; US Department of Commerce, Bureau of Foreign and Domestic Commerce, *Survey of Current Business*, Vol. 26, No. 2. (February 1946), p. 18.

economic briefs" to the OPA. "It was actually the first time in the history of collective bargaining that a conscious effort was made to win the consumer as an ally in the wage struggle," Victor Reuther later wrote, "and to put the onus for an inflationary spiral right on the backs of the employers, where it belonged." On 19 September, the UAW renounced the no-strike pledge and petitioned the government for a strike vote, set for October 24. In Detroit, workers began to prepare for a strike, spreading the slogan "52 for 40 or fight."[36]

To hostile opinion about their reconversion policy, Snyder, Schwellenbach, and Krug rebutted that business was prepared to lead the way to expanding civilian production and employment. WPB director Julius Krug argued that immediate cessation of WPB priorities would help to accelerate civilian production, "clearing the way for industrial expansion that will create employment for millions." In industry after industry, executives and trade associations warned that they would be unable to expand civilian production and capacity under existing price ceilings. Particular markets, such as cotton goods, were already experiencing shortages. "Loss-producing ceilings imposed by the OPA make it impossible to fulfill the WPB prediction that plentiful supplies will be available to the public," said Roy A Cheney, president of the Underwear Institute, a trade association of garment manufacturers. "The public is in for a terrific disappointment…. WPB has stirred up the public hopes; now it is up to the Government to make the realization of those hopes possible"—by releasing firms

[36] Barton J. Bernstein, "Walter Reuther and the General Motors Strike of 1945-1946," *Michigan History*, Vol 49, No. 3 (September 1965), p. 261. Lichtenstein, *Walter Reuther,* p. 228-9. Victor Reuther, *The Brothers Reuther and the Story of the UAW: a Memoir* (Houghton Mifflin: 1976), pp. 248-9. The allusion of the workers' slogan was, of course, the presidential campaign of James K. Polk in 1844, "Fifty-four, forty or fight," which threatened a third war with the British over the line of latitude of 54°40'; that campaign ended, instead, in a war with Mexico.

from production and price limitations. On behalf of the stove manufacturer's lobby, a young Maurice Stans organized a letter-writing and public-relations campaign to persuade the public that, unless stoves were removed from price control, there would be a shortage of home cooking equipment. "Some of these lobbies were pretty rough," Bowles later remembered.[37]

Davis's wartime record and his sympathies for a national wage policy drew sharp employer objections. To ensure markets for full-employment production, the New Dealers who remained in OWMR and its subsidiary agencies had been arguing for a national increase in hourly wage rates of 20 to 30 percent while keeping prices controlled and regulated by OPA. When, in early September, Davis explained at a press conference that rising wages reflected a long-term historical norm, businessmen nationally recoiled with scandal. Since WWI, Davis explained, increases in output per manhour had been reflected in higher money incomes rather than in lower product prices. The falling unit costs that accompanied high-capacity production had not, on the whole, been passed on to the public in a falling price level. Rather than compelling employers to share productivity gains of with the public, which had not occurred before the war, reconversion policy would follow historical precedent of increasing wages under stable prices to compensate workers for, and give employers incentive to continue, declining unit labor costs. How much would wages increase? Given

[37] "WPB Acts to Spur Building of Plants For Civilian Output," *New York Times*, August 14, 1945, p. 1; "WPB is Challenged by Underwear Group," *New York Times*, August 21, 1945, p. 27; Reminiscences of Chester Bowles (1963), Oral History Archives at Columbia, Rare Book & Manuscript Library, Columbia University in the City of New York, p. 160-2, quote on p. 160. US Congress, Senate, Committee on Finance, *Revenue Act of 1945: Hearings Before the Committee on Finance on HR 4309*, 79th Cong, 1st Sess (Washington: 1945), p. 227.

the increase in the cost of living and the reduction of overtime pay rates, Davis reasoned a national wage increase of 40 to 50 percent. "Mr. Davis asks for more juice than is in the orange," National Association of Manufacturers vice president Walter Weisnberger responded. "Adoption of his proposal would promptly result in the stoppage of American industry as we know it." Davis's statement, wrote labor economist Leo Wolman of the NBER, "violate accepted standards of common sense and they fly in the face of universal experience. They are, indeed, demagogic policies, in the sense that they promise a good deal more than they can possibly deliver."[38] The prospect of a national wage policy marked a clear break between the New Deal thinking that had emerged during the war and the earlier Progressivism of the NBER.

When, at a White House press conference two weeks later, a reporter asked Truman about Davis' comments, the President denied that the OES director spoke on behalf of the administration. The President told reporters that, as the functions of the NWLB would be absorbed by the Department of Labor, Davis's OES would soon be merged with Snyder's OWMR. When the journalist asked about Davis's position under the new arrangement, Truman responded brusquely that the former OES director would be out of a job. "Nobody in this government is going to make a statement like that until after such a policy is discussed between members of the Cabinet and Snyder," Schwellenbach assuaged businessmen. The

[38] "Weisenberger Attacks Davis's Wage-Rise Plan," *New York Herald Tribune*, September 9, 1945, p. A10. "Challenges Davis on Pay Rise Plan," *New York Times*, September 9, 1945, p. 37; "Post-War Dilemma is Facing Industry," *New York Times*, September 9, 1945, p. 64; Leo Wolman, "New Economic Policy Can't Work if Controls Are Lifted, as Promised," *Washington Post*, September 16, 1945, p. B5. "Labor Department Given Funds and Powers of 3 Agencies," *Washington Post*, September 19, 1945, p. 1.

next day, the President accepted Davis's resignation. Snyder appointed John Caskie Collet, also of Missouri, to replace him.[39]

Not until 25 October did Schwellenbach and Steelman secure a date, schedule, and list of representatives to participate in the President's labor-management conference. In the intervening weeks, the economy began to unravel. During late August and early September, Bowles had spoken with labor leaders Reuther, Green, Murray, and Carey, who agreed to developing reconversion program so long as it occurred immediately.[40] Davis's firing and the delay in the labor-management conference allowed events to overtake the administration. Increasingly, labor disputes were straining the formal oversight of public authority. In the weeks between Truman's August 16 announcement and the planning of the labor-management conference, the members of the NWLB agreed to dissolve themselves. The AFL unions and the mineworkers, in alliance with the employers, agreed that the time had arrived for laissez faire in collective bargaining. The CIO and the public members, who preferred continued operation, realized that, with the administration's renunciation of seizure powers, their orders would have little authority over employers. "I don't think in this period the board should attempt to lay down a long-term policy," Taylor told the *New York Times*. About the Board's decision to liquidate, he said "The board is unanimously of that feeling." In late

[39] "Patterson Gets Stimson Post; Shake-up Hits Labor Board: All Controls Shifted to Schwellenbach," *Los Angeles Times*, September 18, 1945, p. 1. "Labor Department Given Funds and Powers of 3 Agencies," *Washington Post*, September 19, 1945, p. 1; "Davis Resigns as OES Chief," *Baltimore Sun*, September 20, 1945, p. 6; "President Takes Sting out of Davis' Quitting," *Los Angeles Times*, September 20, 1945, p. 2. "Davis Resigns, Hints He Was Misunderstood," *New York Herald Tribune*, September 20, 1945, p. 12; "President Accepts Davis' Resignation," September 20, 1945, p. 19. Barton J. Bernstein, "The Truman Administration and its Reconversion Wage Policy," *Labor History*, Vol 6, No. 3, pp. 222-3; Livingston, "Was a Labor Crisis Necessary?," November 21, 1945, pp. 20-1, Folder 2, Box 2, George W. Taylor papers.

[40] Reminiscences of Chester Bowles (1963), Oral History Archives at Columbia, Rare Book & Manuscript Library, Columbia University in the City of New York, p. 195-6.

September, miners began a series of walkouts. In Detroit, autoworkers struck Kesley-Hays, a parts supplier for Ford, stopping production at the much larger corporation. On 3 October, after six weeks delay, General Motors president Charles E. Wilson (Charles Erwin Wilson, "Engine Charlie" of the auto industry, unrelated to Charles Edwin Wilson, "Electric Charlie" of General Electric) formally responded to the UAW's bargaining letter by rejecting outright the union's authority to bargain over industry prices and explaining that, in any case, the corporation would be unable to pay an increase in wages without an increase in prices. On October 5, having failed to settle a dispute in the oil industry, Truman belied his earlier promise and seized 45 oil refineries and 4 pipelines to maintain the flow of fuel.[41]

On 15 October, Truman summoned the members of the now-defunct NWLB for suggestions on how to handle the situation. The group advised the President to appoint fact-finding panels in each of the mushrooming disputes. Already, the administration urged businessmen to voluntarily adopt a low-margin, high volume pricing strategy. In late October, the Advisory Board attempted to influence policy by requesting a "Statement of Facts on Wage-Price Policy" to inform the mushrooming problem of granting reconversion wage-and-price adjustments. The OWMR report found that corporate profits after taxes for 1946 likely to amounted to $6.3 billion and that, with the end of overtime production and repeal of the excess profits tax, this would allow an average 24 percent wage increase across

[41] "Little Steel Rule Virtually Over," *New York Times*, August 18, 1945, p. 1; "Truman Lays Down Policy for Return to Free Economy," *New York Times*, August 19, 1945, p. 1. Livingston, "Was a Labor Crisis Necessary?," November 21, 1945, Folder 2, Box 2, George W. Taylor papers. John L. Blackman, *Presidential Seizures in Labor Disputes* (Harvard: 1967), p. 275. By August 16, the government found itself in possession of over 300 trucking firms, machine shops, retail stores, one railroad, and several manufacturing plants, including about half the locations of the Montgomery Ward corporation.

industry.[42] Snyder's staff produced a summary of the report which stated "for business as a whole there is elbow room for granting of wage increases within the existing price structure" and that "Granting of wage increases [by employers] does not have to wait for not will it preclude the subsequent granting of permission to have them considered for purposes of price increase."[43]

Would discrete, industry-specific dispute boards maintain industrial order? In response to wage demands, employers turned to Bowles's OPA for price relief. During the war, prices had been adjusted every one-to-three months. With victory in Japan, petitions for price increases flooded the agency's 75 district offices. For firms with less than $200,000 in sales (between $2 and $2.4 million in current dollars), which comprised 85 percent of those released from military production, Bowles delegated all individual adjustment decisions to the district level and provided for automatic approval after 20 days if there was no OPA response. But in a number of key industries—auto, interstate bussing, petroleum refining, and slaughterhouses—business executives claimed OPA price decisions were delaying civilian production. When Bowles dispatched OPA officials to Detroit to secure cost information in determining 1946 prices, they were told by auto-industry officials that the figures would not be available until the middle of September. When the accounting information finally arrived on October 12, Bowles's staff considered the data too insubstantial to accurately determine the firm's costs as a basis for a price change. By October 22, Henry Ford was complaining directly to John Snyder that "OPA was holding up reconversion by delaying prices for

[42] NYT October 15, 1945. BS October 25, 1945.
[43] OWMR AB minutes October 24, 1945. "Wage-Price Policy."

industry, and particularly for Ford."[44] So numerous were employer requests for individual price adjustments that in October, President Truman amended Executive Order 9599, allowing automatic approval of all NWLB wage increases and announcing a six-month waiting period between the grant of any wage increase and OPA approval of price relief on the basis of labor costs. In effect, Truman was postponing the adjustment of prices to an increase in wages nationally, compelling employers to either absorb the greater labor costs or confront their workers directly.[45]

Within organized labor, the better organized skilled trades had already begun to push against the concept of a national wage policy which might restrain their bargaining power. [46] When, on 5 November, Truman finally opened the President's long-awaited Labor-Management Conference, the proponents of a national wage policy found themselves outnumber by both the AFL unions and the employers. Philip Murray began the conference with a resolution endorsing a general rise in wages. William Green opposed the principle of federal rules governing collective bargaining. John Lewis argued that "The miners could not afford to vote for a resolution offered by the CIO that bound labor to a cost-of-living formula, giving labor a chance to advance its wages only as the price of milk, children's

[44] Chester Bowles to John Caskie Collet, November 6, 1945, Folder "Stabilization Administration Chester Bowles," Box 12, John Caskie Collet papers, Truman Library.

[45] Harry S. Truman, Executive Order 9651—Amending Executive Order 9599, Providing for Assistance to Expanded Production and Continued Stablization of the National Economy During the Transition from War to Peace, and for the Orderly Modification of Wartime Controls Over Prices, Wages, Materials and Facilities Online by Gerhard Peters and John T. Woolley, The American Presidency Project https://www.presidency.ucsb.edu/node/230929. David Brody, "The Uses of Power I: Industrial Battleground," in *Workers in Industrial America: Essays on the 20th Century Struggle* (Oxford: 1980), p. 174; Robert H. Zieger, *The CIO: 1935-1955* (University of North Carolina: 1995), p. 212-227; Nelson Lichtenstein, *State of the Union: A Century of American Labor* (Princeton: 2002), p. 102; Alonzo Hamby, *Beyond the New Deal: Harry S. Truman and American Liberalism* (Columbia: 1973), pp. 65-71.

[46] See the testimony William Green in the minutes of the OWMR Adivsory Board for April 16-17, 1945.

shoes or straw hats advanced." Truman's price policy, Lewis continued, was the cause of low production in the auto and steel industries. Employers agreed. Benjamin Fairless of US Steel argued that "collective bargaining could not accomplish anything until OPA authorizes adequate increases in ceiling prices for steel products." "We say we are for free enterprise," the mineworkers' president declared. "We are opposed to a corporate state and all its manifestations as expressed in the CIO resolution." On the question of whether the WLB should hear all wage cases, the AFL voted with employers again negatively, while the public members voted with CIO: six to six. Labor divided clear in half.[47]

On November 21, three weeks into the conference, as it became clear that no principles for reconversion could be agreed to even among the labor members, the UAW struck General Motors. Historians have invested the UAW strike with the broader social-democratic impulse of the wartime plans for labor-management cooperation in determining corporation policies on pricing, investment, and operation of industry. Indeed, along with the brewing dispute in steel, and the slow avalanche of strikes then beginning with meatpacking workers, petroleum refining, and northeastern and midwestern bus drivers, it was one among many work stoppages that placed the terms of production after World War II straightly to the public and the administration in Washington. Yet the timing of Reuther's decision was equally a product of a narrower syndicalist tradition in American labor history, by which

[47] Livingston, "Was a Labor Crisis Necessary?," November 21, 1945, Folder 2, Box 2, George W. Taylor papers."CIO's Resolution Assailed by Lewis," *Baltimore Sun*, November 9, 1945, p. 1; "Lewis and Murray Clash Over Wages at Labor Meeting," *New York Times* November 9, 1945, p. 1; "Lewis Demands Early End to Price Controls, Attacks CIO Wage Stand At Labor-Management Conference," *Wall Street Journal*, November 9, 1945, p. 2; "Mr. Lewis Steals the Show," *Hartford Courant*, November 10, 1945, p. 6; "Lewis Makes Sense," *Newsday*, November 10, 1945, p. 5; "The Nation," *New York Times*, November 11, 1945, p. 62. Taylor had long advocated for permanent voluntary arbitration boards, with workers retaining right to strike, to replace WLB. OWMR Advisory Board minutes, April 1945.

workers sought to operate their own industries independently of state and nation—to take ownership of their workplaces. By targeting their wage demands to a single employer's ability to pay, the auto workers' leaders cleaved their program away from the encompassing national wage policies of stabilized full-employment planning. Their single-firm strategy unintentionally reproduced the "welfare capitalist" inheritance of the 1890s and 1920s: wage demands tied to individual employers' productivity, independent of labor productivity nationally or a national wage policy, that diverted national income to workers within a single industry, with little gain for workers across the labor market. In fact, this was precisely what Reuther had hoped to avoid. But without greater representation at the November labor-management conference, and with a turbulent city on the verge of disorder, Reuther waited no longer for labor's united front.

"Labor… Had No Program": The President's Labor-Management Conference of November 1945

Among many small and medium manufacturers and distributors, the basic terms of the debate over the postwar state during the reconversion crisis of the winter of 1945-6 remained those of the summer and autumn: rapid decontrol, WPB's Krug and many businessmen argued, promised a boom in production and investment. Southern Democrats and the Republican Party agreed. "If we can get production, prices will come down by themselves," Senator Taft said in November 1945, arguing against extension of price control authority during the Labor-Management Conference. "If we hold prices at a point where no one can make a

profit, there will be no expansion of existing industry and no new industry in that field."[48] Those sympathetic to business leaders urged a return to prewar patterns of corporation autonomy, restricted federal expenditure, and tax reduction. John H. Williams, Dean of the Harvard Graduate School of Business Administration and vice-president of the Federal Reserve Bank of New York, argued that unregulated price increases would stimulate production and raise the supply of goods. Many opponents of the civilian planners in the wartime government argued OPA price ceilings contributed to rising prices and scarcities by curtailing production. Continued federal control of prices and quantities, said W.W. Cumberland, partner at the investment banking house Ladenberg, Thalmann & Co., would "bring about increases in commodity prices."[49]

The UAW-GM dispute had the effect of decentralizing the industrial disputes by challenging the leadership of CIO President Philip Murray. In November, the membership of the United Steel Workers of America (USW), whose leaders had since October bargained with executives of the industry leader, US Steel, voted overwhelmingly to authorize a strike. At Truman's request, Murray postponed the strike until resolution of the labor-management conference. Once the autoworkers put down tools at General Motors, the momentum in the escalating class struggle moved towards this central industry. Halted production in Detroit would limit supply of civilian vehicles; halted production in Pittsburgh would stall production throughout all metal-using industries. In response to Murray's bargaining letters,

[48] Taft to businessmen, quoted in *Commercial and Financial Chronicle*, December 13, 1945, excerpted in *The Truman Administration: A Documentary History*, eds Barton J. Bernstein and Allan Matusow (Harper & Row: 1966), pp. 59-61. Notably, Taft did not yet support tax reduction.

[49] "Snyder Finds Gains in Inflation Fight," *New York Times*, October 17, 1945, p. 33.

steel industry executives had petitioned OPA for a $7-a-ton price increase. Bowles flatly refused their request on the grounds that more expensive steel, a basic input into most of the manufacturing and construction industries, would cause cost increases to ripple through the economy in a cascade of higher materials costs and final prices. Privately, Bowles assuaged US Steel chairman Roger Blough that OPA might grant a $2- to $2.50-a-ton increase later on in the reconversion process, once the labor struggle had stabilized.[50]

On 3 December, the Monday after the dissolution of the Washington labor-management conference, Truman announced he would appoint members to a fact-finding board in both the auto and steel industries. At the same time, he requested Congress pass before its 21 December recess legislation authorizing him to appoint "fact-finding" boards to rule in labor disputes. The bill included a thirty-day prohibition on strikes during the duration of the boards' investigations.[51] The President's proposal pleased labor's opponents in the Congress, who would control the powers granted to any statutory boards. Because the proposed boards would prohibit strikes during their fact-finding periods, William Green, President of the AFL, judged the proposal "unacceptable to labor." Conservative Democrats and Republicans were favorable to the idea. "Cotton Ed" Smith of South Carolina, Robert Taft, Edward Ball of Ohio, and Arthur Vandenburg offered support. Businessmen's fears about the gradual encroachment of government and labor into their former monopoly on

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[50] Barton J. Bernstein, "The Truman Administration and the Steel Strike of 1946," *Journal of American History* (March 1966), p. 791-803, p. 793; Barton J. Bernstein, "The Truman Administration and its Reconversion Wage Policy," *Labor History*, Vol. 6, No. 3, p. 230; Lichtenstein, *Walter Reuther,* p. 238.

[51] "Unions Fight Truman Plan as Backward Step for Labor," *Christian Science Monitor*, December 5, 1945, p. 12; "Truman's Labor Proposals to be Put in Congress Bill; Murray Assails President," *New York Times*, December 5, 1945, p. 1.

investment, production, and pricing decisions naturally finessed itself into public concern that the essence of the "American system" be preserved by any fact-finding board arrangement. George Romney, the representative selected by Detroit auto executives as their lobbyist to the wartime control agencies, had long warned that "the excessive power of the CIO must be decentralized," lest the trend toward industry-wide bargaining continue after the war. Bargaining between all of the workers in an industry against a coalition of employers was, Romney argued, "a first step down the road to cartelization of the industry and the corporate state." The question for Romney was "who is going to run the automobile plants, unions or management?" Echoing Romney's concerns for the auto industry, Senator Taft argued that any fact-finding legislation the Congress consider specific boards with jurisdiction over single firms rather than entire industries.[52]

On the afternoon of 3 December, UAW President R.J. Thomas, Walter Reuther, and George Addes met for three hours in Detroit to discuss a telegram from the President announcing the formation of the fact-finding board. "On the basis of the statements contained in President Truman's telegram to me, we do not favor the proposal for ending the strike," said Thomas. "Why wasn't that [fact-finding] committee appointed 100 days ago?" All three expressed indignation that the President had not spoken with them before issuing the proposal. Reuther remarked that Truman met with General Motors President Charles Wilson

[52] "Truman Calls on Congress for Strike Curb Legislation," *Los Angeles Times*, December 3, 1945, p. 1; "Anti-Strike Moves Loom in Congress as Parley Result," *New York Times*, December 2, 1945, p. 1; "Truman Asks for Thirty-Day Strike Curb, Calls for End of G.M. Walkout; U.A.W. to Act on Plan Saturday," *New York Herald Tribune*, December 3, 1945, p. 1A; "Note to Congress: Plan Would Apply to Major Firms, Depend on Public Opinion," *New York Times*, December 4, 1945, p. 1; Romney quoted in "Post-War Autos Face Output Cuts," *New York Times*, May 3, 1945, p. 17.

on October 19. "I certainly would not be willing to go back to work with only the President's proposal as the basis for settling the strike. I would vote to continue the strike," said Reuther. "I, too, would vote to continue the strike. I would want something more tangible than what has been proposed," added Addes.[53] Thomas and Reuther departed that evening for Pittsburgh to confer with Murray. On Tuesday, 4 December, speaking from Pittsburgh, Murray took the airways to respond to Truman's proposal. "I am profoundly disturbed at the implications inherent in the President's proposal," Murray explained. It was "but the first step for ever more savage repression." Faced with the challenge of reconversion, with wage cuts across manufacturing industry, and with the withdrawal of billions of dollars of procurement contracts, Murray continued, the administration had "completely ignored human rights" while "appeas[ing]" industry "with ever greater opportunities for increased profits at the expense of the American people."[54]

Shortages of radios, washing machines, and children's clothing were due not to strikes, Murray explained, since work stoppages had not spread to these industries. Rather, the cause of shortages, the union leader explained, was the repeal by Congress of the excess profits tax, which gave manufacturers an incentive to withhold sales and stop production

[53] "Truman Asks for Thirty-Day Strike Curb, Calls for End of G.M. Walkout; U.A.W. to Act on Plan Saturday," *New York Herald Tribune*, December 3, 1945, p. 1A; "U.A.W. Heads Cool to Truman Plea in Strike," *New York Herald Tribune*, December 4, 1945, p. 1A.

[54] "Text of Philip Murray Speech," *New York Herald Tribune*, December 5, 1945, p. 2A; "Union Head Breaks with President, Sees Policies of Roosevelt Dropped," *New York Herald Tribune*, December 5, 1945, p. 1; "Murray Charges Truman Aims to Destroy Unions; CIO Fights Labor Plan," *New York Herald Tribune*, p. 1; "Truman's Labor Proposals to be Put in Congress Bill; Murray Assails President," *New York Times*, December 5, 1945, p. 1; "Murray Splits with Truman," *Los Angeles Times*, December 5, 1945, p. 1; "Unions Fight Truman Plan as Backward Step for Labor," *Christian Science Monitor*, December 5, 1945, p. 12; "Murray, Lewis, Reuther Open Fire on Program as Threat to Workers," *Baltimore Sun*, December 5, 1945, p. 1; "Labor Unites to Oppose Truman Bill," *Austin American Statesman*, December 5, 1945, p. 1; "Union Calls Off GM Conference," *Austin American Statesman*, December 5, 1945, p. 1.

until January 1. Any losses in the current year could be charged against employers' excess-profit accounts with the IRS. "Faced with these conditions," Murray asked, how could the White House attribute blame to the nation's workers for the disintegrating economic situation? The Truman administration did not criticize the "diabolical plot of American industry," but rather sought legislation directed against organized labor. The former Scottish mineworker, who had taken over the industrial union federation and led it through wartime collaboration with the government, was now driven to hyperbole: the President's requested powers, he said,

> "can have but a single purpose—the weakening of labor unions—the curtailment of the right of free men to refrain from working when they choose to do so….The design of the specific legislative proposal is to weaken and ultimately destroy labor union organizations. It can be but the first step for ever more savage legislative repression. For this reason, the CIO shall mobilize its entire membership and the American people to defeat this specific measure and all similar attempts directed against labor."[55]

The signal to industry was clear. The night of Wednesday 5 December, the leaders of General Motors, General Electric, Westinghouse, US Steel, and Bethlehem met at the Waldorf-Astoria Hotel in New York City for the annual gala of the Congress of American Industry, sponsored by the National Association of Manufacturers (NAM). NAM President Ira Mosher embraced Truman's call for fact-finding legislation, provided it did not allow for compulsory arbitration. The "management delegates went into that conference [the Washington labor-management conference]," Mosher said, "with a wholehearted

[55] "Text of Philip Murray Speech," *New York Herald Tribune*, December 5, 1945, p. 2A.

determination to find answers to as many of our present industrial relations problems as possible. Labor, on the contrary, had no such program."[56]

The Passage of the Employment Act and the End of OPA

Congressional debates on the Full Employment Act in the summer and fall of 1945 took place against this backdrop. The House held hearings in October and November, just as the wage-and-price disputes began breaking into strikes in the busing, meatpacking, and auto industries. In October, Treasury Secretary Vinson met with the House Ways and Means and the Senate Finance Committees, urging repeal of the "excess profits" tax, effective January 1, and a general reduction in corporation and income taxes. Congress granted the request, signaling its support for the rapid return to prewar patterns of power and authority within industry. By November, Truman had signed the tax reduction into law. In the opinion of many of the opponents of continued federal spending, the proposals entailed in the Murray-Wagner bill contained the threat of future inflation and federal controls over private property. "Of course, government can guarantee full employment if it is prepared to set up a totalitarian government," read the minority report of the Senate Banking Committee on the legislation. "Hitler did it. Stalin does it."[57]

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[56] "Full Employment Backed by Mosher," *New York Times*, December 6, 1945, p. 1; Alfred Friendly, "American Industry's Grand Strategy," *The Nation*, January 19, 1946, pp. 62-3.

[57] US Congress, Senate, Committee on Banking and Currency, *Assuring Full Employment in a Free and Competitive Economy*, 79th Cong, 1st Sess. (Washington: 1945), Report No. 583, p. 4. The signatories of this report, delivered September 22, 1945, were Radcliffe, Taft, Thomas, Butler, Capper, Buck, and Hickenlooper. Bailey, *Congress Makes a Law*, p. 113. Barton J. Bernstein, "Charting a Course Between Inflation and Depression: Secretary of the Treasury Fred Vinson and the Truman Administration's Tax Bill," *The Register of the Kentucky Historical Society*, Vol. 66, No. 1, pp. 53-64.

Thursday, 6 December, Senator Ellender of Louisiana introduced the administration's fact-finding bill for labor disputes in the Senate. Immediately, the Senate Education and Labor and House Labor Committees began hearings on Truman's proposal. The initial proposals included authority to examine employers' books, in addition to a 30-day mandatory "no-strikes" cooling-off period. The bill stalled amid the competing demands of the stabilization program. Having voted a six-month extension of the Second War Powers Act, with the sole exception of seizure powers, the House of Representatives turned to consideration of the Murray Full Employment Act, recently approved by the Senate. The upper chamber, failing to extend War Powers, scheduled the remainder of its hearings on the fact-finding bill until after it returned from holiday recess, on January 14.[58]

When US Steel and the USW met again to continue collective bargaining on January 10, the food component of the consumer price index had risen 40 percent in 56 of the nation's large cities. At the President's request, Murray delayed the steelworkers' strike deadline until January 21. Union petitions to the NLRB to authorize strikes had mushroomed to a rate of 700 a month.[59] Already, Snyder had attempted to break the OPA price line. Privately, the Treasury Secretary promised Blough a $4-a-ton price increase, ordered Collet to override Bowles's in issuing the price increase, and scheduled a press conference to announce the decision a few days before USW and US Steel were scheduled to continue bargaining. When Murray learned that the industry would be awarded price relief before the settling a wage contract, he called Secretary Schwellenbach to warn him of the danger to the

[58] *Congressional Digest*, "Truman's Labor Fact-Finding Boards," Vol. 25, No. 1 (January, 1946), pp. 1-32.
[59] "Time Lost in Strikes May Reach New High," *New York Times*, December 2, 1945, p. E10.

stabilization program of granting the price change. Schwellenbach caught Snyder in the hallway before the announcement and persuaded him to delay. With White House pressure, Blough and Murray agreed the next week to a 19.5-cent hourly wage increase, below the union's 25-cent target but well above what the company had said it could afford. Executives of the smaller corporations of the steel industry—Eugene Grace of Bethlehem, Ernest Weir of National, and Tom Girdler of the Republic, at whose Chicago plant ten striking workers had been killed on a picket line for union recognition in 1937—refused to sign on to the Blough-Murray agreement. As Musgrave and Williams of the Federal Reserve staff later wrote to Eccles, "segments of business hope to accomplish one or more of the following objectives by refusing to produce or bargain with labor: break or weaken the unions in various ways; increase the chances of obtaining a conservative Congress and administration; break OPA and open the way for making a killing and at the same time eliminate the major remaining Governmental source of irritation. To the extent that business is motivated by these considerations, more liberal profit margins won't help."[60]

On the morning of Wednesday, 16 January, the nation's meatpacking industry shut down as the "big four" of Amour, Cudahy, Swift, and Wilson took a strike of 263,000 workers. The decision to end negotiations came after the employers' failed to secure price relief from the OPA. The same day, under similar circumstances, the United Electrical Workers called out 200,000 workers in electrical equipment industry's "big three"—General Electric, Westinghouse, and General Motors' electrical division. For eight weeks, the

[60] Bernstein, "The Truman Administration and the Steel Strike of 1946," *Journal of American History*, Vol 52, No. 4, p. 793-4. Musgrave and Williams to Eccles, February 4, 1946, Folder 9, Box 32, MSEP.

autoworkers had been on strike at General Motors' auto factories. For nine weeks, the Teamsters had struck in the interstate trucking companies in the middle west, prompting 13 Senators to plead with President Truman to seize and operate the struck trucking firms. The day before New Years' eve, negotiations between 17,000 telephone operators and Western Electric broke down, leading to repeated announcements of a sympathy strike by the entire 260,000-member National Federation of Telephone Workers throughout the first two weeks of January. The steel impasse now threatened to add 800,000 workers across 30 states to the picket lines, closing down an industry vital to nearly all other manufacturing and construction firms across the nation.[61]

That afternoon, executives from US Steel and officers of the USW met at the White House to discuss the President's last-ditch proposal—18.5 cents an hour increase—to avoid the strike. They did not reach a settlement. "Truman Set to Seize Mills," the *Wall Street Journal* reported in that evenings' paper. On the night of Friday, 18 January, Bowles wrote to the President advising just such a course of action. "The program is pretty much at a crossroads," Bowles explained. With strikes multiplying, Truman faced a "very basic decision." "In my opinion it may be the most important single decision that the

[61] "Fact-Finders Ask New Bargaining in GM, Oil Cases," *New York Times*, December 22, 1945, p. 1; "Greyhound Balks on Retroactivity," *New York Times*, December 22, 1945, p. 3; "Truman Stand Called Threat to Capitalism," *New York Times*, December 23, 1945, p. E3; "Truman Gets Plea in Phone Dispute," *New York Times*, December 30, 1945, p. 2; " W.E. Strikers Plan to Urge Phone Tie Up," *New York Herald Tribune*, January 7, 1946, p. 7; " Seizure Averted," *New York Times*, January 14, 1946, p. 1; "Back of Mr. Truman's Expectations," *Christian Science Monitor*, January 2, 1946, p. 24; "White House Plan: Give Steel a Price Rise Big Enough to Block Strike," *Wall Street Journal*, January 16, 1946, p. 1; "Labor Truce Near With Big Wool Firm; Steel Leaders Meet," *Christian Science Monitor*, January 17, 1946, p. 1; "Meat Strike May Affect Meat Grains," *Christian Science Monitor*, January 18, 1946, p. 9; "Steel Shutdown On, 55,000 Already Out; 750,000 to Strike Tonight Across Nation; Hopes of Settlement Fade in Washington," *New York Herald Tribune*, January 20, 1946, p. 1.

Administration will be called upon to make. It seems to me that we must decide during the next two or three days whether to attempt an orderly retreat from the present hold-the-line program or to fight it out vigorously on the basis of the present program which has been successfully established since May 1943." The solution the OPA Administrator urged was to "hit with the utmost vigor at what I believe to be a hold up on the part of a few groups in industry who have made up their minds that they are bigger than the US Government and bigger than the American people." Bowles explained: "I believe the meat packers plants should be taken over immediately by the government." Workers should be invited to return to work on the argument that doing so would protect farmers' real incomes, operating the plants to take livestock off the market and preventing a further rise in the price level. Since it was the employers who were precipitating strikes, workers were likely return to the factories if the administration seized control. The government should operate the plants within the present wage-price policy, increasing wages thirty percent without increasing prices. "I would then move in the same manner on steel," Bowles continued.[62]

Truman did not take Bowles's advice. Monday, 21 January, workers in the steel industry joined those in auto, meatpacking, transportation, and sundry other industries closed across the nation for strikes or lock-outs. Continuation of the price stabilization program was the central demand of the great strike wave then underway, the largest in US history, for

[62] Chester Bowles to Harry Truman, January 18, 1946, Folder "Stabilization Administrator Chester Bowles," Box 12, Papers of John Caskie Collet, Truman Library. That morning, US Steel announced it would not accept the President's proposal of 18.5 cents before the USW strike deadline. Later afternoon, Bowles and Schwellenbach had met with the leaders of two of the nation's meatpackers' unions, the United Packinghouse Workers and the Amalgamated Meat Cutters and Butcher Workmen, and executives from the meat industry's four leading corporations, Armour, Cudahy, Swift, and Wilson. "CIO Accepts, US Steel Says No to Truman," *Christian Science Monitor*, January 18, 1946, p. 1.

wage increases without price increases. In the year after V-J Day, five million workers participated in over 4,600 work stoppages amounting to 120 million person-days withheld from employers. By January 1946, the Truman administration's anti-inflation program for the reconversion of US industry had appeared pregnant with the possibility of a fundamental and dramatic expansion of public authority into the citadels of corporate power that had, since the Civil War, come to dominate the key productive industries shaping the evolution of American life. Under the UAW's leadership, "open the books" became the singular demand of the movement's radical wing, as the union asked General Motors to demonstrate its inability to adhere to stabilization guidelines. But the strike wave was as much a spasm of desperation as it was a coordinated assault on the corporate order that to many workers, union leaders, and New Dealers appeared captured by the large employers and the military. Truman seized no more plants after meat and petroleum; the steelworkers union waited four weeks before accepting, on 15 February, an 18.5-cent hourly wage increase, the original amount the little steel company executives had demanded. The autoworkers stayed out until March 13, finally winning an increase that matched steel plus a one-cent-an-hour benefit.

The steel settlement signaled the final end for OPA and the broader pattern of wartime economic stabilization. "In its day-to-day operations," Bowles wrote to Truman on 24 January, "OPA encounters chronic reluctance and frequent refusal by other agencies to exercise the powers they posses to aid the stabilization program." Rather than enforce allocations and appeal to producers to wait out the wage increases, the offices of economic management had "one solution to suggest to OPA for almost every problem: Increase the

ceilings or remove the controls." The uniquity of this view, Bowles, complained had spread to employers. The reason the administration confronted a "strike crisis" was

> "because business has come to believe the Administration will not stick to its wage-price policy. The industries engaged in the present wage controversies are confident that, by defying the Government, they will win concessions. They have banded together, ready to exploit the first sign of retreat. This is simply the age-old bargaining tactic of meeting the appearance of weakness with a show of strength."

Bowles again urged the President to substitute a "program of positive action" for "the policy of 'retreat'": "the situation has now drifted so far that seizure in steel as well as in meat seems essential."[63] Nevertheless, at the end of the second week of the steel strike, Truman met with Snyder, Byrnes, Vinson, and the industrialist Bernard Baruch to agree to alter OPA policy to approve a $5-a-ton increase in the price of steel. Four days later, Bowles resigned. To preserve the stabilization program, Truman offered Bowls a promotion to Director of OES, which the advertising executive accepted, hoping to present the steel price increase as a special exception to the general wage-price policy. Nevertheless, under Snyder's direction, a new order was drafted repealing the six-month waiting period after wage increases for producers to petition for price relief. On 14 February, the President announced the order along with Bowles's promotion to OES. The next day, Fairless and Murray signed a wage contract in steel, setting the standard for wage agreements across the nation.[64]

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[63] Chester Bowles to President Truman, January 24, 1946, Folder 2, Box 2, John Caskie Collet Papers, Truman Library.

[64] Barton J. Bernstein, "The Truman Administration and the Steel Strike of 1946," *Journal of American History*, Vol 52, No. 4, pp. 798-800; Harry S. Truman, Statement by the President Upon Issuing Order Modifying the Wage-Price Policy. Online by Gerhard Peters and John T. Woolley, The American Presidency

On 22 January, a conference committee of the Congress took up the two versions of the Full Employment Act of 1945 passed by the Senate and House. Over the course of the month of the December, the House had written the Murray-sponsored legislation, excised its spending obligations, proposing instead the creation of an office within the Presidency responsible for drafting annual economic reports and a committee in the Congress for hearing and debating them. Reflecting these changes, H.R. 2202 also took a new name: The Employment Act of 1946. Following the tax reduction law and supplanting the debate over fact-finding legislation, the Congress on 31 January passed the revised Employment Act of 1946, establishing the CEA and the Joint Economic Committee (JEC) in the Congress. On 2 February, Truman signed the bill into law.[65]

While Bailey has thoroughly explored the debate over these bills in the Congress in his classic work, for our purposes here it is instructive to understand the ways the debate over full employment powers were understood by contemporaries to be inseparable from the wider array of what would soon be thought of as "supplemental" controls to fiscal-monetary "fundamentals." Sumner Slichter, professor of industrial relations at Harvard, represented the most concentrated expression of enlightened business opposition to the unaltered Murray bill. As a member of the research advisory boards of both the CED and the Twentieth Century Fund, he was poised to understand the monumental implications for economic development in the US posed by the growth of labor-union power and the expanded role of government

Project https://www.presidency.ucsb.edu/node/232455; Harry S. Truman, Statement by the President Concerning Reestablishment of the Office of Economic Stabilization. Online by Gerhard Peters and John T. Woolley, The American Presidency Project https://www.presidency.ucsb.edu/node/232459.

[65] For the dates of the conference committee, see Bailey, *Congress Makes a Law*, p. 222-9.

spending. A Republican opponent of the Roosevelt administration, Slichter was in the period after World War II arguably the nation's most popular general economist, writing regularly for the *New York Times* and the *Atlantic*, and helping to organize the Industrial Relations Research Association (IRRA), the new professional society of labor economists, business and union statisticians, attorneys, and journalists devoted to studying what he called the "new collective bargaining economy" that had grown during the war.[66]

The Murray act, Slichter wrote, confronted the government with the decision to "either to spend tens of billions to put the last five or six million people to work or to establish elaborate controls over wages, prices, investment, and also over the decision of what is to be produced." As a proponent of collective bargaining, Slichter's perspective represented one of the limit cases of enlightened business opinion. He supported the continuation of controls past the summer of 1946 and would not countenance the program of many executives to attempt to break the new mass-production unions.[67] But he would not support planned deficit spending or any formal federal employment guarantee, objecting philosophically to the Murray bill as a policy that would fundamentally alter the national character. "Such a community [that guaranteed employment]," he wrote, "will produce timid conformists and multitudes of people whose ambition is to get on safe payrolls, but it will not produce pioneers, it will not open new continents, it will not produce great science, art, or

[66] *Atlantic Monthly* used Slichter's portrait for the cover of its June 1950 issue, and the writer's opinions were published as features in the *New York Times Magazine* no less than eighteen times between 1945 and 1950. Ronald Schatz, "A Portrait of the IRRA's Founders as Young Men," *Labor Law Journal*, September 1, 1998, pp. 1157-1162.

[67] "Biggest U.S. Boom in History is Seen," *New York Times*, January 8, 1946, p. 27. "Prof. Slichter on OPA," *Wall Street Journal*, January 9, 1946, p. 6.

literature. History records no case of a nation that became great by seeking security." Instead of guaranteeing employment, he argued, government should encourage the "willingness to take chances," making it easier to start businesses by lowering taxes on high incomes and capital gains.[68]

Similarly, Edwin Nourse of Brookings thought the federal government incapable of judging the investment needs of the nation's thousands of communities. "How far can the government go toward making such investments and expenditure [as Senator Murray's bill provided] without investing in public works that either have limited productive value or else must duplicate or supersede the investments of private business?" he asked. The expansion of government spending to offset slackening private investment would replace the decentralized interplay of multifarious individual judgements, the seemingly apolitical direction of markets long championed by the price theorists:

> "Government cannot go very far toward underwriting total employment without taking over large sections of mining, manufacture, and trade. It must not only enlarge its activity in the traditional areas of education, care of the indigent, and protection against fire and flood, damage, crime, and military danger. It moves progressively to such guarantee of total consumption as puts even the personal pattern of life, food, clothes, houses and amusement more and more out of the range of free choice. This is the pathway on which there is no resting point short of the totalitarian state."[69]

Conflict in the Congress over control of the nation's spending powers paralleled debate over the management of the federal debt. Such debate would be crucial to explaining

[68] Sumner H. Slichter, "More Job Givers Wanted," *Fortune* (October 1945), pp. 160-1, 190, 193-4.

[69] Edwin Nourse, "Can Full Employment Be Guarnateed?," unpublished manuscript written in response to *Harper's* forum of February 1946, Folder "CEA Staff File, Nourse, Edwin," Box 1, Edwin G. Nourse Papers, Truman Library.

the postwar inflation, and played no small part in the revival of quantity-theories of the price level during the late 1940s. During the Second War Loan, between December 1942 and May 1943, the amount placed with nonbank investors rose to $13.5 billion. Commercial banks once again absorbed $5 billion. But even as the share of Treasury subscriptions by nonbank investors increased, commercial bank holdings of Treasury debt continued to rise. Institutional investors—insurance companies and trust funds—were selling their bonds to the commercial banks in search of cash and higher-yield instruments. This was the result of what brokers and bankers called "playing the pattern of rates" or "rolling down the curve" or "playing the pattern of rates."[70] As bondholders sought to maximize their portfolio returns in a money market where the Federal Reserve closely manipulated values on the growing volume of government debt, many brokers and portfolio managers exchanged their lower-return, short-term issues for the higher-return, medium- and long-term securities. This had the effect of raising the prices of medium- and long-term issues, depressing their yields and driving down returns on financial assets generally. In the face of low yields throughout the money market, large holders of funds turned increasingly toward speculative activity, particularly real estate, to raise earnings. With investors increasingly unable to earn returns on Treasury securities, bankers turned for profits to business loans and mortgages for

[70] By selling appreciated bonds and reinvesting into new government obligations of similar maturities, banks could realize profits without taking any new risk. The effect was to drive up long-term bond prices above par and push down long-term yields. "Rolling down the curve" see Testimony of Thomas McCabe in US Congress, Joint Committee on the Economic Report, *Monetary, Credit, and Fiscal Policies*, 81st Cong., First Session (GPO: 1949); Sproul to Eccles, July 9, 1947: "the tendency of banks to reach for longer-term securities, and the downward pressure on long-term interest rates, which are the inevitable consequences of maintaining the wartime pattern of short-term rates, continues," Folder 5, Box 11, MSEP.

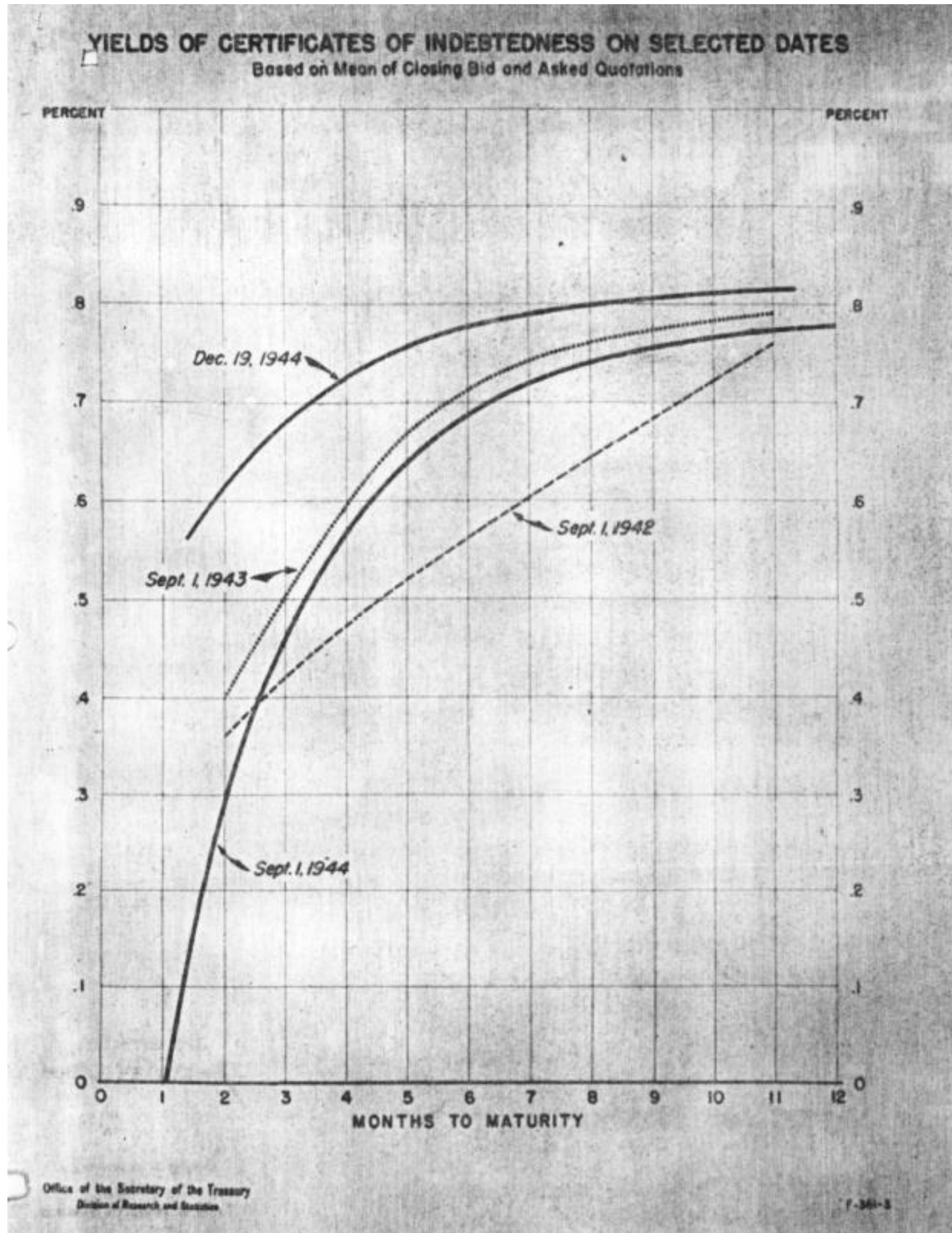

Figure 1: The movement of the yields on the schedule of Treasury obligations from 1942 to 1944 shows the Federal Reserve's attempt to compel investors to purchase government debt, a reaction to increased selling in the bond mar the government at guaranteed prices. From Henry Morgenthau to Marriner S. Eccles, December 22, 1944, Folder 1, Marriner S. Eccles Papers.

speculative purchases on rising values. As the Governor of the Home Loan Bank Administration wrote to Eccles in the fall of 1943, the "natural tendency to follow appraisals upward in urban real estate trading" had created "a kind of low-grade infection" of rising values "[with] which we are struggling to control."[71] This "inflation in capital values" as it was known, became a central aspect of the debate within the Federal Reserve and the Congress over how to manage the full-employment economy into the late 1940s.[72]

As Eccles wrote, "We have been placing far too much reliance upon borrowing from the banks, far too little upon taxes and the savings of the people"[73] Southern Populists like Wright Patman thought similarly, but blamed Eccles for the result. Questioning Eccles in the hearings on federal finances in April 1943, Patman argued that the growth of federal borrowing from the commercial banking system might reach a point at which the public would no longer tolerate the collection of taxes to pay off bondholding bankers. "I am apprehensive that one of these days the banks will have so many government bonds upon which they receive interest that there will be a clamor in this country," Patman said. "Why pay the banks 3 ½ billion dollars a year interest when they only have 3 ½ billion invested in capital stock; why not take all the banks over and save that 3 ½ billion a year interest?" Patman proposed a greater share of the Treasury debt be financed through non-tradeable,

[71] James Twohy to Marriner Eccles, September 2, 1943, Folder 11, Box 31, MSEP.

[72] Folders 9 and 11, Box 31; Folder 8, Box 10; Folder 1, Box 11, MSEP. See, for example, the Office of War Information "Farmers and the Fight Against Inflation" which warned primarily against rising land prices, Folder 12, Box 31, MSEP.

[73] Marriner S. Eccles to James Byrnes, November 13, 1942, Folder 5, Box 31, MSEP.

non-interest paying savings bonds placed with private individuals.[74] His opposition to centralized ownership of federal debt on Wall Street grew not out of the war, but from the unresolved conflicts of the New Deal, which, as we will see, persisted to shape national life well into the Nixon era. Only historiographic attention to the politics of the cold war and the concept of the "postwar consensus" has obscured these continuities.

It was against this constellation of arguments about the appropriate role of government spending and the monetary causes of inflation in the spring of 1946 that the Congress turned to the annual appropriation for the OPA. The end of price control came violently and combatively amid the general disorder of the reconversion crisis and the flamboyant rhetoric that accompanied it. OPA maintained price ceilings, but shortages across retailers became widespread. In attempt to keep food prices down, Congress appropriated sufficient funds to continue subsidizing agricultural producers for the period until OPA authorization expired in June. In April, responding to meat shortages, OPA augmented its price control program to include production quotas for the slaughterhouses, lowering slaughter weights to economize grain and ensuring a minimum quantity and quality of rationed meat.

Farm Bloc opposition hit its peak during the meat shortage. Just as Steelman had attempted to thread the political needle between organized labor and the manufacturing

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[74] "Criticism in Congress of Bank Earnings on Government Debt," unsigned memo, September 21, 1944, Folder 1, Box 11, MSEP.

By 1944, Eccles had begun to propose legislation to extend the regulatory powers of the Federal Reserve System and raise taxes on property speculation. After the spring of 1943, when consumer rationing and price control were strengthened, commercial banks had come to hold large deposits created by war finance allowing them to raise their reserves and lending powers. Cf. *ifra* p.

corporation executives, so too did Agriculture Secretary Clinton Anderson attempt to placate both consumers and farmers in administering USDA controls. In May, Anderson signaled his own retreat to ranchers and slaughtermen, inviting them to disobey the government. During a congressional hearing that month, a Senator asked the Agriculture Secretary how long the department would wait before evaluating the effectiveness of the new slaughter quotas. At this point, it was implied, a decision on their continuation could be made. Anderson responded "ninety days." If meat shortages continued after that point, he explained, the controls would have to be considered failed policy. Thereafter buyers and sellers in the meat market knew how long to wait for higher prices. Immediately, cattle growers put their herds to range and pulled them from market for slaughterhouses.[75]

The private spending boom that followed the removal of WPB controls in August 1945 and the expiration of OPA in June 1946 itself produced shortages and inflation of immediate concern to businessmen and workers. As former Roosevelt Brains Truster Raymond Moley, the long-converted anti-New Deal pundit, wrote during summer 1946, "confidence, the essential ingredient of well-being, is absent. Aside from the unhappiness caused by shortages of all kinds, the feeling prevails that this boom is a temporary affair."[76] In August and September 1946, as one indication of the poor profit expectations of many capitalists, the price of stocks traded on the New York Stock Exchange collapsed, eliminating over $18

[75] Barton J. Bernstein, "Clash of Interests: The Postwar Battle between the Office of Price Administration and the Department of Agriculture," *Agricultural History*, January 1967, pp. 51-2; Meg Jacobs, *Pocketbook Politics*, pp. 222-226. Cf. Bowles, *Promises to Keep*, pp. 94-5.

[76] Raymond Moley, "Our Unhappy Boom," *Los Angeles Times*, June 7, 1946, p. A4.

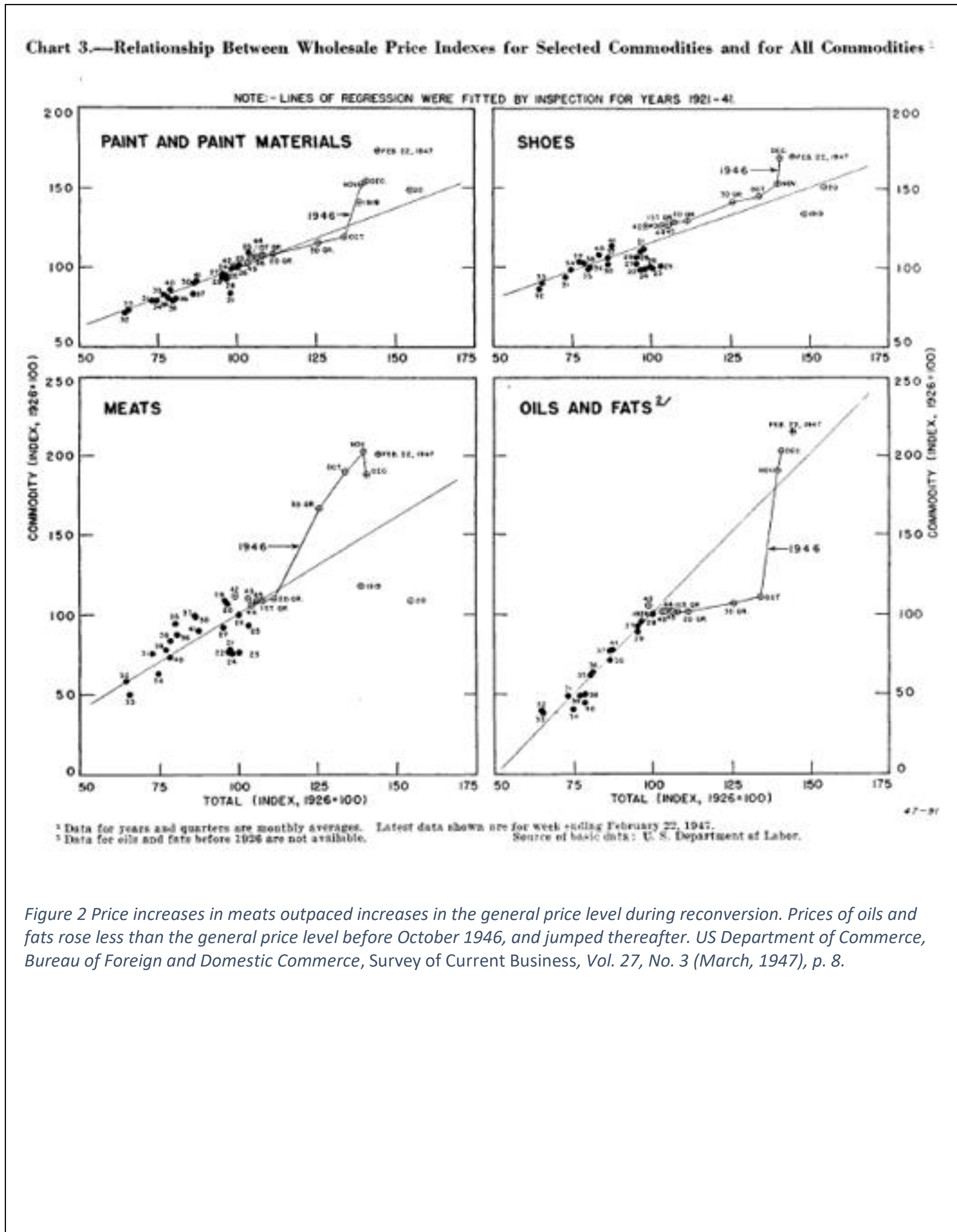

Figure 2 Price increases in meats outpaced increases in the general price level during reconversion. Prices of oils and fats rose less than the general price level before October 1946, and jumped thereafter. US Department of Commerce, Bureau of Foreign and Domestic Commerce, Survey of Current Business*, Vol. 27, No. 3 (March, 1947), p. 8.*

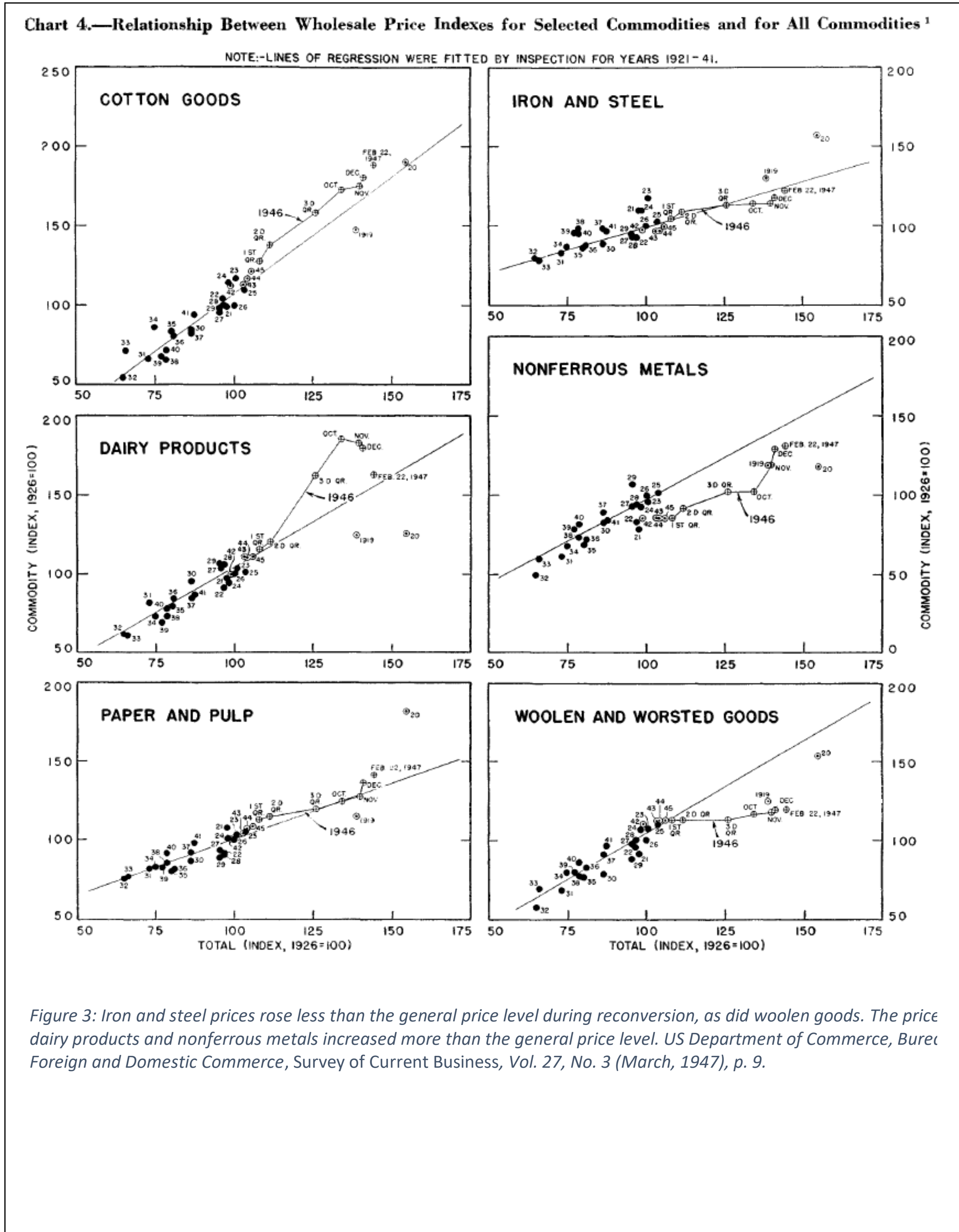

Figure 3: Iron and steel prices rose less than the general price level during reconversion, as did woolen goods. The price dairy products and nonferrous metals increased more than the general price level. US Department of Commerce, Bure Foreign and Domestic Commerce, Survey of Current Business*, Vol. 27, No. 3 (March, 1947), p. 9.*

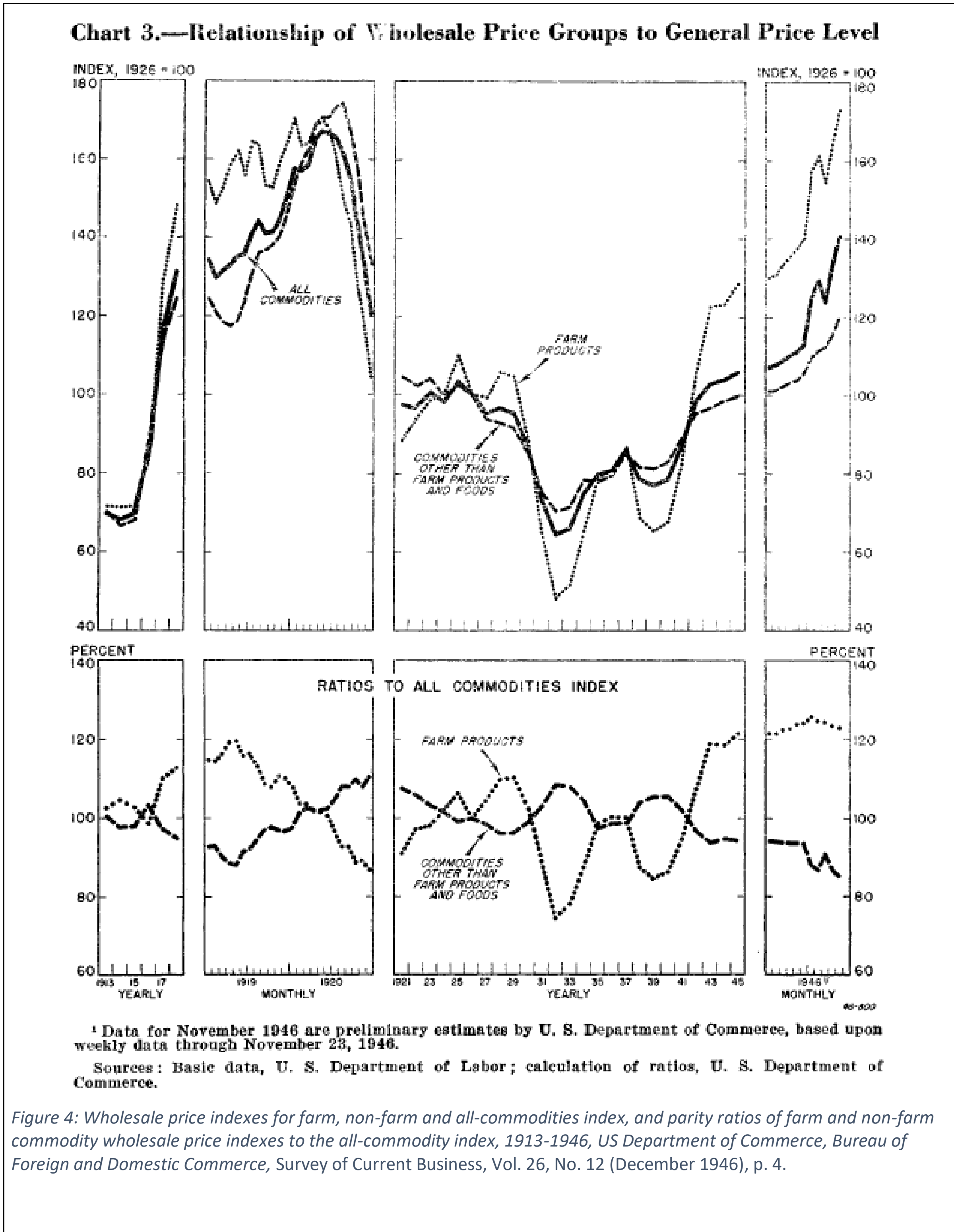

Figure 4: Wholesale price indexes for farm, non-farm and all-commodities index, and parity ratios of farm and non-farm commodity wholesale price indexes to the all-commodity index, 1913-1946, US Department of Commerce, Bureau of Foreign and Domestic Commerce, Survey of Current Business, Vol. 26, No. 12 (December 1946), p. 4.

billion in value—over one fifth of the total listed value of all shares.[77] Truman vetoed the first OPA renewal in June after Congress sent him legislation removing all prices from control, as a statute incompatible with his stabilization program. In July, the President reluctantly approved a substantially similar OPA authorization, removing nearly all price ceilings and establishing a "Decontrol Board" to oversee commodities referred to it for re-control. For 25 days, OPA had gone without Congressional authorization. The Decontrol Board could not re-impose controls before August 20.

The structure of the inflation underway was acutely understood within the government's statistical agencies. Farm prices rose 12 percent from June to July of 1946, and another 7 percent from July to December, deviating the most—and propelling—the increase in the general price level. This deviation was an acceleration of a trend begun during the war, when farm prices rose far above their "parity" level with non-farm prices, and continued until the congressional battles of 1943 empowered OPA to subsidize producers. In the period from June to December, three-fifths of the wholesale price index increased from 5 to 50 percent, with an average rise of 19 percent, mostly comprising manufactured goods. One-tenth of the items in the wholesale price index increased by more than 100 percent. This last group—exclusively farm products, processed foodstuffs, and raw materials—included fresh beef, bacon, cured hams, glycerin, corn oil, linseed oil, and raisins. These were also goods considered to have a "flexible" price, meaning price changes occurred much more frequently than others. According to the Department of Commerce calculated, during reconversion the

[77] Survey of Current Business, S-19, S-20. March 1947. The total value of all shares listed on the New York Stock Exchange reached $84 billion in May 1946 and fell to $65.7 billion in November 1946.

average price increase of such flexible-price goods was more than 33 percent; for inflexible-price goods, the average price increase was 10 percent.[78] As Galbraith would come to argue, "it is relatively easy to fix prices that are already fixed."[79]

Before the expiration of OPA's authorizing law in June 1946, both OPA and USDA had continued their program of slaughter quotas amid a national meat shortage. By then only the prices of sugar, rice, and rent remained controlled. "Democrats were going to lose unless they could do something about the controls," the Chairman of the Massachusetts Democratic Party, John F. Cahill, later remembered about the elections that November. When the New England party leader called White House aide Matthew Connelly to ask about how the White House could help Democrats with the problem of shortages, he was told nothing more could be done. "I spoke to [Massachusetts Governor] Maurice Tobin about it," Cahill later remembered, "and suggested that Maurice, under his emergency powers as governor, could go out and buy all of the meat that he could lay his hands on, cattle, and bring it in here and slaughter it and have it on the counters, which would automatically divorce the Massachusetts Democrats from the overall picture." Governor Tobin considered the idea "too radical" and went down in defeat to his Republican rival in November 1946, along with 53 Northern Democratic candidates for the US Congress.[80]

Within the Federal Reserve, too, proposals to stem the rise in prices during the early months of 1946 met with charges of radicalism. To reduce speculative use of credit in

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[78] US Department of Commerce, Bureau of Foreign and Domestic Commerce, *Survey of Current Business*, Vol. 27, No. 3 (March, 1947), pp, 4-7.

[79] Galbraith, *A Theory of Price Control* (1952), p. 17; cf. Galbraith, *A Life in Our Times*, pp. 173-4.

[80] John F. Cahill, recorded interview by John Stewart, September 27, 1967, pp. 9-10, John F. Kennedy Library Oral History Program.

response to the "inflation in capital values" during the war, Chairman Eccles had proposed a 90-percent capital-gains tax on profits earned on assets held less than three years. It was a deliberately confiscatory increase in the tax on short-term capital gains. "What must be curtailed are those increases which are of a speculative nature and reflect a merely temporary wartime addition to earning power rather than a more permanent level of higher earnings," Eccles had written to OWM director Vinson. "Unless checked, speculative purchases, even where small in value relative to legitimate purchase, will inflate prices and thereby force the legitimate buyer to partake in a general inflation of values. A heavy tax on profits derived from capital transactions will curtail or eliminate the incentive for speculative purchasers but it will interfere little with bona fide investments made with the intention of a continued holding of the asset."[81]

Taxing short-term capital gains was imperative, for the alternative method of restraining the inflation in capital values was to curtail all investment activity, depressing production and employment. "A drastic curtailment of credit," Eccles warned, "would interfere severely with credit transactions of all kinds…"[82] Even the orthodox bankers on the Federal Reserve Board of Governors shared this aversion to raising interest rates in fighting inflation. As New York Federal Reserve President Allan Sproul wrote to Eccles in spring 1946, "In our own bailiwick I do not think any of us believe that we can get tough—that is, resort to a substantial increase in interest rates and a substantial decrease in the money supply as anti-inflation weapons. Even if it were political possible, it would not be economically or

[81] "Controlling the Inflation of Capital Values Summary of Statement Made by Chairman Eccles," September 1, 1943, Folder 9, Box 31, MSEP.

[82] *Ibid.*

socially desirable, because the consequences would probably be more drastic than we should want or intend."[83]

Rather than considering such a speculation tax, the 78th Congress, under Vinson's urging, cut income taxes and repealed the excess-profits tax. As Edward Prichard, assistant to OWMR Director Vinson and himself a New Dealer, noted in February 1945, "this proposal [on speculation taxes] would have no chance of acceptance in Congress and… its publicity effects might be most damaging." Though both Treasury Secretary Morgenthau and Ohio Senator Robert Taft supported Eccles's tax proposal, Senate Finance Committee Chairman Walter George doubted that "any special tax on speculation would be significant."[84] In November, during the President's Labor-Management Conference, Vinson's appeal to the Congress succeeded, greatly increasing the liquid funds available to corporations during 1946. During the spring and summer of 1946, as the Congress debated continuation of price control and rationing, the staff within the Federal Reserve anticipated disaster. "It is extremely difficult to find a clear-cut and logically consistent solution to the present problem," Federal Reserve staffers Richard Musgrave and Kenneth Williams wrote to Eccles.

> "Too many of our bridges already have been burned. Some of them cannot be restored at all; others can be restored only partially. These bridges include: repeal of the excess profits tax; destruction of the prestige and power of the War Labor Board; elimination of practically all direct controls over production; failure to prevent the development of a 'boom' psychology in real estate, security markets, and in some commodity markets. The basic issue is not solely one of wages and prices, but also of

[83] Allan Sproul to Marriner S. Eccles, April 24, 1946, Folder 9, Box 32, MSEP.
[84] *Business Week*, "Eccles Tax Plan," March 3, 1945, p. 74.

> power and politics. Thus, segments of business hope to accomplish one or more of the following objectives by refusing to produce or bargain with labor: break or weaken the unions in various ways; increase the chances of obtaining a conservative Congress and administration; break OPA and open the way for making a killing and at the same time eliminate the major remaining Government source of irritation. To the extent that business is motivated by these considerations, more liberal profit margins won't help."[85]

In the context of demobilization, the Eccles program for taxes and banking regulation ran against the relaxation of controls and the urge to reduce tax obligations in both the White House and the Congress. Eccles led the Board of Governors to lobby the Treasury for higher short-term interest rates to reduce banks "playing the pattern of rates." He lobbied White House aide Clark Clifford, the Treasury, and the Congress for a program of "secondary reserves" to empower the Federal Reserve system to require member banks to maintain holdings of government bonds at a certain percentage of their loans.[86] In late June, as the President prepared to veto the first price de-control bill passed by the Congress, Eccles wrote Truman and Snyder suggesting that the "President may wish to consider including, in whatever public statement he may make on OPA, a recommendation that Congress restore an excess profits tax, possibly of 75 percent rather than the wartime maximum of 95 percent." In July, as the Congress debated a second de-control bill, Eccles again wrote urging the use of "fiscal policy" to "take more purchasing power out of the economy through taxation than is returned through public expenditures." "Consumer incomes after taxes are above the wartime peak and the rate of savings has fallen sharply. Corporations are in a highly liquid

[85] Musgrave and Williams to Eccles, February 4, 1946, Folder 9, Box 32, MSEP.
[86] David Kennedy to Eccles, February 13, 1946, Folder 3, Box 11, MSEP.

position…," Eccles wrote. "At the same time, direct allocations, building permits, wage and price controls, and rationing have been abandoned or greatly weakened. No adequate fiscal adjustments have been made to compensate for the impairment of direct controls." Because of "the months of uncertainty preceding the current legislation, the long delay by Congress in getting the bill enacted, and the drastic cutting of appropriation to administer such controls as might be extended…other means must be found for dealing with the problem." No such means were found.[87]

The GOP swept the 1946 midterms—gaining 12 seats in the Senate and 55 seats in the house—by promising an immediate repeal of price control and rationing powers to end inflation and scarcities. In Los Angeles, New-Deal partisan Jerry Voorhis, an ally of Maury Maverick and proponent of government spending, lost to a young Navy veteran named Richard Nixon. A vote for Voorhis, Nixon said on the stump, was a vote for the "Communist dominated CIO-PAC."[88] In Wisconsin, three-term incumbent Robert La Follette, Jr., an ally of Murray and Wagner in the Senate, narrowly lost to an ex-marine campaigning on an invented career as an airplane gunner, Joe McCarthy. "Tail-Gunner Joe," who had actually served in an intelligence unit, was elected by a margin of 5,400 votes out of 410,000 cast.[89] Bowing to the pressure of such military jingoism at the national level, the President in September asked for the resignation of Secretary of Commerce Henry Wallace, whose public

[87] Eccles to Truman, June 26, 1946 and Eccles to Truman, July 19, 1946, both in Folder 12, Box 5, MSEP. In his July letter, Eccles wrote "Unworkable price controls would be worse than none."

[88] Paul Bullock, "'Rabits and Radicals': Richard Nixon's 1946 Campaign Against Jerry Voorhis," *Southern California Quarterly* (Fall, 1973), p. 341. On Voorhis, see Collins, *More*, p. 9. James T. Patterson, *Grand Expectations; The United States*, 1945-1974 (Oxford: 1996), p. 182.

[89] Samuel F. Wells, *Fearing the Worst: How Korea Transformed the Cold War* (Columbia: 2019), p. 65.

protest of Truman's increasingly bellicose posture towards the Soviet Union fueled the vitriol of many businessmen and anti-communist writers who charged the Wallace-wing of the Democratic Party with supporting Soviet governments abroad and collaborating with subversive organizations at home. Massachusetts governor Tobin never forgot the cause of the shortages during the election, however, and their influence on the outcome of the 1946 midterms. "Let's be honest about meat," he said. "Meat was deliberately withheld off the market in the whole month of October 1946. There's no question about it. You could travel from one end of America to the other and you couldn't find meat on the counters…. There was one of the greatest strikes ever perpetrated by big business in America, when they found that they were going to get controls off. They did hold off, commodity after commodity, that did appear on the shelves of American grocery stores the moment that the controls were taken off."[90] Two years later, in the midst of the Presidential election, Marriner Eccles too would attempt to settle accounts with an administration from which he was drifting politically. Drafting an eight-page *aide de memoire* on the reconversion saga, he noted each of the relevant de-control decisions that cascaded into the inflation of summer and fall 1946. In the top margin of the page, he typed a title for his files: "Memorandum Prepared Showing Responsibility of Truman Administration and Not the 80th Congress for Postwar Inflation."[91]

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[90] Maurice Tobin on the television program *Longines Chronoscope*, September 26, 1951, digitized https://www.youtube.com/watch?v=YoFcmUCGE0M.

[91] "Memorandum Prepared Showing Responsibility of Truman Administration and Not the 80th Congress for Postwar Inflation," July 23, 1948, Folder 12, Box 7, MSEP. Cf Eccles to Truman of July 1946, n87 *supra*, in which he attributes blame to the 79th Congress. By 1948 Truman had demoted Eccles from his chairmanship.

Foreign Aid and Inflation: the First Year Under the Employment Act and the Political Alchemy of the Cold War

The reconversion maelstrom resolved none of the problems of full employment brought by war mobilization. The Full Employment Act had been one attempt to formalize a permanent role for fiscal policy in the future responsibilities of the federal government. Many thought the new office should be the Bureau of the Budget, or that Truman should appoint Budget Director Harold Smith to chair the new Council of Economic Advisers (CEA). As Federal Reserve Chairman Eccles wrote to the President, "it is important that the chief coordinating agency of the Government, the Bureau of the Budget, should be intimately integrated with the Council." Unless the two offices were integrated under a single director, "there would in effect be two coordinating agencies in the executive office of the President…. Such a condition would violate the principles of good government administration and would lead to continued conflict within the Administration." [92] As Eccles explained to Smith, "To establish an entirely new agency in the Executive Office of the President to coordinate economic policies and programs without integrating it with the Bureau of the Budget seems to us to go counter to the general need for greater centralization of authority and responsibility with respect to Federal economic policy."[93]

Over five months passed between Truman's signing of the Employment Act and confirmation of the first members of the new CEA. Throughout the spring and summer,

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[92] "Implementation of the Employment Act of 1946," in Eccles to Truman, March 15, 1946, Folder 12, Box 5, MSEP. Alonzo Hamby, *Beyond the New Deal: Harry S. Truman and American Liberalism* (Columbia: 1973), p. 69.

[93] Eccles to Smith, February 15, 1946, Folder 12, Box 5, MSEP.

Congressional struggle over price control authority, European reconstruction, and the nation's strategic orientation towards the Soviet Union dominated the attention of the President and the Cabinet. Opinion divided unevenly across these issues. Many New Dealers saw the need for continued federal spending to finance foreign reconstruction and trade. They seized the opportunity of the emerging Cold War as an opportunity to continue wartime patterns of price control and government allocations. In July 1945, the Labour Party took power in Britain, followed by the advance into their respective national ministries of the French Communist Party in January (Thorez under Ramadier) and the Italian Communist and Socialist Parties in June (Togliatti and Nenni under De Gaspari).[94]

Across the North Atlantic and South America, national governments now carried mandates to achieve and maintain full employment, which they would pursue through expanded government spending. Because US goods—especially machines—offered the surest foundation for supplying the materials needed for reconstruction in Europe and development in much of the world, access to dollars became the limit for domestic expansion plans in these countries.[95] More or less complete government monopolies over foreign

[94] Anthony Carew, *Labour Under the Marshall Plan: The Politics of Productivity and the Marketing of Management Science* (Wayne State: 1987), pp. 19-39.

[95] During the war, the US committed an increasing flow of grants and loans abroad to finance production and transport of war material, sending over $20 billion worth of goods and services abroad during 1944 and $3.5 billion during the first quarter of 1945. Between second and fourth quarters of 1945, the US payments deficit fell by $300 million. The cancellation of Lend-Lease meant that, for foreign trade to continue after the war, exports from the United States would have to be financed another way. Drawings on the British Loan, however, accelerated the capital outflow after Q2 1946 and temporarily reversed the effects of the end of Lend-Lease. Between Q4 1945 and Q4 1946, the US ran a payments surplus with the world.

The $300 million decline in the US foreign account between Q2 and Q4 1945 masks a dramatic change in the structure of payments and receipts: between Q2 and Q4 1945 receipts on exported goods fell from $3.5 billion to $2.3 billion, payments for services (military wages) fell from $1.1 billion to $426 million, payments for unilateral transfers fell from $3.2 billion to $929 million. US capital invested abroad however *increased* from $330 million to $733 million. "International Transactions of the United States During First Quarter 1946,"

business therefore reigned across the world. During the war, in receipt for exports to the imperial capital, the nations of western Europe and the colonies of the British empire had accumulated substantial currency balances in British pounds. But British industry now lay in ruins, and what pound holders needed was to do business with the Americans. Unregulated convertibility of these exchange reserves into dollars, however, would prompt speculators as well as government officials to flood currency markets with pounds. A rush out of one imperial currency and into another would not only hasten British decline, but spread disorder throughout the regulated currency exchanges among the governments of the postwar world.[96] If exchange rates were to be maintained at the fixed levels agreed to under the Bretton Woods documents, national governments would have to ration foreign currency and license foreign trade to economize on dollars.

During the 1940 election, promise of control of the military-production apparatus had served as an immediate stimulus for US business leaders to shed their opposition to the New Deal and support the incumbent President. For the more far-sighted, the maintenance of friendly governments abroad capable of engaging in trade and finance with US businesses

Survey of Current Business (July 1946), p. 17, Table 1. "International Transactions During the First Quarter of 1947," *Survey of Current Business* (June 1947), p. 6, Table 1.

[96] Britain held $14 billion in sterling debts by the end of the war, while her exports were reduced by more than half their 1938 level. Andrew Bailey, Gordon Bannerman and Cheryl Schondhardt-Bailey, "Bretton Woods: The Parliamentary Debates in the United Kingdom," in *The Bretton Woods Agreements*, eds. Naomi Lamoreaux and Ian Shapiro (Yale: 2019), p. 107. The literature on dollar-pound convertibility and the inter-imperial rivalry represented by the issue is vast. Any selection should include Richard Gardner, *Sterling-Dollar Diplomacy* (Oxford: 1956). See also Harold James, *International Monetary Cooperation Since Bretton Woods* (Oxford: 1996), pp. 35-57; Jordan Schwarz, *The Speculator: Bernard A. Baruch in Washington, 1917-1965* (University of North Carolina: 1981), pp. 480-484; Sidney Hyman, *Marriner S. Eccles: Private Entrepreneur and Public Servant* (Stanford: 1976), pp. 316-321; Fred Block, *Origins of International Economic Disorder: A Study of United States International Monetary Policy from World War II to the Present* (University of California: 1977), pp. 32-69; E.A.G. Robinson, "John Maynard Keynes: 1883-1946," reprinted in *Keynes's General Theory: Reports of Three Decades*, ed. Robert Lekachman (St. Martin's Press: 1964), pp. 79-84.

after the war provided a deeper impetus to shed interwar habits of non-interventionism and participate in the Roosevelt government. As Roosevelt's Secretary of State, the Tennessee politician and cotton broker Cordell Hull explained in 1935 the "full measure of America's high productive capacity is only gained when our businessmen and our farmers can sell their surpluses abroad." Hull's signature program during Roosevelt's first and second terms had been to secure tariff-negotiating powers from the Congress in the Reciprocal Trade Agreements Act of 1934. Expanded foreign trade was to be financed by an Export-Import Bank, a government corporation established under the National Industrial Recovery Act, issuing $10 million worth of stock to the Reconstruction Finance Corporation, directed by Jesse Jones, himself a southern banker and ally of the cotton brokers. By 1939, the Export-Import Bank's capitalization had increased to $46 million, with its lending authority capped by Congress to $100 million—a limit revised upward by $500 million on Jones's lobbying. Because the problem of agricultural surpluses dominated wartime mobilization, many politicians from agricultural regions held disposal of agricultural commodities abroad a preferable alternative to continued domestic disposal of surplus crops below parity prices. By 1945, the Congress authorized the bank to extend credit abroad of more than $1 billion.[97]

For the State Department under Cordell Hull, James Byrnes, and George Marshall, realizing this vision depended on guaranteeing the stable currencies, predictable exchange rates, and low tariffs that would enable US businesses to provide expanding production and employment at home necessary to defeat the more adventuresome public investment

[97] Charles R. Whittlesesy, "Five Years of the Export-Import Bank," *American Economic Review* (Sept., 1939), pp. 487-502. Jesse H. Jones, *Fifty Billion Dollars* (Macmillan: 1951), pp. 214-230.

programs of the late New Deal.[98] During the wartime debates over postwar planning and full-employment legislation, the experience of managing foreign trade during the depression had jelled into a broader interpretation of the world crisis. [99] As businessmen argued in a *Fortune* magazine roundtable on the war in 1940, "What interests us primarily is the longer-range question of whether the American capitalist system could continue to function if most of Europe and Asia should abolish free enterprise." Henry Luce, the publisher of both *Fortune* and *Time*, diagnosed the global crisis in a famous editorial essay of 1941: "[T]he sickness of the world is also our sickness," he wrote; if "the world of the 20th century…is to come to life in any nobility of health and vigor, [it] must be to a significant degree an American Century." Luce defined this as a world governed by a "system of free economic enterprise" which saw "America as the principal guarantor of freedom of the seas [and] as dynamic leader of world trade" and which rejected "all manner of slick schemes and 'planned economies.'"[100] "The international economic policies of nations have more to do with creating conditions which lead to war than any other single factor," Undersecretary of State William Clayton, himself a cotton broker, said in 1943. Speaking to Congress during debate over the George and Murray

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[98] Thomas G. Patterson, "The Question for Peace and Prosperity: International Trade, Communism, and the Marshall Plan," in *Politics and Policies of the Truman Administration*, ed. Barton J. Bernstein; Charles Maier, "Politics of Productivity," in *In Search of Stability*; William Appleman Williams, *Tragedy of American Diplomacy* (Delta: 1962 [1959]).

[99] William Appleman Williams, *The Tragedy of American Diplomacy*; Hogan, *The Marshall Plan*; Alan S. Milward, *The Reconstruction of Western Europe, 1945-51* (University of California: 1984). For example, Marriner Eccles to Robert Wagner in May 1945: "A continued high level of employment here would facilitate the attainment of' greater stability and prosperity throughout the world. Our foreign trade is so large a proportion of world trade that curtailment of our' purchases from other nations has serious economic and financial effects throughout the world. Other nations, in order to protect their gold and monetary reserves and to prevent our unemployment from spreading to their countries, are under pressure to adopt restrictive policies of the kind so common during the 1930s. The use of instruments of economic warfare during that period helped to spread the international economic dislocations of the time." Marriner S. Eccles to Robert Wagner, May 9, 1945 (drafted by Woodlief Thomas), Folder 4, Box 67, MSEP.

[100] Luce's editorial is reprinted in *Diplomatic History*, Vol. 23 No. 2 (Spring 1999), p. 159-171.

bills in 1944, Assistant Secretary of State Dean Acheson explained that "we cannot have full employment and prosperity in the United States without the foreign markets." The alternative required "control[ing] the entire trade and income of the [country]… but that would completely change our Constitution, our relations to property, human liberty, our very conceptions of law. And nobody contemplates that. Therefore, you find you must look to other markets and those markets are abroad."[101]

Foreign policy therefore created a political paradox within the US. During the war and demobilization, opponents of the civilian planners within the Roosevelt administration argued that centralized regulation of wages, prices, and quantities had represented an incipient form of totalitarianism. Securing access to foreign markets, many argued, would obviate the need for greater domestic planning. By the end of the war, however, US producers confronted governments of Western Europe entirely disinterested in allowing the currency transactions and easing trade restrictions necessary for US sales in their domestic market. Instead, the postwar European nation state represented the very type of planned or semi-planned economy they had fought incessantly since the US elections of 1936. In such a situation, foreign trade was structured by a web of bilateral trade and currency agreements, tying exchange credits to import quotas.

If a repeat of the interwar experience of nationalist governments pursuing territorial rivalries to meet resource needs of managed economies to the point of armed conflict was to be avoided, a mechanism for financing trade had to be found. By March 1947, less than half

[101] Williams, *Tragedy of American Diplomacy*, p. 246.

of Europe's import needs were financed by her export earnings, prompting a searching debate within the Treasury, the Departments of State and Commerce, and among the European governments themselves over whether prewar trade patterns would or even should be restored.[102] Continued rationing of foreign currency, extensive licensing of foreign trade, the restoration of interwar trends of import quotas, and the cartelizing of product markets this entailed threatened the internationalist program that had drawn many businessmen towards wartime Washington. Having successfully altered the Murray Full Employment bill and crippled the OPA during reconversion, the prospect of western European governments' planned reconstruction programs now threatened the expansion of US exports.

The difference between the European nations' import needs and their export earnings represented the volume of trade to be financed by any potential US recovery program. Though the International Monetary Fund (IMF) agreed to at Bretton Woods had been intended to provide trade financing to member nations, Keynes's original concept of a multilateral institution extending trade finance in a new world currency was unworkable for the US Treasury. In the US, many isolationists, and the organized banking lobby of New York, had interpreted the alternative possibility of the new organization extending loans denominated in dollars or any new global unit of account an intolerable surrender of national sovereignty. To gain Congressional approval, the US subscription to the fund was limited to $2.75 billion of a total revolving fund of $8.8 billion worth of foreign currencies and gold.

[102] "The slow recovery of imports should…not yet be interpreted as a structural decline of the relation between our demand for foreign products and our national income or production," reported the economists in the Department of Foreign and Domestic Commerce. "International Transactions During the First Quarter of 1947," *Survey of Current Business* (June, 1947), 5. Milward, *Reconstruction of Western Europe*, pp. 21-7.

The Congress had approved the appropriation in July 1945, but the IMF's dollar resources were completely inadequate for the task of financing Atlantic—much less world—trade after the war ended. During 1946, the quarterly US trade surplus ranged between $1.8 and $2.5 billion. Western Europe's annual trade deficit with the US amounted to $2.4 billion in 1946 and rose to $4.7 billion in 1947. "If 'the Bretton Woods system,' as conceived in 1944, ever existed," Alan Milward writes, "it ended for European countries in 1947."[103] Nearly all of these foreign trade deficits had to be financed either by foreign gold or the US Treasury, lest Europe turn inward for reconstruction.

The Departments of State and Commerce provided US business with a higher conscience. Aid from the US Treasury was one method to alleviate the burdens of currency scarcity abroad and the planning schemes they elicited. By early 1947, many US businessmen came to see that the task of shaping European reconstruction would clearly necessitate a continuation of some form of the domestic and international planning projects they had hitherto rejected so forcefully.[104] Yet because the fate of European reconstruction remained obscure, many US businessmen and their congressional representatives opposed the idea of financing socialist experiments they perceived as hostile to their own ways of life. In France, the Netherlands, and Norway, where postwar governments had adopted national economic plans, the state maintained a virtual monopoly on foreign trade to ensure foreign

[103] Harold James, *International Monetary Cooperation Since Bretton Woods* (Oxford: 1996), pp. 64-74. Milward, *Reconstruction of Western Europe*, pp. 41-4, quote on p. 44; Schriftgeisser, *Business Comes of Age*, pp. 120-5.

[104] David Eakins, "Business Planners and America's Postwar Expansion," in *Corporations and the Cold War*, ed. David Horowitz (Monthly Review: 1969), pp. 160-1. Michael Hogan, *The Marshall Plan: America, Britain, and the Reconstruction of Western Europe*, 1947-1952 (Cambridge: 1987), pp. 1-53.

exchange was allocated to imports of crucial capital goods industries.[105] In Britain, the extension of a $3.75 billion reconstruction loan in July 1946 had come only after extensive negotiations, both between the Labour Party and the Vinson Treasury and within the US Congress. "The nationalization of England's industries," Bernard Baruch complained to the Senate during legislative debate, posed "a much graver danger to the American system than the Bretton Woods Agreement" because government ownership "will be done only for the purpose of raising their wages…. With a higher cost of production she will not be able to export in competition with other countries, so she will have to subsidize those industries. Are we to transfer billions of dollars to England to enable her to carry out this theory of Professor Laski, et al?" The result would further depress Anglo-American trade, as the Labour Party prohibited Britons holding dollars from spending them freely or from converting pounds into dollars. Italy, by contrast, where trade remained open, faced a rapid inflation in late 1946, eroding real wages, reducing imports, and contributing the popularity of the Communist Party, which entered a coalition government late that year. By the summer of 1947, the Christian Democrats under De Gaspari formed a new coalition government without the Marxist parties and, with emergency aid from the Truman government to sustain imports, raised bank reserve requirements and taxes, deflating prices and raising unemployment.[106]

It was over the terrain of foreign policy that the political class struggle over control of the US government unfolded in the second half of Truman's first term. This scrambled all

[105] Milward, *Reconstruction of Western Europe, 1945-51*, p. 36.

[106] Schwarz, *The Speculator*, pp. 482-3; Milward, *Reconstruction of Western Europe*, pp. 14-5, and 78-9. The Italian government estimated it had 1.7 million workers 'available' for emigration. Albert O. Hirschman, "Inflation and Deflation in Italy," *American Economic Review* (Sept 1948).

existing domestic alliances within US politics formed during the war. Despite the concerted campaign to prove the ineffectiveness of domestic price control in 1945 and 1946, the Congress and the President immediately found after reconversion that, as foreign aid spending increased, rationing powers and price ceilings over the nation's export trade would have to continue.

In March 1947, Truman extended promises of military aid to Greece and Turkey. Congress appropriated $350 million for foreign aid to specified countries and another $400 million for Greece and Turkey. Export demand constituted a strong pull on the US domestic market: that month the price of exported goods rose 14 percent and their volume 44 percent above the 1946 average.[107] With the US inflation that followed the expiration of price control, the price of US exports abroad only increased. In response to continued price pressures and the rising cost of living, Congress passed a Decontrol Act partially postponing the repeal of price control and allowing Truman to extend rationing powers for export goods—namely grains, coal, and steel—and to control the price of sugar, until the middle of July. At the urging of the new CEA, Truman made a public statement in April 1947 urging businessmen to undertake voluntary price reductions amid surging export prices.[108] Across

[107] "International Transactions During the First Quarter of 1947," *Survey of Current Business* (June, 1947), p. 5.

[108] In his Jefferson Day speech of 5 April, Truman said: "The main factor that can weaken our economy at this time is our own selfishness-the kind of selfishness which is now expressed in the form of unnecessarily high prices for many commodities and for many manufactured articles. These prices must be brought down if our entire economy is not to suffer." Harry S. Truman, Address at the Jefferson Day Dinner. Online by Gerhard Peters and John T. Woolley, The American Presidency Project https://www.presidency.ucsb.edu/node/232856. The President reiterated these sentiments at his press conference the next week. Harry S. Truman, The President's News Conference Online by Gerhard Peters and John T. Woolley, The American Presidency Project https://www.presidency.ucsb.edu/node/232878. "Truman Summons Cabinet to Consider Price Spiral," *New York Times*, April 9, 1947.

US manufacturing industry, large firms responded to the Presidential message and to public disappointment over the results of reconversion by announcing price cuts. The President publicly commended International Harvester and Ford for price cuts that month, entreating businessmen in general to follow their example: “I sincerely hope that business will see the handwriting on the wall and hold prices so there will be no spiral later.” The Pullman-Standard railcar company reduced prices 15 percent, International Harvester 22 percent. Chrysler lowered prices on the Plymouth line, while the Alexander Smith company reduced the prices of its carpets.[109]

The European currency crisis coincided with a slowdown in US production. During the late spring and summer of 1947, many businessmen and journalists thought the long-awaited postwar recession had finally arrived. A poor corn crop in 1947 exacerbated these uncertainties, as rising food prices continued, prompting to workers to press for a second round of wage demands during the slowdown. Department store sales before Easter 1947 disappointed many retailers. In New York City, taxi riding began to fall and by mid-April was down 20 percent from its November peak.[110] As wage rates and popular pressure against rising prices augured a further squeeze on profit margins, stocks retained their comparably low valuations.[111] Harold Fleming, the Wall Street correspondent of the *Christian Science*

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[109] Harry S. Truman, The President's News Conference Online by Gerhard Peters and John T. Woolley, The American Presidency Project https://www.presidency.ucsb.edu/node/232843. “Sales Drop Seen as Sign of Recession,” *Christian Science Monitor*, April 9, 1947, p. 17.

[110] *Christian Science Monitor*, April 9, 1947. On the agricultural situation in this period, see Elmer Staats to Charles S. Murphy for D. Bell, “The Anti-Inflation Program,” January 13, 1948, Folder “Inflation and Price Control,” Box 26, Charles S. Murphy Papers, Truman Library.

[111] Survey of Current Business, S-19, S-20. March 1947, March 1948, March 1949. The total value of all shares listed on the New York Stock Exchange reached $84 billion in May 1946 and fell to $65.7 billion in November 1946.

Monitor, described the economic situation as a permanent "sellers' market," an "economy dominated by scarcities."[112] Shortages extended beyond food to metals, chemicals, fuels, and textiles. "For the last year or so it seemed that scarcities kept popping up here and there in one commodity after another," Fleming wrote, "so that as fast as one was taken care of another appeared somewhere else. But now they seem almost universal and characteristic of the whole economy…. These scarcities provide an ironic contrast to expectations of a year ago that if only the bottlenecks of OPA and strikes could be broken, then scarcities would gradually end. But this has not been the case."[113]

That continued production and employment depended on European reconstruction was widely understood. In April 1947, CEA Chairman Edwin Nourse explained to the President that quarterly evaluations of the nation's economic trends would be impossible without "information as to the character and magnitude of the activities which are contemplated in connection with the new international policy."[114] As Assistant Secretary of State Willard L. Thorp argued, "Any serious failure to maintain this flow [of exports] would put millions of American businessmen, farmers, and workers out of business."[115] Amid the decontrolled economy's lackluster production and accelerating inflation, as the telescoping crises of the Great Depression and the Second World War collapsed into unity, Secretary of State George C. Marshall delivered his address in June 1947 exhorting expansion of the

[112] "Sellers' Market Held Vital to Prosperity," *Christian Science Monitor*, March 19, 1947, p. 25.

[113] "Prospects for Lower Food Prices Held Dim," *Christian Science Monitor*, March 12, 1947, p. 17.

[114] Nourse to Truman, April 7, 1947, Folder "Daily Diary 1947-19," Box 4, Edwin G. Nourse Papers, Truman Library.

[115] Quoted in Patterson, "The Quest for Peace and Prosperity," *The Politics and Policies of the Truman Administration*, ed. Barton Bernstein, p. 88.

nation's European aid program. The need to quantify the potential size of this program elicited the very first studies President Truman ordered of the nation's economic capabilities after the war. In response to Marshall's address, the President established three cabinet-level committees to study and report the maximum volume and cost of exports to Western Europe. They were chaired by former WPB chairman Julius Krug, now Interior Secretary; by CEA chairman Edwin Nourse; and by Secretary of Commerce Averell Harriman.[116]

Immediately, inflationary fears gripped businessmen, reversing the summertime price lull. Rather than summer's expected recession, the formation in Paris that autumn of the Committee for European Economic Co-operation kicked off a round of inventory speculation a general decline in real wages. According to the investment advisory firm T. Rowe Price & Associates, "the anticipated decline in food and clothing prices last spring and summer was prevented by the government's policy of shipping billions of dollars' worth of goods abroad."[117] Harvard economist Seymour Harris concurred: "had the excess of exports over imports been substantially below the unprecedented level of 10 billion dollars (annual rate), the recession generally anticipated would certainly have occurred."[118]

In July, with the expiration of the Decontrol Act, the Congress again renewed limited price-control authority, reauthorizing licensing requirements and priority controls for

[116] Hogan, *Marshall Plan*, p. 56. Harry S. Truman, The President's News Conference Online by Gerhard Peters and John T. Woolley, The American Presidency Project https://www.presidency.ucsb.edu/node/232305.

[117] "Research Firm Urges Caution on Inventories," *New York Herald Tribune*, November 23, 1947, p. B12.

[118] *Saving American Capitalism: A Liberal Economic Program*, ed. Seymour E. Harris (Knopf: 1950 [1948]), p. 215. The judgement was not disinterested, for Harris had been one of those forecasting doom during 1945 unless the government maintained spending near the high wartime rates. The importance of export demands on domestic production, partially financed by foreign aid, was generally recognized.

exporters and allocations authority for the transportation industry until March 1, 1948.[119] In October, Truman's three committees delivered their foreign-aid reports. The US held the potential for world leadership, they concluded, but for crucial domestic shortages in steel, coal, and grains that formed the primary obstacles to meeting the combined requirements of expanding production on both sides of the Atlantic. The CEA found that the national economy was capable of suppling over $22 billion in goods to Europe over four years, so long as taxes remained high and a system of priority allocations, transportation controls, and export controls remained in effect to control the price level—a program consonant with the separate findings of Krug and Harriman.[120] As the country fractiously shifted under the burdens of reconversion, the question of how it would adapt to the unfolding Marshal Plan and its push in Congress for foreign-aid stimulus now altered the political calculus.

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[119] Elmer Staats to Charles S. Murphy for D. Bell, "The Anti-Inflation Program," January 1, 1948, Folder "Inflation and Price Control," Box 26, Charles S. Murphy Papers, Truman Library. "Truman Text on Wartime Controls," *New York Times*, May 24, 1947, p. 9. "Control of Trade Linked by Truman to Foreign Policy," *New York Times*, July 16, 1947, p. 1. Harry S. Truman, Special Message to the Congress on Export Controls. Online by Gerhard Peters and John T. Woolley, The American Presidency Project https://www.presidency.ucsb.edu/node/232836.

[120] Krug found "The impact of our current level of exports on the domestic economy has been minimized to some extent by the retention of export controls in commodity fields where critical shortages continue and where uncontrolled exports might result in unwarranted drains. Approximately 25 percent of current shipments abroad are licensed for export. Among the goods still subject to these restrictions are essential foods, including meat products, fats and oils, butter, wheat, and other essential grains and preparations; fodders and feeds; seeds and fertilizers; soap; lumber and lumber products; coal; petroleum; many of the more important chemicals; steel-mill products and iron and steel manufactures; copper , brass, lead, zinc, tin and tin manufactures; building materials and plumbing supplies ; and certain types of machinery still in short supply." He continued: "Export controls… are necessary, therefore, not only to protect domestic interests, but also to assure an orderly flow of short-supply commodities abroad, and thus promote sound international relations." US Department of Interior, *National Resources and Foreign Aid* by Secretary of the Interior J.A. Krug (Washington: 1947); US Office of the President, Council of Economic Advisers, *The Impact of the Foreign Aid Program Upon the Domestic Economy* (Washington: 1947. "Report Urges Inflation War, Aid to Europe," *New York Herald Tribune*, November 2, 1947, p. 1. "Scarcities May Mean Mushrooming Controls," *Christian Science Monitor*, October 28, 1947, p. 15; Correspondence and reference material regarding these reports can be found in Folders "Daily Diary 1947-29" and "Daily Diary 1947-30" in Box 1, Edwin G. Nourse Papers, Truman Library.

Prices and Rationing in Preparation for the Marshall Plan and the 1948 Campaign: the First Special Session

In the disastrous aftermath of the 1946 midterm elections, the New Dealers who remained on the margins of the Democratic Party leadership formed a new organization to counter the growing influence of Henry Wallace, now the editor of the *New Republic*, and the independent political organization he was leading, the Progressive Citizens of America (PCA). Division grew in particular over Wallace's growing public skepticism, after Stalin's refusal of American aid, of the Marshall Plan.[121] The partisans of the new anti-Wallace organization, Americans for Democratic Action (ADA), included, among others, Chester Bowles, Leon Henderson, John Kenneth Galbraith, Leon Keyserling, labor attorney Joseph Rauh, Harold Ickes, and Minneapolis mayor Hubert Humphrey. Back in the spring of 1946, some of these intellectuals and operators had favored the idea of Wallace leading a third-party movement against Truman. But throughout the spring and summer of 1947, as Wallace's public condemnations of the administration for its military aid to Turkey and Greece—the "Truman Doctrine"—and for the Marshall Plan, the new ADA pivoted towards lobbying the administration for the readoption of price control. Wallace's PCA advanced a nearly identical program, adding to it the nationalization of the coal mines, the steel mills, the railroads, and the electric utilities. [122]

[121] Hamby, *Beyond the New Deal*, p. 203.

[122] Bowles to Truman on ADA program, in Hamby, *Beyond the New Deal*, p. 17; on the PCA program, p. 192; on support by the Union for Democratic Action, the predecessor to American's for Democratic Action, for Wallace in early 1946, p. 69.

Members of the ADA embraced the Marshall Plan. Paul Porter, who replaced Bowles atop OPA before being hired onto the State Department's economic planning staff, described the Marshall Plan as a "creative peace" that, by encouraging German production, would move Europe towards a continental government capable of embracing a New Deal-style planning program on a vast scale.[123] His colleagues at State included Charles Kindleberger, a member of the earliest generation of American Keynesians, who would plan the German currency reform the next year. For Porter, American participation in European reconstruction provided a platform for agitation in the Congress to restore price-control authority and plan domestic production and incomes along the lines of the wartime experience.[124]

In June 1946, along with Nourse, Truman appointed Leon Keyserling and John D. Clark as the three members of the Council of Economic Advisers (CEA). Keyserling, as noted above, was a long-time attorney of the National Housing Administration and its precursors close to the New Dealers now in ADA. He had won second place, behind the CED's Herbert Stein, in the Pabst Blue Ribbon national essay-writing contest on postwar planning. Clark was a banker and former vice-president of the Standard Oil Company of Indiana who had turned to a second career as an academic economist during the depression.

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[123] Hogan, *Marshall Plan*, pp. 36-42; Alan Milward, *The Reconstruction of Western Europe, 1945-51*, pp. 57, 60-61, 85-8. Porter was a labor organizer, socialist, and member of the Executive Committee of the Socialist Party of America before the war. He resigned in protest of the party's pacifist opposition to the war. He published two book-length programs for the party in the high-radical years of 1934 and 1937: *America for All: The Commonwealth Plan* (1934) and *Which Way for the Socialist Party?* (1937). "Paul R. Porter, 94; Economist, Consultant," *Washington Post*, April 26, 2002.

[124] For an appraisal of the collective career of the first generation of American Keynesians, see Tim Barker, "Macroeconomic Consequences of Peace: American Radical Economists and the Problem of Military Keynesianism, 1938-1975," *Research in the History of Economic Thought and Methodology*, Vol. 37A (2019), pp. 11-30. For an earlier examination of the pre-war period, see Collins, *Business Response to Keynes*, pp. 11-20.

His experience in industry gave him first-hand experience with businessmen's behavior, and he was forthright in sharing Gardner Means's diagnosis that downwardly inflexible industrial prices, resulting from cartel-like behavior among US manufacturers, restricted output and employment. "Many businessman have feared that a voluntary price cut would be looked upon as a sign of market weakness and that buyers…would at once fall back and await further price reductions. Nothing like that has happened," he wrote during the summer of 1947. "The argument that it would be far better to have price reductions made in an orderly and voluntary manner than to await the unwilling price cuts of a deflated market has been vindicated."[125]

Together with White House counsel Clark Clifford and aide Charles Murphy, Keyserling and Clark formed the nucleus within the administration for a return to New Deal-style planning. Through Clark, Undersecretary of the Interior Oscar Chapman, Undersecretary of Agriculture Charles Brannan, and Oscar Ewing, Director of the Federal Security Administration (the umbrella agency under which the Social Security Administration had landed), this group would apprehend the White House political strategy that was so thoroughly repudiated by the public during 1946 and the early months of 1947. Moley described the ADA wing of administration thinking as the "Henderson-Bowles group," after the OPA administrators now leading ADA, those who "believe in regimentation and more regimentation."[126] But for Washington gossip columnists such as Drew Pearson,

[125] John D. Clark, "A Pattern for Mid-Year Economic Report," attached to Clark to Nourse and Keyserling, June 10, 1947, Folder "Daily Diary 1947-22," Box 1, Edwin G. Nourse Papers, Truman Library.

[126] Raymond Moley, "Politics and the Special Session," *Los Angeles Times*, November 4, 1947, p. A4; Drew Pearson, "Cabinet Debated Price Proposals," *Washington Post*, November 22, 1947; Stewart Alsop, "Price Battle Started Backstage," *Washington Post*, November 23, 1947, p. B5.

the group would become known by the name of Ewing's apartment building as the "Wardman Park group," where its ideological compatriots met regularly to strategize their program within the administration.[127]

During the summer, Truman allowed Clark Clifford to begin drafting a campaign-strategy document to inform the President's beleaguered situation. The path to victory in 1948, Clifford argued, turned on catering to the Democratic Party's "lasting alliance between the South and the West" in "their mutual fear of domination by the industrial East." This required Truman to "move 'left'," appealing to the "atavistic fear" of "Wall Street" shared by progressives, intellectuals, labor unions and farmers, while catering to Northern blacks' desire for civil rights legislation. The civil-rights component of Clifford's 1948 campaign memo was an auspicious signal of the political issues that would come to dominate national attention after the middle 1950s. Historians have rightly drawn attention to it for this reason. Just as important to Clifford and the Wardman-Park group was ensuring that the leaders of the nation's working class understood that only government by the Democratic Party would maintain the expanding employment and income at the center of the maturing New Deal program.[128] "Labor can stay home," Clifford warned Truman; the outcome of the election hinged on whether the campaign could successfully mobilize workers at the polls. "The High

[127] Drew Pearson, "Truman's Brain Trust," *Washington Post*, May 16, 1948, p. B5; Hamby, *Beyond the New Deal*, p. 182.

[128] Dudziak, *Cold War Civil Rights*, p. 25. Thomas Sugrue, *Sweet Land of Liberty*, p. 97. Michael Goldfield, *The Color of Politics*, p. 253.

Cost of Living will be the most controversial issue of the 1948 campaign—indeed the only domestic issue. Whichever Party is adjudged guilty of causing it will lose the election."[129]

The trouble the CEA faced was how to ensure price reductions were made in an orderly and reliable manner. As Clark explained, "one of the principal characteristics of an industry in which prices are determined by management and not by the competitive market is that the problem of declining markets is met by reducing production and employment by holding up prices."[130] In October 1947, after delivering its report on the expected effects of foreign assistance on domestic production and prices, the CEA met with the President to advise an anti-inflation program. They proposed price and allocation controls on export goods, directing the Federal Reserve to limit the use of credit (both on the nation's commodity exchanges and for installment buying of consumer goods), and extending the authorization for allocation controls of the nation's transportation system. This program required legislation. The rising cost living, the CEA warned, particularly for families "in the lower part of the income structure" had become "a source of nationwide discontent." To expand the flow of food into the cities without raising grain prices, the CEA advised administrative regulations through the USDA, maximizing the amounts of flour produced by millers, limiting the operations of alcohol distillers and manufacturers of livestock feed, and reducing the sales weight of hogs—a weaker version of the slaughter quotas imposed during the 1946 reconversion. The CEA concluded that "If a worsening situation...makes even more

[129] Clark Clifford, "Memorandum for the President," pp. 8, 17, 23-4, Truman Library, digitized https://www.trumanlibrary.gov/library/research-files/memo-clark-clifford-harry-s-truman?documentid=NA&pagenumber=1.

[130] John D. Clark, "A Pattern for Mid-Year Economic Report," attached to Clark to Nourse and Keyserling, June 10, 1947, Folder "Daily Diary 1947-22," Box 1, Edwin G. Nourse Papers, Truman Library.

drastic measures essential, we shall need forthrightly to consider allocations and price controls for selected commodities"—requiring Congressional authorization.[131]

The public announcement that October that the CEA was studying price controls drove a deep division within the Cabinet. Not long after the CEA's recommendations were made public, Truman revealed the depth of the Cabinet's influence against programs of the CEA within and the ADA outside the White House. The week after his meeting with CEA was made public, the President made a radio address announcing a voluntary program of meatless Tuesdays and poultryless and eggless Thursdays. When a reporter asked about the program, the President assuaged his audience about the reports of planning for controls. Price control, rent control, and rationing— "He said that anything which had to be enforced on the people," journalist I.F. Stone reported, incredulously, "smacked of police-state methods"—were, the President explained, not under consideration. Agriculture Secretary Clinton Anderson, who had precipitated food shortages during the reconversion crisis by encouraging farmers to wait for higher prices before offering grains and cattle for sale, sharply opposed CEA's recommendations. John Snyder limited his public statements to urging an annually

[131] Nourse and Keyserling to Truman, October 1, 1947, containing the Council's Third Quarter Review, Folder "Daily Diary 1947-10," Box 1, Edwin G. Nourse Papers, Truman Library. "Voluntary Food Rationing Not Enough, President's Economic Council Warns," *Christian Science Monitor*, October 3, 1947, p. 1. The Department of Interior had likewise found "“Possible types of action to assure maximum supplies of wheat for export would include food conservation programs, measures designed to reduce consumption (and hence price) of other grains and livestock products, efforts among farmers, feed dealers, and feeders to limit the use of wheat for feed, programs to limit use of wheat and coarse grains by industrial users, such as the brewers and distillers, and measures to encourage freer movement of wheat from farms." US Department of Interior, *National Resources and Foreign Aid* by Secretary of the Interior J.A. Krug (Washington: 1947), p. 6.

balanced budget and opposing the reimposition of credit controls on installment buying and commodity speculation by the Federal Reserve.[132]

For those eyeing November 1948, however, the disintegrating inflationary situation produced by reconversion, the foreign aid program, and the open skepticism of returning to price controls and rationing by the White House was politically intolerable. The PCA campaign for Wallace's 1948 candidacy, then ascendant, was joined by a "dump Truman" agitation with organized labor. State-level labor parties were already organized in Minnesota and Michigan, and this movement among labor leaders intensified the previous summer when, in response to a strike of the nation's railways, Truman threatened publicly to draft railroad workers to force them back to work. The President of the Railway Trainmen's union had assailed Truman's proposed labor draft as "of the warp and woof of fascism" and pledged his union's treasury to defeat the Missouri politician in 1948.[133]

Thus, during the administration's political nadir in the summer of 1947, President Truman turned to a new set of advisers in the Wardman Park group. In mid-October, the President invited party leaders from the recessed Congress to the White House "for a further discussion of emergency foreign aid" and two days later, on the evening of October 23, announced in a national radio broadcast that he would reconvene the Congress for a special

[132] Hamby, *Beyond the New Deal*, p. 187. I.F. Stone, "Mr. Truman's Police State," *The Nation*, October 25, p. 426-7. "Truman, Aid Stir Confusion Over Meatless Days," *Chicago Tribune*, October 10, 1947, p. 8; "Snyder Asks Balanced Budget During Marshall Plan Tenure," *Christian Science Monitor*, October 29, 1947, p. 10.

[133] Quoted in David Brody, "Uses of Power II," *Workers in Industrial America*, pp. 22-3. For some labor-party initiatives during the late 1940s, see Irving Howe and B.J. Widdick, *Walter Reuther and the CIO* (1949), on the movement to recruit William O. Douglas, see Michael Janeway, *The Fall of the House of Roosevelt* (Columbia, 2004), pp. 63-4; "Reuther Backs Douglas," July 8, 1948, *New York Times*, p. 11.

session on November 17.[134] While historians have recognized the Marshall Plan's tremendous organizational effort in financing reconstruction abroad and reorganizing the labor movements of Britain, France, Italy, and the German Federal Republic, few have acknowledged the domestic crisis it created at a moment when the Congress and much of public opinion was poised to denounce economic "planning" and the continuation of centralized regulations over prices and quantities.[135] By November 1, the CEA staff finalized "recommendations for enabling legislation" for the anti-inflation program that would accompany the Marshall Plan: limitation-of-use orders, allocations, stockpiling, and requisitioning for select commodities; extension of export and transportation controls; extension of rent controls; higher margin requirements on commodity exchanges; higher taxes; higher reserve requirements on commercial banks; and controls on consumer credit. Whereas previously Nourse's influence had precluded it, the CEA now made the daring recommendation that the President request authority "to control prices of selected basic commodities," "to establish ceilings for wages in selected cases," "to purchase and sell the total supply of selected food commodities," and "to establish consumer rationing of a selected list of foods"—the very powers the Congress had so vehemently opposed during the 1946 fight over OPA.[136]

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[134] "Truman Summons Congress Leaders on Aid to Europe," *New York Times*, October 22, 1947, p. 1. "Truman Again Calls Leaders for Aid Talks," *Washington Post*, October 22, 1947 p. 1. "Truman Calls Congress for Nov. 17 On Stopgap Funds for Europe and Action to Halt Price Spiral," *New York Herald Tribune*, October 24, 1947, p. 1.

[135] For interpretations of the Marshall Plan as an "export" of American-style class relations, see Anthony Carew, *Labor Under the Marshall Plan*, Michael Hogan, *The Marshall Plan* and *Cross of Iron*, and Charles Maier, "The Politics of Productivity" in *In Search of Stability*.

[136] CEA Staff to Council, November 1, 1947 and CEA Memorandum for the President, November 3, 1947 both in Folder "Daily Diary—1947-32," Box 1, Edwin G. Nourse Papers, Truman Library.

Writing separately to Clifford, CEA Chairman Nourse advised legislation establishing an export-control agency to distribute loans and grants abroad while serving as a purchasing agent in the domestic market for foreign customers. The agency would be empowered to recommend limitation-of-use orders and establish industry committees to recommend allocations, set-asides, and priorities. Legislation, Nourse continued, should also include "the provision of machinery for establishing price and wage ceilings."[137] By November 10, White House aide Charles Murphy collated CEA's recommendations into an overall anti-inflation program for the White House to present to the special session. "Limited areas of acute danger" existed in food and wages, Murphy warned. "Effective means for controlling the cost of living would lessen the need for labor to make demands for large wage increases. Labor has recently shown a spirit of moderation which indicates that they would not be likely to make excessive wage demands if they could have reasonable assurance of protection from rising prices." Rising food prices, however, "may well set off a chain reaction which will spread with serious inflationary consequences throughout the economy…. Adequate protection in these danger areas can be afforded only by granting authority for price control, rationing, and wage control in fields of critical importance." Price control and rationing in "meats and related foods," Murphy wrote, "seems probable."[138]

Disagreement among European heads of state delayed this rush towards planning authority in the US. When Secretary Marshall had invited representatives to Paris in June

[137] Nourse to Clifford, November 5, 1947, Folder "Daily Diary—1947-32," Box 1, Edwin G. Nourse Papers, Truman Library.

[138] Murphy, "Anti-Inflation Program," November 10, 1947, Folder "Anti-Inflation," Box 2, Charles S. Murphy Papers, Truman Library.

1947, he requested the Europeans devise a unified program to make a single request of aid for a total spending package from the US Congress. No such program could be agreed to: the national representatives of postwar Western Europe were entirely unwilling to meet the requests of the State Department that US aid be tied to liberalization of foreign currency controls within their borders, much less to form the "continuing organization" towards continental governance the American planners urged. In the absence of a European agreement, the President announced on November 6 that he would ask the special session of Congress for a temporary package of "interim aid"—a spending package devoted to "relief" and free of the political conditions the State Department urged accompany the final Foreign Assistance Act.[139] The Marshall Plan would come in two parts.

The special session of November 1947 kicked off a twenty-month period in which the nation was wracked by an increasingly high-pitched public debate over the responsibilities the federal government should take in economic planning at home and abroad. The Truman administration's push for price control and antitrust litigation offered a continuation of the wartime pattern of central oversight of prices and incomes. This had the benefit of political expedient, welding ADA liberal intellectuals and organized labor together behind the President's opportunistic and programmatically left-wing Presidential campaign. "Our record on prices must be crystal clear because there is ever present danger that if prices continue to

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[139] Milward, *Reconstruction of Western Europe*, pp. 69-89 and 168-190; Milward, *The European Rescue of the Nation State*, pp. 46-55; Hogan, *The Marshall Plan*, pp. 82-4. France in particular dissented sharply from the urgent insistence of both the American military occupation authorities and the Belgians that German manufacturing production increase for inter-European trade. German production was essential to raise the continent's export earnings, and to provide a market for Belgian coal. But in the absence of international cartel agreements, German production would be detrimental to French heavy industry.

go up, the people may be so irritable and irrational about the problem that they will vote the 'ins' out and the 'outs' in," Clifford wrote in his campaign-strategy memorandum. "Insofar as it has control of the situation, the Administration should select the issues upon which there will be conflict with the majority in Congress. It can assume it will get no part of its own program approved. Its tactics must, therefore, be entirely different than if there were any real point to bargaining and compromise. Its recommendations—in the State of the Union message and elsewhere—must be tailored for the voter, not the Congressmen; they must display a label which reads 'no compromise.'"[140]

In his opening address to the session, Truman reminded the Congress that "Repeatedly during the past year I have urge voluntary price reductions….While these efforts to obtain voluntary price reductions have produced some results, they have been wholly insufficient to stem the tide of rising prices." A month earlier, he continued, "a pound of butter in Washington, D.C., cost 88 cents. Last week, here in Washington, butter reached a new high price of $1.05. In the last six weeks, men's street shoes in Pittsburgh have gone up from an average of $8.72 a par to $9.38. In this same period the price of hogs in Chicago has risen from $24.75 a hundred pounds to $26.40…" Despite this foregrounding of the domestic situation, Truman and Clifford scheduled the request for price controls and rationing after the immediate purpose of appropriating emergency "interim aid" funds for France and Italy.[141] Seeing that price controls would fail in the special session, Truman ordered Harriman to

[140] Clark Clifford, "Memorandum for the President," pp. 8, 17, 23-4, Truman Library, digitized https://www.trumanlibrary.gov/library/research-files/memo-clark-clifford-harry-s-truman?documentid=NA&pagenumber=1.

[141] "Truman Wants Emergency Relief Considered before High Price Problem," *Washington Post*, November 7, 1947, p. 1. Rudy Abramson, *Spanning the Century,* p. 418.

divide the question to ensure passage of interim aid. Congress passed a short-term aid package, while at the initiative of Senator Taft, the Senate in December debated a resolution approving export controls, extension of allocations authority in transportation, and approval of the USDA's conservation program. Commerce Secretary Harriman, responsible for guiding the legislation, preferred greater effort at voluntary food rationing. Snyder disagreed with the recommendations of CEA and Federal Reserve Chairman Eccles that the administration should request legislation for increasing the regulatory powers of the Federal Reserve over the nation's various banking systems, empowering it to raise reserve requirements and regulate private credit. Keyserling wrote Truman in November 1947 that he was "most disturbed" by Snyder's Congressional testimony against recommending legislation for greater financial regulation, something CEA felt an "essential element in any ant-inflation plan." Over the President's objections, a joint committee of the Senate and House passed Taft's resolution, which included antitrust exemptions for industry-committee agreements, subject to the Attorney General's approval. Rather than granting a new price control agency, the Taft resolution strengthened legislative oversight of the domestic rationing for foreign aid. On December 19, the House approved the resolution, granting the President the powers to make voluntary agreements with business groups over allocations and extending controls on exports and transportation. "Efforts to obtain voluntary action by businessmen have already been extensively tried," Truman said disappointedly upon signing the measure.[142]

[142] Keyserling to Truman, November 25, 1947, Folder "Daily Diary — 1947-33," Box 1, Edwin G. Nourse Papers, Truman Library. "Fight Over Credit," *Newsweek*, December 8, 1947, p. 60; "Truman Calls for Meat, Gas Rationing," *Austin American Statesman*, December 9, 1947, p. 1; "Congress Gets Bill to Ration Food and

Having secured interim aid and begun the political fight over inflation by requesting authority for price controls, Clark Clifford began to draft the President's State of the Union Address for the 80th Congress's third session. Yet the fight during the special session taught conflicting lessons to the White House staff. Commenting on Clifford's draft, Nourse argued against "standby" price control authority, writing that it "would have an unsettling rather than constructive influence on the economy." The push for controls, Nourse argued, militated against his pedagogical approach to economic coordination and actually encouraged the sort of self-interested thinking it was designed to discipline: "…to give the country the impression that the Administration is toying with the idea of entering into Government construction of steel facilities now or in the near future would seem to me something which is wholly gratuitous at this juncture and would do as much as almost anything would to prejudice a cooperative spirit between business and government."[143] Drawing opposite conclusions, Clark Clifford invited Paul Porter to work with the Truman cabinet as the "generalissimo of the whole [price control] operation," in the words of columnists Stewart and Joseph Alsop, a role he would maintain throughout the 1948 push to secure the Foreign

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Fuel," *New York Herald Tribune*, December 10, 1947, p. 1; "Powers 'Limited' Harriman and His Aides Thus Describe Plea for Inflation Curbs," *New York Times*, December 10, 1947, p. 1; "Commerce Department Asks Power to Allocate Scarce Goods; Draft of Bill Contains Rationing Authority," *Wall Street Journal*, December 10, 1947, p. 3; "Senate Democrats Block GOP's Bill to Curb Inflation," *New York Times*, December 18, 1947, p. 1; "GOP Inflation Bill Is Passed By Senate, Rushed in House," *New York Times*, December 19, 1947, p. 1; "Taft Says Truman Now Has Powers to Halt Inflation," *New York Times*, December 21, 1947, p. 1; "Taft Says Truman Has Power to Halt Inflation: President to Sign GOP Bill, But Will Call It Inadequate," *Wall Street Journal*, December 22, 1947, p. 3; US Congress, Senate *The President's Program to Deal with the Problem of Inflation*, 80th Cong, 1st Sess (Report No. 809).

[143] Nourse to Truman, January 3, 1948, Folder "Daily Diary—1847-1," Box 1, Edwin G. Nourse Papers, Truman Library.

Assistance Act.[144] Porter's dual involvement in the Marshall Plan and the domestic price control program was evident in both his history as OPA administration and his role as a founding member of ADA.[145]

Nourse's fears were confirmed as the President drifted towards militarism in the spring of 1948. When Truman delivered a speech in March on preparedness for war, requesting Congress increase the military budget from $10 billion to $13 billion, the price of used cars jumped nationally overnight, from $100 for down-market models to $300 to $400 for classier vehicles. Later that month, CEA wrote the President: "We feel we must face the question whether, at the very outset of this new spending program, we would not need to set aside the free market practices that we have been trying to guide toward stabilized peacetime operation and substitute a rather comprehensive set of controls of materials, plant operations, prices, wages, and business credit." On April 3, the Congress finally passed the Foreign Assistance Act, which laid the statutory groundwork for the European Recovery Program. During a meeting with business leaders to discuss market conditions and positive business behavior on April 7, members of the CEA and JEC staff reported that: ""It's thought that even the talk of controls has influenced business action and tended to hold up prices. It was reported that in many discussions with business groups, various individuals have indicated

[144] Joseph and Stewart Alsop, "Prices and the President," *Washington Post*, July 28, 1948, clipping in Folder "Daily Diary—1948-30a," Box 5, Edwin G. Nourse Papers, Truman Library; Hamby, *Beyond the New Deal*, p. 194.

[145] During Congressional debate on trade legislation that followed passage of the European Recovery Program that spring, ADA would again align with the State Department in defeating protectionist sentiment in the Congress. Jim Loeb to Leon Henderson, April 26 1948, Folder 11, Box 52, ADA Papers, Wisconsin Historical Society.

their policy as being influenced by a desire to protect their companies, this time, against the unfair competitive positions into which many companies were frozen by OPA action."[146]

Within the emerging security apparatus, the push for price controls and rationing instigated its own bureaucratic scramble, as the National Security Resources Board (NSRB), an inter-departmental agency the President formed to coordinate the emerging economic component of the defense program (chaired by Arthur Hill, president of the Greyhound Corporation) moved to assume operating responsibility for the Marshall Plan's domestic controls apparatus.[147] In May, as the labor upsurge for a third round of wage increases was cresting, Steelman called for the formation of his own "committee on the need for further economic controls," enlisting Nourse in his bid to seize the initiative from the NSRB. As "Assistant President" mediating labor disputes in steel and coal, Steelman would lunch with Nourse to discuss possible terms of settlement. As the next chapter will show, the scramble among the agency for a hand in a new controls agency would sunder during the recession that began in late 1948. With the coming of the Korean War, it would be displaced entirely. [148]

A National Wage Policy

With the threat of industry-wide shutdowns and steadily rising labor costs from December 1945 to the spring of 1948, the prospect of national coordination of wages became an

[146] CEA to Truman, March 24, 1948, Folder "Daily Diary—1948-6," Box 1, Edwin G. Nourse Papers, Truman Library; "Discussion Meeting: Members of the Joint Committee on the Economic Report with Business Leaders, Mayflower Hotel, Washington D.C.," April 7, 1948, Folder "Business Groups—Meetings With, 1947-1951," Box 6, Leon H. Keyserling Papers, Truman Library.

[147] Nourse note-to-self, May 31, 1948, Folder "Daily Diary —1948-27," Box 5, Edwin G. Nourse Papers, Truman Library.

[148] "Ad Hoc Committee on the Need for Further Economic Controls," May 11, 1948, Folder "Daily Diary —1948-27," Box 5, Edwin G. Nourse Papers, Truman Library.

unavoidable economic concern. Unlike the consensual, "associative" character of political organizations in many Northern European countries, the shape of the workers' movement in the US was intricately altered by an administrative agency that determined the size and composition of relevant bargaining units and the content of negotiations with employers. Many scholars describe the growth of central economic controls during and after the war and the rise of socialist governments abroad as having threatened an ostensibly voluntarist, consensual, and liberal political order in the US. Alonzo Hamby, for example, argues that liberal opinion matured in this period, that the onset of the Cold War and the Second Red Scare represented a return to the "main stream of reform" that had characterized the nation's political culture before the exceptional period of the Great Depression.[149] Ira Katznelson has similarly argued that the compromises the Roosevelt and Truman administration's made with the conservative Southern leaders of Congress ensured the perseverance of "liberal democracy" in the United States.[150]

The instrumental role played by the Wagner Act and the NLRB in the organization, tactics, and goals of the labor movement, however, complicates such social-scientific theories of "interest group liberalism" in the US after WWII. Excluded by law from influencing corporation policy, unions turned either to wage bargaining or lobbying to alter the statutes governing collective bargaining. This conception of the workers' "interest" was as much a product of the state as it was workers' own.[151]

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[149] Hamby, *Beyond the New Deal*, p. 277.

[150] Ira Katznelson, *Fear Itself: The New Deal and the Origins of Our Time* (Liveright: 2013).

[151] Christopher Tomlins, "The New Deal, Collective Bargaining, and the Triumph of Industrial Pluralism," *Industrial and Labor Relations Review*, Vol 39, No. 1, pp. 19-34; cf. J. Michael Eisner, *William Morris Leiserson: A Biography* (University of Wisconsin: 1967), pp. 68-90.

In the absence of the planned public works programs envisioned by the New Dealers, the task of regulating wages nationally became an issue of broad political concern. There are two reasons why. First was the apparent political impasse regarding price control. For the Wardman Park group and their political allies in organized labor, such as Robert Nathan and Chester Bowles, raising wages was understood as a method of increasing consumer spending, enabling existing facilities to sustain a greater level of employment and creating new profit opportunities in the domestic consumer market that would validate expanded capacity. These thinkers were under the growing influence of Keynes and argued that wages, as the largest component of the nation's purchasing power, measurable through the methods of national income accounting, helped to determine the level of spending (effective aggregate demand) and employment in the nation. The Keynesians on the CEA staff judged that "business expenditure was…sufficiently closely tied to the market for consumer goods so that no more than a slight expansion [in business expenditure, i.e., investment] could occur unless consumer purchasing power increased."[152] This was a sharp departure from Hansen's wartime arguments that only investment expenditure could influence the business cycle, since empirical measurement of historical consumption-income ratios demonstrated them to be relatively fixed.

On behalf of the CIO, former WPB economist Robert Nathan found that by late 1946 the real average weekly earnings of workers had declined by nearly a quarter from their wartime peak. The reduction in overtime employment that followed the curtailment of war

[152] Salant to Keyesrling, April 14, 1947, Folder "Daily Diary — 1947-19," Box 4, Edwin G. Nourse Papers, Truman Library.

production, combined with the rise in the cost of living, had reduced the real value of workers' weekly earnings even after the round of hourly wage increases that followed the steel settlement of January 1946. Wages would have to rise 21 percent in October 1946 and 23 percent by the end of the year, Nathan found, to restore real weekly earnings in 1947 to their January 1945 level.[153] The consequence of allowing the purchasing power of the nation's employment income to shrink were grave, he argued. The experience of the thirties demonstrated that US manufacturers would reduce payrolls in the face of declining sales before reducing product prices. Unemployment and inventories would therefore accumulate, and investment would slow amid the inventory backlog and excess productive capacity. "The long-term stability of our economy is being endangered by a shift of income away from consumption of the masses and toward the savings of the relatively few," Nathan wrote. Reducing workers' real earnings ensured a situation in which employers' product markets would fall off: "The present imbalance between wages and profits is unsound; it is not automatically self-terminating in a manner compatible with general economic stability. Rather, it is self-terminating through a recession."[154]

Only a coordinated rise in wages could prevent consumption and production from falling, staving off a postwar wave of unemployment. The "national interest requires a major general increase in wage rates," Nathan argued. "Major decisions in national wage policy are

[153]Robert R. Nathan and Oscar Gass, *A National Wage Policy for 1947* (Robert R. Nathan Associates, Inc.: 1946). Though opposed to these conclusions, Nourse confirmed their empirical basis, that workers' earnings had fallen, writing to the President in October that "the rise in the Consumers' Price Index has outstripped the rise in the earnings of wage earners." Nourse to Truman, October 21, 1947, Folder "Daily Diary —1947-29," Box 1, Edwin G. Nourse Papers, Truman Library.

[154] Nathan and Gass, *A National Wage Policy for 1947*, p. 3 and 13-14.

clearly imminent."[155] Industry profits, moreover, demonstrated that such a wage increase could be paid without an increase in prices. As the second round of wage increases spread during the spring and summer of 1947, CEA economist Gerhard Colm came to similar conclusions, arguing that "The pattern of wage increases that is shaping up is unlikely to increase consumer purchasing power by an amount sufficient to compensate for the expected decline in business expenditures….even if it is assumed that the wage increase will not force the general price level up." Even if increases of 12 to 15 cents in hourly wage rates "throughout the economy" were "absorbed by firms earning slightly lower profits," there would nevertheless remain a "$7 billion shortfall [in national product] or about 3 million people unemployed." Further spending by the government on civilian programs was Colm's proposed remedy.[156]

Opposed to this analysis of the CIO, the ADA, and the technical staff of the CEA was an altogether different understanding of the role of wage determination in the economic process: that of a limit on retained earnings and venture capital. The second reason a national wage policy came to appeal to the Truman administration was that wages were the primary cost determining businessmen's profit opportunities, expectations, and existing investment funds. Whereas the new union leaders and their political allies saw in smaller profit margins greater consumption, many in the right wing of the CED and those close to Snyder and the GOP thought squeezing profits would have the effect of either reducing investment or creating inflation as employers passed on costs to the public. Wages, Sumner Slichter of

[155] Nathan and Gass, *A National Wage Policy for 1947*, p. 12-14.
[156] Colm and Smelker to Keyserling, April 25, 1947, Folder "Daily Diary — 1947-19," Box 4, Edwin G. Nourse Papers, Truman Library.

Harvard argued, were increasingly "administered" by the new industrial unions, held above market-clearing rates in a manner analogous to the "administered prices" to which Gardner Means attributed low industrial production and employment. As Slichter, argued: "The test of the adequacy of profits [for expanding capacity and employment] must always be the practical test of the market: are profits large enough to permit industry to attract adequate amounts of equity capital?" By this measure, Slichter argued, "present profits in most industries are too small—they do not permit enterprises to attract venture capital." Businessmen called before the Joint Economic Committee repeated these phrases, arguing that only reduction in taxes on corporations, capital gains, and large incomes could accelerate the rate of investment.[157] The solution was to reduce wage increases.

The debate over wages represented in economic thought the broader transformation brought by the new social power organized labor achieved over the preceding decade. Fleming of the *Christian Science Monitor* invoked the Spanish writer Ortega y Gassett, whose book 1930 the *Revolt of the Masses* had offered an explanation for the political and social upheavals that followed WWI. Fleming saw in the national consciousness after World War II a "new 'revolt of the masses'" that was taking "protean forms, ranging from a belief in continually higher wage scales to a willingness for the United States to shoulder the extremely expensive role of global guardian of democratic institutions."[158] Against the seemingly uncontrollable spread of strike activity during the war and demobilization periods,

[157] Sumner H. Slichter, "Wages, Prices and the People's Savings," *The Commercial & Financial Chronicle*, Vol. 167, No. 4700, p. 32; "Only Rising Output Can Bar Inflation, Industrialists Say" and "Business Warned on 'Class Warfare' Prof. Slichter Tells Stanford Parley to Contact Workers to Bar its Growth Here," *New York Times*, July 16, 1947, p. 1 and 40, respectively.

[158] "US Scene Still One of Shortages," *Christian Science Monitor*, March 21, 1947, p. 19.

the thought that the growth of organized labor represented an essential alteration to the nation's political life was unavoidable. "Unions," Slichter wrote in correspondence for a Twentieth Century Fund committee, "are as important an addition to the economic institutions of the country as the corporation or as the modern credit system."[159]

Understanding how this new force on the American scene could or should operate was an intellectual problem of first importance. The organization of the Industrial Relations Research Association (IRRA) indicated this widespread curiosity about the nation's new class consciousnesses. A professional association proposed during the January 1946 meeting of the AEA and founded the next year, the new IRRA elected Edwin Witte—who had served as chairman to the committee responsible for drafting the Social Security Act during the New Deal, and was a colleague of Slichter's since both were students of John Commons during the Wilson administration—as its first president. The postwar transformation, Witte declared, heralded "an age in which ability to lead men counts for at least as much as ability to muster and combine capital." Among the IRRAs founding members were Slichter, *Fortune* editor Daniel Bell, and the sociologist C. Wright Mills. "Unions," Mills wrote, "are now recognized as part of the institutional machinery of American society." As Labor economist Walter Galenson, another founding member, wrote, the emergence of the CIO had signaled "a fundamental, almost revolutionary change in the power relationships of American

[159] Sumner H. Slichter to "Mr. Nichols and the Members of the Labor Committee of the Twentieth Century Fund," May 28, 1947, Folder "Twentieth Century Fund," Box 10, Sumner Huber Slichter Papers, HUG 4795.10, Harvard Library.

society."[160] How was that society to function, given the reorganization of its constituent parts?

From the business perspective, the new unions had to be brought under control—if not by overt national guidance, then by weakening labor's power. Beginning during the war with the Smith-Connally anti-strike law (passed in reaction to Lewis's strikes against the National War Labor Board) and continuing through the explosion of strike activity during 1946, Congress had begun to move legislation through the committee system to reform the nation's industrial relations law towards this end. When President Truman requested legislation establishing a fact-finding boards during the reconversion struggle between organized labor and industry, South Dakota Congressman Francis Case responded by writing into the proposals restrictions on union activity, permitting courts to issue injunctions against labor unions, excluding supervisory employees from collective-bargaining rights, and empowering employers to fire workers who defied the NLRB. Within four days of Case introducing his "strike control" proposal in February 1946, the House of Representatives moved the bill on the floor and approved it, 258 to 155—149 Republicans and 109 Democrats, mostly Southerners, voting in favor.[161] Congressional hearings on how to reform

[160] Bruce Kaufman, *The Origin and Evolution of the Field of Industrial Relations in the United States* (Ithaca: Cornell, 1992); Ronald W. Schatz, "From Commons to Dunlop: rethinking the field and theory of industrial relations," in *Industrial Democracy in America: The Ambiguous Promise*, eds. Nelson Lichtenstein and Howell John Harris (New York: Woodrow Wilson International Center for Scholars, 1993) and "A Portrait of the IRRA's Founders as Young Men," *Labor Law Journal*, September 1, 1998, pp. 1157-1162; Edwin Witte, "The University and Labor Education," *ILR Review*, Vol. 1, No. 1 (Oct., 1947), p. 4; C. Wright Mills, *New Men of Power* (University of Illinois: 1948 [2001]), p. 40; Galenson uoted in Brody, *Workers in Industrial America: Essays on the 20th Century Struggle* (New York: Oxford, 1980), pp. 82-3.

[161] "Anti-Strike Bill Gains Headway on House Floor," *New York Herald Tribune*, February 5, 1946, p. 1. "House Votes to Consider Case Bill Containing Strict Union Controls," *Wall Street Journal*, February 1, 1946, p. 2. "Case Bill is Passed, 258-155, By House; Faces Cool Senate," *New York Times*, February 8, 1946, p. 1. Patterson, *Mr. Republican*, pp. 305-7 and p 353.

the nation's labor laws emphasized the power of labor—rather than the need to bring certain subjects of negotiation under government guidance—as the root of the nation's economic woes. In fact, labor's power was viewed as portending the imminent encroachment of the new union leaders on the autonomy of business managers, those whose discretion was held as the source of the nation's prosperity and distinctive national character. As Charles E. Wilson of General Motors told the Senate Labor Committee, "Only by defining and restricting collective bargaining to its proper sphere can we hope to save what we have come to know as our American system."[162]

Truman vetoed the Case bill in June 1946, but on the first day of the first session of the 80th Congress, labor opponents introduced seventeen labor bills, including a proposal by Senator Robert Taft to amend the Wagner Act to ban inter-union solidarity strikes, require a "cooling-off" period for labor disputes judged to be a "national emergency," and to allow employers to file charges of unfair labor practices against unions. The economic context was the continuation of the postwar labor upheaval in the "second round" of wage increases then underway—labor's response to the rampant inflation that followed the expiration of OPA. During 1947, money wage increases continued their upward trend. In January 1947, the United Steelworkers completed a wage rationalization program with US Steel, for the first time standardizing job classifications and payrates for the corporation's forty-plus plants across the nation. The resulting agreement amounted to a 5.2 cent increase per manhour in the bargaining unit—about half the January 1946 increase—totaling a $15 million annual pay

[162] Quoted in Robert Griffith, "Forging America's Postwar Order: Domestic Politics and Political Economy in the Age of Truman," in *The Truman Presidency*, ed. Michael J. Lacey (Cambridge: 1989).

increase and $32 million in retroactive increases. Won without a strike, the agreement reflected the more peaceful character of the second round of wage increases and the transformation of the class struggle then underway. The company granted these rates in its contract with the union in April 1947.[163] As Emil Rieve, director of the CIO's reconversion campaign, remarked upon the CEA's release of its midyear economic report in July,

> "Here is proof of labor's contention that it was not wages but the eagerness of business to take advantage of scarcity as related to demand that caused price rises…. Business planning for scarcity is far greater in extent than the Report implies. On the day it was released, 115,000 General Motors workers were idle because of a shortage of steel. Since before Christmas, many thousands of auto workers had had only three and four days of work a week because of similar shortages. Yet the steel industry still refuses to expand capacity because it is convinced that full employment will not last."

That month, the coal industry, a major supplier of a primary steel input, agreed to its own large wage increase after a prolonged conflict with the mineworkers and the government over wage rates.[164]

Under Taft's guidance, Congressional conservatives absorbed the original "fact-finding" proposal into their broader wartime push for restrictions on labor union rights, outlawing secondary boycotts, legalizing state laws prohibiting the union shop, expanding the NLRB's investigatory powers to include union activities, in addition to the new emergency-disputes measure. Slichter, one of the nation's foremost experts on collective bargaining, wrote to John Steelman unable to advise that Truman sign or veto the legislation:

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[163] Robert Tilove, "The Wage Rationalization Program in United States Steel," *Monthly Labor Review*, Vol. 64, No. 6, pp. 967-982.

[164] Congress of Industrial Organizations, press release, July 24, 1947, in Folder "Daily Diary — 1947-25," Box 4, Edwin G. Nourse Papers, Truman Library.

It was "imperative… that something be done about many of the problems with which the Taft-Hartley bill attempts to deal," he wrote. But Slichter understood that the problem of rising wages had to be confronted by centralized negotiations with labor leaders rather than statutory restrictions on their activities. Before the President considered signing the legislation, he wrote, Truman "would be wise to see how far and how definitely the trade union leaders are willing to give him commitments" to reform their behavior.[165]

The Taft-Hartley law's passage over Truman's veto dramatically altered the terms of the class struggle released by the laissez faire reconversion policy. Across the country, the NLRB and the courts could now be used to disrupt the internal activities of labor organizations and to restrict picketing and new organizing. This did little to advance a national wage policy: restricting the realm of collective bargaining might well have staunched labor's capacity to organize white collar workers, foremen, and workers in the south, but in unionized industry the restriction of the substance of collective bargaining only furthered pressure for wage increases. Walter Reuther, elected President of the United Auto Workers (UAW) in 1946 on the swell of his popularity following the General Motors strike, made this effect clear. In November 1947, as the Congress prepared to meet for Truman's first special session, Reuther warned that unless price controls to reduce the cost of living were reimposed, the UAW "like the rest of labor, will launch an all-out fight for higher wages."[166] Organized labor, having struggled to keep wages in line with the cost of living,

[165] Slichter to Steelman, June 10, 1947. Folder "US Government," Box 10, Slichter Papers, HUG 4795.10, Harvard Library.

[166] "Reuther Wins Out Over UAW Foes, Pledges New Wage Drive Unless Special Session Rolls Back Prices," *Wall Street Journal*, November 10, 1947, p. 2.

uncertain about the President's re-election, and frustrated with the 80th Congress, turned in 1948 *en bloc* towards negotiating private pensions and health plans.[167]

In the auto industry, this form of private planning extended to "cost-of-living agreements" (COLAs) and "performance" payments, a form of scheduled wage increase tied to the CPI published by the Bureau of Labor Statistics and corporation productivity rates, respectively—providing a private and partial solution to the inflationary problem in the absence of an overall price control program. In June 1948, when the UAW signed its next contract with General Motors, CEA staff still clung to the promise of a voluntary national wage policy to arrest the wage-price spiral and stabilize production and expansion. The two-year contract included a 3-percent "improvement factor" tied to the company's productivity, a way of justifying the small size of the wage increase and recognizing the reduction of real wages in an inflationary spiral. "On the UAW side, there is recognition that labor has hardly been able to hold its own despite great wage increases, with the growing inflation," CEA staff wrote. "The contract is therefore possible only because of labor's fear of inflation and the automobile industry's long-range optimism based on the exception backlog of demand for cars…." The CEA recognized that a pattern on UAW lines spreading beyond the industry was "very unlikely" since it was "doubtful if many industries will feel as the automobile industry feels today that they can see two full years of prosperity ahead." Nevertheless, the agreement represented "the hope and the expectation [of] some contribution to the

[167] Nelson Lichtenstein, "Labor in the Truman era: origins of the 'private welfare state'," in *The Truman Presidency* (Woodrow Wilson International Center for Scholars: 1989), ed. Michael J. Lacey, p. 128-155.

development of collective bargaining along the lines we seek—namely, the settlement of wage issues by reference to measurable economic guideposts."[168]

As Nourse wrote to Steelman, recently appointed to oversee a dispute on the railways, "concession [over wage increases] in this case would probably 'pull the plug' for the large and strategic areas of automotive and coal wages… [US Steel Chairman Benjamin] Fairless gave clear intimation that steel will have to follow coal, even though the steelworkers themselves cannot reopen the issue." For Nourse, the importance of Steelman chairing a fact-finding board in an industry of national importance was a crucial, *de facto* step towards a national wage policy. The economist urged the Assistant President against allowing a large wage increase: "For the government to be a party to this new inflationary break would seem to me utterly inconsistent with its announced position." Whereas decentralization was the ideal path towards flexible prices and wages, in its absence informal government signaling to centralized economic blocs would have to suffice. The alternative was formal nationwide bargaining of a kind Nourse proved unwilling to advise and which many labor leaders themselves appeared not to desire. "The situation confronting our democratic government today," Nourse concluded, "is quite similar to that which France was faced by—and failed to meet effectively—between the World Wars and since. It is the danger that follows the growth of strong factions and the revelation of weak government." The solution, for Nourse, lay in

[168] Thomas K. Hitch to John C. Davis, June 10, 1948, Folder "Daily Diary—1948-28," Box 5, Edwin G. Nourse Papers, Truman Library.

holding a line against further wage increases: “the present manifestation of factional power is very real and will have to be met most decisively.”[169]

In such a combative stance, the Truman administration was unlikely to approach the sort of agreement with organized labor necessary to affect a national wage policy. In this context, the New Dealer Leon Keyserling, “vice-chairman” of the CEA, found himself in incongruous agreement with the conservative opponents of the CIO such as Nourse or Slichter. In an influential thesis first argued during the reconversion drama, Slichter declared that the United States was increasingly becoming a “laboristic” rather than capitalistic economy: employees, he judged, had become “the most influential group in the community.” The “scales of values” of labor—in favor of a steadily advancing economic security for the working class—had come to dominate the nation. The economy was “run in their interest more than in the interest of any other economic group,” Slichter wrote.[170] He repeated the theme throughout the late forties, lecturing at the Harvard Business School in 1949 “that a revolution has occurred in the economy of the U.S., and that it is still going on.” The “present economy,” he told the audience, “is quite different from free private enterprise and it is based on a different principle” that “fundamental decisions of who has what incomes, what is produced, and at what prices it is sold are determined by public policies” rather than free markets.[171] Keyserling described Slichter’s writing in this period as “unusually worthwhile

[169] Truman seized 207 companies nationwide using the Army Department to operate the properties. Blackman, *Presidential Seizure in Labor Disputes*, p. 279; Nourse to Steelman, May 7, 1948, Folder “Daily Diary —1947-14,” Box 5, Edwin G. Nourse Papers, Truman Library.

[170] This thesis was first argued at the Bicentenntial Conference on the Evolution of Social Institutions at Princeton, October 8, 1946. Slichter would publish a book-length treatment in *The American Economy: Its Problems and Prospects* (New York: Knopf, 1948), quotes here from pp. 4, 7-8 of this text.

[171] Address before the Harvard Business School alumni, published as “The Businessman in a Laboristic Economy,” *Fortune* (September 1949), quote on pp. 108-9.

and relevant to our work here," wondering himself "whether free collective bargaining will not need to emerge into some kind of relationship to national policy."[172]

The problem was not unique to the US. It had emerged wherever organized class conflict over wage rates had advanced most sharply before the war. As the British economist Nicholas Kaldor wrote in 1950 to the Labour government, then confronting a shortage of foreign currency its full-employment economy,

> "The unfettered freedom of wage bargaining of individual unions is one of the most cherished rights of the trade union movement; and a policy which, however guardedly, limited this freedom would certainly have met with outright rejection only a few years ago. Since that time, however, the experience of the post-war period has taught a great deal. The institutions which grew up over the last century were appropriate to an unemployment economy."

Those institutions, Kaldor implied, were less appropriate to a fully employed economy. His countryman Ralph Ruvery argued similarly: "Now that full employment has become a generally accepted aim of economic policy, the question of wage policy needs examination, if only because of the difficulties inherent in the adoption of a full employment policy."[173] Where labor unions were large and powerful enough to influence directly such a "full employment policy," such as in the UK and Sweden, such public discussion over unions' political priorities that might justify wage restraint became a macroeconomic imperative.

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[172] Keyserling to Nourse, Clark, Colm, John C. Davis and Paul T. Homan, "Institutional Aspects of Collective Bargaining," May 25, 1948, Folder "Daily Diary —1948-25," Box 5, Edwin G. Nourse Papers, Truman Library.

[173] Nicholas Kaldor quoted in James L. Cochrane, "Moral Suasion Goes to War," in *Exhortation and Controls*, ed. Craufurd Goodwin (Brookings: 1975), p. 292; Erik Lundberg, Rudolf Meidner, Gosta Rehn, and Krister Wickman, *Wages Policy Under Full Employment*, ed. Ralph Turvey (William Hodge and Company Limited: 1952), quote from Turvey's foreword, p. vii.

In the US, by contrast, organized labor was ideologically divided between the older AFL, rooted in the more ethnically homogenous building trades and craft professions, and the CIO of the heavily immigrant mass-production industries. By the end of World War II, such distinctions were collapsing as both national federations had begun competitively organizing indiscriminately across industries to gain the loyalty of US workers. As early as December 1945, Slichter had judged that there was "no reason to expect collective bargaining to produce a wage structure which would be very satisfactory from the standpoint of maximizing the national income. That type of wage structure could be produced only by a national wage policy." As a matter of fact, the decentralizing direction of industrial relations pointed away from a national wage policy. This decentralization was rooted in employers' domination of the Truman administration and in the political defeat of price control as much as any internal tendencies of organized labor. The "principal question…in connection with the question of a national wage policy [was] how it would be enforced. It would be incompatible with collective bargaining." This was "one of the great dilemmas…in present industrial relations." [174] Politically, organized labor's national political campaign during 1948 would be limited to urging re-election of Harry Truman. His promise to them, tellingly, included repeal the Taft-Hartley Act and a return of price controls—the political counterpart to a national wage policy for organized labor within the emergent American corporatist pattern.

[174] Slichter to Paul Homan, December 2, 1945, Folder "AEA – Correspondence," Box 1, Sumner Huber Slichter Papers, HUG 4795.10, Harvard Library.

Conclusion

For the Keynesians in the Truman administration, the promise of the European Recovery Program was appealing in no small part because of the possibility it contained for the restoration of domestic price control to the panoply of the nation's global economic planning apparatus. This return to price control at home offered a clear alternative to the "philosophy of stabilized prosperity" that characterized the reconversion debacle and the inflationary product market of late 1947 and 1948. Just as Cold War foreign policy divided conservative opponents of planning, the totalitarian bogey of the demobilization debate cleaved deep divisions within the New Dealers and provided a common basis of collaboration with the businessmen in the Truman administration. A Keynesian even claimed responsibility for the concept behind the Point IV program of supplemental foreign aid assistance to those countries outside of the Marshall Plan. "It seemed to me that as European export capacity increased, there was a possibility that we could gradually shift the direction of foreign aid from Europe to less developed countries," Walter Salant remembered, "and that the expenditure of aid that we gave less developed countries would go partly to Europe as Europe's export capacity increased, and that Europe could earn dollars in this indirect way."[175]

The economic risks which European national representatives felt lay in loosening foreign-exchange controls dashed the American visions of continental and transcontinental economic planning. What does this tell us about the history of the mixed economy or the fate

[175] Oral history interview, Walter S. Salant, March 30, 1970, pp. 37-8, Truman Library.

of social democracy after World War II? For one, it demonstrates that labor internationalism across the North Atlantic was divided long before the European Recovery Program began strategic financing of European labor federations to divide national labor parties. Workers within nations were cleaved by their attachments to local export industries, such as Belgian steel, or those at risk of foreign competition, such as French machine tools. It also demonstrates just how labor internationalism in the US became filtered through the interests of US manufacturers. Despite the Keynesian promise of public-spending for full employment, AFL president William Green remained an eager advocate for export-led growth into the 1940s. If the nation was to avoid depression after the war, he argued, “we will have to, and ought to, find an increased market for much of our surplus production.” Assistant Secretary of State Dean Acheson, no friend of labor, agreed. He framed the problem bluntly: “We cannot have full employment and prosperity in the United States without the foreign markets.” By 1953, on behalf of the CIO, union economist Stanley Ruttenberg was supporting Eisenhower’s request for renewed trade-negotiating authority. A greater volume of European imports, Ruttenberg explained, would assist reconstruction in Western Europe. “Workers in key industries, such as auto, steel, electrical machinery, and others,” he said, “are dependent for their jobs upon exports.”[176] For US union leaders, this entailed participation in the State and Treasury Department programs of Acheson and Snyder to attempt to compel European nations into accelerating the liberalization of exchange

[176] Green and Acheson quoted in William Appelman Williams, “The Large Corporation and American Foreign Policy,” *The American Socialist*, Vol.5 no. 9 (1958): pp. 19-20; Ruttenberg quoted in Dana Frank, *Buy American: The Untold Story of Economic Nationalism* (Beacon: 2000), p. 111. On the 1953 extension of the Trade Act see Robert Pastor *Congress and the Politics of U.S. Foreign Economic Policy 1929-1976* (Berkley: University of California Press, 1980), p 100-101.

controls and trade restrictions—the very form of economic controls the postwar governments needed if they were to manage their exchange rates while pursuing full employment.

In Europe, bilateral trade agreements that respected trade quotas and regulated foreign exchange would remain. Over the next decade, as Chapter 4 demonstrates, they would gradually shrink as European export capacity increased. Not until 1959 would national leaders agree to replace the European Payments Union, the currency-exchange institution bequeathed by the European experience under the Marshall Plan. As soon as the EPU elapsed, the question of the proper degree of global centralization of sovereignty over foreign exchange would remerge to dominate North Atlantic politics during the 1960s and 1970s. What degree of multilateralism was appropriate for world development? Given the inadequacy of World Bank and IMF capital resources, the US Treasury became seen as a de facto resource for global reconstruction assistance. As we will see in Chapters 4 and 5, the consequences of labor's reliance on this unilateral source of development assistance globally would prove profoundly restraining. Once export earnings in Europe and Japan rose, and a time for adjustment of international exchange rates arrived, the open-ended search for a replacement would begin.

Historians of the twentieth century describe the global turn to "growth" in the decade after World War II as a ubiquitous process, in which the class conflicts of the thirties and forties were subsumed internationally by parallel national projects to expand production and industrial capacity. The response of national governments to the new imperative of economic growth diverged critically, however, across both the Atlantic and Pacific Oceans. Nowhere were these divergent national responses to the imperative of economic growth more apparent

than in the fields of price control and rationing. In his 1965 study of the North Atlantic mixed economies, *Modern Capitalism*, the British economist Andrew Schonfield cited the continuation of French price control as decisive evidence of the common drift among the capitalist powers towards national economic planning for full employment and economic growth.[177] Indeed, the studies of French "indicative planning" or *dirigisme* that would inspire much of the Kennedy and Johnson administrations' use of "wage-price guideposts" noted the fundamental institutional advantage the French government held in retaining price-control authority.[178] In both Western Europe and Japan, the path to growth came to be seen in national regulation of profits and in protecting and ensuring the flow of investment to industries selected by government discretion. In the United States, by contrast, such public discretion—"picking and choosing winners and losers" it would be called by the 1970s—came to be seen as the very antithesis of the government responsibility, the line beyond which the mixed-economy could not venture. The drawing of that line, which began with the Marshall Plan, would be completed by the Korean War.

[177] Andrew Shonfield, *Modern Capitalism: The Changing Balance of Public and Private Power* (Oxford: 1965), pp. 121-175.

[178] For example, John Sheahan, "Problems and Possibilities of Industrial Price Control: Postwar French Experience," *American Economic Review*, Vol. 51, No. 3, p. 345-359.

Chapter 3: Government Control of Capacities: The Mature New Deal-Fair Deal

Diagnosis of the Illness of American Capitalism

"Though industrial production showed no rise throughout the first three quarters of the year, total loans of all commercial banks rose by $400 million a month during the first half of the year…. There seems little doubt that prices today are being bid up with funds provided in part by expanding bank credit. The outlook for the next few months is more inflation…"

- Elmer Staats to Charles Murphy, 1948[1]

"…we do not suffer from underdevelopment or impoverishment of basic plant and equipment…. A primary emphasis on general growth provides a more workable formula [than] efforts to improve the lot of the underprivileged…"

- Council of Economic Advisers, 1949[2]

The demands for rationing and price control that accompanied the Marshall Plan reinvigorated both the Progressive-era style business-planning rhetoric of the early New Deal and the proletarian national-economic planning debates of the war and reconversion period. Behind both impulses were inflation and scarcities, produced by the postwar foreign-aid spending boom and pent-up consumer demand, which revealed the inadequacy of "full employment" as a national objective. "Food processors are extremely worried about the existing level of prices and the possibility of a decline," John Stuart, chief executive officer of Quaker Oats, told the CEA in January of 1948. "They are therefore working with

[1] Elmer Staats to Charles S. Murphy for D. Bell, "The Anti-Inflation Program," January 13, 1948, Folder "Inflation and Price Control," Box 26, Charles S. Murphy Papers, Truman Library.

[2] US Council of Economic Advisers, *Business and Government: Fourth Annual Report to the President by the Council of Economic Advisers*, (Washington: 1949), p. 4.

minimum inventories."[3] After speaking with Philadelphia business leaders in February, CEA staff reported that businessmen expected a depression to follow the inflation and conflict with workers to follow. The "general view appeared to be that postwar investment plans are running out rapidly, except in special instances such as the utilities and the oil industry, and that the rate of investment in later years will be substantially lower than during the immediate postwar years." Arthur C. Kaufman, vice president of the northern department store chain Gimbel Brothers, told the CEA that "Most people seem to think there is some kind of catastrophe in the offing." James A. O'Brien, President of the fastener manufacturer DeLong Hook & Eve, described "the installment buying situation" that resulted from the expiration of Regulation W (installment credit regulations) as "full of dynamite," suggesting that "the government should take some steps to control it." Consumers, flush with new installment credit, were bidding up prices, giving manufacturers little sense of prices in relation to costs. "Practically everyone present" at the Philadelphia meeting, the CEA reported, "was seriously concerned with the third round of wage increases now in progress, the completion of which is anticipated."[4] A series of meetings in March with steel executives in Cleveland and Pittsburgh reported the following sentiments: "we are more caught up than we think," "the bloom if off the peach," "the show is over," and "the crest is passed." In both cities,

[3] "Second Discussion Meeting: Chicago Business Leaders and Dr. Edwin G. Nourse, Chairman President's Council of Economic Advisers," January 26, 1948, Folder, "Business Groups—Meetings With, 1947-1951," Box 6, Leon H. Keyserling Papers, Truman Library.

[4] "First Discussion Meeting of Philadelphia Business Leaders with Dr. Paul Homan, Economist President's Council of Economic Advisers and Mr. John W. Lehman, Economist, Joint Congressional Committee on the Economic Report," February 18, 1948, Folder, "Business Groups—Meetings With, 1947-1951," Box 6, Leon H. Keyserling Papers, Truman Library.

businessmen indicated their readiness to take strikes, hold the wage line, and risk halt to production rather than risk profit margins under higher wages.[5]

Sustaining a fully employed society opened the door to as many problems of governance and regulation as had the depression a decade earlier: How could the government protect living standards of urban workers and small farmers when the USDA methods of securing farm income entailed a rising price of food? How could workers employed on machinery and by business firms of ever-greater productivity consume enough to sustain industrial production? Who would benefit from the great productivity increases of the war: consumers, workers, managers, or shareholders? How could businessmen be made to invest when the outlook for production was so uncertain? These were just a few of the questions posed by the mandate for full employment represented by the Employment Act. They would reappear throughout the Cold War, until, with the collapse of the industrial unions during the 1980s, they seemed to vanish along with the US commitment to full employment altogether.

The problem the Truman administration faced on the eve of the 1948 campaign was how to guide investment into expanding industrial capacity—christened as the transcendent goal of "economic growth"—when the reconversion process returned investment decisions to private hands. As Matthias Schmeltzer has shown, this problem was confronted by all North Atlantic nations after the war, described by the OEEC as the project of encouraging

[5] "Discussion Meeting Cleveland and Pittsburgh Business Leaders and Dr. Edwin G. Nourse Chairman President's Council of Economic Advisers," March 15, 1948, Folder, "Business Groups—Meetings With, 1947-1951," Box 6, Leon H. Keyserling Papers, Truman Library.

"selective expansion" within national economies.[6] Most histories of economic knowledge, emphasizing the "Keynesian revolution," describe a shift in thinking away from this form of sectoral analysis during the 1940s, toward concern over broad aggregates of "fiscal policy"—the government budget and its relation to the new composite of "national income" and to unemployment. "While the seed of deficit spending was of necessity planted," Robert Collins writes, "the twig was early bent, its growth carefully nurtured so as to minimize change in the distribution of power and wealth."[7] The passage of the Employment Act in 1946 has been described as the signal moment in this narrowing of political opportunities and transformative imagination: the key event in the triumph of "commercial Keynesianism" or "business Keynesianism" over its alternatives.[8]

The Truman CEA, however, found aggregative analysis of output, employment, and the price level a completely inadequate tool for the inflationary situation that followed reconversion.[9] The Congressional mandate to maintain high employment under stable prices forced the CEA to urge the government to address itself directly to the private decision making of firms and unions in particular sectors. As Interior Secretary Julius Krug's foreign-aid report had noted, "high levels of employment and activity cannot be maintained without…adding materially to our productive capacity in key industries." Until such capacity

[6] Matthias Schmeltzer, *The Hegemony of Growth: The OECD and the Making of the Economic Growth Paradigm* (Cambridge: 2016), on "selective expansion" see pp. 117-141.

[7] Robert Collins, *The Business Response to Keynes, 1929-1964* (Columbia: 1980), p. 16

[8] Collins, *The Business Response to Keynes*. The phrase "commercial Keynesianism" was popularized by Robert Lekachman, cf. Lekachman, *The Age of Keynes* (Random House: 1966).

[9] "The CEA, in effect, would be asked to do both too much and too little" is the judgement of Craufurd Goodwin, "Attitudes toward industry in the Truman administration: the macroeconomic origins of microeconomic policy," in *The Truman Presidency*, ed. Michael J. Lacey (Woodrow Wilson International Center for Scholars: 1989), p. 101.

could be brought into operation, "Government-industry co-operation will be needed both for breaking domestic production and supply bottlenecks and for proper channeling of exports." "Foreign demand for coal and steel compete with those for [domestic] mechanical equipment," Krug wrote, "The need to effect a reconciliation between among these and other competing demands…poses the central problems of supply." Capacity shortages were most apparent in the basic fields of industrial inputs: steel and petroleum, where the most problematic shortages brought continued pressure for price increases. In response, Krug had recommended "Coal and industrial equipment shipments for nitrogen production should be given high priority," a reference to wartime allocations, and that "Export controls may be effective in channeling steel exports." [10]

The pressure of consumer demand in these markets could not be questioned during the campaign year 1948, yet the Truman CEA and the Cabinet found business executives unwilling to make the investments to expand capacity to meet the combined needs of domestic consumption and foreign assistance for European reconstruction.[11] Business opinion argued against the prudence of investing in expanded capacities for markets in which continued high rates of capacity utilization were uncertain. The President of the General Shoe Corporation, which began construction of three new factories in Alabama and Tennessee in late 1945 and 1946, warned his industry in January 1946 that "abnormal demand from

[10] US Department of Interior, *National Resources and Foreign Aid* by Secretary of the Interior J.A. Krug (Washington: 1947), p. 3. Quoted also in "Scarcities May Mean Mushrooming Controls," *Christian Science Monitor*, October 28, 1947, pp. 15.

[11] Paul A. Tiffany, *The Decline of American Steel: How Management, Labor, and Government Went Wrong* (Oxford: 1988), pp. 21-63.

consumers and retailers" could cause manufacturers to "go too far in increasing capacity."[12] "Warning after warning has appeared in the trade papers against 'overexpansion' of plant or production," the *Cristian Science Monitor* reported in March 1947.[13] Wartime demands had instilled business executives in the steel industry with a deep-seated fear of overcapacity once military orders fell off. As Republic Steel chairman Tom Girdler had argued in late 1946, "our long-range stability may be clouded if industry expands too rapidly in an effort to meet an abnormal accumulated demand for goods." Persistent steel shortages over the next two years, however, created energy bottlenecks, as the metal was needed to produce both carrying cars for the coal mines and pipe for transporting liquid fuel both at home and abroad.[14]

Over the course of the 1948 Presidential campaign, the political problem of inflation would gradually expand from agitation for price control to consideration of how the administration might bring about the expansion in industrial capacity that was not forthcoming from private enterprise. It is to this radicalization of postwar politics that we now turn. As the previous chapter showed, domestic class politics in the US during the 80th

[12] "General Shoe Reports Production at Record," *Wall Street Journal*, January 16, 1946, p. 8.

[13] "Prospects for Lower Food Prices Held Dim," *Christian Science Monitor*, March 12, 1947, p. 17.

[14] Girdler quoted in Tiffany, *The Decline of American Steel*, p. 24. Krug's report on foreign aid found that "high levels of employment and activity cannot be maintained without comprehensive programs for expanding, developing, and replenishing our basic resources, adding materially to our productive capacity in key industries, and where domestic supplies are inadequate, through importing raw materials." In addition to wheat, he reported shortages in nitrogen fertilizers; coal, where "[p]roduction is currently being limited by the lack of adequate supply of coal cars on the railroads; and steel, which "presents, in many ways, the most troublesome problem of all." Existing steel output was below capacity because of shortages of coal, steel scrap, and pig iron, but Krug found that "if the current high level of economic activity continues, the present capacity of the iron and steel industry in the United States, even if fully utilized, will be inadequate to meet the demands placed upon it." US Department of Interior, *National Resources and Foreign Aid* by Secretary of the Interior J.A. Krug (Washington: 1947), pp. 3-9. Robert Collins addresses the earlier steel-capacity debate of 1941 in *More: The Politics of Economic Growth in Postwar America* (Oxford: 2002), pp. 5-12.

Congress was filtered through the geopolitical problem of European reconstruction and world trade. This chapter traces the evolution of the debate over postwar macroeconomic management within the US in the period when the political problem of inflation and price control expanded to include control of investment in industrial capacities.

During the presidential election of 1948, the President's campaign and northern and western Democrats in the Congress advanced a mature diagnosis of American capitalist illness. In 1949, the administration delivered to the Congress a comprehensive program for overcoming inflation at full employment through the planned expansion of industrial bottlenecks, prescribing the expansion of public enterprise where the country was otherwise unable to achieve its needed development goals. This prescription, however, was dramatically and fundamentally altered by the Second Red Scare and the Korean War that accompanied the 81st Congress during 1949 and 1950. Coinciding with the long-awaited postwar recession of 1949, the Fair Deal diagnosis turned towards a bifurcated vision of the economy in which the planning proposals of the Presidential campaign were applied on a limited basis to military and foreign policy goals. Civilian industries were left to the play of market forces and the discretion of private managers; rather than to substitute public investment, to policies designed to placate those managers' and provide the tax conditions they professed were required to elicit private investment. After Korea, civilian production would be guided "indirectly," through the "natural" expansions of business cycles that rose and fell at the discretion and psychology of business managers. Government programs for targeted expansion would be limited to the military industries. The body of thought that

would become codified as "macroeconomics" during the 1950s was thus afflicted congenitally by this inheritance. The concept of "reform," of reinventing the state for a new vision of the public interest, would be left to dangle uncertainly in the post-Korea Cold War, a vestige of a different economic organism.

The Fair Deal

By the end of the slowdown during the summer of 1947, as prices resumed their upward trend, the CEA summoned representatives of the steel industry to Washington to discuss the possibility of expanding capacity without raising prices. As the CEA reported in the autumn of 1947, "Steel-using industries have not been able to keep up to full production schedules because of delays in getting needed steel."[15] Of particular concern to the nation was the shortage of railway rolling stock and railroad equipment, the primary bottleneck in distributing coal to the steel plants and to the ports for export to Europe.[16] Industry leaders argued that profits would have to expand before they built new factories or installed new machines. M.E. Coyle, executive vice president of General Motors, sympathized with the steel industry. "We should understand the reluctance of the steel producers to expand facilities at present high costs in the light of past experience." As he explained, during the peacetime years between 1900 and 1939, average capacity utilization in steel had been around 60 percent. Given this experience, Coyle argued it would be irrational for steel

[15] CEA to Truman, "Third Quarter Review," October 1, 1947, p. 4, Folder "Daily Diary—1974-28," Box 1, Edwin G. Nourse Papers, Truman Library.

[16] US Department of Interior, *National Resources and Foreign Aid* by Secretary of the Interior J.A. Krug (Washington: 1947), 7-8.

producers reduce prices, raising their long-term break-even point on a gamble of permanently higher capacity-utilization, just because current demand required nearly all capacity in production.[17] When asked when auto prices would return to their pre-war 1941 levels, Ernest R. Breech, vice president of the Ford Motor Company, answered "When we can buy steel at 1941 prices, when we can add capacity and equipment at 1941 costs and when our employees work for 1941 wages."[18] In September, E.M. Voorhees, chairman of the finance committee of US Steel, met with the CEA to discuss the industry's investment policies. Voorhees argued that, at current prices, industry profit levels depended on a high volume of sales and production utilizing around 90 percent of the industry's capacity. The industry considered such continuing high capacity utilization unrealistic, and in the face of rising costs was determined to yet again raise prices. Washington columnist Stewart Alsop reported that "the council [of economic advisers] virtually went down on its knees to the steel magnates in an attempt to persuade them not to raise steel prices after the recent coal and steel wage rises." Voorhees, Alsop wrote, did not consider current high profits and production a reason to expand capacity: the company expected capacity utilization to stabilize somewhere closer to 50 percent, thus requiring a price increase. "Come the depression, expanded capacity would be a white elephant. Against this depression [the steel executive argued] a protective layer of unspent profits must be built up…. Other industrialists, such as Rufus Tucker, chief

[17] "Management's Washington Letter," *Nation's Business*, November 1947, p. 19.

[18] Breech quoted in Jack B. Wallach, "It's All in How You Look at Prices," *Nation's Business*, September 1947, p 91.

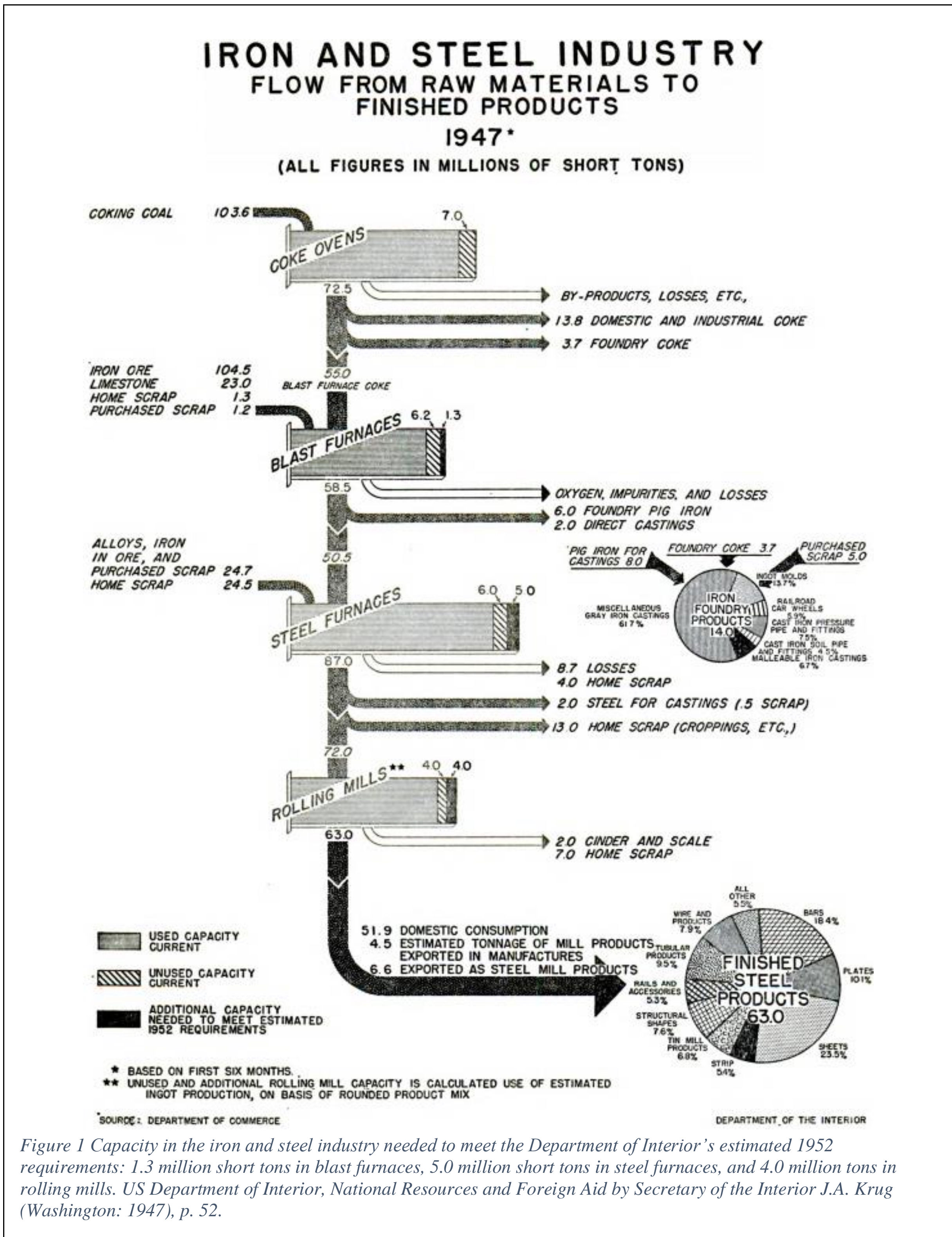

Figure 1 Capacity in the iron and steel industry needed to meet the Department of Interior's estimated 1952 requirements: 1.3 million short tons in blast furnaces, 5.0 million short tons in steel furnaces, and 4.0 million tons in rolling mills. US Department of Interior, National Resources and Foreign Aid by Secretary of the Interior J.A. Krug (Washington: 1947), p. 52.

economist of General Motors, have responded in almost precisely the same way to the almost tearful pleas of the Council of Economic Advisers to keep prices down and expansion up."[19]

After Truman's public embrace of price controls during the special Congressional session in late 1947, the question of private control of industrial capacities in key industries became unavoidable in national politics. Public investment, the excised heart of the Employment Act, had continued to pulse through 1947 in liberal demands for public power authorities, regional development, and industrial capacities. "We know from our war experience that the limits of what our economy can do are exceedingly elastic, that it has great flexibility and strength, and that resources are not fixed but are subject to constant changes in technology and in production and consumption patterns," wrote Krug in his committee's report on the foreign aid question.[20] Government surely had a role in tapping such potential. In December 1947, Senator Murray called for "the development of our river valley systems along the lines of TVA."[21] From within the administration, a reflexive request for public financing accompanied its legislative campaign for the Congress to grant price-control authority. In January 1948, Acting Interior Secretary Chapman urged Nourse to insert into the CEA's Economic Report "a strong, positive statement of the Administration's position with respect to the extension of the valley authority principle to the Columbia, Missouri, and other great river basins." The report as drafted, Chapman explained, had made

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[19] Stewart Alsop, "Each Man Kills the Thing He Loves," *Washington Post*, September 6, 1947, in Folder "Daily Diary – 1947-27," Box 1, Edwin G. Nourse Papers, Truman Library.

[20] US Department of Interior, *National Resources and Foreign Aid* by Secretary of the Interior J.A. Krug (Washington: 1947), foreword.

[21] James Murray to Nourse, December 22, 1947, including press release, Folder "Daily Diary—1947-43," Box 1, Edwin G. Nourse Papers, Truman Library.

no "mention…of the direct economic return to federal investment in multiple-purpose river basin projects and other resource programs. As you know, these investments generally pay off—not only by broadening the basis of economic activity, thereby increasing the total of goods and services, but also in the form of direct revenues to the Federal Treasury."[22]

The capacity issue did not abate during the inflation of 1948. By February, after the steel industry had completed its months-long round of price increases, even the conservative Senator Robert Taft, a tribune of small business and opponent of organized labor, called business executives before his Congressional committee to inquire about the pricing decision. The President even ordered the Department of Justice to investigate the industry, and the FBI dispatched a team of agents to study price making to the offices of 16 steel-making firms in search of evidence of collusion in violation of the antitrust laws. [23] In March, Truman released three reports on steel as result of this and other investigations by Commerce and CEA, patterned on the autumn reports on foreign-aid capabilities. Attorney General Tom Clark's findings on the FBI's investigation cleared industry executives of any violation of the antitrust laws. Like the FBI, Commerce Secretary Averell Harriman found no evidence of unlawful pricing behavior, and even defended the industry, observing that the increase in the

[22] Chapman to Nourse, January 5, 1948, Folder "1947-43," Box 1, Edwin G. Nourse Papers, Truman Library.

[23] "All US Producers of Steel Announce $5 a Ton Price Rise," *New York Times*, February 20, 1948, p. 1; "Costlier Steel: Mills Quietly Increase Prices; Some Do it By Redefining the Ton," *Wall Street Journal*, February 20, 1948; "Fairless Says Not All Steel Will Go Up," *New York Herald Tribune*, February 21, 1948, p. 1; "Fairless Says Steel Price Rise Isn't Tied to Wage Demands," *Wall Street Journal*, February *21*, 1948, p. 2; "Steel Men Called by Congress Group to Explain Prices," *New York Times*, February 22, 1948, p. 1; "Steel Prices Held Inflationary," *New York Times*, February 22, 1948, p. F1; "Steel Man Denies Collusion," *Hartford Courant*, February 26, 1948, p. 2; "Sleuths in Steel," *Newsday*, February 27, 1948, p. 31; "Sharon, Acme Steel Raise Prices of Sheets," *Wall Street Journal*, February 28, 1948, p. 2.

price of steel since the expiration of OPA was less than the increase in the wholesale price index.[24]

The 1948 CEA steel report, which Keyserling drafted, reveals the conceptual difficulties at work within the planning agency under the rising tide of anti-Communism. "It is quite true that our rate of economic growth will suffer if the steel industry does not find it possible or profitable to improve and expand with the rest of the economy," Keyserling asserted. Even after voluntary price reductions of 1947, the industry was still earning profits "higher than at any time in its history." But rather than the industry's discretion over investment decisions, the "more basic question," Keyserling argued, was whether the timing of the recent price increase had disadvantaged steel-using sectors and encouraged a broader diffusion of price increases throughout product markets, due to both cost pressures and inflationary psychology. "The succession of price advances in the steel industry that culminated in the $5 to $6 advance on semi-finished steel by Carnegie Illinois on February 12 and the parallel and almost immediate action by most other companies," he explained, "seemed to serve notice on the public that this pivotal industry interpreted the situation as still one of inflation."[25] Under Keyserling's pen, the administration disregarded "whether the steel industry is guilty of profiteering" in favor of exhorting cooperation in a general

[24] "Defense of Price Rise for Steel is Found in Federal Reports," *New York Sun*, March 15, 1948, Folder "Daily Diary—1948-5," Box 1, Edwin G. Nourse Papers; "Truman Board Says Steel Rise Flouts Public," *New York Herald Tribune*, March 14, 1948, p. 40; "Steel Firms Accused of Disregarding the Public," *Baltimore Sun*, March 14, 1948, p. 1; "Economic Council Hits Steel Price Boosts; Commerce Department Says They Lag Behind Average Increases," *Wall Street Journal*, March 15, 1948, p. 3. Despite these findings, the Department of Justice continued to prosecute an ongoing antitrust suit against the steel industry. "US Seeks Early Trial of Steel Antitrust Suit," *Christian Science Monitor*, March 15, 1948, p. 17.

[25] Keyserling to Truman, March 10, 1948, Folder "Daily Diary—1948-5," Box 1, Edwin G. Nourse Papers, Truman Library.

voluntary program of price restraint. Not only did Keyserling limit the nature of the Council's findings in this way, he also deflected the use of its advice and expertise in the push for legislation.

In April 1948, the steel manufacturers, responding to multiple Congressional hearings and public sentiment, announced a price cut and their intention to refuse any wage increases in the industry. Nourse urged the President to make a public statement praising the "willingness to participate in a general effort to stem inflation." Without "approval from the White House," he wrote Truman, "I fear that the spirit of cooperation may be chilled."[26] Within the administration, such chilling was a political necessity. When the CEA first began to formulate an anti-inflation program to accompany the Marshall Plan, there had already been signs that Clark Clifford's campaign thinking was filtering through the White House. Charles Murphy, a former staffer for Truman's anti-monopoly subcommittee, who the President invited to the White House as Presidential assistant in January, began prodding Attorney General Tom C. Clark to reactivate wartime anti-trust investigations of "the control over the policies and practices of operating corporations by investment banking concerns. Specifically…the influence of investment banking firms over corporations on such matters as mergers and acquisitions of other companies, price policies, production policies, division of the geographical market, etc."[27] As early as mid-October 1947, Murphy circulated to the staff of the Budget Bureau a memo from an "anonymous source" on the importance of sharpening

[26] Nourse to Truman, May 3, 1948, Folder "Daily Diary—1948-13," Box 5, Edwin G. Nourse Papers, Truman Library.

[27] Murphy to Clark, September 22, 1947, Folder "Monopolies," Box 28, Charles S. Murphy Papers, Truman Library.

the administration's rhetoric and policy in anti-trust activities.[28] Later that day, the Department of Justice announced its plans to "file a civil anti-trust suit against major investment banking houses…in an effort to break up an allegedly illegal system which hampers competition in the underwriting of securities."[29]

The Wardman-Park group around Clifford argued not only for a return to the public financing of industrial expansion that had characterized the wartime mobilization—for industries beyond power generation—but for a stepping-up of anti-trust prosecutions. This was a critical component of the administration's electoral strategy. For Democratic Senators like James E. Murray of Montana and Joseph C. O'Mahoney of Wyoming, as well as for Truman himself during the war (he was chairman of the Senate Small Business Committee), this fusion of public enterprise and antitrust legislation came as the logical conclusion of the anti-monopoly programs of the Populist- and Progressive-Party eras in which they had begun their careers. The successful preservation of a decentralized competitive order, many small-business advocates argued by the late 1940s, depended on both government spending and antitrust enforcement. This merits some consideration. Historians of organized labor and industrial relations in the US usually describe the exceptional autonomy the US government granted businessmen after World War II in corporation management as a factor limiting

[28] George Elsey to Staufacher and Bell, October 14, 1947, attached memo "Points Regarding Antitrust Program," Folder "Monopolies," Box 28, Charles S. Murphy Papers, Truman Library. Elsey was assistant to Clark Clifford. As early as September 22 he began compiling materials on the Wall Street anti-trust violations.

[29] "Ant-Trust Action Faces Bank Group," *New York Times*, October 15, 1947, p. 43; "Business Bigness: Truman Aims to Attack it by New Legislation, Stepped-up Prosecution," *Wall Street Journal*, December 7, 1948, p. 1.

postwar experimentation in government-guided economic development and stabilization.[30] The continuation of antitrust prosecutions against business executives and the pervasive homage to anti-monopoly politics in the US after WWII thus presents a problem of historical interpretation. Whereas historians conventionally argue that the revival of antitrust prosecutions during the late New Deal formed a contradiction within the New Deal—pitting nostalgic or political attachment to local business against the efficiency to be gained by large-scale organization and the falling unit-costs of economies of scale—many legal historians, describe the Truman era as the center of an anti-trust parenthesis, a period of continuity for rather than a departure from public-administrative and judicial vigilance against the concentration of private power.[31] Corporate mergers, acquisitions, and pricing policy were

[30] Howell John Harris, *The Right to Manage: Industrial Relations Policies of American Business in the 1940s* (University of Wisconsin: 1982); Nelson Lichtenstein, *State of the Union: A Century of American Labor* (Princton: 2013 [2002]); Alan Brinkley, *The End of Reform: New Deal Liberalism in Recession and War* (Vintage: 1996 [1995]). On Murray's anti-monopolism, see "Senator Murray Urges Stronger Anti-Trust Law," *New York Herald Tribune*, January 26, 1949, p. 31.

[31] Historians conventionally argue that the revival of an antitrust program during the recession of 1937 formed a contradiction within the New Deal: from regulating economic power by executive administration under the NRA, the Roosevelt administration turned to a program designed to limit economic concentration and cur its abuses through court-ordered competition policy with the investigations of the Temporary National Economic Committee (TNEC) and Thurman Arnold's appointment to the antitrust division of the Department of Justice. During the war, the Smaller War Plants Corporation (SWPC) and the incipient reconversion program of organized labor and the civilian planners in Washington sharpened this contradiction—until their defeat by the Truman administration and the anti-New Deal movement in the 78th and 79th Congresses. A similar narrative usually unfolds in global histories of postwar reconstruction. In the Western European and Japanese contexts, for example, Charles Maier argues that US military occupation authorities who quickly reversed the incipient anti-monopolism of their New Deal-ish staff represented the internationalization of an American "politics of productivity" that supplanted older political debates over how to govern societies divided by economic concentration. Charles Maier, "The Politics of Productivity," in *In Search of Stability: Explorations in Historical Political Economy* (Cambridge: 1987), pp. 132-134; Lucian Segreto and Ben Wubs, "Resistance of the Defeated: German and Italian Big Business and the American Antitrust Policy, 1945-1957," *Enterprise and Society*, Vol. 15, No. 2, pp. 307-336.

Ellis Hawley and Alan Brinkley describe the way military spending redirected attention away from this paradox, as war industries resources and people left idle by the high prices and investment slump were finally employed during the war: Keynesian thinking shifted the focus of liberal thought towards budgets and away from corporate pricing. Ellis Hawley, *The New Deal and the Problem of Monopoly: A Study in Economic Ambivalence* (Princeton: 1966); Brinkey, *End of Reform*. Writing from during the 1960s, the historian Richard

subject to several decades of fastidious challenge by the White House, including a strengthening of the anti-trust statutes in the 1949 amendments to the Sherman Anti-Trust Act, before the reproduction of the federal judiciary and the elite bar under the influence of the Nixon, Reagan, and the Bush administrations altered the trajectory of anti-trust enforcement.[32] Tony Freye, for example, describes the late-New Deal antitrust push as the beginning of "the most effective period of anti-trust enforcement in U.S. history."[33] This period of continuity bridges what historians usually describe as a disjuncture in the nation's developing political-economic pattern during the twentieth century. It has been remembered awkwardly as an achievement of New Deal reform that in its very success lost its crusading spirit—just as continued experimentations with public works and partial sectoral planning in agriculture and transportation, it has been seen as a thing of the past.

But in the US, the antitrust and price control programs were part of a unified whole. Wendell Berge, the former director of the antitrust division in the Department of Justice, openly advocated return of price controls during the autumn of 1947, after resigning from the Department of Justice in protest of the abandonment of the German anti-trust program. As a result of prosecutions begun under Roosevelt, a variety of business practices had come under

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Hofstadter judged that "The 1940s can be seen retrospectively as a watershed in the history of antitrust jurisprudence." As Hofstadter argues, in victory, the antitrust tradition was "ceasing to be largely an ideology and becoming largely a technique," the province of "a small group of influential and deeply concerned specialists" rather than a "broad movement of mass militant sentiment." Richard Hofstadter, "What Happened to the Antitrust Movement," in *The Paranoid Style in American Politics, and Other Essays* (University of Chicago: 1979 [1964]), p. 235.

[32] Steven Teles, "Conservative Mobilization against Entrenched Liberalism," in *The Transformation of American Politics: Activist Government and the Rise of Conservatism*, eds. Paul Pierson and Theda Skocpol (Princeton: 2007), pp. 160-188. For a popular account, see Jane Mayer, *Dark Money: The Hidden History of the Billionaires Behind the Rise of the Radical Right* (Anchor: 2016).

[33] Tony A. Freyer, *Antitrust and Global Capitalism, 1930-2004* (Cambridge: 2006), p. 399.

federal scrutiny. From quantity discounts and tying agreements (under which sellers compelled buyers to purchase goods in particular packages) to delivered prices (sellers absorbing differential freight costs) and publication of price schedules by industry associations, the courts had begun to outlaw a number of widespread business practices. These expanded techniques of antitrust enforcement were epiphenomena of a deeper historical impulse. This was best seen in the political form the antimonopoly movement took outside the courts: the debate over capacities.

Opposed to the agenda of antitrust enforcement, river valley authorities and selective price controls and rationing powers was the business group around Snyder, Steelman and Harriman. These business-friendly conservatives and Progressive-Era economists had their administrative counterpart in the independent agencies in the person of Lowell B. Mason, who Truman appointed to the Federal Trade Commission in 1945. An attorney for the Washington Senators professional baseball team, Mason's box at Griffith Stadium before the war was a regular social occasion for conservative Congressmen: it was through Robert Vandenberg, Robert Taft, and Alben Barkley that the "Lowell B. Mason Chowder, Marching, and Baseball Club" became an institution in the Senate, bringing Mason to Truman's attention. "It is getting so today that in the field of trade practices it often depends on how you hold your mouth whether you are guilty or innocent of a law violation," Mason told the National Confectioners' Association during the summer of 1947. "I am inclined to think the error is too big for a few super brains in the bureaus of Washington to remedy."[34]

[34] Oral history interview, Lowell B. Mason., April 12, 1967, p. 2-3, Truman Library. "Laws on Fair Trade Result in Confusion," *Chicago Tribune*, May 30, 1947, p. 24.

As the Truman administration began to adopt the proletarian and Populist-Party accents Clifford recommended for the Presidential campaign, Mason's public remarks became a recurring foil around which the invigorated businessmen's movement that had emerged during the war could focus. Mason described the antitrust laws as "the basis of certain antique rituals" and argued that the "Comintern loves it when the men of America who govern, pit themselves against the men of America who produce, and it's time that the government and business stopped playing cops and robbers with each other." In October 1947 he told the Chicago Bar Association that "The sooner we drop the question of relationship between Government and business from its present political status and deal with the problem on nonpartisan basis the better off we will be."[35] *Harpers* described the legal trend entailed by the anti-trust push as "fear of the future." Describing the court rulings secured by the Roosevelt and Truman Department of Justice, the magazine, a sensitive gauge of liberal opinion, wrote: "The law is confused. Innovation is discouraged."[36]

This orientation towards the problem of inflation encouraged cooperation with business executives in keeping down wage costs and pointed away from the very direction in which the Wardman-Park group's Congressional allies were then traversing. Keyserling himself waffled in reaction to these pressures and was certainly aware of the objections Nourse would raise to a more fundamental diagnosis in his report on the steel-price problem.

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[35] "FTC 'Streamlining' Submitted to Bar," *New York Times*, October 14, 1947 p. 30; Mason to Chicago Bar Association, October 27, 1947, quoted in *American Affairs*, Vol. 12, No. 3, p. 166 and in United States of America, *Congressional Record: Proceedings and Debates of the 81st Congress, Second Session*, Appendix, Vol. 96—Part 15, April 21 1950 to June 7, 1950 (Washington: 1950), p. A4191. It is notable that this mention of the Comintern, which was spoken in 1947, did not gain circulation until the summer of 1950.

[36] Harold Fleming, "The Supreme Court and Big Business," *Harper's*, June 1950, pp. 89-95.

The very month Keyserling drafted the steel report, the FBI, under the direction of J. Edgar Hoover, opened an investigation on him and his wife for alleged subversive activity.[37] Nourse considered any device to enable "federal control of capacities" alarming.[38] These criticisms did not go unheard. On January 7, 1948 speaking before a joint session of Congress, President Truman argued that "We are today far short of the industrial capacity we need for a growing future. At least $50 billion should be invested *by industry* to improve and expand our productive facilities over the next few years."[39] Rather than embarking on a program for public financing of industrial expansion, in early 1948 Clifford and Truman encouraged business to spend on its own properties. Yet to defenders of business, such singling out of an industry for governmental exhortation and scrutiny—whether for mandatory controls, voluntary restraint, or merely public contrition—smacked of radicalism. As the New York *Sun* reported, the steel reports revealed the administration's consideration of "basic issues of public or private control of business—operating industry by political policy as contrasted with natural forces under the laws of profit and loss, supply and demand."[40]

[37] Landon Storrs, *The Second Red Scare and the Unmaking of the New Deal Left* (Princeton: 2013), p. 169.

[38] Nourse to Truman, January 3, 1948, Folder "Daily Diary—1847-1," Box 1, Edwin G. Nourse Papers, Truman Library. "[T]o give the country the impression that the Administration is toying with the idea of entering into Government construction of steel facilities now or in the near future," Nourse wrote, "would seem to me something which is wholly gratuitous at this juncture and would do as much as almost anything would to prejudice a cooperative spirit between business and government." Cf. Chapter 2, section: "The First Special Session."

[39] Harry S. Truman, Annual Message to the Congress on the State of the Union Online by Gerhard Peters and John T. Woolley, The American Presidency Project https://www.presidency.ucsb.edu/node/232897.

[40] David Lawrence, "Defense of Price Rise for Steel is Found in Federal Reports," *New York Sun*, March 15, 1948, Folder "Daily Diary—1948-5," Box 1, Edwin G. Nourse Papers.

For New Dealers and leaders of newly powerful labor unions, private business discretion over investment in capacities represented a class power over society that had to be checked by public controls if the community was to be free to direct its own future. Prices and profits were unlikely to fall by market competition alone, they argued, and the profit- and credit-led inflation then underway was not resulting in the new industrial projects that were necessary in basic industries if prices were to be brought down through competition. "The level of investment in crucial areas of the economy is in the hands of a relatively small group of men," wrote former OPA economist Richard Gilbert in a collection of essays of ADA-aligned academics published during the 1948 campaign. "In the past, they have used their power not only to release investment by fits and starts, but, in the interest of monopoly profits, to damp the level of investment as a whole. This has restricted the production of vitally needed goods; it has also resulted in unemployment throughout the economy." To Gilbert, investment decisions over productive capabilities appeared to be at the mercy of a white-shoe conspiracy: existing prices and profit margins "[t]hroughout the area of durable-goods production, and in a large part of the non-durable goods area" were "not determined by the impersonal forces of the market" but rather by "a relatively few men." In such an environment, "fiscal policy is no panacea" since it brought inflationary price increases and catch-up wage costs. "If we restrict government intervention to fiscal policy, therefore, we must face the unpalatable alternatives of partial employment on the one hand and continued

and perhaps violent economic instability on the other. Some form of control of prices and wages, to supplement fiscal policy, naturally suggests itself."[41]

The pressures between the Wardman Park group and the business partisans around Snyder, Harriman, and Steelman came to a head at the DNC in July. Speaking to the assembled party delegates, Truman announced he would call the Congress back from recess for a second special session on 26 July—in eleven days—to legislate an anti-inflation program.[42] John D. Clark of CEA wrote the first draft of the anti-inflation section of the statement the President would use to open the special session. Clark called for the restoration of a form of "excess profits" taxes as well as a "publicity device" requiring prior submission for government consideration of proposed price and wage increases by large corporations. Again, Clifford assumed responsibility for surveying the executive departments for recommendations on the President's statement to the special session. Nourse argued that a system of industrial priorities would be the "most effective" form of legislation to accompany the expanded military budget and foreign-aid program. "It is my judgement that voluntary efforts [at rationing] have not demonstrated their adequacy nor give promise to becoming adequate." Price controls, however, should be excluded from the message, Nourse argued. "The inauguration of such a program [of selective price control] would be regarded as tantamount to saying that we are on a war basis and thus expose the President to bitter

[41] Richard Gilbert, "Controls," in *Saving American Capitalism*, ed. Seymour Harris (Knopf: 1950 [1948]), p. 168-174, quotes on pp. 171-2 and 173-4.

[42] Harry S. Truman, Address in Philadelphia Upon Accepting the Nomination of the Democratic National Convention Online by Gerhard Peters and John T. Woolley, The American Presidency Project https://www.presidency.ucsb.edu/node/232683; Irwin Ross, "What Happened in 1948," *Harry S. Truman and the Fair Deal*, ed. Alonzo L. Hamby (DC Heath and Company: 1974), pp. 101-126; Alonzo Hamby, *Beyond the Fair Deal*, pp. 244-8.

charges of inconsistency with his assertion that we are and intend to continue on a peace basis," Nourse wrote. The association of price controls with war commitments would return to bedevil future President Lyndon Johnson. Against Nourse's suggestions, Keyserling argued forcefully for selective price controls. "Our whole analysis during the past year or longer has indicated that the inflationary danger, unlike wartime inflation, consists more in specific pressures at discernable spots rather than in the aggregate picture. It seems to me that the direct way to have some feeling of assurance that these specific spots can be dealt with, not perfectly but at least with some hope of success, is to vest power within the Government to make selective use of price and wage powers and rationing."[43]

As delivered to the special session late July, the President requested the restoration of an excess-profits tax, enhanced powers for the Federal Reserve over "inflationary bank credit," allocations and inventory controls, strengthened rent controls, standby rationing authority for "those few products in short supply which vitally affect the health and welfare of our people," and, finally, that "price control be authorized for scarce commodities which basically affect essential industrial production or the cost of living."[44] At the urging of Paul

[43] John D. Clark, "Suggested form of memorandum to White House on character of message on inflation," July 17, 1948, Nourse to Clark and Keyesrling, "Comments on the President's Anti-Inflation Program," July 18, 1948; Keyserling to Nourse and Clark, "Comments on Anti-Inflation Program," July 18, 1948, all in Folder "Daily Diary—1948-28," Box 5, Edwin G. Nourse Papers, Truman Library.

[44] The President added, "I have said before, and I repeat, that many profit margins have been adequate to absorb wage increases without the price increases that have followed. Rising wages and rising standards of living, based on increasing productivity and a fair distribution of income, is the American way. Noninflationary wage increases can and should continue to be made by free collective bargaining. Where the Government imposes a price ceiling, wage adjustments which can be absorbed within the price ceiling should not be interfered with by the Government. The Government should have the authority, however, to limit wage adjustments which would force a break in the price ceiling, except where wage adjustments are essential to remedy hardship, to correct inequities, or to prevent an actual lowering of the living standards." Harry S. Truman, Message to the Special Session of the 80th Congress Online by Gerhard Peters and John T. Woolley, The American Presidency Project https://www.presidency.ucsb.edu/node/232707.

Porter, Truman gave Clark and Keyserling permission to speak before the Congress in favor of selective controls.[45] Thus, by the second special session, the Foreign Assistance Act already passed and the election two months away, the nation confronted a national political conjuncture in which authority for price control was clearly the subject of an electoral mandate. The CIO, having surveyed a draft of the President's message opening the session, suggested even more extensive legislation designed to "freezes prices at recent levels," and to curb by taxation the "lust of huge corporations for exorbitant profits," arguing that the "drive against monopolies must be intensified."[46] On July 19, Senator Alben Barkley of Kentucky introduced the "Anti Inflation Act of 1948," his own proposal for statutory authorization of price controls. During the special session, committee chairmen moved further than this away from the administration, considering only the controls on installment credit and not the price-control language of the Barkley bill. "High prices of consumer goods are imposing increasing hardships on every American family," ADA chairman Leon Henderson said in August. But where would Congress stand under a second Truman administration? "If the Congress, as the majority leaders have stated, can pass banking controls in the next three days," Henderson continued, "it should certainly be possible to remain in session for another week and to enact

[45] Nourse to Keyserling and Clark, August 3, 1948, forwarding Truman to Nourse, August 3, 1948, in Folder "Daily Diary—1948-30b," Box 5, Edwin G. Nourse Papers, Truman Library; "Two to Testify," *Wall Street Journal*, August 4, 1948, p. 3.

[46] "CIO Suggestions" appended to "Proposed legislative program to be submitted to the Congress on July 26, 1948," July 17, 1948, Folder "Inflation and Price Control," Box 26, Charles S. Murphy Papers, Truman Library.

other measures which will have a more direct effect and which will give more direct relief to the American family."[47]

Thus, in the period between the second special session and Truman's upset victory in November, a total program for government expansion of capacities, selective price control, industrial rationing, agricultural income supports, national health insurance, civil rights, and control of the debt market was shaping up within the administration. These legislative proposals for reforming American capitalism in 1949 contained two essential ideas, combined in different ways in the various proposals that would be considered by the 81st Congress. The first were initiatives to establish for the rest of economy the sort of buffer-stock purchasing authority that existed for agriculture in the Commodity Credit Corporation (CCC). For minerals and metals, government corporations would be established to purchase surplus output, ensure orderly pricing, and guarantee income to the communities based on single commodities. In agriculture itself, Secretary Brannan moved beyond even this arrangement in proposing to allow CCC sales below parity price floors, subsidizing small farmers the difference between sales income at parity and market prices. These "production payments" would guarantee farmers a "parity income" rather than "parity prices," providing subsidies from the federal Treasury as the Roosevelt administration had done during the war through OPA. They were the heart of the so-called "Brannan Plan" to reform USDA operations, named for Agriculture Secretary, Colorado-native, and USDA veteran Charles

[47] Americans for Democratic Action press release, August 4, 1948, Box 1, Folder 13, ADA Records, Wisconsin State Historical Society.

Franklin Brannan.[48] The Brannan Plan's popularity brought Truman to victory in 1948, winning over every state but Oregon in the west, the border states of Kentucky, Oklahoma, Missouri, and West Virginia, and the Midwest farm states of Illinois, Iowa, Minnesota, Ohio, and Wisconsin. As the Republican banker Gabriel Hauge wrote in a post-mortem for the Dewey campaign, "the margin for the Turman victory came, not from labor, but from the turnabout of farm votes in the Midwest, a fact which appears to be closely allied with the drop in corn prices before election."[49]

Public equity finance formed the conceptual core of the second group of reform proposals of 1949. Central to the mature New Deal-Fair Deal diagnosis of the illness of American capitalism was the shortage of investment funds furnished by the nation's existing banking system and its Wall-Street based investment houses. The low stock prices of the pre-Korean War period exacerbated this problem, business partisans argued, as what savings and credit the commercial banking and insurance industries did invest were directed towards bonds or favored stocks. This disadvantaged new and unknown firms in attracting financing, relative to the established corporations issuing regularly placed blue-chip securities. As a meeting between Philadelphia businessmen and CEA staff early in 1948 reported, "There appeared to be a general consensus (1) that equity capital was unlikely to be sufficiently available in the near future to support a level of investment anything like that of recent years;

[48] Virgil W. Dean, "The Farm Policy Debate of 1949-50: Plains State Reaction to the Brannan Plan," *Great Plains Quarterly*, Winter 1993 and "Charles F. Brannan and the Rise and Fall of Truman's 'Fair Deal' for Farmers," *Agricultural History*, Winter 1995.

[49] Irwin Ross, "What Happened in 1948," in *Harry Truman and the Fair Deal*, ed. Alonzo Hamby (DC Heath and Company, 1974).

and (2) the use of equity capital is much too costly at present in view of the low ratio between stock values and earnings."[50] While businessmen urged opposition to wage increases and defended their price and profit increases on the grounds of protecting profits for venture capital, the very same logic lent itself to arguments in favor of developing alternative sources of equity finance that did not depend on high profits and accumulated corporate savings.

Within the CEA, Gross and Keyserling drafted a bill updating the Employment Act to include federal investment funds for industry. These proposals formalized and extended a line of thinking that had emerged in the Bureau of the Budget regarding the capacity problem in metals during the summer of 1948, when the Bureau suggested possible legislation to provide premium payments from military agencies for strategic producers, suspension of the anti-trust laws for those participating in the national security program, and expansion of RFC lending for these purposes.[51] For minerals and manufactured goods, the Economic Expansion Act sponsored by Representative Brent Spence of Kentucky and the Full Employment Act of 1950 sponsored by James Murray, both introduced early in the 1949 session, included authority for the establishment of government corporations, as did a bill sponsored by Senator Joseph C. O'Mahoney for the mining industry, introduced once it became clear these earlier laws would not find support from the White House. These measures would assure a

[50] "First Discussion Meeting of Philadelphia Business Leaders with Dr. Paul Homan, Economist President's Council of Economic Advisers and Mr. John W. Lehman, Economist, Joint Congressional Committee on the Economic Report," February 18, 1948, Folder, "Business Groups—Meetings With, 1947-1951," Box 6, Leon H. Keyserling Papers, Truman Library.

[51] "Ad Hoc Committee on the Need for Further Economic Controls," May 17, 1948, Folder "Daily Diary — 1948-25," Box 5, Edwin G. Nourse Papers, Truman Library.

market for constant production in these non-agricultural industries—as the Brannan Plan promised for farmers, preventing gluts driving down prices and pushing small producers out of business.[52] In the US, such proposed agencies were linked to proposals for new authorities to provide equity finance for ventures where banks proved unwilling to extend credit and entrepreneurs unable to access securities markets. The spearhead of the Fair Deal agenda, the Spence and Murray bills, both included the establishment of a "national development authority" to lend to new businesses to expand productive capacity. Importantly, these development boards would be authorized to finance public works by the states and lower levels of government, in addition to equity investment in small business, in times of slack in the labor market.

The Full Employment Act of 1950

On 5 January 1949, the President announced in his State of the Union address that he would ask for legislation from Congress empowering his government to control consumer credit, bank reserves, margin requirements, transportation allocations, materials allocations and priorities, and rent controls. Pressing a theme revived during the debate over the Marshall Plan, he requested "standby controls to impose price ceilings for scarce commodities which basically affect essential industrial production or the cost of living, and to limit unjustified

[52] Government-managed buffer stocks were common across the North Atlantic during the twentieth century. As Isabella Weber has recently shown, such "state commerce agencies" or "state trading agencies" charged with purchased and selling specific commodities to stabilize prices and direct price trends were instrumental in the Chinese program to expand investment into targeted industries and control the cost of living during both the civil war of the late 1940s and the modernization program that began after 1978. Isabella M. Weber, *How China Escaped Shock Therapy: The Market Reform Debate* (Routledge, 2021).

wage adjustments which would force a break in an established price ceiling." Then, in an act of daring unprecedented for the Missouri-born anti-monopoly politician, Harry Truman asked Congress "to authorize an immediate study of the adequacy of production facilities…such as steel; and, if found necessary, to authorize Government loans for the expansion of production facilities to relieve such shortages, and to authorize the construction of such facilities directly, if action by private industry fails to meet our needs."[53] This performance astonished the nation's intellectuals and newspaper writers. Daniel Bell, the editor of Henry Luce's high-brow business magazine, *Fortune*, distilled the import of the President's message: "Mr. Truman submits a budget message which proposes *more* far-reaching social and economic advances than any budget message in our history." The message included requests for funds for nearly fifty new government agencies, Bell explained, "But the most important sections are the passages dealing with industrial capacity, for a full employment economy can be dangerously inflationary if production does not expand rapidly enough to meet the new demands created by high employment and large government spending."[54]

On the subject of price control, Truman made his intentions privately clear just after the election, when, vacationing in Key West, he asked Steelman to call Nourse and appoint the controls-averse CEA chairman to direct the new anti-inflation program.[55] Throughout

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[53] Harry S. Truman, Annual Message to the Congress on the State of the Union Online by Gerhard Peters and John T. Woolley, The American Presidency Project https://www.presidency.ucsb.edu/node/230007.

[54] Daniel Bell, "America's Un-Marxist Revolution: Mr. Truman Embarks on a Politically Managed Economy," *Commentary* March 1949.

[55] Nourse memoranda to self, November 27, 1948, Folder "Daily Diary—1948-33," and January 11, 1949, Folder "Daily Diary—1949-1," both in Box 5, Edwin G. Nourse Papers, Truman Library.

December, Nourse and Steelman led a committee of the cabinet in discussions of the inflation problem. (By this time Keyserling and Nourse were refusing to be present together in meetings.) On the subject of price control, the group was evenly divided, with Snyder, Sawyer, and McCabe arguing against the measure and Brannan, Krug and Maurice Tobin, now Secretary of Labor, in favor. "When I mentioned to the President that on this item we were quite evenly divided," Nourse wrote in his diary, "he simply glanced up briefly from his reading, and said that he was recommending stand-by price controls."[56] Truman announced his radical program in his January message to Congress but placed the conservative Nourse in charge of shepherding the Fair Deal lieutenants.

Opinions divided fiercely over the President's January message. The very phrase "welfare state," which would seize the country's political mind for the remainder of the century, emerged in this moment to signify an idea much more expansive than extending social insurance programs. It was introduced into US parlance during the 1948 Presidential campaign, when the six-million member CIO invited sitting Supreme Court Justice William O. Douglas to address its national convention. For Douglas, it was a surrogate for the then-taboo word "socialism." The "human welfare state" and the "social welfare state," Douglas explained, were names for the world project of non-Communist organized labor, shared by workers in the US and Western Europe. Truman's left-wing—but also Cold War-inspired—campaign had embodied Douglas's aspirations for non-Communist labor: Fair Deal proposals

[56] Nourse memorandum to self, January 11, 1949, Folder "Daily Diary—1949-1," and "Statement of the Chairman of the Council of Economic Advisers At Meeting of the Cabinet Committee on Anti-Inflation," December 16, 1949, Folder "Daily Diary 1948—36," Box 5, Edwin G. Nourse Papers, Truman Library. Quote in January 11 memo.

included government-owned steel and electricity plants, industry-level co-determination (not just firm-level boards), and, after Truman's election, the great then-liberal aspiration of national health insurance. It was in response to these campaign proposals and Truman's 1949 State of the Union Address that nationally syndicated columnists Stewart Alsop and Dorothy Thompson began using the phrase "welfare state," quoting Justice Douglas to bait the victorious President for campaigning with ideas that had originated in the quasi-socialist CIO. "Peacetime Government ownership and operation of a part of a basic industry does have perfectly genuine socialist overtones," wrote Alsop; these were the "welfare state" proposals of "the liberals (call them what you will—the left wingers, the New Dealers, the labor-minded)."[57] As General Electric President Charles Wilson wrote to Truman, the proposed legislative program represented "an incentive-destroying and competition-destroying collectivism."[58] By June, former Secretary of State James Byrnes was using the phrase to oppose the new spending measures proposed; it had already made its transformation from left-wing anti-Communism to a canard of the anti-labor and Jim Crow right.[59]

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[57] Stewart Alsop, "The Social Welfare State," *Washington Post*, January 7, 1949, p. 21; "Truman's 'Welfare State,'" *New York Times*, January 9, 1949, p. E8; Dorothy Thompson, "State of the Union and the Prospects," *Boston Globe*, January 10, 1949; "Dorothy Fears Truman is Jostling the Nation Toward Welfare State," *Austin American Statesman*, January 12, 1949; "The Welfare State," *Wall Street Journal*, January 31, 1949, p. 4; "Reuther Backs Douglas," *New York Times*, July 8, 1948, p. 11.

[58] Wilson quoted in Robert Griffith, "Forging America's postwar order: domestic politics and political economy in the age of Truman," in *The Truman Presidency*, ed. Michael Lacey, p. 87.

[59] "Address by Hon. James F. Byrnes at Washington and Lee University, Lexington, VA., June 18, 1949," reprinted in June 20, 1949, 81st Cong, 1st Sess, *Congressional Record*, Vol. 95, pp. S7904-6; Harry S. Truman, The President's News Conference Online by Gerhard Peters and John T. Woolley, The American Presidency Project https://www.presidency.ucsb.edu/node/22968.

On 10 January, Senators John Sparkman of Alabama and James Murray of Montana introduced S. 281, the "Full Employment Act of 1950," in the Senate containing three titles. Wright Patman, Democrat of Texas, introduced companion legislation in the House of Representatives, H.R. 1177. Title I of the Murray-Sparkman-Patman bill mandated a form for the CEA's annual Economic Reports, to include a 10-year program of goals of production, employment, and conservation and use of resources, with emphasis on industrialization of underdeveloped areas. Each year the report would update the 10-year program, reviewing and modifying, to present a continuous 10-year national development schedule for Congress. Title II expanded the Board of Directors of the RFC to seven members, from its then five, and established a twelve-member "Capital Development Advisory Board, modeled after the Office of War Mobilization and Reconversion Advisory Board" (discussed in Chapters 1 and 2) to oversee RFC investments. Title III appropriated $15 billion for a "Capital Development Fund" to be placed under the authority of the RFC and the Capital Development Advisory Board "to assist in obtaining the ten-year objectives set forth in the Economic Report." As of January 31, an interagency working group had been established to study potential capacity-expansion needs in nine areas, from steel and coal and electric power to cement and agricultural products, on the basis of projected needs in 1954, taking into consideration "the various control and production measures applicable in each commodity area."[60]

[60] The nine areas were: "(1) Steel, iron ore, scrap, coaking coal, manganese, and chromite; (2) electric power, (3) aluminum; (4) phosphate, potash and nitrogen; (5) copper; (6) lead and zinc; (7) tin; (8) cement; and (9) agricultural products." Bertram Gross to Wesley McCune, untitled memorandum, January 31, 1949, Folder "Daily Diary—1949-8," Box 5, Truman Library. The language of the Full Employment Act of 1950 is included with this document. "$15 Billion Fund Sought to Insure Jobs in 1950," *Boston Globe*, January 10, 1949, p. 1; "Both Federal Government, States Could Enter Steel, Other Business Under $15 Billion Development Bill," *Wall Street Journal*, January 11, 1949, p. 9; "Congress Divided on Industry Plan," *Baltimore Sun*, January 12,

On 15 February, Kentucky congressman Brent Spence, a defender of price control and ally of the administration in the House Banking and Currency Committee, introduced H.R. 2756, the White House's version of the legislation required to make Truman's capacity-expansion promises into law. Entitled the "Economic Stability Act of 1949," the Spence bill differed from the Murray-Sparkman-Patman bill mainly in the rules around business lending: it did not specify the size of the development fund, and provided for loans only among a narrower category of businesses identified in scarcity areas.[61] Bertram Gross of the CEA staff, formerly a member of Senator Murray's office, described Title II as "the major significant addition, in contrast with the Barkley-Spence [price control] bill of last year." Section 207 of Title II authorized establishment of a new government corporation to handle loans and procurement under the law, much as the RFC had done during the war, the CCC did for the USDA, and the Export-Import Bank and the Office of Temporary Controls had done for foreign customers. Section 204 empowered the government to make domestic purchase for resale abroad or to the military. Section 203 of Title II authorized the new lending authority to declare a "depression moratorium" on interest payments, in the event of a downturn that squeezed business revenues. During the capacity debates of 1947 and 1948,

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1949, p. 1; "Should Congress Approve the President's Industrial 'Aid' Scheme?," *Congressional Digest*, Vol. 28, No. 2, February 1949, pp. 62-4. The opening pages of this issue provide a useful guide to politics of the first session of the 81st Congress. On the administrative history of the RFC, see Jesse Jones, *Fifty Billion Dollars: My Thirteen Years with the RFC (1932-1945)* (Macmillan: 1951), pp. 512-30.

[61] Unsigned memorandum, "Comparison between Title II (Promotion of Production and Supply) of H.R. 2756 (Economic Stability Act of 1949) and S. 281 (Full Employment Act of 1950)," March 3, 1949, Folder "Daily Diary—1949-27a," Box 5, Edwin G. Nourse Papers, Truman Library. A copy of H.R. 2765 is included in Folder "Daily Diary—1949-8," Box 5, Nourse Papers. "Record of 8st Congress (First Session)," October 20, 1949, *Congressional Quarterly,* digitized: https://library.cqpress.com/cqresearcher/document.php?id=cqresrre1949102000#H2_5.

businessmen had given the risk of such a downturn as a primary justification for opposing public exhortations to take on further debt-financed expansion. As Gross explained, these provisions of the Spence bill meant that "It is from the borrowers' standpoint an opportunity to borrow with most of the advantage of new equity capital but without 'dilution' of existing equities."[62]

For the Fair Dealers, the implications of the lending powers in the Spence bill were enormously consequential. The implied threat of government-sponsored competition was the keystone to their mature diagnosis of capitalist illness. Where concentrated markets produced high profits and prices, the public would ensure the entrance of new firms to compete, chiseling down high profit margins as Adam Smith had taught in the eighteenth century. Such expansion of supply was designed to ease the price pressures attendant on a full-employment economy. Not only would the Spence bill stimulate expansion of newer or smaller firms usually disadvantaged in capital markets, Gross explained, but "the competitive

[62] Bertram Gross to Edwin Nourse, "Title II of the Stabilization Bill" and "Comparison of the Economic Stability Bill with Barkley-Spence Anti-Inflation Bill," January 13, 1949, both in Folder "Daily Diary—1949-8," Box 5, Edwin G. Nourse Papers, Truman Library. On 4 January, Wesley McCune, Griffith Johnson, Stanley Williams, Harvey Sherman, Bertram Gross and David Lloyd meet in the Department of Agriculture to plan the law, agreeing on an omnibus bill to "provide maximum impetus" for powers needed before the expiration of authority for export control in February and rent control in March. The group agreed that the Chairmen of the Banking and Currency Committees of the House and Senate would introduce legislation on Tuesday 11 January, and that the Joint Economic Committee would immediately open hearings, proposing Brannan, Keyserling and Sawyer as the administration's representatives in the Congress. As of 4 January, "open policy questions" included what would become Section 203: "There is a question whether the title on supply and production should be limited to the authorization of an investigation and the authorization of loans, or whether it should also include authorization for construction of needed facilities, premium payments for non-ferrous ores, etc. and provisions relating to procurement." Hearings on capacity-expansion did not occur until the third week of February, after passage of a resolution into investigations into the price decline in agricultural commodities and committee debate over amendments to the Taft-Hartley act. David D. Lloyd to Charles S. Murphy, "Anti-Inflation Bill Recommendations," January 4, 1949, Folder "Anti-Inflation," Box 2, Charles S. Murphy Papers, Truman Library.

threat raised by expansion of new and smaller producers is likely to induce some defensive expansion on the part of the older larger firms…where the small number of rival producers is one of the bases for a conservative consensus regarding expansion of capacity."[63] Defenders of the existing patterns of ownership and privilege likewise saw fundamental changes to the nation in the legislative proposals. Senator Harry Byrd, Democrat of Virginia, described the Sparkman-Murray-Patman bill as "the complete destruction of the private enterprise system." Of the state of the union address, *New York Times* columnist Arthur Krock wrote that "In political philosophy it much more nearly resembles state socialism than the capitalist system which Mr. Truman, in the same message, lauded as the basis of 'the greatest prosperity the world has ever seen.'"[64]

Introduction of these bills during the first session of the 81st Congress marked the peak of the Fair Deal-reform movement that propelled Truman's successful re-election. They were tied to a major tax increase designed to reverse the revenue cuts of summer 1947.[65] The Brannan plan was designed to allow food prices to fall and thus maintain real wages without sacrificing farm income. To these proposals for controls on farm prices, credit, and incomes,

[63] Bertram Gross to Edwin Nourse, "Title II of the Stabilization Bill" January 13, 1949, both in Folder "Daily Diary—1949-8," Box 5, Edwin G. Nourse Papers, Truman Library. Historiographic convention draws a political line between economic "stabilization" and economic "expansion"; it is important to note that for the Truman administration during the 80th and 81st Congresses, stability was to be achieved through growth, and this was evident in the title of H.R. 2756, the "Economic Stability Act."

[64] "Both Federal Government, States Could Enter Steel, Other Business Under $15 Billion Development Bill," *Wall Street Journal*, January 11, 1949, p. 9; Arthur Krock, *New York Times*¸ January 6, 1949, reprinted in "Should Congress Approve the President's Industrial 'Aid' Scheme?," *Congressional Digest*, Vol. 28, No. 2, p. 63.

[65] At Charles Murphy's request the FTC staff even drafted a proposal for a peacetime excess profits tax to apply to large corporations earning above a certain rate of return, with exemptions for those lowering prices. Unaddressed letter and paper from John M. Blair, December 28, 1948, Folder "Monopolies," Box 28, Charles S. Murphy Papers, Truman Library.

the CEA would add an item championed by Federal Reserve chairman Marriner Eccles since before the war. In addition to regulation of the terms and quantity of installment credit, Eccles had long pushed for central supervisory authority over the nation's banking system. In the context of the inflation then underway, these proposals offered an alternative to the increase in interest rates championed by many bankers and large businessmen as a solution to rising prices. Commercial bank lending had expanded rapidly during late 1945 and 1946 because the Federal Reserve, refusing to let bond prices fall, was compelled to act as a buyer of last resort whenever a bank wanted to sell government securities. "As banks have become convinced that long-term interest rates will be maintained," Eccles explained, "they have to an increasing extent sold their lower rate issues to the Federal Reserve Banks and purchased the higher-rate issues available to them."[66] To control this expansion of commercial bank credit, Eccles proposed "that all commercial banks in the country be required to maintain holdings of Treasury bills and certificates at or above some percentage of their net demand deposits," establishing a system of "secondary reserves" to relieve the central bank of the responsibility to maintain values in the bond market. Commercial banks that hoped to extend loans would be obligated to purchase government securities to hold in such "secondary reserves," and those who liquidated their holdings would thus have alternative buyers than the central bank. This would have the added benefit, Eccles argued, of lightly depressing bond prices—both corporates and Governments—as banks exchanged them for the securities required as secondary reserves, thus raising the yields of privately issued securities and

[66] Marriner Eccles, "Credit Policy and the Public Debt," January 30, 1946, Folder 3, Box 11, MSEP.

lessening the pressure for speculative lending. Most importantly, allowing existing government security prices to fall, Eccles explained, would not raise interest rates for the Treasury. While the Federal Reserve would no longer intervene in the market for existing securities, it would commit to maintain the long-term interest rate of 2 ½ percent for the new issues the Treasury would use for refinancing.[67] Expressing this goal, on 15 January President Truman drafted a request to Thomas McCabe, who he had recently appointed to Eccle's position as Chairman of the Board of Governors of the Federal Reserve System, for model legislation "to provide continuing authority to the Board of Governors of the Federal Reserve System to require banks to hold supplemental reserves up to the limits required last August, 10 percent against demand deposits and 4 percent against time deposits." In a telling decision, it would remain unsent.[68]

Such a method for restricting credit was crucial for those who hoped to stop inflation without creating unemployment. "The reserve requirement and rediscount rate powers of the Federal Reserve System cannot control this credit expansion," Elmer Staats of the Bureau of the Budget explained in an administration memo in January 1948. "There can be no sure power to check bank credit expansion unless more authority is granted." The administration included renewal of Regulation W, the legislation authorizing the FRB to control the amount and terms of installment credit, and extension of FRB's regulatory authority in each of the

[67] Unsigned Federal Reserve memorandum, "Reserve in Treasury Bills and Certificates," January 21, 1948 and Marriner Eccles, "Credit Policy and the Public Debt," January 30, 1946, both in Folder 3, Box 11, MSEP..

[68] Memorandum to the Chairman of the Board of Governors of the Federal Reserve System from the President, January 15, 1949, Folder "Anti-Inflation," Box 2, Charles S. Murphy Papers, Truman Library.

legislative pushes for price control in the special sessions of 1947 and 1948. [69] Recommending legislation for the second special session of Congress in July 1948, during final passage of the Foreign Assistance Act, CEA had urged "renewing the authority of the Board of Governors [of the Federal Reserve] to regulate consumer credit and… granting authority to require commercial banks to maintain larger reserve funds."[70]

The radicalism of the Murray and Spence bills did not sit well with Harry Truman. In autumn 1948, agricultural prices began to break downward in a trend that continued during 1949. This recession solidified the role business confidence would play in liberal thought after World War II. Such concerns were spoken at CEA, mainly by Nourse, before the break in agricultural prices. But by the winter of 1948-9, the fears of 1947 had returned. Nourse used the occasion of the introduction of the Spence and Murray bills in January and February 1949 to begin a public break with the administration. Delivering a lecture to New York City's Harmonie Club in late January, Nourse admitted his judgement that "government participation in business should keep so far as possible out of the 'operative' role." Having long urged the CEA and the President to attempt to guide such relationships between wages and prices pedagogically, the program of January 1949 represented a repudiation of his efforts. When the newspapers arrived with reports of Nourse's remarks, Clifford and Murphy "hit the ceiling" Steelman told Nourse.[71] Keyserling wrote to Nourse admonishingly that his

[69] Elmer Staats to Charles S. Murphy for D. Bell, "The Anti-Inflation Program," January 13, 1948, Folder "Inflation and Price Control," Box 26, Charles S. Murphy Papers, Truman Library.

[70] CEA comments on legislative program, July 19, 1948, Folder "Inflation and Price Control," Box 26, Charles S. Murphy Papers, Truman Library.

[71] Nourse memorandum to self, February 8, 1949, Folder "Daily Diary—1949-22," Box 5, Edwin G. Nourse Papers, Truman Library. Nourse notes this remark was reported in the *Hearld Tribune*, the *Philadelphia Enquirer*, and the *Washington Post*.

remarks were “so potentially harmful to the Council of Economic Advisers, to the Government of which we are a part, and to the purposes of the Employment Act of 1946.”[72] Nourse continued to speak publicly in skeptical tones about the administration program, delivering an address against the Brannan plan for agriculture at the University of Kentucky on 25 January.[73]

On February 1, Brannan, Truman, Senate Banking and Committee Chairman Burnet Maybank, House Banking and Committee Chairman Spence, and JEC Chair and Vice-Chair Joseph O’Mahoney and Edward J. Hart agreed on a legislative schedule. At the hearings on the President’s Economic Report in one week, Brannan would propose the administration’s legislative program. Nourse, however, refused to participate, explaining that “it is clearly foreseeable that the Council or individual members of the Council sooner or later will be in quite frank disagreement with some policy recommended by the President.”[74] Without Nourse, Keyserling and Clark both testified before Congress in mid-February. “Encouragement of productive capacity is so essential to continued maximum employment and production,” Clark told the Committee. “The President has shown how earnestly he seeks effective action by declaring that if it comes to the point where the people cannot be

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[72] Leon Keyserling to Edwin Nourse, “Your Speech at the Harmonie Club in New York on January 15th,” January 19, 1949, Folder “Daily Diary—1949-23,” Box 5, Edwin G. Nourse Papers, Truman Library.

[73] Edwin G. Nourse, “Where Does the Kentucky Farmer Stand on Agriculture Policy?,” January 25, 1949, Folder “Daily Diary—1949-2,” Box 5, Edwin G. Nourse Papers, Truman Library.

[74] O’Mahoney press release, February 1, 1949, Folder “Daily Diary—1949-3,” O’Mahoney to Nourse, February 4, 1949 and response February 9, 1949, Folder “Daily Diary—1949-4,” all in Box 5, Edwin G. Nourse Papers; “Economic Plan Set for Study,” *Baltimore Sun*, February 9, 1949, p. 6. On February 4, 1949, the CEA filed separate opinions with the President, Nourse insisting that evidence led him “to an interpretation materially different from that” of his co-members. CEA to Truman, February 4, 1949, Folder “Daily Diary—1949-5,” Box 5, Nourse Papers, Truman Library.

furnished goods which they need in any other way and it is possible for them to secure them by having the government itself become a producer, he is not afraid to take that final step." Keyserling spoke for three hours, deploying 40 large charts reproducing information from the CEA's *Economic Report.* The gregarious Keyserling got through only ten of his charts, Nourse reported with satisfaction, with "O'Mahoney sending repeated notes to him to come to the point and get over with." The occasion of the hearing—debating capacity expansion at a moment when wholesale prices in many markets were beginning to fall off—further chagrined Nourse and challenged his sense of scientific probity. As the CEA chairman wrote in his diary "I feel a little as though my colleagues have been given rope enough to hang themselves," speculating on the imminent end of the CEA. Four days later, Nourse wrote to a correspondent that "Things are getting pretty rugged around here…we are certainly riding fast to a showdown."[75]

Paradoxically, it was the decline in business spending and private employment that brought the moment of radical statecraft to a close. Agricultural prices had begun their

[75] During the summer of 1948, after Truman had acceded to military requests for greater defense spending, Nourse had begun a series of speeches warning of the necessity for price control that an expansion of the defense program would entail. During the 1949 push for the Spence and Murray bills, Keyserling began to argue publicly against Nourse's claims. "Keyserling States Industrial Prices Still Rising in US," *Christian Science Monitor*, February 9, 1949, p.1; J.A. Livingston, "Right and Wrong Medicines," *Washington Post*, February 13, 1949, p. C5; "Truman Price-Wage Plan! Authority to Build Plants Also Sought," *Chicago Tribune*, February 16, 1949, p. 1; "Congress Resists President's Demands for Vast Economic Controls," *Christian Science Monitor*, February 16, 1949, p. 3; "All-Powerful Control Bill Given House," *Los Angeles Times*, February 16, 1949, p. 1; "Truman Bill Asks Curbs on Inflation, Power to Produce," *New York Times*, February 16, 1949, p. 1; "Federal Authority to Expand Key Industries Asked in House," *Washington Post*, February 16, 1949, p. 1; "The Administration Unveils its Industry-Control Program," *Baltimore Sun*, February 17, 1949, p. 20; "Nourse Sees U.S. In 'Disinflation,' Not 'Leveling Off,'" *Chrsitian Science Monitor*, February 18, 1949, p. 1; Nourse to W.W. Cumberland, February 12, 1949, Folder "Daily Diary 1949—7," Edwin G. Nourse Papers, Truman Library. For remarks by Clark, notes on Keyserling, and materials from the hearings, see "Daily Diary" folders "1949-3" through "1949-16," "1949-22" and "1949-25," all in Box 5, Edwin G. Nourse Papers, Truman Library. "Economists in Politics," *Business Week*, March 26 1949, pp. 25-6.

decline in June 1948, while wholesale prices maintained their level until August. Consumer prices did not begin to fall until December.[76] Between October 1948 and February 1949, the number of unemployed doubled to more than 3 million. If preserving the confidence of men such as GE's Wilson now held the center of administration attention, why further antagonize them with government-financed competition and greater taxes? As CEA staffer and fiscal-policy expert Gerhard Colm explained to Nourse in May 1949, "The staff believes that increasing taxes by the full 4 billion dollars originally recommended would make it much less likely that income can be continued on a high level throughout the fiscal year 1950."[77] The very logic of national income accounting, which had promised the government's ability to maintain full employment by manipulating spending aggregates, just as easily lent itself to arguments that national employment targets were politically hostage to the business confidence. If employment hinged on maximizing the private-investment portion of output, a program that had the effect of reducing private investment easily appeared economically ill advisable. Unlike under Franklin Roosevelt, the economic advisers to Harry Truman did not charge business with conspiring to bring on the recession. Instead, they urged restoring business confidence. As the CEA wrote to Truman in May, "under current conditions, the business climate would be improved if it were found feasible to announce some modification of the January tax program." In light of changes since January, they continued, "we

[76] US Department of Labor, Bureau of Labor Statistics, "Current Labor Statistics," *Monthly Labor Review*, Tables D-1 through D-9, issues for January, April and September, 1949. "Weekly Wholesale Prices" in Folder "Inflation and Price Control," Box 26, Charles S. Murphy Papers, Truman Library.

[77] Gerhard Colm to Nourse, May 5, 1949, Folder "Daily Diary 1949—49a," Box 6, Edwin G. Nourse Papers, Truman Library.

recommend that the request for such controls [over materials, prices and wages] no longer be pressed.” While the Spence bill’s lending provisions were worthwhile, “we believe that the provision for direct government construction of plants should be omitted.”[78]

In April, when Brannan finally proposed his amendments to the Agricultural Adjustment Act allowing the government to sell stockpiled crops below parity prices while ensuring farmers a parity income, the radical mood of January had already passed. Agricultural prices levelled off that summer—below parity sales were now more than merely a theoretical threat to farm incomes. Though CEA had warned in February that it was “rather deceptive to look only at general averages in appraising the general economic situation,” the public perception of the business cycle in the binary terms of inflation and deflation, of boom and bust, damaged the administration’s spending proposals during the recovery from the recession of early 1949. “The new plant-expansion legislation has no better chance for action in Congress this year than the original Spence bill,” *Business Week* reported in May. “Still, the very fact that the legislation is being recast is revealing. It's concrete evidence that Truman's planners have stopped tilting at inflation, started worrying about deflation.”[79] The recovery itself dampened civilian spending plans. As Nourse wrote to Brannan during Congressional consideration of his AAA bill, “I feel that we are at a very crucial stage now,

[78]CEA to Truman, May 5, 1949, Folder “Daily Diary—1949-49a,” Box 6, Edwin G. Nourse Papers, Truman Library. Cf. Aaron Friedberg, *In the Shadow of the Garrison State: America’s Anti-Statism and its Cold War Grand Strategy* (Princeton: 2000), pp. 105; Alonzo Hamby, *Beyond the New Deal*, pp. 332.

[79] “Washington Outlook,” *Business Week*, May 7, 1950, p. 15.

and that any step which can be clearly seen to threaten budgetary unsettlement…should be carefully avoided."[80]

At a time when business conciliation and fear of central power dominated national political rhetoric, the Fair Deal agenda could deliver little more than Harry Truman to the White House. In June, Senator Murray met with the President to lobby for a rewritten Employment Act of 1950. The new proposal, Murray explained, "deliberately omitted certain measures which, whether rightly or wrongly, some groups have come to regard with concern." No longer would the bill provide for government ownership of factories: capacity expansion was now limited to government financing for private firms. "It follows the logic of the President's Economic Report, in relying primarily upon the stimulation and encouragement of voluntary investment by private business and voluntary price and wage adjustments." Senators Sparkman, Thomas, and Humphrey, together with representatives Joe Biemiller of Wisconsin and Helen Gahagan Douglas of California, joined Murray in meeting Truman to lobby his support for the diminished measure. Upon receiving them, the President assured the group that they were his "kind of folks," but refused to endorse the bill. In Nourse's words, Truman urged the group that the government "must throw roadblocks in the way to prevent stampeding the economy into depression" — now that recession had begun,

[80] Nourse to Brannan, undated, and Brannan to Nourse, March 1, 1949, Folder "Daily Diary—1949-2," Box 5, Edwin G. Nourse Papers, Truman Library. Cf. "Economists Differ on Plan," *Baltimore Sun*, February 17, 1949 p. 1; "Truman Economic Council Divided," *Baltimore Sun*, February 20, 1949, p. 2; "The President Has Advisers to Suit Each Political Shift," *Los Angeles Times*, February 25, 1949, p. A5; "Truman Aides Cold to Price Controls," *New York Times*, March 31, 1949, p. 37; "Truman Advisers Accused," *Los Angeles Times*, April 29, 1949, p. 8; "Nourse Said to Ask Smaller Tax Rise," *New York Times*, May 10, 1949, p. 7; "Truman's Economic Advisers Urge Check on Spending, Cut in Tax Hike He Asked, Easing of Excise Levies," *Wall Street Journal*, May 10, 1949, p. 5; "Business Freedom Urged by Sawyer," *New York Times*, May 27, 1949, p. 33.

restoring business confidence was the government's first priority. "If the public doesn't get panicky….there is no danger of depression." By July, *Harper's* editorialized that "For now it is clear that Mr. Truman is not going to touch off another FDR revolution. Nobody can make a revolution without rebels; and today there is hardly a dangerous man in Washington." [81]

The Spence and Murray bills, the tax increase, and the Brannan Plan posed awkward political questions in the context of the emerging pattern of nationally managed economies across the Atlantic. Nourse and Congressional conservatives had long provoked such questions. As Senator Taft remarked in April 1949, the President's legislative program "will change the whole character of our government and our people… we face now the question whether we shall maintain a government based on liberty or establish a Labor-Socialist government very similar to that controlling the destines of Great Britain, imposing the wishes of the state of a regimented people with little freedom to move except as the government permits." "Are we going to show the ability of free business enterprise to meet the challenge of real competition, or can American businessmen make the grade only when we have the external stimulus of government orders and a deficit economy and its brief aftermath?" Nourse asked rhetorically to the Executive Club of Chicago in March. The editors of the *Boston Globe* wrote that "once the government really starts putting up capital for private enterprises, we shall indeed have hatched an economy fearfully and wonderfully made. We

[81] Drew Pearson, "Truman Plans Against Slump," *Washington Post*, June 29, 1949, B15; Edwin G. Nourse, *Economics in the Public Service: Administrative Aspects of the Employment Act* (Harcourt, Brace and Company: 1953), p. 240-8; John Fischer, "Truman & Co., Limited," *Harper's*, July 1949, p. 19. Cf. "Washington Outlook," *Business Week*, July 9, 1949, p. 15; "'50 Tax Boost an Impossibility, Says O'Mahoney," *Boston Globe*, December 5, 1949, p. 1.

shall, in effect, be out-socializing the socialists, by the simple expedient of trying to make every man in his own right a capitalist." Discussing the Spence bill, Harold Moulton of Brookings argued that "Such a program in its conception is potentially more far-reaching in the scope of its influence than the socialization of key industries. It would inevitably result in the elimination of the guidance of economic activity afforded by consumer demands as expressed in the marketplaces and substitute therefor the judgements of government officials as to what the people need and can have. In due course it would mean the end of private enterprise."[82] By the end of 1949, the seven-year struggle over farm subsidies plateaued with a renewal of the Hope-Aiken Act, the 1948 compromise extension of the AAA that provided for adjustable parity prices but not subsidies to farmers.[83] As the president of the American Farm Bureau Federation (AFBF) told the association's annual convention that December, "Farmers do not intend to get themselves dependent upon the precarious possibility of annual appropriations from the Federal Treasury."[84]

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[82] Robert Taft, "Complete Design for An American Socialist State," *American Affairs*, April 1949, p. 93; Edwin G. Nourse, "The Gentle Act of Disinflation," Folder "Daily Diary—1949-27," Box 5, Edwin G. Nourse Papers, Truman Library; "Hullabaloo About Small Business Ignores the Real Problem," *Boston Globe*, March 6, 1950, p. 23; Harold Moulton, "Can Government Kill Depression?," *American Affairs*, July 1949, pp. 169-192; "Truman Plan on Economic Rule Assailed," *Chicago Tribune*, November 11, 1949, p. C5.

[83] The coda to the capacity expansion debate lay in the establishment, after the Korean War, of the Small Business Administration. In August 1949, after the fate of the Spence bill had become clear, JEC Chairman O'Mahoney introduced legislation to provide federal assistance to the mining industry, including accelerated depreciation, government lending, and a purchasing corporation. The Senate passed the bill and the House signaled similar support through early October, when the White House helped to trap the bill in the Rules Committee over objections to the inclusion of depreciation charges in the purchasing price of surplus minerals. After the defeat of O'Mahoney's mine subsidy bill, the Montana Senator turned to proposing the establishment of a new country-wide system of banking corporations within the Federal Reserve devoted to the purpose of providing small-business loans. Despite record savings and corporation profits, O'Mahoney explained, the nation was " starving for a lack of debt and equity capital." The bill would gain a majority of votes in the House, but not the two-thirds necessary to bypass the Rules Committee. The idea would return during the Korean War, and in 1953 President Eisenhower would sign legislation abolishing the RFC and establishing the Small Business Administration in the Department of Commerce.

[84] "Story of Subsidized Agriculture," *American Affairs*, April 1950, p. 103.

The same events of the congealing Cold War raising ideological barriers to the Murray, Spence, and Brannan proposals, however, would excavate them for service in the anti-Communist project. Already, in the summer of 1948, the Hiss-Chambers controversy had begun to unfold. In July 1949, Hiss's first perjury trial began. In August 1949, the Soviet Union successfully tested its first atomic weapon. In place of the Fair Deal agenda of government-directed capacity expansion for civilian production, income guarantees for small farmers, market-directed prices for agricultural goods, and controlled prices in bottleneck industries, the Truman administration's full-employment program was drastically inverted. The administration's reasoning reflected the emerging conception of "macroeconomics" that would become gradually codified in the following decades. Rather than the Spence and Murray proposals for a national investment board targeting loans to industries for expansion and financing public works, the Truman administration would turn to the Federal Reserve to expand and contract the total volume of credit for all businessmen.

The Triumph of Macroeconomics and the Redefinition of Monetary Policy

In August 1949, amid the height of public debate over the Fair Deal legislative program, Federal Reserve Chairman Thomas McCabe ordered a reduction in reserve requirements for the nation's commercial banks. This signaled the beginning of a transformation in nation's developmental pattern, what Herbert Stein would describe as the "liberation of monetary policy." As *Business Week* wrote, the "real significance" of the central-bank authorized credit expansion was its that it represented "an alternative to government guided industrial

expansion. All year, the official talk has been in the vein of the Spence and Murray bills—that government must lend the money for, or itself build, enough capacity to keep everyone working. Now the chairman of the FRB tells congressmen: The better way is to create a climate in which people will shift some savings from banks and insurance annuities to business equities."[85]

The defeat of both the Full Employment Act of 1950 and Eccles's program for "secondary reserves" for controlling commercial bank credit represented two moments of the singular event in which the Fair Deal programs for government planning were defeated by narrower interpretations of the role of the state in society. The conceptual counterrevolution was evident in the hearings the JEC held on the subject of "monetary, credit, and fiscal policies" during the fall and winter of 1949. Prompted by continued conflict between the Treasury and the Federal Reserve over the nation's debt-management policies, a special subcommittee of the JEC, chaired by freshman Illinois Senator Paul Douglas, heard nine-days of testimony from forty economists, businessmen, labor, and farm leaders on subjects from the problems "investment" and "the effectiveness and coordination of monetary, credit, and fiscal policies," to "low-income families in relation to economic instability" and "unemployment trends and their significance for economic analysis."[86] Emerging in the aftermath of the political impasse over capacity-expansion, the discussion occasioned by the

[85] "Washington Outlook," *Business Week*, August 13, 1949, pp. 15-6; Herbert Stein, *The Fiscal Revolution in America* (Chicago: 1969), Chapter 10.

[86] US Congress, *Monetary, Credit, and Fiscal Policies*, *Hearings before the Subcommittee on Monetary, Credit, and Fiscal Policies of the Joint Committee on the Economic Report*, 81st Congress, 1st Session (Washington: 1950), p. 1.

hearings did much to establish the outlines and focus of what would come to be known as "macroeconomics" during the second half of the twentieth century. The nation's "primary and principal defense against instability" the Douglas subcommittee concluded in its final report, lay in "coordinated monetary, credit, and fiscal policies." Importantly, these were distinguished as of a different kind from the proposals for price and credit controls and directed investment. The "only alternative" to coordinated fiscal and monetary policies, it cautioned, were "a complex harness of direct controls."[87]

In coming to this conclusion, the Douglass subcommittee relied heavily and explicitly on the testimony of J. Cameron Thomson, President of the Northwest Bancorproation of Minneapolis, chairman of the monetary and fiscal policy subcommittee of the Committee for Economic Development (CED). Writing about postwar planning debates, Robert Collins has shown with great effect the influence CED played in corralling liberal business support for a passive fiscal policy, in both defeating the active budgetary manipulation of the original Full Employment Act of 1945 and in exhorting toleration of annual federal budget deficits in times of recession and falling tax receipts.[88] But historical understanding of the ascendence of so-called "commercial Keynesianism" is inadequate unless it is understood in the longer context of the Second Red Scare and the Korean War. For it was the defeat of the Spence and Murray bills of 1949 and the independence of the Federal Reserve that assured the crystallization of "macroeconomics" in the US.

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[87] *Monetary, Credit and Fiscal Policies*. Document No. 129, 81st Congress, 2nd Session. (Washington: 1950), p. 5.

[88] Collins, *Business Response to Keynes*, pp. 53-172. See also: Baily, *Congress Makes a Law*, pp. 156 and 169; Schriftgeisser, *Business Comes of Age*; Stein, *Fiscal Revolution in America*, Chapter 9.

In discussing the history of inflation and "macroeconomic policy" in the US, historians usually focus on the question of central bank independence from the Treasury—with Treasury Secretary Snyder and the CEA cast as partisans of low interest rates against the Federal Reserve and its allies in the insurance industry and commercial and investment banks, who favored greater debt-service costs. Herbert Stein, for example, describes the resolution of the conflict between the Treasury and the Federal Reserve during the Korean War as the "liberation of monetary policy," by which he means the use of high interest rates as an anti-inflationary device was secured by the Federal Reserve against Snyder and the Truman administration. However, what we remember today as the push for Federal Reserve "independence" in these years was as much a redefinition of the bank's role in national life led by Snyder and the opponents of the Fair Deal program. These business executives saw in orthodox central-bank regulation a surrogate form of national economic planning that preserved the existing patterns of power and wealth when compared to the supply-expansion policies of the 81st Congress. Rather than a push for autonomy as such by the central bank governors, the debate over central-bank policy during the Truman era grew out of political conflicts between different wings of the nation's banking industry, rather than between the Treasury and the Federal Reserve. The Douglas subcommittee report arrived at a crucial moment to legitimize this transformation of central banking.

When Eccles had first publicized his proposal to reform bank regulation in the preparation for the first special session in November 1947, investors responded by selling long-term and medium-term government bonds, testing the central bank's commitment to

maintaining security prices. “Sentiment has certainly taken a bearish turn,” reported Woodlief Thomas to Eccles after the proposal was announced. The Federal Reserve’s Advisory Council—composed of the commercial bank representatives from the twelve regional districts of the System—described the proposal in a public statement as “a step toward the socialization of banking…. We find nothing in bank loans themselves to suggest that growth of loans has been an active inflationary factor.”[89] “To stigmatize it as socialization of banking comes about as close to demagoguery as anything I can think of,” Eccles wrote in reply.[90] Treasury Secretary Snyder said of the proposal: “I don’t think it will achieve the ends he expects.” Keyserling wrote to the President that month “most disturbed” by Snyder’s Congressional testimony against recommending legislation for greater financial regulation, something CEA felt an “essential element in any anti-inflation plan.”[91]

Over the course of 1948, commercial banks and brokerages had made their opposition to the Eccles plan for secondary reserves and to CEA designs for direct credit allocations known to the administration. To the commercial banking industry and the business press, Eccles’s designs to raise requirements to hold “secondary reserves” betrayed a power-hungry bureaucrat. In February 1948, as Harry Truman prepared for his “give ‘em hell” campaign,

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[89] Woodlief Thomas to Marriner Eccles, “Effect of Treasury operations on reserves easing next week,” November 12, 1947, Folder 6, Box 11, MSEP; “The Fight Over Curbs on Credit,” *Newsweek*, December 8, 1947, p. 60. Eccles and CEA had originally sought to expand the authority of the Federal Reserve system over the banking system, limiting private discretion over credit creation and compelling banks to hold the securities of the US Treasury. Snyder and McCabe hoped instead to preserve commercial bank autonomy over credit and lending, limiting credit regulation to Federal Reserve manipulation of interest rates set in the capital markets by banks, insurance companies, and securities dealers whose independence and discretion was left largely untouched.

[90] Eccles to Ralph Burgess, December 17, 1947, Folder 6, Box 11, MSEP.

[91] Keyserling to Truman, November 25, 1947, Folder “Daily Diary — 1947-33,” Box 1, Edwin G. Nourse Papers, Truman Library.

and before the new Congress took up the question of Treasury-Fed relations, the President announced he would appoint Thomas McCabe, a Philadelphia industrialist and executive of the Scott Paper corporation, to replace Marriner Eccles as Chairman of the Federal Reserve Board of Governors. "The President told friends confidentially that, when he was still senator and Vice President, he had concluded that Eccles basically stood for converting the Federal Reserve System into a European-type central bank," reported *Newsweek*. Now, the Philadelphia banker McCabe would speak for the central bank. As *Time* wrote of Eccles, the "small, greying boss of FRB had become increasingly irritating to Mr. Truman. Eccles had disagreed with Treasury Secretary Snyder on how to handle inflation. With his recommendations for tighter Government controls of banks and financing, he had stirred up the bankers and brokers. He was always treading on toes."[92] As *US News and World Report* wrote, "Mr. Snyder and much of the banking fraternity objected" to the proposals for secondary reserves. "The factor that apparently finished [Eccles] with Mr. Truman was a fear by the President, by Mr. Snyder and by bankers generally that he might strike out at any time on some independent line of action."[93]

In October 1948, Snyder met with New York Life Insurance Company Chairman George Harrison to discuss the various administration proposals for greater public direction of credit in October 1948. The industry, which had benefitted from the growth of incomes

[92] "A Boss to Suit the Boss," *Newsweek*, February 9, 1948, p. 15-17, to "curb Eccles's tendencies," *Newsweek* continued, Truman had appointed Missouri banker and Snyder ally James K. Vardaman, Jr. to the FRB, but Eccles had retained control of the board. "Reserve Shift," *Time*, February 9, 1948, p. 19. Cf. "Too Much for Eccles," *Newsweek*, June 7, 1948, pp. 66-8; "Plan to Restrain Bank Lending: Proposed Control by Increasing Reserves," *U.S. News and World Report*, August 6, 1948, pp. 50-1.

[93] "New Moves to Halt Inflation? Conflict in Federal Reserve Board Between Mr. McCabe and Mr. Eccles Over Methods and Powers," *US News and World Report*, August 13, 1948, pp. 40-1.

during the war, had become a major repository of the nation's savings and a source of purchasing power in the nation's securities markets. Speaking about his meeting with Snyder, Harrison assuaged industry colleagues against any fears that Eccles's program would advance within the Truman White House. "Judgements might well differ as to what is a necessary or an unnecessary loan," Harrison said, and for this reason "The Secretary agreed with us that…each company must be left free to make its own decision of this difficult question."[94] In December 1949, Russell C. Leffingwell, Chairman of J.P. Morgan and Co., wrote to the Federal Reserve Board to warn that the "policy of taking over the assets of the member banks…may easily threaten the solvency and indeed the very existence of the private banking system of the United States."[95]

It was against this conflict within the Federal Reserve and the Treasury over banking regulation as it related to management of the federal debt that the Douglas subcommittee of the JEC held its hearings on "the coordination of monetary, credit, and fiscal policies." As Thomson explained to the Douglas subcommittee, what had come to be understood as "fiscal" and "monetary" policies should be properly defined in opposition to those more ambitious proposals for capacity control, price regulation, and banking supervision. "I want to draw a sharp distinction between fiscal, monetary, and debt-management policies on the one hand and direct controls on the other hand," Thomson said. "By direct controls, I mean

[94] Harrison memo, October 21, 1948, Folder 11, Box 7, MSEP.

[95] Quoted in Gerald Epstein and Juliet Schor, "The Federal Reserve-Treasury Accord and the Construction of the Post-War Monetary Regime in the United States," Political Economy Research Institute University of Massachusetts Amherst, Working Papers No. 273 (November 2011), p. 17, digitized https://peri.umass.edu/publication/item/download/82_2bf5b9481d4281fd974841d32f8d83e7.

such measures as Government price controls, wage controls, rationing, allocations, and controls over the direction of investment." Distinguishing these categories was critical, Thomson explained, lest the public grow further accustomed to imagining the entirety of federal influence over the nation's industrial pattern as a singular concept of government control. Such a concept was dangerous: it could lead to radical transformation of society, either through assuaging the public that the expansion of government authority into pricing and investment policy was of a part with traditional functions of taxes and credit regulation, or by antagonizing the public into rejecting, on the basis of its similarity to price control, the very legitimacy of taxes and public authority altogether. "The advantage of fiscal, monetary, and debt policies," Thomson said, "is that they allow the Government to influence the over-all forces—especially the level of aggregate demand—that determine the stability of the economy, without necessarily involving the Government in detailed control of the particulars of the economy." Preventing government from reorganizing "the particular interrelationships of the parts of the economy" was the crucial objective in distinguishing fiscal and monetary interventions from those of rate-regulation or investment policies. "Freedom is… at stake. Any widespread system of direct controls would necessarily involve widespread power of Government to affect the economic fortunes of particular individuals, businesses, industries, and regions 'selectively'; that is, discriminately."[96]

The distinction between "direct" and "indirect" controls would come to define economic thought for the remainder of the century. Whether by design or osmosis, the

[96] J. Cameron Thomson testimony, supra n86, p. 10.

history of economic thought has been written to divide discussion according to these categories of the early Cold War. As the previous chapters have shown, such a distinction was alien to the thought of 1930s and only emerged in political conflict over stabilization policy in the wartime economy. Nevertheless, histories of economists in government exclude discussion of wartime, and of peacetime practices which attempt to influence private behavior beyond taxation and credit policies.[97] By the same measure, studies of price control are conventionally limited to periods of war.[98] Historians of statecraft have likewise attempted to write this distinction into the history of governance as such. Whereas the historical sociologist Charles Tilly employs the concept of "direct" and "indirect rule" to distinguish medieval kingdoms from modern European states, the historian James C. Scott extends the concept to explain the distinctive authoritarianism of "high modernist" regimes. The distinction in twentieth-century economic thought, however, was a unique historical product of the US Cold-War conflict between large corporations and the remnants of the interwar labor, reform, and socialist movements. The interwar debate over nationally centralized controls over the distribution of income represented not the "autonomous" or "bureaucratic" prerogatives of a state independent from society, as later historians and social scientists argued, but the conflict of forces within society—between organized labor and farmers, on the one hand, and industrial corporations and commercial bankers, on the other—

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[97] Michael Bernstein, *A Perilous Progress: Economists and Public Purpose* (Princeton: 2001); Robert Collins, *More: The Politics of Economic Growth in Postwar America* (Oxford: 2002).

[98] Hugh Rockoff, *Drastic Measures: A History of Wage and Price Controls in the United States* (Cambridge: 1984).

over the terms of production and consumption in the US.[99] The concept of "indirect controls" invented during the 1940s performed an ideological function within the brand of Cold-War liberalism constructed by thinkers like Keyserling, Reinhold Niebuhr, and Herbert Stein. It served to separate the state from society, and, in the process, to diminish the antagonisms within society that gave rise to the politics of so-called "direct controls." Instead of an instrument for classes to use against one another, "direct controls" by the state were reimagined as an instrument of the state to use against society.

Both Keyserling and Thomson were explicit in justifying the intellectual and political turn away from price manipulation as motivated by the desire for collaboration between otherwise antagonistic classes. Speaking before the Douglas committee in late November, Thomson argued that the "existence of such a power [entailed by price and investment controls] would ominously threaten the survival of our free society, for so long as the free society might endure… I am convinced that the importance of fiscal, monetary, and debt policy will not be sufficiently appreciated until we learn to make the distinction between power to coerce individuals and power to affect the general behavior of the economy."[100]

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[99] The trajectory of this conception of the state is evident in the intellectual writing of the 1940s, such as John Chamberlain's *The American Stakes* (Carrick & Evans: 1940), James Burnham's *The Managerial Revolution: What is Happening in the World* (Praeger: 1972 [1941]), Philip O. Selznick's *TVA and the Grass Roots* (1949); its after images can be seen in the writing on "corporatism" of the late 1960s and 1970s—Theodore Lowi, Phillipe Schimtter—and in the corpus of "institutionalist" political-science writing of the 1980s and later—e.g. Theda Skocpol on its "relative autonomy," or Stephen Skowronek on "pluralism." Theda Skocpol, "Political Response to Capitalist Crisis: Neo-Marxist Theories of the State and the Case of the New Deal," *Politics & Society*, Vol. 10, Issue 2, 1980; Stephen Skowronek, *Building a New American State: The Expansion of National Administrative Capacities*, 1877-1920 (Cambridge: 1982). For a historical account of opposition to centralized power in the middle of the twentieth century, see Ben Jackson, "Corporatism and its Discontents," in *Modern Pluralism: Anglo-American Debates since 1980*, ed. Mark Bevir (Cambridge: 2012).

[100] J. Cameron Thomson testimony, supra n86, p. 10.

Writing for CEA in December 1949, Keyserling argued that the purpose of discarding "direct controls" was to relax class conflict and encourage class collaboration. "Although many of our problems remain unsolved," he wrote in the CEA's fourth annual report, written in the aftermath of the Murray and Spence campaigns,

> "our unique combination of free enterprise and free government has moved so rapidly toward raising the general standard of living that the fair hope of more progress by the same methods immensely outweighs the costs and risks, the divisions and tensions, and above all the uncertainties, of radical change. All history shows that freedom in the long run may best be safeguarded through moderation in the adjustment of seeming conflicts….The case for moderation grows in appeal because, whatever the situation in other lands, the only conditions which could seriously undermine free enterprise here would also jeopardize free government…"

Keyserling argued that "those whose concentration of interest is upon free enterprise and those whose concentration is upon free government are held together by unseverable bonds." [101]

The very preservation of "freedom" had come to depend not on preserving the autonomy of private business corporations to set their own rates of growth irrespective of national priorities. Renouncing the thrust of the 1948 campaign and the mature New Deal-Fair Deal diagnosis of the illness of American capitalism, Keyserling now warned against the "unwitting spokesmen of class against class," asserting that "The truth is that we are one

[101] US Council of Economic Advisers, *Business and Government: Fourth Annual Report to the President by the Council of Economic Advisers*, (Washington: 1949), p. 2. Cf. Arthur Krock, "Fair Words on Business and Government," *New York Times*, December 30, 1949, p. 18.

nation indivisible."[102] The CEA's December report asserted that "we do not suffer from underdevelopment or impoverishment of basic plant and equipment" and that "efforts to promote expansion of the total production and income of the economy are more significant than measures to 'redistribute' the current product." A "primary emphasis on general growth provides a more workable formula," Keyserling wrote, than "efforts to improve the lot of the underprivileged."[103] Henceforth, public authority would be prohibited from determining the rate of growth of particular industries, limiting itself to attempts to regulate total national levels of consumption or employment through the federal budget.

Though most historians cite the Treasury-Federal Reserve "Accord" of March 1951 as the origins of central bank independence in the US, the decision to allow the Federal Reserve to raise interest rates once the Korean War began was foreordained by the eclipse of those earlier Fair Deal projects at channeling investment and restraining bank lending. [104] Just as the Accord "liberated" the central bank to raise interest rates, it prohibited the Federal Reserve System from developing its methods of supervising the composition of bank assets to include differential reserve requirements for different types of securities. With the central bank thereby unable to decrease liquidity in the commercial banking system, and with the executive branch forbidden from targeting industrial expansion except, as we will see, in war

[102] Leon H. Keyserling, "Prospects for American Economic Growth," September 14, 1949 (Speech delivered at the Fairmont Hotel in San Francisco), Folder "Daily Diary—1949-84," Box 6, Edwin G. Nourse Papers, Truman Library.

[103] US Council of Economic Advisers, *Business and Government: Fourth Annual Report to the President by the Council of Economic Advisers*, (Washington: 1949), pp. 4 and 6.

[104] Epstein and Schor, "The Federal Reserve-Treasury Accord and the Construction of the Post-War Monetary Regime in the United States," Political Economy Research Institute University of Massachusetts Amherst, Working Papers No. 273 (November 2011), p. 27, digitized https://peri.umass.edu/publication/item/download/82_2bf5b9481d4281fd974841d32f8d83e7.

industries, the problem of economic growth and stability was reconceptualized in the technical terms of determining the proper "indirect" controls over the total level of spending and the availability and price of credit. "In a depression period, when production, prices and employment are declining and when there is a considerable amount of unutilized capital and labor," the Douglass subcommittee found, "a Government deficit financed by bank-created credit will therefore help to offset the decline in the total volume of private purchasing power….On the other hand, Federal surpluses represent subtractions from private incomes which are greater than the total of Government spending. Government surpluses therefore exert an anti-inflationary or an outright deflationary effect." These budget rules were yoked to the principle that "a restrictive monetary policy can contribute so much" to avoiding inflation "that the freedom of the Federal Reserve to restrict credit and raise interest rates for general stabilization purposes should be restored." [105]

The trend was bitterly opposed by some in the CEA. In January 1952, John D. Clark wrote to Truman aide Charles Murphy to complain against the "futility of monetary policy as a stabilization device." The "really important problem," he explained, was not the discount rate or the federal funds rate, but rather control over the commercial banks and brokerages whose profits were unaffected by any general rise in interest rates. Such savings institutions, Clark argued, served to "exploit" a public demanding greater investment. "The advance in short-term interest rates in August 1950 was followed by the most rapid expansion of business loans in our history," he explained, illustrating that productivity capacity had been

[105] Douglas subcommittee report, supra n86, pp. 2, 6 and 8.

held political hostage to the demands for greater bank profits. “The time for [confronting this problem] will come when the President decides that he does not like the way this chapter in the history of the administration is being written to ascribe the first defeat of a President by a central bank…that when he had been defied by the [Federal Reserve] Board there was no one in his administration who would assert the wisdom of his policy.”[106]

From Exhortation to Controls: The Korean War and the Militarization of the Fair Deal

The Korean War completed the trajectory of the concept of “direct controls” from its origins in business lobbying to its ultimate ontological status in US political thought. For it was the experience of war mobilization and the debacle of price control that accompanied it which offered positive proof of the inherent administrative risks of price control and the economic dangers of attempting to implement them in a deeply divided polity unwilling to submit control of private incomes to political society.

The history of the mobilization effort during the Korean War divides roughly into two uneven portions. The first, lasting from the North Korean invasion in June 1950 until the spring of 1952, was characterized by a ubiquitous aversion to price control in the Congress, during which repeated amendments to authorizing legislation were debated to exempt certain segments of production from control. The second, beginning during the steel strike in June 1952 and lasting until the presidential election in November, was much shorter. The final shudder of organized labor’s attempts to use political power in controlling basic industries—

[106] Clark to Murphy, January 2, 1952, Folder “CEA,” Box 26, Charles S. Murphy Papers, Truman Library.

Truman's failed seizure of the steel industry—marked the dissolution of the entire stabilization machinery. Challenged in federal court, with agriculture and distributors and growing portions of the economy exempted by Congress from price control, the Truman administration began to collapse, with all of the leading administrators of the defense program driven to quit the government.

The first period in the Korean War mobilization begins with the Truman administration itself postponing any freeze in wages and prices. On 25 June, 1950, North Korean soldiers invaded South Korea. On July 19, 1950, Congress finally passed a supplemental military appropriation for the Korean intervention. This was the culmination of several years' debate over the feasibility and desirability of increasing the military budget to accompany the European Recovery Program. By summer 1949, Keyserling had refined this argument to a concrete proposition: "the goal of lifting our national output to $300,000,000,000 within a few years."[107] Nevertheless, in the months after the North Korean invasion of the South, a wave of panic buying overtook wholesale and retail product markets. In June and July, a wave of scare buying swept over the country, raising the Wholesale Price Index 4 percent after it had risen just 1.8 percent in the preceding 12 months. Wholesale rubber prices doubled, and by August used cars were selling at a 50 percent markup from factory prices.[108] The steel industry was particularly concerned about shortages and the

[107] *Full Employment Conference of Americans for Democratic Action* (Washington: 1949), p. 4, in Folder "Daily Diary—1949-64," Box 6, Edwin G. Nourse Papers, Truman Library.

[108] Edgar I. Eaton, "Comparison of Price Movements, World War II-1950," *Monthly Labor Review*, Vol. 71, No. 3, pp. 318-22; "Prices of Used Cars Continue to Climb," *New York Herald Tribune*, August 8, 1950, p. 31; "Price of Late-Model Used Cars Up Over $75 in Past Six Weeks," *Globe and Mail*, August 4, 1950, p. 1; Edward S. Flash, Jr., *Economic Advice and Presidential Leadership: The Council of Economic Advisers* (Columbia: 1965), p. 43.

pressures for price and capacity regulation they might bring; in July, in response to military orders for trucks, jeeps, lockers for airline pilots; USDA orders for corn bins; and the announcement of a freight-car building program, steel industry executives requested the Congress pass legislation authorizing the return of a voluntary allocation program so producers could know what types of metal to keep in greater supply. "If the armed forces will tell us what they need," said Bethlehem Steel Chairman Eugene Grace, "we will see that they get it."[109]

On 19 July, the President requested legislation from the Congress to raise taxes, appropriate $10 million for defense expenditures, and grant him the powers to make materials allocations and loans for capacity expansion. The bill was patterned on the rewritten Full Employment Act of 1950. As Bertram Gross later remembered, "the Act can be regarded a third step in a series started by the Spence Bill and the Murray Economic Expansion Bill, particularly the third title, 'Expansion of Productive Capacity and Supply.'"[110] Originally titled the "Allocation Act of 1950," the legislation's name was changed to the Defense Production Act (DPA) to lend it the growth-oriented flavor of Keyserling's public rhetoric on military spending and to deprive it association with the types of controls maligned by business. As Sam Rayburn told Truman, "without the old divisive price issue [the] other control measures would pass Congress in a week." The DPA's capacity-expansion measures were explicitly not intended for civilian industries. Rather, the

[109] "Steel Men Favor Allocation Action," *New York Times*, July 16, 1950, p. F1.

[110] Edward S. Flash, Jr., *Economic Advice and Presidential Leadership: The Council of Economic Advisers* (Columbia: 1965), p. 45.

planning techniques developed during the inflation of 1946-8 were now put to use constructing an ostensibly isolated military sector. As former WPB administrator Manly Fleishmann, who Truman would invite back to Washington to staff the new Office of Defense Mobilization, explained "the present limited mobilization effort" entailed "the existence of a so-called dual economy, i.e., the maintenance of civilian production simultaneously with military production."[111] The military production industries would benefit from targeted investment and special tax treatment, while the civilian economy would be made to adapt.

Keyserling's unique influence was to argue that such adaptation to increased government spending could occur without price control. In Senate, this strategy actually produced delay as the Banking and Currency Committee came to insist price-control powers be included in any stabilization legislation accompanying the military program. This met the immediate concern of the American Farm Bureau Federation (AFBF), which had led the Farm Bloc in Congress in opposing the reduction of parity measures and defended parity prices during World War II. In an August interview with the Associated Press, Keyserling called proposals for a price freeze "ridiculous," arguing that it would wipe out the incentives the country "must rely in part to produce war goods and draw workers into war jobs." "When the military budget is only 10 percent of our national production," Keyserling said, "it would be fantastic to freeze 100 percent of our economy." The council's midyear report, delivered

[111] Manly Fleischmann, "The Mobilization Program and the Public Interest," *University of Pennsylvania Law Review*, Vol. 100, No. 4, pp. 488-9; Rayburn quoted in Flash, *Economic Advice and Presidential Leadership: The Council of Economic Advisers*, p. 42.

late July 1950, recommended against "general controls over prices and wages at this time."[112] Nevertheless, at the request of Senator Maybank, the White House included a Title IV to the Defense Production Act, stipulating powers for "Price and Wage Stabilization." Farm products were excluded from control until their prices rose above the USDA parity standard. This cocked the price level for a repeat of the World War II cost-spiral dynamic, as a rising non-farm prices raised potential ceilings for farm products and food. Title V, covering settlement of labor disputes under the act, authorized the President to convene "voluntary conferences between management, labor, and such persons as the President may designate to represent government and the public" and "to take such action as may be agreed upon in any such conference" in accordance with the Fair Labor Standards Act of 1938 and the Labor Management Relations Act of 1947—the Taft-Hartley Act. On 8 September 1950, after five weeks' debate, the Congress passed a law authorizing the use of federal lending for capacity expansion, industrial priorities, and price-and-wage controls for stabilization during the Korean War.[113]

[112] "Keyserling Ridicules Total Fiscal Freeze," *New York Times*, August 4, 1950, p. 3; "Keyserling Assails Freeze," *Wall Street Journal*, August 4, 1950, p. 2; Flash, *Economic Advice and Presidential Leadership: The Council of Economic Advisers*, p. 43-4.

[113] Flash, *Economic Advice and Presidential Leadership: The Council of Economic Advisers*, pp. 59-69; David Ginsburg, "Price Stabilization, 1950-1952: Retrospect and Prospect," *University of Pennsylvania Law Review*, Vol. 100, No. 4, pp. 514-543; Alan Matusow, Alan Matusow, *Farm Policies and Politics in the Truman Years* (Atheneum: 1970 [1967]), p. 224; Grant McConnell, *The Steel Seizure of 1952*, The Inter-University Case Program #52 (Bobbs-Merrill Company: 1960), p. 9; Harold L. Enarson, "The Politics of an Emergency Dispute: Steel, 1952," in *Emergency Disputes and National Policy*, eds. Irving Bernstein, Harold L. Enarson, R.W. Fleming (Harper & Brothers: 1955), p. 51. Enarson notes: "Title V was hurriedly drafted on Saturday afternoon by a team from the National Security Resources Board and the White House, and was forwarded informally to the Senate as an administrative request. Slight revisions were made by the Congress."

On 9 September, President Truman issued Executive Order 10161 establishing the Economic Stabilization Agency to oversee allocations and supply. The President appointed Alan Valentine, the President of the University of Rochester and then administrator in the Netherlands for the Marshall Plan, to direct a new Economic Stabilization Agency authorized by the DPA. Valantine, in turn, appointed Cyrus Ching, the former director of human relations at US Rubber Company, and then director of the Mediation and Conciliation Service, chairman of a tripartite Wage Stabilization Board to meet with union and employer leaders to determine wage policy. Under the new sensitivity to the state of business confidence, and at Keyserling's counsel, the President did not invoke the law's authority for imposing price ceilings. Between September and December 1950, to accommodate the expansion of the defense program the Truman administration imposed a system of voluntary price guidelines on producers, what administrators referred to as a "jawbone" strategy.[114]

After passage of the DPA and Valentine's appointment, price increases slowed.[115] Wholesale and consumer prices, however, accelerated with news from the front. On 28

[114] Though it would become associated with the administrations of John F. Kennedy and especially Lyndon Johnson, the biblical allusion was used in the context of government exhortation during the late 1940s. See, US Office of Temporary Controls, Office of Price Administration, *Chronology of the Office of Price Administration, January 1941-November 1946Administration, January 1941-November 1946* by Lawrence E. Tilley, (Washington: 1946), which refers to 1941 as "the year of 'jawbone control'"; "Eccles Says Take It Easy," *Business Week*, March 15, 1947, p. 83-9; Edwin G. Nourse, "The Gentle Act of Disinflation," in which Nourse expresses puzzlement businessmen who oppose federal intervention, who then complain of guidelines for voluntary action as the "jawbone." "It is [through] the tirelessly wagging jawbone of publicly debated legislation and privately but collectively negotiated wage bargains, of radio commercials and voluble salesmen that we find out how to fit production and supply to demand and consumption….," in Folder "Daily Diary—1949-27," Box 5, Edwin G. Nourse Papers, Truman Library.

[115] Griffith Johnson of the Economic Stabilization Agency wrote "In the five months following Korea, we had a very substantial increase in production, and this contributed to the subsequent reversal of inflationary pressures in important fields." Griffith Johnson, "Reflections on a Year of Price Controls," *American Economic Review*, Vol. 42, No. 2, p. 291.

November, a second wave of scare buying began with news of Chinese soldiers crossing the Yalu River into North Korea. This was compounded by a second Congressional military appropriation on 1 December, providing a total of $35.3 billion above the planned $13.3 billion military budget for FY 1951. In the month after the second increase in military appropriations, wholesale prices rose more than 2 percent, an astonishingly rapid increase. In the fourth months after passage of the DPA, the Wholesale Price Index rose a total of 12 percent. As prices rose, the CEA reported a "landslide movement developed" for higher wages. The Chinese invasion signaled a much longer war and the inadequacy of the exhortatory guidance the administration had depended on hitherto. In December, Valantine appointed Michael V. DiSalle, the former mayor of Toldeo, director of a new Office of Price Stabilization (OPS).[116]

After months of public disagreement that brought CEA to the point of dysfunction, Nourse resigned from the administration. Under Keyserling's chairmanship, CEA continued Nourse's tradition of vigorous opposition to price control. But whereas Nourse had used opposition to price control as a basis for arguments against greater government spending, Keyserling argued positively for an expanded federal budget on the grounds that it *would not*

[116] CEA quoted in David Ginsburg, "Price Stabilization, 1950-1952: Retrospect and Prospect," *University of Pennsylvania Law Review*, Vol. 100, No. 4, pp. 521; Alan Matusow notes "Under heavy pressure from anxious workers, nearly every major manufacturing industry had granted wage increases, causing average hourly earnings to rise by 7 percent in the last six months of 1950," Alan Matusow, *Farm Policies and Politics in the Truman Years* (Atheneum: 1970 [1967]), p. 225; Bert Hickman, *Growth and Stability of the Postwar Economy* (Brookings: 1960), pp. 79-81; Grant McConnell, *The Steel Seizure of 1952*, The Inter-University Case Program #52 (Bobbs-Merrill Company: 1960), 5-6; Hugh Rockoff, *Drastic Measures*: *A History of Wage and Price Controls in the United States* (Cambridge: 1984), pp. 177-199.

require price control.[117] In October 1950, Keyserling continued to argue the government could achieve a rate of growth of national product capable of sustaining both the expanded military program and civilian consumption. "In the war years from 1939 to 1944, the United States increased its total annual output—allowing for changes in the price level—by about 75 percent," he told the *Harold Tribune* Forum in a radio broadcast that month. At that rate, the nation would achieve a $500 billion national product in five years. "As we now look a few years ahead, our potential for expanding production is far greater than it was at the outset of World War II.... in plant and equipment, science and invention, capable management and skilled workers, our economy is incomparably better prepared for growth over the next five years than in the five years between 1939 and 1944." Even at one-third the 1939-1944 growth rate, the nation would have a $350 billion economy by 1955—more than enough, he argued, to accommodate the expanded defense program. "Preoccupation with controls," he lectured, "should not further divert public attention from the truth that production, and still more production, is the greatest of all non-secret weapons in the arsenal of American democracy."[118]

The exercise was abhorrent to more experienced economists. "I think this is a most unfortunate speech," Harold Cheadle of the Federal Reserve Staff wrote to Eccles about Keyserling's remarks. "There seems to be little question that our capacity for increasing

[117] Samuel F. Wells, "Sounding the Tocsin," *International Security*, Fall 1979, p. 140; Joseph G. Knapp, *Edwin G. Nourse: Economist for the People* (The Interstate Printers and Publishers: 1979) pp. 254-330; Edward S. Flash, Jr., *Economic Advice and Presidential Leadership: The Council of Economic Advisers* (Columbia: 1965), pp. 24-7; Folders "Daily Diary 1949" 28 through 101, in Box 6, Edwin G. Nourse Papers, Truman Library.

[118] "Further Controls, Higher Taxes Called Essential by Keyserling," *New York Herald Tribune*, October 29, 1950, p. H1.

production is far too limited in the short run to meet increased military requirements without rather severe cut-backs on production of civilian durable goods," Eccles wrote to Keyserling admonishingly in December. "In this connection it seems to me that it is unrealistic to hope for anything like the rate of increased production from 1939 to 1933 in the five years to come…. I think that there is greater danger involved in overestimating our production potential than in underestimating it – particularly with reference to the effect on the potential supply of civilian goods."[119]

On 15 December, the President invited Charles Wilson of GE, former WPB vice-chairman, to serve as director of a new umbrella agency to oversee the expanded stabilization apparatus. Wilson joined the administration on the condition that he would have independent authority over Valentine, Ching, Di Salle. On 16 December, the President issued Executive Order 10193 establishing an Office of Defense Mobilization with the power to "direct, control, and coordinate all mobilization activities of the Executive Branch of the Government, including but not limited to production, procurement, manpower, stabilization, and transport activities." Over the president's objections, Wilson refused to appoint a labor representative to ESA. In December, having opposed DiSalle's request for price control, Valentine relented and promptly resigned. Wilson granted DiSalle's request, and appointed Eric Johnston, the former president of the national Chamber of Commerce and then-president of the Motion Picture Association of America (MPAA), as ESA director. [120]

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[119] Cheadle to Eccles, December 12, 1950 and Eccles to Keyserling, December 15, 1950, Folder 3, Box 5, MSEP.

[120] Grant McConnell, *The Steel Seizure of 1952*, The Inter-University Case Program #52 (Bobbs-Merrill Company: 1960), pp. 5-6; Joyce Margaret Jenness, *The United Labor Policy Committee*, Master's thesis

Wilson's appointment and the move toward compulsory controls invigorated organized labor. For the first time since World War II, the leaders of the CIO and the AFL formed a joint organization to lobby the stabilization boards. In December, Philip Murray, James Carey, Walter Reuther, and Jacob Potofsky of the CIO unions met with William Green, George Meany, George Harrison, G.E. Leighty, and Al Hayes of the AFL to discuss forming a unified organization for the purposes of bargaining with the government. The first communication of the United Labor Policy Committee (ULPC), the joint organization formed by the two national labor federations, was to the President in protest of Wilson's appointment.[121] Wilson and Johnston decided that the time to freeze wages and prices nationally had come, and on 26 January 1950, DiSalle issued a General Ceiling Price Regulation limiting prices to their highest level during the five-week period between December 19 and January 25. At Keyserling urging, DiSalle's order did not include authority to roll back prices to an earlier period determined by considerations of equity.[122]

The freeze displaced conflict from the marketplace and into the new stabilization bureaucracy. Calls for equitable adjustments to partially inflated markets swelled: those who had obeyed White House exhortation for income restraint were now locked into markets with

(Boston University Graduate School: 1952), pp. 4-9 and 28; Flash, *Economic Advice and Presidential Leadership: The Council of Economic Advisers* (Columbia: 1965), p. 70. Alan Matusow, *Farm Policies and Politics in the Truman Years* (Harvard: 1967), *p*. 226. Cf. Harold L. Enarson, "The Politics of an Emergency Dispute: Steel, 1952," in *Emergency Disputes and National Policy*, eds. Irving Bernstein, Harold L. Enarson, R.W. Fleming (Harper & Brothers: 1955), pp. 46-74.

[121] Joyce Margaret Jenness, *The United Labor Policy Committee*, Master's thesis (Boston University Graduate School: 1952), pp. 2-9, 28-31; Grant McConnell, *The Steel Seizure of 1952*, The Inter-University Case Program #52 (Bobbs-Merrill Company: 1960), p. 7.

[122] David Ginsburg, "Price Stabilization, 1950-1952: Retrospect and Prospect," p. 521. Flash, *Economic Advice and Presidential Leadership: The Council of Economic Advisers* (Columbia: 1965), p. 71. "Getting Ready for Big War: Plan for Industry Mobilization," *U.S. News and World Report*, February 16, 1951, pp. 13-4.

their prices or wages below those less fastidious than they. Throughout the economy, firms that adhered to the administration's requests for voluntary restraint as prices rose between June and December 1950 found themselves disadvantaged with costs higher but prices lower than their competitors. Nor was there anything OPS could do under DiSalle's General Ceiling Price Regulation. On 15 February, Richard Neustadt of the White House staff wrote to Charles Murphy explaining the "'get-tough' program to hold the stabilization line" agreed to by "Brannan-Wilson-Johnston," including of "equalization subsidies" to producers whose prices are controlled, rent control, a "program that like in the last war require[d] businessmen to absorb a considerable part of cost increases without price increases—in other words, a margin squeeze," and a program of allocations and priorities to require production of low-end items "aimed at preventing shifts from low-price to high-price lines." To be effective, Neustadt explained, the program would need to be presented to the congressional leadership and to "the farm and labor groups" as a unified program "labeled as Johnston's program, since Johnston is responsible." To do so, the CEA would have to subordinate its independent stabilization planning to Johnston's request to the Big 4 of Brannan, Wilson, Johnston, and Truman, as well as Spence and Maybank in the Congress. "Leon," Neustadt added, "is balking at that." [123]

Many workers were caught without wage increases, too, and the question of whether stabilization policy would allow wages to adjust proved the first great challenge to the Korean War stabilization program. Throughout January, the members of the Wage

[123] Richard E. Neustadt to Charles S. Murphy, "A 'get tough' program to hold the stabilization line," February 15, 1951, Folder "Inflation and Price Control," Box 26, Charles S. Murphy Papers, Truman Library.

Stabilization Board (WSB) divided over wage policy. The labor members argued wages should be allowed to increase by up to 15 percent above the levels prevailing during the freeze base period, and that contractual wage increases in multi-year collective-bargaining agreements be allowed as well. They further argued for legislative amendment of the DPA to remove the parity ceilings on raw agricultural commodities, their unions lobbying Congress for action outside the WSB. Agriculture Secretary Brannan, however, opposed grounding the stabilization program in agriculture, arguing that effective wage control should precede control of the price of food. The employer members of the WSB were willing to grant wage increases up to 6 percent only. On 16 February, at Johnston's urging the WSB voted to approve a national wage policy to correct for inequities following the January wage freeze with increases up to 10 percent of the base period level. As Joyce Jenness notes, "Management in this case received a point advantage over the Labor group." On 27 February, Wilson accepted the WSB ruling and issued Regulation 6 allowing wage increases up to 10 percent. [124]

To the nation's labor leadership represented by ULPC, Regulation 6 proved an ultimate indignity. Despite the January freeze, under Wilson, Johnston, and DiSalle the cost-of-living had continued to rise during February. An error of price stabilization policy, rooted in sensitivity to business lobbying, was the cause. The proximity of the base period had produced many inequities in frozen incomes. But compounding this frustration, under

[124] Joyce Jenness, *The United Labor Policy Committee*, Master's thesis (Boston University Graduate School: 1952), pp. 35-44; "Unions Want Truman to Act in Policy Split with Truman," *New York Times*, February 19, 1951, p. 1; Grant McConnell, *The Steel Seizure of 1952*, The Inter-University Case Program #52 (Bobbs-Merrill Company: 1960), p. 8; Matusow, *Farm Policies and Politics in the Truman Years*, pp. 227-231.

Valentine and Johnston, OPS pursued corrections through a combination of price roll-backs and roll-forwards, allowing some firms loyal to the government price increases while order reductions in the more egregious violators. Adding to confusion within ESA, in late April in response to DiSalle's granting a price increase to the auto industry just days before record profits were announced, Johnston requested DiSalle submit all price orders to his desk for approval. By 9 March, OPS had yet to issue an updated industry-earnings standard ("margin order") for basic manufacturing to guide such "tailored" price adjustments, and such an earnings standard was still not expected "for some weeks." Without the objective profit control guideline, OPS had a much weaker political foundation for ordering price changes.[125]

To protest the wage ceiling amid rising prices, the ULPC declared it would boycott the Truman administration's stabilization program. On 28 February, all of the labor members of the WSB publicly quit. Eight executive agencies, including the WSB, lost their labor representatives and any staff recruited from labor unions.[126] As the Bureau of Labor Statistics reported to Neustadt in March, nominal weekly earnings in manufacturing were up slightly, by .8 to 1 percent. But after adjustment for the large tax increases the Congress voted in late 1950, manufacturing wages "actually declined during the period," from as much as 1.8 percent for the worker with no dependents to .3 percent for the worker with 3 dependents. In other words, labor's accusations of partisanship in stabilization policy were well founded. "This means that on the average the spendable real income of workers in manufacturing

[125] Bell to Murphy, March 9, 1951, Folder "Inflation and Price Control," Box 26, Charles S. Murphy Papers, Truman Library.

[126] McConnell, *The Steel Seizure of 1952*, p. 8; Joyce Jenness, *The United Labor Policy Committee*, Master's thesis (Boston University Graduate School: 1952), pp. 45-55.

industries actually slipped back a little in the post-Korea period," Neustadt explained. Because of collective bargaining, manufacturing wages were more sensitive than those of the other four-fifths of the labor force. "These people are among those [workers] best off in an inflationary situation and best able to keep pace." Those wage earners in the unorganized service trades, in government employment, and in agriculture were "presumably not doing as well," Neustadt judged, to say nothing of the annuitants on social security or those living from private insurance or wealth. "If workers in manufacturing are not quite holding their own, then a much larger part of the population can be assumed to be slipping behind in various degrees of seriousness."[127]

Labor's exodus from the WSB removed the unions from participation in wage stabilization. Days after labor leaders quit the government, strikes were called in textiles and meatpacking. "It is clear that we are not achieving very rapidly a stabilization policy which can be explained and defended to the country," Budget Bureau director David Bell wrote to Murphy on 9 March. "The key actions—price and wage orders and agricultural price legislative recommendations—are still in their formative stages. We have a toe hold towards a reasonable price policy for non-food items, but our food price policy and our wage policy are still pretty chaotic." Labor's protest only hardened industry opposition to "tailored" price regulation and farm opposition to reductions in parity ceilings. On 12 April, William Ruffin of the National Association of Manufacturers told the ESA that labor was engaged "nothing

[127] Harry Douty to Richard Neustadt, "Real Income Changes Since Korea," March 30, 1951 and Neustadt to Murphy, "Real income changes in the current inflation," April 5, 1951, both in Folder "Inflation and Price Control," Box 26, Charles S. Murphy Papers, Truman Library.

more than a bare-faced, un-American attempt to use the national emergency to coerce something that could not be achieved in normal times…" Parity reductions, said Allan Klein of the AFBF, "contradict the fundamental principle of initiative and reward under our system. Price control is not the American way." "Johnston is chafing at the bit to go on the air and tell the country what our stabilization policy is," Bell explained. "He keeps pressing Grif Johnson for such a policy, and Grif keeps saying that he can produce one as far as food and non-food prices are concerned, but he needs some basic determinations in the field of wages."[128]

Johnston held round-the-clock meetings—73 meetings in five weeks— forming a National Advisory Board on Mobilization Policy of business and labor representatives to find some basis for labor's return to the stabilization program. Disagreement persisted over whether a new Wage Stabilization Board should be empowered to settle disputes under Title V of the DPA, or whether it should merely approve or disapprove agreements reached through collective bargaining. During the last war, the National War Labor Board had been empowered to settle disputes, and this plenary power had been exercised to compel employers into union-shop agreements ("maintenance-of-membership") that saw the mushrooming of labor union membership and power. Employer representatives, accordingly, acutely opposed any repeat of the NWLB experience. Nevertheless, after five weeks, on April 17 Johnston secured agreement from the labor representatives over the power and

[128] Bell to Murphy, March 9, 1951, Folder "Inflation and Price Control," Box 26, Charles S. Murphy Papers, Truman Library; Ruffin in McConnell, *The Steel Seizure of 1952*, pp. 8-11, quote on pp. 10-11; Kline in Matusow, *Farm Policies and Politics in the Truman Years*, pp. 227.

scope of a reconstituted WSB, now empowered to receive labor disputes and to issue recommendations for settlement. The vote of the ESA Advisory Board had been 12-4, all business members dissenting. On 21 April, President Truman issued Executive Order 10233 re-establishing the WSB.[129]

The prospect of wage increases brought two waves for higher incomes to both the Treasury Department and the Congress. To the Treasury went banks, who desired higher interest payments. On 26 February, as Wilson prepared to issued Regulation 6, he met with Truman, Snyder, Thomas McCabe, and Leon Keyserling to discuss the Federal Reserve's interest-rate policy. Since 1947, the central bank had allowed short-term bond prices to fall, raising interest rates, from 3/8ths to 7/8ths of 1 percent. After the expanded military appropriations and accelerating price increases of summer and fall 1950, however, the Federal Reserve Board of Governors had begun to discuss extending this policy of raising interest rates to the critical long-term Treasury issues. Without powers over the composition of bank reserves, the only tool the central bank had to ensure the Treasury could borrow at the agreed pegged-rate of 2½ percent was its own purchases in the market. Bond-buying to manipulate interest rates added to commercial bank reserves, expanding credit in the way the White House staff and CEA had observed since 1946. Thus the Board of Governors hoped to allow banks and brokers to demand higher long-term interest rates in the newly inflationary environment. On 3 March, before the Wilson-McCabe-Keyserling committee could issue

[129] Grant McConnell, *The Steel Seizure of 1952*, pp. 10-11; Harry S. Truman, Executive Order 10233—Amending Executive Order 10161 with Respect to Wage Stabilization and Settlement of Labor Disputes Online by Gerhard Peters and John T. Woolley, The American Presidency Project https://www.presidency.ucsb.edu/node/279152.

findings, Snyder and McCabe announced a private agreement to dispense with the 2½ percent ceiling on long-term interest rates.[130]

To the Congress, the move for income exceptions to the price freeze came from manufacturing and agriculture. The AFBF, having just defeated the Brannan Plan in Congress, feared a return to the wartime practice of "production payments" and opposed any effort to reduce parity ceilings. For "reasons of administrative impracticality," DiSalle had applied price controls over food to agricultural goods processors but not to farmers themselves. Allowed to rise, farm income had increased by 23 percent between June and December 1950, while prices paid by farmers increased just 6 percent. These higher prices were now frozen into the national price structure. This provoked a political mobilization from food processors, particularly the slaughterhouse owners, whose margins were now squeezed between price ceilings and higher costs for agricultural commodities. In lieu of price ceilings, in September 1950 Brannan had imposed export restrictions on cotton to ensure adequate domestic supplies. In March 1951, DiSalle made his first intervention in the farm field, placing a ceiling on cotton futures prices of 45.39 cents per pound. In April, he followed this by announcing a 10-percent roll back on cattle prices, effective May 21, to protect margins at slaughterhouses. Immediately, slaughterhouses serving the nation's largest cities confronted cattle shortage as cattlemen, having learned to challenge Chester Bowles during World War

[130] Flash, *Economic Advice and Presidential Leadership: The Council of Economic Advisers*, pp. 79-81; Robert Hetzel and Ralph Leach, "The Treasury-Fed Accord: A New Narrative Account," *Federal Reserve Bank of Richmond Economic Quarterly*, Vol. 81, No. 1, pp. 40-51; Gerald Epstein and Juliet Schor, "The Federal Reserve-Treasury Accord and the Construction of the Post-War Monetary Regime in the United States," Political Economy Research Institute University of Massachusetts Amherst, Working Papers No. 273 (November 2011), pp. 23-32, digitized https://peri.umass.edu/publication/item/download/82_2bf5b9481d4281fd974841d32f8d83e7.

II, returned to their wartime practice of putting their herds to pasture in the marketing season.[131]

Manufacturers opposed OPS roll-backs and lobbied for legislation to prevent OPS autonomy. The Westinghouse corporation, for example, had respected the White House calls for wage and price restraint during the autumn of 1950, whereas the other electrical equipment manufacturers, Charles Wilson's own GE included, had participated in the early-war panic by raising their prices. Such concern over corporation income was also reflected in lobbying over the tax increases of 1950 and 1951, which included the reintroduction of an excess-profits tax. Included in the Revenue Acts were numerous exemptions for capital-gains income on securities.[132]

Congressional pressures over income exceptions to January's freeze order came to in later spring as the DPA's June 30 expiration approached. Unable to agree on the basis for renewal of stabilization powers, the Congress granted a one-month extension to the DPA prohibiting OPS roll-backs for the duration. In July, as Congress debated changes to the price-control authorization, Indiana Republican Senator Homer Caperhart introduced an

[131] Matusow, *Farm Policies and Politics in the Truman Years*, pp. 230-3. In March, F.E. Mollin, Executive Secretary of the American National Cattlemen's Association, wired Senators Hugh Butler, Republican of Nebraska, and Eugene Millikin, Republican and Colorado, to warn that cattle-price roll backs of $6 would bring legal ceilings below their statutory floor, forwarding a "rumor that, in translation, screams that the pending livestock order would roll cattle prices back drastically…" Ralph D. Hetzel, Jr. to Charles B. Holstein, March 12, 1951, Folder 15, Box 1, Economic Stabilization Agency Records, Ms. Coll. 1274, Kislak Center for Special Collections, University of Pennsylvania.

[132] E. Gordon Keith, "The Excess Profits Tax of 1950," *National Tax Journal*, Vol. 4, No. 3, pp. 193-207; "The Revenue Act of 1951," *Bulletin of the Section of Taxation of the American Bar Association*, Vol. 5, No. 1, pp. 3-21; on the origins of employee stock options in the Revenue Act of 1950, see Charles Petersen, "How Should Human Capital Be Paid? Executive Compensation, Silicon Valley, and Stock Options, 1937-2004," paper delivered at the conference *Inventing Human Capital*, April 24, 2021. On Westinghouse, see Enarson, "The Politics of an Emergency Dispute: Steel, 1952," in *Emergency Disputes and National Policy*, p. 55, n15.

amendment on behalf of the Westinghouse corporation mandating OPS approve all price increases requested on the basis of any cost increases between the date of the freeze on 26 January and 26 July, 1951. On behalf of the retailing industry, Florida Democrat Aflred Sydney Herlong introduced an amendment mandating OPS approve all requests for price increases on the basis of percentage mark-ups for manufactured goods, rather than the dollars-and-cents margin standard currently in use. Both the Herlong and Capehart amendments disabled the already beleaguered OPS price-control operation. Finally, to protect the cattle and meat industry, Senator Hugh Butler, Republican of Nebraska, and Representative Clifford Hope, Republican of Kansas, proposed an amendment prohibiting the use of meat quotas at slaughterhouses. Over the preceding decade, such regulations had proven the only effective method of preventing the emergence of black-market sales in the meat industry; the outlawing of slaughterhouses ensured evasion of price controls in the refractory meat market. Economist Gardner Ackley of the OPS staff understood the implications of the Butler-Hope amendment to the OPA and the negotiations that preceded it: "The cost of living is high when hamburgers, or T-bone steak, is expensive. Price control works well if beef is available, of good quality, and low in price."[133]

Speaking on national television in July, AFBF president Kline said, "Well I noticed that the Department of Agriculture figures on cattle on feed in the Corn Belt indicated they're

[133] Rockoff, *Drastic Measures*, p. 181-4, Ackley quoted on 182; Matusow, *Farm Policies and Politics in the Truman Years*, pp. 234-7; James A. Durham, "Congressional Response to Administrative Regulation: The 1951 and 1952 Price Control Amendments," *Yale Law Review*, Vol. 62, No. 1, pp. 1-53. For a comprehensive survey of the legal, administrative, and economic problems of the ESA during the Korean War, see the nine articles included in the fall 1954 issue of *Law and Contemporary Problems*, Vol. 19, No. 4, pp. 475-684.

eight percent less now than a year ago and yet cattle numbers in the country are high. This is simply the proposition of a lot of farmers in the Corn Belt trying to figure out how to make a living." Hours before expiration, the Congress sent to Truman legislation renewing DPA authority for one year, including the Capehart, Herlong, and Butler-Hope amendments. On July 31, the President signed the amended DPA into law.[134]

Legislative cut-outs and the possibility of wage pressure weakened the statutory foundations of the stabilization program. In terms of reputation, OPS suffered from the broader disintegration of the working-class movement since the divisions over the Cold War began during 1947. "It is obvious," wrote the director of OPS's Public Information Office in summer 1951, "that OPS is tapping but a fraction of the nation's consumer support potential." In March, in preparation for the legislative battles over authorizing statutes and to enhance enforcement at the local level, DiSalle announced on national television that OPS was organizing a network of national committees for local consumers to participate in the stabilization program. DiSalle's remark, however, preceded actual organization. "No hard and fast rule was laid down for the formation and operation of the old OPS Volunteer Committees," wrote information director Holstein,

> "so they became a hodge-podge, with a different pattern in each region. They came to grief because they were not drawn from or supported by NATIONALLY organized groups which have members, officials, treasuries, prestige and power, and are supporting economic stabilization. They were drawn

[134] Kline on Longines Chronoscope, July 23, 1951; Harry S. Truman, Statement by the President Upon Signing the Defense Production Act Amendments. Online by Gerhard Peters and John T. Woolley, The American Presidency Project https://www.presidency.ucsb.edu/node/230507.

> from or supported by whatever local yokels this or that regional or district director thought might make good members, and each had a different idea."[135]

Of particular concern to OPS was expansion of production subsidies for agriculture, which the AFBF unambiguously opposed. Through fall and winter of 1951 and early 1952, Secretary Brannan, still hoping for legislation to codify his production payments program, distributed a "review" of USDA policy through its field offices and held meetings with farmers in which the functioning of a new program might find support. Kline objected openly to the Department "trying to develop support for its own recommendations, on a political basis."[136] Again, the Brannan Plan would fail to break through the congressional committee system. "We believe that the indirect controls are far superior to the direct controls if you really wish to control inflation," Kline said. "We think that the price control thing it actually crosses up some of the most fundamental things which have contributed to America's production record and we are convinced that this production record simply couldn't take place if you took out all the freedom of choice involved in the individuals of buying things on his own."[137]

Opposition to producer subsidies also motivated the broader interpretation of inflation that had accompanied the expansion of bank credit since World War II. Rather than

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[135] Undated memorandum, "A Grassroots Consumer Program to Support Economic Stabilization," and undated note appended to Office of Price Stabilization Press Release, February 4, 1951, both in Folder 16, Box 1, Records of the Economic Stabilization Agency, Ms. Coll. 1274, Kislak Center for Special Collections, University of Pennsylvania.

[136] Matusow, *Farm Policies and Politics in the Truman Years*, p. 240. As legislation for extending and amending the DPA worked its way through Congress that spring, Johnston was private proposing "authority to use subsidies." but this was such "obviously political dynamite" that DiSalle opposed the device and was bound to "knife" Johnston in the back should the issue arise in the Congress. Bell to Murphy, March 9, 1951, Folder "Inflation and Price Control," Box 26, Charles Murphy Papers, Truman Library.

[137] Kline on Longines Chronoscope, July 23, 1951.

commodity prices determined in particular markets by the forces of supply and demand, this new perspective held that the general price level was a function of the quantity of money and credit in circulation, which had grown tremendously during the last war and was poised to grow again with the current war in Korea. As the AFBF's Kline explained, the root of the problem of rising prices was not the income claims of farmers or workers or manufacturing corporations, but the size of the federal debt: "Increase in money and credit, an unbalanced federal budget, and payin' the bill with new money—this cheapens everyone's money."[138]

In September, having steered the ESA through its first nine months, Johntson announced his resignation and return to Hollywood, to be replaced by Roger Putnam, a member of the wealthy Lowell family of Boston and former mayor of Springfield. The breaking point for the entire stabilization program was then but weeks away in the steel industry, where labor contracts with the steelworkers' union were set to expire on 3 December, 1951. Collective bargaining began November 30, and by 22 December Truman had certified the dispute to the WSB. As the WSB prepared its recommendation on steel wages, it secured from Philip Murray and the USW an agreement to delay any strike until 8 April, 1952.

But having secured labor's participation in stabilization with the reconstituted WSB, the administration now confronted the dissent of the business participants who refused to issue any recommendations on the labor dispute that might jeopardize managerial autonomy. On 19 March, 1952, the WSB finally issued a recommendation for a 12.5 cent hourly wage

[138] Kline on Longines Chronoscope, July 23, 1951.

increase, followed by a 2.5 cent hourly increases at two six-month intervals, and an 8.5 cent hourly payment to a benefit fund. In the period between 19 March and 8 April, wage negotiations stalled as the industry, in response to the WSB recommendation, turned to ODM Director Charles Wilson in the hopes of securing some price relief to accompany any labor settlement. On 24 March, Wilson flew to Key West, Florida, to speak with the President personally, having told OPS Administrator Ellis Arnall (DiSalle having resigned in February) not to accompany him. The next day, he returned to Washington, announcing to reporters that a steel wage increase as recommended by the WSB would be "inflationary," meaning it would be passed on to the public in higher steel prices. Arnall refused this indirect order and requested an audience with President Truman himself. On 27, Arnall and Putman met with Wilson to argue the steel price increase. Having failed resolution, the three met with President Truman the next day, 28 March, during which the President clarified that in Key West he had not granted Wilson permission to pass the wage increase on in higher prices. Immediately after the meeting, Wilson resigned from his office atop ODM. To replace him, the President appointed John Steelman interim director of ODM.[139]

On 1 April, Arnall informed Benjamin Fairless of US Steel that OPS would not grant price increases above those mandated by the Capehart amendment. This provided for between $2 and $3 more per ton; Fairless had requested an increase of $12 per ton. The steel employers were unwilling to grant the WSB wage increase on these terms. On 3 April,

[139] Enarson, "The Politics of an Emergency Dispute: Steel, 1952," in *Emergency Disputes and National Policy*, p. 59; Maeva Marcus, *Truman and the Steel Seizure Case: The Limits of Presidential Power* (Columbia: 1977), pp. 68-72; Grant McConnell, *The Steel Seizure of 1952*, pp. 24-9.

Steelman and Arnall offered the industry a greater increase of $4.50 per ton. Still, the employers refused to cooperate. Therefore by the USW's already-postponed strike deadline, Truman was compelled to take the initiative. On the night of 8 April, the President announced to a batter of microphones in the White House pressroom, overcrowded with reporters pressing to hear, that, in order to forestall a work stoppage, he was ordering Commerce Secretary Charles Sawyer to seize the property of 71 steel companies, including the vast properties of the US Steel corporation and its 12 subsidiaries.[140]

The "discharge of a political debt to the CIO," said Randall of Inland Steel, was an "evil deed."[141] But no sooner had Truman attempted to seize the property of the steel companies than Putnam and Arnall found themselves prohibited from altering the management of the industry that had precipitated the dispute. In federal district court in Washington, the steel companies filed suit challenging the constitutionality of the seizure. Judge David Pine secured a commitment from the Department of Justice not to interfere in the management of the property until he issued a decision on the suit. When Truman's Solicitor General appealed Pine's decision invalidating the seizure on April 29, the Supreme Court maintained Pine's injunction. Wages in the steel industry remained unchanged as the administration's order worked its way through the courts. The President had to take to

[140] Tellingly, Truman did not seize the holding company US Steel Corporation itself. John L. Blackman, *Presidential Seizure in Labor Disputes*, p. 287; Marcus, *Truman and the Steel Seizure Case*, pp. 73-4 and 80; McConnell, *The Steel Seizure of 1952*, pp. 29-36.

[141] Clarence Randall quoted in Enarson, "The Politics of an Emergency Dispute: Steel, 1952," in *Emergency Disputes and National Policy*, p. 62. Of the announcement, Randall later wrote, "I felt physically ill. It seemed to me that all that I had learned of the government from school days on, all that I had believed in with respect to the balance of powers in a republic, all the safeguards conceived by the founding fathers for the preservation of our democracy, had suddenly been swept away," comparing Truman to "Caeser…Mussolini and Hitler." Quoted in Marcus, *Truman and the Steel Seizure Case*, p. 88.

airwaves to personally request steelworkers remain in the plants in deference to the rule of law.[142]

"The steel wage-price controversy has created a smoke screen behind which a well organized nationwide campaign to scuttle economic controls has grown and prospered," wrote staff at OPS information office. "This drive appears to have been organized at the February 28 meeting in Chicago called by the food and meat processor, wholesaler, distributor, and retailer associations." In the months since, trade associations in farm, dairy, oil, and chambers of commerce had "joined the food and meat people in this drive" by adopting "resolutions against controls." Unlike the legislative drive for DPA amendments in the spring of 1951, however, "This year the strategy differs radically." Rather than lobbying for amendment, Senator Maybank had withheld debate over DPA renewal for 30 days, with industry groups "holding their fire until the June 30 deadline is in sight" at which point a coordinated effort to defeat renewal would begin.[143]

On 2 June, the Supreme Court upheld Pine's decision. Immediately, workers began to leave the factories. A strike that had already begun to seep into reality in late April now exploded onto the national scene. During the strike's first week, steel production nationally fell by half the level six weeks preceding. By the second week, steel production nationally was 85 percent below the prestrike level. Iron shipments virtually froze, while declining coal

[142] Marcus, *Truman and the Steel Seizure Case*, pp. 102-194; Enarson, "The Politics of an Emergency Dispute: Steel, 1952," in *Emergency Disputes and National Policy*, p. 62-6.

[143] E.T. O'Connell to Holstein, "Form and pattern of campaign against economic controls," dated 1952, Folder 15, Box 1, Records of the Economic Stabilization Agency, Ms. Coll. 1274, Kislak Center for Special Collections, University of Pennsylvania.

orders led to 13 percent fall in coal production. Employers responded to declining orders from the steel industry with large-scale lay-offs. Within days of the stoppage, the New York Central railroad let go 8,000 workers, followed by the Pennsylvania railroad with 9,000 lay-offs. During the strike's fourth week, Ford announced 27,500 layoffs and GM announced 38,000 job cuts as their auto plants worked down steel inventories. Idle auto plants reduced parts orders, as unemployment rippled throughout the industry's suppliers. Tire plants closed in Akron and chassis plants in Toledo. By the strike's fifth week, more than 50,000 coal miners were thrown out of work. By the sixth week, over 100,000 railroad workers were unemployed. Nationally, insured unemployed increased by 400,000 by the strike's eighth week. The *New York Times* reported as many as 1.4 million workers lost employment because of the shutdown of the steel industry.[144]

On 24 July, at the end of the strike's eighth week, Truman invited Fairless and Murray to the White House to settle the dispute. The terms were almost exactly those initially proposed: the union won a security clause mandating all workers receive union membership, a wage increase, and the companies were awarded a price increase of $5.20 a ton on steel.[145]

Conclusion

[144] "600,000 Quit Steel Mills, Industry Offers to Bargain," *New York Times*, June 3, 1952, p. 1; Irving Bernstein, "The Economic Impact of Strikes in Key Industries," in *Emergency Disputes and National Policy*, pp.38-42.

[145] Marcus, *Truman and the Steel Seizure Case*, pp. 249-260; Enarson, "The Politics of an Emergency Dispute: Steel, 1952," in *Emergency Disputes and National Policy*, pp. 70-4.

Planning survived the war, but it was increasingly a planning of military production and scientific research rather than of civilian production and social services. This was clearest in the fate of Ewing's proposals for national health insurance, which Truman adopted in his State of the Union address of 1948 but died, with the Spence and Murray bills and the Brannan Plan, in the 81st Congress.[146] Unlike the capacity-expansion elements of the Fair Deal, neither the program of agricultural "production payments" nor the expansion of social insurance to include hospital payments would become law during the Korean War. Most importantly, the understanding of the federal government's role in society had been altered dramatically. Rather than the New Deal vision of fiscal expansion, targeted capacity expansion, and national wage policy, the liberals in Congress increasingly turned towards "indirect" controls of the size of the federal deficit and the Federal Reserve's control of interest rates.

This was a new way of looking at things. At the end of World War II, many observers had written about "fiscal-monetary policy" as a single field in discussing emerging mechanisms of indirect planning. As late as 1948, *Newsweek* referred to Federal Reserve Board chairman "McCabe's fiscal policies," while even the CED wrote of "a stabilizing monetary-fiscal policy."[147] The two fields of debt management and government spending were mechanically related, since Treasury deficits had to be funded by new bond issues, and

[146] Monte M. Poen, *Harry S. Truman Versus the Medical Lobby: The Genesis of Medicare* (University of Missouri: 1979).

[147] "A Boss to Suit the Boss," *Newsweek*, February 9, 1948, p. 15-17; "Fiscal Policy and Debt Management," address by Undersecretary of the Treasury A.L.M. Wiggins before the Academy of Political Science at the Hotel Astor, New York City, April 1, 1948, in Folder 7, Box 11, MSEP; Committee for Economic Development, *Monetary and Fiscal Policy for Greater Economic Stability* (1948).

the placement of those bonds was then understood to have direct effect on the quantity of commercial bank reserves and private credit available to business generally. The separation of “fiscal policy” from “monetary policy” discarded the question of bond placement and bank regulation, removing the role of the nation’s commercial bank system in financing government deficits from the study of macroeconomic management. This had the effect of cleaving the future study of the money system into two groups: Keynesians studying the effects of government spending on consumption and investment, and those anti-Keynesians preoccupied with the role the quantity of money played in determination of interest rates and their effect of business spending. The vision of the economic process as one in which prices were determined sectorally by market structure, in which bottlenecks appeared in the course of expansion, amenable to active public correction, was replaced by a “macroeconomics” in which a general price level across industries was determined either by the quantity of money or by the level of aggregate demand. In the process, the study of inflation disintegrated into disciplinary silos.

A new theory of inflation would not emerge until the end of the 1950s, when the observed relationship between wages and the price level was advanced as evidence of a hypothesis that the investment process might be manipulated indirectly through the proxy of unemployment. With the failure of public investment and the triumph of macroeconomics, the concept of the “welfare state” likewise lost a great deal of its original meaning. As Arthur Schlesinger would write in 1956, the “conception of the social welfare state,” represented the “evolution of the liberal ideology” which saw its “greatest triumph” not in public control of

capacities or the rate of investment, but rather in the Eisenhower administration's acceptance and expansion of the Social Security Administration.[148] Equally consequential was the new and unique role military demand would come to play in American liberal thought. Attending the San Francisco Conference establishing the United Nations in 1945, journalist I.F. Stone had remarked on the "almost unconscious and organic tendency" among the technical staffs and consultants of the American delegation "to find a way out of a new postwar unemployment crisis by armed conflict instead of the peaceful, but painful, process of adjusting our economy to full employment."[149] The Cold War, Harvard's Sumner Slichter wrote in 1949, "increases the demand for goods, helps sustain a high level of employment, accelerates technological progress and thus helps the country to raise its standard of living… We may thank the Russians for helping to make capitalism in the United States work better than ever."[150] Writing to CED member Fred Lazarus, Jr., chairman of Federal Department Stores, Inc. (later known as Macy's), Slichter elaborated this idea of the function military demand could play in stabilization policy. There was a real question, he wrote to Lazarus, of "how completely the level of defense spending must be determined by military and diplomatic considerations." Varying defense expenditures in periods of recession, he explained, might play similar role to unemployment insurance. "Is there only one rate (or, at least, only one minimum rate) of defense spending, or is there some room for flexibility in

[148] Arthur M. Schlesinger, Jr., "Liberalism in America: A Note for Europeans," (1956), reprinted in *The Politics of Hope* (Princeton: 2008 [1963]), p. 89.
[149] I.F. Stone, "Organization for Peace… Or Against the Soviet Union?," in *The Truman Era* (Vintage: 1973 [1953]), p. 12.
[150] Quoted in Galbraith, *Economics and the Public Purpose* (New American Library: 1973), p. 173.

the rate of defense spending?" "If there is room for flexibility, then, it seems to me, that a dual economy which combines private enterprise with a large defense program can be made more stable than a private enterprise economy without a defense program and the reason is that any drop in private spending can be offset by an increase in defense spending."[151] By the end of Eisenhower's first term, an old New Deal consultant, a professor of economics at the Yale Law school, could conclude that "In recent years the Pentagon has probably done more to promote the concentration of economic wealth and power than can be undone by the vigilant campaigns of a half dozen Antitrust Divisions."[152] But what if private spending accelerated in a period of defense buildup? As we will see, during the Vietnam War these questions would reemerge with dramatic consequences.

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[151] Slichter to Fred Lazarus, Jr. March 23, 1954, Folder "CED," Box 2, Sumner H Slichter Papers, HUG 4795.10, Harvard Library.

[152] Walton Hamilton, *Politics of Industry* (Knopf: 1957), p 152.

Chapter 4: Protecting the Dollar and Full Employment Planning in a Globally Integrated Economy

"I think you must prepare yourself for some repercussions in the financial community"

- Robert Anderson to Lyndon Johnson, January 8, 1964.[1]

Examining the state of the US economy in early 1957, the President's Council of Economic Advisers confronted an entangling economic puzzle. For two years—since the beginning of the recovery from the recession that followed the Korean War—the administration in Washington had directed the focus of economic policy to rising prices and inflation. The Federal Reserve restricted credit in 1955 and, after small federal deficits in 1954 and 1955, the administration produced a surplus in 1956 on the grounds of protecting the value of dollar. Prices, however, continued to rise. Since World War II, Republican Party politicians, Southern Democrats, and small business advocates had defined their political campaigns through opposition to controlled prices. The Republicans captured the Congress in 1946 and the White House in 1952 on the promise of repudiating the Fair Deal program of encroaching federal controls. Now, the President wrote in his annual *Economic Report*, private businesses had to "recognize the broad public interest in the prices set on their products and services." Labor leaders had to understand that the cost of their contracts should be "consistent with productivity prospects and with the maintenance of a stable dollar." As the administration

[1] Phone Call, Robert Anderson to LBJ, January 8, 1964, University of Virginia Miller Center, Citation Number: 1235.

was learning, placing "primary reliance for economic growth and improvement on competitive enterprise" carried its own risks. A "framework of free institutions and individual choice" had evident social costs.[2]

The conundrum was not just economic, but political. Though the ratio of unemployed to the nation's workforce had fallen for two years to a national low below 4 percent in early 1957, the problem of unemployment had persisted as a political theme in the Congress. The chairman of the Joint Economic Committee, Senator Paul Douglas, won re-election in 1954 after campaigning through the coal fields of southern Illinois on the promise of jobs and federal legislation to aid "depressed areas."[3] The Democrats flipped two seats in the Senate and 16 seats in the House that year, winning control of both houses of the Congress. In 1956, they expanded these majorities, in spite of a general decline in the national ratio of unemployed. During the 84th and 85th Congresses, Senator Douglas had raised the unemployment problem repeatedly, asking a young, first-term Senator, John F. Kennedy, to serve as floor manager for his depressed area legislation to stimulate local redevelopment.[4] As the 1958 midterms approached, the problem was becoming all the more insoluble. In summer of 1957, as orders for the nation's industrial manufactures fell off, unemployment

[2] *Economic Report of the President for 1957* (GPO: 1957), pp. III-IV, and 8.

[3] "Communique on the Illinois Campaign," *New York Times Magazine*, September 26, 1954, p. 14. Joseph Alsop, "Can Pork Chops Win?," *Boston Globe*, October 8, 1954, p. 14. Paul Douglas, *In The Fullness of Time: The Memoirs of Paul H. Douglas* (Harcourt Brace: 1971), pp. 512-522. James L. Sundquist, *Politics and Policy: The Eisenhower, Kennedy, and Johnson Years* (Brookings: 1968), pp. 62-72. Irving Bernstein, *Promises Kept: John F. Kennedy's New Frontier* (Oxford: 1991), p. 167-8.

[4] Sundquist, *Politics and Policy*, p. 63.

began to rise precipitously. By February 1958, there were more than five million workers unemployed, at 7.4 percent of the labor force the highest since before World War II.[5]

Historians often describe the 1950s and the 1960s in the US as the heyday of economic growth and political consensus over the terms of indirect management of the mixed economy. "The prosperity of the 1950s and the 1960s proved just how wrong the pessimists of the 1930s had been," writes Robert Collins, who describes the period as the "ascendency of growth liberalism."[6] But when historians describe the period after World War II in this way, in terms of "a broad commitment to steady progress [and the] steady economic growth and broad equality of the postwar era," "prosperity returned," or how "Amidst prosperity, organized labor and capital reached an accord that centered on collective bargaining," they flatten what was, for contemporaries, a shocking and uneasy period of apparent stagnation in many of the nation's business centers.[7] Such historical judgements can only be justified by including the periods of federal stimulus during the Korean War and the Kennedy-Johnson military-Keynesian experiment. In terms of the national income and product accounts, the annual rate of growth of gross national product slowed distinctly between 1954 and 1960. While historians have given considerable attention to the way the idea of economic growth captured politics and culture in the US during the period after the Korean War, few have noted how this focus related to the apparent underperformance of the

[5] Figures in this paragraph are in *Monthly Labor Review*, various issues for 1957 and 1958.

[6] Robert Collins, *More: The Politics of Economic Growth in Postwar America* (Oxford: 2000), p. 40.

[7] These quotes are, respectively, Louis Hyman, *Temp: How American Work, American Business, and the American Dream Became Temporary* (Viking: 2018), p. 5; Ira Katznelson, *Fear Itself: The New Deal and the Origins of Our Time* (W.W. Norton: 2013), p. 471; Julian Zelizer, *Taxing America: Wilbur D. Mills, Congress, and the State, 1945-1975* (Cambridge: 1998), p. 2.

domestic labor market during the 1950s.[8] The average annual unemployment rate remained above 4 percent throughout this period, and above 5 percent between 1957-1962. "The growth rate in the postwar period tapered off substantially after 1953," the staff of the Joint Economic Committee (JEC) of the Congress wrote in 1959. As Brookings Institution study of federal policymaking between 1953 and 1966 concluded, "In the decade of the 1950s, it was unemployment that became the crucial economic issue."[9]

In fact, production and employment in the period after Korea were extensively planned—through the military stockpiling of the Defense Production Act (DPA), foreign aid to political allies, and direct (if clandestine) intervention in labor disputes.[10] That planning, moreover, was the subject of intense political conflict. As this chapter will argue, the absence of a political consensus on how growth was to be achieved in the US lay behind both the numerous recessions of the 1950s and the accelerating inflation of the later 1960s. Wage restraint and price control sat at the heart of this dispute. Economic historians have recognized that in Western Europe and Japan the period of growth that followed the Korean War was founded on restraining the increase in the price of labor in exchange for expanded government budgets, broader income-transfer programs, and rising employment. Often this is experience is read into US history as well. The "third quarter of the twentieth century was a

[8] H.W. Arndt, *The Rise and Fall of Economic Growth* (Longman Chesire: 1978). Matthias Schmelzer, *The Hegemony of Growth: The OECD and the Making of the Economic Growth Paradigm* (Cambridge: 2016). Robert Collins, *More: The Politics of Economic Growth in Postwar America* (Oxford: 2000).

[9] US Joint Economic Committee. *Staff Report on Employment, Growth, and Price Levels*, 86th Congress, 1st Session, December 24, 1959, p. XXV. Sundquist, *Politics and Policy*, p. 14.

[10] Sundquist, p. 17. Gary Gerstle, *Liberty and Coercion: The Paradox of American Government from the Founding to the Present* (Princeton: 2015), pp. 264-5.

golden age for labor in the United States, Europe, and Japan," write three leading American labor economists. "Employment relations were shaped by an implicit agreement between employers and unions in which workers traded wage moderation for expanding employment opportunities."[11] Robert Brenner notes that "especially since World War II, trade unions and social-democratic parties have generally accepted the principle of the primacy of profits and sought to enforce it on their followers." Similarly, Eric Hobsbawm writes of a "political construct" of Keynesianism during the three decades after World War II that was "based on a tacit or explicit consensus between employers and labor organizations to keep labor demands within limits that did no eat into the profits, and the future prospects of profits." Harold James writes that widespread union representation and low unemployment were the basis of "the social compromise on which the 'golden age' was founded." Wolfgang Streeck writes of a "democratic-capitalist peace formula" that characterized the Western bloc after 1945, in which private property rights were respected in exchange for an expanded social franchise of income transfers expanded taxation. Charles Maier describes this political exchange between organized labor and business as the process of "consensual wage determination," in which wage rates are determined as part of a broader consideration of social priorities by government and employers: investment, growth, employment, environmental protection. This

[11] Clair Brown, Barry Eichengreen, and Michael Reich, "Introduction: Labor in the Era of Globalization," in *Labor in the Era of Globalization*, eds. Brown, Eichengreen, and Reich (Cambridge: 2010), p. 1.

exchange, Maier argues, can be considered "the evolutionary terminus of activist welfare states with highly developed peak associations."[12]

Despite this widespread recognition of the political foundations of growth in Europe and Japan, few historians have noted either the absence of such political bargaining in the US during the Eisenhower era or the reasons for its collapse in the later 1960s. While the literature on the inflation that began during the 1960s is substantial, few analysts have sought to ask why the political exchange in the US that characterized the stable expansion of the Kennedy and early Johnson years broke down in the later 1960s.[13] In part, this is due to historians' emphasis of fiscal policy and tax increases in economic explanations. It is also due to the fracturing of the black freedom movement after the 1965 passage of the Civil Rights Act, which has dominated many accounts of social tension during the decade and displaced from historians' attention the centralized economic bargaining that characterized corporatist politics during the twentieth century. Historical attention to the "rise of the right,"

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[12] Robert Brenner, *The Economics of Global Turbulence: The Advanced Capitalist Economics From Long Boom to Long Downturn, 1945-2005* (Verso: 2006), p. 23. Eric Hobsbawm, *The Age of Extremes: A History of the World, 1914-1991* (Vintage: 1996 [1994]), p. 282. Harold James, *International Monetary Cooperation since Bretton Woods* (International Monetary Fund: 1996), p. 200. Charles Maier, "Preconditions for Corporatism," in *Order and Conflict in Contemporary Capitalism*, ed. John Goldthorpe (Clarendon: 1984), pp. 39-41.

[13] Leading sociological accounts of inflation exclude detailed study of the US during the Kennedy-Johnson era. See the essays in *The Political Economy of Inflation*, eds. Fred Hirsch and John H. Goldthorpe (Harvard: 1978), *Trends Toward Corporatist Intermediation*, eds Philippe C. Schmitter and Gerhard Lehmbruch (Sage: 1979), *Order and Conflict in Contemporary Capitalism*, ed. John H. Goldthorpe (Clarendon: 1984), *The Politics of Inflation and Economic Stagnation: Theoretical Approaches and International Case Studies*, eds. Leon N. Lindberg and Charles S. Maier (Brookings: 1985). Treatments of the US inflation are dominated by economists. Alan Blinder, *Economic Policy and the Great Stagflation* (Academic: 1979). Arthur Okun, *The Political Economy of Prosperity* (Brookings: 1969). Essays by Charles McLure, Phillip Cagan, Marten Estey, and Thomas Gale More in *Economic Policy and Inflation in the Sixties* (American Enterprise Institute: 1972).

in which the period after the New Deal is understood in terms of an ascendant conservative movement, likewise obscures the political-economic bargaining of the Kennedy-Johnson years, when so many business conservatives were assumed to be out of power.[14] Yet as this chapter shows, the fragile agreement between organized labor and the White House that lay aback the Democratic administrations' growth program was negotiated on terms limited by what Presidents Kennedy and Johnson could secure from business executives.

For corporation executives prevailing on the Eisenhower, Kennedy, and Johnson administrations in the era of rising prices, the stabilization policies proposed by organized labor and their liberal allies within the Democratic Party as the basis for wage restraint threatened nothing less than their conception of political freedom. The broad program of wage-price restraint was only considered within the White House as the problem of rising prices escaped the confines of domestic class struggle to bear on those aspects of national policy important to US employers: geopolitics and the economics of the Cold War. US inflation threatened the global role of the dollar as the reserve currency of trade and finance for the non-Communist countries of the North Atlantic and their colonial possessions. It was for this reason that labor's consent to wage restraint became a focus of national headlines and Congressional debate. It is thus with the Cold War that this chapter begins.

"Expansions Aborted in the Womb"

[14] Thomas Sugrue, *Sweet Land of Liberty*. Alan Matusow, *Unravelling of America*. Robert O. Self, *All in the Family*. Matthew Lassiter, *The Silent Majority*. David Garrow, *Bearing the Cross*.

The emergence of wage restraint as the political cornerstone of a national growth policy was rooted, in the US, as we have seen, in the inflationary expansion after World War II that accompanied the "interim aid" to Western Europe and the Marshall Plan. This culminated in the wage controls that accompanied the Korean War economic mobilization program. Between September 1950 and June 1952, the Truman administration approved over eleven thousand "certificates of necessity" for government loans to industrial-capacity expansion projects representing over $21 billion in new plant investments across the country. Much of this was concentrated in basic industry: steel production, petroleum refining, railroads, and electric power.[15] This was matched by over $23 billion in private investment granted accelerated depreciation under the DPA in the same period—a total of $34.4 billion in private investment would be approved for the tax credit by April 1953. In the US South, the Korean War building boom saw the expansion of the steel industry out of Bessemer, Alabama into Daingerfield and Houston, Texas and the construction of new aluminum plants in Texas and Arkansas. Steel production capacity increased by 23 percent and that of aluminum by 143 percent.[16] As measured by the national accounts, the annual rate of increase in nominal GDP peaked at 19.6 percent in the first quarter of 1951. Adjusted for inflation, the annual growth rate peaked at 13 percent in the last quarter of 1950. As a share

[15] *Report of Joint Committee on Defense Production* (GPO: 1952), pp. 49-55.

[16] *Progress Report No. 25,* published by the Joint Committee on Defense Production, April 23, 1953 cited in *Report of the Joint Committee on Defense Production* (GPO: 1953), pp. 18-19. On percentage capacity increases by industry, p. 52. On expansion of the steel industry in Texas, see Nancy Beck Young, *Wright Patman: Populism, Liberalism, & the American Dream* (Southern Methodist University: 2000), pp. 128-9; Judith Stein, *Running Steel, Running America: Race, Economic Policy, and the Decline of Liberalism* (University of North Carolina: 1998), p. 21; E.B. Germany Oral History, LBJ Library.

of GDP, gross private domestic investment reached 21.4 percent. As of this writing, none of these variables have again reached their levels measured during the Korean War boom. Unemployment fell to 3 percent and the terms of wage restraint became subject for debate before the Supreme Court when the President attempted to seize the steel industry for refusing to grant a wage increase without raising prices.

As the previous chapter has shown, the political conditions for this explosion of growth were unstable and began to collapse immediately during the war. In the November 1950 midterms, two months after passage of the Defense Production Act (DPA), the Democrats lost 28 seats in the House and five seats in the Senate as the Truman administration acted indecisively in controlling the mobilization. In early 1951, organized labor forced a reconstitution of the Wage Stabilization Board in protest of the proposed 10 percent limit on wage increases; businessmen and organized agriculture lobbied the 82nd Congress intensively and successfully to weaken price control and exempt their particular product lines from federal oversight. Income payments were incompletely and inadequately controlled throughout the mobilization, and Congress legislated the excess profits tax to expire in the summer of 1953. The constitutional limits of the Truman administration's militarized Fair Deal program were exposed with the Supreme Court's ruling in *Youngstown*, and, in November 1952, the Republican Party won control of both Congress and the White House—expelling such moderates as William Benton of CED in favor of Prescott Bush in Connecticut, capturing Michigan's Democratic Party Senate seat, and expelling three-term incumbent Joseph O'Mahoney in favor of Republican Governor Frank Barrett.

The Eisenhower years were a period of decline for organized labor. The US experienced three recessions after the Korean War, with short-lived periods of employment growth snuffing themselves out in 1953, 1957, 1959, and 1960. Observers described the performance of the US economy during the decade as one in which "expansion is habitually aborted in the womb," "an economy on the verge of recession, relieved briefly from time to time by weak booms that soon flicker out."[17] The stimulus of war production for Korea and the devices of the Defense Production Act rapidly expanded employment, but the boom in employment lasted only for the duration of hostilities. Between the second quarter of 1953 and the second quarter of 1954, federal expenditures declined by $10 billion. (Federal expenditures for FY1953 amounted to $74.3 billion.)[18] By October 1953, a rise in unemployment was indisputable. The reduction in military orders hit the durable goods and metals industries with particular acuteness; in spring 1954, United Steelworkers' President David McDonald reported that 16 percent of the union's 1.1 million members were out of work. Nationally, the unemployment rate peaked in March 1954 at 5.8 percent or 3.7 million workers.[19]

By November of 1954, the Republicans lost party control of both houses of Congress. The unemployment rate dipped below 4 percent for only 6 of the next 36 months. In each of

[17] Shonfield, p. 16. George Hildebrand, "Wage Policy and Business Activity," in *Annual Proceedings of the Industrial Relations Research Association* (IRRA: 1958), p. 182.

[18] Herbert Stein, *Fiscal Revolution in America*, p. 292. *Annual Report of the Treasury for FY 1954* (GPO: 1954), p. 5-7.

[19] David Stebenne, *Arthur Goldberg*, p. 116. For union membership totals see the self-reported figures published in the Department of Labor, *Directory of Labor Unions* 1953 and 1955. H. Stein reports "In the 1954 recession there was one month of 6.0 percent [unemployment], one month of 6.1 percent, and none higher." It is unclear what authority Stein cites. Stein, *Fiscal Revolution*, p. 305-6.

the three elections of 1954, 1956, and 1958, the Democrats would expand their majorities in both houses of the Congress. At the peak of the boom in the summer of 1955, the unemployment rate remained above 6 percent in 31 of the 149 metropolitan regions with a population more than 100,000 regularly surveyed by the Bureau of Labor Statistics. In seven regions it was above 12 percent. In the City of Lawrence, Massachusetts—population 80,000—the unemployment rate was 22.6 percent. In Duluth, Minnesota—population 140,000—the unemployment rate was 12.5 percent. Nearly one in ten workers in Providence, Rhode Island—population 248,000—was unable to find work. Many cities and regions did not recover from the demobilization recession of 1953-4: of the 150 metropolitan regions regularly surveyed by the Department of Labor, about one in five experienced unemployment above 6 percent in 1955.[20] The farm population fell from over 25 million in 1946 to under 19 million in 1956, from 18 to 11.2 percent of the national population, as the USDA strategy of decreasing price supports without offsetting farm-income subsidies, solidified by the rejection of the Brannan Plan, squeezed small and marginal farms into insolvency.[21] This produced dwindling-cum-ghost towns qualitatively different from those that marked the mining districts of the West that were established in the nineteenth century. "The chronic and distressed area of 1955 is not a remote and unimportant geographical outpost," reported the CIO Department of Education and Research. "At its center is an established community of

[20] Congress of Industrial Organizations, Department of Education and Research, *The Distressed Area: A National Problem*, reprinted in US Senate, Subcommittee on Labor of the Committee on Labor and Public Welfare, *Area Redevelopment Hearings* (S. 2663), 84th Congress, 2nd Session (GPO: 1956), pp. 50-64.

[21] Historical Statistics of the US, K 1-16, p. 457.

homes, churches, schools, hospitals, commercial structures, waterworks, and all the other facilities essential to modern urban living." The problems of workers and their families facing unemployment in these towns, the CIO continued, could not be solved "by simply telling people to pack up and go…a mass population exodus just cannot occur."[22]

Deindustrialization sits near the center of any economic history of the US during the second half of the twentieth century. But whereas histories of capital flight have traditionally placed their focus on particular industries such as textiles or steel or on individual cities such as Detroit or Pittsburgh, the global phenomenon was rooted in the new capacities of national welfare states to raise labor income and employment—and in the mobility of private capital to flee these new social obligations imposed by the postwar governments.[23] Maintaining profitability in national economies subject to the pressure of rising wages was a defining problem of national politics in this era of the history of capitalism. European governments had confronted this problem at first as inadequate export earnings needed defend their exchange rates and to import capital goods—machinery and equipment—from the one country left unscathed by the war, the US. In 1948, during the currency crisis that precipitated the Marshall Plan, the British Labour Party had announced a national "wage freeze" at the instigation of Chancellor of the Exchequer Stafford Cripps.[24] In France,

[22] CIO, "The Distressed Area: A National Problem," *supra*, n19, p. 54.

[23] Thomas Sugrue, "'Forget about Your Inalienable Right to Work': Deindustrialization and its Discontents at Ford, 1950-1953," *International Labor and Working-Class History* (Fall, 1995), p. 112-130. *Understanding American Economic Decline*, eds. Michael A. Bernstein and David E. Adler (Cambridge: 1994).

[24] John Sheahan, *Wage-Price Guideposts* (), pp. 106-7. Leo Panitch, *Social Democacy & Industrial Militancy: The Labour Party, the Trade Unions and Incomes Policy, 1945-1974* (Cambridge: 1976), pp. 20-2. Milward, *Reconstruction*, pp. 265-8. James, *International Monetary Cooperation*, p. 95.

Austria, the Netherlands and Germany, price controls were authorized and organized labor pursued a national strategy of opposing wage increases. Facing their own currency shortage after the devaluations of 1949, the Dutch government negotiated a 5 percent wage reduction with its national labor federation as part of an export-raising program.[25] In 1953, the French government similarly negotiated a voluntary wage freeze with organized labor as part of its stabilization program that accompanied the inflationary boom of US military spending for the war in Korea.[26]

The US was not immune from these trends, and, as previous chapters have shown, the CEA under both Edwin Nourse and Leon Keyserling privately considered the development of national wage policy in which collective bargaining settlements would be guided by federal standards. The problems of profitability that confronted European governments, however, manifested in the US during the 1950s not as a constraint on importing foreign goods but rather as a migration of industrial firms within the nation. Private capital fled those regions where organized labor had gained political power during the Depression and war. The largest source of industrial migration, that of the textile industry, saw the movement of

[25] Sheahan, *The Wage-Price Guideposts*, pp. 96-122. "Austrian Currency Reform and Wage-Price Stabilization," *Monthly Labor Review* (July 1948), pp. 45-7. P. de. Wolff, "The OECD—Contribution to the Development of Incomes Policy as an Economic-Policy Instrument of Central Governments," *Review of Social Economy* (September 1966), p. 132-156. Hugh C. Reichard, Labor Attaché to the American Embassy in the Hague, wrote to Henry Reuss that "it is easier to visualize Dutch wage and labor relations policy if one begins with the fact that during the war and German occupation the class struggle idea appears to have been abandoned in favor of cooperation between employers and workers, in the same spirit that Dutch labor leaders and employers found themselves able to discuss questions of mutual interest together secretly during that period." Reichard to Reuss, November 26, 1958. Box 33, Folder 9, Reuss papers.

[2626] Sheahan, *The Wage-Price Guideposts,* op cit., and "Problems and Possibilities of Industrial Price Control: Postwar French Experience," *American Economic Review* (Jun. 1961), pp. 345-359.

production from the Northeast and Great Lakes regions toward the non-union states of the South. Nor was heavy industry immune from the effects of wage pressure. As Treasury Secretary George Humphrey noted during steel wage negotiations in 1954, "labor must be competitive in the face of the fact that for the first time in twenty years Europe could now compete with the US particularly by virtue of cheap labor."[27] As the historian Thomas Sugrue has demonstrated, the deindustrialization of Detroit that is typically imagined as beginning after the riots of 1967 in reality began during the late 1940s and accelerated over the next decade. The great upheaval at the end of the 1960s was its product, rather than its cause.[28]

This experience of stagnation and the geographic restructuring of US manufacturing presented the Eisenhower administration with an intractable problem. Within the Congress, representatives from districts in New England, the Mid Atlantic, and along the Great Lakes where manufacturing employment was heaviest pushed for an expansion of government spending to raise employment. To the opponents of the Fair Deal in Congress and the White House, however, rising prices proved a more threatening economic and political problem—one exacerbated by government spending. During World War II and the Korean War, enlarged federal budgets had been accompanied by a vast planning apparatus that they had pledged to dismantle—above all, price control. As Robert Taft wrote to the new President in

[27] Cabinet minutes, June 24,1954, Eisenhower Presidential Library.

[28] Thomas Sugrue, "'Forget about Your Inalienable Right to Work': Deindustrialization and its Discontents at Ford, 1950-1953," *International Labor and Working-Class History* (Fall, 1995), p. 112-130. *The Origins of the Urban Crisis* (1996).

January 1953, "In recent years the people have come to feel that price control is part of the ordinary operation of a free economy, and that belief is very dangerous to continued liberty."[29] In early 1953, even the CED had endorsed a proposal in the Congress for permanent standby authority to freeze prices, though CED spokesman and Cincinnati department-store executive Fred Lazarus told the Congress the group opposed the idea of continuous controls.[30] As Herbert Stein, an economist on the staff of the CED department of research during the 1950s, later wrote, a "problem which was to become more and more worrisome" during the 1950s and 1960s was "the possibility that with a very low level of unemployment, and especially if the government were committee to maintain it, uncontrolled wage and price determination might lead to continuous inflation."[31]

In the recovery from the post-Korean War recession, many politicians feared that rising prices once again threatened the continuation of this apparatus. After a year of stability in prices during the recovery, during 1956 the CPI increased 3 percent (3.4 index points) and the WPI 3.9 percent (4.4 index points).[32] As an alternative stabilization program to the price and selective credit controls of the Roosevelt and Truman administrations, the Eisenhower administration reduced spending, raised a tax surplus, and relied on the Federal Reserve to restrain credit. In December 1954, the Federal Reserve System reduced its bond purchases

[29] Taft to Eisenhower in H. Scott Gordon, "The Eisenhower Administration: The Doctrine of Shared Responsibility," in *Exhortation and Controls*, ed. Craufurd D. Goodwin (Brookings, 1975), p. 110.

[30] "Stand-By Controls Approved by CIO," *New York Times*, March 14, 1953, p. 31.

[31] Herbert Stein, *Fiscal Revolution*, p. 200.

[32] US Department of Labor, Bureau of Labor Statistics, *Monthly Labor Review*, "Current Labor Statistics," various issues. See also Harold Wolozin, "An Analysis of the Price Situation at Mid-1957," *Monthly Labor Review*, Vol. 8, No. 8, pp. 949-954.

and in summer of 1955 began to sell back its securities holdings to commercial banks, "tightening" bank reserves and restricting credit. In April 1955 the central bank raised its discount rate ¼ of one percent and by August another ½ of one percent, to 2 ¼ percent.[33] The Treasury also aimed for budget surpluses in FY 1956 and FY 1957.[34] In spite of these moves towards fiscal and monetary contraction, rising prices emerged in the second year of the expansion.

As recession gave way to growth and rising prices returned, it was clear to the conservatives in the White House that some public discretion over private business would be necessary if the nation was to preserve domestic price stability. In January 1957, the Eisenhower administration requested "cooperative effort" among organized labor and employers to restrain wage and price increases. "The full burden of avoiding price inflation," the CEA wrote that year, "which is an ever present hazard in an expanding economy operating close to capacity, cannot be successfully carried by fiscal and monetary restraints alone." The President remained publicly committed to an annually balanced budget for FY 1958, but his CEA noted that relying on the federal budget and credit policies for stabilization "would raise serious obstacles to the maintenance of economic growth and

[33] *The Economic Report of the President for 1956* (GPO: 1956), pp. 29-35. Part of the trouble lay in the expiration of consumer credit controls: despite rising interest rates, installment debt ballooned by $2 billion during the second quarter of 1955 as the auto companies unveiled their heavily marketed and elaborately decorated new models. "Britain, Denmark, and Sweden have found it necessary to take such steps in fighting long-run inflation that would not yet command very much political support within the United States," Sumner Slichter explained to the CED research director. "Within the last year both Denmark and Britain have placed restrictions on consumer credit. Congress is apparently unwilling to give the Federal Reserve authority in this matter." Slichter to Myers, November 28, 1955, Box 2, Folder "Committee of Economic Development," Sumner Slichter Papers, Harvard.

[34] H. Stein, *Fiscal Revolution*, pp. 309-18.

stability"—in short, that anti-inflation policy that relied on the indirect guidance of fiscal and monetary policy would provoke a recession.[35] Delivering his budget message that month, the President clarified that "business and labor leaders must earnestly cooperate—or what Government can do in a free society like this will *not* prevent inflation."[36] These warnings piqued business nerves in February 1957, when the President again urged business and labor leaders to exercise restraint "as enlightened Americans" and warned that "unless this [voluntary restraint] happens, the United States then has to move in more firmly with so-called controls of some kind; and when we begin to control prices and allocations and wages, and all the rest, then it is not the America we know."[37]

As production orders fell, a general recession in production and employment began in summer of 1957. The downturn that marked Eisenhower's second term flummoxed both Treasury and CEA and provoked an intense debate within the Congress over the apparent tendencies of the nation's business system and the appropriate federal response. During the course of 1957, as the nation's orders for the nation's industrial manufacturers fell off, unemployment nationally began to rise, gradually in March before steepening during the autumn and winter. By the beginning of 1958, there were 300,000 unemployed in the auto

[35] *Economic Report of the President for 1957* (GPO: 1957), pp. 3 and 44.

[36] Quoted in Stein, *Fiscal Revolution*, p. 314.

[37] "Eisenhower Asserts Inflation May Result in Economic Control," *Baltimore Sun*, February 7, 1957, p. 1. "Eisenhower Warns of US Controls," *Los Angeles Times*, p. 1. "Eisenhower in Warning on Controls," *New York Herald Tribune*, February 7, 1957, p. 1. "Eisenhower Warns of Price Controls to Stem Inflation," *New York Times*, February 7, 1957, p. 1. Brent Spence of the House Banking Committee explained that the Congress was unlikely to grant authority: "Why, we caught hell for doing it even in wartime." "Eisenhower Again Raises Possibility of Controls Over Prices and Wages But Aides Say No Action Pends Now," *Wall Street Journal*, February 7, 1957, p. 2.

industry. In steel, the number of layoffs that summer was 110,000 with another 350,000 working reduced hours.[38] President Eisenhower described the situation in military terms as a "temporary emergency internally."[39] The number of jobless increased throughout that year, peaking at 5.4 million workers (7.7 percent) in summer 1958.[40]

But even as production and employment declined, the CPI rose another 3.1 precent during calendar 1957. In May and December 1957, Texas Congressman Wright Patman of the Joint Economic Committee in Congress held hearings on "The Relationship of Prices to Economic Stability and Growth." There, the committee received statements from 47 economists on the reason for the unusual economic behavior of the recession then underway. As Harvard Economist Otto Eckstein testified, "the degree to which prices fall [in recessions after World War II] appears to be diminishing in the American economy." "The causes for this change in price behavior are well known," Eckstein explained. "They are the wider prevalence of administered prices, the preference of American business for cutting output rather than price, the downward rigidity of wages enforced by unions and the prompt fiscal and monetary actions by government which are designed to minimize downward disturbances."[41]

It was in this context that new proposals for federal oversight of pricing of large corporate manufacturers returned to Congressional debate. Rising interest rates had reduced

[38] Lichtenstein, *Reuther,* p. 295. Stebenne, *Goldberg*, p. 225.

[39] Quoted in H. Stein, p. 342.

[40] *Monthly Labor Review* (January 1959), p. 79.

[41] Eckstein, "Inflation, The Wage-Price Spiral and Economic Growth," in *The Relationship of Prices to Economic Stability and Growth* (GPO: 1958), p. 363.

housing construction and small business lending in particular, and the House Committee on Banking and Currency had held hearings in 1956 to challenge the Federal Reserve policy. As Committee Chairman Brent Spence wrote that year to first-term Congressman Henry Reuss of Wisconsin, the "anomalous situation which now exists, in which we are faced with tight money and rises prices at one and the same time" was cause for "concern."[42] When rising prices continued in 1957 amid the general downturn, the latent New Deal Congressional coalition of Northern labor districts and Southern, anti-monopoly politicians reverted to their natural political targets: large corporate manufacturers and raw-materials processors. House Democrats called for hearings to investigate price increases in the oil and gas industry that followed the closing of the Suez Canal, prefiguring the oil politics that would dominate the inflationary period after 1973. President Eisenhower himself urged that "business and labor must discharge their responsibilities and exercise their authority in conformity with the needs of the United States" and that "unless this happens, [the] United States then has to move in more firmly with so-called controls of some kind."[43] Former TNEC chairman Senator Joseph O'Mahoney, re-elected to Wyoming's other Senate seat in 1954, had throughout 1955 and

[42] Henry Reuss to Brent Spence, September 12, 1956. Spence to Reuss, September 19, 1956. Box 24, Folder 12, Reuss papers.

[43] Reuss to Howard Smith, January 25, 1957. The House Resolution to begin oil and gas hearings was bottled up in the rules committee. Box 24, Folder 12, Reuss Papers. "Eisenhower Asserts Inflation May Result in Controls," *Baltimore Sun*, February 7, 1957, p. 1; "Eisenhower Warns of U.S. Controls," *Los Angeles Times*, February 7, 1957, p. 1; "Eisenhower in Warning on Controls," *New York Herald Tribune*, February 7, 1957, p. 1; "Eisenhower Warns of Price Controls to Stem Inflation," *New York Times*, February 7, 1957, p. 1; "Eisenhower Again Raises Possibility of Controls," February 7, 1957, p. 2; Dwight D. Eisenhower, The President's News Conference Online by Gerhard Peters and John T. Woolley, The American Presidency Project https://www.presidency.ucsb.edu/node/234089. Eisenhower's remarks were prompted by a reporters' question on oil profits following the nationalization of the Suez canal by the Egyptian government. Meg Jacobs, *Panic at the Pump*.

1956 interrogated auto company executives over their profit margins and demanding they cut prices.[44] In 1957, O'Mahoney called for price controls in the oil industry and publicly asked the Federal Trade Commission (FTC) to investigate price increases in the meat packing and chain-retail industries.[45] He also introduced legislation to require firms controlling large shares of their product markets "to publicly report and justify all price increases before they are put into effect."[46] In preparation for collective bargaining during the 1958 expiration of contracts with the auto industry, Walter Reuther called for the companies to cut the prices of their new models.[47]

The most dramatic hearings were those of Tennessee Senator Estes Kefauver into the price increases of the steel industry. Speaking before the Kefauver Committee, Gardner Means presented the components of the Wholesale Price Index demonstrating that the largest price increases originated in markets where a small number of firms controlled the largest volume of sales—petroleum, rubber, aluminum, steel, autos, and meat packing. In competitive markets—agriculture, textiles—prices had actually fallen. Edwin Nourse blamed rising prices on "union bargaining and corporation price administration." John Kenneth Galbraith described the problem as unavoidable and remediable only by public oversight. "A

[44] "GM's Curtice, Sen. O'Mahoney Fight Draw," *Washington Post*, December 9, 1955, p. 32. "Political Economics," *Wall Street Journal*, April 30, 1956, p. 10.

[45] . "Eisenhower Asserts Inflation May Result in Controls," *Baltimore Sun*, February 7, 1957, p. 1; "Threatens US Controls for Oil Industry," *Chicago Tribune*, February 14, 1957, p. 11; "O'Mahoney Urges FTC Packer Rule," *Washington Post*, September 6, 1957, p. D6.

[46] "Hearing is Asked to Get Industry Price Rein Held for Public Good," *Washington Post*, July 13, 1957, p. A2.

[47] Samir Sonti, "'What Happened to the Antitrust Movement?': The Kefauver Committee and the Anti-Monopoly Politics of Inflation," unpublished paper in author's possession.

large part of price administration is inherent in the capitalist system," the former OPA official said. "The problem is to understand and to live with it" by influencing the centers of discretionary corporate power. All three economists rebuffed the idea that price competition in the large-corporation sector could be restored.[48]

The recession of 1957-8 also renewed calls for fiscal expansion that had emitted from the depressed areas debate of the previous two years. In the Congress, Senators Hubert Humphrey, Albert Gore, and Pat McNamara lead the charge in January and February 1958 accusing the administration of a "planned" recession in its commitment to balancing the budget.[49] In March, Senate Majority Leader Lyndon Johnson led the Senate in passing a resolution urging the administration to accelerate appropriated spending. Gone were the President's warnings of controls: in response to spending demands, Eisenhower now urged against "extend[ing] public domination over private activity."[50] When spending measures failed, the legislative initiative passed to Senator Paul Douglas, who had, since the rise in unemployment began, repeatedly proposed tax reduction as the most expeditious method of stimulating employment. Already, the AFL-CIO had endorsed such a tax-cut as "probably the most important single weapon" the administration had as counter-cyclical policy. In both March and June, Douglas brought amendments cutting taxes on personal incomes to the Senate floor—both were defeated.[51]

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[48] "'Administered' Prices," *New York Times*, July 8, 1957, p. 42. "Probe Hears Economist on Inflation," *Baltimore Sun*, July 12, 1957, p. 2. "American Economy," *Washington Post*, July 13, 1957.

[49] Sundquist, p. 21.

[50] Sundquist, p. 24.

[51] In March 1958, John Sparkman of Alabama introduced legislation to expand home lending by $1 billion; the law passed and the President reluctantly signed it in April. Sundquist, p. 25. For the budget battle

Wage restraint emerged in the US in the context of this peacetime recession, the worst since the 1930s, when prices continued to rise. As John Maurice Clark, the Progressive Era economist, New Deal adviser, and consultant to the OPA, wrote for CED in January 1958, the "arithmetic of this problem starts with the truism that the total increase in real incomes is limited by increased productivity." If total money incomes increased more than this, either savings or prices would rise. Because real income gains were limited by this increase in economy-wide productivity, the "requirements of a non-inflationary adjustment are clear. If the price level is to remain unchanged, then in the industries in which productivity has increased more than the average, wages and profits must not (except temporarily) increase at more than the average rate. This means that costs will be reduced, and any gains in productivity in excess of the average will go to consumers in reduced prices." These falling prices in the high-productivity sectors would offset the rising prices in those low-productivity sectors where costs rose with the economy-wide average rate of productivity increase. Clark thought it "not very likely" that this arithmetic would be "faithfully reproduced in practice," but saw that "the basic arithmetic of price-level stability is becoming more widely understood." "Reuther's recent proposal to the automobile industry, while not negotiable as it stood," he thought "promising enough, as a recognition of

during the second Eisenhower administration, see Sundquist, pp. 20-28, and Herbert Stein, *Fiscal Revolution*, pp. 319-371.

mutuality, to deserve a response that might help advance the idea a step or two toward conversion into something feasible."[52]

Corporation executives, charged with administering prices at levels above what a more fully employed economy could afford to consume, responded alarmedly to such "recognitions of mutuality." Rising union-contract costs carried greater responsibility, they insisted, for the economic disfiguration of the inflationary downturn. Within the CED, debate over the proper anti-inflation strategy revealed the depth of this concern. As the organizations' Subcommittee on Inflation, chaired by Sears, Roebuck vice chairman Theodore V. Houser, reported in May 1958, "We reject government controls of prices and wages, in peacetime, to restrain inflation." The subcommittee advised as a guideline for wage increases that "Average wage rates (including fringe benefits as well as cash wages) should rise as fast — but not faster — than the rise of output per man-hour for the economy as a whole." Since 1900, this measured just over 2 percent a year, and since World War II close to 3 percent a year. The guideline was for the entire labor market, not particular industries, and the subcommittee urged that "labor and capital should both share the benefits of increased productivity, that is, wages should rise in proportion to the average gain in productivity, but should not absorb the whole gain." If wages conformed to this standard, and if prices remained stable, they argued, then "Average profits per unit of output would be roughly constant."[53] The trouble for the CED, as Truman's CEA had learned before Korea, was that

[52] Clark, "On Economic Problems of the Next Twenty Years," in *Problems of US Economic Development* (CED: 1958), pp. 129-135.

[53] CED, *Defense Against Inflation* (1958).

wages in the US were not negotiated for the entire labor market but rather by industry and firm-specific union contracts.

Such a recognition of mutual claims to the income created by productivity increases were deeply divisive. Within the CED's inflation committee, members Allan Sproul of the New York Federal Reserve, William C. Foster of the Olin Mathieson Chemical Corporation, and Philip D. Reed of General Electric repeatedly objected to the idea of a guideline for profits. "The principles set forth [by wage-profit-productivity guides] do not provide a practical guide to economic action," Sproul wrote. "Nor can I place much confidence in the voluntary exercise of restraint…where arbitrary power exists." The solution, these men insisted, was the application of antitrust laws to organized labor. "The main problem is in the field of labor," the three businessmen wrote, "where there is no law and not even a public philosophy or policy for the limitation of economic power." Former Connecticut Senator William Benton, an ex-advertising executive, university administrator, and founder of CED, objected strongly to this language. "Regretfully I disassociate myself" from the subcommittee's proposals, he wrote. "[M]any distinguished economists feel the business community is today putting excessive emphasis on so-called labor monopoly as the whipping boy for inflation….I fear that the statement read by itself seems to elevate stability of prices over the national objectives of high employment and rapid economic growth. Some may feel that it is a rationalization for a position widely held in the business community — that we must have occasional unemployment and recession, including a receding or non-existent rate

of economic progress, because it is necessary for stability of prices. This seems to me a dangerous position…"[54]

Nevertheless, Benton's enlightened perspective remained a minority view among businessmen. During the 1958 midterm elections, labor opponents in six states ran campaigns for state ballot measures to restrict collective bargaining rights in the form of so-called "right to work" laws.[55] The political assault in the states was part of a broader anti-labor employers offensive that began during the recession in the form of new employer-side collective bargaining strategies. These emphasized employer-sponsored propaganda campaigns in company towns, pioneered by GE, in which company offers were announced early and unchanged, and in which employers planned to take strikes across the manufacturing industry.[56] Newspaper editors' scandalized response to the Kefauver hearings revealed the ubiquity of the anti-labor sentiment among the liberal intelligentsia. "Proposal to Revive Issue Studied Nearly 20 Years Ago," wrote the exasperated editors of the *New York Times*. The cause of rising prices, the editors advised, was not the "villain" of large corporations but rather "wage inflation," which "could be called, quite as appropriately, 'administered wages' or 'administered labor prices.'"[57]

[54] Benton statement, p. 16. CED *Defense Against Inflation* (1958).

[55] Elizabeth Tandy Shermer, "'Is Freedom of the Individual Un-American?,' Right-to-Work Campaigns and Anti-Union Conservatism, 1943-1958," in *The Right and Labor: Politics, Ideology, and Imagination*, eds. Nelson Lichtenstein and Elizabeth Tandy Shermer (University of Pennsylvania, 2012).

[56] For the employer offensive, see literature on "Boulware-ism" in David Stebenne, *Arthur Goldberg*; Kim Phillips-Fein, *Invisible Hands*.

[57] "'Administered' Prices: An Analysis of Proposal to Revive Issue Studied Nearly 20 Years Ago," *New York Times*, July 8, 1957, p. 42;

The US employer offensive of the 1950s and the general failure of voluntary wage restraint came to a climacteric eruption in the steel strike of July 1959. Lasting 116 days, the industry had bargained for contract language allowing it to reduce machine crews and greatly lower labor costs. Though the decline in production reversed in April 1958, employment did not rise proportionally: the number of jobless remained above 4 million—5.9 percent of the civilian labor force—through September 1958, before increasing to a peak of 4.7 million in January and February of 1959.[58] Thus the steelworkers' union executed the 1959 strike in a labor market with considerable slack, but nevertheless managed to stop production for sixteen and a half weeks. In July 1959, the Federal Reserve Board index of national industrial production fell off again for six months as the strike shuddered metals production. In the final weeks of negotiations, the national unemployment rate had begun to rise again to plateau around 4 million, where it would remain until 1962. Throughout this stagnation in the labor market, prices did not fall. The CPI advanced one index point each year between 1958-60, or about 0.8 percent.

This employer offensive is usually interpreted as evidence of the general political weakness of organized labor in the US. The apparent absence of greater government intervention in the dispute is one reason social scientists have classified the US political economy as one guided by a voluntary, liberal, or associational variety of interest group politics. But as historians Gabriel Winant, Samir Sonti, and Kit Smemo have shown, the

[58] *Monthly Labor Review* (March 1959). Sundquist reports that "Unemployment dropped seasonally in the fall but, when adjusted for seasonal variation, remained above 7 percent through October," Sundquist, *Politics and Policy*, p. 28.

strike was only resolved after pressure by the Eisenhower administration compelled the company to agree to keep union work rules without raising steel prices.[59] The President's CEA chairman Raymond Saulnier indicated the administration's concerned attention to unrestrained private pricing in the months before the strike, writing to Republican Congressman Thomas B. Curtis of Missouri that high prices in capital goods prevented production from expanding to the levels available by existing manufacturing capacity. "I believe we would have been better off if we had avoided the price increases that occurred [between 1953 and 1957] notably in the heavy industries and in those producing automobiles and other consumer durables," Saulnier wrote. "In my judgement these price increases were a major factor in limiting demand and thereby restraining output."[60]

In the months before the steel strike, Senator O'Mahoney had re-introduced legislation in the Senate Judiciary Committee requiring firms in "concentrated" industries to given advance notification and justification of price increases to the FTC.[61] In April, the House Subcommittee on Government Operations reported a similar bill authored by Congressman Henry Reuss to empower the President to hold hearings on price or wage decisions that "threaten national economic stability."[62] Senator Joseph Clark of Pennsylvania co-sponsored the bill in the upper chamber. In late July, nearly two weeks after the strike

[59] Kristopher Smemo, Samir Sonti, and Gabriel Winant, "Conflict and Consensus: The Steel Strike of 1959 and the Anatomy of the New Deal Order," *Critical Historical Studies* (Spring 2017).

[60] "Price Rises Blamed for Output Lag," *Washington Post*, March 10, 1959, p. A15. Cf *Exhortation and Controls*, ed. Goodwin, pp. 114-5.

[61] "O'Mahoney Seeks Law to Require Price Hike Filing," *Wall Street Journal*, December 16, 1958, p 8. "Controls Urged to Curb Inflation," *New York Times*, May 12, 1959, p. 19.

[62] "First Step Taken on Wage-Price Bill," *Washington Post*, April 14, 1959, p. B8. Box 33, Folder 10, Reuss papers. The Reuss-Clark bill remained bottled in the Rules Committee of the House.

began, the special counsel to the President wrote to Clark that "the Administration does not believe such legislation would be in the public interest."[63] By October 1959, during the strike's thirteenth week, Labor Secretary James Mitchell publicly endorsed giving a statutory basis to future fact-finding boards such as that created by the President in the steel dispute. Reuss was "happy to welcome Secretary Mitchell, even as a late arrival, to the ranks of those who [sought] to introduce the element of public participation into the making of these important private decisions of wages and prices."[64] In early 1960, Reuss again proposed legislation to require "fact-finding hearings on price increases in major concentrated industries."[65]

The Eisenhower administration could tolerate 7 percent unemployment on the grounds of fighting inflation, opposing political pressure for fiscal expansion in Congressional initiatives for either expanded government spending or tax reduction. But the Eisenhower administration and the Republican Party suffered from the elections of 1958 and 1960 in a way that belies this simple explanation for US patterns of political economy. Washington, moreover, was just beginning to confront a new kind of problem that would blunt the traditional forms of stimulus in the form of fiscal policy, just as the extended labor-market recession had blunted traditional fiscal-monetary tools for regulating inflation. This new problem was a run on the dollar.

[63] David W. Kendall to Senator Clark, July 27, 1959. Box 33, Folder 10, Reuss papers.

[64] "Reuss Welcomes Labor Secretary's Support for Principles of the Clark-Reuss Bill," October 26, 1959. Box 33, Folder 10, Reuss papers.

[65] Reuss to Lee Metcalf, February 9, 1960, Box 33, Folder 10 Reuss papers.

Expanding Production and Balancing Payments

Until the New Years' holiday of 1958-9, the Eisenhower administration's concern over the value of the dollar was entirely domestic. Though the sum of the country's foreign payments in military procurement, salaries, foreign aid, and private corporate investment had exceeded its export earnings in every year but two since 1950, this annual deficit in the balance of payments had been widely interpreted as a necessary adjustment to a world in reconstruction from World War II.[66] During the war, the US had come into possession of over two-thirds of the world's monetary gold, and the OEEC interpreted the accumulation of gold-backed dollar balances outside the US during the 1950s as "a beneficial and necessary redistribution of world reserves."[67] For European governments, securing dollar earnings required more than wage restraint to raise exports. For London and Paris, whose corporations held dollar-earning investments in Africa and Asia and whose foreign offices and central banks controlled the foreign exchange of colonial governments, the imperative of raising dollar balances intensified the colonial relationships developed with over the preceding century. As we have seen in Chapter 2, the Marshall Plan envisaged European colonies earning dollars through raw material exports to the US and depositing those dollars with colonial authorities in Paris and London.[68] As the planned and semi-planned economies of

[66] The two years were 1951 and 1957. Hal B. Lary, "Sketch of the Balance of Payments Since the War," in *Problems of the United States as World Trader and Banker* (NBER: 1963), p. 13.

[67] Quoted in Solomon, p. 28.

[68] See also Robert E. Wood, *From Marshall Plan to Debt Crisis: Foreign Aid and Development Choices in the World Economic* (UCLA: 1986).

Western Europe successfully grew in the decade after World War II, they accumulated substantial dollar balances. The annual gold and currency outflow declined in 1955 ($741 million) and 1956 ($261) from the high levels of 1953 ($2.1 billion) and 1954 ($1.5 billion).[69]

Securing colonial possessions required government spending, primarily for military purposes to defend colonial governments. Military-led economic expansion threatened both the wage-restraint regimes and the international payments system established during the Marshall Plan. By 1956, old colonial ties had come under repeated strain in both the former British protectorate of Egypt, where Gamal Abdel Nasser seized and nationalized the Suez Canal from its British owners, and in France, where the national liberation movements of Algeria and Indochina were successfully escalating a guerrilla war for independence. The Suez crisis instigated a run on the pound in the autumn and winter of 1956, and the Conservative Eden government was compelled to borrow $561.5 million from the IMF (of a total $738.5 authorized) to finance purchases of its own currency to maintain official exchange rates.[70] Already, in 1954 at Dien Bien Phu in Vietnam, the French military had been compelled to surrender to the nationalist army of the Viet minh. When the French government accelerated military spending for the occupation of Algeria during 1956, panic gripped currency traders as investors liquidated their franc holdings. The Socialist Mollet government attempted to manage the effect of military spending through an initial price

[69] Hal B. Lary, "Sketch of the Balance of Payments Since the War," in *Problems of the United States as World Trader and Banker* (NBER: 1963), p. 13.

[70] Harold James, *International Monetary Cooperation Since Bretton Woods*, pp. 102-3.

freeze and extensive use of controls, but these proved politically untenable. In 1957, the government fell. Only after De Gaulle dramatically cut government spending, devalued the Franc 29 percent, and took a series of emergency loans from the European Payments Union ($250 million), the US Export-Import Bank ($274 million), and the IMF ($131) did the currency price stabilize in foreign exchange markets.[71]

The next year, during the weekend after Christmas 1958, those remaining OEEC countries which continued to ration foreign currency or restrict transactions of their currencies into foreign exchange lifted remaining controls.[72] The trend in capital flows immediately and violently reversed as European governments began allowing currency conversions and reduced barriers to trade. The US had actually run a $1.1 billion payments surplus in 1957 as European governments sold gold to rebuild their exchange reserves after the currency crises provoked by military intervention in Suez and Algeria. With the shift to European convertibility, however, the US balance-of-payments deficit exploded as speculators exchanged their formerly inconvertible currencies and demanded dollars. From a $1.1 billion surplus in 1957, the US payments position moved to a deficit of $3 billion in 1958, $2.2 billion in 1959, and $3.6 billion in 1960.[73] By 1958, foreign dollar balances had grown by $10 billion in a decade to some $16 billion, while the quantity of US monetary

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[71] James, p. 104-5.

[72] Triffin. “Memorandum From Secretary of the Treasury Anderson to President Eisenhower,” December 30, 1958. FRUS, 1958-60, Foreign Economic Policy, Volume IV. The liberalization of capital controls in Germany in 1957 expanded opportunities for currency trading and foreign investment from the US. Soloman, p. 11 and 23. James, *International Monetary Cooperation since Bretton Woods*.

[73] Eisenhower reported a gold loss in 1959 of $4.3 billion. Gavin, *Gold, Dollars, and Power*.

gold had fallen from some 700 million ounces in 1949 to 586 million ounces in 1959.[74] During the year of the US election, foreign dollar balances amounted to some $23.6 billion, $5 billion more than Treasury's $17.8 billion in monetary gold.[75]

As the gold value of the US dollar came under into question during 1959-60, the British government likewise experienced mounting exchange rate pressure after restoring full currency convertibility in 1958. A run on the pound that accompanied the Conservative Macmillan government's economic expansion in 1959-60 provoked new attention to the problem of rising prices across the North Atlantic for managing the international monetary system. Reserve currency of the Commonwealth nations, the pound sterling was key to the international structure of exchange rates. While the British cabinet resorted to the orthodox solution of raising interest rates and slowing spending in 1961, increasing unemployment, it also responded with its own "wage pause"—a national freeze on wage increases—to slow cost pressures undermining the island's trade position. The pound exchange rate was only defended after the government received a $500 million loan from the IMF, while international organization persuaded the Germans and the Dutch to revalue their currencies by 6 percent.

Thus, in June 1959, as the pound exchange rate came under attack, the Secretary General of the Organization for Economic Cooperation and Development (OECD) appointed a committee of six independent experts under the direction of Milton Gilbert "to study the

[74] $24.5 billion to $20.5 billion at $35 an ounce.

[75] Triffin, *The Evolution of the International Monetary System: Historical Reappraisal and Future Perspectives* (Princeton: 1964), p. 78.

experience of rising prices, in conditions of economic growth and high employment, and the causes of these movements; to review the measures taken by Governments to restrain such rises; [and] to appraise their effectiveness…" In October 1961, twenty-eight months after the OECD resolution, the independent committee issued its report. Per Jacobsen, the chief economist of the IMF, foreshadowed the practical limits of the study in his diary. Discussing long-term solutions to the currency crisis, he wrote, "I explained that the Europeans expected that the Americans would have to do more or less the same things as they had done themselves—including the holding back of wage increases."[76] The OECD report compared the national history of prices and the institutional factors bearing on wage determination in the six member countries from which the experts were drawn: Denmark, Germany, the Netherlands, Sweden, the United Kingdom, and the United States. The committee's majority recommendation was that nations seeking to reconcile full employment and price stability develop "national wage policies" to apprehend the independent rise of labor costs, allowing finer management of their price levels and trade balances than offered by monetary policy alone. Critically, developing such a national wage policy required new mechanisms for governments to regulate labor markets. "To set a norm for the increases of wages," the report advised, "there must be a center of authority in the public services charged with this function and machinery for appropriate consultation with representatives of the broad parties at interest."[77]

[76] Harold James, p. 157.

[77] William Fellner et al., *The Problem of Rising Prices* (Paris, Organization for European Economic Cooperation, 1961). See also Harry M. Douty, "Some Problems of Wage Policy," *Monthly Labor Review*, July

Wage Restraint in America

Thus, the two projects had that motivated the Marshall Plan—the vestigial left-New Deal idea of domestic economic stabilization and the new State Department project of preserving foreign markets for dollar investors—were, by the end of the 1950s, coming into conflict in the US. The orthodox solution to a persistent payments deficit was for a country to deflate its prices to raise exports and raise interest rates to attract capital, with the effect of temporarily depressing investment and production. The Eisenhower administration in fact pursued this orthodoxy throughout 1959-60, citing the nation's shrinking gold stock as a reason to oppose the proposals in the Congress for fiscal expansion. As President Eisenhower later wrote, "Secretary of the Treasury Anderson in particular argued for a balanced budget as a means of strengthening foreign bankers confidence in the dollar."[78] "I felt that a rapid return to a balanced budget would help reassure other nations as to America's ability to pay her debts and lessen their desire to convert their dollars into gold."[79] Arthur Burns, then outside of the administration, wrote in 1959 that "Unless the deficit in our balance of payments is soon brought under better control, our nation's ability to pursue contracyclical policies during a business recession may be seriously hampered."[80] The monetary system the

1962, pp. 736. Aaron Major, *Architects of Austerity: International Finance and the Politics of Growth* (Stanford: 2014), pp. 54-5.

[78] Dwight D. Eisenhower, *Waging Peace, 1956-1961: The White House Years* (Doubleday, 1965), p. 385.

[79] Eisenhower, p. 460.

[80] Burns, "Progress Towards Economic Stability," in *Business Cycle in a Changing World* , p. 127.

European Recovery Program bequeathed to Europe was limiting US independence in domestic stabilization, as speculators exchanged their sterling balances for dollars convertible at the US Treasury for gold. When, in the month before the November 1960 election, a run on the US dollar was threatened by an increase in the price of gold on the London metals market, candidate Kennedy responded with a firm commitment to defending the dollar and not increasing the official Treasury gold price.

President Kennedy, however, could not endure the sustained unemployment that built up during the multiple recessions of the Eisenhower administration. Unlike the DeGaulle government in France, the US could not simply devalue the dollar. Raising the price of gold would help extend existing gold reserves, but the currencies of trading partners were pegged to the value of dollar—a gold devaluation would do nothing to raise export competitiveness. These international considerations brought renewed urgency to the very problem that the remaining New Deal coalition in the Congress had pressed upon the Eisenhower administrant since the downturn in employment began in 1957: how to raise employment without raising the domestic price level. This New Deal and Progressive-Era attention to corporate power in American life converged with the Cold War concern over the value of the managed currencies of the mixed economies of the North Atlantic. It was thus as part of an internationally minded strategy to maintain and strengthen the position of the US dollar within the Cold-War bloc of Western European and East Asian nations that the Kennedy administration devised a program for wage-and-price restraint. It was the need to accelerate expansion for domestic political purposes, combined with the imperative of limiting rising

prices for international monetary and geopolitical strategy, that produced the incomes policy of the Kennedy administration.

The program paired fiscal expansion with government guidelines for private wage-and-price decisions to prevent rising prices. To raise export earnings, the administration would pursue further tariff reduction at home and abroad. Throughout the 1950s, as long as import competition remained in industries of low capital-intensity, the AFL-CIO had been content to support a liberal economic order among the non-Communist market countries.[81] As Kennedy came into office, the labor federation was now the crucial constituency behind the passage of the Trade Expansion Act of 1962. Many economists had long argued according to the theory of comparative advantage that trade liberalization in capital-rich countries—such as the United States—would stimulate heavy industry. Where trade-related unemployment did occur, they argued, it could be mitigated with compensatory "adjustment assistance," easily financed out of the expanding product furnished by more efficient production.[82] As future State Department official Walt Rostow wrote for the Kennedy

[81] Dana Frank writes that in 1961 "a small boomlet of Buy American activities spread across the country." Frank, *Buy American*, pp. 102-128. Quote on p. 118. Ruttenberg thought "what disturbs American unions is that while we have permitted a large import penetration from the labor-intensive industries, like textiles and shoes, we now are beginning to see high import penetration in capita-intensive industries." It was this "shift toward import penetration in capital-intensive industries" that "has really converted the industrial union types in the United States to their present position" of protectionism. Ruttenerg, *Bargaining*, p. 227.

[82] During the Eisenhower administration, Howard C. Petersen, a member of the Committee for Economic Development (CED), began to question the desirability of an economic growth that depended on ever-greater levels of taxation and public intervention in the private economy. Petersen was among one of many CED members who saw the economic promise of tariff reductions and a growing volume of foreign trade; during the Kennedy Administration, he would be tasked with steering the 1962 Trade Expansion Act through the Congress. Petersen in Collins, *More*, p. 47 (misspelled as "Peterson"). Others included Walter Salant, who authored reports on the balance of payments crisis and trade adjustment assistance for the Brookings Institution, and who had been one of the original Keynesians at Harvard during the New Deal. Walter Salant in David C. Colander, *The Coming of Keynesianism to America* (Cheltenham:

campaign during the 1960 election, "a distinction in historical phase [was] now mainly responsible for the embarrassment of the American balance of payments." Western Europe, Japan, and the Soviet Union could still reap large productivity gains through continuing industrialization, Rostow argued, but this process was largely complete in the United States. If the situation was to be remedied, federal spending on research and development would have to rise to increase national productivity rates to ensure strong payments position.

Growth could, it was hoped, be achieved without threatening the international position of the dollar and without federal price control. To ensure that domestic costs did not rise in excess of productivity, Rostow wrote, the nation would have to devise new institutions to overcome its "inflation problem." The "heart" of that problem was that "as a society, we have no agreed norm for wage and price policy." This thesis was widely perceived. "It is an illusion to believe that under prevailing conditions…balance in a national economy can be restored merely by overall monetary and financial controls as in old times," wrote the Swedish economist Gunnar Myrdal. A "trend to rising costs and prices may easily prevail, even while a general contraction, induced by such overall [fiscal-monetary] controls, is taking place." Myrdal saw no solution save "education and more democracy" to persuade workers and employers to restrain their income claims to within the limits of national

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Edward Elgar, 1996), pp. 119-130. Walter Salant, *Import Liberalization and Employment Effects of Unilateral Reductions in United States Import Barriers* (Washington: Brookings Institution, 1961).

Paul Samuelson's 1941 paper, "Protection and Real Wages," authored with his Harvard colleague Wolfgang Stolper was one of the first to argue that workers in U.S. heavy industry would be harmed by tariff increases and benefited from their reduction. Wolfgang F. Stolper and Paul A. Samuelson, "Protection and Real Wages," *The Review of Economic Studies*, v. 9, no.1 (Nov., 1941), pp. 58-73. In 1953, however, Wassily Leontief empirically disproved the claim that the US exports were primarily capital-intensive goods. Wassily Leontief, "Domestic Production and Foreign Trade," *Proceedings of the American Philosophical Society*, Vol. 97, No. 4 (Sep. 28, 1953), pp. 332-349

productivity, for the alternative was "a type of particularly obnoxious direct state intervention."[83] In a pre-inauguration memo to the President-elect, Paul Samuelson, Kennedy's initial choice for the CEA chairman, explained that "Just as we pioneered in the 1920s in creating potent monetary mechanisms and in the 1930s in forging the tools of effective fiscal policy, so may it be necessary in the 1960s to meet head on the problem of a price creep."[84] "In essential ways the wage-price spiral was beyond the reach of fiscal and monetary policy," Kennedy confidant Arthur Schlesinger remembered in his history of the Kennedy administration, published in 1965. That fact revealed how "new institutions assuring a greater public role in wage-price settlements, might be a desirable later step."[85]

After the 1960 election, President Kennedy appointed the lead attorney of the steelworkers' union (USW), Arthur Goldberg, as Secretary of Labor. In the US, an incipient forum for discussions of wage policy had been established after the 1959 steel strike in the labor contract between the steelworkers and the Kaiser Steel Corporation. The agreement provided a standing tripartite committee to develop a long-range plan for the company and the industry—and to avoid the impasses over wage and price decisions that had fueled acrimony of the bargaining rounds of the late 1950s and shut down steel production in 1952,

[83] Gunnar Myrdal, *Beyond the Welfare State* (1960), p. 99.

[84] Walt W. Rostow, "The Problems of Inflation and Productivity in the United States," in Papers of John F. Kennedy. Presidential Papers. President's Office Files. Staff Memoranda. Rostow, Walt W., 1960, https://www.jfklibrary.org/asset-viewer/archives/JFKPOF/064a/JFKPOF-064a-007. "Prospects and Policies for the 1961 American Economy, A Report to President-elect Kennedy," in US Congress, Joint Economic Committee, *January 1961 Economic Report of the President and the Economic Situation and Outlook*, 87th Cong., 1st session, 1961, Committee Print, pp. 703-711.

[85] Arthur M. Schlesinger, *A Thousand Days: John F. Kennedy in the White House* (First Mariner Books: New York, 2002 [1965]), p. 647.

1956, and 1959. At Goldberg's suggestion, the President generalized the labor-management planning meetings of the steel industry. On February 16, 1961, he issued Executive Order 10918 establishing the President's Advisory Committee for Labor-Management Policy, a 21-member group co-chaired by the Secretaries of Labor and Commerce and comprised of business and labor leaders from across the economy.[86] Within the White House and among its members, this body was known colloquially as the Labor-Management Advisory Committee (LMAC).

Within the administration, however, the LMAC was not the "center of authority" recommended by the OECD. As George Taylor, the Chairman of the fact-finding board during the 1959 steel dispute, had warned, "The framing of the problem as a labor dispute rather than a broader macro-economic problem of wage-price policy, or as the nucleus of a possible incomes policy, limits the thinking of the President's labor-management advisory committee Goldberg forms."[87] Rather than from the LMAC, the initiative for a national wages policy emerged from a pre-existing advisory agency: CEA. Established together with the Joint Economic Committee (JEC) of the Congress by the Employment Act of 1946, the CEA had long served as a research arm of the White House with an ambiguous relationship to policymaking. By 1965, the agency would operate a 43-person staff occupying a 25-room headquarters on the third floor of the imperial-colonnaded Old Executive Office Building,

[86] David Stebenne. *Arthur Goldberg*, pp. 253-56. "Labor in 1961," *Monthly Labor Review* (January 1962).

[87] "Final Report to the President of the Board of Inquiry," Box 9, Folder 7, George W. Taylor Papers, Kislak Center for Special Collections, University of Pennsylvania Library.

across the White House's western lawn and just 150 yards from the Oval Office. "For an agency with increasingly clout," reported *Newsweek*, "the CEA occupies an almost ludicrously small niche in the Washington bureaucracy." The "bureaucratic nodule," as *Time* reported, was "one of the nation's most crucial never centers, daily furnishing the President with electrocardiographic readings on the economy and providing its own prescriptions for fiscal and monetary policy."[88]

In its first Economic Report submitted to the Congress in January 1962, the Kennedy CEA included a description of how wages and prices would behave in an ideal non-inflationary expansion—what the Council titled "guideposts for non-inflationary wage and price behavior"—which reflected the arithmetic of John Maurice Clark and the CED back in 1958. The new income produced by economic growth, CEA explained, would be distributed equally between labor and capital only if (a) the national average rate of wage increases across the entire labor market kept pace with labor productivity, and (b) prices were determined competitively in the marketplace so that productive firms passed on productivity increases to consumers in lower prices. Where an industry's output-per-manhour outran the national productivity average, and where wage increases matched the economy-wide productivity rate, unit labor costs would fall under the forces of competition and prices would follow. Adherence to such standards by organized labor and business would hold the wage-price spiral in abeyance, stabilize the labor and capital shares of a growing national income,

[88] July 18, 1966, "The Economy: awash in Affluence—but what lies ahead," *Newsweek*, p. 67-74. "Ivied Council," *Time*, January 12, 1968.

and hold the price level constant.[89] The productivity guide, however, would guide only collective wage behavior. Particular wage increases might surpass this figure, the Council explained, where workers were scarce or where communities came to consider wage rates for particular job classifications inequitable. These above-productivity increases would be averaged out by slower wage increases in declining industries or where, because of public judgements of equity, narrowing wage-differentials could be achieved with below-productivity wage increases. Likewise, prices might fall more slowly, the Council explained, where industries were in decline and might even rise where small profits prevented growth necessary for the public interest. But price changes should average out so that the general rate of change in profits did not exceed the rate of change in productivity.[90]

The were problems inherent in this guideline. How was the administration to determine which industries were declining, meriting higher prices, and which were exploiting monopolistic positions? How would CEA determine which labor scarcities merited above-guidepost wage increases? What standards of equity would determine exceptions to the rule? These problems would emerge during the second half of the decade, once import competition

[89] *Economic Report of the President*, 1962, pp. 185-90. The standard measure for "productivity," long used in collective bargaining and famously codified in the UAW's 1948 contract with GM, was the national average rate of increase in the economy-wide output-per-manhour. This would serve as Rostow's "norm for wage and price policy." That norm, however, would guide only collective wage behavior. Particular wage increases might surpass this figure, the Council explained, where workers were scarce or where communities came to consider wage rates for particular job classifications inequitable. These above-productivity increases would be averaged out by slower wage increases in declining industries or where, because of public judgements of equity, narrowing wage-differentials could be achieved with below-productivity wage increases. Likewise, prices might fall more slowly, the Council explained, where industries were in decline and might even rise where small profits prevented growth necessary for the public interest. But price changes should average out so that the general rate of change in profits did not exceed the rate of change in productivity. *Ibid*, pp. 189-90.

[90] *Ibid*, pp. 189-90.

cut into domestic manufacturing profits after the negotiation of the Kennedy round of the General Agreements on Tariffs and Trade (GATT). Together with the wage-price guideposts and a planned fiscal expansion, the 1962 Trade Expansion Act was one of three theoretical pillars of the administration's growth program: the law removed tariff-negotiating authority from the Congress and lodged it in a new executive agency, the Office of the Special Trade Representative. Using this legislation, the Kennedy and Johnson administrations negotiated tariff reductions down on 64 percent of all dutiable imports; duties on all industrial products were lowered by an average of 35 percent.

Before confronting these problems of growth, prices, and trade, however, one decision remained for the Kennedy administration's domestic program. The fundamental question the administration faced in terms of growth strategy was whether to pursue fiscal expansion through increased government spending or tax reduction. The range of liberal opinion on this question extended from Galbraith and Keyserling, who urged permanently increased federal spending, to other Keynesian economists such as James Tobin and Walter Heller, the later who the President appointed chairman of CEA. As Galbraith had argued extensively during the 1950s, reliance on private enterprise for employment and income was the source of the nation's economic woes. Left entirely to private enterprise, the goal of full employment produced a competitive spiral of rising prices, profits, and wages that could only be fought—in a manner acceptable to business executives—by throwing people out of work and depressing production. The result was a society choked with consumer goods and impoverished in public amenities; the better solution for economic stability, he urged, was a

dramatic expansion of the welfare state.[91] Against this statism, Tobin was a sort of anti-Galbraith among American Keynesians. Rather than increasing government spending to raise demand, Tobin argued for a tax policy that maximized private investment, raising income taxes but allowing corporations and individuals to write off savings and investment to encourage private capital expansion.[92] This fiscal policy would be paired with a monetary policy of low-interest rates to encourage private borrowing. Heller stood somewhere between them, having supported Senator Douglas's calls in 1958 for a cut in taxes to increase private consumption and investment, paired with low interest rates.[93]

The administration's decision on this question was bound up in the larger constellation of political forces and ultimately President Kennedy opted for tax cuts as a concession to business after a series of increasingly acrimonious encounters with corporation executives. The Business Advisory Council, the association of corporation executives formed during the 1930s as an consulting adjunct to the Department of Commerce, was deeply unsettled by the President's apparent coolness to the norms of Eisenhower's Washington and his campaign commitments to tax reform, such as by limiting expense accounts and applying tax withholding to dividends and capital gains.[94] After Secretary of Commerce Luther

[91] John Kenneth Galbraith, *American Capitalism* (1952) and *The Affluent Society* (1958).

[92] James Tobin, "Growth Through Taxation," *New Republic*, July 25, 1960, pp. 15-18. "Economic Growth as an Objective of Government Policy," *American Economic Review,* May 1964, pp. 1-2-. It is notable that in the 1960 conflict of opinions between tax cuts and expenditure increases, the AFL-CIO economist Stanley Ruttenberg favored tax cuts. Ruttenberg, "The Slow-Down of Customers," *New Republic*, January 9, 1961, pp. 13-14.

[93] Heller, *New Dimensions in Political Economy* (1967). H. Stein. Michael Bernstein, *Perilous Progress*.

[94] Hobart Rowan, *Free Enterprisers*; Kim McQuaid, *Big Business and Presidential Power: From FDR to Reagan* (Morrow: 1982) and *Uneasy Partners: Big Business and American Politics*, 1945-1990 (Johns

Hodges proposed to limit the Council's autonomy by retaining the right to appoint its chairman and raise the representation of small business among its members, the group quit the government in July 1961 to become an independent private association—the Business Council.[95] This hostile relationship was intensified when, in January 1962, CEA announced its new "voluntary" price and wage guidelines. Balancing wages and prices, as businessmen understood, required direct persuasion or compulsion over business and union decisions. They could not truly be voluntary: the very act of testing them would return the nation to the Truman-era political impasse over domestic stabilization.

The first and most infamous episode of the career of the guideposts would shape the administration's larger growth program. This was the occasion of the 1962 bargaining round between US Steel and the United Steelworkers of American (USW). That year, in accordance with the wage guideline discussed in the LMAC, the steelworkers forewent wage increases without a strike on the promise that the industry would not raise prices. When, on April 10, 1962, US Steel chairman Roger Blough met with the President to personally announce an across-the-board price increase in violation of the guideposts, the administration bitterly moved to coerce the nation's third-largest corporation into rescinding the price increase.[96] Blough's announcement "was one of the most explosive pieces of news which had come to Washington in many years," one of its historians has written. "Its detonation in the

Hopkins University, p. 1994). For an account that diminishes conflict with the Business Advisory Council, see Julian Zelizer, *Taxing America: Wilbur Mills, Congress, and the State, 1945-1975* (Cambridge, 1998), 179-200.

[95] Rowen, *Free Enterprisers*, p. 69.

[96] Grant McConnell, *Steel and the Presidency—1962*; Stebenne, *Arthur Goldberg*, Judith Stein, *Running Steel, Running America*.

President's oval office shook the government as it had not been shaken since the disaster at Cuba's Bay of Pigs."[97] The morning after Blough's *fait acompli*, Secretary of Defense Robert McNamara announced that the Department of Defense would not award procurement contracts to any steel company that followed US Steel's price increase and that it would make a new $5-million purchase of specialty steel to a firm that maintained price stability. Following its competitors, three days later on April 13, US Steel rescinded the price increase.

Though the conflict between President Kennedy and Roger Blough is most often remembered as the testing of the guideposts, the event was more consequential for its effect on finally persuading the Kennedy administration of the preeminent place of business confidence among the objectives of its growth program. Five weeks after the price dispute, during the week of May 21, the value of corporate equities on the New York Stock Exchange began to fall, with the Dow-Jones index of industrial stocks falling 38.83 points in five days, about 6 percent of its April average. That Monday, the LMAC had convened—as an administration-organized overture for rapprochement between capital and labor after the steel dispute— a National Conference on Economic Issues attended by 225 prominent business, labor, and academic leaders to discuss the basis of the administrations program.[98] There, the President adopted a new tone in discussing the basis of his politics. No longer a moralizing reformer carrying the populist flag of the New Deal, he offered "to say a word about the difference between myth and reality" by attempting to persuade his audience that "The fact

[97] Grant McConnell, *Steel and the Presidency* (W.W. Norton, 1963), p. 4.

[98] Folder 1, Box 7 and Folders 13, 14, Box 6 of the George W. Taylor Papers, Kislak Center for Special Collections, University of Pennsylvania.

of the matter is that most of the problems, or at least many of them that we now face, are technical problems… They are very sophisticated judgements which do not lend themselves to the great sort of 'passionate movements' which have stirred this country so often in the past…"[99]

On Monday, May 28, stock traders in New York began to liquidate their holdings. The Dow-Jones index fell another 34.95 points that day, eliminating more than $20 billion in value, or about 5.5 percent of the average value of all stocks traded in April. Stock prices stabilized but remain depressed, with the Dow-Jones index averaging 198.94 for the month of June compared to 221.91 for the month of May. [100] The President, in office for 15 months, decided for a dramatic reverse of course in his relationship with business executives. In the technical weighing of costs and benefits, what CEA Chair Heller described as an "atmosphere of prosperity and flushness" created by happy businessmen posed benefits greater than those offered by the current turmoil of class conflict.[101] On June 6, ten days after the stock collapse, Samuelson and Robert Solow wrote to Kennedy advising that "now, for the first time, the prudent odds for a so-called Kennedy recession, allegedly brought on by a stock market crash (attributable to anti-business governmental attitudes…), have ceased to be negligible." The economists warned of "a substantial possibility that you will go into the 1964 election with the highest average unemployment rate of any post-war administration."

[99] Quoted in Rowen, p. 125.

[100] McConnell, *Steel and the Presidency—1962* (), p. 100. Rowen, *Free Enterprisers*, p. 130-1. *Survey of Current Business* (June 1962), p. S-21. Irving Bernstein, *Promises Kept*, p. 145.

[101] Heller, quoted in Bernstein, pp. 150-151.

"More can be done for confidence by expansionary policies—early tax cuts—than by any feasible alternatives."[102]

The next morning, June 7, the President announced his intention to send to Congress legislation for a tax cut to be effective as of January 1, 1963.[103] Then, on June 11, he delivered his famous commencement address at Yale, blending his post-steel technocratic tone with the economists' commitment to tax reduction. "Confidence is a matter of myth and also a matter of truth," John Kennedy explained. The issue of truth lay in the certainty of events. That of myth, however, was the "false issue" of businessmen's political preferences for those in command of government. "Corporate plans are not based on political confidence in party leaders but on an economic confidence in the Nation's ability to invest and produce and consume." Many journalists, he continued, argued that a tax cut that resulted in a planned budget deficit would only lead to an acceleration of the gold outflow. But the question of how the country was to grow to the levels necessary to restore its international payments position, he argued, was not political but technical. "The point is that this is basically an administrative or executive problem in which political labels or cliches do not give us a solution…. I am suggesting that the problems of fiscal and monetary policies in the sixties as opposed to the kinds of problems we faced in the thirties demand subtle challenges for which technical answers, not political answers, must be provided."[104]

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[102] Quoted in William J. Barber, "The Kennedy Years," in *Exhortation and Controls*, ed. Goodwin, p. 178.

[103] Bernstein, *Promises Kept*, p. 148. Barber, "The Kennedy Years," in *Exhortation and Controls*, ed Goodwin, p. 179.

[104] Kennedy Yale speech.

By exempting from politics the fundamental questions of the distribution of corporation income between profits and wages, the freedom of capitalists to liquidate properties and to move investments, and the responsibilities of the national government in an increasingly international marketplace, the new Kennedy tone set firm rhetorical limits for his own administration and for that of his successor, Lyndon Johnson. These limits would not become apparent for several years, as the national conscience was in fact captured by a great passionate and mythical movement akin to those waged by Americans during the 1930s: the Civil Rights Movement emerging out of Montgomery, Jackson, Atlanta, and the black cities of the US South. But though the hollowness of the new Kennedy politics would become clear as the Democratic Party lost in the 1966 and 1968 elections, over the 18 months after the steel dispute in 1962-3, the administration's decision for fiscal expansion through tax reduction appeared to have found a winning formula.

"I think you must prepare yourself for some repercussions in the financial community." Appeasing Business in the Peacetime Boom: February 1964 – July 1965

Immediately after the Yale speech, the White House maneuvered to conciliate large corporation executives in an effort to step-up the rate of investment, immediately lobbying the Congress to pass an investment tax credit, liberalizing depreciation allowances, and talking openly about the desirability of a large cut in income taxes—a law which moved through the Congress during 1963 to be signed by President Johnson in early 1964. As the unemployment rate fell from 6.9 to 5.0 percent between 1961 and 1964, the CEA guidelines

coincided with a period of unusually low wage increases in agreements negotiated by the nation's largest unions. The steelworkers forewent wage increases again in 1963; the auto workers bargained to expand private unemployment benefits and kept their wage increase to 2.5 percent. According to the Department of Labor, collectively bargained wage increases across the economy were kept to 2.8 percent in 1961, 2.9 percent in 1962, 3.0 percent in 1963, and 3.2 percent in 1964. These rates were well below the 3.9 to 5.4 percent increases unions won during the late 1950s—a period of high unemployment which the recently theorized Philips-Curve predicted would have diminished wage demands—and keeping with both the President's general exhortation for wage restraint and the CEA's specific 3.2 percent productivity guideposts.[105] The CPI did not rise appreciably: year-over-year increases were 1.2 percent in 1962-3, 1.3 percent in 1963-4, and 1.7 percent in 1964-5.

In the weeks after President Kennedy's assassination, one of the first advisers to whom Lyndon Johnson turned for advice and counsel was Robert Anderson, the Texas businessman and Wall Street lawyer who had served as President Eisenhower's liaison to the Senate leadership during the later 1950s before his appointment as Secretary of the Treasury.[106] Anderson reassured the President that the tax legislation would move speedily through the Senate and conference committees that winter.[107] But the financier also had requests to make of the President. First was limiting the expenditures—and hence the

[105] "Current Labor Statistics," *Monthly Labor Review*, issues for 1961 through 1964. "Labor in 1961," "Labor in 1962," "Labor in 1963," and "Labor in a year of expansion," in the January issues of *Monthly Labor Review*.

[106] Caro on Johnson and Humphrey. LBJ to Anderson, November 30, 1963.

[107] Lyndon Johnson with Robert Anderson, December 5, 1963, Miller Center recordings.

deficit—that would accompany that year's impending tax cut to less than the arbitrary but symbolically important ceiling of $100 billion. Second was Anderson's request for Johnson to refuse to honor President Kennedy's promise to appoint Seymour Harris, the Harvard economist, to fill the next vacant seat on the Federal Reserve Board. After the New Dealer Alvin Hansen, then 79, Harris was the senior popularizer of Keynesian thinking in the United States, having written regularly for the *New Republic* during the 1940s and taught a generation of economists in succeeding decades. [108]

The prospect of a central bank board increasingly autonomous of the nation's financial executives provoked Anderson to considerable discomfort. Given the fixity of the Pentagon's dollar outflow, the burden for protecting the value of the dollar fell increasingly on three spending streams. The first was foreign currency earnings from exports, which the administration was endeavoring to expand through the GATT and a Commerce Department - organized export drive. The second was foreign national savings attracted through Federal Reserve Board policy. The third, which would grow increasingly important by the end of the decade, were the profits of foreign branches of the US corporations remitted to their parent companies. So long as the nation's unemployment remained a political issue, Keynesians like Harris were likely to oppose raising interest rates—and depressing domestic spending—to manage the balance of payments. If more and more savers holding Treasury bonds lost faith in their future value and demanded gold from the US Treasury, the Treasury might find itself compelled to lower the amount of gold each bond was worth by raising the dollar price it

[108] Bernstein, *Promises Kept*; *Washington Post*, September 11, 1963.

received for an ounce of the metal. Conditioning monetary policy to an employment goal opened such an eventuality.

As Anderson explained to Johnson, devaluation “doesn’t help anybody except the Russians.”[109] Throughout January, the business leaders prevailed upon LBJ to rescind Kennedy’s offer to Harris. “He is not highly regarded abroad,” Anderson told the President. “And he’s certainly not highly regarded in this country…I think you must prepare yourself for some repercussions in the financial community.” Harry Alexander, the Chairman of the Florida Republican Party, remined LBJ that Harris’s “reputation is that of a radical.” Alexander suggested the President to call Harvard President Nathan Pusey for an opinion about the appropriateness of Harris’s membership on the central bank board. “I am sure that he would recommend against this appointment.”[110] Anderson’s priorities for Johnson, echoed by Senate Finance Chairman Harry Byrd, represented the political demands the nation’s most powerful business leaders raised for their loyalty to the new administration. In January 1964, the President rescinded Harris’s appointment, and in March renewed that of Federal Reserve Board Governor J.L. Robertson.

With Johnson’s cajolery and Anderson’s lobbying, both the Senate Finance and the joint House-Senate conference committees released the tax-cut bill. “Let this session of Congress be known,” the President announced in his State of the Union address in January 1964, “as the session which did more for civil rights than the last hundred sessions combined;

[109] Anderson to LBJ, January 8, 1964.

[110] Washington Post, October 31, 1963. Anderson to LBJ January 8, 1964. Alexander to LBJ January 8, 1964.

as the session which enacted the most far reaching tax cut of our time; as the session which declared all-out war on human poverty and unemployment in these United States…" Total expenditures for FY1965 would come to $97.9 billion, "compared to the $98.4 for the current year, a reduction of more than $500 million"—and well below the $100 billion threshold demanded by Anderson and Byrd. [111] Much of the reduction would come from the Department of Defense. On Friday, February 8, the Senate Finance Committee finally released the bill to conference committee the next Monday. Fifteen days later, on February 26, the President signed the fiscal expansion into law.[112] "Help me pass my tax bill," the President had told a gathering of seventy members of the Business Council at a White House dinner the night before the State of the Union. "If you'll go out and provide these jobs, we won't take this money, bring it into Washington…if you don't, I know how to spend it. But I don't want to spend it. I'm going to bet on the American system."[113]

The tax cut accelerated the weak Kennedy expansion into a Johnson boom. All the relevant economic indexes registered accelerated expansion during 1964. The Federal Reserve Board's index of manufacturing output, from a 1957-59 base year of 100, rose steadily from 125.8 in January to 136.5 in October 1964. Total sales for manufacturing, wholesale, and retail firms rose from monthly averages of $65 million and $68 million in 1962 and 1963 to over $73 million in each of the three months before November 1964. The

[111] "Text of the President's State of the Union Address," *New York Times*. Bernstein, *Guns and Butter*.

[112] "Senate Approves $11.6 Billion Cut in Taxes, 77 to 21," *New York Times*, February 8, 1964, p. 1; "Congressional Conferences on Tax Bill Begin Today After Senate Approval of $11.8 Billion Cut in Levies," *Wall Street Journal*, February 10, 1964, p. 3.

[113] Anderson to LBJ, January 30, 1964.

annual total for new plant and equipment expenditures in 1964 was $44.9 billion, $5.68 billion above the previous year and more than double the increase of 1963 over 1962.[114] Most importantly for liberals at the CEA, the Bureau of the Budget, and the Department of Labor, the expansion soaked up joblessness. The unemployment rate fell from 5.9 percent to 5.0 percent over the course of the year. By the election that November, the American system appeared to pay off. Johnson won the election in November, 43 million votes to Barry Goldwater's 27 million; the Democratic Party won thirty seats in the House, securing a supermajority not seen since Franklin Roosevelt's second term.

During the spring and early summer of 1965, in the glow of electoral triumph, the administration's relationship with business was widely advertised as one of sanguine consensus. Presidential attention lay elsewhere, in issues not yet understood in terms of economic management. In January, the Southern Christian Leadership Council, invigorated by Martin Luther King, Jr.'s award of the Nobel Prize in December, had just begun to organize a voter registration drive in Selma, Alabama to press the administration to propose legislation to protect voting rights—an item conspicuously absent from the 1964 civil rights law. In February, the President authorized continuous retaliatory bombing of North Vietnam. Neither of these trends yet appeared to bear on the nation's business problems. Mutual concern for the value of the dollar fostered not enmity but cooperation. "The era of good feeling that now exists," the *Times* Murray Rossant reported in April, "represents a complete

[114] US Department of Commerce, *Survey of Current Business*, December 1964, January 1965.

reversal of the bitter hostility that broke out just three years ago, when President Kennedy had his celebrated confrontation with the steel industry."[115]

Yet already the boom had created two problems. First was the continued deficit in the nation's balance of payments. Though the annual payments deficit had only grown by $120 million during 1964, this veiled a declining annual trade surplus more than $2 billion smaller than that of 1963. "The direct cause of the lower export surplus has been a sharp rise in imports rather than a serious lag in exports," the *New York Times* reported in June 1965: "The rise in imports is a traditional, almost automatic, response to the demands of an expansive domestic economy, primarily in industrial raw materials."[116] The payments surplus also veiled a second threat to continued balance: an explosion in US lending and investment abroad. In 1964, the White House requested, and the Congress passed, an "interest equalization tax" in to allow the president to impose a levy on foreign securities equal to the difference between domestic and foreign interest. Nevertheless, during the year after the tax cut, the sum of direct investment, of long-term and of short-term lending abroad by US firms increased by over $2 billion.[117]

In September 1964, US Chamber of Commerce President Walter F. Carey warned Johnson of "renewed pressure on our shrunken gold stock," asking the White House to consider "a serious re-evaluation of credit policy" to slow domestic spending and attract

[115] David Garrow, *Bearing the Cross*, pp. 357-372. Harry Y. Schandler, *The Unmaking of the Presidency*, pp. 11-14. Murray Rossant, "Partner on the Potomac," *New York Times*, April 14, 1965, p. 55.

[116] "Curb Drain on Dollar, LBJ Urges," *Washington Post*, February 19, 1965, p. A1. "Trade Patterns Present Paradox," *New York Times*, June 27, 1965, p. F1.

[117] *Ibid.*

capital from abroad. Diverging interest rates across the North Atlantic made earning foreign savings a problem of first importance. Apply the "credit brakes…with caution," Carey advised, but avoid "severe restriction." [118] "In my judgement," Carey continued, "the cloudy balance of payments outlook adds weight to the need for wage-price discipline." Above all, the solution in the nation's foreign payments trend lay in keeping US manufacturing prices competitive abroad. In this lay a fundamental problem. Though the annual rate of price increases had not budged significantly over the course of the expansion, the small increases themselves irritated many businessmen. "Consumer prices have risen 8 percent, and services prices 15 percent, above their 1957-1959 averages," Carey complained, attributing responsibility for rising prices to the nation's labor leaders.[119]

The administration and many businessmen remained opposed to fiscal and monetary contraction as a solution to the payments problems brought by the boom. The CEA and the Department of Labor considered the unemployment rate—then at 5 percent—intolerably high. The CEA, the Bureau of the Budget, and the Department of Labor all plumped for continued expansion. "We will not have jobs for many of the 1-1/3 million new workers getting into the hiring line, especially the Negro and inexperienced teenager," Gardner Ackley, Heller's replacement as CEA Chairman, had written to the President in December 1964. "If we are to repeat the gains of 1964, private demand will need support." The "advance in corporate profits," he warned, was likely to "cease" during 1965.

[118] Walter F. Carey to the President, September 9, 1964, BE5, WHCF, LBJ Library.
[119] *Ibid*.

The Johnson administration's commitment to further expansion and reduction in the unemployment rate after the tax cut displaced the burden on managing the dollar outflow onto business's foreign affairs. The two cabinet officials President Johnson put in charge of managing the balance of payments, Commerce Secretary John T. Connor and Treasury Secretary Henry J. Fowler, both represented the government-business partnership so essential to the White House's electoral strategy. Fowler had climbed his way up through the Democratic Party during the 1930s, a late New Deal factotum—counsel for the Tennessee Valley Authority, the Federal Power Commission, and Robert La Follete's Senate investigating committee on civil rights—recruited, as war mobilization began in 1939, to be one of the public "'shepherds' of the dollar-a-year men" within the Office of War Mobilization, the precursor production and price control agency of World War II. In 1951 he reprised this role as director of President Truman's the Defense Production Authority within the Office of War Mobilization. He entered the Kennedy administration as assistant treasury secretary to Douglas Dillon. During the fifties, Fowler had served as counsel for the Business Advisory Council. But this closeness to organized business had not prevented him, during President Kennedy's confrontation with US Steel, from recommending the White House seek selective-price control legislation from the Congress. The *Washington Post* described him as "loyal" and a "traditionalist." *Business Week* called him a "conservative" noted for his "fealty." "He is short, roundish, with carefully slicked-down white hair, and black glasses that contrast against a ruddy complexion…. Among the political professionals, he has a reputation for complete integrity in political dealings and comprehension of rules of the

game." Replacing Dillon within Johnson administrations, Fowler assumed responsibility for maintaining the value of the nation's currency both at home and abroad, arbitrating the debates between the leaders of the Department of Commerce, the Bureau of the Budget, and the Department of Defense over the nation's anti-inflation program. "When the President gathers his chief economic advisers around him," the *Post*'s business editor Hobart Rowen reported in June 1965, "the man usually seen at his elbow is the Secretary of the Treasury, Henry H. Fowler." [120]

Assisting Fowler during 1964 was John T. Connor, the President of the Merck pharmaceuticals company. A fifty-year old business lawyer who had succeeded in a career at the nexus of federal contracting and large-scale corporate enterprise, Connor was an ideal candidate for restoring the relationship between the White House and the businessmen Hodges had alienated. The gray-haired executive was, in the words of *Business Week*, a "representative of a new generation of business leaders," those who lived through the Depression and came to accept as a positive good the new role the federal government had come to play in the nation's political economy. During World War II, Connor served as general counsel, under Vannevar Bush, of the government's Office of Scientific Research & Development, a major underwriter of large-scale military contracts. Later he was promoted to

[120] "Fowler's Role at LBJ's Elbow," *Washington Post*, June 21, 1965, p. D9. "Treasury Gets its Man," *Business Week*, March 27, 1965, p. 152-154. Shepherd" is Fowler's own description. Oral history interview, Henry H. Fowler, June 20, 1989, p. 13. On Fowler during the 1962 steel controversy, see William J. Barber, "The Kennedy Years: Purposeful Pedagogy," in *Exhortation and Controls*, ed Craufurd Goodwin (Washington: Brookings Institution, 1975), p. 173. On Fowler and the Business Advisory Council, see Kim McQuaid, *Big Business and Presidential Power: From FDR to Reagan* (New York: Harper Collins, 1982). "Fowler's Role at LBJ's Elbow," *Washington Post*, June 21, 1965, p. D9. "Treasury Gets its Man," *Business Week*, March 27, 1965, p. 152-154.

special assistant to Secretary of the Navy James Forrestal. His “reserved manner” resembled that of a “trust manager of a large bank.” As he told a magazine reporter: “I’m a New Dealer.”[121]

The Kennedy administration had responded to continued currency pressures by pushing for trade liberalization, proposing the Trade Expansion Act in 1962, and, in the summer of 1963, by raising interest rates to attract foreign capital into the US. To supplement the interest-rate hike, the administration also proposed a light form of capital controls: an “interest equalization tax” on foreign securities to discourage lending abroad.[122] But foreign firms quickly found alternative conduits for to access this investment. Instead of issuing securities in the US, foreign firms turned to US banks for dollar loans. Subsidiaries of US corporations turned to their parent companies for direct dollar transfers. President Johnson responded by extending the foreign-interest tax to include loans. “The word is getting around that the Administration…will accept promises to step up exports in place of performance in cutting down the outflow of investment dollars,” former CEA chairman Walter Heller wrote Johnson in February 1965. “It’s vital to spike this business-as-usual psychology…” Within the Treasury Fowler’s staff was pushing for mandatory quotas to tighten the tourniquet.[123]

When Connor entered the cabinet in January 1965, Treasury officials were discussing mandatory controls on all foreign investment spending. “It rather horrified me,” Assistant

[121] “Voice for US Business in US Policy,” *Business Week*, March 13, 1965, p. 96.

[122] Eichengreen, *Globalizing Capital*, pp. 123-132. Hobart Rowen, *Free Enterprisers*, pp. 178-181.

[123] Heller to LBJ, February 16, 1965, FG 155, “12/1/64 – 2/28/65,” WHCF, LBJ Library. “US Weighs Tax on Loans Abroad,” *New York Times*, January 31, 1965, p. F1. “President Urges Business to Cut Spending Abroad,” *New York Times*, February 19, 1965, p. 1.

Secretary of Commerce Lawrence McQuaid later remembered about the opening months of the new administration. "They were going to limit the American businessmen's freedom to invest overseas."[124] To head off the pressure for investment controls, Connor immediately began to organize the nation's 500 leading multinational corporations into voluntarily investment restraint program. In February 1965, Connor invited a large group of multinational corporate executives to the White House; the afternoon of the meeting there were 57 private planes at Washington National. The program, which required participating firms to file quarterly reports with the department on their "balance-of-payments ledger," met some resistance. "The idea of divulging this information is new to some companies," Connor explained.[125]

By summer 1965 many bankers were concerned a run on the dollar was imminent. After achieving a balance of payments surplus during second quarter of 1965, the dollar outflow continued during fall and winter. In June 1965, Federal Reserve Board chairman William Martin spooked the stock market with a widely publicized speech on the "disquieting similarities" between financial markets in 1965 and 1929. As with the British government during 1929, the payments position of the world's "reserve center" was once again "uneasy," Martin observed. Recent proposals for reform with the JEC—for the US Treasury to raise the price of gold and for the IMF to begin issuing its own reserve asset—would "destroy" the international payments system and repeat "the British example of 1931."

[124] Trowbridge Oral History, p. TK.

[125] Survey of Current Business. "Voice for US Business in US Policy," *Business Week*, March 13, 1965, p. 96. Transcript, Lawrence McQuade Oral History Interview I, January 15, 1969, by Paige Mulhollan, p. 15, LBJ Library. Online: https://discoverlbj.org/item/oh-mcquadel-19690115-1-74-156 (January 13, 2020).

The central bank chairman pressed for higher interest rates, both to attract dollars back into the country and to head-off the "maladjustments" of a "speculative" and "disorderly boom." Delivering Middlebury College's commencement address on July 12, former Treasury Secretary Douglas Dillon warned that the free world "is rapidly approaching a financial crossroads" as the OECD countries failed adopt additional reserve assets beyond dollars. "A world-wide recession" loomed.[126]

These efforts at restraining the foreign investment of US corporations would run aground the expansion that accelerated during the second half of the year with the escalation of the war in Vietnam. As the following chapters demonstrate, the administration faced hard pressure from both prices and wages in the second half of 1965 and during 1966. The nation's payments position deteriorated dramatically as military payrolls and procurement expenditures sent a growing volume of dollars abroad. The administration would confront the test of wage restraint not in the expansion from the long doldrums of the Eisenhower and Kennedy years, when production remained below capacity, but in the full-employment boom of the Vietnam War. Two weeks after Dillon's warning of the nation's "financial crossroads," the White House announced the fateful decision to escalate its military presence in southeast Asia. As the President explained at the press conference that July, he would ask the Congress for a supplemental appropriation of indeterminate size, probably from $2 to $5 billion, at the beginning of the next session of Congress. The US infantry force in South East

[126] William McChesney Martin, "Does Monetary History Repeat Itself?," Address before the Commencement Day Luncheon of the Alumni Federation of Columbia University, New York City, June 1, 1965, digitized https://fraser.stlouisfed.org/title/448/item/7898. "The Monetary System Crisis," *Washington Post*, July 12, 1965, p. D8.

Asia would increase immediately by 50,000 to a total of 125,000 soldiers, he continued. Monthly draft calls would double from 17,000 to 35,000 men. Defense spending for the year would increase by $1 to $2 billion. [127]

[127] Schandler; "Johnson Orders 50,000 More Men to Vietnam and Doubles Draft; Again Urges U.N. to Seek Peace," *New York Times*, July 29, 1965, p. 1.

Chapter 5: "Nothing Inevitable About Business Cycles" or "Wage Explosion"?: National Incomes Policies under the Great Society, 1964-66

"He's not enough interested to go back to his country club and be called a slave of the government."

- Robert McNamara on Roger Blough

"Organized labor is eyeing the fat profits of business and believes that those profits—and not the living standards of industrial workers—should absorb the cost to society of higher farm incomes and of higher wages in the unorganized service industries."

- Gardner Ackley

On July 20, 1966, Arthur F. Burns, the high priest of Republican Party economic advisers and president of the National Bureau of Economic Research, spoke before a closed session of the House Republican Conference. The nation, he explained, was experiencing a prosperity that had grown into inflation. Whereas businessmen, in the opening years of the Kennedy administration, had feared higher taxes, greater union wage demands, and impending price controls, they had recently been spending at rates high enough to reduce unemployment and raise their use of industrial capacity. The change in sentiment had come, Burns explained, in the years after the acrimonious public disagreement between President Kennedy and US Steel over industry prices in April 1962. In the aftermath of that controversy, the administration affected a dramatic reversal of its relationship with business, immediately passing an investment tax credit, liberalizing depreciation allowances, and talking openly about the desirability of a cut in income taxes, which moved through the Congress during 1963 and had been signed into law by President Johnson in early 1964. The expansion stimulated by this reversal was further fed, during 1965, by federal spending on the war in

Vietnam and on the social programs of the Great Society. This situation, Burns warned, "has fostered economic imbalances that may spell trouble." These included a declining export surplus, an "extraordinary boom in business capital expenditures," and a sharp rise in interest rates.

Most ominous was the growing divergence between wages and prices. During the past six months, the Consumer Price Index (CPI) had risen at an annual rate of about 4 percent, while the White House had continued the Kennedy administration's policy of asking organized workers to keep their wage demands within federal guidelines—then a 3.2 percent increase. "This condition cannot be expected to continue," Burns explained. "Wages have been slow in adjusting to the higher cost of living, but that only means the adjustment is still ahead of us." The economist prophesied: "I fear we are on the threshold of a wage explosion." Regardless of whether the boom continued or a business recession developed, the country was "likely to get a further dose of inflation." Prices were likely to rise, he explained, because workers' wage demands would exceed federal guidelines. This was a dangerous situation. "Once powerful forces of inflation have been released, it is difficult to bring them under control without a sizable readjustment in economic activity."[1]

To avoid this "sizable readjustment," Burns advised that the federal government curb nondefense spending and raise taxes on business—specifically, suspension of the investment tax credit established by the Kennedy administration. A conservative economist advising a

[1] "Remarks by Arthur F. Burns at the breakfast meeting of the Republican Conference of the House of Representatives Washington, D.C. Wednesday July 20, 1966," W. Page Keeton Papers, Tarlton Law Library,

tax increase on business was unusual, but Burns's reasoning had a political appeal to businessmen jealous of their place in the US economic system. Economists had long discussed the phenomenon Burns described in terms of the "wage-price spiral"—a competitive, self-propelling struggle between workers and businessmen for the income of production. Central to the Kennedy and Johnson administrations' historic experiment in managed economic growth was the idea that spiral might be brought under conscious control—that growth could be deliberately "balanced" between labor and capital, and among industries, by coordinating private and public decisions and easing the market tensions that had propelled rising prices during each of the business cycles since the end of World War II. This coordination entailed a merger of corporations, labor unions, and the state that made many businessmen uncomfortable and in light of which the alternative of a tax increase appeared increasingly appealing. Burns's admonition that the long business expansion was priming the nation's labor market for a slingshot-like "wage explosion" belied the assumption that the Johnson administration would effectively manage the merged decision-making centers of business and labor. The fate of this apparent fusion revealed an intractable disagreement at the heart of the postwar liberal consensus. If the spiral could not be voluntarily controlled, as Burns insisted it could not, then the only way to stabilize prices was fiscal restraint to choke off the boom.

Since the end of World War II, answers to the question of whether and how the nation might achieve its economic goals had diverged according to different interpretations of the

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The University of Texas at Austin, Box 97, Folder 7. "Our Nation's Economic Policy—Dr. Arthur F. Burns,"

wage-price spiral. Was it the inevitable concomitant of low unemployment, an observed fact that a national quota of joblessness was necessary to prevent a runaway inflation? Or could it be apprehended short of increasing unemployment—and, if so, how? To the leaders of the Great Society during their time in power, the refractory nature of the wage-price spiral was far from apparent, and the prospect of guiding wage and price changes in particular sectors or industries was understood by many as signaling the emergence of a new historical phase in the nation's economic life. Gardner Ackley, a member and chairman of Johnson's CEA, had put administration thinking squarely in January 1965 when he told *Business Week* that there's "nothing inevitable about business cycles." As Ackley's CEA colleague Arthur Okun explained, expansions "only die because of imbalances, and it's our job to try and avoid the imbalances." Federal Reserve Board governor Sherman J. Maisel voiced the new perspective when he told a Texas audience that "contractions or depressions don't just occur. They are caused and can be explained…. nothing inherent in the length of this expansion requires either a downturn or an inflation." As *Washington Post* business reporter Hobart Rowen wrote in January 1966, "the basic meaning of the 'new economics'" was "the simple conviction that recessions are man-made or man-permitted."[2]

Congressional Record vol. 112: 17082-5, 1966.

[2] "How the Style Shifts at CEA," *Business Week*, January 30, 1965, pp. 73-6. Board of Governors of the Federal Reserve System (U.S.), 1935- and Maisel, Sherman J. "Economic Developments." Remarks at the 22nd Annual Meeting of the National League of Insured Savings Associations, Los Angeles, California, October 27, 1965, https://fraser.stlouisfed.org/title/952/item/37035, accessed on May 2, 2020. Hobart Rowen, "Is There in Reality an Automatic Business Cycle," *Washington Post*, October 31, 1965, p. L3. Frank C. Porter, "FED Member Dissents From Martin Policies," *Washington Post*, October 28, 1965, p. C9. Hobart Rowen, "You Can't Fool Cash Registers," *Washington Post*, January 9, 1966, p. L1.

By the end of the decade, however, liberal faith this project was profoundly shaken. That disappointment has dominated the historiography of US macroeconomic management, distorting our evaluations of both the Great Society project and the turbulent decade that followed. To historians, the Johnson administration's jawboning has been interpreted, where noted at all, as an ephemeral, misguided quest off the main course of fiscal-monetary planning and labor-management accord in favor of free collective bargaining.[3] Michael Bernstein's history of the influence of the economics profession in government, for example, does not even mention the Kennedy-Johnson wage-price guideposts.[4] The inflationary process represented by prevailing historical interpretation—that rising prices are "released" or "set loose" rather than shaped or guided—is not only shared by most economic histories of the US but has come to define professional understanding of inflation in general.[5] Influenced by the writing of Herbert Stein and Arthur Burns, existing histories of US macroeconomic management invoke Lyndon Johnson's Great Society as evidence of the uncontrollable character of the wage-price spiral—that, as Burns implied, once begun it can only be stopped

[3] Robert M. Collins, *More*: *The Politics of Economic Growth in Postwar America* (New York: Oxford, 2000). Nelson Lichtenstein, *State of the Union: A Century of American Labor* (Princeton: Princeton, 2002), and "From Corporatism to Collective Bargaining: Organized Labor and the Eclipse of Social Democracy in the Post-War Era," in *The Rise and Fall of the New Deal Order*, eds. Steve Fraser and Gary Gerstle (Princeton: Princeton, 1989). Ben Jackson, "Corporatism and its discontents: pluralism, anti-pluralism and Anglo-American industrial relations, c. 1930-1980," in *Modern Pluralism: Anglo-American Debates Since 1880* ed. Mark Bevir (New York: Cambridge, 2012).

[4] Michael Bernstein, *A Perilous Progress: Economists and Public Purpose in Twentieth-Century America* (Princeton: Princeton, 2001).

[5] "Released," is taken from Burns, *supra*. "Set loose," is the retrospective characterization from Califano, p. 144.

by the deliberate inducement of unemployment.[6] This literature portrays the continuation of rising prices during the early years of the Nixon administration as the "lagged" effect of fiscal "overshooting"—the continuation of federal deficit spending caused by the Johnson administration's delay in asking for a tax increase during 1966 and, after his request in January 1967, Congressional refusal until the summer of 1968.[7] As previous chapters have demonstrated, this assumption of the spiral's autonomous momentum was a significant departure from the professional economic thinking of the 1940s and 1950s.

The administration's incipient incomes policy has been characterized as an at best misguided and at worst duplicitous program of selective price control—as an excuse for delaying necessary fiscal action. This perspective, however, is an historical and ideological artefact. As this chapter argues, the critical turning points in Great Society liberalism did not turn on the singular question of whether and when to begin fiscal restraint. Rather than a miscalculation of fiscal policy, the fate of the administration's program for guiding economic growth sundered on the shoals of older hazards in American political life: corporation autonomy in the oligopolistic sector and the imperative of wage restraint in anti-inflation policy. To the familiar problems of economic stabilization bequeathed by the political

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[6] Herbert Stein, *The Fiscal Revolution in America* (Chicago: Chicago, 1969). Arthur F. Burns, "Wages and Prices by Formula," Murray Lecture at the State University of Iowa, November 10, 1964; printed in Burns, The Business Cycle in a Changing World (Columbia University Press, 1969), pp. 232-53. Herbert Stein, *Presidential Economics: The Making of Economic Policy from Roosevelt to Reagan and Beyond* (New York: Simon & Schuster, 1984), Chapters 4 and 5, pp. 89-208. Remarks of Allan Sproul in *Managing a Full Employment Economy: A CED Symposium on Problems of Maintaining Prosperity Without Inflation* (New York: CED, 1966), p. 40.

[7] Alan S. Blinder, *Economic Policy and the Great Stagflation* (New York: Academic Press, 1979). Robert Collins, *More*, Chapter 2. Irving Bernstein, *Guns or Butter: The Presidency of Lyndon Johnson* (New York: Oxford, 1996). Herbert Stein, *Presidential Economics*, p. 101.

economy of World War II, the Great Society expansion added a singular new challenge: regulating foreign direct investment to manage the balance of payments. Along with the distribution of income between profits and wages, US corporations' freedom to engage in business overseas presented a political problem that would test the organizational allegiances of workers and businessmen to the administration's stabilization program.

The failure of these programs in stabilizing the wage-price spiral and protecting the dollar exchange rate made fiscal contraction necessary. In actual fact, fiscal and monetary restraint *was* applied during the expansion. But when expansion slowed in 1966-7 and in 1969-70, as a result of increases in taxes and interest rates, wages and prices continued to rise! Lyndon Johnson's economic problem was thus not merely the timing of fiscal policy, but how to achieve wage, price, and investment restraint at full employment without eroding the government's electoral popularity—how to mold private interests in a way that strengthened, or at least did not erode, its political power and Congressional majorities in the historical cross currents of the Civil Rights movement and the Vietnam War. For Lyndon Johnson, this project proved a stillborn process of reform. The planning state that emerged during the Great Society was abandoned to the hands of Richard Nixon. Contingent on the widespread cooperation of labor and business leaders, the Johnson administration's experiments in corporatist Keynesianism failed as decisions on these two decisive questions—wage-price restraint and foreign investment—pressed themselves on the White House in the opening years of the expanded war in Vietnam.

"I Just Don't Want to Do It."

Within his first weeks in office, President Johnson made three unmistakable overtures to business. First—following the advice of Eisenhower Treasury Secretary Robert Anderson, House Ways and Means Committee Chairman Wilbur Mills, and Senate Finance Committee Chairman Harry Byrd—the President reduced spending for the fiscal year 1965 budget, to the chagrin of many liberals who urged greater spending.[8] Second, at the request of Anderson and the leaders of the Business Council, the President made two immediately strategic appointment decisions: he rescinded President Kennedy's appointment of the liberal Keynesian Seymour Harris to the Federal Reserve Board of Governors, and he appointed Tom Mann, an Eisenhower state department official, to direct the administration's foreign affairs in Latin America and the Agency for International Development. Third, consistent with these political overtures to business, and calculated to avoid a repeat of the steel-price donnybrook two years earlier, the President refused to intervene in corporate pricing decisions during 1964.[9]

The decision undercut the emerging center of corporatist authority for managing incomes that President Kennedy had created in the Labor-Management Advisory Committee (LMAC) and the CEA. In December 1963, anticipating labor bargaining that year, CEA Chairman Walter Heller had met with United Auto Workers (UAW) president Walter Reuther to discuss the economics of the auto industry. Auto profits, Reuther contended, made

[8] Kermit Gordon Oral History. Irving Bernstein, *Promises Kept*, p. 32-3.

further wage restraint in auto untenable. "He claims rank-and-file pressures require a dramatic settlement," Heller explained to the President. "He's confident he'll have a good case with the public….And he's tired of remaining moderate while the irresponsibles in the labor movement like Hoffa and the Building Trades are pushing inflationary wage increases with impunity."[10] In the President's *Economic Report* in January 1964, the CEA had emphasized that "it is appropriate to focus special attention this year on *price reductions*…. in those industries whose trend productivity gains exceed the national trend," and explained that "there will be ample room for such price reductions in 1964." But the agency did not mention any particular industry by name. Nor were there any further public exhortations toward the auto companies in this direction in the months before bargaining began.[11]

This placed the autoworkers' union in an awkward position. In March 1964, President Johnson spoke to the twelve thousand attendees of the annual delegate convention of the UAW in Atlantic City exhorting the importance of wage restraint. "We must not choke off our needed and speedy economic expansion by a revival of the price-wage spiral," he told the audience. That same day, speaking before the Economic Club of Detroit, the city's business association, CEA chairman Walter Heller explained the administration's opposition to a UAW wage increase beyond the 3.2 percent productivity guide. Speaking in Atlantic City,

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[9] Conversation with Robert Anderson, 1964: TK. Transcript, Kermit Gordon Oral History Interview III, March 21, 1969, by David G. McComb, p. 2, LBJ Library. Online < https://www.discoverlbj.org/item/oh-gordonk-19690321-3-81-13>. (February 6, 2020.)

[10] Quoted in J.L. Cochrane, "The Johnson Administration: Moral Suasion Goes to War," in Craufurd D. Goodwin. ed. *Exhortation and Controls: The Search for a Wage-Price Policy 1945-1971* (The Brookings Institution, 1975), p. 199-200.

[11] *Economic Report of the President* (GPO: 1964), p. 120.

Walter Reuther, the autoworkers' leader, delicately sidestepped the President's request. "If high productivity industries did not reduce prices, or reduced them by token amounts," Reuther explained, "the only way out of an excessive profit situation…would be through wage increases and fringe benefit improvements greater than the general guide."[12]

In fact, in February CEA had established an elaborate staff operation to monitor industry prices and profits, with particular attention to the auto industry.[13] During his trip to Detroit, Heller had personally met with executives from Ford and solicited cost data from Frederic Donner and George Russell of GM.[14] Two weeks after the UAW convention, Reuther met with Heller and Labor Secretary Willard Wirtz in Washington. Reuther, Heller wrote the President, would "*call for an auto price cut* in his opening presentation to the companies." But the union leader would not make the proposal the centerpiece of the union's bargaining demands, Heller continued, for fear of public charges that the union leader was trying to "run the industry."[15] Within the Cabinet, the President tapped Defense Secretary Robert McNamarra, former CEO of the Ford Motor Company, to continue cost and price discussion with the industry. The public face of technocratic expertise—slicked-back hair, unimpressed in public discussion, hubristic—McNamarra spoke with auto executives in

[12] "Johnson, Heller Urge Auto Industry to Hold to Wage-Price 'Guideposts,'" *Wall Street Journal*, March 24, 1964, p. 3. "Heller Sees Peril," *New York Times*, March 24, 1964, p. 19. "Guideposts Debated by Reuther, Heller," *Washington Post*, March 27, 1964, p. B6.

[13] Cochrane, pp. 204-6.

[14] Cochrane, p. 206.

[15] Cochrane, pp. 206-7.

April, and reported to CEA that the industry would not tolerate price reductions because it was “mighty jealous of its rate of return.”[16]

By late May 1964, CEA had worked up an expansive estimation of various productivity rates for the industry to use in judging rates of return on a given variety of auto prices. “The guideposts fully justify an auto price cut averaging $60 at wholesale,” CEA member Gardner Ackley wrote. “The Committee’s judgement is that the proposed price cuts of $50-$150 at retail would significantly restrain union wage demands.”[17] How could CEA bring these decisions to bear on the industry? In early June 1964, Heller phoned Johnson to deliver a “unified recommendation on this automobile thing” from a group of advisers working on the auto negotiations. Heller had hosted GM chairman Frederic Donner in Washington the day before, and, after discussing the possibility of price cuts, McNamarra suggested a Presidential request for price restraint be made publicly at the next week’s White House dinner hosting German Chancellor Ludwig Erhard. “It’s the central case in the future of the economy’s wage-price stability,” Heller pleaded with the President. Lyndon Johnson forcefully objected to intervention. “Now I ain’t gonna do that now,” the President told the economist. “I told y’all that the other day. I want you and Bill Wirtz to do what you can, and I don’t mind McNamara doin’, but I don’t think I ought to do it. And I got good feelin’ on that so don’t try to shove me into it ‘cause I don’t want to do it.” It would be “very distasteful,” the President continued, “for a fella’ to invite you to your house to dinner and then you start to politicking with him on a proposition. And I doubt the wisdom of the

[16] Cochrane, p. 207.

president talking to him about it anywhere." It was not the President's place, Johnson insisted, to secure price commitments from particular firms and industries. "I doubt very much that we've got much of a chance in succeeding in this without you doing it," Heller answered. "I think we have a reasonable chance if you do." ""Well I think that we'll have to lose, if it depends on my goin' to him, and askin' him to do this," the President insisted. "If I do, I'll be doin' it on everything that comes along. And I just don't want to do it."[18] Heller pleaded with the President to no avail.

Lyndon Johnson was unwilling to intervene in either corporation or union decision-making in Detroit. The political coalition the President was building for that year's election campaign between northern labor leaders and a business-friendly, segregationist south, just then in entrenched in an intransigent parliamentary struggle with the administration over passage of the Civil Rights Act, would strain from an assault on corporation autonomy. Many of business's closest allies in the Congress were southern conservatives. In April, this group's amity with the administration came under severe strain. Civil rights workers in the state of Mississippi—SNCC, CORE, and the Mississippi NAACP— organized an integrated delegation to the Democratic Party National Convention to sit in place of the segregationist delegation from that state with the assistance of UAW lawyer Joseph Rauh and the support of the political cadre atop the union's bureaucracy.[19] Lyndon Johnson had personally prevented the seating of the Mississippi Freedom Democratic Party at the convention to maintain his

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[17] Cochrane, pp. 208.

[18] Conversation with Walter Heller, June 4, 1964, Miller Center, Citation Number: 3627.

[19] Lichtenstein, *Most Dangerous Man in Detroit*, pp. 392.

electoral coalition: a movement toward control of corporation prices would only jeopardize this Southern support. Governor John Connally of Texas was waiting to hear the President's decision about the party platform before assisting Texas liberals associated with the President.[20] If the President was to court Connally and the conservative wing of the Democratic Party, he could not satisfy the civil rights organizations backed by the UAW.

In this situation, the President could not request wage restraint from the autoworkers whose political project in the South he was actively opposing. Throughout 1964, UAW president Walter Reuther had been helping the President raise funds for electoral campaigns in Texas, where incumbent liberal Senator Ralph Yarborough was being challenged by the anti-integration candidate from Houston, George H.W. Bush—the oilman, chairman of the Harris County Republican Party, and son of former Republican Senator Prescott Bush of Connecticut. The day after rebuffing Heller's entreaties to intervene in auto prices, Johnson spoke with Reuther over the phone about fundraising for the Yarborough campaign. "Say when do you start your negotiations?," the President asked. "I made a couple passes at 'em urgin' 'em to reduce prices, but I haven't had much success." "I did too," Reuther responded. "I'm going to urge them strongly to cut price. I'm in your corner on that one, all the way."[21]

An above-guidepost wage package in Detroit—and the inflationary wage and price increases it could stimulate—was the price the President had to pay for holding business and labor together in the electoral coalition for the 1964 campaign season. For Reuther, this transaction with the White House secured support for his continued presidency of the UAW.

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[20] Phone Call, Johnson with Reuther, June 5, 1964, Miller Center, Citation Number: 3632.

His continued alliance with the government would purchase the support of a membership whose activist cadre was then engaged in a reform program opposed by that very government. For the union leadership, such collaboration offered the promise of further organizational gains. The AFL-CIO was lobbying the administration to amend the National Labor Relations Act—the law establishing the federal labor board that regulated collective bargaining—by repealing language, Section 14(B), which authorized states to pass so-called "right to work" laws prohibiting labor agreements from collecting dues from nonmembers. Just as Reuther accepted the administration's refusal to jawbone prices, Federation president George Meany accepted Johnson's delay on 14(B) repeal. The voting rights legislation in the Congress would take precedence—Martin Luther King's campaign in Selma was just then getting underway—as would amendments to the Social Security Act establishing a public insurance program for those over the age of 65. Known as the Medicare program, the AFL-CIO had been one of the primary lobbying organizations for those amendments.[22] Continued cooperation with the administration on these legislative goals meant accepting Johnson's refusal to intervene in corporate pricing and profits.

The autoworkers pushed for a wage package in the industry representing a 4.9 percent increase. In early September, Chrysler signed a 3-year agreement with the union without a strike, followed later that month by a 10-day strike and an agreement at GM with plant-level strikes at Ford in November. The Bureau of Labor Statistics estimated the value of the

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[21] Reuther to LBJ, June 5, 1964. Citation Number: 3632.

[22] Joseph C. Goulden, *Meany: The Unchallenged Strong Man of American Labor* (Athenum: 1972), pp. 349-357. Irving Bernstein, *Guns or Butter: The Presidency of Lyndon Johnson* (Oxford: 1996), pp. 426-438.

settlements at between 4.7 and 5 percent increase over the 1961 contracts.[23] The White House issued no formal demerits against the union. The experience emboldened CEA—now under Ackley's chairmanship—on the necessity for a firmer grip over price-and-wage interventions. In January 1965, alluding to the auto industry, CEA wrote in the *Economic Report* that if "unusually high profits…serve as inviting targets for wage increases that exceed the general, economy-wide trend of productivity gains," then the proper response would be to restrict the growth of profits.[24] Yet wages and prices did not rise considerably in the year after the auto agreement. Average hourly earnings in manufacturing rose by 3.1 percent above their 1964 level—below the guidepost figure—while average compensation per employee-hour in the private, nonfarm economy showed a 3.2 percent increase. The CPI did begin to rise at a faster pace during 1965: from an 1.2 and 1.3 increase in the annual averages between 1962-1963 and 1963-1964, respectively, the annual average of the CPI rose by 1.7 percent between 1964-1965. However, while the index rose by 2 percent during the twelve months after December 1964, that rise was driven by prices in food—primarily meat—and in private services—most rapidly in the insurance industry, but altogether reflecting the catch-up of the lower wages of clerical, housekeeping, hospitality, and foodservice workers to the higher wages of the expanding and long-unionized manufacturing sector.[25]

[23] *Monthly Labor Review*, December 1964, p. 1386-7.

[24] *Economic Report of the President together with the Annual Report of the Council of Economic Advisers, January 1965* (United States Government Printing Office: Washington, 1965).

[25] *Postwar Trends in Labor Compensation*, Department of Labor, p. 23. In January 1964 the BLS restructured the component indexes of the CPI with different weights to reflect changing buying patterns of

In fact, the price index for durable consumer goods actually fell during 1965, pulled by falling household appliances, radios, and televisions. The tremendous productivity growth in these industries is evident in their rates of return for the first half of the decade. Even as durable goods prices fell or stabilized, the after-tax rate of return on equity (RoR) among appliance and equipment manufacturers continued to rise. According to data compiled by the Federal Trade Commission and the Securities and Exchange Commission, industries in the "electrical machinery and equipment" category earned 12.9 percent returns during 1965, compared to 11 percent in 1964; in "instruments and related products" earnings were 16.9 percent in 1965 compared to 13.8 percent in 1964. The auto industry was the most dramatic. Under intense scrutiny after the autoworkers 1964 contract, General Motors relented to administration pressure and actually reduced auto prices for 1966 models during autumn 1965. After the price cut, the industry earned 19 percent returns on equity in 1965, up from 16.8 percent the previous year.[26]

"Profiteering" in Aluminum

The Vietnam expansion transformed the emerging cooperation between corporation executives and the White House that both President's Kennedy and Johnson had done so

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wage earners and clerical employees. Comparisons of changes in the CPI and its component indexes in issues of *Monthly Labor Review* before and after this date are not possible. The figures in this paragraph are taken from Harry M. Douty's article "Living Costs, Wages, and Wage Policy: Rising Prices, Income Lags, and the Problem of National Wage Policy," *Monthly Labor Review*, Vol. 90, No. 6 (June 1967), which are reproduced in *Postwar Trends in Labor Compensation*, and from tables prepared by the staff of the Department of Commerce, Department of Labor, and the Council of Economic Advisers for the President's Advisory Committee on Labor Management Policy found in Keeton papers, Box 96, Folder 8.

[26] Keeton papers, *ibid.*

much to foster. Between the fall 1965 and fall 1966, a rapid series of events dramatically thrust the White House guidelines into the center of national life and cast the political debate over the administration's gradual insinuation into the private affairs of business in the older New Deal terms of corporate malfeasance. Under the stimulus of war production, Fowler and Connor's role as a liaison to business became sharply divisive. At CEA, price and wage surveillance began to overwhelm the agency's responsibilities. By December, the President would begin the search to replace the ad-hoc exhortatory measures with a more formal merging of the nation's wage and price decision making. In this search, two officials who would come to play decisive roles were Gardner Ackley, who replaced Heller as CEA chairman just after the election, and presential assistant Joseph Califano.

Ackley was a veteran of the Office of Price Administration during WWII and its successor, the Office of Price Stabilization during the Korean War—where, along with Henry Fowler, he learned the difficulties of administering price controls. "It's tough to disagree with a businessman over his prices," he told *Business Week*. "It's much more pleasant to disagree with him about high policy." Quiet and shy, his reputation for scrupulousness and plain-speaking would lend the Johnson CEA a forthright combativeness Walter Heller was been unable—or unwilling—to achieve. But his formal appointment to CEA chair would not come until January 1965. As *Newsweek* reported, "he could be taken for a dry-goods salesman from Sioux Falls or a high-school teacher from Helena—a middle-size man in a rumpled blue suit, with thinning brown hair and a cheerful expression." "Gardner Ackley," his Council colleague Arthur Okun said, "is the guy you would most like to buy a used car

from." The *Washington Post*'s Rowen described him as "cautious, shy, competent and somber…a quiet man, almost painfully so" with a "self-effacing air." Yet this restrained attitude contained a blunt honesty and demotic commitment to countermanding the decisions of the nation's corporate executives.[27]

Califano was one of McNamara's attorneys at the defense department, until the President selected him to join his personal staff in July 1965. He would serve as the President's proxy and liaison in the price meetings of late 1965 and 1966, regularly summarizing the reports Fowler and Ackley sent to the Oval Office and framing the decisions for the President. At 34, he was younger than many of the men he worked with, and, driven by Johnson's relentless energy, he quickly settled into cockpit of White House decision making. "He comes around the corner like a car on two wheels," a colleague told *Business Week*. "Like most-hard driving young men," the magazine editorialized, "he inevitably tends to be brusque and leave some bruised feelings behind." Like Ackley, he chain-smoked cigarettes. Unlike Ackley, he occupied the biggest office in the West Wing.[28]

The first link in the chain of events that would transform the guideposts occurred during the fall and winter of 1965, as Pentagon orders began pulling prices up in primary materials. Both the steel and aluminum industry had raised prices in 1964 in response to the autoworkers wage increase and in preparation for their own wage bargaining with the United

[27] "The Economy: awash in Affluence—but what lies ahead," *Newsweek*, July 18, 1966, p. 67-74. "How the style shifts at CEA," *Business Week*, January 30, 1965, pp. 73-6. "The Johnson Advisory Team," *Washington Post*, January 2, 1966, p. C8. "Cautious, Quiet Ackley in Hot Seat over Guideposts," *Washington Post*, January 27, 1966.

[28] "Crisis Solver for LBJ," *Business Week*, p. 34. "In pursuit of primus," *Time*, January 27, 1967.

Steel Workers (USW). In May 1965, the USW—whose president had been replaced in a highly publicized reform election—entered bargaining in the aluminum industry with a large wage demand. The USW settled without a strike. The CEA calculated the settlement at 4.1 percent.[29]

Labor negotiations in the steel industry followed in August. Employees at the steel companies had gone without wage increases for five years, and President Johnson pulled out all the stops for a settlement that remained within the guidelines, flying the union negotiating team from Pittsburgh and ferrying both the steelmen and the union leaders by marine helicopter escort from Washington National to Old Executive Office building. The President charged Labor Secretary Willard Wirtz and Commerce Secretary Connor with securing the agreement, appointed Oregon Senator Wayne Morse and commerce department official LeRoy Collins to mediate, and ordered Califano to open a back-channel to the parties through Arthur Goldberg and Clark Clifford. Negotiations lasted five days and four nights, and when agreement was finally reached on Friday, September 3, the CEA calculated the package at a 3.2 percent increase in labor costs.[30]

Would the steel companies raise prices? The guidepost labor settlement had deprived steel executives of their traditional justification for raising rates. In late October 1965, however, the steel industry found its rationale when Ormet, a small aluminum producer

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[29] James L. Cochrane, "The Johnson Administration: Moral Suasion Goes to War," in *Exhortation and Controls: The Search for a Wage-Price Policy, 1945-1947*, ed. Craufurd Goodwin (Washington: Brookings, 1975), pp. 216-20.

[30] Cochrane, "The Johnson Administration," pp. 220-5. Califano, *Triumph & Tragedy*, pp. 86-94. John Sheahan, *The Wage-Price Guideposts* (Washington: Brookings, 1967), pp. 50-1.

owned by Olin Mathieson, announced a price increase on aluminum ingots. Among US aluminum producers, three companies—Kaiser, Reynolds Metals, and the Aluminum Corporation of America (Alcoa)—owned eighty percent of the nation's aluminum production capacity, and Ormet's price increase would depend on the actions of these larger firms. Over the next week, both Kaiser and Reynold's announced new price schedules that matched the rise.[31] Immediately the administration looked to Alcoa for a signal of the future prices across the primary metals sector. As Ackley wrote to the President, "steel has been ready to go with the price increase announcement all week, awaiting the Alcoa move."[32] As the largest of the big three, Aloca was the "price leader" in its industry—like US Steel, it had the capacity to expand production and undersell its competitors, giving it the power to both set the industry's de facto price floor and veto and other firms' price increases by competing for their market share.

Alcoa's announced its price increase Friday, November 5. Immediately a press flurry followed. The administration knew the Alcoa decision would serve as a benchmark for the rest of the corporate executive class; already, earlier in the week the President had been reported as "sputtering mad" about the price hike by Ornet, Kaiser, and Reynolds. In central Texas, where the President was convalescing for gallbladder surgery, reporters, anticipating a repeat of Kennedy's righteous, headline-making denunciations of April 1962, asked press aid Bill Moyers for the administration's response to the Alcoa decision. Johnson had Moyers deny any administration opposition. Saturday morning, however, Ackley, Fowler, and

[31] Sheahan, pp. 62-6. Cochrane, pp. 228-37. This and the next three paragraphs draw on these accounts.

McNamara gave a press conference at the White House in which they announced the administration's intention to release 200,000 tons of aluminum from the defense department's national security resources stockpile. Established during the Korean War under the Defense Production Act, the stockpile had accumulated 2.1 million tons of aluminum during the Eisenhower and Kennedy administrations. Having revised emergency defense procurement requirements for aluminum downward to 700,000 tons, the administration was already engaged with the industry over how to liquidate 1.4 million tons of surplus aluminum. The big producers wanted a gradual liquidation over fourteen years; they would purchase from the government in small annual installments, preventing a large build-up of private inventories and enabling them to adjust their prices in an orderly manner. But because the small aluminum companies had no interest in taking on new inventories of surplus government aluminum, these discussions had ground to halt. Now the producers were raising prices, and the administration resolved to double its current rate of sales out of the stockpile and to drive prices down itself.[33]

The balance of payments was the overriding concern at the White House press conference. Aluminum imports had more than doubled over the past four years, McNamara explained. At the current rate, the nation would import 600,000 tons of aluminum in 1966—double the 1964 amount. Fowler said that this represented a dollar outflow of more than $100

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[32] Quoted in Cochrane, p. 226.

[33] "US Doubles Sales Rate of Surplus Aluminum," *Atlanta Constitution*, November 7, 1965, p. 1. "Aluminum Rise Held Inflationary," *Los Angeles Times*, November 7, 1965, p. C1. "Government Claims Industry Disregards Economic Guideposts," *The Sun*, November 7, 1965, p. 1. "US Frees Stockpiles As Advisers Criticize Aluminum Price Rise," *Washington Post*, November 7, 1965, p. A1.

million. With rising defense requirements, rising aluminum prices would further raise the industry's share of the trade deficit. Liquidating the stockpile, the treasury secretary continued, "will be an important factor in protecting the position of the dollar in the world." Ackley concurred. Stability in wholesale prices had been "the basis for the restoration of America's competitive position in world markets," the CEA chairman explained. Ackley then recited figures for the first three quarters of 1965: profits at Alcoa were up 26 percent, at Kaiser 29 percent, and at Reynolds 52 percent. The price rise had been the industry's fifth in twenty-five months. "These increases have no justification under the wage-price guideposts and are therefore inflationary." The department of defense would use 115,000 tons of the stockpile immediately, McNamara declared, delivering it to producers of powered aluminum—used in explosives—and to manufacturers of aluminum matting used in the new airstrips being constructed in South Vietnam. The remaining 85,000 tons would be sold at prices, he continued, determined by "buyers and sellers in the market dealing at arm's length."[34]

Aluminum industry executives were horrified by the announcement. Califano, representing the President in Washington, had charged the industry with "profiteering" and described the discussions with its leaders as "completely uncooperative." Over the weekend, in response, Alcoa released a press statement explaining the administration's decision to

[34] "US Doubles Sales Rate of Surplus Aluminum," *Atlanta Constitution*, November 7, 1965, p. 1. "Aluminum Rise Held Inflationary," *Los Angeles Times*, November 7, 1965, p. C1. "Government Claims Industry Disregards Economic Guideposts," *The Sun*, November 7, 1965, p. 1. "US Frees Stockpiles As Advisers Criticize Aluminum Price Rise," *Washington Post*, November 7, 1965, p. A1. "200,000 Tons in '66," *New York Times*, November 7, 1965, p. 1.

"disrupt a key industry" would cause "damage to the economy" and was "incomprehensible."[35] Reynolds complained that its earnings were inadequate to cover capital expansion—the CEA had calculated them at 9 to 10 percent, a level below the manufacturing average. The company issued a statement that its stock price has not kept pace with the Dow-Jones average, and it thought itself entitled to greater profits. The administration, through McNamara, would not be cowed. On Monday afternoon, the Secretary of Defense and Pentagon general counsel Cyrus Vance met with Alcoa chairman John D. Harper and vice-President Leon E. Hickman to discuss the government's role in managing the aluminum industry. In exchange for a price rollback from Alcoa, the administration agreed to withhold the stockpile sales. Wednesday, just before the Alcoa executives held a press conference in Pittsburgh, McNamara invited reporters to the Pentagon to announce the industry price decision himself.[36]

The aluminum price fight during the Vietnam build up launched a new phase in the Great Society macroeconomic policy. By November 1965, the monthly average of the WPI had increased 2.5 percent from its January level. Unemployment had fallen below 3 million during the summer, and the latest data available in the weeks before the aluminum dust-up showed the national unemployment rate above 4 percent of the civilian labor force. The US boom, however, was coinciding with another run on the pound in international currency markets. Connor, on a national tour of the Commerce Department's Export Expansion Councils—local businessman's committees organized to channel credit to exporting firms—

[35] "U.S. Raps Price Hike in Aluminum," *Boston Globe*, November 7, 1965, p. 1.

wrote to the President: “Business generally is so good, especially in places like Chicago, Milwaukee and Denver, that business leaders have to punch themselves to realize it’s true.” The only fear businessmen expressed was “widespread concern…about the possibility of mandatory [capital] controls” to protect the balance of payments.[37] After the conflict over aluminum, advisers within the White House and the Federal Reserve began to ask when to begin restraining growth through fiscal-monetary contraction.

Throughout October and November, professional opinion questioned whether and when the Federal Reserve would begin to choke-off the boom as it had during the 1959s. “The business cycle is not yet dead,” Arthur Burns declared in a series of lectures at Carnegie Mellon. The nation’s unemployment statistics belied the increasingly “voluntary” character of unemployment, he argued, masking “persistent shortages of skilled labor [that] exist[ed] side by side with surpluses of relatively unskilled or inexperienced labor.” These shortages were pushing up wages and prices and threatening inflation. He advised the administration “to slow down the rate of growth of bank credit and curb for a while the increase in federal spending on civilian programs.” Many liberals, however, considered the nation’s 4.5 unemployment rate in late summer far too high to consider austerity. “This is the precise time, as demand for labor expands, to encourage businessmen to hire and train inexperienced

[36] Cochrane, p. 335.

[37] Connor to LBJ, October 4, 1965, FG150-7, WHCF, LBJ Library.

workers," wrote Rowen of the *Washington Post*. "This is the precise climate in which prejudice against Negroes and others can be weakened."[38]

In fact, the Federal Reserve's Open Market Committee had broached the question of contracting credit at its September meeting, primarily on the grounds of protecting the balance of payments. Through October, the Committee's membership divided evenly on the question, with five members supporting credit restraint and five members opposing contraction. Chairman William McChesney Martin held the deciding vote. Two factors compelled the Committee's final decision in December. Both hinged on the fact that macroeconomic planning for 1966 was left pending evaluation of military progress. The administration was uncertain about the duration of the conflict at hand. As the US troop presence increased during late 1965 and early 1966, White House directives to the military were difficult to evaluate—they consisted of "resisting aggression" or "insuring a non-Communist South Vietnam," goals which did not offer the Cabinet or the Secretary of Defense a clear sense of the schedule of military expenditures.[39]

This apparent monopoly on fiscal planning held by McNamara and the White House was the first factor influencing Federal Reserve policy. In early October 1965, Budget Director Charles Schultz directed his staff not to attend meetings with the staff of the Federal Reserve so as to protect the secrecy of the government's projected expenditures.[40] Internally,

[38] "Burns Urges curbs on credit, spending," *Christian Science Monitor*, October 28, 1965, p. 12. Arthur Burns, "The Problem of Unemployment," reprinted in *The Business Cycle in a Changing World* (New York: NBER, 1969). "Economy Held Periled," *New York Times*, October 27, 1965, p. 63.

[39] Harry Y. Schandler, *Lyndon Johnson and Vietnam: The Unmaking of a President* (Princeton: 1977), p.35

[40] Califano, *Triumph and Tragedy*, p. 107.

McNamara had directed White House staff drafting the President's budget message for January 1966 to plan for an end to hostilities in Vietnam by June 30, 1967.[41] Martin understood this secrecy to mask large planned expenditures. The second factor compelling precipitate independent action by the Federal Reserve was the testing of the guideline policy against the aluminum industry in November. Just as Commerce Secretary Connor privately opposed the President's exhortation for price and foreign-investment restraint from corporation executives, members of the FOMC "desire[d] to aid the banks in breaking President Johnson's stranglehold on the prime rate," Sherman Maisel later wrote. "We [liberal members of the Board] believed in them [the guideposts], although it was clear that some members of the Board did not. The latter wanted to shift the burden of resisting inflation to monetary policy; we wanted it to stay where it was with informal guideposts fighting cost-push pressures."[42]

Fearing independent action from the central bank, the President called a meeting of the central policymakers—Federal Reserve Chairman Martin, Ackley, Schultze, and Fowler—just before a gallbladder operation scheduled for early November. There Johnson urged Martin against raising interest rates. When Martin asked about McNamara's defense spending projections, the President dissembled.[43] The dye was cast. Maisel recalled feeling "dumbfounded" on the afternoon of December 3, when, at a meeting called for a "minor regulatory matter" he saw "a request from the New York Bank for a discount rate change had

[41] Okun, *Political Economy of Prosperity*, p. 73.

[42] Maisel, *Defending the Dollar*, pp. 74 and 76.

been added to the agenda." The item carried no staff studies, no formal Board statements, nor any opinions from other government agencies. "In contrast to the reams of paper and studies that accompanied most actions of the Board, this crucial step was handled informally and without documentation."[44] In previous weeks, New York Federal Reserve chairman Alfred Hayes and Federal Reserve Board vice chairman C. Canby Balderton had both spoken publicly in favor of restricting credit. Speaking before the Federal Reserve Bank of Dallas, Maisel delivered a lecture against an interest-rate increase on either balance-of-payments or inflationary grounds. "It seemed to me that there were other and better techniques than a tight money policy to alter the balance of payments," Maisel later wrote. But those concerned about the gold outflow hoped an "announcement effect" from the Board would stifle speculative trades against the dollar.[45] Balderton and Martin held the majority, and on December 3 the Federal Reserve voted 4-3 to raise the discount rate it charged to member banks. [46]

The credit squeeze dramatically altered the shape of the Vietnam expansion in two ways that would characterize the remainder of the Johnson administration. The first was in declining residential construction and small-business lending, an effect earlier witnessed during the Eisenhower slump of 1957-60, now adumbrated by the contrast of booming

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[43] Califano, *Triumph and Tragedy*, pp. 106-8. Hobart Rowen, *Self-Inflicted Wounds: From LBJ's Gunds and Butter to Reagan's Voodoo Economics* (New York: Random House, 1994), p. 8.

[44] Maisel, *Defending the Dollar*, p. 71.

[45] Maisel, *Defending the Dollar*, pp. 73 and 76.

[46] "FED Member Dissents from Martin Policies," *Washington Post*, October 28, 1965, p. C9. "Economic Policy Sparks a Debate," *New York Times*, October 31, 1965, p. F1. Califano, *Triumph and Tragedy*, p. 108.

employment outside construction and mushrooming corporation investments in plant and equipment. The second, and related, effect of the credit squeeze was the apparent inequity of rising interest costs in a period of general wage restraint and the pressure this placed on the administration's wage guideline. As corporations passed on higher credit costs in higher prices and the general cost of living rose during 1966, the administration faced a decisive test of its long-exhorted wage restraint program. It was the politics of this test in the context of the Vietnam War that felled Lyndon Johnson's White House.

The fate of wage-restraint after 1965 is also important for another reason. The experience of jawboning organized labor and corporate employers into the wage-price guideposts during the summer of 1966 persuaded President Johnson of the necessity of fiscal contraction. The traditional history of the Great Society, and of the practical experience of Keynesianism in America more generally, holds that the doctrine of discretionary fiscal policy to guide stable expansion in the business cycle failed on political grounds: for fear of alienating some portion of the electorate, the Johnson administration lacked the capacity to raise taxes promptly to slow down business-cycle expansion.[47] Taxes could be cut and spending increased, but the administration was unwilling to deprive any group of income. To support this thesis, many historians note the day after the Federal Reserve decided to raise interest rates, CEA Chairman Ackley confided in Maisel his belief that the time had come for fiscal contraction to follow and that, on December 17, Ackley recommended the President

Cochrane reports the vote as December 5, p. 240. Rowen reports the vote on December 6, *Self-Inflicted Wounds*, p. 8.

ask the Congress for a tax increase in 1966.[48] No Presidential requests to Congress were forthcoming in January 1966. The fiscal-policy debate of 1966 in Congress, however, belies the assumption of Keynesian fecklessness. Fiscal restraint would be applied: in September 1966, after a series of nationally televised conflicts with organized labor over the policy of wage restraint, the President did propose a tax increase in the form of repeal of the seven-percent investment-tax credit established in 1962. Congress *accepted this fiscal restraint*, and the expansion in fact slowed during 1967.

Steel: "It's Like Dealing with a Neanderthal Man"

The Saturday after the aluminum price rollback, Ackley recommended the President establish a Cabinet Committee on Price-Cost Stability. The next Thursday Johnson asked Fowler to chair a standing group, comprised of McNamara, Connor, Wirtz, Schultze, Ackley and Califano. Over the next several months the group met for weekly lunches to discuss the CEA's price surveillance reports and possible administration responses. Connor was deeply uncomfortable with the emerging jawbone regime. "We [were] thought to be not cooperative, and to be narrow minded and fighting just for the business interests and so forth," Assistant Commerce Secretary McQuade remembered. "Connor was not about to, you know, apply the

[47] Herbert Stein, *Presidential Economics*; Julian Zelizer, *Taxing America*; Joshua Zeitz, *Building the Great Society*.

[48] This interpretation represents the conventional wisdom. See, eg. John W. Sloan, "President Johnson, The Council of Economic Advisers, and the Failure to Raise Taxes in 1966 and 1967," *Presidential Studies Quarterly* (Winter, 1985), pp. 89-98. Amity Shlaes, *The Great Society* (Harper: 2019). Joshua Zeitz, *Building the Great Society*.

screws and threaten to use—or my phrase would be misuse—the federal government power to force people to abide by what was essentially price control."[49]

As these Cabinet officials would learn, a more systematic controls effort would be needed as well as a general reduction in economic activity. During the New Years weekend, events began to overtake their ad hoc exhortations. Friday, New Year's Eve, Bethlehem announced the industry's long-awaited price increase in the form of a $5-per-ton hike on structural steel. The CEA was taken by surprise: first word of the new schedule came from reporters that evening calling to ask for comment. Within hours, Ackley released a denunciatory statement. Immediately, the President invited company executives to Washington Saturday to meet with the CEA. He also wired the executives of the seven other major producers formal requests against matching the Bethlehem price increase. On Sunday, January 2, Ackley held a press conference in Washington after meeting with Bethlehem executives, who left unwilling to rescind their new price schedule. Before the meeting, Bethlehem chairman Edmund F. Martin released a statement attributing the price increase to "product improvements" that reduced the volume of product customers needed for projects. Ackley laid out the company's profit position—28 percent above 1964, 83 percent above 1963—and the industry's rate of return—10 percent on equity. Bethlehem's profits, Ackley judged, were not below this industry norm: the price increase was a clear violation of the guidepost. "Bethlehem executives presented no new information that altered the initial judgement of the President's Council of Economic Advisers that the price increase is

[49] Ackley to LBJ, November 13, 1965. Califano to Fowler, November 18, 1965. FG150-7, WHCF, LBJ

unjustified and inflationary," the CEA chair explained. "Bethlehem people open themselves to charges of profiteering," Califano added pointedly.[50]

In the House, Henry Reuss of Wisconsin announced his intention to propose legislation for the coming session to empower the JEC to investigate price increases and to develop its own wage-price standards. In the Senate, Joseph Clark of Pennsylvania pledged to introduce a counterpart, as he, Kefauver, and O'Mahoney had advised throughout the late 1950s. Such new institutions for fighting inflation were particularly urgent, Reuss argued, in light of the Federal Reserve decision to raise interest rates in early December.[51] Illinois Senator and JEC Chairman Paul Douglas had traveled to the President's ranch in central Texas that weekend to discuss these proposals in relation to administration's economic program. As they walked alone along the Pedernales River that Sunday, Douglas explained to Johnson the imperative of raising taxes as the war escalated. When the President told Douglas of that federal deficit spending would run to $6 to $7 billion for both fiscal year 1966 and 1967, Douglas explained that the Democrats in the JEC were going to push for an excess profits tax. The committee's hearings on the President's *Economic Report* were scheduled to begin early February. Albert Gore of Tennessee and Russell Long, who had just

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Library. Lawrence McQuade Oral History.

[50] "Steel Firm Unyeilding On Price Rise," *Washington Post*, January 2, 1966, p. A1. "US May Pressure Steel Price Offender," *Washington Post*, January 3, 1966, p. 1.

[51] "Asks New Law to Put Brake on Inflation," *Chicago Tribune*, December 13, 1965, p. C5. Hobart Rowen, "Wage-Price Puzzle: What Next?," *Washington Post*, January 7, 1966.

succeeded Harry Byrd as the Chairman of the Senate Finance Committee, were supporting the idea.[52]

Monday morning, January 3, McNamara announced that all Defense Department orders for structural steel would be rerouted from Bethlehem. That same day, however, Inland Steel and Colorado Fuel and Iron announced they would match the Bethlehem price increase. In the afternoon, the administration expanded its purchasing guidance for structural steel to include the Department of Commerce, which oversaw the Federal Highway Administration, and the General Services Administration, responsible for all federal buildings. The White House clarified that all orders of steel from these agencies should be awarded "at the lowest possible price." Federal purchases accounted for a quarter of total steel purchases in the US, and these three departments accounted for the majority of federal purchases. Ackley again spoke before reporters, explaining that the administration's opposition to rising steel prices was not only on behalf of those "constructing new factories stores and office buildings" or for "the servicemen in Vietnam" concerned about "the upward push on the prices their families at home have to pay," but for the steel companies themselves. Structural steel imports had more than doubled between 1961 and 1964, rising to 620,000 tons, growing to 771,000 tons during 1965 as auto companies and other large steel users stockpiled in anticipation of a steel strike. Rising steel prices would only accelerate this

[52] Conversation with Paul Douglas and James Cross, January 1, 1966, Lyndon B. Johnson tapes, Miller Center, Citation number: 9401. Conversation with George Brown, January 4, 1966, Lyndon B. Johnson tapes, Miller Center, Citation number: 9418. President's Daily Diary, January 2, 1966, Lyndon Johnson's Daily Diary Collection, <http://www.lbjlibrary.net/collections/daily-diary.html>, accessed May 20, 2020. Oral history transcript, Paul H. Douglas and Emily Taft Douglas, interview 1 (I), 11/1/1974, by Michael L. Gillette, LBJ Library Oral Histories, LBJ Presidential Library, p. 16.

trend. "Foreign steel producers are the only people who will take much pleasure in this announcement."[53]

The administration turned to US Steel, the industry price leader to attempt to regulate the industry. The President, having returned to Washington Monday evening, began a whirlwind of phone calls to the business contacts he had accumulated from his twelve years in the Senate. At 8:00 AM he called Edwin Weisl, the chairman of the New York State Democratic Party, an ally from the 1940s when Weisl had served President Roosevelt on the War Production Board. Weisl served on the board of Paramount Pictures and was familiar with the Colorado Fuel and Iron leaders. At the President's request, Weisel succeeded in convening an emergency meeting of the Colorado board to rescind the price increase.[54] At 11:00 AM, Johnson met with Fowler, Connor, McNamara, Califano, and Attorney General Nicholas Katznebach to the discuss the steel situation. McNamara would speak with Roger Blough about US Steel's position on the increase from Bethlehem and Inland. That afternoon, McNamara called the President to report on his conversation.

"It's like dealing with a Neanderthal man, Mr. President," McNamara complained. The Defense Secretary had attempted to negotiate with the US Steel chairman by opening an anti-dumping complaint with the Tariff Commission, giving US steel producers some import protection. He offered to release molybdenum—an expensive steel input—from the Pentagon

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[53] "US Curbs Buying of Steel to Fight Price Increases," *New York Times*, January 4, 1966, p. 1. "Steel Backlash? Structural Price Boost Could Open Door Wider to Metal From Abroad" and "Government Considers Cut in Structural-Steel Buying As Part of Effort to Push Back Bethlehem Price Rise," *Wall Street Journal*, January 3, 1966, pp. 1 and 3. "US May Pressure Steel Price Offender," *Washington Post*, January 3, 1966, p. 1.

[54] Conversations with Edwin Weisl, January 4, 1966, Citation Numbers: 9421 and 9416. Cochrane, p. 227.

defense stockpile at below-market prices. McNamara had asked, in exchange for this relief, that Blough postpone any US Steel price announcement until after coming to Washington to meet with the President later that week. Blough responded that he would raise US Steel's price less than the amount of the Bethlehem increase, but he would not wait to make his price announcement. "Business thinks government is moving to destroy the market economy and he just couldn't act in a way that led his business colleagues and associates to feel he supported the government in moving to establish wages and prices other than through the private economy," McNamara explained. "He's not enough interested to go back to his country club and be called a slave of the government." Blough "had never undercut a competitor in his life." To obey the President's request would further alienate "business." Blough felt he had to disobey the President in order to maintain his political alliance with him. "It's the screwiest thing I've ever dealt with."[55]

Receiving McNamara's report, the President then called George Brown, the Texas construction mogul who had financed the President's electoral campaigns and served as a director on the board of Armco Steel Company. "I'm having a fight with your steel people," Johnson explained. "The symbolic effect of their action—we're just getting wires from all over the country, the processors, the fabricators, saying 'my god almighty, all of our costs got to go up, and we're gonna start raising prices.'" The White House could not ask for controls in this situation, the President explained, not only on principle but because of the psychological effect it would have "to kick this thing off." Would Brown call his colleagues

[55] Conversation with Robert McNamara, January 4, 1966. Citation Number: 9407.

on the Armco board to try and persuade Blough not to raise prices? "If I could get US steel just not to make an announcement." US Steel and a number of other steel companies, including Armco, Brown explained, had already met to plan their announcement of a price increase on steel bars. The Bethlehem decision had caught them completely by surprise. While structural steel comprised just 7 percent of US Steel sales, it was one of the primary Bethlehem products. "You don't think jumping the gun like this has anything to do with this meeting you got on the sixth with Wirtz—hadn't he got a meeting with all of the steel boys to go over the guidelines?," Brown asked, referring to the LMAC. "Not that I know of," Johnson said. Wirtz had called the executives for "a meeting on the guidelines, wanting to raise it from 3.2 to 3.8 or 4," Brown explained. "I just hunch that Bethlehem [thought], 'well, hell, if we're gonna have a meeting about that we better get this price up before that meeting on the guidelines.'"[56] On Johnson's behalf, Brown agreed to call Blough and William Beverly Murphy, CEO of Campbell's Soup and chairman of the Business Council.

The President then called Weisl again, who served with Blough on the board of Columbia University. Weisl, however, was caught in traffic—the New York City public transportation system was shut down in a strike of the transportation workers union. (TWU President Mike Quill was pushing for an above-guidepost settlement.) He then called McNamara about a meeting with the industry executives and the pressure in the Congress for an excess profits tax. "I can't get in there and get the midget off this feller's knee when he goes in to testify….if somebody doesn't help me," the President said of Blough, referring to

[56] Conversation with George Brown, January 4, 1966. Citation Number: 9409.

the early Depression-era episode when J.P. Morgan was photographed sitting with a midget on his knee during the Pecora hearings in the Senate Banking Committee on financial malfeasance in investment banking.[57]

Weisl, released from New York City traffic, returned the President's call. Blough had been surprised and disappointed about the Colorado Fuel and Iron decision, Weisl explained. But he remained unyielding to threats that the Congress would demand an excess profits tax and wage-and-price controls, promising only that he would notify McNamara before making his announcement the next day. Johnson's bluff was called. "We can't have the Presidential leadership put on the auction block every time aluminum or steel or copper goes up," the President complained to Weisl:

> "I can't win a war when I'm dealing with these hardheaded businessmen all day long, every day. They are just tying their own leader['s hands]—I'm not the leader of Russia, I'm the leader of the United States!—and they got me handcuffed because I'm debating with you and with George Brown and with McNamara and them…all day long, instead of trying to beat the Chinese, because they're trying to put their hand in the cookie jar!"

Blough, Johnson said, had "got himself in the shape of a Morgan." When the US Steel chairman was called before the JEC to explain the price rise, the President wouldn't "get in there and get the midget off this feller's knee when he goes to testify." Workers, Johnson complained, were "going to demand an excess profits tax…because I've got their wages

[57] Conversation with Robert McNamara, January 4, 1966: 9410.

down. And these liberals, I've got the most liberal Congress anybody ever had and they're gonna pass a damn excess profits tax and I don't want to do that."[58]

Tuesday night, the US Steel leadership flew to Washington to meet with the President's advisers. The White House communicated to the press that the President did not attend the meeting. As Rowen wrote for the *Post*, "Blough [and] other US Steel executives…huddled with officials designated by the President." "Neutral officials were using such terms as 'statesmanlike' to describe Blough's adroit handling of the current controversy," Rowen added.[59] Yet Gardner Ackley later recounted a much more arduous private conversation he facilitated between the President and Blough. "I made the arrangements," Ackley remembered,

> "and Roger came to my office and I took him over to the President's office. Roger started to explain what it was that they wanted to do and why it was a reasonable thing to do. And the President just started working him over and asking him questions and lecturing him. I have never seen a human being reduced to such a quivering lump of flesh. Roger was unable to speak at the end of that interview. LBJ just took him apart, spread him out on the rug; and when we left, Roger was just shaking his head. All that awesome power was really brought to bear! I'd just never seen anything like it."[60]

The next day, January 5, US Steel announced a price change averaging a $2.50-per-ton increase on structural steel—undercutting Bethlehem's increase by half—while reducing prices on "West Coast cold-rolled sheet," a product increasingly undercut by Japanese

[58] Conversations with Edwin Weisl, January 4, 1966: 9421 and 9416.

[59] "U.S. Accepts $2.75 Steel Price Rise," *Washington Post*, January 6, 1966, p. A1.

imported steel, by $9 per ton. Immediately, Bethlehem reduced its price to the US Steel rate. The event was publicized as a victory by the administration and an exercise in public responsibility by Roger Blough. The President had compromised considerably.[61]

The episode demonstrated the difficulty, as a rule, of using public authority to guide growth in the privately owned manufacturing sector, where rates of return were beyond government regulation, in a way that benefits wage earners at full employment. During World War II, OPA administrator Chester Bowles had discovered early in his tenure that the only method for enforcing price controls efficiently was to develop a profit formula based on a pre-controlled period and to compare the current cost-profit relationships of those firms petitioning for price relief to the standards of the base period. This was precisely what Kennedy and Johnson had pledged to avoid. But without such standards, there was no alternative to the ad-hoc exhortatory method of all-day telephone negotiations to ensure price stability during the military expansion. In either situation, it could not be done while at the same time keeping the favor of those who consider themselves the "business community."

"Some Kind of Full-Time Tri-Partite Board"

The conclusion drawn by Fowler's Thursday price-surveillance Cabinet Committee was to move toward Labor Secretary Wirtz's proposals to concentrate greater authority for macroeconomic management in the LMAC. Towards this end, on Friday, January 7, Fowler recommended the President meet privately with industry and labor leaders before the release

[60] Ackley Oral History.

of the CEA's *Economic Report* at the end of the month. The Treasury Secretary recommended pairing the meeting with public invitations to "several hundred leaders of major business concerns and trade unions" for a White House conference on wage-and-price restraint. "In light of current developments and the prospects ahead," Fowler wrote, "we think it timely to undertake to establish a more formal and public set of arrangements." Johnson objected to the large conference idea, he wrote, "but think is fine on dept. basis by cabinet leaders with business representatives."[62]

As profits rose during 1965, tension between the administration and organized labor had grown. Legislation to raise the federal minimum wage and to raise the pay of federal employees was bottled up in the Congress; the CEA considered both inflationary in the context of Vietnam spending. After the New York City transit strike and the apparent labor indifference to the guidepost policy, the feeling was increasingly mutual. Labor's persistence on outlawing state right-to-work laws (repeal of Taft-Hartley's 14(B)) had alienated the CEA. "I never was as disgusted in my life as with that crowd," Ackley remembered about the previous years' meetings with the AFL-CIO Executive Council. "All they wanted, Meany and the rest of the them, all they wanted to talk about was the President endorsing the repeal of Section 14(B)… It was about as meaningless a thing as could be."[63]

The tension finally erupted in public with the release of the *Economic Report*. The method for calculating the official guidepost figure had always been a point of contention

[61] "U.S. Accepts $2.75 Steel Price Rise," *Washington Post*, January 6, 1966, p. A1.

[62] Conversation with Henry Fowler and John Connor, January 7, 1966, Citation Number: 9462. BE5 Confidential File. Cochrane, p. 245.

with organized labor, for whom the technical definition of wage restraint was immensely important. Whereas, to regulate prices, CEA and employers had considerable flexibility to estimate companies' cost data, industry-specific productivity, and the difference between these figures, for wages the proposition for restraint was much simpler. In 1962, the Kennedy CEA's first report had defined a national wage policy in terms of the "trend rate of over-all productivity increase," estimating this trend for four different periods. The CEA used the 1947-160 trend of 3 percent annually as the guidepost standard for that year, and this language had remained in the 1963 report. In 1964 and 1965, however, as labor-productivity rose rapidly with the boom, the Council refined its trend measure. The productivity guide was redefined as the five-year moving average of output per manhour—a figure that, when including the recession years of 1958 and 1959, came to 3.2 percent. In 1966, as the five-year average dropped the recession years, the same procedure would have yielded 3.6 percent. Organized labor's economists understood this and were shocked when CEA unveiled a 3.2 percent guidepost figure for 1966.[64] As the *Washington Post's* Rowen wrote of the guideposts' origins, their purpose was "to ground the wage-price spiral by making sure that wages, in the first place, didn't take off into the wild blue yonder."[65] For this purpose the precise figure did not matter so much as the fact that wages would be restrained.

From the CEA's perspective in January 1966, the incipient inflation evident in rising metals prices, rising service wages, and projected increases in Vietnam spending all called

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[63] Ackley Oral History.

[64] *Economic Report of the President*, 1962, 1963, 1964, 1965. Kermit Gordon Oral History. Ackley Oral History. Goulden, *Meany*, pp. TK. Irving Bernstin, *Guns and Butter*, pp. TK.

for redoubling of effort on the wage front. But for labor, the very same inflation that the CEA cited as a need for wage restraint was a reason to press for increased wage settlements. P.L. Siemiller, the President of the International Association of Machinists (IAM), leaked the CEA figure to the press. “They gave us no mathematical justification,” *Newsweek* quoted an anonymous labor leader. “Those are his [Johnson’s] guidelines, not ours,” Meany said.[66] Speaking before the JEC in February, UAW leader Leonard Woodcock described the wage guideline as “more restrictive than wage controls during the Korean War.” “When GM follows the guidepost on pricing, we’ll consider the guidepost on wages,” he continued, chiding the CEA for “patting GM on the back last year for cutting the price of a Cadillac $1.43.”[67] UAW economist Nat Goldfinger read a statement for Walter Reuther at the hearings that declared “The average American worker is being shortchanged. He has not been receiving a fair share of the gains of increasing productivity. The gap between what a worker produces in an hour and what he can buy for money in that hour has been steadily widening.” Reuther’s statement characterized this erosion of the workers’ dollar as an effect of swelling profits on prices:

> “The losses sustained by workers as a result of the inequitable sharing of productivity gains have contributed mightily to the swelling tide of profits…. The 25 largest corporations in the country, as ranked by Fortune, increased their after-tax profits in the first 9 months of 1965 by an average of 30

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[65] *Free Enterprisers,* p. 120.

[66] Ackley to LBJ, January 16, 1967, FG11-3, WHCF, LBJ Library. At the 1967 meeting, Ackley wrote that “The only problem [with last years’ briefing sessions] was Roy Siemiller’s leak of last year’s 3.2 percent wage guidepost to the press.” A restricted copy of this document is filed in LA EX with Siemiller’s name redacted. “The Economic: A Soaring ‘66—If…,” *Newsweek*, February 7, 1966, pp. 59-61.

[67] “UAW Official Cites Tough Guidelines,” *Washington Post*, February 9, 1966, p. A6.

> percent over the same period of 1963. Among those at the very top were Bethlehem Steel Corp. with an increase of 83 percent, International Business Machines with an increase of 70 percent, United States Steel with an increase of 51 percent, and Ford Motor Co. which for the full year of 1965 earned 39 percent more profit than in 1963. This enormous rise in nonlabor income, along with the lag in wages and an increasingly regressive tax structure, has produced a wrong-way income distribution trend… the wage policy proposed by the Council of Economic Advisers is extremely negative and grossly unfair."[68]

The administration's wage restraint program was beginning to dissolve in its hands. After the hearings, Johnson invited Meany and Reuther to discuss the administration's program. "If the guidelines [are] to have any meaning," Meany told Johnson, "labor should be part of the formulating body. The guidelines [are] a political, not an economic, decision."[69] Wirtz had been preparing just such a tripartite formulating body before the steel industry price controversy seized the President's attention. To supplement the Cabinet Committee, Wirtz hoped to convene the LMAC for more regular meetings with the President to use its authority in bringing to bear requests for restraint on future wage-price decisions. On December 15, 1965, Wirtz circulated a memorandum recommending the President reconvene the LMAC. On December 18, Califano wrote to Wirtz and Connor that "The President has approved that you proceed with an informal meeting of the Advisory Committee on Labor-Management Policy…to help work out long range price stabilization

[68] U.S. Congress, Joint Economic Committee, *January 1966 Economic Report of the President: Hearings before the Joint Economic Committee*, 89th Cong., 2nd sess., 1966, pp. 387-405. Typescript of Reuther statement, Milwaukee MS 112, Box 56, Folder 7, papers of Henry Reuss, Wisconsin Historical Society, University of Wisconsin-Milwaukee.

[69] Joseph Goulden, *Meany* (1972), pp. 350-1.

problems." Wirtz's thinking can be gleaned from a letter he wrote to the President on December 21 recommending the tax increase be coupled with "a new wage and price approach" centered on the labor-management committee. Under the guideposts, he explained, the Vietnam spending had contributed to rising profits and prices that "affect[ed] organized labor…adversely." Between Connor's distaste for price control, Wirtz insistence on cooperation with organized labor, and the CEA's knuckle-raping about the guideposts, however, neither the LMAC nor the Cabinet Committee found a strong foundation for agreement. In Califano's judgement, "the [LMAC] group is not an effective apparatus for handling specific price situations at this time."[70]

Roger Blough's visit to Washington to discuss the wording of US Steel's price announcement in January canceled Wirtz's planned LMAC meeting. Reviving the idea in late February, Undersecretary of Labor James Reynolds invited George Taylor, who had directed the Wage Stabilization Board during the Korean War, to meet with Wirtz. The three lunched with Fowler and Ackley as the group planned out a revivification of the committee. New members had to be found to replace those appointed by President Kennedy: David McDonald was no longer president of the steelworkers' union, Clark Kerr had resigned. Two weeks later, Wirtz wrote to the President explaining his thoughts about the developing plan. "In my judgement," Wirtz wrote, "this [further tax increase] won't do the job—at least alone, and by November [elections]. I question the effectiveness of the guideposts; doubt the

[70] Wirtz to Cabinet, alluded to in Califano to Wirtz and Connor, December 18, 1965, FG150-7, WHCF, LBJ Library. Ackley to LBJ, December 17, 1965, quoted in Cochrane, p. 242. Wirtz to LBJ, December 21,

necessity of any general tax increase, and urge as an essential additional element the involvement of American Labor and Industry in a 'hold-the-line' program in which they are participants—both in setting it up and in helping to enforce it." The crucial element, Wirtz proselytized, was the "feeling of private responsibility that comes with participation in the development of the Government's program" which could only be gotten "in the setting up of a system of voluntary self-controls in which they [business and labor leaders] will be active participants. This would take the form of some kind of full-time tri-partite Board, or some system of industry or regional boards."[71]

The fate of stabilization policy during 1966 hinged on the pattern of individual labor disputes disrupting the Labor Secretary's attempt to establish a basis for wage restraint. Two major strikes tested the policy most acutely: in March, construction machinery operators in New Jersey ceased work on all large projects, and in July, airline mechanics shut down a third of the nation's air travel. Both strikes were led by local union leaders who had turned their negotiations into political challenges against the wage guideline and the Democratic Party.

In response to the unraveling situation, liberals in the Congress moved to place wage-price guidance on a statutory basis. Emmanuel Celler, Democratic representative of New York, proposed legislation to establish a 60-day price notification requirement by large firms.

1965, quoted in Cochrane, p. 244, fn. 109. Califano to LBJ, December 28, 1965, FG150-7, WHCF, LBJ Library.

[71] Correspondence from James Reynolds to George W. Taylor, February 25, 1966, and Taylor to Reynolds, February 28, 1966, MS. Coll. 1210, Box 7, Folder 4, George W. Taylor papers, Kislak Center for Special

Henry Reuss introduced legislation empowering the JEC to formulate guideposts and investigate alleged violators.[72] After meeting with the President in February and March, Walter Reuther wrote with a proposal for a "Price-Wage Board of Review," a renewal of the proposals during the downturn of 1957-60 to apprehend "administrative prices."[73]

Wirtz, convinced his corporatist body for negotiating the terms of wage restraint would fail unless it was founded on a voluntary basis, urged opposition to any legislation. When Johnson asked for Wirtz's opinion on Reuther's letter, the Labor Secretary responded that the idea "should not be advanced legislatively until an attempt has been made to develop a similar procedure on the basis of labor-management agreement."[74] The government had to remain neutral if business and labor were to voluntarily agree to self-restraint. The President, moreover, was aware of business's uncompromising opposition to any such proposal for mandatory advance price notification. After the US Steel price fight, Connor and Fowler had proposed the idea of price-review board to W.P. Gullander, president of the NAM, and Arch N. Booth, vice-president of the US Chamber of Commerce. "They boggle completely on the issue of an obligation on the part of the major companies to notify," Fowler explained to the President, "and they resent bitterly government officials assessing publicly whether or not a

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Collections, University of Pennsylvania, Philadelphia, Pennsylvania. Wirtz to Johnson, March 23, 1966, FG730-2, WHCF, LBJ Library. Wirtz to Johnson, March 17, 1966, BE5, WHCF, LBJ Library.

[72] *Price Notice Bill* and *A Bill to Enable the Joint Economic Committee to Combat Inflationary Price-Wage Behavior*, 89th Cong., 2nd sess., *Congressional Record* 112 (January 10, 1965), pp. 77-8 and 86-8.

[73] Michigan governor G. Meenan Williams had hosted a public meeting of economists and intellectuals as early as 1959 to discuss the idea, and similar bills had been regularly introduced in the Congress by politicians from the Steel Belt states around the Great Lakes, Pennsylvania, and New York.

[74] Correspondence from Walter Reuther to Lyndon Johnson, March 22, 1966, and memorandum from Wirtz to Johnson, April 7, 1966, BE3, WHCF, LBJ Library.

price or wage action—price action by a company or union action—is violative of the guidelines." When asked about Congressional action, both Gullander and Booth expressed doubts that majorities could be found for a price-notification bill without Presidential pressure.[75]

Consensus thus militated against controls. With forward planning halted by the political uncertainty of the war, in March Ackley proposed "a new approach to industrial price problems." The CEA would begin to regularly convene meetings with ten to thirty business leaders from each "industrial sector: e.g., chemicals, petroleum, machinery, food manufacturing, etc." where the CEA chairman would present executives with the council's studies of their price-productivity-profit trends and seek to work out solutions to any firms' particular profit problems that might otherwise cause them to raise prices.[76] The new pattern was a regime of *de facto* price control, founded on the patriotic appeal to businessmen to exercise restraint in profitmaking during the period of hostilities. "We don't want to say were drafting another man's boy and not drafting the dollar," President Johnson had complained during the conflict with US steel.[77] After March, CEA would unofficially draft the dollar.

But as the expansion accelerated over the spring and summer, the administration found itself cornered in stabilization policy for a second reason. During the Korean War, the Truman administration's announcement that it would ask Congress for authority to control wages and prices had sparked off two waves of speculative purchases by businesses and

[75] Califano to Johnson, January 7, BE5 Confidential, Box 2, WHCF, LBJ Library. Conversation with Fowler and Connor, January 7, 1966: TK.

[76] Ackley memo March 1966.

consumers eager to get ahold of goods that might soon become scarce. Businesses rapidly increased prices to lock in profit margins before the imposition of wartime price ceilings. "Gardner Ackley had lived with the OPA [*sic*: OPS] during the 1951-1952 period. Joe Fowler had, too," Trowbridge of Commerce later remember. "They had seen the inequities, the difficulties of effective implementation of the price control system…. [T]here was no authority for it and to get authority you'd have to go through Congressional procedure. While the debate was going on you'd just see the skyrocketing of prices and wages to get ready for it."[78] The risk of panic buying made any discussion of a formal change in the economic program anathema. "The nightmares and excesses of excess profits taxes and direct wage and price controls are not in the Administration's thinking," Ackley reassured the President about the industry meetings in March. They would be held clandestinely.[79]

Unfortunately, consensus also militated against a tax increase in early 1966. In December, Ackley prevailed upon the President to depress the boom by raising taxes. In his State of the Union Address, Johnson proposed accelerated corporate income tax collection and continuation of excise taxes on automobiles and telephones, recently rescinded by the Congress—he made no mention of either an excess profits tax or wage-and-price controls though he continued to urge "both labor and business to exercise wage and price restraint."[80] Three weeks later, during Congressional hearings on the *Economic Report*, Fowler urged the Congress to make recommendations for the form a tax increase should take—whether on

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[77] LBJ to Brown, supra.

[78] Trowbridge Oral History

[79] Cochrane, 1977. Quoted in McQuaid, p. 238.

corporations or on individuals, and in what income categories—so that the administration might act on a contingency basis.[81] Little basis for agreement existed. The AFL-CIO called for elimination of the investment credit and the imposition of an excess profits tax. Chamber of Commerce chief economist Carl Madden opposed any tax increase "which inhibits new enterprise, distorts investment decisions," proposing instead "a broad-bases, low-rate excise tax with suitable exemptions."[82] In May, Ackley, Califano, Fowler, McNamara and Schultze met with the President in Texas to redouble the push for a tax increase. "So far," Walter Heller wrote to Johnson the next week, "inflation hasn't really got us by the throat because higher prices haven't yet infected the wage structure—but just wait, at 2 ½ % to 4%, wage boost will start coming in at 5% to 6% instead of 3% to 4%."[83] By this time, the deteriorating industrial relations situation would begin to force the administration's hand. But business continued to oppose tax action into May. Channeling the tenuous consensus with the CED, Herbert Stein judged that month that "We would be wise to pursue a wait-and-see policy" before raising income taxes. Even among businessmen, continuing expansion ruled the day.[84]

Political Exchange in Construction: Wage Restraint for Profit Controls

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[80] State of the Union Address 1966.

[81] Fowler, *Hearings on the President's Economic Report*, Part 2, pp. 180, 185, and 204, *passim*.

[82] *Hearings on the President's Economic Report*, February 1966. Statements of Nat Goldfinger and Carl Madden, pp. TK.

[83] Texas meeting in Cochrane, Califano, and BE 5 Confidential. Heller in BE5 Confidential.

[84] Twentieth Anniversary Clips. Guidelines book. *Managing a Full Employment Economy* (New York: CED, 1966), Stein on p. 27.

Before Wirtz could make his attempt to reconstitute the LMAC, labor's lower leaders began to move. On March 21, machinery operators struck large construction projects in the state of New Jersey. Three months earlier, the state's Associated General Contractors had announced it had reached an agreement with Local 825 of the International Union of Operating Engineers (IUOE) to raise heavy machinery operator's hourly earnings by 30 cents to $7.75 an hour and an additional 35 cents an hour in benefits. The average manufacturing wage in manufacturing was then around $2.60; in contract construction it was round $3.70. The employers' association estimated the agreement to represent an annual increase of between 13 to 17 percent—about five times the guidepost limit.

When the CEA invited Local 825's leaders to Washington in February, the union rejected the offer. Wirtz requested assistance from John Dunlop—a professor of industrial relations at Harvard (protégé of Sumner Slichter) and the impartial chairman of the Construction Industry Joint Conference, a private business association of the national business and labor leaders in the industry—who drafted a proposal for the member organizations of the Joint Conference to intervene in local disputes to secure wage and price restraint. On February 16, Wirtz, Ackley, and Califano met with Meany to discuss the Dunlop proposal. "The Administration is sympathetic to it," Califano wrote to LBJ, "and would look with favor if it were adopted. If Meany, et al cannot live with it, then they should submit some other proposal because something has to be done to get the Building Trades situation in hand." The *New York Times* quoted employers' representatives on "the ever-growing power of the building and construction trades unions" and on the administration's

response to the Local 825 contract as "the Munich of wage-price restraint." To coerce a guidelines settlement, Wirtz, Ackley, and Califano suggested the Bureau of Public Roads withhold funds from the State of New Jersey, ransoming the future of public construction in the state until the union agreed to adhere to the administration's wage program. [85]

Meany was sympathetic to the problem. "On the guideposts themselves," Califano wrote, "as Meany has said to both you and Wirtz if he [Meany] were President he would have something like the guideposts. If we do not control inflation, the working man will be the first to suffer. The rich will still go to Nassau and Puerto Rico." But Meany saw employer profits and not construction workers' wages as the lynchpin of the stabilization program. "George Meany was incensed by the construction paper when he got it," Ackley later wrote of an LMAC meeting. "He said it was so anti-labor that he would refuse to discuss it. Through Nat Goldfinger (his principal economist) we apparently cooled him off enough to be willing at least to talk about the paper."[86] The day after Meany's meeting with Johnson to smooth-over the JEC hearings, the 18 national union presidents of the Construction and Building Trades Department (CBTD) of the AFL-CIO, representing 3.5 million carpenters, painters, plumbers, and other building trades, met to discuss the Dunlop proposal. Speaking to a reporter after the meeting, CBTD president C.J. Haggerty said there were over eight thousand local unions within the national unions represented by the CBTD, making any national coordination impossible. The plan to centrally monitor and guide these negotiations was "unworkable and therefore we are unwilling to support it." After five days and with

[85] Sheahan, pp. 52-4. Linder, pp. 19-20. Califano to LBJ, February 16, 1966, , LA EX, Box 2, LBJ Library.

entreaties from New Jersey labor commissioner Raymond Male and Wirtz, Local 825 agreed to settle for the wage increase and to await binding arbitration for the benefit increase.[87]

The construction dispute revealed the difficulty the administration faced in devising a national wage policy without the cooperation of the unions. Marc Linder has argued that the full employment economy made construction unions blind to the effects their wage demands would have in stimulating a counteroffensive of large manufacturing and finance firms who began increasingly to contract with non-union construction firms.[88] But this thesis does not appreciate the degree to which the provocative wage claims of highly organized workers were calculated to force the Johnson administration into adopting wage and price controls as a way of regulating profit rates many workers' leaders interpreted as a national scandal. As the AFL-CIO's Executive Council declared, the federation would "cooperate so long as such restraints are equitably placed on all costs and incomes—including all prices, profits, dividends, rents, and executive compensation, as well as employees' wages and salaries." As Haggerty told reporters after denouncing the Dunlop proposal, construction unions would only support wage restraint as part of a program that included price and profit controls. Meany had distilled the issue during a meeting with President Johnson that month: "The guidelines were a political, not an economic, decision."[89]

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[86] Ackley to Johnson, July 18, 1966, FG730-2, LBJ Library.

[87] Califano to LBJ, February 16, 1966. Goulden, pp. 349. February 18, 1966 *Washington Post*. Linder, pp. 20-21. Cochrane, p. 258.

[88] Mark Linder, *Wars of Attrition: Vietnam, the Business Roundtable, and the Decline of Construction Unions* (Iowa City: Fanpihua Press, 2000).

[89] Goulden, *Meany*, p. 349-51. "Construction Workers Bar Pay Demand Curb," *Washington Post*, February 18, 1966, p. D6.

The organization and financing of construction in the US made the problem of wages particularly acute in this industry. Because many large projects were not active in the winter, construction workers were unemployed for about a third of the year. Exacerbating this problem was the way the Federal Reserve's method of regulating investment generally effected housing investment. In the months after the December discount-rate increase, new housing starts began to fall nationally: builders began 1.3 million homes in February 1966, nearly two-hundred thousand fewer than in February 1965 and four-hundred thousand fewer than December 1965.[90] Unions insisted on wage premiums to tide workers over during periods of joblessness. Thus, this "seasonality problem" became the center of the Wirtz program for restraining construction union claims. In June, the labor secretary issued a report on the industry proposing an arbitration award establishing a fund jointly administered with the union to finance public works projects in periods of slack demand for construction labor. The employers would contribute 20-cents an hour to the fund and the unions would forego the benefit increase. The Associated General Contractors of New Jersey called the plan "more inflationary" than the original Local 825 bargaining demands. Smoothing the schedule of construction projects, Wirtz countered, would save the industry "about a billion dollars a year" in overtime wages regularly paid under current arrangements. The national contractors association rejected the proposal on the grounds that stable employment would encourage

[90] "Housing Starts in February Fell to a 3-Year Low," *Wall Street Journal*, March 21, 1966, p. 3. Office of Business Economics, US Department of Commerce, *Survey Current Business* (June 1966), p. S-9.

absenteeism, a remark that provoked a series of three-week strikes by Local 825 in July. An agreement would not be found until September.[91]

Political Exchange in Airlines: Nationalization

Almost simultaneously, a second major breach in the guideposts occurred in the airline industry. In mid-March, just before New Jersey projects came to a halt, the National Mediation Board released a dispute between the International Association of Machinists (IAM) and five national airline companies— Eastern, National, Northwest, Trans World, and United. The IAM represented 34,500 airplane mechanics who had been bargaining for a 15 percent wage increase since August 1965. Unable to find agreement themselves, and threatening a strike of the airways unwanted by the administration, the President had referred the dispute in December to the Mediation Board. Now, the Board recommended the parties agree to binding arbitration by a neutral third party. Unhappy with this result, the local union set a strike deadline for April 23.

Johnson responded by establishing a Taft-Hartley emergency board in late April to study the dispute comprised of Oregon Senator Wayne Morse, Richard Neustadt, and David Ginsburg, former general counsel of OPA. The law called for the President to delay strikes in industries vital to the national interest for 60 days by appointing members to a public emergency board charged with studying a labor dispute and issuing non-binding

[91] Linder, p. 21-2. Cochrane, p. 258. *Business Week*, July 16, 1966, pp. 48-50.

recommendations.[92] In previous instances, such boards provided a forum for the administration to pressure intransigent employers to absorb labor costs or persuade union leaders to trade wage demands for other political perquisites.[93] The political orientation of the airline mechanics union leadership, however, complicated Presidential intervention. IAM president Paul LeRoy Siemiller had been one of the most vocal opponents of the CEA's guidepost figure when the AFL-CIO leaders met with the CEA in January. IAM vice-president Joseph W. Ramsey, in charge of the airline negotiations, was a registered member of the Republican Party.[94]

May 3, Wirtz and George Taylor finally reconvened the President's labor-management committee for a three-day conference in Washington. The LMAC, seeing the dispute in New Jersey and the emerging strike in airlines, agreed, in Wirtz's words, that the "present voluntary controls are having no significant effect, and very little can be expected of voluntary controls. (But this attitude changed some during the discussion.)" The group decided, in good industrial-relations fashion, that what it "ought to do is get away from the idea of an over-all inflationary danger, and concentrate on the specific problem areas." Ackley wrote that "The only consensus that was reached could be summarized as follows: the present wage-price guideposts are unsatisfactory; nevertheless, some voluntary restraint

[92] "Transport News: Airlines Dispute," *New York Times*, March 24, 1966, p. 78. Goodwin, pp. 259-60.

[93] See, for example, *Emergency Disputes and National Policy*, eds. Irving Bernstein, Harold L. Enarson, and R.W. Fleming (New York: Harper & Brothers, 1955). For an account of one such emergency dispute, see the article by Kristoffer Smemo, Samir Sonti, and Gabriel Winant, "Conflict and Consensus: The Steel Strike of 1959 and the Anatomy of the New Deal Order," *Critical Historical Studies* (Spring 2017), pp. 39-73.

[94] "Five Airlines and Union Far Apart on Money," *Washington Post*, July 9, 1966, p. A1. "Air Strike Talks Make Some Progress: Union Presents New Position," *Wall Street Journal*, p. 9. Cochrane, pp. 258-263.

on wages and prices is necessary." During the meetings, only two of the seven business representatives assented to the principle of the guideposts.[95]

On the final day, Ackley and Wirtz persuaded the group against pressing for an immediate tax increase.[96] "If it were not for resistance by Bill Wirtz and me," Ackley wrote, "the LMAC *would have given you a formal expression of opinion on a tax increase.* The recommendation would have been divided, but with a *majority in favor*."[97] Delay on a tax hike accorded with wider public sentiment, as we have seen. On the final day of the labor-management conference, the US Chamber of Commerce held its annual meeting and voted in a closed session by a margin of 18 to 1 for reduced federal civilian spending, *rather than a tax increase*, to deflate the expansion.[98] Business regarded the corporate and top-bracket income-tax reductions of 1964 as a historic achievement and was unwilling to consider reversing them for the purposes of stabilization.

By the next LMAC meeting, June 3, the business members had changed their tune. With prices rising and the possibility of a large wage settlement in the airline industry, the businessmen had come to endorse Presidential persuasion in holding down wages. The meeting's "most significant outcome" was "unanimous expression of support for the present guidepost policy by the six management representatives," Ackley wrote. "The industry members had caucused at the subsequent Business Council meeting, and obviously had

[95] Wirtz to LBJ, May 4, 1966. Ackley to LBJ, July 18, 1966. Folder "FG730-2," Box 40, EG 721, LBJ Library.

[96] LMAC May meeting.

[97] Ackley to LBJ, May 5, 1966, FG730-2, LBJ Library. Cochrane, p. 264.

[98] *New York Times*, May 5, 1966.

agreed that they had better support the existing guideposts rather than risk something worse." The one absent business representative, Tom Watson of IBM, had already endorsed the guideposts: all seven business representatives favored the principle.[99] Wirtz added: "There is no sentiment for a tax increase at this time, although there was some at the May meeting… there is agreement that continuing attempts should be made to create an effective voluntary restraint program."[100]

On June 5, the Taft-Hartley board in the IAM-airlines dispute delivered its report. There was little surprise when the union rejected the board's proposed settlement. Three days later, 35,000 airplane mechanics across the nation walked off the job, grounding 60 percent of trunk-line air traffic. Immediately Congress took notice. As the strike entered its second week, Senator Morse, who had served on the emergency board and was thoroughly familiar with the terms of the dispute, introduced legislation in the Senate for the federal government to take the five struck companies into receivership—a move towards awarding a union contract and restoring national air travel. The measure was received poorly by Southern Democrats; Morse moderated and substituted a resolution for a 180-day "cooling off" period. The next week, Undersecretary of Labor Reynolds announced the parties had an agreement amounting to a 4.5 percent annual wage increase. The President took to television July 29 to announce the settlement, declaring it not inflationary and an exception to the guideline rule, only to be humiliated two days later when the machinists' rank-and-file rejected the offer in

[99] Folder 11, Box 7, George W. Taylor Papers, Kislack Center for Special Collections, University of Pennsylvania. Ackley in WHCF FG730.

[100] Wirtz to LBJ, June 23, 1966. FG730-2.

an overwhelming 3-to-1 majority.[101] "I want you to know what the board's recommendations are and I want *you* to know that I am right behind them, 100 percent," Siemiller had said in a facetious speech before the membership. He then opened his coat, revealing a large sign that read "Vote No."[102] The next day the Senate passed the Morse bill.

Monday, August 2, Robert and Edward Kennedy, the Senators from New York and Massachusetts, introduced a competing bill that retained Morse's original proposal for government seizure of the airline companies. Together with Joseph Clark, they introduced legislation empowering the President for 180 days to assume ownership of profits, fix rates, and establish working conditions at the five struck companies—what Drew Pearson called "unlimited permissive power."[103] Ending the strike through federal intervention, however, was widely perceived as an act of hostility against organized labor. Several newspapers reported that not since the railroad strike of 1917 had the Congress decided against unions by passing legislation to end an individual strike. Both the Morse and Kennedy proposals were widely interpreted as a test of the President's alliance with organized labor: to sign them and call the machinists back to work would be considered an assault on the unions. "These papers are not our friends," the President complained to Califano and to press aid Bill Moyers during the Senate debate. "Each article is that labor has really turned on us….UP and AP run each day, as just a matter of fact, that labor is really after me. And we can't turn it. I don't know how to turn it. They just state it, they don't quote a man. They don't say 'Siemiller says

[101] Cochrane, pp. TK. "Air Strike Talks Make Some Progress: Union Presents New Position," *Wall Street Journal*, July 18, 1966.

[102] David Ginsburg Oral History.

that labor's mad' at me. They do it, then pretty soon people believe it…. I don't know really how to handle the public angle of it."[104]

Thursday, August 4, the Senate debated a compromise resolution ordering the machinists back to work for thirty days and empowering the President to appoint a third emergency board to mediate the dispute. Initially, many in the Senate had refused to vote on the grounds of supporting organized labor. The Kennedy-Clark measure to empower the President to seize the industry was perceived by many as an infringement on the "free collective bargaining" rights that had come to animate AFL-CIO rhetoric during the early Cold War. "When you go back to your state, when the members of the House of Representatives who run for re-election this year go back to their states, you're all going to be charged with being strikebreakers," Pennsylvania's Clark explained, trying to mollify the reticent politicians. "That may be unjust, it may be unfair, but it's a political fact of life."[105] For many conservative and business-friendly politicians, however, the dispute came to symbolize a last stand against the coercive power of unions. "The damage rolls on and on like a cyclonic wave," said Republican Senator Everett Dirksen, urging the Senate to vote in favor of the amended Kennedy measure. "May the motion to postpone the vote be roundly defeated to show we have not lost our guts, we have not lost our drive, that we have not lost

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[103] Drew Pearson, "Sparks Fly in Debate on Airline Strike," *Washington Post*, August 5, 1966, p. B11.
[104] Bill Moyers and Jack Califano to LBJ, August 3, 1966, Citation Number: 10543.
[105] *Austin American Statesman*, p. TK.

our sense of perspective and our place in the governmental scheme.” The Senate approved the back-to-work order, 54 to 33, sending the bill to the House Commerce Committee.[106]

To Johnson’s paranoia, the airlines dispute began to symbolize the purported inadequacies of his leadership as compared to the Kennedy brothers. When the year began, the President had announced an unconditional pause to the bombing campaign in North Vietnam, and throughout January the members of the Cabinet debated the desirability of a drawn-out war. When Johnson flew to Hawaii to meet with the leaders of South Vietnam on February 1, the day bombing resumed, the Senate Foreign Relations Committee opened public hearings on the US involvement in the war. That day, New York Senator Robert Kennedy spoke in the Senate to oppose the resumption of arial hostilities. “If we regard bombing as the answer in Vietnam,” he said, “we are headed straight for disaster…the decision to resume may become the first in a series of steps on a road from which there is no turning back—a road which leads to catastrophe for all mankind.”[107] Now, six months later amid the airline strike, the antiwar movement had grown in Congress and Kennedy was leading a challenge to the administration’s industrial-relations program. “We got a problem here, we’re getting a little politics played on us in the Labor Committee in the Senate,” Johnson told Joe Beirne, president of the Communication Workers of America, about the proposals to nationalize the airlines. “Bobby Kennedy and Joe Clark are determined for me to recommend something.” After the Labor Committee reported the seizure bill, columnist

[106] *Austin American Statesman*, August 5, 1966. *Washington Post*, August 5, 1966. *New York Times*, August 5, 1966. Phone call, LBJ with Moyers and Califano, August 3, 1966.

Mary McGrory wrote that Bobby Kennedy "generates the only genuine emotion in American political life today," quoting an anonymous Senator that the younger Kennedy was "the attractive alternative to the President."[108] "Bobby's got Alsop and Ben Bradley and Roland Evans and Drew Pearson—about Seven [journalists]," Johnson complained to Califano as the House debated the airlines bill.[109] The episode played neatly into Johnson's indulgent sense of persecution, which was the concomitant to his motivating quest to be at the center of a consensus of the nation's most powerful groups. "At one meeting [with the President] in the summer of 1966, literally half our time together was taken up by almost paranoiac references to Bobby Kennedy, Wayne Morse, Bill Fulbright and others," Chester Bowles, then ambassador to India, wrote later. "He would allude to an obscure news reference and then with his aide, Jack Valenti, embark on a frantic search through the pages of various newspapers to find it."[110]

The House leadership proved unwilling to act as swiftly as the Senate. As Beirne explained to Johnson, "some of these goddamn right-wingers are making their lectures stick in some of the states." Melvyn Laird opposed action without the declaration of a state of emergency. House Speaker John McCormack of Massachusetts reported receipt of several hundred telegrams against the bill. The free-market dogma was becoming very appealing to

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[107] Arthur M. Schlesinger, *Robert Kenned and Hist Times*, Volume II (Boston: Houghton Mifflin, 1978), pp. 768-9.

[108] Mary McGory, "Bobby Kennedy Will Be President," *Atlanta Journal Constitution*, August 1, 1966, p. 5. Phone call, LBJ and Beirne, August 1, 1966.

[109] Phone call, Johnson to Califano, August 5, 1966.

[110] Chester Bowles, *Promises to Keep: My Years in Public Life* (New York: Harper & Row, 1971), p. 535. Schlesinger, *Robert Kennedy*, p. 775.

workers inculcated in the belief that their livelihoods depended on "free collective bargaining." In the opinion of Commerce Committee Chairman Harley Staggers, Democrat of West Virginia, the legislation "would set back collective bargaining for 50 to 100 years." [111] This mirrored Johnson's own line, however, about the importance of voluntary agreement. Speaking to the House Commerce Committee, Wirtz emphasized that, because of the non-emergency nature of the airlines strike, a legislative solution would represent a "weakening of the collective bargaining process…Every time we do it we weaken the determination of the people to do it themselves in the future." [112]

As the strike ended its fourth week, Johnson placed calls with national labor leaders to bring Siemiller and Ramsay to reach an agreement with the companies before the Congress acted. "I notice the damn machinists on TV," Johnson complained to Beirne.

> "They say 'well the President can't tell us what to do.' I don't want to tell 'em. I'm trying to protect the poor bastard. A goddamn fellow working in a Miami tin shop under the hot sun for three dollars an hour, forty hours a week, he gets 120 a week, and maybe got a boy in college. I feel for him and I don't want to tell him 'you got to back to work' and break his strike, just because I got the power to pass a law. But I want his damn leader to get out of the dentist chair and out of the racetrack and get out here and, by god, go to work and get some negotiation."[113]

August 15, on the strike's 38th day, at 6:22 AM, Labor Undersecretary Reynolds emerged from the negotiating room with his second settlement agreement. CEA calculated the

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[111] Phone call: Joseph Beirne to Lyndon Johnson, August 5, 1966.

[112] "Both Sides in Airline Deadlock Are Warned at House Hearing," *Washington Post*, August 7, 1966, A3. "No Sign of Progress as Wirtz Renews Talks to Settle Airline Strike," *Wall Street Journal*, August 8, 1966, p. 2. "LBJ Mum on Strike Order," *Austin American Statesman,* August 5, 1966, p. A1.

[113] Phone call: LBJ to Beirne, August 5, 1966. Meany was at the racetrack that Friday.

machinists' wage increase at 4.7 percent a year. The proposal, Siemiller bragged, "destroys all existing wage and price guidelines now in existence."[114]

The political trauma of the airline stoppage shocked both the White House and the LMAC out of the selfish torpor that had militated against either controls or fiscal contraction during the first eight months of 1966. The wage-price spiral was finally an unavoidable fact of national life. During Senate debate over the Morse and Kennedy bills, Inland Steel had announced a $3-a-ton price increase on sheet and strip steel. US Steel promptly followed. The day of the Senate vote, Califano wrote to Johnson that Fowler, Wirtz, Connor, Ackley, Clifford and Fortas were all supporting the establishment of a board to review price and wage decisions. Both Sidney Weinberg and Abe Fortas recommended legislation to establish some form of wage and price controls.[115] "The battle we are now engaged in to hold both prices and the wage guidelines is not a battle merely for the next six months until we have a political base for a tax increase," Rostow wrote to the President in June. "It is the kind of battle that will have to be fought on a systematic basis for the long pull, if we are to hold this economy up close to full employment without inflation…. Measures to hold down the level of effective demand…have an important part to play in this business, but they will not be sufficient." The alternative, Rostow concluded, was either "inflation or a return to boom and bust." [116] Ackley put the same point to the President in late July during the Machinists vote. "Every free industrialized country which tries to maintain full employment faces this

[114] Quoted in Cochrane, p. 262.

[115] Cochrane, p. 268. Phone call: LBJ and Weinberg, August 5, 1966. Phone call: LBJ and Fortas, August 4, 1966.

problem: strong unions have the power to push wages up…and semi-monopolistic industries have the power to push up prices…No country has really solved it. Sooner or later we will have to come to grips with it."[117] As Ackley reiterated to the President on August 29, the "wage-price problem is not merely a short-term or defense-emergency problem. Rather, it is a permanent problem for an economy operating steadily close to full employment. This is the kind of economy we intend to maintain."[118]

This was a considerable departure. As recently as June, the administration's senior economic policymakers had declined to endorse Reuss's bill amending the Employment Act of 1946 to require the CEA annually to transmit wage-price guideposts and a report of violations to the JEC for Congressional investigations. Because most of the provisions of the proposal "were already being provided the Congress under existing arrangements," Treasury general counsel then explained, the amended procedure of the Economic Report was "unnecessary."[119] "Guideposts that had received specific Congressional approval would have greater authority as a standard for responsible behavior," Ackley wrote Reuss. "Enactment of HR 11916 [Reuss's bill] would thus 'institutionalize' the guideposts…. The CEA believes that experience with the guideposts is still too limited for such a step."[120]

The Cabinet's recognition of the state of the war confirmed this shift in policy. On August 10, the day he returned to Washington from Vietnam, McNamara informed the

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[116] Rostow to LBJ, June 14, 1966, LBJ Library, WHCF, BE5 Box 2.

[117] Memorandum, Ackley to LBJ, July 27, 1966, quoted in Cochrane, p. 262.

[118] Ackley to LBJ, August 29, 1966. BE5C

[119] Fred B. Smith to Henry Reuss, June 8, 1966. Reuss papers, Box 47, Folder 11.

[120] Gardner Ackley to Henry Reuss, June 2, 1966. Reuss papers, Box 47, Folder 11.

President of his judgement on military situation. There was "no reasonable way to bring the war to an end soon"; military strategy would entail protecting the cities and assuming "a military posture that we credibly would maintain indefinitely." As Schandler notes, it was a "remarkably somber and pessimistic" conclusion.[121] The next day, the President convened the Cabinet to discuss the economic program for 1967. Ackley opened the meeting with a discussion of the general economic situation. While manufacturing wages had tracked with the guideposts, he explained, the cost of living had outpaced them. The "sharp and steady rise" in consumer prices was due to rapidly rising service wages, pulled up by full employment, and to rising agricultural incomes. Manufacturing productivity had risen at an annual rate of 4.4 percent per year, "substantially faster than in the economy generally." As a result of the steadily growing corporate profits produced by this productivity, the larger depreciation allowances ordered by President Kennedy, and the increased interest income resulting from the Federal Reserve's December action, the capital share of national income was up.[122] "This is one of the genuine and serious sources of complaint by labor," Ackley explained. "It is clear that everyone has benefitted from prosperity—benefitted richly, though not equally."

> "Both of these income shifts [to service workers and agricultural producers] are necessary and welcome, in themselves. Yet the fast rise in consumer prices which has accompanied these income shifts, now intensifies the demand of the strong industrial unions to achieve larger wage increases, at a time when their bargaining strength is at its peak. Organized labor is eyeing the fat profits of business

[121] Schandler, *Lyndon Johnson and Vietnam*, pp. 43-4.

> and believes that those profits—and not the living standards of industrial workers—should absorb the cost to society of higher farm incomes and of higher wages in the unorganized service industries. Yet, if the result of labor's demands is to push union wage rates up faster than the advance in productivity, it is highly unlikely that profits will in fact be squeezed. Rather, industrial producers will merely raise prices to protect their favorable profit positions, and the spiral will be underway in full force."[123]

Employer's pricing power deprived industrial workers of their primary means for raising their real income. And that pricing power had enabled stockholders and corporation managers to reap much greater benefits during the expansion than manufacturing workers.

The data revealed the difficulties of establishing a national wage policy in a partially organized labor market. Those wages that rose the quickest were the lowest, predominately those of unorganized workers. Administration liberals looked on this favorably, hoping the employment boom would begin to ameliorate gender and racial disparities in the labor market. "In such component service industries as medical, hospital, educational, welfare, and personal services, women represented over half of total employment," reported an LMAC study on services inflation. "Nonwhites" had "a disproportionate representation in the service industries" and tended "to be concentrated in the lower-paying and lower-skilled service jobs."[124] Negro and youth unemployment rates, which had experienced a long-term growth trend over the past decade, indicated the continuing severity of unemployment amid the

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[122] Memo, "Presentation by Gardner Ackley at Cabinet Meeting, August 11, 1966," BE5, WHCF, LBJ Library.

[123] *Ibid.*

[124] "Significant concentration of nonwhite employment appear in private household services (40 percent of the total), hotels, laundries, and other personal services (18 percent), and in hospitals (20 percent)." George Taylor Papers, Box 7, Folder 11, Kislack Special Collections Library, University of Pennsylvania. W. Page Keeton Papers, Box 97, Folder 6, University of Texas Law Library.

boom for many black workers. "It just hurts much more today to be young, it hurts much more to be Negro, comparatively, than it did before," Wirtz explained.[125]

But as rising service wages and declining unemployment coincided with sharply rising property income and consumer prices, unionized industrial workers had begun to press for larger wage increases themselves. Preparing for the 1967 bargaining round, the UAW had announced it would negotiate a special raise for skilled workers on top of base increases.[126] "In the type of industrial society we have here, it is only natural that the worker in one area will be looking at the worker in another area to see how well he does," Meany later explained. "It certainly wouldn't make sense for a union to voluntarily limit its demands…when all around there are other unions…whose members are doing comparable work and are getting settlements over the above what the voluntary controls would expect them to."[127]

"An Immediate and Comprehensive New Economic Program"

The administration's response to the wage-price spiral was twofold. Fiscal contraction would be paired with a renewed effort to formalize the guideposts. In late August, Ackley and Fowler jointly proposed "an immediate and comprehensive new economic program," allowing the President to "'take charge' of what seems to many a disintegrating situation." The administration would ask Wilbur Mills to propose the

[125] Wirtz to August 11 Cabinet meeting, in Folder "BE 5 National Economy," Box 2, BE (Confidential File), WHCF, LBJ Presidential Library.

[126] "Unions call 5% a minimum for '67," *Business Week*, November 26, 1966.

elimination of the seven-percent investment tax credit established by the Kennedy administration. This would raise income taxes on corporations and, it was hoped, reduce corporate spending enough to raise unemployment. Legislation, however, still confronted a divided congress. The collapse of any consensus on the method of macroeconomic stabilization severely limited Lyndon Johnson's ability to effectively plan macroeconomic policy: without wage restraint, inflation would follow the nation's security program; without price-and-profit controls, the administration found wage restraint impossible to secure. Business opposed a tax increase on corporations and property; organized labor opposed higher taxes on consumption and low-incomes.

Events abroad intervened to force the administrations' hand. US military spending was upsetting the international pattern of exchange rates, as dollar balances accumulated abroad and strained existing agreements among governments over the disposition of their accumulating dollar reserves. The key agreement that lay at the center of NATO's European strategy since the Berlin Crisis of 1961 was the West German commitment to make "offset" payments to the US of dollars equal to the cost of stationing US troops in the Federal Republic of Germany. Under this agreement, the German government would purchase dollars from the Bundesbank for expenditures in the US, primarily for purchases from military contractors for equipment and munitions. Both the US and the FRG wanted to maintain these troops to deter the domestic calls from the German right to develop nuclear weapons. But under electoral pressure, German fiscal capacity during the 1960s had become

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[127]"Aluminum Fires Inflation Concern," *Christian Science Monitor*, June 7, 1968, p. 13.

increasingly devoted to social-welfare programs—defense spending as a share of GDP actually fell in Germany between 1963 and 1967. To continue meeting its offset payments, the Erhard government would have to raise taxes, a change rejected by the conservative Frei Demokratishe Partei (FDP). Like their US counterparts, German business was intransigently opposed to further tax increases. Thus, throughout the summer and fall of 1966, the Erhard government attempted to renegotiate this arrangement to end the offset purchases without withdrawal of allied forces.[128]

Faced with rising US prices and a growing balance-of-payments deficit, the President took the path of least resistance and invoked the interests of international security to achieve fiscal restraint. "Erhard is down thirty percent on his poll. Wilson they tell me has got less than a year to go," Johnson explained to Mills in preparing the House hearings on repealing the investment credit. "All of our allies are getting' in bad shape, and I don't want this country to show the goddamn communists that we can't finance anything in Vietnam, and that we're divided and frustrated and that Bobby's got us split wide open…"[129] Businessmen in the US had been unwilling to bear the taxes required to restrain the US expansion for fear that the Johnson administration would use the revenues to expand social welfare spending. As a result, civilian spending as a share of GDP had fallen over the course of the Johnson administration. Cuts to Great Society spending had produced smaller federal deficits each year since 1964, as the Vietnam War absorbed more and more of US fiscal capacity at

[128] Francis Gavin, *Gold, Dollars, and Power: The Politics of International Monetary Relations, 1958-1971* (University of North Carolina: 2004). Kai Bird, *The Chairman*, p. TK. Harold James, *International Monetary Cooperation*, p. TK. .

existing taxes. During early 1965, businessmen had particularly fought Treasury Secretary Fowler's proposals to impose mandatory controls on foreign investment to ease the balance of payments deficit. The alternative, urged by Commerce Secretary Connor, had been to organize Export Expansion Counsels, urge a voluntary foreign-investment restraint program, and to expand the resources of the Export-Import bank to finance US trade. But by early 1966, with military expenditures mounting abroad, the inadequacy of this program had become apparent. "The OECD Secretariat and the European delegation—particularly the Dutch and Germans—expressed concern about our balance of payments and about the dangers that a wage-price spiral may be getting underway," James Dusenberry of CEA wrote to the President in July 1966.[130] Fiscal restraint was now unavoidable.

Reflecting business opinion, Mills insisted that any tax increase—even the elimination of the investment credit—be paired with a reduction in civilian expenditures. W.B. Murphy told the Ways and Means Committee: "I am willing to swallow the bitter medicine of suspending the [investment] credit in the expectation that the Government will carry out its promise to reduce spending." Frederick R. Kappel, chairman of AT&T, thought "meaningful reductions in Government expenditures and appropriations" must have "highest priority." The President's and Mills's loyalty to their business allies thus determined the form of fiscal restraint during the final months of midterm election campaigns—a moment when many Northern liberals were then pushing to expand social security benefits and to provide greater funding for the Great Society's employment training and regional development

[129] Mills to Johnson, September 9, 1966.

programs.[131] In November, the President signed into law the suspension of the investment tax credit.

The slowdown in homebuilding during the first half of 1966 finally spread to corporate plant and equipment after the "mini-budget" of late 1966.[132] In his January 1967 State of the Union Address, President Johnson finally requested Congress raise individual income and corporation income taxes by six percent of existing rates (the surtax). Gross National Product fell between January and June 1967. The annual rate of advance in the CPI declined during the year. The WPI stabilized and actually fell in late spring and early summer. As Okun remembered, "By the beginning of 1967, the boom was no longer a threat."[133] When Walter Heller published his appraisal of the career of the "new economics" later that year, he described the Kennedy-Johnson boom in its seventh year as "a bit tired and drawn. Excess inventories, depressed housing, hesitant consumers, and an ebbing investment boom seemed to require thinking about the unthinkable: war and recession side by side."[134] Within the administration, fear of recession prevailed. Examining Commerce Department surveys of business opinion, Ackley judged in July that inventory liquidation "dominated business performance" and revealed "considerable business caution."[135] Liberal opinion

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[130] Aaron Major, *Architects of Austerity* (Stanford: 2014), p. 225.

[131] Schlesinger on Robert Kennedy. Zelizer?

[132] The slowdown was also precipitated by the "credit crunch" between June and August, as Chapter 6 explores. It would seem that monetary restraint precipitated a financial crisis, while fiscal restraint helped to maintain the new, lower rate of investment. The wage-price spiral continued, however, during 1967 and 1968.

[133] Okun, *Political Economy of Prosperity*, pp. 82-3.

[134] Walter Heller, *New Dimensions in Political Economy*.

[135] After considering discussion between President Johnson and "a small group of businessmen" in July and the results of a wider survey of business opinion conducted by the secretary of commerce, CEA chairman

turned back towards expansion. James Tobin and Paul Samuelson argued against the proposed income tax increase and for immediate restoration of the investment credit, and found endorsement for this opinion from the *New Republic*.[136]

Wages, however, did not respond to the investment slowdown. Nineteen sixty-seven was a major bargaining year. According to Department of Labor, fewer than one million workers were covered by the "major wage negotiations" of 1966. The number would rise to 2.1 million in 1967, as contracts in the auto, trucking, communications, paper and rubber industries were up for re-negotiation.[137] Unwilling to impose controls, the President ratified Arthur Burns's predictions in March 1966 that the growth strategy of holding down wages amid an investment boom inflating the cost of living would result in a "wage explosion." Wage statistics gathered by the Department of Labor confirmed this. During 1966, the average increase in collectively bargained wage-and-benefit costs was lower than the average increase in the non-union sector—4.1 percent versus 4.4 percent. Wages and benefits in the nonmanufacturing sector rose 5.0 percent that year, compared to a 4.2 percent increase in manufacturing. In 1967, these relationships reversed. Union-negotiated wage-and-benefit costs increased 5.5 percent that year; manufacturing wages and benefits rose 6.4 percent. Nonunion workers' labor costs rose more slowly at 5.0 percent, the same rate for

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Gardner Ackley judged "considerable business caution." A general liquidation of inventories had "dominated business performance" since January and falling production for inventories—a measure of expectations of future prices—had offset the measured income gains from the sell-off. "Even if the businessmen's hunches were completely wrong," Ackley explained, "we can't ignore them, For their state of confidence can have an impact on their inventory policies, and on their readiness to invest in plant and equipment." Gardner Ackley to LBJ, July 15, 1967, BE5, WHCF, LBJ Library.

[136] Okun on investment credit. James Tobin in *New Republic* 1967.

nonmanufacturing workers.[138] Measured as a share of national income, wages and salaries had declined since the expansion began in 1961. During 1966, the trend reversed, and the wage-and-salary share began a sharp increase against profits that would continue into the Nixon administration.[139]

The method the French and British governments had used in similar situations of a turning wage-price spiral was the national "pause" or "freeze" of wage rates. In 1961, as part of its balance-of-payments program, the Macmillan government had issued just such a pause. In 1963, after fiscal expansion had set a period of inflation in motion, the Pompidou government negotiated a national freeze of French wages in exchange for government-mandated price roll-backs in meat and cigarettes—politically salient commodities for the French working class. The Johnson administration's saga to achieve continued wage-price restraint at the same time that it sought to increase taxes, however, illustrates the political *cul-de-sac* in which the Great Society found itself by the fall of 1966. During the midterm elections that November, the Democratic Party lost 47 seats in the House of Representatives and 3 seats in the Senate. Communication Workers' president Joseph Beirne's fears during the airlines dispute came to pass. In the Senate, such liberals and erstwhile labor allies as Senators Paul Douglas of Illinois, chairman of the JEC, and Endecott Peabody of Massachusetts, were defeated by Republican challengers. In state houses, the Grand Old Party won eight governorships, including that of former GE Spokesman and actor Ronald

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[137] "The Economy Awash in Affluence," *Newsweek*, July 18, 1966, p. 74.
[138] W.W. Rostow, 1972, pp. 319-320, and p. 324; citing DOL statistics.
[139] FRED national income.

Reagan in California. "The net effect, politicians of both persuasions agreed, was to reconstitute the two-party system on the national level after the withering Goldwater defeat of 1964 had reduced the Republican party to a disorderly, ineffective minority," reported the *New York Times*. In the House, George H.W. Bush finally won election in Texas, though for a newly drawn district. Vice President Hubert Humphrey's home organization, the Democratic-Farmer-Labor Party, lost in Minnesota to Republican Harold E. LeVander. In Michigan, George Romney won reelection for the Governorship by an impressive 500,000-vote margin. Fellow Republican Congressman Robert Griffin, a leading proponent of the emergency airlines dispute bill in the House, and author of the constraining union regulations in the 1957 amendments to the National Labor Relations Act, won the state's open Senate seat against labor-ally and former Democratic Governor G. Meenan Williams. In Michigan, declining turnout from union members made up a substantial portion of Romney's margin: the former auto executive polled 11,000 fewer voters among Detroit union members than he had against Williams in 1962; union votes for Romney's Democratic challenger, however, fell by 152,000 compared to their 1962 level.[140]

Prevailing interpretation of the 1966 midterms focuses attention on opposition of suburban voters and Southern Democrats to President Johnson's forceful and decisive endorsement of the Civil Rights Act in 1965 and expansions to the Social Security program that year in the creation of the Medicaid and Medicare programs. Rick Perlstein has written that "Union members voted for politicians who weakened their unions because the

[140] *Wall Street Journal*, December 13, 1967.

Democrats supported civil rights." Undoubtedly this was true. But adherents to this "backlash" thesis have understated the consensus-minded Johnson administration's responsibility for ceding the political initiative in 1966. As Perlstein writes, the 1966 midterm elections "actually" were "a referendum on the Negro revolution." In such union strongholds as Michigan, Minnesota, and California, however, the alienation of organized labor to the wage guidelines played as much of a role in the election of Republican Party politicians as racism of the electorate. As the history of enforcing the guideposts demonstrates, the Democratic Party's defeat was as much a referendum on the Johnson administration's apparent consensus with big business and its perceived slighting of industrial labor. Divided on the war in Vietnam, their leader unwilling to use the occasion of the war and the strike of the airways to declare a state of emergency to seize corporation property, the liberal Democrats found themselves and their program blunted by consensus. As the following chapter demonstrates, the Democratic Party and organized labor would suffer greater political setbacks during 1968 and beyond for Lyndon Johnson's indecision over the question of profit control. By then, however, events would overtake any semblance of consensual or democratic macroeconomic planning.

Conclusion: Reflecting Consensus and Molding Consensus

Was there an alternative to the collapse of the wage-price guideposts during the 1966? The fragile political foundation for economic planning was widely understood to contemporaries, even to conservatives. As Henry Wallich, former Eisenhower advisor and

conservative economist for *Business Week*, wrote during the airline strike, "the essential part of the mechanism" of the guideposts was price cuts in high-productivity, high-profit firms. This "business has largely failed to implement… [I]t is business that has done a large part of the damage. And within business, the damage has been done by the high-profit industries that would not cut prices." Many considered the failure of voluntary restraint evidence for the necessity of controls. "Whether or not we need price and wage controls is the basic question," protested Congressman Thomas B. Curtis, Republican of Missouri. "I myself would much prefer, if we are going to have price controls, to have them by law and not by selection on the part of the administration, at whatever place the administration seeks to apply them."[141] During the airlines strike, Senator Gaylord Nelson charged that "examples of shameless profiteering throughout the economy are multitudinous." As the *New Republic* editorialized, "If we had been a striking airline mechanic last week we think we should have voted against the compromise settlement the White House worked out."[142] Speaking about wage, price, and profit controls, George Meany told *Business Week* in November: "I personally think it's a possibility, perhaps as early as January."[143]

Business, however, firmly opposed any moves within the administration towards controls over profits. The memory of Chester Bowles's OPA and Harry Truman's seizure of

[141141] Curtis in *Hearings on the Economic Report* Part 2 (1967), p. 230.

[142] "TRB from Washington," *The New Republic*, August 18, 1966. "Prices and Profits," *The New Republic*, August 27, 1966, p. 7.

[143] "Unions call 5% a minimum for '67," *Business Week*, November 26, 1966. "AFL-CIO Backs Johnson Tax Plan," *New York Times*, September 17, 1966, p. 12. "Labor Asks 2 Inflation Safeguards," *The Sun*, September 17, 1966, p. A1. "Help for Displaced Asked by Reuther," *Washington Post*, September 18, 1966, p. A2

US Steel was too fresh to consider a return to a formal war economy—and business recognized that a Johnson administration, no matter how friendly in times of voluntary guidelines, would not be trustworthy in a regime of compulsory controls. During the Cabinet debate over the airlines bill, Connor surveyed business executives on Reuther's proposal for a Wage-Price Board of Review, speaking with Ward Keener of Goodrich, Don Burnham of Westinghouse, and H.I. Romnes of AT&T. The reaction, Califano noted, was "uniformly negative." "He [Connor] believes their views…represent a fair consensus. Connor Presented the Wage-Price Review Board as his idea. The three businessmen said that most large companies contemplating price moves would find it impossible to give advanced notice to such a Board on a voluntary basis, not only for philosophical reasons but also because of the complexity of pricing."[144]

In November 1966, Walter Reuther circulated to the members of the LMAC a draft proposal for "a rounded and equitable incomes policy to replace the price-wage guideposts." As the union leader explained, "The distribution of national income has been distorted in favor of property income to the disadvantage of employment income and lower-income families." The old policy had "broken down," it was "too discredited to be revived and must be replaced," having "failed because it did not meet the test of equity." To remedy the inequities of wage restraint amidst a rising cost of living, Reuther explained, other OECD countries had "found it necessary to place increasing emphasis on nonwage incomes." They had moved from a "wage policy" to an "incomes policy." The reason for expanding the scope

[144] Califano to LBJ, August 8, 1966. FG150-7, WHCF, LBJ Presidential Library.

of national wage bargaining to include controlling such "non-wage incomes" was that the guidepost policy as formulated was not "symmetrical": they did not apply equally to prices and profits. To demonstrate the international, anti-Communist credentials behind this idea, Reuther quoted the OECD's Working Party 4, which argued that "whatever may be the mechanism of cost inflation, wage earners will ask for some quid pro quo in return for any agreement to accept a more moderate increase in wages." As the OECD's Trade Union Advisory Committee explained, "An argument can be made out for planning or guiding incomes; an argument can also be made for leaving them unplanned or unguided; but there is nothing at all to be said for planning or guiding half the incomes and leaving the other half unguided and unplanned and subject to market forces or varying degrees of monopoly control." To develop a more effective stabilization policy, the UAW President proposed "the creation of a small, working committee of economists—appointed in equal numbers, respectively, by the labor, management, and public members of the Committee—to prepare for our consideration a proposal for an equitable incomes policy for the United States."[145]

Rather than focus on the relationship between money wages and labor productivity, Reuther urged the LMAC target the relationship between total money incomes and real national output in their macroeconomic planning. This would entail restraining the engorged profits earned from the boom of the previous five years. The business members of the committee were scandalized by the proposed study. W.B. Murphy, the president of the Campbell's Soup Company and chairman of the Business Council, responded on behalf of

[145] Reuther to Murphy, November 28, 1966. Keeton Papers, Box 97, Folder 1.

the business members. “Whether this country needs a new incomes policy is a question which necessarily places in issue the most fundamental concepts of our economic system,” he wrote to Reuther. At the heart of Murphy’s case was the social role of prices. Whereas labor had come to see many prices as a device for protecting property incomes, Murphy insisted prices served as a public indicator of consumer preferences. Firms reaping larger profits signaled social preferences about the desired mix of goods and services in production and future production. Investment had to be guided by profit signals; to control profits would disable this social signaling mechanism. Inequality, Murphy explained, was the byproduct of this social decision-making process. “Suggesting the adoption of a completely new economic system to correct a temporary inflation is not a very sound approach to solving our country’s problems,” Murphy admonished. Without profit signals for future commitments, private capital would withdraw from production altogether. The result would be a “profit squeeze which will cut off the flow of private investment in new plants and equipment.”

Howard Brick has described liberal thought in the US during the decades after World War II as enraptured with a “postcapitalist vision” in which the older problems that had defined capitalist society—the business cycle, class conflict, unemployment—were superseded by newer social concerns with racial, gender, psychological, and environmental problems. Incomes policies, according to this interpretation, represented Great Society liberals’ belief in their ability to overcome the business cycle by managing the economy. Similarly, Charles Maier has described such corporatist bargaining institutions as the LMAC, in which not only wages nationally but other economic variables such as investments, profits,

taxes, and public spending became subject to negotiation as an "evolutionary terminus of activist welfare states…. A sort of political-economy horizon."[146] The obstruction Reuther faced in the LMAC shows just how inadequate any such "postcapitalist vision" was with the demands of US politics during the sixties. It also reveals the inadequacy of consensus as a guide to decisive leadership in a moment of political crisis. Speaking to an audience of Chicago power brokers during the open housing marches in August 1966, Martin Luther King explained that "a genuine leader does not reflect consensus, he molds consensus."[147] Unable to mold consensus, the President fell back on the divided opinion among Northern labor-liberalism, the executive champions of free enterprise, and the national security establishment.

During the airlines strike, the President asked McNamara if he would consider chairing a Wage-Price Board of Review. The Defense Secretary, preoccupied with managing the war, was uninterested. Unwilling to order the reluctant Pentagon leader to apprehend the domestic wage-price spiral, Lyndon Johnson could find no interested statesman who he considered to be sufficiently neutral to appease his business allies. When McNamara proposed either Douglas Dillon or John Kenneth Galbraith for the position, Johnson exploded at the idea. "Kenneth Galbraith would frighten everybody to hell in this country, and he wouldn't do it anyway," the President told Joseph Califano. "He'd have every businessman mad at him….They ain't got no more confidence in him than they have [in] Stokely Carmichael. To recommend that Galbraith head up a program in the federal

[146] Maier, "Predconditions for Corporatism," in *Order and Conflict*, ed. Goldthorpe, p. 41.

government that involves businessmen doing something voluntarily after his books and his scare talk, is just like recommending Stokely Carmichael to go in to be mayor of Jackson Mississippi."[148] But the alternative to such a turn away from business was for the administration to persist in the withering and increasingly useless idea that the 1964 electoral coalition of corporate executives, organized labor, and the Civil Rights Movement could survive in the fully employed economy of partial, uncontrolled war mobilization. The conditions businessmen demanded to sustain investment and employment became deeply divisive terms in American politics in the era of the Great Society. As Murphy explained to Reuther, "Those who would exchange the matter of limiting wage demands to productivity gains for a policy of limitation on profits will live to see their sons looking vainly for nonexistent jobs."[149] By refusing to mold a new consensus, Johnson became hostage to the old.

[147] Garrow, *Bearing the Cross*, pp. 503-6.
[148] Phone call, LBJ to Califano, August 5, 1966.
[149] Folder 1, Box 97, William Page Keeton papers, University of Texas Law Library.

Chapter 6: "End of the Age of Innocence": The Limitation of Anti-Inflation Fiscal-Monetary Policy and the Business Embrace of Controls

"I call the pre-1966 period the age of innocence because it was possible at that time to think of monetary policy in very simple terms.... The 1966 experience was a rude awakening... The decision to fight inflation vigorously caused high costs elsewhere. A choice became necessary. It appeared that there was a limit to what traditional monetary policy could do."

- Sherman Maisel

"The existence of a conflict between full employment and profit maximization is supported by empirical evidence from the past twenty-five years. The typical pattern of the post-World War II business cycle shows that the profit share of income and even the absolute level of real profits have fallen in the latter phase of the expansion. This full employment profit squeeze helps explain both the failure of capitalist-oriented macropolicy to sustain full employment prior to 1965 and the consequences of full employment during the Vietnam War period of the late 1960s."

- James Crotty and Leonard Rapping

During the final decades of the twentieth century, and the early decades of the twenty first, historians and journalists frequently described the Nixon administration's experiment in wage-price control as evidence of the foolishness or vacuity of a Keynesian consensus that came into power under Presidents Kennedy and Johnson. Herbert Stein referred to the inclusion of wage-and-price controls in the New Economic Policy as the "paradox" of the Nixon administration. How could the leader of the party of business suspend the free-enterprise system he claimed to cherish? Stein's answer is that "liberal ideas" continued to rule the roost, even when it was seized by "conservative men."[1] Stein's interpretation reflects

[1] Stein's chapter on the Nixon administration in *Presidential Economics* is subtitled: "Conservative Men with Liberal Ideas." Herbert Stein, *Presidential Economics: The Making of Economic Policy from Roosevelt to Reagan and Beyond* (Simon & Schuster: 1984), for "paradox," p. 207.

considerable agreement that the move towards formal compulsory wage-and-price ceilings represented a cynical concession to a set of ideas whose failure was overdetermined. Between 1972 and 1975, the food price index rose 50 percent and the gasoline price index 65 percent, an inflation punctuated by deep recession, corporate bankruptcy, and rising unemployment beginning in late 1973.[2] "In the absence of controls," Stein argues, "fiscal and monetary policy would have been more restrictive because the inflation would have been more obvious and direct means to deal with it not available."[3] The business historians Louis Galambos and Joseph Pratt explain the tectonic shifts of the Nixon period with the pithy conclusion that "as always the rigid controls merely delayed the market adjustments that had to be made."[4] Writing for the Brookings Institution, A. James Reichley writes that the "spiraling chain of economic disasters [of 1973-1975] was in part traceable to Nixon's decision to impose wage and price controls in August 1971, which provided the deceptive security on which the excessive stimulation of 1972 was based."[5] As Stein writes, what the

[2] From a base year of 1967, the CPI for food rose from 120.3 in December 1971 to 180.7 in December 1975. Gasoline increased from 107.3 in December 1971 to 176.6 in December 1975. *Monthly Labor Review*, various issues 1972-1975, Tables 23-25. Cf. U.S. Bureau of Labor Statistics, Consumer Price Index for All Urban Consumers: Food in U.S. City Average [CPIUFDNS], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/CPIUFDNS, April 23, 2021. U.S. Bureau of Labor Statistics, Consumer Price Index for All Urban Consumers: Gasoline (All Types) in U.S. City Average [CUSR0000SETB01], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/CUSR0000SETB01, April 23, 2021.

[3] Stein, supra n1, p 186. Cf. Robert Collins, who writes that Nixon's wage-price controls enabled "excessive fiscal and monetary stimulation" and "overheated the economy." *More: the Politics of Economic Growth* (), p. 129.

[4] Louis Galambos and Joseph Pratt, *Rise of the Corporate Commonwealth: United States Business and Public Policy in the 20th Century* (Basic: 1989), p. 209.

[5] A. James Reichley, *Conservatives in an Age of Change: The Nixon and Ford Administrations* (Brookings: 1981), p. 228.

nation "required" after the Johnson years was "austerity." [6] Yet during the first sixteen months of Nixon's New Economic Policy—from August 1971 to December 1972—taxes were cut on both businesses and individuals while government spending increased.[7]

One way of resolving the historical paradox of the New Economic Policy is to place the Nixon administration at a moment of juncture in the transition between two eras. Historians have found considerable agreement on the broad outlines of two periods in which to divide the seven decades since World War II. Known as the "Great Compression" or the "New Deal Order," the period between the Roosevelt and Nixon administrations is recognized by the expansion of broadly shared incomes, comparative stability in the business cycle, the endurance of strong labor unions, and the centralization of power in geographically differentiated nation states. The period after, characterized by increasing unequal incomes, recurrent financial crises, the decline of organized labor, and decentralization of power within nation states increasingly penetrated by international economic and demographic trends, is now seen as the era of "neoliberalism," the "long downturn," or an "age of inequality."[8]

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[6] Stein, *Presidential Economics*, p. 148

[7] The New Economic Policy repealed an excise tax on automobiles, reduced personal income taxes, liberalized depreciation allowances, and re-established the 7-percent investment credit. The Revenue Act of 1971, signed on December 10, ratified these changes. *Economic Report of the President for 1971* (Washington: 1971), p. 24. The federal deficit on national income account basis grew from $13½ billion in calendar 1970 to $23½ billion in 1971, largely as an effect of reduced receipts due to business contraction. In 1972 the same measure yielded a decrease in the deficit of $18½ billion. United States. Bureau of Economic Analysis. *Survey of Current Business* (January, 1972), p. 26 and *Survey of Current Business* (January, 1973), p. 23.

[8] For "Great Compression" see Claudia Goldin and Robert A. Margo, "The Great Compression: The Wage-Structure in the United States at Mid-Century," *Quarterly Journal of Economics* (February, 1992), pp. 1-34. For "New Deal Order," see *The Rise and Fall of the New Deal Order*, eds. Gary Gerstle and Steve Fraser (Princeton: 1989). For "neoliberalism," see David Harvey, *A Brief History of Neoliberalism* (Oxford: 2007);

While historians agree that the decade of the 1970s marks the disjuncture between these eras, there is less agreement on the processes by which this transition came to pass. Broad attention has placed the decade as a breakthrough moment of a new conservative movement in American politics.[9] Adhering to this periodization, recent US historians have described the Nixon administration as auguring a "radical shift" towards an "antigovernment impulse," as beginning the "reconfiguration of activist government" toward the wealthy and

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Daniel Steadman Jones, *Masters of the Universe: Hayek, Friedman, and the Birth of Neoliberal Politics* (Princeton: 2013); Wolfgang Streeck invoked a "neo-liberal offensive against corporatist [labor-market] 'rigidities'" in "Neo-Corporatist Industrial Relations and the Economic Crisis in West Germany," in *Order and Conflict in Contemporary Capitalism*, ed John H. Goldthorpe (Clarendon: 1984), p. 295. For "long downturn," see Robert Brenner, *The Economics of Global Turbulence: The Advanced Capitalist Economics from Long Boom to Long Downturn, 1945-2000* (Verso: 2006). For "age of inequality," see Judith Stein, *Pivotal Decade: How the United States Trade Factories for Finance in the Seventies* (Yale: 2010), p. xii. On the decline of organized labor's political influence during the 1970s, see Jefferson Cowie, *Stayin' Alive: the 1970s and the Last Days of the Working Class* (New Press: 2010), during the 1950s and 1960s, see Nelson Lichtenstein, *State of the Union* (Princeton: 2003), pp. 141-177. Social and cultural historians have embraced the periodization here advanced in histories of the social and political organization of reproduction, e.g., Robert O. Self, *All in the Family: The Realignment of American Democracy Since the 1960s* (Farrar Straus and Giroux: 2012) and Melinda Cooper, *Family Values: Neoliberalism and the New Social Conservatism* (Zone: 2017). On centralization and decentralization, see *Bargaining for Change: Union Politics in North America and Europe*, ed. Miriam Golden and Jonas Pontusson (Cornell: 1992), Streeck, "Neo-Corporatist Industrial Relations," and Daniel T. Rodgers, *Age of Fracture* (Belknap: 2011).

[9] Kim Philips-Fein, *Invisible Hands: The Making of the Conservative Movement from the New Deal to Reagan* (W.W. Norton: 2009) and *Fear City: New York's Fiscal Crisis and the Rise of Austerity Politics* (Henry Holt: 2017), Shane Hamilton, *Trucking Country: the Road to America's Wal-Mart Economy* (Princeton: 2008), Meg Jacobs, *Panic at the Pump: The Energy Crisis and the Transformation of American Politics in the 1970s* (Farrar Straus and Giroux: 2017), Kirkpatrick Sale, *Power Shift: The Rise of the Southern Rim and its Challenge to the Eastern Establishment* (Random House: 1975). Eric Hobsbawm describes the period from 1973 until after the collapse of the Soviet Union as the "crisis decades" of battle between Keynesians and neoliberals, *The Age of Extremes: A History of the World, 1914-1991* (Vintage: 1994), pp. 403-432. Wolfgang Streeck describes the period of transition as the era of the "debt state," in which the "tax state" of the Keynesian period accumulated external financial obligations under the pressure of global downturn. This "debt state" then became the "consolidation state" of the l980s and later, in which public expenditures were cut to ensure payment of the accumulated sovereign debts. Wolfgang Streeck, *Buying Time: the Delayed Crisis of Democratic Capitalism* (Verso: 2014).

corporations, or providing the impetus to the "political mobilization of business."[10] Judith Stein and others, by contrast, locate the "critical moments" in the Carter administration, when the decision to reduce inflation rather than expand employment, best characterized by the President's appointment of Paul Volcker as Chairman of the Federal Reserve, foreclosed the types of regulated expansion that defined "postwar liberalism."[11] Still others attribute the growth of world trade and international finance during the decade as a geopolitical "shock" that left the older patterns of state-society relations in the US permanently changed.[12] For many who emphasize the international origins of the transformation of the 1970s, the relevant moments of historical contingency lay earlier during the 1940s and 1950s in decision of the US State Department and multinational corporation executives about the Cold-War development programs abroad.[13]

As this chapter shows, the New Economic Policy pursued by the Nixon administration marked the moment of transition from the state-centered managed capitalism

[10] Cebul, "The Antigovernment Impulse: The Presidency, the 'Market,' and the Splintering Common Good," in *Beyond the New Deal Order: US Politics from the Great Depression to the Great Recession* (University of Pennsylvania: 2019), eds Gary Gerstle, Nelson Lichtenstein, and Alice O'Connor. For "reconfiguration" see *The Transformation of American Politics: Activist Government and the Rise of Conservatism*, eds. Paul Pierson and Theda Skocpol (Princeton: 2007). For "political mobilization" see Benjamin Waterhouse, *Lobbying America: The Politics of Business from Nixon to NAFTA* (Princeton: 2013).

[11] Stein, *Pivotal Decade*, p. xxi. David Harvey, *A Brief History of Neoliberalism* (2007). Jon Levy, *Ages of American Capitalism* (Penguin: 2021), Laura Kalman, *Right Star Rising: A New Politics 1974-1980* (W.W. Norton: 2010).

[12] *The Shock of the Global*, eds Niall Ferguson, Charles S. Maier, Erez Manela, Daniel Sargent (Harvard: 2011).

[13] Jason Scott Smith, "The Great Transformation: The State and the Market in the Postwar World," in *Boundaries of the State in US History*, eds James T. Sparrow, William J. Novak, and Stephen W. Sawyer (University of Chicago: 2015), Amy C. Offner, *Sorting Out the Mixed Economy: The Rise and Fall of Welfare and Developmental States in the Americas* (Princeton: 2019).

of the 1940s and 1950s to the private-enterprise centered international capitalism of the 1980s and 1990s. Federal control of wages and prices during this transition represented a formal concession to the patterns of democracy established in the past, as well as a technical device to achieve the wage stabilization that had eluded Lyndon Johnson's Great Society. In this sense, Nixon's election in 1972 used the arrangements of the social-democratic corporatist Keynesianism to achieve the less-democratic forms of economic planning that lay in the future. New-Deal loyalties to high employment and rising incomes for working people provided the vehicle for the Nixon administration's larger project of reforming the international monetary system, repressing US wages, and reconstructing the OECD around capital mobility—a neoliberal project with New Deal characteristics.

As Nixon wrote, the stabilization program of 1971 was "politically necessary."[14] McCracken, the President's first CEA Chairman, explained the electoral appeal of the experiment: "I liked the idea of the tax cut. I liked closing the gold window. Since wage and price controls came as part of that package, I thought I could accept it." George Shultz, the Secretary of Labor and later Treasury and confidant of Milton Freidman, was philosophically opposed to controls. "But as part of an overall change in economic policy," he explained, "I was able to accept them. It was absolutely necessary to close the gold window."[15] "My main interest," Herbert Stein wrote about the period during the wage-price freeze, "was in getting gout of the controls promptly and in orderly way."[16]

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[14] Richard Nixon, *RN: the Memoires of Richard Nixon* (Grosset & Dunlap: 1978), p. 553.

[15] Shultz and McCracken quoted in Reichley, *Conservatives in an Age of Change*, p. 224-5

[16] Stein, *Presidential Economics*, p. 181.

Pace Stein, the New Economic Policy differed fundamentally from the "liberal ideas" that the Johnson administration and Humphrey campaign had forfeited in the election of 1968. By excluding organized labor from the Cost of Living Council charged with formulating the stabilization program, the Nixon administration's experiment in incomes policy marked a historic departure from the controlled expansions of World War II, the Korean War, and the early phase of the war in Vietnam. This discontinuity has been overlooked by historians who consider the compulsory aspect of the Nixon controls to unify it with the earlier Roosevelt and Truman experiments.[17] The failure of the Nixon stabilization program to prevent inflation, and historian's tendency to compare 1973 to the inflations and scarcities of 1946 or 1950, has also masked a deeper, historically specific transformation in the relationship of the US state to business during the economic expansion of the Vietnam War. This is the emergence of a financially unstable corporate sector marked by speculative securities markets and stagnation in physical investment.[18]

The return of financial instability was the counterpart to the Kennedy administration's decision to center growth on private investment. Coinciding with the expansion of US military spending for the Vietnam War, the decision to pursue fiscal expansion by tax cuts unleashed a wave of private funds that, together with military dollars, spread across the

[17] Hugh Rockoff, *Drastic Measures: A History of Wage and Price Controls in the United States* (Cambridge: 1984), *Exhortation and Controls; The Search for a Wage-Price Policy, 1945-1971* (Brookings: 1975).

[18] Martin H. Wolfson, *Financial Crises: Understanding the Postwar U.S. Experience* (M.E. Scharpe: 1994), Charles P. Kindleberger and Robert Aliber, *Manias, Panics and Crashes: A History of Financial Crises* (Jon Wiley & Sons: 2005), Greta R. Krippner, *The Political Origins of the Rise of Finance* (Harvard: 2011), Sherman Maisel, *Managing the Dollar* (1973).

globe, financed corporate borrowing, and strained central banks' willingness to maintain existing exchange rates.[19] At the same time, the stimulus of corporate investment producing the boom pulled up wages and began the slow, inexorable turn of the wage-price spiral. By 1969, this combination of rising wages and access to foreign lending had both compelled and enabled corporations into financing a growing share of spending with short-term debt—a trend that would accelerate when the Nixon administration attempted to stabilize the expansion in 1970. In short, the federal government lost control of the private investment process it had imagined it could manipulate since the reconversion debate of the late 1940s. Whereas the Truman administration had underwritten the largest investment boom since World War II, and the Eisenhower administration had used planned deficits to buoy consumption and incomes during investment downturns, the Kennedy and Johnson administrations had cut taxes in the hopes of stepping up the level private investment. Under the integrated global capital markets of the 1960s, such liberated funds put not only towards domestic investment and employment, but financial speculation, corporate mergers, and lending.

As the corporate financial structure became increasingly fragile, efforts by the Johnson and Nixon administration's and by the Federal Reserve to slow investment and

[19] The interpretation that the US fiscal expansion and payments position destabilized financial markets is drawn, among others, from James Crotty and Leonard Rapping, "The 1975 Report of the President's Council of Economic Advisers," *American Economic Review* (December 1975), pp. 791-811; Paul Sweezy and Harry Magdoff, *The Dynamics of US Capitalism: Corporate Structure, Inflation, Credit, Gold, and the Dollar* (Monthly Review: 1972); Sherman J. Maisel, *Managing the Dollar* (1973); Ernest Mandel, *Decline of the Dollar: A Marxist View of the Monetary Crisis* (Monad: 1972).

tighten credit resulted in repeat financial crises. Three times during the Vietnam boom, attempts to tighten credit and reduce government expenditures resulted in financial panic, the evaporation of credit, and bankruptcies of large multinational corporations. In 1966, a collapse in the municipal bond market prefigured the investment slowdown of 1967. During 1970, a second slowdown followed fiscal-monetary contraction, resulting in the bankruptcy of the Penn Central, the nation's largest corporation, and the near bankruptcy of Lockheed and Chrysler. As soon as Nixon won re-election—and control of the relevant executive agencies of the State Department, Treasury, and Federal Reserve was reassured—the administration abandoned its political sojourn with a national incomes policy. The democratic problem the experiment had been designed to master passed, and the economic problem of wage restraint could be achieved with less consensual measures of fiscal-monetary restraint and rising unemployment. But when the administration attempted to extricate itself from controls through the orthodox measures of fiscal austerity and credit tightening, the result was a series of bankruptcies in real estate development and commercial bank failures, culminating in the closure of the Franklin National, the country's 20th largest bank and the deepest depression since the 1930s. As governments after the Nixon administration would discover, attempts to regulate growth through the instruments of fiscal and monetary policy posed new dilemmas, financial fragility, capital flight, and financial crisis.

Prelude to Turbulence: the Credit Crunch of 1966

The Nixon experiment followed a preview of the new financial dilemmas that would characterize American capitalism in the final decades of the twentieth century. By pursuing growth through a strategy that sought to maximize private rather than public investment, the Kennedy and Johnson administrations loosened their ability to steer the economy and made the wage-price spiral much more difficult to control. As the previous chapter demonstrated, profits and interest rates pushed up prices and reduced real wages during the expansion of military spending in 1965 and 1966. Wage control became necessary to protect larger profits and continue the boom, but the Johnson administration's wage guidelines pitted the government against workers and undermined the Democrats electoral mandate in 1966 and 1968.

Enlarged profits also contributed to enlarged capital valuations and capacity expansion, fueling the investment boom and the rendering the financial structure of the corporate and banking sectors increasingly fragile. Capacity utilization in manufacturing rose, from a level of 76 percent in 1961 to 92 percent by the summer of 1966.[20] Inventories, which had built up during 1965, began to increase further in the early months of 1966, prompting objections from Federal Reserve governor Sherman Maisel that credit was being used for increasingly speculative purchases.[21] The stimulus of these purchases brought forth plans for investments in capacity expansion. In March, the Department of Commerce's quarterly survey of planned investment spending registered an increase of 16 percent over the

[20] Wolfson, *Financial Crises*, p. 31. "The Outlook," *Wall Street Journal*, August 22, 1966, p. 1.
[21] "Rising Inventories," *Wall Street Journal*, March 1, 1966, p. 1.

previous years business expenditures. Okun thought the survey "revealed the tremendous strength of business investment demand."[22] That month, Commissioner of Labor Statistics Arthur Ross told an audience in Atlanta that GNP might reach $735 billion during 1966, a figure $13 billion more than the official forecast. As Hobart Rowen wrote, "the economy has already spurted beyond expectations."[23]

While businesses planned further expansions, labor and material costs rose as wages broke through the guidelines and production met capacity. As a result of cost pressures and historic investment demand, corporations turned increasingly to credit markets during 1965 and 1966 to borrow for funds. According to the CEA, between 1961 and 1964 corporations had borrowed 2.7 to 6.5 percent of annual purchases of physical assets. In 1965, such external borrowing rose to 10.7 percent of nonfinancial corporate investment. During 1966 corporate borrowing to finance investments doubled again to 20.6 percent.[24] After a July visit with New York bankers, White House aid and former NBC executive Robert Kinter explained to President Johnson that "The more we step up defense expenditures the more the corporate economy has to borrow because the Government doesn't pay its [procurement] bills promptly."[25]

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[22] Okun, *Political Economy of Prosperity*, p. 82.

[23] "LBJ Eager to Avoid Seeking Tax Boost," *Washington Post*, March 27, 1966.

[24] *Economic Report of the President* (1967), Table B-69 p. 294, also cited in Hyman P. Minsky, "The Crunch of 1966—Model for New Financial Crises?," *Journal of Commercial Bank Lending* (August 1968), https://digitalcommons.bard.edu/cgi/viewcontent.cgi?article=1272&context=hm_archive.

[25] Robert Kinter to Lyndon Johnson, "Notes of a Talk by Mr. Alexander Sachs," July 18, 1966, Folder BE5C, WHCF, LBJ Presidential Library.

The Federal Reserve system struggled to exert control over the banking industry to curtail the growth of lending that summer. Corporate investment did not slow after the Federal Reserve increased the discount rate in December 1965. "As the spring progressed, it became increasingly clear that an inflationary boom was getting underway and that monetary policy should have been working to curb it," Maisel later wrote. "But, despite the higher discount rate and higher prevailing interest rates, the demand for funds had gone up even faster."[26] Corporations, which held significant pricing power and were earning historic profit margins after five years of wage restraint, took high interest rates in stride and continued borrowing. But in addition to corporate borrowers' willingness to pay higher interest rates, the continued flow of funds into corporation borrowing was supplied by commercial banks able to attract deposits and expand credit under the decentralized rule-making bureaucracies established by Depression-era banking laws. Under the Federal Home Loan Bank Board, established in 1932, savings and loans institutions received liquidity financing and were subject to interest-rate ceilings on deposits the local mortgage-financiers could pay.[27] Under the Banking Acts of 1933 and 1935, the Federal Reserve to set interest-rate ceilings on savings deposits for commercial banks, a power formalized as Regulation Q.[28] During the periods of rising interest rates in 1959 and 1965, the effect of these interest-rate ceilings on savings deposits was to draw corporate deposits out of savings accounts and into higher-

[26] Maisel, *Defending the Dollar*, p. 81

[27] Sarah Quinn, *American Bonds: How Credit Markets Shaped a Nation* (Princeton: 2019), pp. 177 and 263, n34. Ned Eichler, *The Thrift Debacle* (University of California: 1989), p. 30.

[28] R. Alton Gilbert, "Requiem for Regulation Q: What it Did and Why it Passed Away," *Federal Reserve Bank of St. Louis Review*, vol 68, no. 2 (February 1986).

paying assets, such as Treasury securities or corporate bonds. To avoid withdrawals from commercial banks, when the Federal Reserve raised the discount rate in December 1965, it also raised the Regulation Q ceiling on commercial-bank savings deposit interest rates.[29]

As interest rates rose during 1966, large depositors increasingly moved funds out of savings and loan institutions and into commercial banks. The effect on housing was immediate. Housing starts, which in December registered an annual rate of 1.8 million, fell 13 percent in January and 17 percent in February to a three-year low of 1.3 million units.[30] By October, the rate was under 850,000.[31] The flow of credit out of home building during the 1966 boom greatly exacerbated the stabilization problem. As the administration and the Congress debated the form of fiscal restraint, the AFL-CIO began to demand Congressional action to lower interest rates to cut off alternative investment outlets for large lenders and support the depressed housing construction industry. Congressional authorization for credit rationing offered one solution to stem the investment boom, organized labor argued, by spreading investment restraint across industries, rather than focusing the contraction on the housing construction sector. Within the LMAC, autoworkers' president Reuther called for "selective credit controls"—rationing of loans for borrowers by the government by means other than interest rates—as the basis for a new incomes policy.[32] Throughout the summer,

[29] Krippner, *Capitalizing on Crisis*, pp. 62-63. William Greider, *Secrets of the Temple*, pp. 177. Minsky, "The Crash of 1966." Quinn, *American Bonds*, p. 267, n. 83.

[30] "Housing Starts in February Fell to a 3-Year Low," *Wall Street Journal*, March 21, 1966, p. 3.

[31] Maisel, *Managing the Dollar*, p. 98.

[32] Reuther to Burnham, September 27, 1966, Box 96, Folder 8, Keeton Papers, University of Texas Law Library. Ackley to Johnson, April 7, 1966, Folder "Economic Controls," and "BE5 Confidential," WHCF.

Congressman Henry Reuss lobbied vigorously for amendments to the Defense Production Act empowering the President to ration credit. "While I appreciate that wage and price guidelines by definition do not apply to increases in the cost of money," the Congressman wrote to CEA Chairman Ackley, seeking Presidential endorsement, "I am convinced that some guidelines should be brought to bear to control future expansion in these [interest] rates."[33] In May, Califano asked the President for permission to "quietly move it [the Reuss amendments] along without any indication that the administration is interested in it." Treasury Secretary Fowler too had grown alarmed when rising interest rates had not depressed corporate borrowing and spending. As he told the Cabinet, "Our position has been that raising the price of money should not be the sole means of determining who gets the credit…. For the big banks to rely on higher interest rates as the only means for allocating credit is to put up the cost of money for everyone who borrows." If the monetary authorities were to obtain "better weapons to restrain credit expansion," the Congress would have to authorize credit controls and a system of loan rationing. This was the only way, Fowler thought, to avoid "a highly selective impact on housing, state and local borrowing, and small business—which has usually accompanied substantial monetary restraint."[34]

[33] Reuss to Ackley, July 15, 1966, Box 47, Folder 1, Henry Reuss Papers, Wisconsin Historical Society, UWM Golda Meir Library. Farris Bryant to Wright Patman, March 30, 1966, Folder "Economic Controls," BE3, WHCF, LBJ Library. Ackley thought credit-control powers desirable, but expressed concern that the act of requesting them might set off panic buying. Ackley to Lyndon Johnson, "Position on Stand-By Authority for Consumer Credit Controls," April 7, 1966, Folder "Economic Controls," BE3, WHCF.

[34] Califano to LBJ, Cite: CAP6627, May 7, 1966, Folder, "BE5 National Economy (May 1966)," Box 2, BE Confidential File, WHCF, LBJ Library. "Summary of Statement by the Honorable Henry H. Fowler…. Presented at Cabinet Meeting, August 11, 1966," Folder "BE National Economy (August 1966)," Box 2, BE Confidential File, WHCF, LBJ Library.

Without presidential support, the credit control measure failed in a roll call vote in June, 73 to 275.[35] With a legislative solution a dead letter, the Federal Reserve moved to limit banks' lending power by raising reserve requirements on deposits above $5 million. Yet commercial lending still did not slacken. Commercial banks' were able to continue financing corporate borrowing because of their access to an entire new market in bank-issued short-term savings instruments: negotiable certificates of deposit (CDs), which allowed banks to continue to raise deposits and maintain reserves at levels mandated by the Federal Reserve system.[36] Commercial banks turned *en masse* towards this source of funds after credit tightening began in December. In July, the central bank lowered the Regulation Q ceilings banks could pay on small savings deposits. The rule change intended to stem flow of funds out of savings and loans. It also did not raise Regulation Q ceilings on large fixed-maturity deposits. Many commercial bankers had urged such regulatory relief since June, when the interest rate on CDs had reached their Regulation Q ceilings. Insurance companies, charging policy holders lower interest on loans than the banks, expanded their policy loan portfolios and bid up the price of funds. As market interest rates broke through Regulation Q ceilings, corporate lenders found they could earn higher returns through selling existing CDs and

[35] Henry Wilson to the President, June 16, 1966, Folder "Economic Controls," BE3, WHCF, LBJ Library.

[36] *Monthly Economic Letter*, First National City Bank of New York (September 1966), which notes the "selectivity of the new control technique" the Federal Reserve would adopt during the year "stems from the fact the larger banks, which tend to specialize in business lending, have depended upon certificates of deposit for much of their growth since 1961," p 99. Folder 7, Box 97, William Page Keeton Papers, University of Texas Law Library. Wolfson, *Financial Crises*, pp. 35-6. Krippner, *Capitalizing on Crisis*, pp. 66-8. Hyman P. Minsky, "The Crunch of 1966—Model for New Financial Crises?," *Journal of Commercial Bank Lending* (August 1968).

issuing their own bonds than what banks could offer on new CDs.[37] The result was a financial panic during the month of August—the first in the postwar period—as commercial banks failed to roll over their CDs. To maintain required reserves in lieu of funds from new CDs, commercial banks liquidated their holdings of securities, primarily municipal bonds, in a mass scramble for liquidity. Municipal bond prices collapsed in the sell-off. The borrowing rates for states and municipalities skyrocketed, imperiling countless local projects. This exacerbated the squeeze on the construction industry, as now public authorities joined savings and loan institutions among the ranks of borrowers unable to raise funds.[38] At the end of August, the Federal Reserve intervened with emergency lending, flooding commercial banks with liquid assets and urging them to reduce their business lending.[39]

Emergency lending from both the Federal Reserve and the HLBB restored order to credit markets and prevented the August bond sell-off from spreading to corporate paper markets or forcing the liquidation of large parts of the savings and loan industry. But it had come with a new strategy from the Federal Reserve Board, a "proviso" to its directives to the Open Market Committee. As Federal Reserve Chairman William McChesney Martin explained to Reuss after the crisis, "a wide variety of alternative means for influencing bank

[37] Minsky, "The Credit Crunch of 1966," p. 5. Krippner, *Capitalizing on Crisis*, p. 68. Wolfson, *Financial Crises*, pp. 36-7.

[38] Krippner cites a failed Los Angeles bond auction and New York City Mayor John Lindsay's remark that the city was unable to finance its public housing program. *Capitalizing on Crisis*, p. 69. Wolfson cites the *Annual Report of the Board of Governors of the Federal Reserve*: "With commercial banks acting as net sellers rather than in their normal role of net buyers…it was difficult to find bidders for offerings of tax-exempt issues even at sharply reduced prices and higher yields." *Financial Crises*, p. 37.

[39] Wolfson, *Financial Crises*, pp. 36-7. Maisel, *Managing the Dollar*, pp. 95-105.

borrowing is being examined. Included are some more positive variants of the primarily administrative control exercised today" and "various proposals for quantitative controls."[40] The main form of "administrative control" was a letter the Board sent to all member banks in August advising that "Member banks will be expected to cooperate in the System's effort to hold down the rate of business loan expansion…"[41] Without Congressional mandate, the Federal Reserve Board was moving of its own accord toward an informal method of credit rationing.

The credit crunch of August 1966, which coincided with the airlines strike, revealed the ways in which the full-employment economy was transforming the nature of the problems of macroeconomic management since the end of the Korean War. Confronting an increasingly innovative banking sector, the Federal Reserve found itself unable to slow investment spending through its traditional methods of raising the discount rate and reserve requirements on member banks. When pressed to control lending, it had unintentionally set off a panic. As the economist Hyman Minsky wrote, "the mini-crisis of 1966 led to a mini-recession in 1967."[42] Ned Eichler, the son of the California real-estate development tycoon

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[40] William McChesney Martin to Henry Reuss, March 6, 1967, Box 47, Folder 13, Henry Reuss Papers, UWM. Martin noted that "In recent years non-Federal debt has increased far more rapidly than Federal debt, and bank portfolios have reflected this development…. In the absence of ample supplies of liquid assets, many banks find themselves adjusting their reserve positions more and more through the issuance of short-term liquid liabilities. This can be seen in the rapid growth of the Federal funds market, the intense competition for certificates of deposit, and the heavy reliance of some banks on the Eurodollar market."

[41] Wolfson, p. 38. Proviso in Maisel, pp. 85-6. Minsky, "The Crunch of 1966," p. 7.

[42] Minsky, "The Crunch of 1966," p. 1. Spending was further depressed by the "mini-budget" of November 1966, which, as the previous chapter showed, raised corporate taxes by eliminating the seven-percent investment credit.

Joseph Eichler and president of the even larger east-coast suburban property developer the Levitt Corporation, described the period in private home building after 1966 as "the end of an era." The historian Sarah Quinn shares this periodization in her history of US financial instruments.[43]

Sherman Maisel of the Federal Reserve thought of the year 1966 as the division between a past in which monetary policy could be imagined as counter-cyclical device and a future in which the benefits of monetary contraction were no longer self-evident. "I call the pre-1966 period the age of innocence," he wrote, "because it was possible at that time to think of monetary policy in very simple terms." Whereas the dilemma confronting the Eisenhower and Kennedy administrations had been how to stimulate production and raise employment without accelerating inflation, the problem Johnson and Nixon would face would be how to depress production and employment without instigating a financial crisis and recession. Existing theories for the Federal Reserve's role in managing the economy, Maisel continued, "failed to take into account the fact that the Fed's need to function as a lender of last resort imposed limits on the amount of tightening it could effect through monetary policy."[44] This dilemma also held true outside the Federal Reserve system. The

[43] Quinn, *American Bonds*, p. 182. Ned Eichler, *The Thrift Debacle* (University of California: 1989), Chapter 3.

[44] Maisel, *Managing the Dollar*, p. 89. As Maisel explained, the very indicators the governors used to measure success were challenged by the investment boom and the failure of stabilization policy. "One part of the age of innocence—that of measuring monetary policy only by a feel for the degree of accommodation of demand gained by looking at money market conditions—had been recognized as inadequate," Maisel explained. "[T]he second part of the doctrine—that goals were simple and primarily to fight inflation—was being challenged by the course of events." Maisel, *Managing the Dollar*, p. 86.

traditional lenders to residential construction—savings and loans—faced an existential squeeze in a flight of deposits during the inflation of 1966-7. Yet the fully employed economy produced a continuous demand for mortgages and rising real-estate values, which, together with emergency liquidity from the HLBB, enabled thrifts to remain solvent. "One salutary consequence of government fiscal and monetary stimuli," Eichler wrote, "was to mitigate, if not wholly prevent, losses that would otherwise have stemmed from overzealous lending. Lenders were saved by inflation not only after 1966 but twice more as well, after 1970 and 1975."[45]

The Democratic Agenda: Austerity and Controls

High-level macroeconomic policy discussion entered a new phase after the wage guideline collapsed in 1966. Though opponents of incomes policy characterized discussion of wage-price restraint as an alternative to fiscal-monetary fundamentals, it was, in reality, an integral aspect of the general domestic austerity program the Johnson administration pursued during 1967 and 1968 after the emergencies of 1966. Having slowed investment with the suspension of the seven percent investment credit in November 1966, the President announced in his State of the Union Address in January 1967 two additional initiatives to further domestic stabilization. First, the President proposed the long-awaited tax increase in

[45] Ned Eichler, *The Thrift Debacle* (University of California: 1989), pp. 31-43, quoted text on p. 32. Thrifts were also able to retain deposits after 1966 as the HLBB maintained a differential between savings and loan interest ceilings and Regulation Q. On the differential between deposit interest ceilings for thrifts and commercial banks, see p. 30, cf. Quinn, *American Bonds*, p. 267 n83, Krippner, *Capitalizing*, p. 68.

the form of a 6-percent surcharge on personal income taxes. Second, to the surprise of numerous business and labor leaders, was a request for legislation merging the Departments of Labor and Commerce into a new Cabinet-level agency.[46]

Civilian austerity produced its own pathologies. As Congressional politics turned during spring 1967 to the question of halting the US bombing of North Vietnam and opening negotiations for peace, the tone of debate over the war in Congress grew from strident to indignant. Within the Democratic Party, opinion split along three axes. First, the building trades and many industrial workers, as the previous chapter showed, took the opportunity of the war economy for a wage offensive. In this they were joined by Republican-aligned unions such as the IAM. For organized labor, the war represented the familiar full-employment situation of Korea and World War II, and labor leaders did not consider wage restraint equitable in the absence of controls on profits and prices.

Labor's skepticism of the wage restraint program and its influence in the White House sank the Johnson administration's attempt to move toward voluntary controls during the civilian austerity drive of 1967. Rumors about the idea for formalizing the nation's wage-price policy had spread throughout the White House since at least November. Califano wrote to the President that month of the "real possibility" that an existing task force on executive reorganization, chaired by Northwest Industries CEO Ben Heineman, "will have among its recommendations a proposal to abolish Labor and Commerce and substantially restructure

[46] Lyndon B. Johnson, Annual Message to the Congress on the State of the Union. Online by Gerhard Peters and John T. Woolley, The American Presidency Project https://www.presidency.ucsb.edu/node/238176.

the economy planning organs of the government, and create a Department of Economic and Human Development under one cabinet officer."[47] The proposal was part of a broader executive reorganization that followed the creation of the Department of Transportation during the summer of 1966, which had absorbed a number of former Commerce Department bureaus—notably the Federal Highway Administration and the Federal Aviation Administration.[48] The new secretariat—described various as the Department of Business and Labor or the Department of Economic and Human Development—would absorb what remained of Commerce. Most importantly for the administration, the new cabinet agency would coordinate the Great Society agencies—the Office of Economic Opportunity and the Equal Employment Opportunity Commission—with the pre-Johnson "manpower," small-business development, and industrial relations agencies created in response to class conflict and business restructuring of late 1940s and 1950s—the Small Business Administration, the Mediation and Conciliation Service, the National Labor Relations Board, and the Manpower Development and Training Act offices in the Department of Health, Education and Welfare. As Heineman explained, "For the first time, almost all federal programs designed to upgrade

[47] Califano to LBJ, November 30, 1966, BE3, WHCF. Heineman was the CEO of Northwest Industries and on the Board of First Chicago Bank, Mark S. Mizruchi, *The Fracturing of the American Corporate Elite* (Harvard: 2013), p. 127. For the Heineman plan in the history of executive organization and national economic planning, see Otis L. Graham, *Towards a Planned Society* (Oxford: 1976), pp. 177-8.

[48] Califano's proposed talking points for a meeting between Johnson, Trowbridge, Herbert Holloman and the "top ranking officials in the Commerce Department" explain that "In the past 2 years we have had 10 reorganization plans and two new Departments. Now, we are hoping for a third new Department….It will bring together Economic Development and manpower training programs. It will bring together all the statistical services of the Government. International labor and business problems can be handled together since the interests of labor and business with respect to exports are almost always the same. The Science and Technology program that Herb Holloman runs can be expanded and strengthened." Califano to the President, January 20, 1967, Folder "FG 999-22 Department of Business and Labor," EX FG 999-10, Box 433, WHCF, LBJ Library.

the skills of our work force will be brought together with federal programs designed to facilitate job creation and expansion by private enterprise."[49] The new department would combine the major federal statistical and economic-planning agencies below CEA—the Census Bureau (Commerce), the Bureau of Economic Analysis (Commerce), the Bureau of Labor Statistics (Labor), and the Office of Emergency Planning—into a single department. As the President said in introducing the legislation to Congress in March, "the establishment of a single institution" would "unify the management of government programs which affect the economic health of the Nation."[50]

Centralized economic information gathering, it was thought, would also help coordinate decision making over wages and prices. As Heineman wrote to the President, "The merger of Labor and Commerce would absorb two of the few remaining federal executive departments frequently charged with domination by clientele-oriented objectives… A new Secretary, with major, rather than partial governmental responsibility for the healthy development of the private sector should be able to reconcile and resolve many Business-Labor-Consumer problems that now reach your desk, while also serving as a more neutral, and therefore credible interpretor of the diverse needs of the productive elements of the private sector."[51] Divisions over policy planning between the Commerce and Labor

[49] Ben W. Heineman to the President, January 31, 1967, Folder "FG 999-22 Department of Business and Labor," EX FG 999-10, Box 433, WHCF, LBJ Library.

[50] Lyndon B. Johnson, Special Message to the Congress: The Quality of American Government Online by Gerhard Peters and John T. Woolley, The American Presidency Project https://www.presidency.ucsb.edu/node/237929.

[51] Heineman to LBJ, January 31, 1967, supra n49.

secretaries had proved irritating to CEA and to the President during the wage-price disputes of 1965-6.[52] Because the chairmanship and staff of the LMAC rotated between the Commerce and Labor secretaries each year, the White House hoped a formal integration would strengthen the Wirtz program of voluntary restraint and wage-and-price stabilization.[53] "A combined department," Heineman continued, "should and undoubtedly will serve as a source of objective information on trends in productivity, prices, and wages, as a vital participant in government policy formation on these matters, and as an effective participant in the continuing government dialogue with the private sector concerning appropriate restraint in wage-price actions."[54]

Initially, the leaders of the AFL-CIO, the Business Council, and the editors of at least the *Washington Post* and the *Houston Post* favored the announcement. "By virtue of their separate identities," the *Post* wrote, "Labor and Commerce smack of corporativism." Merging the departments, it was hoped, would "preclude" the "recrudescence" of the "spirit" of clientelism. [55] Through the middle of January, Califano, Wirtz, Connor and Larry Levinson spoke with the members of the LMAC and a broader set of businessmen and labor

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[52] During the metals price dispute in September 1965, e.g., Johnson complained to McNamara that ""Connor's awful sympathetic with these people and he doesn't hit 'em." Phone Call: Johnson to McNamara, September 12, 1965, Miller Center, Citation Number: Citation Number: 8852.

[53] Phone call: Johnson to Joseph D. Keenan, January 11, 1967. Miller Center, Citation Number: 11331, https://millercenter.org/the-presidency/secret-white-house-tapes/conversation-joseph-keenan-january-11-1967.

[54] Heineman to LBJ, January 31, 1967, supra n49.

[55] "A Labor-Commerce Merger?," *Washington Post*, January 16, 1967, p. A18. Cf. "Merger Proposal Has Merit," *The Houston Post*, January 19, 1967, found in Folder "FG 999-22 Department of Business and Labor," EX FG 999-10, Box 433, WHCF, LBJ Library.

leaders on the proposal, to near universal acclaim.[56] Edgar Kaiser and Stuart Saunders sent the President personal endorsements of the merger proposal.[57] "There could not have been any outcry from Meany or the President would have abandoned the thought," wrote the nationally syndicated labor columnist Victor Riesel. "Obviously Meany was assured that the labor movement would not be submerged in the merger—rather to the contrary…. There you have the President's labor policy for 1967: Join business and labor. Let them, on all the problems, sit and reason together with the help of a massive new governmental agency."[58] William Page Keeton, Dean of the University of Texas Law School and public member of the LMAC, wrote privately that "Theoretically, there is much to be said for the notion that there should be a merger of the two departments and that the departments of Federal government should be organized along functional lines rather than interest group lines… My own feeling is that there should be an organization of economic activities somewhat along the lines of the organization of our military affairs. We have the Defense Department and then under the Secretary of Defense we have of course the Secretary of the Navy, the

[56] Those businessmen who favored the merger include: William Beverly Murphy (Campbell Soup), Thomas Watson (IBM), Stuart Saunders (Pennsylvania Railroad), Sidney Weinberg (Goldman Sachs), Frank Stanton (CBS), William Hewitt (Deere), Thomas Gates (Morgan Guarantee Trust). Favorable labor leaders include: Walter Reuther (UAW), George Meany, Lane Kirkland, Joe Keenan (IBEW), and Jim Sufferidge (Retail Clerks). Those who supported only on the condition that "a labor man is not named Secretary," included Henry Ford II, Edgar Kaiser, and Ward Keener (Goodrich). Those who opposed on the grounds that a labor man would at some future point run the agency included Tex Thornton (Litton) and Fred Donner (GM). Joe Califano and Larry Levinson to the President, January 11, 1967 and January 10, 1967, both in Folder "FG 999-22 Department of Business and Labor," EX FG 999-10, Box 433, WHCF, LBJ Library.

[57] "Comment by Stuart T. Saunders, Chairman, Pennsylvania Railroad," undated, and "Kaiser News Release," January 12, 1967, both in Folder "FG 999-22 Department of Business and Labor," EX FG 999-10, Box 433, WHCF, LBJ Library.

[58] Victor Riesel, "President's Labor Formula: Sweet Reason, Togetherness," *Philadelphia Inquirer*, January 16, 1967, p. 15.

Secretary of the Air Force, the Secretary of the Army. If there is to be a merger I feel that we should have a Secretary of Economic Affairs and under him a Secretary of Commerce and a Secretary of Labor."[59] "I really believe, Mr. President, that our people are gonna support this," AFL-CIO official Lane Kirkland told Johnson after the State of the Union address. "I know that George is very strongly favorably inclined towards it."[60]

The Labor-Commerce merger, however, was not to be. The proposal collapsed with the administration's broader political defeats revealed by the midterm elections in November. The President did not communicate the merger plans to union leaders before announcing the legislation, and only after personal overtures did Meany and Reuther warm to the idea. Despite these initial assurances to the President, many union leaders took sharp objection to what they saw as the elimination of labor representation in the Cabinet. As LMAC member Joe Keenan, secretary of the International Brotherhood of Electrical Workers, told Johnson in January, the Department of Labor within new department had "completely lost its identity, as far as our unions is concerned."[61] Califano lined up Senators Edmund Muskie of Maine and Harrison Williams of New Jersey to deliver speeches in the Congress in favor of the proposal, and secured support from Representative Harley Staggers of West Virginia,

[59] William Page Keeton to Charles W. Snyder, November 5, 1967, Folder 2, Box 97, Keeton Papers, University of Texas Law School Library.

[60] Phone call: Kirkland to Johnson, January 14, 1967, Miller Center, Citation Number: 11356.

[61] Phone call: Joseph Keenan to Johnson, January 11, 1967, Miller Center, Citation Number: 11331. Despite labor's concerns, the Labor-Commerce merger arguably reflected a broader weakening of organized business within the executive bureaucracy. During the four years of his only full administration, President Johnson employed three men as Commerce Secretary, a role for which each business representative in turn shrank as the demands of stabilization became clear.

Chairman of the House Commerce Committee.[62] Surveying the Congress, White House staffer Paul Southwick wrote to Presidential aide Henry Wilson that "preliminary reaction from the Hill is 'wait and see.' There appears to be little outright opposition on the one hand, and little enthusiasm on the other."[63]

Meany proved unable to secure the allegiance of the leaders of the international unions. "I am running into indifference and disbelief on the Hill so far as the merger proposal is concerned," Wirtz wrote to Johnson. Meany had personally stopped Communication Workers' President Joe Beirne from publicly opposing the proposal, but other labor leaders, such as Joe Curran of the National Maritime Union, spoke independently against the new department. After meeting with Meany and Kirkland in late January, Wirtz wrote to the President that Meany "continues to take the position that the merger is a good idea 'in principle,' but expresses very strong doubts about going ahead with it as a practical matter." Beirne, Curran, Siemiller, Schoemann, Harrison, Abel and Feller were all "strongly opposed." The "furthest anybody will go," Wirtz reported, "is to say that he is 'waiting to see.'" The labor leaders "repeatedly refer[ed] to the point that under a Republican or conservative administration there would be someone appointed Secretary to the new Department who would be completely opposed to the Labor interest." In February, Kirkland urged a meeting with the AFL-CIO Executive Council to discuss the legislative agenda and

[62] Joe Califano to the President, January 17, 1967; James G. Morton to Joe Califano, February 13, 1967; Memo, Southwick, January 24, 1967; Trowbridge to the President, March 8, 1967, Folder "FG 999-22 Department of Business and Labor," EX FG 999-10, Box 433, WHCF, LBJ Library.

[63] Memorandum. Southwick to Wilson, January 27, 1967, Folder "FG 999-22 Department of Business and Labor," EX FG 999-10, Box 433, WHCF, LBJ Library.

formalize opinion on the merger. As late as March 7, after Wirtz met with the Executive Council, Califano could still write favorably about the new agency's prospects. "The secretary of any combined department would have a significant voice in the formulation of economic policy," Wirtz explained to Califano. "Wirtz said at the present time, he had no voice in the formulation of economic policy, that such policy was put together by the CEA, Shultze and Fowler." The Labor Secretary thought, Califano wrote, that "this was the most compelling reason for people like George Meany, with some sophistication in the Government, to go for the Department."[64]

The President's proposal to streamline economic planning proved most controversial to those labor leaders opposed to the guideposts. By March, the leaders of the building trades and the IAM were unequivocal in their opposition. When Budget Director Schultze and Wirtz attended the meeting of the AFL-CIO's Executive Council that month to present the proposal, George Reedy, also in attendance, wrote to the President that even though the White House officials had "made an extremely good presentation of the plan… the emotional reaction of the labor leaders was so strong that there is no doubt in my mind that the proposal in its present form, and for the time being, cannot be approved." Alexander Trowbridge, the acting Secretary of Commerce after Connor's departure in January, remembered: "I think the death knell was when George Meany discovered that he had set out in one direction and his

[64] Wirtz to the President, January 16, 1967; Wirtz to LBJ, January 25, 1967; Califano to the President, February 24, 1967; Califano to the President, March 7, 1967, Folder "FG 999-22 Department of Business and Labor," EX FG 999-10, Box 433, WHCF, LBJ Library.

troops weren't following."[65] When the LMAC, which had not met since December 1966, reconvened in May 1967, the merger was the first order of business. Wirtz and Trowbridge prepared a visual presentation. "The first comment after the meeting after the lights went [back] on was, 'Well, we could do without the high-school art work,' which was, I think, fairly indicative," Trowbridge remembered. The meeting was "dominated by the antis in the form of the labor leaders," Trowbridge continued. "Edgar Kaiser was for it; Henry Ford said, 'well, maybe'; Bev Murphy was against it; two or three of the public members—Meredith Wilson, Howard Johnson of MIT—felt that it was good. But the labor voice was unanimous and vehement, and in view of that the general consensus was that it just wouldn't fly as an idea." The LMAC meeting minutes read a "majority of the members, and particularly the labor representatives" felt that "loss of identity" for the two departments "would be undesirable."[66] Stan Ross, Joe Califano's assistant in charge of price-wage surveillance with CEA, reported the meeting to have been a "fiasco."[67] As Keeton, the public LMAC member, wrote in November, it was "politically impossible" and not "feasible at this time to eliminate altogether the Department of Labor. Labor feels that it needs a voice in government to represent its interests if they are to be adequately considered."[68]

Just as the administration tested its political alliance with organized labor, it found the caps on civilian spending dividing the Democratic Party. For Southern Democrats and

[65] Reedy to Johnson. Trowbridge Oral History.

[66] Trowbridge Oral History. LMAC minutes in Taylor papers.

[67] Ross papers, LBJ library.

[68] William Page Keeton to Charles W. Snyder, November 5, 1967, Folder 2, Box 97, Keeton Papers, University of Texas Law School Library.

corporation executives, the coincidence of the Great Society and the war prejudiced their preferences for fiscal policy. Any increase in taxes, they thought, should not serve as an opportunity for further increases in civilian spending. Thus, they made fiscal restraint hostage to budget cuts for civilian programs. For the Democrats' left wing of Northern, urban politicians, however, the war economy now became a source of increasingly intense internal dissent.

Before McNamara's return in November 1966, the administration had been uncertain of the duration of hostilities. For this reason, the President delayed raising taxes, supporting emergency seizure legislation, or imposing wage-price controls on the grounds that the war would soon be over. Senior Wall Street executives had predicted peace negotiations by the third quarter of 1966.[69] During the airlines strike, then-Attorney General Katzenbach had advised the President to wait until January 1967 to decide on the question of price control.[70] Now, however, many liberal Democrats from urban districts considered the time for decision. Those who had continued to support the administration's foreign policy, like Paul Douglas of Chicago, had gone down to defeat in the midterms. A growing rift within the party had widened. By February 1967, Robert Kennedy could still complain to his staff, after a meeting

[69] "Mr. [Alexander] Sachs thinks it is quite possible that we are going to have such notable victories in Vietnam as to open up the prospect of negotiations by the end of the monsoon season which is at the end of the third quarter." Kinter to LBJ, July 18, 1966. WHCF BE5C, LBJ Library.

[70] Katzenbach told the President "I think that trying to formalize anything at this point would just not work and is wrong. I think the best thing that can be done is to, is really just simply to continue, at least now until January, to make as many pleas as you can to the unions and to the businessmen. I don't really believe that trying to formalize guideposts, or formalizing any kind of wage-price review, has any prospects of success, and I think, if I'm right on that, that it would be a mistake to do it." Phone call: Katzenbach to Johnson, August 11, 1966, Miller Center, Citation Number: 10607.

with the President, that "They think they're going to win a military victory in Vietnam by summer. They really believe it."[71] In a series of provocative and widely reported lecturers that spring, Martin Luther King, Jr. began to speak forcefully against the war. Just "a few years ago," King said, it had "seemed as if there was a real promise of hope for the poor, both black and white, through the poverty program…. Then came the buildup in Vietnam, and I watched this program broken and eviscerated as if it were some idle political plaything on a society gone mad on war. And I knew that America would never invest the necessary funds or energies in rehabilitation of its poor so long as adventures like Vietnam continued to draw men and skills and money like some demonic, destructive suction tube."[72]

Those politicians who had been most vocal in denouncing the inequities of the guideposts during the expansion of late 1965 and 1966—Wayne Morse, Gaylord Nelson, Joseph Clark—now directed their ire towards the underlying cause of the full employment boom: the war in Vietnam. Increasingly, those Congressional liberals seeking to end the war saw organized labor as an obstacle to their goals. Speaking to a dinner for Americans for Democratic Action in Philadelphia in February 1967, Robert Kennedy explained that, for many looking with young eyes saw "labor as grown sleek and bureaucratic with power… a force not for change but for the status quo."[73] Speaking before the ADA in April,

[71] Schlesinger, p. 802.

[72] David J. Garrow, *Bearing the Cross: Martin Luther King and the Southern Christian Leadership Council* (Quill William Morrow: 1986), pp. 552-3. Arthur M. Schlesinger, *Robert Kennedy and His Times*, Vol. II (Houghton Mifflin: 1978), p. 911. Taylor Branch, *At Cannan's Edge: America in the King Years, 1965-8* (Simon & Schuster: 2006), pp. 592-3. King's full speech is documented by the American Rhetoric Online Speech Bank at https://www.americanrhetoric.com/speeches/mlkatimetobreaksilence.htm.

[73] Schlesinger, *Robert Kennedy*, pp. 838-839.

organization President John Kenneth Galbraith described the leadership of organized labor in the United States as "aged, contented, and deeply sonambulant…on important issues of foreign policy its position is well to the rear of Gerald Ford."[74] Liberals within the administration shared this sense of antagonism with organized labor. By August 1967, acting CEA chairman James Duesenberry wrote to Califano: "We now have no real influence at all on wage settlements." Meany publicly spurned Johnson's appeal for wage restraint. "We have always said we are ready to accept equality of sacrifice," a Meany spokesman said in December. Unless Congress imposes "equality of sacrifice" through controls on prices, wages, profits, dividends, executive compensation, salaries, and rents, labor would not restrain wage claims. "We'll be no part of putting the total burden on the backs of workers," said Roy Siemiller. "When they get restraint on profits, dividends and executive salaries they'll find the trade union movement in the vanguard of restraint."[75]

Unable to reduce corporation spending during 1966, and with industrial capacity utilization at historic highs, the resources diverted to the war in Vietnam came during the year at the expense of industrial workers and the residential construction industry. Rising service and food prices reduced the real wages in both of these sectors. When members of Congress asked Willard Wirtz about the wage guideposts in September, the Labor Secretary explained that he did not think "the increase in wages in the food and the service industries

[74] Goulden, p. 354

[75] Duesenberry to Califano, August 9, 1967, quoted in James L. Cochrane, "The Johnson Administration: Moral Suasion Goes to War," in *Exhortation and Controls*, ed Craufurd Goodwin (Brookings: 1975), p. 279. Meany and Siemiller quoted in "AFL-CIO Won't Heed LBJ Wage Appeal," *Hartford Courant*, December 8, 1967, p. 6.

should come out of the pockets of manufacturing employees." Garnder Ackley, speaking before the National Industrial Conference Board in October, explained the dilemma: the "recent increases in food prices have swelled the income of farmers. But the achievement of higher farm incomes has long been an express goal of public policy…. Likewise, the rise in service prices has been associated with a relative gain in the incomes of our lowest paid workers—surely an objective of every group in our society." In CEA's opinion, these factories justified the rise in prices. Speaking before the American Ordnance Association later that month, Arthur Okun explained that, the "key current problem for the guideposts stems from the recent increases in food, and service prices, which have accounted for the major part of our rise in consumer prices." Price stability depended on "asking the industrial sector whether owners and workers, in combination, will show the restraint to absorb these costs."[76] With the turn towards austerity after the financial crisis of July and the "mini budget" of November 1966, these economic strains spread towards municipal and state governments. By the summer of 1967, this political-economic resolution to the previous years' inflation exacted a serious social cost.

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[76] Wirtz in U.S. House. Committee on Government Operations. "Congressional Review of Price-Wage Guidepost," 89th Congress, Second Session (HR 11916), September 12, 1966 (Government Printing Office: 1966), p. 98. Ackley quoted in Harry Douty, "Living Costs, Wages, and Wage Policy: Rising Prices, Income Lags, and the Problem of National Wage Policy," *Monthly Labor Review* (June 1967), p. 6..Cf. Gardner Ackley, "The Death of the Guideposts," remarks before the Society of American Business Writers, May 2, 1967 and "The Businessman's Role in Fighting Inflation," Remarks before the Annual Meeting of the Chamber of Commerce, May 2, 1966, copies of both speeches in Folder 7, Box 96, William Page Keeton Papers, University of Texas Law Library. Arthur Okun, "National Defense and Prosperity," remarks before the American Ordnance Association, Fort Lesley J. McNair, Washington, DC, October 12, 1966, printed in US Congress, Joint Economic Committee, "Economic Effects of Vietnam Spending," 89th Congress, First Session (78-516), Vol II (Government Printing Office: 1967), p. 545.

On July 12, five days of looting erupted in Newark. On July 23, the City of Detroit erupted into its own period of looting and arson. The national guard was called into both cities as footage of burning buildings was broadcast across the nation. In both instances, the proximate cause was local reaction to police beatings of black residents—yet as all observers instantly recognized, the offensive policy behavior came in the context of persistent unemployment and declining real wages in working class neighborhoods left behind by the general military boom and its diversion of resources from the nascent Great Society programs. Over sixty people were killed and hundreds of buildings burned. In response, Senators Robert Kennedy and Joseph Clark introduced legislation to employ two million workers in national public service. Within the Congress, however, Wilbur Mills continued to oppose an expansion of civilian spending. The administration had finally proposed definite legislation for raising taxes in August (increasing the proposed surcharge from 6 to 10 percent), and, needing Mills's cooperation, declined to support the Kenendy-Clark bill for expenditure increases.[77]

The administration's domestic austerity program further undermined its political position when the President appointed Illinois Governor Otto Kerner to chair a Commission on Civil Disorders to study the causes and make recommendations about the events of July in

[77] Cf. the remarks of Robert Kennedy during 1967: "Bedford-Stuyvesant will have no meaning if we don't end that terrible war," in Schlesinger, *Robert Kennedy*, pp. 812-857, passim. Connecticut Senator Abraham Ribicoff remarked "The cost of eliminating America's slums and giving everybody a guaranteed minimum annual income would probably run to about half the present cost of Vietnam," quoted in Steven M. Gillon, *Separate and Unequal: The Kerner Commission and the Unravelling of American Liberalism* (Basic: 2018), pdf, p. 57.

Detroit and Newark. David Ginsburg, executive director of the Commission, considered the war the “sine qua non” of the disorder of the summer of 1967, “in the sense that, without Vietnam we could have afforded many more of these [Great Society] programs.” Yet the Kerner Commission found itself unable to specify the costs of its recommendations for strengthening and expanding the Great Society programs except in the vaguest terms of the “fiscal dividend” that would remain after the end of the war in Vietnam.[78] At the President’s direction, neither Fowler nor Schultze shared budget projections with the Commission staff. Schultze thought any available funds “likely to be taken by the war.” When the Commission finally delivered its report in late February 1968, the President, at Califano’s suggestion, refused to receive it formally. “We were seeking expenditures to assist in the development of really the black community within the country,” Ginsburg later explained. But the President “was forced to consider expenditures needed for the war. They were in conflict. He was fearful that this blast would come from the [Kerner] Commission calling for vast expenditures and then simultaneously there would be [someone] saying there must be an end to the war in order that we may go forward with the domestic programs.”[79]

As domestic austerity frustrated the administration’s political prospects, the continued boom in private business spending and government military expenditures came to threaten

[78] This was from $11 to $14 billion, plus an additional $16 billion if the President’s tax increase was enacted, for a total “$28.5 billion over a two-year period.” *Report of the National Advisory Commission on Civil Disorders* (Bantam: 1968), p. 411.

[79] John Lindsay, the Mayor of New York, had hoped to use the Commission to issue an interim report in December, before the annual budget message, urging greater spending on social programs for the nation’s cities. David Ginsburg Oral History, 1988, III p. 29; IV, pp. 2 and 6-7. Califano, *The Triumph and Tragedy of Lyndon Johnson*, pp. 260-2.

the administration's geopolitical program. This was because the reversal of the investment slowdown during the second half of 1967 contributed to mounting dollar balances abroad that threaten the international position of the dollar. These were unavoidable consequences of the commitment to private-sector growth and autonomy for US corporations increasingly engaged in international transactions. After the Federal Reserve had provided liquidity during the crunch of 1966, US interest rates fell below those in Europe, pushing further dollar balances overseas. By the end of September 1967, the US Treasury was responsible for over $31.2 billion in liquid liabilities held by foreigners. US holdings of monetary gold amounted to just $12 billion. When the British finally devalued the pound 14 percent in November, gold began to flow out of London as speculators anticipated a change in the dollar price. Two weeks later the French announced they would no longer cooperate to supply the London gold pool. "Between November 16, the day of devaluation, and December 20 or so, it became very evident that there was a lot of flight capital. There was a lot of U.S. private money going out," Trowbridge remembered.[80]

The international implications of continued domestic inflation finally presented US corporation executives with the difficult political decisions over incomes facing organized labor and urban Democrats throughout 1966 and 1967. Since late 1964, a team of economists in the Treasury had urged mandatory controls on foreign investments stimulated by the

[80] Alexander Trowbridge, Oral History, Tape #2, p. 10. Gold and dollar balances in Francis Gavin, *Gold, Dollars, & Power*, Appendix B, p. 209.

forces of US expansion and speculative pressure on the pound sterling.[81] Now, Fowler had finally won the argument. When Trowbridge asked the Advisory Committee of business executives responsible for prosecuting the voluntary foreign-investment restraint program whether any greater savings in the dollar outflow could be found from the corporate sector, they responded that the program "has gone about as far as it can go." When Trowbridge explained the impasse to John Connor, the former Commerce Secretary responded that the time had finally come for mandatory controls. "Without a sense of voluntary cooperation [on further investment restraint], you're going to get everybody grabbing for what they can if you don't have rules which apply for everybody." A mandatory program of capital controls was "the lesser of two evils" since "rules that apply for everybody" would have greater chance at success "than having some guys play the game and other guys say, 'Well, I fooled them on that one.'" As James McQuade, Assistant Secretary of Commerce, later remembered, the decision was made "that if you want to save a billion dollars [in dollar outflow], you could not do it by the voluntary means."[82]

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[81] The group was led by Fred Deming, who took the office of Robert Roosa. *Washington Post*, January 29, 1966. *Business Week*, March 27, 1965, pp. 152-4. On Deming's diplomatic role, see Francis Gavin, *Gold, Dollars, & Power*, pp. 124-5. Phone Call, Fowler to LBJ, December 19, 1967, Citation Number: 12508. Of Edward Fried of Fowlers' staff, Trowbridge said "he was hot for mandatory controls. He was very, I think, basically antagonistic to the private enterprise sector, not to the system; but he was a very caustic and a very antagonistic individual as far as major corporation activity went. I always had the feeling that he was left over from the intellectual days of the New Deal which sort of said, you know, "Private sector is evil; public sector is all good, and therefore government has to do it all." *Id.*

[82] Anticipating the risk to the gold stock, the United States imposed the tax in 1964 to limit foreign lending, expanded it in 1965, and again in 1966 to include non-bank corporations. Dryden, p. 121; Pastor, p. 211-212; Barry Eichengreen, *Globalizing Capital* (Princeton: Princeton Unive1-9rsity Press, 2008), pp. 122-126; Eric Helleiner, *States and the Reemergence of Global Finance: From Bretton Woods to the 1990s* (Ithaca: Cornell University Press, 1994), pp 84-91.

On January 1, 1968 Johnson invoked the 1919 Trading With the Enemy Act to extend the interest-equalization tax and the voluntary investment restraint policy to non-financial investments. Business was cooperative, but every public statement given by a corporation executive specified that government spending cuts would provide the long-term solution to the payments imbalance. J. Howard Laeri, president of the American Bankers Association (ABA) and vice chairman of First National City Bank of New York, pledged to “abide by the rules.” Franklin Stockbridge, vice president of Security First National Bank of Los Angeles, thought “It would be most unfortunate if we think [capital controls] will permanently solve the money outflow problem.” Rudolph Peterson, president of Bank of America, thought “long term controls on the private sector are not in our best interests.”[83] Charls Walker, executive vice president of the ABA, worried that without “follow-through” to cut government expenditures “much of the good of the President’s program might be lost.” “History has proven,” Walker continued, “that resort to controls of any type can only result in a reduction of international trade.”[84] The CED issued a statement recognizing that “imposition of mandatory controls on direct investments abroad” had been made necessary by “distressing shortcomings in basic national economic policies.” The group warned that “These measures run counter to the freeing of international trade and capital movements, an

[83] “LA Executives Concede Dollar Plan Essential,” *Los Angeles Times*, January 3, 1968, p. B6.
[84] “New York Financiers Support LBJ’s Action,” *Washington Post*, January 3, 1968, p. D6.

objective toward which the United States attempted to lead the free world throughout the postwar period."[85]

These pressures were too great for Lyndon Johnson. Between the British devaluation in November and March 15, when the British Treasury finally closed the gold pool, over $3 billion in gold moved speculatively through London. The US sold $2.2 billion of this gold.[86] The event provided the final impetus for the President to negotiate the tax increase with Wilbur Mills and the business community. Coinciding with the delivery of the Kerner Commission report, which urged greater domestic spending and directly contradicted the domestic stabilization program, the March run on gold also sealed Lyndon Johnson's decision not seek the Democratic Party nomination in that year's election.[87] On March 31, the President announced his impending retirement. In June, the Congress finally passed the Revenue and Expenditure Control Act of 1968, extending the tax increase retroactive for corporations retroactively to January 1 and for individuals to April 1.

Republican Transition: Austerity Without Controls

[85] "Pledged Outlays Allowed Abroad," *New York Times*, January 12, 1968, p. 37. The stress of the decision was considerable for Secretary Trowbridge. On January 24, he experienced a heart attack and was hospitalized for six days. In March, the President replaced Connor by appointing American Airlines CEO C.R. Smith as Secretary of Commerce. Trowbridge, OH 1969

[86] *Survey of Current Business*, Department of Commerce (December 1967), p. 25. Robert Solomon, *The International Monetary System, 1945-1976* (1977), p. 119. Robert M. Collins, "The Economic Crisis of 1968 and the Waning of the 'American Century'," *The American Historical Review* (April 1996), pp. 396-422.

[87] On Johnson's decision not to run, see Herbert Y. Schandler, *Lyndon Johnson and Vietnam: The Unmaking of a Presidency* (1977). Joseph Califano, *The Triumph and Tragedy of Lyndon Johnson* (1991), pp. 253-272.

The administration that arrived in Washington in January 1969 continued Lyndon Johnson's civilian austerity program. As a result, Richard Nixon confronted the emergent financial instability that had risked a liquidity crisis in 1966. The credit expansion of the later 1960s had fueled what the business journalist Peter Drucker called a "third merger wave" in the history of American capitalism. These mergers were neither the "offensive" mergers of the 1890s, from which great monopolistic trusts like US Steel, US Tobacco, Standard Oil or Weyerhouser were constructed; nor the "defensive" mergers of 1920s, which saw the consolidation of firms like General Motors, General Electric, the Hollywood studio system, or the "big three" and "big four" giants of the concrete and meat-packing industries. The mergers of the 1960s were "diversification" or "takeover" mergers, in which corporations, limited by the 1949 Kefauver amendments to the antitrust laws, used their earnings to expand into unrelated lines of business. Companies like International Telephone and Telegraph (ITT), Ling-Temco-Vought (LTV), Litton Industries, and Textron, came to control conglomerates operating in entirely unrelated lines of business. By 1970, for example, ITT owned Avis-Rent-a-Car, the Sheraton Hotel Chain, the Levitt construction firm, and was planning to purchase the Hartford Fire Insurance company. Such conglomerates were the basis for many of the new "multinational" corporations. They were a product of the diffusion of stock ownership during the 1950s and 1960s, and the management of securities by institutional investors—pension funds and insurance companies—whose only goals were financial obligations for annuitants. Enterprising businessmen could use such funds to

finance their takeovers. The new conglomerates, Drucker explained, were "built by financial manipulation and based on financial control."[88]

To the chagrin of his staff, Richard Nixon described his program as a continuation—rather than a departure—from the Johnson administration's macroeconomics. As the President explained in January, the new executive team was "going to have some fine tuning of fiscal and monetary affairs in order to control inflation."[89] In April, the Federal Reserve raised the discount rate and reserve requirements in an attempt to slow the pace of investment. In March, Nixon proposed legislation not only extending the income-tax surcharge, but pairing it with a permanent suspension of the 7-percent investment credit.[90] Measured as shares of GDP, federal nondefense spending fell from a peak of 3.1 percent in the second quarter of 1966 to 2.8 percent in fourth quarter of 1969.[91] Speaking before the JEC in February 1969, Nixon's CEA chairman Paul McCracken described the old policy in the new terms of "gradualism." But liberals saw their own program in Nixon's fiscal-

[88] Drucker, "The New Markets and the New Capitalism," *The Public Interest* (Fall, 1970).

[89] Richard Nixon, *The President's News Conference*, January 27, 1969. Online by Gerhard Peters and John T. Woolley, The American Presidency Project https://www.presidency.ucsb.edu/node/239551**.** Reichley, p. 206. Stein, p. 135.

[90] The Senate removed the investment-credit repeal. The President signed the tax-increase extension into law in August. At the urging of Arthur Burns and George Schultz, the budget request for FY1971 remained below the arbitrary but psychologically important figure of $200 billion. (This threshold had doubled in just six years.) Matusow, *Nixon's Economy*, pp. 45, 52 and 58.

[91] U.S. Bureau of Economic Analysis, Shares of gross domestic product: Government consumption expenditures and gross investment: Federal: Nondefense [A825RE1Q156NBEA], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/A825RE1Q156NBEA, April 8, 2021.

monetary restraint As Okun wrote in 1969, “The general strategy of stabilization policy has become bipartisan.”[92]

Continuity in taxes and credit coincided, however, with a dramatic departure in wage-price policy. Whereas the Johnson administration had attempted to pair fiscal-monetary contraction with an incomes policy, the new administration had defined itself during the campaign in opposition to Lyndon Johnson’s guidepost policy. “I do not go along with the suggestion that inflation can be effectively controlled by exhorting labor and management and industry to follow certain guidelines,” the President explained at his very first press conference.[93] Unsurprisingly, income claims continued to outpace real growth. Unemployment increased slightly from 3.4 to 3.6 percent from the first to fourth quarters, but this was concentrated in construction and production workers in manufacturing and only showed a slight increase in those sectors. In absolute terms, manufacturing payrolls continued to increase—the increase in the unemployment rate was due to growth in the labor force.[94] Price increases for the year accelerated to a rate not seen since the opening months of the Korean War. For the first three quarters of the year, the index for gross private non-residential investment continued to rise.[95] The CPI, having increased 2.8 percent in 1967 and

[92] Okun, p. 96. Reflecting the lingering concern over the equity of incomes within the Democratic Party as revealed during the Congressional debates over tax reform and tax increases during the Kennedy and Johnson administrations, the Tax Reform Act of 1969 also included a liberalization of social security benefits. (Matusow…)

[93] Nixon press conference.

[94] *Monthly Labor Review*, May 1970, Tables 5 and 13.

[95] U.S. Bureau of Economic Analysis, Real gross private domestic investment: Fixed investment (chain-type quantity index) [A007RA3Q086SBEA], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/A007RA3Q086SBEA, April 8, 2021.

4.2 percent in 1968, jumped 5.4 percent in 1969.[96] Wholesale prices, having stabilized in 1967 and increased 2.5 percent in 1968, jumped by 4.0 percent in 1969. Service prices increased the most during year, at an unprecedented rate of 7 percent.[97]

Fiscal-monetary restraint—gradualism—did not reduce private spending. Both contemporaries and historians cite the acceleration of price increases during 1968 as evidence of the intellectual failure of Keynesianism in America. “They were wrong,” writes Allan Matusow. “When we were able to call the policy tune, the economy did not dance to it,” observed Okun.[98] Yet it was not the intellectual but the political project that defeated the Johnson administration’s stabilization program and imperiled the Nixon administration’s program of old-fashioned, Eisenhower era laissez-faire deflation. Incomes policies had been an integral component of the broader Johnson stabilization program, but the Texas Democrat found himself unwilling to exercise meaningful authority over either corporations or organized labor. Unions pushed for wage increases in face of a rising cost of living, and made wage stabilization contingent on compulsory controls over prices and profits. Once the wage offensive began in 1966, the wage-and-salary share of national income in the US exploded for the remainder of the decade. The profit share (net operating surplus) of national income fell from a high of 25.7 percent in 1965 to a low of 20.7 percent in 1970. Corporate profits, which had risen between the fourth quarters of 1967 and 1968, began to fall in absolute terms in 1969. Adjusted for inventory valuation and depreciation, corporate profits

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[96] From an index average of 121.2 for 1968 to 127.7 in 1969. Ibid, Table 23.

[97] Ibid.

[98] CPI in Monthly Labor Review. Matusow. Okun.

peaked at $104 billion in 1968 and fell to $92 billion in the last quarter of the next year. Yet throughout this squeeze on corporate profits, investment continued to rise.[99]

Investment continued despite rising interest rates in 1968 and 1969 because corporations turned to European banks—many branches of American banking corporations—for dollar loans. Interest rates and Europe had fallen as Germany and France pursued expansion after the slowdown of 1967, and speculative funds turned to American lending for higher returns. To close this source credit, in July 1969 the Federal Reserve amended its Regulation D on reserve requirements to include Eurodollar holdings.[100] But already the Federal Reserve had lost control over investment and corporate borrowing. Financed by this speculative movement of Eurodollar credit into the country, the US balance of payments earned a surplus in 1969—despite persistent inflation and a declining trade balance.[101]

When investment in the US finally slowed during the first quarter of 1970 and the unemployment rate began to rise. But even as the unemployment rate reached 5 percent in July, the increases in prices and wages did not slow. In fact, the increase in unemployment marked an intensification of class conflict. Strike activity, as measured by either number of workers or days of idleness, rose to a level in 1970 not seen since 1949. Over 2.4 million

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[99] U.S. Bureau of Economic Analysis, Corporate Profits with Inventory Valuation Adjustment (IVA) and Capital Consumption Adjustment (CCAdj) [CPROFIT], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/CPROFIT, April 8, 2021. U.S. Bureau of Economic Analysis, Shares of gross domestic income: Compensation of employees, paid [A4002E1A156NBEA], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/A4002E1A156NBEA, April 8, 2021.

[100] Wolfson, p. 44; Matusow, pp. 22-4

[101] Solomon, pp. 105-6.

workers engaged in strikes during the year.[102] In March 1970, postal workers in New York City struck against their own union leaders. The strike quickly spread to Nassau and Westchester counties, and within the weak to Chicago, Detroit, Pittsburgh, Los Angeles, San Francisco. The President called the national guard to New York City to keep the mail circulating in the nation's busines capital. In October, the UAW struck GM. In the total private economy, average hourly earnings for the year for production and nonsupervisory workers increased 6.25 percent over the previous year. (The rate of increase was 4.0 percent between 1965 and 1966.) In construction, the increase was 9.4 percent. In manufacturing, it was 5 percent.[103]

Thus, the result of gradualism was what business journalists of the period described as "stagflation": rising prices and wages amid stagnant growth and investment. It was the product of monetary contraction applied to the turning wage-price spiral. For corporate business, the effect of rising wages and prices amid declining profits and expanded debt obligations was the increasingly prevalent threat of bankruptcy. Corporate profits, which hit a trough of $84 billion in the first quarter of 1970, were no longer adequate to repay bondholders; debt, which had to be rolled over in lieu of corporate profits, was increasingly risky.

The first stirrings of the unraveling financial structure began in the aircraft industry. Of the big four manufacturers—Lockheed, McDonnell Douglas, Boeing, and North

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[102] "Work Stoppages," Bureau of Labor Statistics, https://www.bls.gov/web/wkstp/annual-listing.htm

[103] *Employment, Hours, and Earnings, United States, 1909-84, Vol. I* (US Department of Labor: 1985), pp. 5, 36, and 57.

American Rockwell—only McDonnell Douglas posted profits during 1969.[104] During the fourth quarter of that year, the decline spread to the auto industry. In January, Chrysler announced 6,300 layoffs of a total 37,700 worker payroll. Ford announced one- and two-day furloughs for 10,500 workers.[105] Chrysler reported a $4 million loss and projected losses for the first quarter of 1970 as great as $40 million. Then on April 22, the Penn Central—the nation's seventh largest corporation, formed by the merger of the Pennsylvania Railroad and the New York Central in 1968—announced $62 million in losses.[106]

The move toward liquidation came in late April 1970. The market value of all shares listed on the New York Stock Exchange had fallen gradually from a peak of $693 billion in January 1969 to $615 billion in March 1970.[107] On April 27 and 28, the Dow-Jones stock index fell suddenly 27 points, 10 percent of its average that month.[108] When President Nixon delivered a speech two days later announcing that the US Army had invaded Cambodia, chaos erupted across the nation's universities. On May 4, when the National Guard shot and killed four students on the Kent State campus in Ohio during demonstrations organized against the escalation of the war, the Dow index fell another 17 points. On May 12, Penn Central announced a $100 million bond issue in which it admitted its sales of commercial paper since April had earned less revenue than it had paid out in maturities and existing

[104] "Lockheed's Illness is Contagious," *New York Times*, April 12, 1970, p. F1.

[105] "Chrysler Plans Big Layoffs as Industry Sales Pace Slows," *Los Angeles Times*, January 15, 1970, p. D10. "Chrysler Offering Demand Picks Up After Slow Start," *Los Angeles Times*, March 11, 1970, p. B9.

[106] Joseph R. Daughen and Peter Binzen, *The Wreck of the Penn Central* (1971), p. 257.

[107] *Survey of Current Business*, selected issues, p. S-21.

[108] Matusow, *Nixon's Economy*, p. 68. Daughen and Binzen, *The Wreck of the Penn Central* (1971), *ibid*.

interest. The company was failing to roll over its debt. The company's stock price evaporated. Between April 1 and June 26, stockholders liquidated over 6.7 million shares of Penn Central stock, more than 27 percent of all outstanding, much if it for less than $10 a share—an steep decline from its $86.50-per-share price in 1969.[109] Journalists and investors saw similar bankruptcies following in Lockheed and Chrysler. As during 1966, the result of the squeeze on credit during 1969 was a liquidation of securities to raise cash for current payments falling due. But the recession of 1970 threatened a difference of degree so great as to become a difference in kind.

To head off a liquidity crisis, the Federal Reserve and the Cabinet began to prepare a battery of emergency measures to authorize loans and inject purchasing power into financial markets to prevent a collapse in values. On May 5 the Federal Reserve Board held its monthly meeting and decided to continue easing credit. The same day, the President met with Treasury Secretary David Kennedy, Shultz, Budget Director Mayo, McCracken, and presidential assistant Peter Flanigan to discuss, in Haldeman's words, "what seems to be a budding financial crisis, mainly because of major continuing drop in stock market." The group celebrated the Fed's moves on credit—"Got Fed to reduce margin requirement"—and decided "not to hold to balanced budget in '70 or '71, will go ahead with deficit this year due to revenue shortfall."[110] Through April and May, the Penn Central management had met with Transportation Secretary John Volpe to arrange emergency financing. The Department of

[109] Daughen and Binzen, *Wreck of the Penn Central*, pp. 263, and 270-1.

[110] Haldeman Diaries, Tuesday, May 5, 1970, p. 160. Maisel, p. 39.

Defense would guarantee $200 million in “V loans” under the authority of the Defense Production Act, after which the Congress would pass legislation empowering the Department of Transportation to issue $750 million in financing for the beleaguered conglomerate. At the next meeting of the Federal Open Market Committee, May 26, the governors debated whether to continue with the current pace of credit easing in light of the accelerating price increases. “At a critical point in the meeting,” Maisel remembered, “Chairman Arthur F. Burns reminded the Committee of the duty of the Federal Reserve to support the economy by attending to its liquidity needs. A failure to do so might lead to a repetition of past monetary panics.” Arthur Burns was “one of the strongest advocates in Washington of attempting to keep the Penn Central from going bankrupt,” Maisel remembered.[111]

When the leaders of Congress met in the office of Senator Hugh Scott of Pennsylvania on June 9 to discuss the Penn Central rescue program, a clear divide opened within the Democrats. Warren Magnuson, Democratic Representative of Washington, agreed to sponsor the Department of Transportation legislation. Wright Patman of Texas and the Democratic members of his House Banking and Currency Committee, however, opposed further public money. They were joined by Senator Vance Hartke of Indiana. The personal financial interests of the executive branch were too closely implicated in the bankrupt conglomerate for the opposition party to authorize the rescue so simply. Treasury Secretary Kennedy, for example, was the former chairman of the Continental Illinois Bank, to which

[111] Maisel, pp. 41 and 122. Burns attended at least two of the crucial meeting with Cabinet officials over the Transportation-Pentagon rescue plan, and had considered using Federal Reserve lending to rescue Penn Central. Maisel, p. 40. Daughen and Binzen, *Wreck of the Penn Central*, pp. 274 and 304.

the Penn Central owed $15 million. Commerce Secretary Maurice Stans owned more than $300,000 in shares of the Great Southwest railroad, a company ninety-percent owned by Penn Central. The railroad had hired Randolph Guthrie, a partner at Nixon's former law firm along with Attorney General John Mitchell, to represent the company in negotiations with the administration. Walter Annenberg, publisher of the *Philadelphia Inquirer*, was a member of the Penn Central board; Nixon had appointed Annenberg ambassador to Great Britain.[112] After a year of austerity in civilian programs, a Congressional appropriation of $750 million for a bankrupt corporation in which a substantial number of White House officials held stock was a political opportunity the Democrats were unwilling to abandon. On June 19, Secretary of Defense David Packard released a statement that it had "declined to make the [loan] guarantee" in light "of growing uncertainty regarding enactment" of legislation empowering the Department of Transportation to rescue the company. On June 21, the Penn Central filed a petition for reorganization under the bankruptcy laws.[113]

Yet the Penn Central bankruptcy was successfully quarantined. On June 23, the FOMC announced it would be available for emerging lending in "recognition that pressures might pyramid in the commercial paper market." To allow banks to continuing extending credit, it also announced the suspension of Regulation Q ceilings on short-term deposits. Commercial banks, newly flush with credit, organized private rescue loans to Lockheed Martin and Chrysler. In the former case, the Congress would soon vote to approve

[112] Daughen and Binzen, *Wreck of the Penn Central*, pp. 292-5 and 299-300.
[113] Daughen and Binzen, *Wreck of the Penn Central*, pp. 296-9.

emergency financing to ensure the corporation's continued solvency.[114] The decline in US interest rates, however, unleashed a massive reversal in the flow of funds across the Atlantic, deteriorating the balance of payments. As Federal Reserve staff economist Robert Solomon later wrote, "the largest element in the reversal from 1969 was the switch from borrowing by US banks to repayment" to Eurodollar lenders. "Thus the veil which had kept attention from the deteriorating export surplus in 1968 and 1969 was lifted to reveal the brutal truth."[115] Staving off a deeper panic was interpreted as a victory for Burns, but it only postponed the international adjustments required by the deterioration of the US balance of payments and exacerbated the domestic struggle to apprehend the wage-price spiral. As Maisel observed, Burns knew "that monetary policy has to prevent the secondary credit liquidation that caused severe depressions in the past, even though furnishing the liquidity to avoid such crunches reduces the impact of monetary policy on inflationary expectations."[116]

The New Economic Policy

Since the late 1940s, the question of how the nation states of the post-World War II world would achieve full employment had been left in a curious limbo. The war had made government spending to increase demand for goods and labor available in way it had not

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[114] "Lockheed Sees Rays of Sunshine Through Clouds," *Los Angeles Times*, July 12, 1970, p. H1. "$1.4 Billion Asked to Save Lockheed," *Washington Post*, December 31, 1970, p. A1. James Reston, Jr., *The Lone Star: The Life of John Connally* (Harper & Row: 1989), pp. 397-403. "Inside Story on Chrysler Assist," *Chicago Tribune*, July 7, 1970. "Bankers Rescue Chrysler Amid Developing Gloom," *New York Times*, July 5, 1970, p. 73.

[115] Solomon, *International Monetary System*, p. 108.

[116] Maisel, *Defending the Dollar*, p. 122.

been during the interwar slump. Yet expansions of government spending almost invariably led to balance-of-payments deficits, as nations imported more in times of boom than they exported to the outside world. Under the fixed-exchange rate system agreed to at Bretton Woods, national governments assumed responsibility for acquiring foreign currency to finance these deficits—either by restricting imports or instituting controls on the convertibility of the currency into scarce foreign exchange. Since the US Congress had not agreed to finance the IMF at levels that could give it independence in balance-of-payments lending, European payments deficits had compelled the postwar governments to construct elaborate currency-rationing systems that restricted trade on the continent. Those countries that succeeded in raising exports found their foreign exchange markets flooded with foreign currency. Their central banks had to enter the market and purchase foreign currency in order to maintain fixed-exchange rate parities. No mechanism for adjusting exchange rates in such situations of "fundamental equilibrium," as the IMF Articles of Agreement called it, existed.

The Marshall Plan attempted to resolve the liquidity shortage in Europe with US grants, but it was the devaluations of 1949 that raised European export earnings to levels where national governments could consider gradual liberalization of payments and trade. But after European governments liberalized currency convertibility in 1958, a new problem emerged for central banks managing exchange rates. Speculative capital, anticipating exchange rate adjustment, could now flow freely into and out of different currencies. Central banks had to closely guard their operations lest a run on their currency deplete their reserves and force them to the IMF, the US government, or private banks in search of foreign

exchange loans. For those countries such as Germany running export surpluses, the trouble was now how to prevent speculative capital inflows. Where foreign exchange flooded into a country, central banks' managing exchange rates found themselves flooding their own money markets and expanding domestic money irrespective of domestic macroeconomic goals. The fixed-exchange rate regime, economists came to argue, limited central bank independence.

The US government confronted the problem of the payments-deficit countries after 1958. But unlike the nations of Europe, the US did not face a shortage of foreign currency for most of its international transactions. The Cold War and pound devaluations in 1949 and 1967 had left the dollar as the sole international reserve currency desired by foreign central banks by the late 1960s. This enabled the US to maintain persistent payments deficits by simply creating more of its own currency. The US could only devalue its currency in terms of gold, and any adjustment of the gold price was certain to be matched by parallel exchange-rate adjustments among the US trading partners. Thus, speculative pressure on the dollar mounted in 1960 and in 1968 as investors expected the Treasury, whose paper liabilities were two to three times its gold assets, to raise the dollar price of gold. In 1959-60, the Eisenhower administration's response to a run on the dollar into gold had been to cut government spending and attempt to reduce the payments deficit through a planned recession. During the 1960s, the Kennedy and Johnson administrations had devised an alternative: restrain wages and prices, limit capital outflows, exhort foreign governments to supply gold to the world market through a pooling arrangement in London, and lobby for revaluation of payments-

surplus nations, most often Germany. In both 1961 and 1969, the German government raised the value of the mark to attempt to adjust money flows towards greater international balance.

The Nixon administration, having resolved to expand the economy during the summer of 1970, now confronted this structural problem in world capitalism. The Kennedy-Johnson solution had deeply alienated US businessmen. The regime of wage-price guidance carried public obligations to limit profits they were unwilling to fulfill. As an alternative, the LBJ administration had pursued an austerity program after 1966 to deflate the domestic economy, but the persistence of the Vietnam War sent dollars abroad and required some compulsory limitations on foreign investment. The growth of international lending to the US during 1968 and 1969 had limited the effectiveness of this austerity program. It also masked the underlying payments position of the US, which had deteriorated considerably with the completion of the Kennedy Round tariff negotiations in 1967. As the direction of capital movements reversed during 1970, as US borrowers repaid their Eurodollar loans, and as the Nixon administration resolved to reflate the domestic economy, the need for international adjustment reasserted itself. From a surplus of $2.7 billion in 1969, the US foreign payments position declined during 1970 to a deficit of $9.8 billion.[117]

The near-miss of general financial panic during May-June 1970 started the great reversal in the Nixon administration's program of austerity without controls. President Nixon had disclaimed the idea of an incomes policy publicly during his first year in office. Incomes

[117] Solomon, p. Tk. Glenn Nelson, "Agricultural Developments," in *The Lessons of Wage and Price Controls—The Food Sector*, eds John T. Dunlop and Kenneth J. Fedor (Harvard: 1977), p. 10.

policy was thoroughly associated with the Johnson administration's guideposts and European socialism.[118] During 1968 and 1969, both the JEC and the House Committee on Government Operations advised formalizing the guidepost procedure. President Johnson had staked his own administration on extending voluntary restraint, as had the Humphrey campaign.[119] With one of the nation's two political parties formally committed extending and strengthening an incomes policy, the national press too began to advocate for a new way of controlling inflation. "Collective bargaining and voluntary guideposts have failed to prevent strikes against the public interest and to curb inflation," wrote *Newsday*. "Labor courts and

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[118] In its annual report to Congress for 1968, the CEA explained it would be holding a series of industry conferences with labor and public representatives "to attempt to reach some consensus on appropriate general standards to guide private price and wage decisions." The Council made no mention of the threat of controls, using such words as "folly," "repugnant," "arbitrary," and "clumsy" in discussing them. (ERP remarks, AAS 2/1/68). 1969 JEC hearings on the Economic Report. September 1969 Reuss Papers.

[119] Speaking before the JEC on February 1, President Johnson called for a no-strike pledge. As Walter Heller explained in March 1968, stability hinged on establishing an independent board to monitor major wage and price decisions during an interview on Meet the Press. (NYT, 1/15/1968) (Quotes in BG 1/15/68). In October 1968, the Humphrey campaign released a report on the candidate's anti-inflation program authored by Otto Eckstein, Robert Nathan, Joe Pechman, and other old hands of the Democratic Party affiliated with the Brookings Institution. The approach entailed the formation of a National Conference on Wage-Price Stability composed of representatives of business, labor, and the public that would meet annually at the beginning of each year to negotiate acceptable figures for wage and price increases in the economy. The *Washington Post* described the proposal as "a sophisticated new version of the abandoned wage-price guideposts." When asked by the *New York Times* how a Humphrey administration would employ the guidepost concept, the candidate answered that the "major change" would be "to obtain labor and business cooperation in the development of principles to guide responsible price and wage behavior." 10/27/68 NYT. As a staffer of the Cabinet Committee on Cost Price Stability later remembered, "I had reason to believe at the time that if Humphrey had been elected we may well have moved in this direction [of a formal incomes policy]: we talked about establishing industry desks—one for each of the fifteen or so inflation-prone industries. These people would be charged with knowing what was going on and whom to contact. There was also concern that the tripartite meetings be resumed. There was talk of the need for an 'incomes crunch' (a freeze) to supplement a monetary crunch; the function of the former was to break inflationary expectations and give time for macro policies to take hold." Cochrane, p. 288, n. 224. Okun told the Business Council at their annual Hot Springs retreat in May that "some form of improvement of the voluntary structure" was preferable to continued deflation or mandatory controls. He considered the need for a "new form" of labor-management cooperation "very great indeed."

economic boards now deserve a test."[120] The editors of the *New York Times* thought the example of the British Incomes Board "worthy of trial here" in the United States.[121] Speaking to the Business Council at Hot Springs in May, 1968, Alfred Hayes, president of the New York Federal Reserve, said "It is now fashionable to deride this approach as unworkable," but with fiscal restraint following the final Congressional acceptance of President Johnson's tax hike, "We will have moved toward a situation where the guidepost principle can work."[122]

Speaking to the same audience two years later, in the wake of gradualism's failure to lower the rate of inflation significantly before the election, Arthur Burns announced to the press in May 1970 that he was joining the chorus of opinion considering public scrutiny of private price and wage decisions. An "incomes policy," he told the Business Council, would be "useful" in containing inflation.[123] Speaking before the JEC in June, Murray Weidenbaum admitted that he thought "the time has come to give some serious consideration to some form of incomes policy."[124] In key industries the President had already moved toward the familiar jawbone pattern. In October 1969, Nixon convened 2,200 business and labor leaders in the construction industry to urge price and wage restraint. Public overtures continued as the increasingly urgent calls for a wage-price freeze from the JEC began to echo within the

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[120] *Newsday*, January 16, 1968.

[121] *New York Times*, January 16, 1968.

[122] 5/12/68 LAT. Opinion often described future incomes policy in resigned terms. "The country will take another leap toward a managed economy by returning to the wage-price guideposts probably after the November elections," the *Boston Globe* wrote in May 1968. 5/14/68 BG

[123] Wells, *Economist in an Uncertain World,* p. 57. Matusow, *Nixon's Economy*, p. 70.

[124] Quoted in Reichley, p. 214.

Cabinet.[125] On February 18, 1970, George Romney gave a "wage-price policy pitch" to the Cabinet, but the President remained unconvinced.[126] Within the Treasury Department, Undersecretary Paul Volcker and Assistant Secretary Murray Wiedenbaum had begun to consider a freeze of prices and wages in March 1970 as part of a broader program to stabilize the balance of payments.[127] In April, Paul McCracken, the chair of Nixon's CEA, called the economist Lloyd Ulman, an expert on European incomes policies who had worked in the Kennedy CEA, to a meeting with the President, Milton Friedman, CEA staff, and two investment bankers—James O'Leary of U.S. Trust and Pierre Rinfret of Boston Associates, two enthusiastic supporters of a return to direct management of incomes.[128] According to Ulman, the President said "if I can characterize your testimony, it's that this [an incomes policy] is not a very reliably policy." Ulman responded that the President was correct. "Well, why not try it anyway?" Nixon asked. That month, the President ordered CEA chair

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[125] In February 1970, during the JEC hearings on the *Economic Report*, Henry Reuss explained the position of the Democratic Party left: a "six-month price freeze."

[126] Nixon "really whapped him by saying wage-price policy had never worked," wrote Haldeman. "Romney said it had in England; P laid him low saing, 'Don't talk to me about England." Backing Romney in the Cabinet, Haldeman reported, were Volpe, Blount, and Stans, "against the Shultz-McCraken view, which is to handle things by fiscal and monetary policy." Haldeman Diaries, p. 128.

[127] Reichley, pp. 213-14. De Marchi, "The First Nixon Administration: Prelude to Controls," in *Exhortation and Controls*, ed. Goodwin, p. 315.

[128] In addition to Nixon, those in attendance were Paul McCracken, John D. Erlichman, Hendrik S. Houthakker, Milton Friedman, George Katona, James O'Leary, Pierre Rinfret, Lloyd Ulman, William Safire, and Herbert Stein. President Richard Nixon's Daily Diary April 16, 1970 – April 30, 1970. WHCF: SMOF: Office of Presidential Papers and Archives, box RC-5. https://www.nixonlibrary.gov/virtuallibrary/documents/PDD/1970/026%20April%2016-30%201970.pdf. Ulman, "Lloyd Ulman," pp. 236-237.

McCracken to convene a meeting of national grocery chain executives to inquire into the retail margins on meat.[129]

In June 1970, the President formalized a return to informal jawboning by ordering the CEA to begin issuing "inflation alerts," serialized memoranda listing individual wage and price decisions it considered to be adding to inflationary pressure. This was guideposting in everything but name.[130] In August 1970, the Congress included language authorizing the President to freeze prices, wages, rents in the annual reauthorization of the Defense Production Act. On August 15, 1970, the President signed the law. Business embraced these calls as an opportunity to strengthen the administration's program of wage restraint. In October, the Business Council issued a statement criticizing the President's failure to condemn union-negotiated wage increases. An intellectual shift in favor of controls had emerged among corporation executives. As Shultz, then director of the newly created Office of Management and Budget, later remember, members of the Business Council were "argu[ing] for wage controls…not price controls" in meetings with the President.[131]

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[129] Matusow, *Nixon's Eocnomy*, pp. 65-66. Pressed by the continued gold outflow and the persistent wage-price spiral, the members of Nixon's CEA had called Lloyd Ulman, a staffer in the Kennedy CEA who had worked on the original formulation of the guideposts, to Washington in 1969 to discuss the European experience with incomes policies. The OECD had hired Ulman to do a comparative study of national wage restraint policies. To more fully discuss the possibility of coordinating national wage levels with fiscal policy, Ulman suggested the group meet with the Secretary of Labor George Shultz. Ulman, "Lloyd Ulman," p. 235.

[130] Inflation alerts.

[131] "Well, what happened was an atmospheric change in inflation, and businessmen went from the Business Council, I remember, and sat in the Cabinet Room with the President and argued for wage controls, wage, not price controls, wage controls." Shutlz, "Problems and Principles," p. 83. Reichley dates the shift in business opinion to the period after the May-June financial crisis. *Conservatives in a Age of Change*, p. 216-7.

The Republican Party's dismal results in the 1970 midterms ratified this shift in opinion within the Cabinet. The unemployment rate for December was 6.2 percent, about 4.9 million workers. Reflation, nearly all understood, was necessary if the President was to win re-election in 1972. Yet the CPI had risen 2.9 percent since May, a period in which unemployed increased 1.3 percentage points.[132] If unemployment was not moderating the rate of price increase, and the administration was to pursue expansion, a new strategy was needed. In December, the CED proposed the administration establish a three-man price-and-incomes board to develop "broad norms of appropriate noninflationary wage and price behavior."[133] Burns concurred, and on December 8 delivered a speech at Pepperdine suggesting the administration establish a Wage-Price Board of Review. "What I see clearly," he explained,

> "is the need for our nation to recognize that we are dealing, practically speaking, with a new problem—namely, persistent inflation in the face of substantial unemployment—and that the classical remedies may not work well enough or fast enough in this case. Monetary and fiscal policies can readily cope with inflation alone or with recession alone; but, within the limits of our national patience, they cannot by themselves now be counted on to restore full employment, without at the same time releasing a new wave of inflation."

It was in this atmosphere that Nixon, on December 17, appointed John Connally, former Secretary of the Navy and Governor of Texas, as Secretary of the Treasury. In January, the President submitted a $229.2 billion budget to Congress, financed by a projected $217.6 in

[132] *Monthly Labor Review*, selected issues 1970-1971, tables 8 and 24.

[133] Reichley, *Conservatives in an Age of* Change, p. 216.

tax revenues. The $11.6 billion deficit was the largest since 1968.[134] As the President announced that month, "I am now a Keynesian in economics."[135] Within the Treasury Department, the move toward expansion necessitated the change in approach Burns and organized business were recommending. Weidenbaum and Volcker had already decided that a temporary wage-price freeze was the only solution to continuing inflation amid the general austerity of the previous year. As the US balance of payments deteriorated during 1970—the fourth quarter deficit came to $3 billion—Connally would come to embrace their reasoning for a period of expansion.

During the foreign exchange panics of 1968 and 1969, European governments had responded to the inflow of dollars with various forms of controls limiting the ability of foreigners to purchase their currencies. Through May 1971, the German cabinet again considered such controls as dollars flowed into the country. German finance minister Karl Schiller, a member of the SPD, opposed such controls, preferring his country maintain the freedom to exchange currencies by revaluing the mark. The economists within the Nixon administration were deeply opposed to controls on currency convertibility. During 1968, Nixon had campaigned on the promise of eliminating Johnson's compulsory restrictions on foreign direct investment.[136] In 1969, the President appointed the economist Gottfried Haberler to a commission evaluating the nation's payments position that urged fast dismantlement of the Johnson administration's limitations on foreign direct investment.

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[134] "To Get Things Moving'," *Boston Globe*, January 30, 1971, p. 1.
[135] Matusow, *Nixon's Economy*, p. 91.
[136] Matusow, *Nixon's Economy*, p. 130.

Speaking in June 1971 to Henry Reuss's Subcommittee on International Payments of the JEC, Paul Volcker made this commitment to capital mobility explicit. "We don't want to destroy the system of integrated capital markets, generally free convertibility, wide freedom of trade and payments, and reasonably stable exchange rates."[137]

Like Eisenhower, Kennedy, and Johnson before him, Richard Nixon did not countenance raising the price of gold. In his first statement to an international summit in May 1971, Treasury Secretary Connally affirmed his commitment to the $35-per-ounce gold price.[138] But as 1971 proceeded, the US payments position deteriorated. The foreign deficit rose to $5.8 billion in the first quarter and $6.3 billion in the second quarter. In April, the country's trade account ran into deficit—a drain on payments that would grow over the next two years with the expanding economy. The Nixon administration thus confronted a paradox. To preserve the international role of the dollar, the US had to deflate its economy, endure a recession, and attract capital into the country. To remain in power after the 1972 elections, the administration would have to reduce unemployment and expand government spending. But to achieve both goals in a way that did not jeopardize free world capital markets, it would have to ensure expanded US employment did not accelerate the wage-price spiral and capital flight out of the dollar, against which European countries were placing barriers to currency convertibility. What flight out the dollar did take place would have to be met diplomatically to prevent foreign countries from further extending capital controls.

[137] Quoted in Solomon, *International Monetary System*, p. 182.

[138] Solomon, *International Monetary System*, p. 181.

Only a move towards the sort of planning state that the Roosevelt and Truman administrations had practiced could reconcile these goals. In March 1971, Nixon issued Executive Order 11588 under the authority granted him by the Congress in the DPA reauthorization. The order established a Construction Industry Stabilization Commission (CISC), comprised of representatives of the national unions and employer associations, to oversee local collective bargaining agreements and ensure their costs were "not in excess of the average of the median increases in wages and benefits…negotiated in major construction settlements in the period 1961 to 1968." Though the CISC director John Dunlop was eager to deflect attention from a guideline figure, this base period gave a ceiling of 6 percent for wage increases.[139]

The CISC, however, was only a prelude to the general adjustment program. According to Herbert Stein, Connally and Nixon agreed in the spring that if a run on the dollar into gold compelled them to end gold convertibility, they would at the same time impose general wage-and-price controls.[140] Reichley attributes the decision to "two long Monday night sessions, on August 2 and 9" that followed the settlement of a USW strike of US Steel, in which the union secured a 30-percent wage increase over three years.[141] Matusow writes that Nixon and Connally "intended to close the gold window on September

[139] Linder, *Wars of Attrition*, pp. 317-9. Richard Nixon, Executive Order 11588—Providing for the Stabilization of Wages and Prices in the Construction Industry Online by Gerhard Peters and John T. Woolley, The American Presidency Project https://www.presidency.ucsb.edu/node/307118

[140] Stein, *Presidential Economics*, p. 166.

[141] Reichley, p. 222. De Marchi, p. 343.

8, 1971, the day Congress returned from recess."[142] Regardless of when the decision was made, the impetus came on the week of August 9-13. On the preceding Friday, August 6, the JEC issued a report recommending that the administration to devalue of the dollar and establish a formal incomes policy. When markets opened on Monday, a sell-off of dollars began that reached $3.7 billion by Friday. That night, the administration's top economic advisers and speech writers flew to Camp David to draft the announcement before foreign exchange markets reopened Monday morning.[143]

On August 15, 1971, Nixon took to national evening television to announce a ninety-day price freeze as part of his New Economic Policy. Executive Order 11615, issued that day, established a Cost of Living Council (COLC) to oversee the program, comprised of the Secretaries of Treasury, Agriculture, Commerce, and Labor; the Director of the Office of Management and Budget; the Chairman of the Council of Economic Advisers; the Director of the Office of Emergency Preparedness (OEP); and the Special Assistant to the President for Consumer Affairs.[144] The first phase of the program was "so popular," Shultz later remembered, he thought "we've got to get out from under this."[145]

"The Name of the 'Catch-Up' Game is Inflation"

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[142] Matusow, p. 147.

[143] Matusow, pp. 147-181. Reichley, pp. 223-225. De Marchi, pp. 345-348. H. Stein, *Presidential Economics*, pp. 175-181. Solomon, pp. 184-7.

[144] Richard Nixon, Executive Order 11615—Providing for Stabilization of Prices, Rents, Wages, and Salaries Online by Gerhard Peters and John T. Woolley, The American Presidency Project https://www.presidency.ucsb.edu/node/255799

[145] Shultz, "Problems and Principles," p. 87.

The controlled expansion, including the ninety-day freeze, lasted 15 months until January 1973. During the initial ninety-day freeze from August to November 1971, price increases decelerated noticeably. From a 4.0 percent (annualized rate) increase in the CPI during the six months before August 15, price increases fell to 1.6 percent during the freeze. Wholesale prices actually declined.[146] On October 15, the President issued Executive Order 11627, establishing two subordinate agencies, the Price Commission and the Pay Board, with disputes between them to be decided by COLC.[147] In November, authority for determining acceptable price-and-wage movements passed to these bodies. This period was known as Phase II. The Pay Board collapsed early during Phase II in March 1972, when four of its five labor members quit in protest of wage guidelines. Unlike during the Korean mobilization, the administration would make no effort to reconstitute the Board with full labor participation. The Price Commission would endure for the entirety of Phase II until January 1973, at which point the re-elected Nixon administration retired the monitoring agencies and compliance passed to self-administration and the IRS. Controls authority, renewed annually each April for the duration of the experiment, lasted until April 30, 1974, but after January 1973 controls were predominately self-administered and of a *de facto* voluntary character.

[146] These figures are from Arnold Weber, *In Pursuit of Price Stability: The Wage-Price Freeze of 1971* (), pp. 102-3. John Dunlop reports "The Consumper Price Index as a whole had increased 3.9% and the food component had increased 5.6% in the period January to August 1971." Dunlop, "Lessons of Food Controls," in *The Lessons of Wage and Price Controls—The Food Sector*, eds John T. Dunlop and Kenneth J. Fedor, p. 239.

[147] Richard Nixon, Executive Order 11627—Further Providing for the Stabilization of the Economy Online by Gerhard Peters and John T. Woolley, The American Presidency Project https://www.presidency.ucsb.edu/node/307171

During Phase II, the CPI increased at annual rate of 3.4 percent. Food, however, rose much more quickly at 4.7 percent. This divergence widened during 1973, when the price of food exploded. In the sixteen months that remained before controls authority expired—a period that included a second across-the-board freeze, extensive decontrol, and the OPEC oil embargo—the CPI rose at a 9.8 percent annual rate, while the price of food rose at a 19.4 percent annual rate. Wheat prices on the farm rose from $1.32 per bushel in July 1972 to $5.52 per bushel in February 1974.[148] The US retail price of flour rose 71 percent between 1971 and 1974.[149] The price index for meats, poultry, and fish rose from 125 in early 1972 to a peak of 185 in late summer 1973—an increase of 67.5 percent.[150]

The price increases that followed the freeze are often invoked to explain the failure of the Nixon's Economic Stabilization Program (ESP). Indeed, among the public, rising food prices did much to discredit the administration. Yet rising food prices had very little to do with the Price Commission or the wage-and-price controls aspect of the ESP. The language of EO 11615 stipulated that controls "shall not apply to the prices charged for raw agricultural products." The regulations of the Price Commission, moreover, did not establish dollars-and-cents ceilings by product or industry as the World War II OPA and Korean War OPS had done. Rather, the Price Commission established firm-by-firm regulations on allowable cost pass-throughs and maximum profit margins. Increases in average total costs

[148] Glenn Nelson, "Agricultural Developments," in *The Lessons of Wage and Price Controls—The Food Sector*, eds John T. Dunlop and Kenneth J. Fedor (Harvard: 1977), pp. 27 and 55.

[149] Glenn Nelson, "International Food Policy Issues," in *The Lessons of Wage and Price Controls—The Food Sector*, eds John T. Dunlop and Kenneth J. Fedor (Harvard: 1977), p. 218.

[150] Nelson, "Agricultural Developments," p. 15.

were allowed to passthrough to prices on a dollar-by-dollar basis adjusted for increases in productivity.[151] Allowable mark ups on increased costs were limited according to a base period of two of the three highest profit years between 1960-1971, according to pre-tax profit margins as percentage of sales.[152] For these reasons, in the manufacturing sector, where expanding production on fixed overhead costs allowed for increasing productivity, the effect of the Phase II controls was rather limited.

The cause of rising prices for raw agricultural products lay in the failure of the COLC to plan Department of Agriculture grain-yield targets in accordance with the wider stabilization program. Almost immediately, the Phase II controls confronted the familiar problem of the 1940s of rising agricultural prices buoyed by USDA price supports. A record corn crop in 1971 had driven prices down below their 1969 levels, and declining market prices for corn that followed this expansion had proved a political liability for the President, who interpreted Democratic gains in Nebraska, the Dakotas, and Kansas during the 1970 midterms as a result of declining farm incomes. In October 1971, the USDA announced increases to the "set-aside" program. Thirty-eight million acres would be removed from corn

[151] Originally firms requesting productivity adjustments were asked to provide their own estimates. Later this was altered to industry-wide productivity estimates calculated by the Bureau of Labor Statistics. Robert F. Lanzillotti, Mary T. Hamilton, and R. Blaine Roberts, *Phase II in Review: The Price Commission Experience* (Brookings:1975), p. 35.

[152] Lanzillotti, et. al, *Phase II in Review*, pp. 34-9. Rockoff, *Drastic Measures*, p. 208-11. Rockoff describes the allowance of "customary mark ups" as a provision limiting the effectiveness of the controls. In fact, the customary mark-up limit served as a ceiling on profit margins limiting price advance, rather than an exception to the cost-passthrough limit as cost-passthroughs adjusted by an allowance of trend productivity gave room for profits to expand.

production in 1971-1972, compared to 18 million in 1970-1971.[153] Agriculture Secretary Clifford Hardin resigned in November, replaced by Earl Butz, former Assistant Secretary of Agriculture during the Eisenhower administration and a director of the Ralston-Purina grain processing company. "My mandate from the President," Butz told the *New York Times*, "is to get farm income up."[154] In this, rising food prices during the Nixon administration were an echo of the Truman-era debates over the method of securing farm income—conducted without any acknowledgement of prior efforts to resolve the conflict over shares of national income. Whereas farm income had been subsidized during World War II, allowing market prices to fall, during the debate over farm income in 1972 such devices for securing farm income never broached public discussion.

Farm carcass prices had risen in early 1972. A corn blight drove up grain feed prices in 1970, pressing hog-grower margins and leading to a liquidation of breeding stock for meat in the pork industry. By late 1971, the number of hogs was down and pork prices were rising as employment and labor income expanded. As 1972 progressed, these developments were deeply frustrating to the Price Commission, which began to openly question whether USDA should expand supplies of raw agricultural goods. Beginning in February, three members of the Price Commission later wrote, the Commission "tried hard… to impress on [the Department of] Agriculture the importance of reevaluating agricultural policy, especially the

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[153] Nelson, p. 17. For this and the following four paragraphs on agricultural policy, cf. Matusow, pp. 222-227.

[154] Julius Duscha, "Up, Up, Up—Butz Makes Hay Down on the Farm," *New York Times Magazine*, April 16, 1972, p. 34.

acreage set-aside program."[155] As farm prices rose, newspapers quoted Secretary Butz celebrating rising farm incomes as an administration success. According to the Price Commissioners, USDA responded by impressing upon them "that departmental policy was directed instead toward raising farm income and that, if higher food prices were the result, this was the Commission's problem."[156] On March 17, 1972, Price Commission chairman C. Jackson Grayson told a press conference that:

> "The statements being made by the Secretary of Agriculture Butz concerning the necessity and desirability of increasing agricultural prices are damaging to the Stabilization Program. I realize the Secretary is speaking in behalf of his constituency, but if the leader of every sector of the economy did that, the efforts to achieve price stability would be wrecked. It is no different than a labor leader claiming that particular set of workers needs more than the wage guidelines to permit them to 'catch up,' or a business leader saying that his firm needs more than the price rules to permit them to 'catch up.' The name of the 'catch up' game is inflation."[157]

President Nixon responded to the remark by attributing rising retail prices to "middle men," declaring on March 27 that the farm-retail price spread was "too great." Two days later, Treasury Secretary Connally invited the executives of 12 major supermarket chains to the White House to discuss meat prices, after which he predicted meat prices would post "quite a

[155] Lanzillotti, et. al, *Phase II in Review*, p. 65.

[156] Ibid.

[157] Nelson, "Agricultural Developments," 19; C. Jackson Grayson (with Louis Neeb), *Confessions of a Price Controller* (Dow Jones-Irwin, 1974), pp. 126-7

satisfactory decline" by mid-August.[158] On June 25, the Price Commission wrote an open letter to COLC director Donald Rumsfeld asking him to place farm prices under controls.[159] The next day, the President announced the suspension of a meat import quotas, principally from Australia and New Zealand.

The prospect for rising meat prices was further strengthened, however, by two events in July that would depress grain supplies in the US in the coming year. First was the announcement, on July 8, of $750 billion in financing for grain exports to the Soviet Union in the coming three years. In planning the NEP, the Nixon administration saw agriculture exports as a major source of foreign-exchange earnings. As Secretary of Commerce Pete Peterson had written, "farmers must become a main force in the political drive in the US for internationally oriented policies." A Presidential commission on the balance-of-payments, chaired by IBM executive Albert Williams, concluded that "the United States [must] immediately and vigorously assert its agricultural interests in bilateral discussions at the highest political level" with the European Community in order to reduce European grain subsidies and import levies to expand US agricultural exports.[160]

The administration made explicit the importance of maintaining agricultural exports to defend the exchange rate during 1973. When public pressure to impose controls on exports mounted at the height of the food-price inflation, the President gave a speech explaining that

[158] "Meat-Price Dip Foreseen by Connally," *Baltimore Sun*, March 30, 1972, p. A1. "Meat Price Drop in a Few Weeks Seen by Connally," *New York Times*, March 30, 1972, p. 1. Nelson, "Agricultural Developments," p. 18.

[159] Grayson, *Confessions of a Price Controller*, pp. 150-1

[160] Peterson and Williams quoted in Boddy and Crotty, 104-5.

"limiting our exports reduces our foreign earnings, [and] depresses the value of the dollar…. limiting our agriculture exports runs counter to our basic policy of building up our agricultural markets abroad."[161] By early August 1972, the Soviet government had placed orders for 21 million tons of wheat and livestock feed grains with private US export companies. As the next chapter shows, these trade discussions were the centerpiece of the Nixon administration's geopolitical project and, by defeating organized labor's legislative program to limit trade liberalization, they had dramatic consequences for the capacity of the US national government to continue the corporatist patterns of the politically managed economy developed during the 1940s.

The second event portending higher food prices was the USDA announcement on July 17 that planned acreage for wheat planting for the 1971-1972 agricultural year would be reduced by one million acres. Within COLC, Secretary Shultz argued against the planned wheat set-aside. According to Glenn Nelson, chief economist of the Office of Food within the COLC, Shultz was opposed by Secretary Butz, who the White House supported, "partly for political reasons associated with the November elections."[162] Members of the Price Commission later wrote that Rumsfeld "in effect…instructed [the Commission] to take no further action on food" after the June 25 letter.[163] As Nelson concludes, "All doubts as to the ineptness of such a restrictive policy [for wheat plantings] should have been erased by the

[161] Quoted in Dunlop, p. 244-5. *Commission on the Organization of the Government for the Conduct of Foreign Policy,* Vol. III (GPO: 1975), p. 27.

[162] Nelson, "Agricultural Developments," p. 27.

[163] Lanzillotti, et. al, *Phase II in Review*, p. 63.

end of July, or possibly as late as August. A change in the program at this juncture would have led to increase planting of winter wheat in the fall of 1972 and greater production in 1973."[164] Though Secretary Shultz did revise the USDA wheat acreage set-aside in January 1973, this was after the planting season for winter wheat—too late to avoid the shortages of 1973.

It was in the control of wages, rather than prices, that the ESP had its greatest effect. In the year ending June 1971, the increase in labor costs—wages and benefits—in the first year of union-negotiated contracts covering 5,000 workers or more had been 11.2 percent. For contracts covering at least 1,000 workers, the first-year increase in labor costs in the year before June 1971 was 10.4 percent. In construction, wage increases were even more dramatic, as local bargaining units won first-year increases of 21 percent in the third and fourth quarters of 1970. During Phase II, wages were brought under appreciable control. The rate of increase of first-year adjustments in union-negotiated labor costs for all workers fell by nearly half between during the third quarter of 1971 (July to September) and the third quarter of 1972—from 15 percent to 8.6. In construction, the rate of increase of first-year adjustments fell by two-thirds, from 18 percent in the first quarter of 1971 (before CISC) to 6 percent in the third quarter of 1972.[165] As *New York Times* columnist Leonard Silk wrote in a private memo on the Price Commission during planning for Phase II, conversations between

[164] Nelson, "Agricultural Developments," p. 27.

[165] Above data from Martin S. Estey, "Wage Policy in Phase II: A Preliminary Appraisal," in *Industrial Relations Research Association Series: Proceedings of the Twenty-Fifth Anniversary Meeting*, ed. Gerald Somers (IRRA: 1973), p. 15-22.

his sources and the commissioners "revealed how little preparation [the] Administration had done on [the] whole wage-price question. [The] commission seems headed for a 'stoppage at the source' line—in which the fundamental line of defense has got to be the Pay Board."[166] Arnold Weber, a Shultz protégé invited to Washington to administer the ninety-day freeze, made this aspect of the program explicit. "The idea of the freeze and Phase II was to zap labor," he told *Business Week*, "and we did."[167]

As the Nixon administration arrested the wage-price spiral, the US balance of payments position improved considerably. On December 17, 1971, the G-10 nation's negotiated new exchange rates at the Smithsonian Institution representing an effective dollar devaluation of around 7 percent. Within the Treasury, Paul Volcker had set a foreign-earnings target on current account (predominately trade) of $13 billion: from a $4 billion deficit at pre-NEP exchange rates for 1972 to a $9 billion surplus. To achieve this increase, the administration requested legislation from the Congress raising the price of gold from $35 to $38 per ounce.[168] US trade partners raised their exchange rates in terms of dollars variously from 7 to 17 percent. With wages stabilized and agricultural exports growing under a cheaper dollar, the US payments position improved considerably, from a $30 billion deficit (all transactions basis) during 1971 to a $10 billion deficit during 1972.[169] Though the Soviet grain sales could not have contributed directly to the improved payments position, since they

[166] Undated telex, AH Raskin Papers, NYPL.
[167] Quoted in David Gordon, "Recession is Capitalism as Usual," *New York Times*, April 27, 1975, p. 241.
[168] Solomon, *International Monetary System*, pp. 192 and 204-7. Crotty and Rapping, p. 803.
[169] Nelson, p. 16.

were financed by American loans, the shipments were part of a larger negotiation to payoff Soviet Lend-Lease debts that built long-term stability to US foreign-currency earnings. As for the President's re-election and continued control of the State and Treasury Departments, the administration saw a clear role for the grain sales. As a National Security Council document on the negotiations explained to Henry Kissinger, "Kosygin's offer of grain purchases up to 2 billion dollars a year (on credit) could be of crucial political importance on the farm states next year."[170]

Nixon's Adjustment: "A Great Educational Experience"

Immediately after the election, the administration and the Federal Reserve turned towards fiscal-monetary restraint. In December, the Federal Reserve Board directed the trading desk to restrict the availability of credit and to target "slower" growth in monetary aggregates.[171] In January, the President announced he would "impound" $8.7 billion from the FY1973 budget—refusing to spend appropriated funds. By July, estimates within the Congress estimated the impounded funds for FY1973 at $18 billion.[172] The budget the President submitted for FY1974 amounted $268.7 billion and estimated $256 billion in tax receipts—a deficit of $12 million the President aimed to reduce with further impoundments. Richard Nixon would withhold about $20 billion during the calendar year.[173] The bulk of the

[170] Sonnenfeldt to Kissinger, November 29, 1971. FRUS, Volume IV, Document 351.
[171] Wolfson, p. 51.
[172] "House Passes Curb on Nixon's Power to Impound Funds," *Wall Street Journal*, July 26, 1973, p. 3.
[173] Yanek Mieczkowksi, *Gerald Ford and the Challenges of the 1970s* (), p. 66.

cuts would come from civilian programs, such as $1.6 billion withheld from Title I of the 1965 Elementary and Secondary Education Act—moneys for local districts to provide food for children. By February, the superintendent for schools in the State of Georgia announced $8 million in cutbacks that would reduce staffing at schools across Georgia's 83 counties. Such cuts swept across federal programs.[174] As the historian Matusow writes, "the new budget aimed to starve the welfare state."[175]

Yet in spite of federal austerity and rising interest rates throughout 1973, investment, production, and employment increased during most of the year. Having risen to a historic high of 58.4 percent in 1970, the labor share of national income fell during the controls program to 57.6 in 1971, 57.5 in 1972, and 57.3 in 1973.[176] Corporations' net operating surplus rose correspondingly as a share of national income, from 20.7 to 22.3 percent between 1970 and 1973.[177] Gross private domestic investment rose steadily from $45.3 billion in the first quarter of 1971 to $61.6 billion in the first quarter of 1973, before registering a steep increase to $73.5 billion in the fourth quarter of 1973—a year-over-year increase that quarter $5 billion higher than the range for the preceding period under

[174] "Nix Tells of Fund Impound," *Atlanta Journal Constitution*, February 8, 1973, p. 21A.

[175] Matusow, p. 216.

[176] U.S. Bureau of Economic Analysis, Shares of gross domestic income: Compensation of employees, paid [A4002E1A156NBEA], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/A4002E1A156NBEA, April 13, 2021.

[177] U.S. Bureau of Economic Analysis, Shares of gross domestic income: Net operating surplus [W271RE1A156NBEA], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/W271RE1A156NBEA, April 13, 2021.

controls.[178] Adjusted for inflation, the annual increase in gross domestic investment peaked at 14 percent in the fourth quarter of 1972 and remained near this at 10 percent in the fourth quarter of 1973.[179] Though corporate profitability did not regain its levels of the early 1960s, the margin of corporate borrowing to finance this investment narrowed as wages were brought under control.[180] Not until the OPEC oil embargo of November did investment slacken and unemployment begin to increase.

The continuing US expansion of 1973 coincided with a speculative build up in corporation finances. This was most evident in the expansion of Real Estate Investment Trusts (REITs) during 1973, a sector that collapsed with slowdown in credit that followed the elections and the quadrupling of oil prices late in the year. As an OECD study that year theorized, the easy credit of the preceding years had played a "plausible" role in this boom, as "high rates of monetary expansion [may] have a direct effect on the price of land and other real property, and share 'speculative' rises in these prices play an important role in pushing up inflationary expectations in the economy as a whole."[181] By early 1974, total REIT liabilities totaled $21 billion. As real estate prices declined during the recession, their ability to meet these obligations failed. In December 1973, the Kassuba Development Corporation, a

[178] The year-over-year annual change was$6.7 billion in 1971Q2 and $8.3 billion in 1973Q3. The jump was undoubtedly due to rising costs. U.S. Bureau of Economic Analysis, Gross Private Domestic Investment [NA000335Q], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/NA000335Q, April 13, 2021.

[179] U.S. Bureau of Economic Analysis, Real Gross Private Domestic Investment [GPDIC1], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/GPDIC1, April 12, 2021.

[180] Wolfson, pp. 49-51.

[181] Quoted in Solomon, p. 275.

national developer of apartment buildings with debts of over $125 million, declared bankruptcy.[182] A few days earlier, the National Bank of San Diego, with $932 million in deposits, failed.[183]

Coinciding with the escalating Watergate investigations, these financial failures followed a general movement of speculative funds out of the dollar during 1973. The panic reached a peak in the summer of 1974. When the Federal Reserve Board announced it would not approve the proposed acquisition by Franklin National Bank of Long Island, NY of the Talcott National Corporation, a financial conglomerate, due to Franklin's internal problems, a run began on the bank's stock. This was paralleled in Germany by the failure of Bankhaus I.S. Herstatt of Cologne. Both Franklin and Herstatt had invested heavily in foreign currencies, and the movement of funds out the dollar during 1973 and early 1974 caught them with unfunded liabilities. Only by greatly easing credit, extending a $1.75 billion emergency loan to Franklin, and negotiating its seizure and liquidation by the FDIC, did the Federal Reserve prevent the panic from unraveling into wider bankruptcies.[184] But the easing of credit could not reverse the general downturn that began with the oil embargo.

The recession that began in 1973 was the worst since the 1930s—far more destructive than downturns of 1970 or of the late 1950s. Unemployment, having fallen to 5 percent during 1973, rose to 6 percent in October 1974, 8 percent in January 1975, before peaking at 9 percent in May 1975. Because exports remained uncontrolled, high world agricultural

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[182] Kassuba. Wolfson, p. 54. C. Wyatt Wells, *Economist in an Uncertain World*, p. 140.
[183] Wolfson, p. 56. Wells, p. 142.
[184] Wolfson, p. 57-8.

prices drew food outside of the country. US consumption of wheat actually declined during the recession, from 22 million tons during 1972-3 to 20 million tons during 1974-5.[185] Of equal consequence, the interpretation of the food shortage among professional economists came to place responsibility for US food shortages on foreign governments. Because the European Community and Japan maintained low domestic food prices through a system of import subsidies and export levies, the world reduction in grain stocks during 1972-3 drove up international market prices. During the 1940s, such global food shortages were interpreted as a reason to subsidize farmers to dispose of commodities below cost. By the 1970s, however, the ideas economists used for interpreting a situation of rising world prices had changed dramatically. "The unwillingness of other countries to subject themselves to the rigors of price rationing was clearly a factor in the high level of exports from the United States and the consequent explosion of [food] prices," wrote Nelson of the COLC Food Office. In a world situation where countries or trading blocs stabilized internal prices, he continued, "a portion of the burden of adjustment is shifted to economies with freer markets, such as the United States."[186] The prevalence of such thinking accelerated the Nixon administration's program of trade negotiations, as the following chapter shows. Rather than negotiating tariffs, the GATT negotiations of 1973-1979 centered on the elimination of so-called "non-tariff barriers" to trade—subsidy programs governments used to stabilize internal markets, compensate producers for production for sale below cost, and as part of general

[185] Nelson, pp. 204 and 206.

[186] Nelson, pp. 213 and 217.

incomes policies. The following chapter will examine the legislative politics of this movement for international trade liberalization.

Equally important to the business organizations that lined up behind the Republicans in 1968 was the assurance of continued currency convertibility and the capital mobility this facilitated. Despite widespread fears during the Kennedy and Johnson administrations that devaluing the dollar in terms of gold would lead to a flight out of the currency, the new currency parities John Connally negotiated in late 1971 did not lead to a collapse in the US exchange rate. Foreign governments defended these exchange rates against an inflow of dollars until February 1973, when a second set of exchange rates was negotiated. The administration requested a second devaluation of the dollar in terms of gold, this time to $42.22 per ounce, and reaffirmed its commitment to allowing free movement of capital into and out of its currency. Though these second rates were abandoned in March 1973, the Nixon administration blithely ignored the requests of European countries that the US restrict capital outflows. The dollar fluctuated as low as 17 percent below the Smithsonian parity before rising, with speculative capital inflows, to its Smithsonian level. By January 1976 it was only 4 percent below the December 1971 parity. During the turbulent years of currency movements in 1973 and 1974, the Federal Reserve learned to stabilize exchange rates through short-term lending among the European and Japanese central banks—the so-called swap agreements. A new world double-politics emerged from the experience, with elected politicians attributing internal economic restructuring to external malfeasance by foreign governments, while central banks intervened to maintain currency parities at agreed targets.

Though these would be renegotiated in 1985 and 1995 with the Plaza Accords, the tariff politics that the following chapter explores would not return meaningfully to American politics. Rather, trade now played a vaguer role in domestic political debate, as bipartisan coalitions divided over whether to grant the executive trade-negotiating authority in the first place, rather than the earlier patterns of 19th and 20th century bargaining among sectoral coalitions. Most importantly for US multinational executives, the notion of preventing the movement of capital into and out of different currencies escaped from politics altogether. From this perspective, by closing one chapter in world history and opening another, the stabilization program can be considered quite successful.

For the present focus on interpretations of incomes policies within the US during the Nixon administration, it is worth understanding how, in their international and historical context, the nearly four years of authorized direct interventions into the private price-and-wage decision making during the ESP was part of a surprising success for Nixon's business constituency—if not for the President himself. The fears of the encroaching regime of federal price-wage guidelines, against which the candidate had campaigned in 1968, and which the widespread calls for an incomes policy in 1969 and 1970 represented, appeared by 1974 a political impossibility. The Nixon administration had demonstrated the impracticality and apparently foolhardy essence of the Democratic Party program. Treasury Secretary Shultz made this perspective clear in discussing the second price freeze of June 1973, a policy against which all of the economists administering the program advised. "Now I have to say that in retrospect I think it was a great thing," he told the *Washington Post*. "Yeah. It was

terrific. It was so bad that even the most hardened advocates of freezes and controls could see that there were limitations on what you could accomplish by that means…. It turned out to be a great educational experience for everybody."[187] In calmer moments, President Nixon had expressed a similar opinion privately about the political utility of a business-friendly controls program. Speaking to Herbert Stein and George Shultz when he approved the Phase II program, he remarked, in Stein's telling, that "it was fortunate that the controls were imposed by people who didn't really believe in them because they would strangle the controls in their cradle if they threatened to live too long."[188]

By demonstrating the failure of an incomes policy in the US, the Nixon administration helped to ensure that the solution to the problems of full-employment and the wage-price spiral it enabled would not be a move toward greater planning. Such society-wide macroeconomic variables as investment, employment, and the distribution of income would retain their umbilical connection to private claims on wages, profits, and other non-wage incomes. Instead, the solution to the problems of full employment would return to what Herbert Stein described as the "old-time religion" of government austerity, depressing incomes and employment—that is, by rejecting the full-employment objective altogether. Transition towards flexible exchange rates and continued convertibility eased the pressure of the 1950s and 1960s that wages placed on the balance of payments. But the indirect stabilization policy—what the Douglas Committee of 1949 and William McChesney

[187] "Shultz: Looking Back on 5 Years in Government," *The Washington Post*, April 14, 1974, p. A23.
[188] H. Stein, *Presidential Economics*, p. 182.

Martin's Federal Reserve had imagined as alternatives to direct controls—would prove far more disruptive to the industrial communities at the heart of the old stabilization politics. Perhaps the recognition of these costs influenced the great reversal in thinking by the new Federal Reserve chairman, Arthur Burns, the advocate of incomes policies in 1970-1. Speaking about the persistence of inflation in December, 1970, he noted that "the classical remedies may not work well enough or fast enough." There was a need for new solutions. "It would be desirable," he concluded, "to supplement our monetary and fiscal policies with an incomes policy."

Speaking to the Society of American Business writers at the depth of the recession in May 1975, these hopes appear to have been dashed completely. "The recession," he declared, "is now performing a painful—but also unavoidable—function." [189] Yet the depression of 1974-5 would not snuff out the wage-price spiral. While the Nixon program successfully discredited wage-price controls, there was no clear alternative for domestic stabilization. Continued fiscal-monetary restraint presented insurmountable difficulties. The Federal Reserve had proven unable to restrict corporate investment after raising interest rates in 1965, 1969, and 1973 without instigating financial crises. Though the Johnson administration succeeded in reducing investment for six months in early 1967, the boom continued with the continuation of the war. The Democrats, who retained control of both houses of Congress in the elections between 1968 and 1972, continued to press for an incomes policy. But as the

[189] "Text of Burns Speech on Steps to Fight Inflation and to Extend US Prosperity," *New York Times*, December 8, 1970, p. 34. Arthur Burns, *Reflections of an Economic Policymaker: Speeches and Congressional Statements: 1969-1978* (American Enterprise Institute: 1978), pp. 210-11, quoted in Wells, p. 138.

Nixon administration had embarked on this experiment, found itself mired in Watergate, and requested targeted rescue packages for the bankruptcies that did develop, the old politics of interest-group bargaining and economic stabilization became increasingly disorganized. As the next chapter will argue, the emerging politics of the multinational corporation, the new regulators of private investment, would further disorient stabilization politics. But an intellectual consequence of the Nixon years was an increasing disillusionment among liberals in the US over politics itself. As the representational struggles over the distribution of income sank into bureaucratic obscurity, the alternative explanations for inflation that had been growing in popularity since the middle 1960s came to seem increasingly plausible.

Chapter 7: The Multinational Corporation and Détente: Investment Policy, Full Employment, and the Trade Act of 1974

"The termination of restraints on capital flows is appropriate in light of our broad objective of reducing governmental controls on private transactions."

- Treasury Secretary George Shultz, February 1973

"Our high standard of living shall not be jeopardized by international piracy and tax-loophole seeking and that less fortunate persons abroad shall not be victimized by U.S. multinational corporations seeking advantage in substandard economies at the expense of standard ones."

- Senator Vance Hartke, April 1973

By 1973, the multinational corporate form was under assault across the non-Communist world.[1] For many sectors of American business and organized labor, the domestic economic dysfunction of the second the Nixon administration could be attributed to the growth of multinational enterprises. In the Roosevelt-era industrial heartland of the Great Lakes, New England, and Mid-Atlantic, rising unemployment during the recession of 1970 had already appeared an intensification of the pre-Vietnam trends of capital flight towards the Sunbelt and the global south. In the US Congress, international executives were by 1973 facing

[1] In 1973 the National Industrial Conference Board commissioned a report finding that the "American public felt that business was failing the primary test of its competence and legitimacy—the provision of jobs and reasonably stable incomes." The country was experiencing an "intensified…anti-business mood, the likes of which had not been seen since the Depression of the nineteen-thirties." Silk, Leonard, and David Vogel, *Ethics and Profits* (New York: Simon and Shuster, 1976), p. 21. Leo Panitch and Sam Gindin, *The Making of Global Capitalism* (New York: Verso, 2012), p. 142. David Vogel, *Fluctuating Fortunes* (New York: Basic, 1989), pp. 113-122, using data from Seymour Martin Lipset and William Schneider, *The Confidence Gap* (New York Free Press, 1983) and Graham Wilson, *Interest Groups in the United States* (New York: Oxford University Press, 1981).

investigation in myriad committee hearings.[2] In the press, a nation reeling from the succession of federal austerity on civilian programs, high unemployment, and continuing inflation now turned to the mysteries of international finance. The *Wall Street Journal* reported that "The era of the multinational corporation, the so-called super-company, is upon us—to the point that a few hundred concerns have grown beyond the size of all but the wealthiest nations and currently dominate much of the world's production, resources and financial affairs." As the *New York Times Magazine* wrote, multinationals had "shaken off the traditional sources of countervailing power. They…[had] outgrown trade unions, consumer groups, local and state governments."[3] Freedom to conduct business overseas appeared to many at root of the apparently uncontrollable and relentless economic transformations wracking the nation.

Since September 1971, following President Nixon's order of the New Economic Policy, the AFL-CIO had leant its considerable organizational muscle to an all-out legislative campaign in the Congress to deny the President trade-negotiating authority and mandate he tighten restrictions on foreign direct investment by US corporations. The radically

[2] Examples of congressional hearings by spring 1973 include the Subcommittee on Multinational Corporations of the Senate Committee on Foreign Relations, which investigated ITT, Ford, GE, and IBM, among others, during hearings on "Multinational Corporations and U.S. Foreign Policy"; the Subcommittee on International Trade of the Senate Finance Committee, which questioned the presidents or chairmen of GM, PepsiCo, IBM, and Union Carbide during hearings on "Multinational Corporations"; the House Committee on Ways and Means during hearings on "Trade Reform" and "General Tax Reform," explored below; the House Committee on Foreign Affairs which questioned executives of Polaroid, Gulf Oil, Dun & Bradstreet, and Ferro, during hearings on "Business Involvement in South Africa"; the House Committee on Banking and Currency's hearings on "Regulation Q," "Securities and Exchange Act Amendments," which investigated executives from numerous banks.

[3] Charles N. Stabler, "Multinational Firms Now Dominate Much of World's Production." *Wall Street Journal*, April 18, 1973, p. 1. Stabler found that "if a corporation's sales were to be equated to a nation's output…then 51 of the world's 100 biggest money powers would be international corporations and only 49 would be countries." Op. cit. Shapiro, "Giants," *New York Times Magazine*, March 18, 1973.

protectionist Burke-Hartke Foreign Trade and Investment Act not only empowered the President to embargo foreign direct investment, but imposed import quotas on nearly all commodities, determined according to their average import quantities for a base period of 1965-9. "Not since the Taft-Hartley Act," reported *Newsweek* in April 1972, "had a Congressional bill stirred up such a confrontation between organized labor and big business."[4] The *Los Angeles Times* announced "a joint assault on the giant multinational corporations" between socialism in the developing world and labor unions in the United States. The newspaper reported that Dr. Salvadore Allende, the Marxist intellectual elected president of Chile, was in "remarkable agreement" with AFL-CIO president George Meany on the question of the power of the multinational corporation. The Cold War enemies' indictments of the "sinful nature of those American corporations that operate on a global scale," the paper continued, were "indistinguishable."[5]

Since its eclipse during the 1970s, economists and historians of economic thought have documented the rise and fall of the high-employment mixed economies of the North Atlantic world in terms of the "welfare state," "Keynesianism," "social democracy," and, in the US, the "New Deal Order." Looking for explanations for the transition out of this era of world history, historians of American conservatism have turned to the world of ideas, towards figures such as Milton Friedman and Friedrich Hayek, for the origins of the reversal

[4] *Newsweek*, "Trade: The Push For Protection," April 3, 1972, p. 69. Irwin Ross, "Labor's Big Push for Protectionism," *Fortune*, March 1973, pp. 92-97, and 170-174. Ross reported Burke-Hartke rallies in Los Angeles, Fall River, MA, Baltimore, Chicago, Philadelphia, Laredo, TX, and Newark.

[5] Ernest Conine, "A Joint Assault on the Giant Multinational Corporations," *Lost Angeles Times*, December 8, 1972, p. C7.

of the 1970s in neoliberal economics, monetarism, and the perspective of anti-union businessmen. Intellectual historians and historians of the state have turned to American thought and culture, finding the rejection of Keynesian macroeconomic policy part of a broader fragmentation of collective identities and political loyalties during the turbulent decade that followed the American escalation of the war in Vietnam.[6]

While historians have exhumed considerable discussion of deficit spending, federal regulation, and monetary policy, less attention has been given to the global question of how full employment-targeting welfare states were to adjust to the dislocations of expanding world trade, or how national banking systems could finance the foreign payments deficits generated by domestic expansion. Those historians contemplating the tectonic geopolitical and international economic shifts of the 1970s frequently describe social change in terms of unintended consequences, as the "unplanned result" of irresolvable political conflicts or the unavoidable adjustment to the patterns of growth during the long reconstruction boom after World War II.[7] But in at least one respect, the Nixon and Ford administrations planned and executed an historic political and economic transformation of the world economy and the type of nation states over which it operated. This was the achievement of trade-negotiating

[6] Robert Collins, *More* (Oxford: Oxford University Press, 2000), Michael Bernstein, *A Perilous Progress* (Princeton, Princeton University Press, 2001), Theodore Rosenof *Economics in the Long Run* (Chapel Hill: University of North Carolina Press, 1997), Angus Burgin, *The Great Persuasion* (Cambridge: Harvard University Press, 2012), Daniel Steadman Jones, *Masters of the Universe* (Princeton: Princeton University Press, 2014), Steve Fraser, Gary Gerstle, *Rise and Fall of the New Deal Order* (Princeton: Princeton University Press, 1989), Daniel Rodgers *Age of Fracture* (Cambridge: Harvard University Press, 2011, Peter Carroll, *It Seemed Like Nothing Happened* (Rutgers: Rutgers University Press, 1990 [1982]). An exception focusing on trade liberalization is Leo Panitch and Sam Gindin, *The Making of Global Capitalism* (New York: Verso, 2012).

[7] Harold James, *International Monetary Cooperation since Bretton Woods* (Oxford: 1996), pp.228-238.

authority from the Congress between 1973 and 1975—a power the State and Treasury departments would use to attempt to limit the powers of the types of developmentalist welfare states that had emerged in the postwar period and reconfigure them for unrestrained investment and disinvestment by multinational corporations.

This legislative victory far from certain during the calamitous years of economic stabilization, Watergate, and Cold-War détente. As previous chapters have shown, the OECD had sought to provide an answer to the question of how national governments might maintain full employment in the emerging world of trade liberalization and currency convertibility. Rather than enduring capital flight where economic expansion produced rising prices and payments deficits, national governments sought to restrain wage increases and coordinate fiscal-monetary growth policies to preserve internal employment targets, external payments positions, and free movement of goods. As national labor movements negotiated wage restraint with social-democratic governments, many of these wage restraint programs evolved into comprehensive versions of an "incomes policy" governing both wage and non-wage incomes. Previous chapters have also demonstrated how the free movement of goods, the free movement of capital, and continued high employment came into conflict after the late 1950s. Where speculative funds moved freely into and out of currencies, payments imbalances might set off vast movements of money that drained central bank foreign-currency reserves or compelled domestic credit creation to maintain fixed-exchange rate parities. Controls on currency convertibility were thus variously imposed across the North Atlantic during the 1960s, including in the US, where the Johnson administration restricted

foreign direct investment by corporations to allow the nation's current account to accommodate military expenditures abroad. Other nations resorted to controls on imports, as much of Europe had done during the 1940s. Where foreign lending financed domestic credit expansion, as in the US during 1966 and 1969, the macroeconomic policies developed during the late 1940s—the general, "indirect" fiscal and monetary policies of taxes, government spending, and interest rates—became ineffective in restraining a refractory spiral of rising prices and wages. By the early 1970s, current account-surplus countries such as Germany had come to prevent capital inflows for just this reason.

As this chapter argues, the multinational corporation came to symbolize these various forces of apparent economic sabotage against the managed currency, mixed economies of the North Atlantic world. In the US, this political subtext of nationalist reaction against multinational corporations is often forgotten in histories of Watergate, neoliberalism, or the decline of the New Deal Order. Multinational influence is often interpreted in vulgar terms of Watergate bribes—many of the largest donors of the Committee to Re-Elect the President, after all, were blue-chip corporations, such as American Airlines, Goodyear, Gulf Oil, or Minnesota Minerals and Mining (3M). The impulse to connect such donations to price control for domestic advantage, however real, often neglects the larger social and political project Nixon's re-election represented for such donors. This was the project of securing a future in which the emergent patterns of capital mobility and international finance would be safely protected from the interventionist and *dirigiste* trends of corporatist planning brought on by the full-employment imperative.

Debates over trade-negotiating authority brought these historical undercurrents into the halls of Congress, where questions over what powers the nation state should wield in managing economic life during the Cold War were openly debated. Against the claims of international-capitalist conspiracy and irresponsible multinational corporation managers, the Nixon administration argued the functional importance of the rising world of international business to future world stability. Stabilization itself, in their minds, came to depend on expanding world trade and finance.

Private capital came to be seen as an integral player in financing national payments imbalances. Between 1967 and 1975, the legitimacy and even the desirability of such private balance-of-payments financing had been far from certain among national governments of the global North and South. Within the OECD and the G-10, as countries engaged in negotiations over international monetary reform, there had been little basis for assuming nations would rely on private financing for national payments deficits. The substance of negotiations among finance ministers consisted of questions of adjustments—exchange rates, trade policy, and internal economic management—and of convertibility—of what to do with the US Treasury's obligations.[8] Within the US, however, the role of foreign earnings of US corporations came to offer one solution to the balance of payments that could no longer persist in deficit.

[8] Bennjamin J. Cohen, "Balance-of-Payments Financing: Evolution of a Regime," *International Organization* (Spring 1982), pp. 457-478. Eric Helleiner, *States and the Reemergence of Global Finance* (1994), pp. 101-122. Robert Solomon, *The International Monetary System, 1945-1976* (1976), pp. 235-266.

Once the legitimacy of private payments financing by multinational corporations was secured, the old order of national sovereignty over domestic employment and investment fell into a seemingly intractable abeyance. The OPEC oil price hike was the critical event in converting European and Japanese governments to this position taken by the Nixon administration. Whereas their persistent payments surpluses had forced questions of international monetary reform, the oil-price increase drained them of the dollar balances that had accumulated since the escalation of the Vietnam War. Now, many countries needed dollars, and they turned to US multinational corporations—predominately commercial banks—for financing.[9] The restrictions on currency convertibility and trade that national governments had used to defend exchange rates during the debates over international monetary reform were now seen to threaten an available source of payments financing many governments needed. By 1975, it was the nation state, rather than the multinational corporation, that threatened a countries' economic health.

"Not at All Inconsistent with Advocacy of a Liberal Trade Policy"

Between 1960 and 1970, investment by American firms in fixed assets of foreign affiliates grew at an average rate of 15.1 percent, nearly double the 8.4 percent average for domestic investment during the decade. In some industries the rate of foreign investment far outpaced domestic investment. Foreign capital outlays of electrical machinery firms doubled the value of their domestic investment; investment in foreign auto-parts production grew four

[9] Benjamin J. Cohen, "When Giants Clash: The OECD Financial Support Fund and the IMF," in Vinod D. Aggarwal (ed.), *Institutional Designs for a Complex World* (Ithaca: Cornell University Press, 1998).

times as quickly as domestic investment. The 1973 *International Economic Report* to the President found a tripling in the book value of U.S. direct investment abroad from 1960 to 1971, from $19 billion to over $58 billion.[10] Indeed, the movement of apparel manufacturing firms sent the International Ladies Garment Workers Union into a public-relations frenzy. During the 1974 World Series, as a culmination of the union's lobbying efforts against renewed tariff-negotiating authority, the union sponsored a serial of nationwide "buy American" radio broadcasts hoping to retain investment in the domestic textiles industry. This was followed in 1975 by the union commissioning its now-famous sing-song appeal to class solidarity—the "Look for the Union Label" jingle—from the advertising firm Green Dolmatch.[11]

Labor's protectionist turn was a historic reversal. Since World War II, export markets had been a pillar of the alliance of employers and workers that Charles Maier has described as the "politics of productivity." Since the 1950s, as has been see in chapter 4, New Englanders pressed the Congress on the issue of "industrial migration," seeking to outlaw Southern subsidy schemes used to attract Northern firms. [12] These efforts failed during the

[10] Emergency Committee for American Trade, *The Role of the Multinational Corporation in the United States and World Economies* (Washington: The Emergency Committee for American Trade, 1972), Table 17. *International Economic Report of the President*, March 1973 (Washington: U.S. Government Printing Office, 1973), p. 57, quoted in *Bargaining* p. 11.

[11] Dana Frank, *Buy American* (Beacon: Boston, 1999), pp. 136-137.

[12] Members of the Massachusetts delegation had long championed of labor's crusade against the "migration of industry." John F. Kennedy to W.C. Hushing, January 29, 1954; April 14, 1954; and August 9, 1955. AFL-CIO Department of Legislation Records, 1906-1978, RG21-001,Box 35, Folders 40-42.

"To the labor movement, the multinational represents the runaway plant situation carried to the extreme," said Ruttenberg, *Bargaining without Boundaries,* p. 184. See also Ulman's essay. AFL-CIO Legislative Department records, Box 35, folders 39-43 and Box 53, folders 13-15. Tami J. Friedman, "Exploiting the North-South Differential: Corporate Power, Southern Politics, and the Decline of Organized Labor after World War II," *Journal of American History*, v. 95, no. 2 (Sep., 2008).

late 1950s, but over the next decade, as light manufacturing firms began to leave the South for the developing world, Southern legislators too turned towards trade protection.[13] By the early 1970s, Massachusetts Democrat James Burke, a senior member of the House Ways and Means Committee, was working with the AFL-CIO to find allies in the Congress for proposed tariffs and quotas among the more conservative Southern Democrats, such as Strom Thurmond and Wilbur Mills.[14]

Indeed, as early as 1967, the year the Kennedy Round tariff negotiations were concluded, 90 of 100 Senators already had their names attached to bills re-introducing import quotas to slow import competition and the shuttering of American plants.[15] Over the next two years, more than 300 bills for import quotas were introduced in Congress.[16] In 1970, to fulfill a campaign promise to Southern Democrats, Richard Nixon asked Ways and Means Committee Chair Wilbur Mills for legislative authority to impose import quotas on textiles. This limited protectionism, however, could not be kept in the Congress only for Southern donors such as Robert T. Stevens and Roger Milliken, and to the George Wallace constituency within the Democratic Party. Quotas quickly expanded into an expansion trade

[13] Timothy Minchin, *Empty Mills: The Fight Against Imports and the Decline of the US Textile Industry* (Rowman and Littlefield: 2013).

[14] Philip Shabecoff, "Odd Alliances in Trade Bill," *New York Times*, October 18, 1970, which notes Amalgamated Clothing Workers president Jacob Potosfky supports same bill.

[15] Steve Dryden, *Trade Warriors: USTR and the American Crusade for Free Trade* (New York: Oxford University Press), p.117.

[16] John W. Evans, *The Kennedy Round in American Trade Policy* (Cambridge: Harvard University Press, 1971), p. 281, quoted in Pastor, *Congress and the Politics of U.S. Foreign Economic Policy*, pp. 118-119; Orin Kirshner, *American Trade Politics and the Triumph of Globalism* (New York: Routledge, 2014), p. 128. A June 1969 pamphlet from the Emergency Committee for American Trade reported that by May 1969, "Congressmen had introduced more than 200 bills calling for import quotas on a variety of products." *Trade War: No Profit, No Glory, No Need*, The Emergency Committee for American Trade (New York: The Emergency Committee for American Trade, 1969).

protection bill that applied across all imported commodities. The White House, unable to offer limited protection to a campaign constituency, had to kill the proposal.[17]

For most of the decade of the 1960s, military spending ensured full employment and masked these dramatic changes. But as more and more dollars ended up abroad, held by foreigners seeking a claim on US gold reserves, American military Keynesianism came to undermine the fixed exchange rates of the Bretton Woods system. Vance Hartke, second-term senator from Indiana, was one of the few in the Congress to anticipate the impending adjustments. First elected to the Senate in 1958, Hartke began as a machine Democrat with close ties to union officials. His constituency included the states' numerous steelworkers. An amicable relationship with Lyndon Johnson earned him a quick seat on the Senate Finance Committee, in 1959 embroiled in the resolving the emerging balance-of-payments crisis.[18] As the decade wore on, Hartke's outspoken anti-war politics distanced him from the Democratic party Presidents. His experience dealing with the payments imbalance in the Senate also gave him a unique perspective into the constraints placed on government by highly mobile capital under fixed exchange rates.[19] Speaking before the Senate in March

[17] The Trade Act of 1970 passed the House with a decided majority of 205-106, extending quotas to shoes and two other minor product categories, but loosening the escape clause of the Trade Act of 1962 to allow tariffs to be re-imposed. In the Senate the bill was stripped of its repeal of price supports for the chemicals industry—a non-tariff barrier Kennedy's trade representative had committed to repealing in Geneva, and the primary purpose of the administration's proposal. Only the end of the session prevented the law's passage. C. Fred Bergsten, "Crisis in U.S. Trade Policy," *Foreign Affairs* Vol. 49, No. 4 (Jul., 1971), pp. 619-620. The American Selling Price system protecting the chemicals industry was not a subsidy, but a formula for calculating import prices from the base American price. Thus it was not technically a tariff.

[18] In 1956-7, as dollar outflows exceeded inflows, the "dollar gap" afflicting the Europe became a "dollar glut." The growing accumulation of foreign liabilities put the country's gold stock at risk; op. cit. n 36 below.

[19] In 1966 Hartke helped draft a public letter signed by 14 other senators urging the President not to resume bombing in the country during a brief pause in January 1966. In a 1967 article for the *Saturday Evening Post*, Hartke charged the Johnson administration with hiding the full cost of war expenditures from the public, endangering the country's gold stock. "[T]o put it bluntly," he explained, "Vietnam ha[s] ruined any chance we

1968, Hartke underscored the magnitude of the monetary problems that would lie ahead: "The whole economic system of the United States is now in danger of collapsing as a result of a thing called the Vietnam war."[20]

In September 1971, on behalf of the AFL-CIO, Hartke and Burke introduced the Foreign Trade and Investment Act in each house of the Congress. The so-called Burke-Hartke bill became the public symbol of the attempt to restrain industrial restructuring by American multinational corporations. To stem capital flight, the law proposed to eliminate tax credits on foreign taxes paid by U.S. companies, and to end tax deferrals on foreign earnings. It empowered the President to control corporate foreign investment and licensing of technology. To reduce foreign competition, it mandated import quotas across all product categories, set at the averages for 1965-1969. Rather than the Tariff Commission, a new tripartite agency would be established to hear complaints about unfair import competition. [21]

might have had for attaining equilibrium in our balance of payments." In 1968 he published *The American Crisis in Vietnam.* Nancy Jean Meyer, *Vance Hartke: A political biography* (UMI Dissertation Services: 1988, Ball State University), p. 168-9 and 189-190. Vance Hartke, "Vietnam Costs More Than You Think," *Saturday Evening* Post, April 22, 1967, pp. 10 and 14.

[20] John W. Finny, "Criticism of War Widening in Senate on Build-up Issue," *New York Times*, March 8, 1968, p. 8, quoted in Meyer, p. 190.

[21] Hartke put to use his valuable education on the sensitive, and often antagonistic, relationship between national economic objectives and international capital movements under the Bretton Woods system. As Title VI of the bill read, "The basic concept [of capital controls] is not new. The same concept that is applied here to employment already exists in presidential authority for balance of payments reasons." Congressional Record, September 28, 1971, pp. 33583-33590. Kennedy Treasury officials Douglas Dillon and Robert Roosa developed a simple levy on foreign securities, the interest equalization tax, to stem the accumulation of dollars abroad resulting from U.S. military commitments, from the foreign operations of American banks, and from the rise of imports which gained price advantages from American inflation during the late 1960s. Anticipating the risk to the gold stock, the United States imposed the tax in 1964 to limit foreign lending, expanded it in 1965, and again in 1966 to include non-bank corporations. On January 1, 1968 Johnson invoked the Trading With the Enemy Act to extend the policy to non-financial investments. Dryden, p. 121; Pastor, p. 211-212; Barry Eichengreen, *Globalizing Capital* (Princeton: Princeton Unive1-9rsity Press, 2008), pp. 122-126; Eric Helleiner, *States and the Reemergence of Global Finance: From Bretton Woods to the 1990s* (Ithaca: Cornell University Press, 1994), pp 84-91. Legislative Analysis, "The Burke-Hartke Foreign Trade and Investment Act," (Washington: American Enterprise Institute, 1973).

The law proposed to freeze the globalization process and empower the President to make targeted restrictions in industries deemed critical to the national interest. For organized labor, the law also served to check what had become an employer trump card at the bargaining table: plant relocation. Imposing import quotas and regulating foreign direct investment, the labor federation argued, would end the practice of off-shoring, restore private-sector profitability, and thereby induce domestic investment in the United States.[22] Unable to bargain over private investment decisions, and with dwindling public investments, the AFL-CIO sought to save jobs—and unions' bargaining power—by geographically circumscribing the realm of private business.

James Burke wrote to the *New York Times* that "Over 115 shoe firms have closed down in New England [since 1962]. The electronics industry…cannot compete in the domestic market with imported goods. Massachusetts has one of the highest welfare rolls in the nation…."[23] Hartke echoed this sentiment from the Senate with the anti-imperialist overtones he learned as a leader of the antiwar movement. He told a reporter for the *Wall Street Journal* that the bill would "ensure that our high standard of living shall not be jeopardized by international piracy and tax-loophole seeking and that less fortunate persons abroad shall not be victimized by U.S. multinational corporations seeking advantage in substandard economies at the expense of standard ones."[24]

[22] E.M. Windt, chairman of the multinational utility conglomerate Eaton, described the bill as "based on the fateful misconception that by eliminating competition from abroad there would be full employment in the U.S. and that by effectively keeping U.S. firms from investing abroad there would be more money and more jobs here." Windt speech to the Thunderbird School of International Management in Glendale, Arizona, quoted in "Notable & Quotable," *Wall Street Journal*, March 10, 1972, p. 8.

[23] James Burke, "Hartke-Burke Bill," *New York Times*, April 19, 1972.

[24] Stabler, "Talk of the Globe," *Wall Street Journal*, April 18, 1973, p. 1.

Business-friendly liberals were frustrated by this shift. Nixon's embrace of international trade and détente during 1971 had been a victory for those who long argued against the Kennedy-Johnson foreign policy of escalating military interventions in underdeveloped countries. For those who favored extending commercial relations with the socialist countries that had come to govern the post-colonial world since World War II, the bilateral trade deals with the Soviet Union and Nixon's overtures to China offered historical promise. Many businessmen too saw in this changing pattern of ownership of the global means of production cause for optimism. The chairman of Dow Chemical thought the future belonged to "anational companies—companies without any nationality, belonging to all nationalities." By ushering in single world market, the multinational corporation, many thought, was a harbinger of world peace.[25]

Nixon's brand of internationalism was disorienting for many others, and it was labor liberals who found themselves in the more awkward position. In 1970, AFL-CIO chief economist Stanley Ruttenberg had written in the *Washington Post* that "such a posture [of supporting import quotas] is not at all inconsistent with advocacy of a liberal trade policy." It was a difficult position to take intellectually, yet liberal trade had been the glue of the pluralistic anti-fascist, and then anti-Communist bloc that many labor officials could not openly dispense with. Foreign countries by now had "a variety of barriers to trade," Ruttenberg explained, and for this reason the United States needed to establish "adequate

[25] Harvey D. Shapiro, "Giants Beyond Flag and Country: The Multinationals," *New York Times Magazine*, March 18, 1973, p. 20-31, Dow Chemical chairman quoted p. 24. Leonard Silk, "'The New Globalists'," *New York Times*, October 25, 1972, p. 63.

safeguards" for its own businesses. For labor liberals, quotas would be harnessed to freer trade in the future—they were negotiating chips to bargain down import barriers abroad. "Opponents of [import quotas]," he continued, "simply refuse to recognize that the period of reconstruction following World War II has long singed passed…and that the economies of our major trading partners have been rebuilt and are flourishing."[26] In this situation, labor's Congressional allies argued, protection was warranted.

But the legislative program was not simply a limited response to the dramatic transformations of the Kennedy-round of tariff negotiations. Directly opposing the Nixon administration's professed growth policy, it came as part of a broader assault by organized labor against the Economic Stabilization Program, which union's rightly interpreted as a coercive method of wage restraint that left employer profits and non-wage incomes largely untouched. In March 1972, four of the five members of the Pay Board quit in protest of a vote by the government and business members to limit wage increases. Within the JEC, the Democrats exhorted the administration to expand the controls program to include interest payments and other non-wage incomes. Refusing continued trade liberalization was of a part with this broader opposition program, but it came to divide many liberals.

"A Great Tension in the Liberal Soul"

[26] Stanley Ruttenberg, "Many Liberals Back Trade Bill," *Washington Post*, July 26, 1970. Stanley H. Ruttenberg & Associates, *Needed: A Constructive Foreign Trade Policy* (Washington: AFL-CIO Industrial Union Department, 1971). Stanley Ruttenberg, "Many Liberals Back Trade Bill," *Washington Post*, July 26, 1970. Stanley Ruttenberg, "Trade Data, Conclusions May Differ," *The Washington Post*, May 26, 1972, p. F1.

The congressional politics of capitalist detente severely injured American liberalism in the early 1970s. First were the commercial agreements. National Security Adviser Henry Kissinger placed corporate foreign direct investment at the center of his geostrategic program of détente. Early in 1972, Commerce Secretary Peter G. Peterson established the Joint U.S.-U.S.S.R. Commercial Commission to facilitate greater East-West trade.[27] In February 1972, Nixon had traveled to China to extend diplomatic overtures to Mao Zedong's Communist government. In May, Nixon met with Leonid Brezhnev to negotiate commercial agreements with the USSR. In July Peterson committed $750 of American capital—including a $500 million loan from Commodity Credit Corporation—to the Soviet Union to finance grain purchases. This was followed in October by a trade agreement allowing U.S. firms to do business in Russia, and a negotiated settlement for payment of $722 million of outstanding Soviet debt from the World War II Lend-Lease program by the year 2001.[28] Reducing the American presence in Vietnam, strengthening the market economies of Western European governments and Japan, moving towards world peace—these were policies designed to stabilize an uncertain world, and they were premised on a growing volume of world trade and international capital mobility.

Then came monetary reform. From within the Treasury and the State Departments, ensuring US centrality to the new world of monetary adjustments required a broad and

[27] The foreign trade program was laid out in the "Peterson Report" prepared for Nixon in April, 1971. Peter G. Peterson, *The United States in the Changing World Economy* (Washington: Government Printing Office, 1971) Judith Stein, citing an administration memorandum, notes that Peterson advocated a tripartite corporatist planning agency. Judith Stein, *Pivotal Decade* (New Haven: Yale University Press, 2010).

[28] U.S. Department of Commerce. *U.S.-Soviet Commercial Agreements 1972: Texts, Summaries, and Supporting Papers*. (Washington: Bureau of East-West Trade, Domestic and International Business Administration, 1973).

ambitious program of trade reform. As the previous chapter showed, the export drive of 1972 was intended to raise US currency earnings and protect the inconvertible dollar. In February 1973, after continued pressure on the dollar, Treasury Secretary George Shultz announced a second devaluation and a new trade reform law as part of the U.S.'s program "to reform and strengthen the framework for international trade and investment." Such reforms, administration officials argued, could restore investment in the American economy. Demonstrating the domestic political ambiguity of the new politics of international summit negotiations, Shultz defended the administration's request for trade negotiating powers on the same terms the new protectionist bloc used to oppose it. "Too often," Shultz said, American business had "been shut out by a web of administrative barriers and controls.... The best way to deal with these barriers on both sides is to remove them. We shall bargain hard to that end." To do otherwise was "the road to international recrimination, isolation, and autarky." In addition to freeing world prices from the influence of any single government, he continued, the Treasury Department would ease federal control of international capital movements. "The termination of restraints on capital flows is appropriate in light of our broad objective of reducing governmental controls on private transactions," he said.[29]

Against these trends lay the assault on in the Congress on the multinationals. Already, in March 1972, Senators J. William Fulbright of Arkansas and Frank Church of Idaho had opened hearings in the Committee on Foreign Relations into the political influence of

[29] For Volcker's trip, see Matusow, *Nixon's Economy*, p. 234-235. "Statement by Secretary Shultz on Devaluation of the Dollar," *New York Times*, Feb 13, 1973, p. 56.

American business abroad.[30] In February 1973, following Shultz's announcement, Connecticut Democrat Abraham Ribicoff opened hearings on "Multinational Corporations" in the Senate Finance Committee to prepare for the trade bill from Ways and Means. By May 1973, when the House Ways and Means Committee opened its own hearings on trade reform, there were three congressional committees investigating the political and economic influence of multinational corporations.[31]

In this swirl of events, liberals were torn between the competing currents within the New Deal impulse of internationalist détente and organized labor's economic nationalism. During the presidential campaign, the AFL-CIO split with the leading Democratic Party candidates over cutting the military budget. The ILGWU, hard hit by the flight of the textiles industry, had organized mass rallies held in dozens of major cities across the country demand import protection. The quota demands, reported *Fortune*, "echoed" the "militant labor demonstrations of the 1930s."[32] During the months of February and March 1973, AFL-CIO legislative director Andrew Biemiller received requests from over 150 regional labor councils and union locals across the country for over 150,000 copies of the AFL-CIO's Burke-Hartke fact sheet. Contours of the New Deal formation were remerging from the

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[30] These were prompted by Washington Post columnist Jack Anderson, who revealed that ITT had asked the Nixon administration and CIA officials to intervene in the Chilean election. Their investigation had been postponed by two events—the Senate Judiciary Committee's nomination hearing of Richard Kleindiest for Attorney General and the 1972 presidential election, which dissuaded Senate Republicans from holding what might become a publicity campaign for the Democratic Party. Kleindiest was then under investigation in the Senate Judiciary Committee for settling an anti-trust case out of court with the same ITT in exchange for $200,000 for the Republican National Convention earlier that year in San Diego.

[31] "Multinational Firms to be Focus of Ribicoff Hearings," *Wall Street Journal*, February 21, 1973, p. 8. "Menacing the Multinationals," *Wall Street Journal*, March 1, 1973.

[32] Irwin Ross, "Labor's Big Push for Protectionism," *Fortune*, March 1973, pp. 92-97, and 170-174. Ross reported rallies in Los Angeles, Fall River, MA, Baltimore, Chicago, Philadelphia, Laredo, TX, and Newark.

erosion of Vietnam-War wage restraint in favor for a legislative campaign to punish American business for capitalist excess. In California, the Women's Activities Division of the San Diego County AFL-CIO requested 500 copies of the anti-multinational educational material to distribute to their members. From Pueblo, Colorado, the "Franklin D. Roosevelt Local Union No 2102" of the United Steelworkers of America requested 1,000 copies. "As my President I.W. Abel knows," wrote the recording secretary of the Dunkirk Area Labor Council in Dunkirk, New York, "Allegheny Ludlum Steel in Dunkirk at one time had a work force of approximately 2200 P&M [production and maintenance] workers. [Now] We are most fortunate if our entire force goes higher than 900-1000 maximum." He requested 7,500 copies for the council's member unions. "Foreign trade and investment are of upmost importance to us as we have a large General Electric Operation here in our city and have felt the exporting of jobs quite severely," explained the recording secretary of the Owensboro, Kentucky Council of Labor.[33]

Newsweek reported Burke-Hartke's "foreboding shadow has deterred the Administration from submitting its own trade-liberalization legislation to Congress." Business too was divided. Within the U.S. Chamber of Commerce, the steel and textile representatives prevented endorsements of the administration's proposals for expanded trade

[33] Gertrude E. Alcaras to Andrew Biemiller, March 1, 1973. Joe Genova to Andrew Biemiller, February 21, 1973. Joseph S. Granto to Andrew Biemiller, February 16, 1973. Dola Mauzy to Andrew Biemiller, February 20, 1973. AFL-CIO Department of Legislation Records, 1906-1978, RG21-001,Box 20, Folders 46 and 47. These requests predominately came in response to queries from Biemiller's office offering educational materials "without cost in any quantity you can profitably use."

adjustment assistance. By extension, they were doubting the larger trade-liberalization agenda to which it was attached.[34]

"In the Role of Bargainer with the Government"

By late spring 1973, the former chief economist of the AFL-CIO Stanley Ruttenberg attended a conference of business school professors in leafy Racine, Wisconsin. Among the many analysts appraising the careening politics of world trade under the Nixon administration were two business-school professors, Arnold Weber and Robert Flanagan, and they invited Ruttenberg to a conference at Wingspread—the Frank Lloyd Wright-designed estate of progressive businessman Herbert Fisk Johnson, and the meeting hall of the liberal, humanitarian Johnson Foundation—to provide the perspective of American labor on the subject of the future of the multinational corporations in industrial relations.[35] The event was sponsored by the University of Chicago Graduate School of Business, with a "generous grant

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[34] *Newsweek*, "Trade: The Push For Protection," April 3, 1972, p. 69; Hobart Rowen, "Adjustment Aid is Rejected by Chamber of Commerce," *Washington Post*, April 12, 1973, p. D1.

[35] Arnold Weber, protégé of George Shultz, had served as the executive director of the president's Cost of Living Council before becoming dean of the Carnegie-Mellon Graduate School of Industrial Administration. Robert Flanagan, student of Kennedy-administration economist Lloyd Ulman, was a young professor at the University of Chicago Graduate School of Business where Shultz and Weber had taught before coming to Washington. Arnold Weber recorded interview by Timothy Naftali, November 15, 2007, the Richard Nixon Oral History Project of the Richard Nixon Presidential Library and Museum. https://www.nixonlibrary.gov/virtuallibrary/documents/histories/weber-2007-11-15.pdf. *Bargaining Without Boundaries: The Multinational Corporation and International Labor Relations,* eds. Robert J. Flanagan and Arnold R. Weber (Chicago: The University of Chicago Press, 1974), pp. i- xi. In 2004 Carnegie Mellon's Graduate School of Industrial Administration became the David A. Tepper School of Business.

For the intellectual history of the industrial relations discipline see Ronald Schatz, "From Commons to Dunlop," in *Industrial Democracy in America: The Ambiguous Promise*, eds. Nelson Lichtenstein and Howell John Harris (Cambridge: Woodrow Wilson International Center for Scholars, 1993); Schatz, "Labor Historians, Labor Economics, and the Question of Synthesis," *Journal of American History*, v. 71, no. 1 (Jun., 1984); Schatz, "What's Wrong with Industrial Relations," *Reviews in American History*, v. 23, no. 4 (Dec. 1995); David Brody, "Labor History, Industrial Relations, and the Crisis of American Labor," *Industrial and Labor Relations Review*, v. 43, no. 1 (Oct, 1989).

from the McKinsey Foundation," to discuss "the industrial relations issues raised by multinational corporations."[36] There economists and industrial-relations specialists gathered to debate some the most divisive questions of the twentieth century: how would production, investment, savings, and consumption be planned and bargained over with firms increasingly operating across borders?

By the 1970s, each country had arrived at its own set of answers to these questions—a source of frustration for the multinational executives from Exxon, Industrie Pirelli, and the Ford Motor Corporation who attended an industrial relations conference in Racine, Wisconsin in 1973. For the union officials, the normative principles of investment were grounds for international disagreement. Gunter Kopke, the secretary-general of the European Metalworkers' Federation, the coordinating body of Western European unions in the steel and auto industries, argued for international collective bargaining aimed ultimately at worker ownership and control of the firm. Stanley Ruttenberg, who had worked in the CIO's research department during its formation in 1939 and risen to direct the department himself in 1948, came instead calling for the Burke-Hartke Act.[37]

But it was the industrial relations specialists, with their blending of economics, politics, law, and psychology, who were the centerpiece of the event. Their disciplinary efforts to grapple with the rise of the multinational corporation shows that there was much

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[36] *Bargaining* , *op. cit.* n. 7 above.

[37] *Bargaining Without Boundaries*, seminar participants listed on p. 251. Ruttenberg became an organizer for the CIO in the Ohio Valley after graduating from the University of Pittsburgh in 1937 and associate director of research in 1939. The CIO's Economic Division was established in 1940. He entered private practice in 1969 to continue research and lobbying on behalf of the AFL-CIO. On Ruttenberg's personal history see the finding aid for the Ruttenberg Papers at the George Meany Memorial Archives. Accessed March 12, 2017, https://drive.google.com/file/d/0B270iiodc9t9VXotTlZUdlR4cVU/view.

more to the drama of the 1970s than a simple crisis of Keynesianism. As conference planner and ex-Nixon administration official Arnold Weber argued, if the "main thing that the AFL-CIO is concerned about is the movement of investment" then control over investment was "really the issue which relates most directly to the activities of the multinational firm." The "historical interest of Western European trade unions in worker participation gets them into the investment type decision," he explained, and such "worker participation…might be a feasible method of dealing with the problem" in America.[38] This strayed far from the debate over deficit-financed demand management then animating the rest of the economics profession.

Most notable among the industrial relations specialists was Lloyd Ulman, chief labor economist of Kennedy's Council of Economic Advisors, and director of the Berkley Institute for Industrial Relations.[39] National labor movements, he told the group, were at a crossroads. A tension now existed in trade union strategy: centralized political lobbying at the level of the state, or transnational collective bargaining targeted at the corporate boardroom. These strategies were in conflict, divided between solidarity on regional-geographic or industrial-sectoral lines. On what axis would coordination proceed? As George W. Ball and Eugene V.

[38] *Bargaining*, pp. 55-57. Robert Flanagan noted United States public policy did not mandate "management's duty to bargain over foreign investment plans….Almost since its inception the NLRB has held that an employer who moves his business violates section 8(a)(3)…[unless] the preponderant employer motive is economic pressure." *Bargaining*, p. xx. Here the AFL-CIO's reliance on the NLRB greatly diminished institutional momentum within the trade-union movement.

[39] Ulman had just completed a series of comparative studies on national manpower policies for the Organization for Economic Cooperation and Development and offered the conference evaluations of Nixon's New Economic Policy and the other corporatist experiments in Britain, Germany, and Sweden. Lloyd Ulman "Lloyd Ulman: An Oral History" conducted by Riyad Koya in 2011, Regional Oral History Office, The Bancroft Library, University of California, Berkeley, 2013. See introduction.

Rostow argued at a similar conference, the American experience made it "inevitable that great enterprises should feel driven to organize themselves on a world scale."[40] And historically, labor had followed business's lead. During the growth of national corporations after the American Civil War, horizontally-integrated, multiplant firms had emerged to control their product markets. In the nineteenth century, Ulman explained, when "a strike in one or more plants…no longer present[ed]…the loss of market share" for a large firm, unions became compelled to respond by organizing themselves along sectoral lines.

But American workers did not have to follow their forebears, Ulman argued. "American unionists of the 1970s [had] an element of choice which was denied their nineteenth-century predecessors." That choice was public policy. The integration of the labor movement into the political life of the country opened strategic options unavailable to isolated unions in the past. But this political power came at the expense of private bargaining autonomy. In the 1970s, Ulman explained, union federations that sought to effectively govern nations had to substitute incomes policies across the economy for sectoral autonomy over wage rates. "This is so because the balance of trade and of payments, the level of employment, the movement of prices, and the rate of economic growth"—the target indices of macroeconomic policy—"are all affected by wage developments in a country's economy." If the "orbit of comparison" of union wage rates tended towards the national or regional labor market, rather than towards wages throughout an industry or firm, then labor-government

[40] Eugene V. Rostow and George W. Ball, "The Genesis of the Multinational Corporation," *Global Companies: The Political Economy of World Business* (Prentice-Hall: Englewood Cliffs, 1975), pp. 4-10. These papers were taken from a conference of the American Assembly in New York.

agreements of national wage policies operated at cross purposes with transnational trade unionism targeting particular industries or corporations.[41] International solidarity would mean sacrificing national unity for sectoral unity, in effect sabotaging public macroeconomic policy.

Ulman identified a strategic crisis for national labor movements. For nearly five years the European Metalworkers Federation (EMF) had been coordinating its member unions to bargain across borders. As Gunter Kopke, the EMF director, explained, in the auto industry overtime was strategically refused in Europe whenever unions anticipated "production sharing" at their plant to break a strike elsewhere in the company. "When 6,500 Belgian Ford employees went on a five-week strike in the fall of 1968," Kopke explained, "the European Metalworkers' Federation contacted the German IG Metall and the Works Council of Ford Cologne" and secured an agreement from Ford Germany not to send employees to Belgium. When 50,000 British Ford workers struck 21 plants in 1971, "Belgian, Dutch, and German workers supported the strike…by refusing to work overtime caused by the shifting of production from the United Kingdom to the Continent." Forty-three days into the strike, Henry Ford II announced in a public meeting with Conservative leader Edward Heath that the company was eliminating Britain from the possible sites for a new $72 million European engine plant. "I wasn't bluffing…when I said Ford would reinvest somewhere else," he told the press. Three days later, as the House of Commons debated an industrial relations bill intended to restrict the right to strike, two million Britons left work in protest. "The walkout,"

[41] *Bargaining*, p. 52-57.

reported the *Wall Street Journal*, "shut down some whole industries including automaking, and shipbuilding and prevented publication of national morning and evening papers." "We're not bluffing Henry," the workers' signs read. "We want parity, Henry—nationalize Ford."[42] Elsewhere too international solidarity helped protect workers' organizations. European employees of International Telephone & Telegraph (ITT), for example, successfully pressed the company to recognize unions and reinstate fired workers in Chile, Spain, Venezuela and Australia.

Nevertheless, international bargaining remained the darling of social scientists much to the neglect of American labor leaders.[43] "International bargaining doesn't exist anyplace and I don't see how it can," International Ladies Garment Workers' assistant president Gus Tyler told the *Times* magazine. Given the "immediate threat" of industrial migration, Ruttenberg explained, limiting imports drew attention far greater than any transnational bargaining strategy. When he asked whether the European Metalworkers' Federation could effectively negotiate a transnational collective bargaining agreement, Kopke answered simply with "two words: Not yet." Ruttenberg concluded it was "simply unrealistic to think

[42] *Bargaining*, p. 210. Kopke noted that the Belgian unionists began meeting with Ford unions in Great Britain and "the United Autoworkers protested at the corporate headquarters in Detroit." John M. Lee, "Ford Reaffirms His Gloomy View of Britain," *New York Times*, March 16, 1971, p. 51. "Henry Ford Rules Out Expansion for Britain," *Los Angeles Times*, March 14, 1971, p. A2. "British Ford Votes to Stay On Strike," *Los Angeles Times*, March 15, 1971, p. 4. Lorana O. Sullivan, "From Bad to Worse: Britons Despair as Growing Unemployment, Strikes and Inflation Depress the Economy," *Wall Street Journal*, March 19, 1971, p. 28.

[43] For similar account see David H. Blake, "Trade Unions and the Challenge of the Multinational Corporation," *Annals of the American Academy of Political and Social Science*, v. 403 (Sep. 1972), who notes "Norwegian and German employees of IT&T subsidiaries gathered contributions in support of Spanish unionists dismissed by IT&T's Spanish subsidiary; a French union associated with a subsidiary of Union Carbide refused to export to the United States during the duration of a strike against Union Carbide in America; and an official of the UAW testified before an Australian labor court in successful support of a wage increase for employees of a General Motors subsidiary," pp. 40-41.

that anything approaching international equalization [of wages] can occur within a reasonable time period."[44]

Ulman's paradox was particularly acute for the leadership of the AFL-CIO. British workers' international campaign was facilitated by their opposition to the Heath government. But George Meany and the AFL-CIO leadership, Ulman noted, might soon find themselves, through the New Economic Policy's Pay Board, "in the role of bargainer with the government." For that to happen effectively, isolated bargaining with individual corporations would become a decidedly secondary priority.[45]

But there was another reason to doubt international bargaining for American workers: the AFL-CIO's "unremitting opposition to association with Communist organizations." The Cold War meant those unions most actively pushing international bargaining were also politically taboo. So too did the history of private collective bargaining narrow labor's options in controlling investment. The "original codetermination concept of the late 1940s or early 1950s was dismissed by the American labor movement as being impractical," Ruttenberg explained. "Maybe the time has come for the American labor movement to go back and review its own approach to this problem. Obviously it has not done so."[46]

The Wingspread Conference underscored the dilemma of American labor and of social democratic governance more broadly during the Cold War. Unable to bargain over investment decisions, and unwilling to pursue international alliances against American

[44] Tyler quoted in Shapiro, "Giants," *New York Times Magazine*, p. 29. *Bargaining*, p. 191.
[45] *Bargaining*, p. 52-57.
[46] Codeterimination refers to the German laws mandating firms of a certain size elect worker-representatives to their corporate boards. *Bargaining*, pp. 215 and 229.

employers, the AFL-CIO was left to protect its members with those tools of the federal government it felt remained at its disposal—Cold War diplomacy and the tariff-negotiating powers that inhered constitutionally in the Congress. Tariffs and quotas were but one aspect of this larger investment discourse. As Ruttenberg repeatedly explained in print, to the press, and to his fellow social-scientists, "labor assumes that if the capital investment [of United States-owned multinationals] had been made in the United States instead of abroad, the markets now being served by United States companies located abroad could have been supplied…from home plants." Considering the near quintupling of foreign direct investment since 1960, he continued, "it should have come as no surprise to United States policymakers that the labor movement would equate the increased outflow of capital investment…with the continuing inability of the domestic economy to achieve anything like full employment."[47]

Negotiating Trade in 1973: "All of Them Are Open for Discussion"

The Ways and Means Committee held twenty-four days of hearings on international trade and investment in May and June of 1973. When Chairman Wilbur Mills withdrew discussion on the competing bills into executive committee, he instructed the committee to consider all of the proposals on offer. "We have Mr. Burke's bill," he said, "the administration's bill and perhaps others. All of them are open for discussion."[48] As Julian

[47] Ruttenberg, "The Union View of the Multinationals," in *Bargaining without Boundaries*, pp. 180-181. Insofar as this assumption ignored the impact of foreign-owned competition, Ruttenberg remarked, it was "admittedly hypothetical."

[48] U.S. House of Representatives, Committee on Ways and Means. TRADE REFORM, Hearing, May, 9, 10, 11, 14, 15, 16, 17, 18, 21, 22, 23, 24, 29, 30, , 31, Jun3, 1, 6, 7, 8, 11, 12, 13, 14, and 15, 1971 (Serial 96-005 O). Wilbur Mills on June 18, 1973, Ways and Means Committee minutes, Box 54-M, Vol I, p. 37, 93rd

Zelizer has argued, consensus was the specialty of Ways and Means. Yet, the legislators' communications with their constituencies reveal the impossibilities they faced in finding common ground on this issue.[49] Opening up tariff regulations not only sharpened divisions between employers and workers, but cut through business itself according to alliances of size and sector.[50] Capital goods industries wrote asking for preference in government contracts.[51] Consumer goods industries, many of which had already taken advantage of the tariff code changes following the 1962 Trade Expansion Act to move portions of the assembly line abroad, wrote to urge their retention.[52] Distributors and retailers such as auto and furniture dealers, who depended on low-cost suppliers, were likewise frightened by the specter of reduced imports.[53]

Most multinational firms favored the administration's policy. In introducing the administration's bill, the President had acknowledged that "in our own country…some

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Congress Committee on Ways and Means, RG233, National Archives Building, Washington, DC, hereafter NARA.

[49] Julian E. Zelizer, *Taxing America: Wilbur D. Mills, Congress, and the State, 1945-1975* (New York: Cambridge University Press, 1998).

[50] Union Carbide plant manager Harry Craig wrote to Mills denouncing "this latest display of immaturity and irresponsibility" of "certain publicity[-]seeking Congressmen," urging the representative to vote against any tax on foreign earnings. The president of the electrical workers' union in Searcy, Arkansas, also wrote to Mills, but argued that tax and tariff changes were "in great need in this country." His "union and our local members" thought "the proposals of the Burke-Hartke bill should be made law and carried out." He thought it "terrible" that Americans were losing their jobs to import competition. "The export of capitol [sic] and American technology should come to an end." Harry Craig of Union Carbide to Wilbur Mills, July 25, 1973. Paul Crotts of IBEW Local 558 to Wilbur Mills, July 24, 1973. Box 27, 93rd Congress Committee on Ways and Means, Legislative File: H.R. 6767, RG233, NARA.

[51] Thomas H. Dodds of Westinghouse to Representative John Dent, September 13, 1973, Legislative File: H.R. 6767, RG233, NARA.

[52] Sections 806 and 807 of the Tariff Code, *op cit.* n 31. I.A. Rader of Allen Bradley to Representative Al Ulman, September 21, 1973; Gilbert G. Hendrix of Parques Industriales Mexicanos, S.A. de C.V. to Wilbur Mills, July 23, 1973; James O. Yund of Whirlpool to Mills, May 25, 1973, , Legislative File: H.R. 6767, RG233, NARA.

[53] Tom Wanty of La Barge Mirrors to Representative Gerald Ford, June 15, 1973. Box 27, 93rd Congress Committee on Ways and Means, Legislative File: H.R. 6767, RG233, NARA.

people have feared that American investment abroad will result in a loss of American jobs," but assuaged the Congress that "our studies show…that such investment on balance has meant more and better jobs for American workers, has improved our balance of trade and our overall balance of payments, and has generally strengthened our economy."[54] Letters urging Nixon's policies from the chairmen and executives of Ingersoll-Rand, Arthur Andersen & Co., Johnson and Johnson, Weyerhaeuser, and Overmeyer, to Wilbur Mills are all included in a single box—of at least seventeen[55]—of correspondence and memoranda from trade hearings and the resulting mark-up session and floor debates. C.S. Cooper, Jr., the senior vice president of Republic Bank of Dallas, for example, wrote that he was "seriously concerned" about the possible repeal of Section 911 of the Internal Revenue Code—which allowed individuals working abroad to exclude foreign earnings from their tax liabilities. Arthur Andersen chairman Harvey Kapnick found the Russian trade deal "a most constructive action."

But entrepreneurs and employees of smaller concerns embraced the nationalist rhetoric. Robert A. Main, whose family owned three machine tool shops in New Jersey, North Carolina, and Connecticut, wrote to his representative requesting his letter be forwarded to "the proper committee" for "protecting our textile pin manufacturing

[54] "Message of the President," in *Trade Reform, Hearings Before the Committee on Ways and Means, HR 6767,* 93rd Congress, 1st Session (GPO: 1973), p. 111.

[55] These include materials on H.R. 6767 and H.R. 10710, the administration proposal and the Ulman compromise bill, from only the 93rd Congress. They do not include correspondence from the Senate or from the 92nd Congress, when the Burke-Hartke Act was originally proposed. Boxes 25-27. 93rd Congress Committee on Ways and Means, Legislative File: H.R. 6767, RG233, NARA. Boxes 28-31 and 34-43, 93rd Congress Committee on Ways and Means, Legislative File: H.R. 10710, RG233, NARA. Correspondence with Katherine Mollan, author's possession.

company," and asking "what people are in charge of the foreign textile pin imports[?]" Elsie S. Gayler, president of a plastics manufacturer in Ringwood, New Jersey, wrote urging "subsidies, or tax relief, such as have been given to the farm, oil, and other industries." Her firm was dependent on imported chemicals, and she did not want trade barriers—but she demanded protection to avoid "joining the stranglehold of a conglamorate [sic], as there is already too much Big Brotherism rampant."[56]

In the agriculture industry, growers divided by crop. The avocado growers of San Diego County, for example, wrote form letters en masse to the committee urging tariffs. The Washington Asparagus Growers Association considered it "long past time," for the interests of "the American worker and producer" to be considered in trade law. "Washington asparagus growers cannot compete with those countries whose labor costs are less than a tenth of ours and whose processing factory technology comes as a result of U.S. corporate investments," the association explained. But the grapefruit growers association of Florida, seeking access to foreign markets, wrote urging the government to "induce Japan to reduce the 40% ad valorem tariff presently imposed during that part of the year when Florida exports its fresh grapefruit to that country." A Monsanto vice president expressed "concern"

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[56] W.L. Weary, Chairman of Ingersoll-Rand to Wilbur Mills, February 28, 1973; Harvey Kapnick, Chairman of Arthur Andersen to Wilbur Mills, June 25, 1973; Robert J. Dixson, president of Johnson and Johnson and chairman of the National Foreign Trade Council, to Wilbur Mills, April 18, 1973; Bernard L. Oreill, Vice President of Weyerhauser to John Martin, Chief Council Ways and Means Committee, April 9, 1973 and to Mills March 16, 1973; Peter L. Rossner, President of Overmeyer to Mills, April 16, 1973; Robert A. Main, President of Robert A. Main & Sons, to Representative William B. Widnall, April 24, 1973; (Mrs.) Elsie Gayler, President of Disco Incorporated, to Representative Robert A. Roe, April 30, 1973. Box 27, 93rd Congress Committee on Ways and Means, Legislative File: H.R. 6767, RG233, NARA.

with the "punitive provisions" against foreign operations under discussion in the committee.[57]

For three months the committee met only to find themselves confronted with the enormity of the multinational question.[58] The administration contributed to confusion by emphasizing the role trade earnings would play in securing the nation's payments position, whereas many economists and journalists understood the future of the dollar would rest as much on capital income from foreign investments as trade income from exports. Administration witnesses repeatedly noted that the US earned a surplus on trade with the Communist bloc, and argued that renewal of tariff-negotiating authority would enable the

[57] Bernard H. Weber to Representative Clair Bergener, May 6, 1973; William D. Sampson of Lilac Mountain Ranch to Representative Victor Vesey, April 30, 1973; Harvey and Josephine Durbin to Representative George Brown, May 4, 1973; Raymond H. Marsh to Clair Burgener, May 1, 1973; Richard and Blanche Raymond of RRR Ranch to Clair Burgener, April 30, 1973;Helen C. Andersen of Water Mountain Ranch to Victor Vesey, May 1, 1973; Washington Asparagus Growers Association to John Martin, Chief Counsel Ways and Means Committee, June 19, 1973; John T. Lesley of Seald-Sweet Growers, Inc., to Representative William V. Chappell, May 30, 1973; Sam Packard of Monsanto to Wilbur Mills, April 25, 1973. Box 27, 93rd Congress Committee on Ways and Means, Legislative File: H.R. 6767, RG233, NARA.

[58] The bill was delayed by the numerous jurisdictions affected by the multinational firm—income-tax policies that favored investment abroad; tariff codes that encouraged foreign sourcing for manufacturing inputs within an industry; diplomatic concerns over trade-union rights and labor standards in trading-partner countries. Transnational finance all but sabotaged monetary policy under fixed exchange rates; any movement in interest rates could spark speculative transactions at volumes threatening price stability at existing exchange-rate commitments. At the behest of the Ribicofff Committee, the Tariff Commission prepared a study that found multinational corporations controlled $268 billion in short-term capital, three times the amount of all the world's central banks. Nixon advisers suspected Arthur Burns and managers at the New York Fed were "intentionally cutting money growth to raise interest rates in the interest of strengthening the balance of payments." Allen J. Matusow, *Nixon's Economy* (Lawrence: University Press of Kansas, 1998), p. 99.

By 1970, a quarter of all capital outflows from the United States were intra-corporate transactions; the daily conduct of international business was a significant factor in U.S. Treasury liabilities outpacing the value of its gold assets. Testimony of Andrew Biemiller. U.S. House of Representatives, Committee on Banking and Currency. ECONOMIC STABILIZATION, Hearing, October 4, 1971 (Serial 68-573), p. 381. James L. Rowe, "U.S. Aide Denies Multinational Firms Hurt Economy," *Washington Post*, February 27, 1973, p. A5.

The rise in intra-corporate transfers also corresponds to Greta Krippner's argument that American business underwent a process of financialization beginning in the late 1960s, in which portfolio income—dividends, capital gains, and interest—comprised a growing share of corporate cash flow. Krippner, Greta, "The Financialization of the U.S. Economy," *Socio-Economic Review* (2005), 3, pp. 173-208; *Capitalizaing on Crisis* (Cambridge: Harvard University Press, 2011).

country to raise trade earnings around the world. As Presidential adviser William Eberle told the Congress, "we believe we must look to our trade account to bear most of the burden for bringing our international account back into balance."[59] The NEP of August 15, 1971 had included a 10-percent surcharge on imports, and the two official US devaluations had been designed to raise the country's export earnings to find an "equilibrium" in its payments position. Yet such exchange-rate adjustment problems might be solved not through trade or devaluation, but simply by the attractiveness of Wall Street investment houses to foreign dollar holders. "What will happen to those reserves [that accumulate abroad]?," Secretary Shultz asked rhetorically during Congressional hearings on the bill. "Will they be invested? Will their investments be welcome, and in that manner, will a balance-of-payments problem resolve itself?" As PepsiCo chairman Donald Kendall explained, "The only positive sector of our balance of payments is that dealing with private foreign direct investment. In 1972, the net earnings of such investment for the U.S. balance of payments was $7 billion. This is nearly $2.5 billion larger than the $4.8 billion net earnings of 1971. These net earnings will continue to grow and will be a vital source of the foreign exchange needed to help pay the costs of our imported energy. Rather than looking for means to restrict out ability to invest abroad, it would seem incumbent on our Government to be looking for means to assist it, both for reasons of economic interests as well as national security interests."[60]

The case for Burke-Hartke waned in the Congress during the autumn of 1973 as the administration made its trade offensive against the Congress. As protectionism waned, labor

[59] Supra, n56, p. 172.
[60] Shultz in supra, n56, p. TK. Kendall in *ibid*, p. 665.

liberals were left appealing to Cold War principles in their attempt to slow globalization and increase public investment. As early as 1970, the anti-Communist Washington Senator Henry Jackson was weaving government expenditure, full employment, and national defense together into a coherent rigging for a stalwart Cold War nationalism.[61] In the new context of détente and Watergate, Jackson found the national spotlight shine brightly on this issue when put in terms of East-West trade. In March 1973, Jackson introduced an amendment on the administration's incoming trade-reform legislation that set conditions on future international negotiations: any nation that did not ensure the right of its citizens to leave that country, as protected under Article 13 of the Universal Declaration of Human Rights, would be prohibited from receiving most-favored nation tariff treatment and from receiving American public loans.[62] The amendment-- renamed the Jackson-Vanik amendment to the Trade Act of 1974, for Ohio Democrat Charles Vanik, senior member of the House Committee on Ways and Means— threatened to sabotage Henry Kissinger's détente program, and the plenipotentiary urged against any trade law that included it.[63]

[61] Debating the supersonic transport, Jackson had asked legislators sarcastically "Why should not shoes and other products which are before the Senate in connection to the trade bill also be manufactured abroad?" Opponents of federal funding for the SST thought the plane was better to produce with foreign labor. *Wall Street Journal*, "Shoes and the Supersonic Transport," December 23, 1970, p.8. Jackson supported military spending, which earned him George Meany's favor for the Democratic Party nomination for president in 1972. Joseph Goulden, *Meany* (Athenum: New York, 1972), pp. 459-461.

[62] The Soviet Union had recently begun charging a tax on academics leaving the country, one that fell heavily on educated Jews, prompting Henry Jackson to propose his amendment.

[63] William D. Korey, "The Struggle Over Jackson-Mills-Vanik," *The American Jewish Year Book*, Vol. 75 (1974-1975), pp. 233-234.

When Jackson submitted his amendment to the trade bill in the Senate, William F. Buckley described it as a "sunburst" that "illuminates a great tension in the liberal soul."[64] Particularly enamored with Jackson was the AFL-CIO.[65] While the federation supported the administration "getting tough on foreign trade," easing tensions with the Communists remained non-negotiable. After April 10, 1973, when the administration submitted its long-awaited trade reform legislation, Meany remained intransigent. The Nixon administration had aimed to extend Most-Favored Nation status to communist countries in order to expand exports and provide business for US corporations. "There is no such reason to believe that such [most-favored nation] treatment will lead the U.S.S.R. to make earnest efforts for removing the causes of international tension and promoting equitable and lasting world peace," Meany told the *Washington Post*. As AFL-CIO international affairs director Jay Lovestone warned Henry Kissinger that month, "We are going to go much further than the Jackson amendment on MFN to Russia."[66]

When Ways and Means met in closed session on September 5, Oregon Democrat Al Ullman, who sat as acting committee chair due to Wilbur Mills's hospitalization for spinal surgery, impressed upon his colleagues the "time problem" of getting a trade bill to the floor

[64] "On the one hand our progressive legislators are committed to free trade and noninterference in the internal affairs of other countries. On the other hand as liberals they are committed to human rights." William F. Buckley, "A Senator Strikes at Paradox," *Los Angeles Times*, October 8, 1972, p. 18.

[65] Vide supra note 12.

[66] "Reprieve for the Multinationals," *Forbes*, April 15, 1973, p. 23. This article reports a deal between Meany and Nixon over trade reform. I have been unable to corroborate this assertion. "Meany Asks Rejection of Nixon Trade Plan," *Washington Post*, April 27, 1973, p. A2. Lovestone and Kissinger. Memorandum of Conversation, Office of the Historian, State Department. Washington, April 25, 1973, 12:15-12:45. Accessed March 11, 2017, https://history.state.gov/historicaldocuments/frus1969-76v15/d100. William D. Korey, "The Struggle Over Jackson-Mills-Vanik," *The American Jewish Year Book*, Vol. 75 (1974-1975), pp. 199-234.

before the holidays. What they were undertaking was a "crash program." The week before, Ullman had with George Shutlz "for two and a half hours" to discuss the trade law. Shultz was responsible for the Tokyo trade conference, and had impressed upon Ullman the urgency of Congressional negotiating authority. The Committee would have to accomplish "superhuman things in the next 90 days" if they were to pass a bill before the Congress recessed—all against the backdrop of still-high unemployment, of galloping inflation as wage and price controls lapsed, and of the unfolding Watergate affair. "The credibility of this committee," Ullman advised, "hinges on getting a trade bill of some kind to the floor."[67]

Legislative pressure was intensified by Nixon's impending impeachment. In February, when Shultz announced the second devaluation and the new laissez-faire international economic policy, the Senate had also established the Select Committee to Investigate 1972 Presidential Campaign Activities. As the administration submitted its trade legislation to Congress in April, White House counsel John Dean outed Nixon aides John Ehrlichman and H.R. Haldeman. The White House staff organization appeared collapsing. The responsibility for statesmanship, the Ways and Means members realized, had descended into a congressional committee.

On September 11, 1973, as the Chilean military deployed across the country for a *coup d'etat*, the members of the Ways and Means Committee sat five thousand miles away ensconced in executive session. That morning they debated whether to grant Most Favored

[67] September 5, 1973. Ways and Means Committee Executive Session Minutes 1973, Box 54-M, Volume III, NARA, pp. 1828, 1834, and 1836. Allen Matusow has written that by January 1973 George Shultz was "virtually Nixon's economic czar" and responsible for implementing Phase III of the controls program. Matusow, *Nixon's Economy*, pp. 221 and 227.

Nation status to Communist countries. At issue was the Jackson amendment. In the closed committee session, Ambassador William Pearce, the administration's representative, insisted against the provision.[68] Ohio Democrat Charles Vanik, a Burke ally in the committee, led Jackson's supporters.[69] His objections stalled the mark up section as the committee members grasped the reality of American firms doing business under Soviet Communism. "What is this going to mean?" asked Illinois Republican Harold Collier about most favored nation treatment for Czechoslovakia, where Secretary of State William Rogers had traveled in July. It "raises a serious problem of what do you do about over $1 billion worth of U.S. citizens' property that was confiscated without compensation or reparation at the time of the [Czech] coup in 1948."[70] "What the president did in Russia was not really give them the right to buy grain which they could already do?" asked Texas Republican William Reynolds Archer about the 1972 wheat purchases. "The only thing our Government did was provide the $750 loan, is that basically accurate?" To which Pearce responded, yes.[71] Wasn't public finance to the Eastern Bloc countries illegal under the 1934 Johnson Debt Default Act?[72] Ambassador Pearce reassured them that the administration interpreted the Johnson Debt Default Act to allow for the C.C.C. loan of the East-West grain deal. What about the Logan Act? Attorney

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[68] Ways and Means Committee minutes, Boxes 53-M to 58-M, Vols I-VI, 93rd Congress, Committee on Ways and Means, RG233, NARA, *passim*.

[69] By September 1973 the Jackson-Mills-Vanik amendment to the Trade Act of 1974 had 77 co-sponsors in the Senate and 280 co-sponsors in the House.

[70] Collier on September 5, 1973, Ways and Means Committee Executive Session Minutes 1973, Box 54-M, Volume III, NARA, pp. 1847.

[71] September 11, 1973, Ways and Means Committee Executive Session Minutes 1973, Box 55-M, Volume IV, NARA, pp. 2287-2386. Archer had been a democrat but switched parties in 1969.

[72] The law prohibited U.S. government loans to any foreign power that defaulted on prior obligations.

General Kleindiest had no intention of prosecuting private businesses seeking to do business in Communist countries.[73]

Michigan Democrat Martha Griffiths was incredulous that the administration was asking them to leave world food supplies to market forces—in effect "to vote on human hunger." Her reaction to the Trade Act is indicative of larger currents in mid-century liberalism:

> "I would like to say that this bill should have in it a grainery [," she told the committee, referencing agriculture department storehouses established during the New Deal.] "We should have a supply set up that protects American people. The idea of our running free enterprise to the business where you are going to have the starving people of the world bidding on the supplies we need to live on and we are going to supply the money for them to buy it is too silly to even talk about.
>
> "My frank opinion is that you need a little more of this stuff [graineries] and you are going to run this country into a bloody revolution if you don't start it on gasoline first."[74]

When the committee decamped for lunch at 12:00 PM, Chilean military jets were roaring over Santiago. Within the hour Salvadore Allende would be dead. At 2:00 PM, Pearce began to argue that initiating trade gave the US "more leverage" against Communist-aligned governments than a bellicose position of high tariffs and quotas. The discussion

[73] Sanford J. Ungar, "U.S. Sees no Law Violation by Clark, Salinger Overseas," *Washington Post*, August 23, 1973, p. A6.

[74] September 11, 1973, Ways and Means Committee Executive Session Minutes 1973, Box 55-M, Volume IV, NARA, pp. 2287-2386.

heated, but then Pearce requested the committee go off the record. He asked to relay confidential diplomatic information from the President himself. Likely this regarded the news from Chile. As they reconvened, Ways and Means began to debate Henry Kissinger's defense of commercial détente, aired in public during the national-security advisors confirmation hearings in the Senate Foreign Relations Committee the previous week. Privately, Kissinger had said the communists were winning the ideological struggle. In April he told Lovestone that Brezhnev had "the long-term trend in Europe going for him."[75] American strength lay its economic performance, Kissinger had argued. Since the Soviets and the satellite countries were then experiencing severe shortages, most-favored nation status and the American business that it brought were paramount to capitalizing on this economic crisis.

The debate at the heart of Congressional debate over the future role of the multinational corporation in national life was reduced to the question of whether to grant Most Favored Nation status to Communist countries. The strategy meant financing trade agreements with communist regimes, and required American credits. Senator Jackson had jumped on this point. During Kissinger's confirmation hearings, Jackson published an opinion in the *New York Times* arguing "the emerging policy of détente" was substituting form for substance—that "without an increasing measure of individual liberty in the Communist world there can be no genuine détente."

[75] Lovestone and Kissinger, Memorandum of Conversation, *op cit.*

> "Significantly[," Jackson wrote, "]the economy of the Soviet Union is in desperate straits, and we have been asked to extend to Russia the benefits of our markets on a most-favored-nation basis, of our capital at preferential rates, and our superlative technology. There are those who argue that we must make these trade concessions in the interest of promoting détente but that we ought not to attach conditions that would, at the same time, promote human rights in the Soviet Union. This is the argument of the Kremlin. It is also, I am pleased to say, an argument that we in Congress have clearly rejected."

Jackson was popular, and he won a majority of the members of the Ways and Means Committee. Administration officials and allies met such thinking with consternation, but they failed to remove the Jackson-Vanik amendment in committee, and they would fail again on the floor of the House.

Within the White House, Kissinger began arguing against any trade bill with the Jackson amendment attached. Nixon threatened to veto any trade bill that reached his desk denying the Soviets American loans. But Shultz, the Office of the U.S. Trade Representative, and the Council on International Economic Policy all urged quick passage. As one observer wrote, they warned that "support for the bill might very well crumble" given the AFL-CIO's mounting opposition.[76]

After hearings in the Senate in early 1974 and substantial delay throughout the year, the Congress finally passed the Trade Act of 1974 just before Christmas. The prohibition on government lending to the Soviet Union would become law, but so too would the

[76] William D. Korey, "The Struggle Over Jackson-Mills-Vanik," *The American Jewish Year Book*, Vol. 75 (1974-1975), p. 233.

multinational corporation emerge from public controversy with a renewed purpose. For American-based multinational corporations, trading with the Soviet Union promised to pull their firms out of the mires of stagflation, of the labor strife caused by intransigent American workers, and of the price controls the Nixon administration had imposed. As Soviet foreign trade minister Nikolai Patolichev told the National Association of Manufacturers in June 1973, "I am a devout supporter of more contacts, contacts, contacts, which would bring more contracts, contracts, contracts."[77] Undoubtedly his audience agreed. For many economists, and, within the administration, Commerce Secretary Pete Peterson, import competition offered competitive prices that might bring down the inflationary pressure the political program of incomes policies as practiced by the Nixon administration had failed to ameliorate.

Despite victory with Jackson-Vanik, the AFL-CIO could not prevent private capital from fulfilling Kissinger's program. Already in 1972, General Motors chairman Thomas Murphy announced he had been eager to do business with Communist nations. But he warned of the "insular views of the shortsighted" that had found a "sympathetic audience in Congress" in the "very outspoken support for restriction on trade and investment"—the Burke-Hartke Act. General Motors, he told a *Chicago Tribune* reporter, had recently entered into a very lucrative agreement in South Africa, and he hoped the recent trade deal with the Russians augured repeats. "Let's hope market controls are temporary," he said. After all, it was non-tariff barriers, such as "our government's stringent safety and emissions standards"

[77] 223. As Vance Hartke described meeting with Brezhev in Moscow as part of a foreign delegation, the Soviet premier was "prepared to go a practically unlimited route" in providing business to American firms.

that were repelling investments from the American market. "What one man sees as a higher standard," he explained, "another can only regard as a higher barrier."[78]

In June, 1972, the European branches of many American multinational banking corporations reported a request for a $15 billion dollar loan from the Soviet government. In November, both First National City Bank and Chase Manhattan Bank petitioned Soviet Ambassador Anatoly F. Dobrynin for permission to open branches in Russia. "We're doing a lot of visiting back and forth. Trade is starting to pick up, and we are looking at a lot of deals," a First National City executive told the *Wall Street Journal*. Eager to generate currency needed for Western machinery and goods, the Soviets had even been expanding their network of state banks to take loans, sell gold, and share in the proceeds of the new business of currency speculation. The *New York Times* reported "a new breed of banker" prowling the Eurodollar markets in Europe. In the opinion of a Chase Manhattan executive, communist bankers were "very compatible." "It's a new market for us, and we are expecting large increases in volume," a Bankers Trust executive had told the *Wall Street Journal* as early as June 1972. "We're very encouraged."[79] Such were the more salient changes at the edges of international capital markets. But the "new market" in financial securities was announced in the heart of the US economy by October 1975, when the City of New York was unable to find creditors to refinance its municipal debt.

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[78] James Mateja, "G.M. Eager to Deal with Communist Nations," *Chicago Tribune*, November 6, 1972, p. C9.

[79] Stabler, "The Twain Meet," *Wall Street Journal*, *op. cit.* "Soviet Offices Sought by First National City and Chase Manhattan," *Wall Street Journal*, November 1, 1972, p. 36. Clyde H. Farnsworth, "Communist Bankers Prove Themselves Able Capitalists," October 2, 1972, p. 55.

The administration's greatest victory in preserving this emergent world came in the aftermath the OPEC oil-price increases. The quadrupling of the world price of oil, however, dramatically altered the international payments positions of the OECD countries. The dollar balances that had accumulated in Europe and Japan since the escalation of the Vietnam War and forced German revaluation in 1969 and 1973 now flooded to the OPEC countries to finance oil imports. The OPEC countries, flush with dollars, found themselves confronting the problem of how to manage their currency surpluses. Oil importers suddenly found themselves in positions akin to the late 1940s, when dollar scarcity compelled elaborate systems of trade restrictions and currency rationing. Capital controls, apparently defeated in the G-10 and the Committee of Twenty—the group of nation's Shultz and Burns had organized to negotiation exchange-rate adjustments—returned during the depression of 1974-5 as a method of dealing with the monumental flows of funds sparked by geopolitical disorder. Treasury Secretary Simon, who replaced Shultz in May 1974, flew to the Middle East to negotiate financial arrangements for managing the new dollar surpluses. During these meetings, Simon established the diplomatic basis for what would become a series of Joint Economic Commissions with individual oil exporters in which US exports and financial services were negotiated with the new dollar-holding governments.[80] The dollar, having suffered three rounds of capital flight and depreciation since abandoning parities in March 1973, strengthened.[81]

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[80] David E. Spiro, *The Hidden Hand of American Hegemony: Petrodollar Recycling and International Markets* (Cornell: 1999), pp. 88-9. Spiro reports that "Simon had put an extremely violent video on the in-flight movie system and he was laughing uproariously while consuming prodigious amounts of whiskey," p. ix.

[81] Solomon, Wyatt C. Wells

For American labor, capital mobility was indicative of their precipitous weakening within the political culture over the course of the 1960s. In Racine, Ruttenberg had argued that the "ability of the MNC [multinational corporation] to move production, or even to threaten to move production [was] an unfair advantage in dealing with its workers and with the unions that represent them."[82] American investment in the Soviet Union was only the most potent manifestation of this trend. Of equal or greater consequence was US lending, backed by petrodollar deposits, to the oil-importing developing countries of the Third World. Across Latin America and South Asia, dollar loans would generate an imperative for earning dollar balances through exports, an imperative that functionally aligned with the new patterns of investment by non-banking US multinational corporations. When the flow of capital—and US imports—collapsed later in the decade under the Carter-Volcker deflation, these countries would face bankruptcy as turn to the IMF for the structural-adjustment loans that would define globalization politics in the final decades of the twentieth century.

Firmly committed to the Vietnam War at the height of the student movement, and consistently undermined in the wage and price controls program, George Meany gambled that opposing East-West trade could restrain multinational firms and secure greater investment in the US. But Jackson-Vanik would prove a pyrrhic victory for Cold War liberals. The bill it amended was designed, in Treasury Secretary George Shultz's words, to further the "broad objective of reducing governmental controls on private transactions."[83] By isolating a few "nonmarket" countries from receiving most-favored nation status and

[82] *Bargaining*, pp. 46 and 184.
[83] "Statement by Secretary Shultz on Devaluation of the Dollar," *New York Times*, Feb 13, 1973, p. 56.

American credits, the bill sanctified all others as legitimate partners for American business. The law signaled a broad intellectual shift in the way national regulation was imagined in an international economy. To ensure what Nixon administration officials called “fair trade” practices abroad, the new negotiating powers included for the first time in history the authority to bargain over “non-tariff barriers” to trade—those industrial subsidies and government regulations economists argued gave foreign producers an unfair competitive edge in international trade.

As a turning point in the Cold War and the Western political economy, the decade of the 1970s has been described in terms whiggish, catastrophic, or conspiratorial.[84] Historians of globalization and American diplomacy have turned to the 1970s to explain the politics of the early 2000s. Judith Stein, for example, has noted with skepticism of US internationalism how geopolitical concerns weakened American industrial policy and contributed to deindustrialization of the Rust Belt. Jeremi Suri has described a broader anti-democratic trend in world politics in the years after 1968 that saw détente as domestic political instrument to wield against the disorderly political movements of students and industrial workers.[85] But few historians have noted how labor leaders’ and their allies leveraged their own anti-Communist commitments in attempting to slow globalization and defend the limited statism they had built since the Second World War. In military spending, closed

[84] For examples of diverging interpretations of the decade compare David Harvey *A Brief History of Neoliberalism* (Oxford: Oxford University Press, 2005) or Greta Krippner. *Capitalizing on Crisis* (Cambridge: Harvard University Press, 2011) and *The Shock of the Global*, ed. Niall Ferguson, Charles Maier, Erez Manela (Cambridge: Belknap Press, 2011). For a quasi-conspiratorial take see Suri, *Power and Protest*.

[85] Judith Stein, *Pivotal Decade* (Princeton: Princeton, 2010). Jeremi Suri, *Power and Protest* (Cambridge: Harvard University Press, 2003).

borders, and prohibitions on foreign lending, the AFL-CIO found a substitute prosperity for the American working class. In the process, it lost the faith of liberals, intellectuals, and much of the public. Likewise, few historians have appreciated the way the OPEC oil shock and the payments problems it created miraculously rescued the multinational corporation outside the US.

By January 1975, when the Trade Act became law, the nationalist and regulatory impulses of the Burke-Hartke Foreign Trade and Investment Act would be subordinated to a minor footnote in diplomatic history, shorn of their roots in the controversy over the emerging global political economy. But trade reform, as Shultz repeatedly emphasized, was integral to monetary reform. Just as in product markets, government influence in international capital markets fall into obscurity for a half century. With Nixon- and Ford-administration officials arguing for a world of nations differentiated by private profitability in a unified marketplace, in which the United States would have to assume a diminished role as both example and guardian, six-decades of proscriptions on private lending to Communist regimes could be abandoned. "It's a new market for us, and we are expecting large increases in volume," a Bankers Trust executive had told the *Wall Street Journal* as early as June 1972. "We're very encouraged."[86] This new world was secured by the multinational banking corporation, under whose auspices lenders would gain increasing leverage over organized labor and sovereign borrowers. Government spending, the growth of which appeared irresistible since the end of World War II, would become subject to negotiation with

[86] Charles N. Stabler, "The Twain Meet: Communists Learn How to Borrow Dollars," *Wall Street Journal* (Jun 20, 1972), p.1.

international lenders—US commercial banks as well as international organizations such as the IMF. The growth of the public sector in the US, unimpeded during the preceding two decades, seemed suddenly to come to a halt.

Conclusion: What Happened to Planning?: The New Left's Coming of Age Under the Carter Administration

"It is [the] optimum and ever-shifting division between centralized and decentralized decision-making that is, in my opinion, the central economic problem of today, rather than the question of private versus public ownership of the means of production."

- Evsey Domar, 1965

"Remarkably, in an election year whose main public concern was economic stagnation, a sitting president could come up with nothing bolder than a largely symbolic agency, whose assignment was to consider another agency."

- Judith Miller, 1980

In February 1973, the House Democratic Caucus resolved to establish a Steering and Policy Committee to help coordinate its opposition to the Nixon administration's economic program. Comprised of the three House leadership positions of Speaker Carl Albert, Majority Leader Thomas "Tip" O'Neill, and the Caucus Chair Olin Teague; twelve regionally elected members; and up to eight members appointed by the Speaker, the body both centralized party leadership and opened it to the broader current of reform flowing from the Johnson-era divides. By allowing party members to elect committee seats by region, it moved toward brining into party governance within the legislature the reforms of the McGovern-Fraser Commission on delegate elections for 1972 Democratic National Convention.[1] The Steering and Policy Commission, Albert wrote, "would fill a gap in the House Democratic organization" and provide "recommendations [that are] sound, progressive, and realistic,

[1] Leonor K. Sullivan to Reuss, March 12, 1973, Box 55, Folder 9, Henry Reuss Papers, University of Wisconsin-Milwaukee. Henry Reuss, *When Government Was Good: Memories of a Life in Politics* (University of Wisconsin: 1999), p. 103. For McGovern-Fraser Commission, see Jefferson Cowie, *Stayin' Alive: The 1970s and the Last Days of the Working Class* (New Press: 2010), pp. 87-90.

steering a middle way between utopia and do-nothingism."[2] It's members occupied strategic positions within the 93rd Congress. Wright Patman, the Texas populist and opponent of Federal Reserve Independence, chaired the House Banking and Currency Committee. Henry Reuss, sat with Patman among the Democratic members of Banking and Currency. Both also sat as members of the Joint Economic Committee.

During the Economic Stabilization Program and the 1972 campaign, the House Banking and Currency Committee and the Joint Economic Committee became hotbeds of Democratic-Party opposition to the administration and its then-alleged corruption. During the fall of 1971, both bodies held hearings lambasting the administration and the Federal Reserve for exempting capital income from the stabilization program. "The original August price-wage freeze has been already weakened," Michael DiSalle told the Banking and Currency Committee in October 1971. "One, by understaffing. Two, by lack of visibility of the price-wage administration in large segments on the country." Paul Porter and David Ginsburg confirmed criticisms that the Phase II program would have to expand dramatically in terms of personnel and publicity to be effective. By the summer of 1972, the Committees had become a sounding board for broader complaints that the stabilization program was failing to reduce unemployment and increasing inequality. In May of 1972, Patman planned a series of oversight hearings in eleven cities across the country during the month of August to hear testimony on the operation of the stabilization program. AFL-CIO President George Meany

[2] Albert to Steering and Policy Committee members, April 5, 1973, Henry Reuss Papers, Folder 9, Box 55, University of Wisconsin-Milwaukee. *Guide to Congress, Fifth Edition* (Congressional Quarterly Press: 2000), pp. 92 and 452.

wrote to Patman that he was "very pleased" with the announcement. "It is obvious to us and to all Americans that the legislative intent of Congress has been badly abused and the control of wages and prices made a mockery."[3] As Reuss told Treasury Secretary Shultz in July, "For the first time in 30 years of history, under the Nixon administration the shares of the national income accruing to the top 20 percent of American families has increased, while everybody else's share has gone down."[4]

The arrest by Washington, DC police of five burglars at the Democratic National Committee headquarters at the Watergate Hotel on June 17 diverted these plans. When the *Washington Post* reported August 1st that Kenneth Dahlberg, a Minneapolis businessman and Midwest Chairman of the Committee to Re-Elect the President (CREEP), signed a check deposited into one of the burglar's bank accounts, Reuss moved immediately to direct the House Banking and Currency Committee's investigations toward the break-in.[5] "Undoubtedly you have been following the strange revelations of the Watergate affair and the ever-growing number of Republican campaign checks which seem to be turning up in the pockets of those charged with the bugging of the Democratic headquarters," Reuss wrote to Patman August 17. "As more and more facts emerge, it appears that both US and foreign banking institutions were essential elements in the transactions." Both the 1970 Foreign Bank

[3] Meany to Patman, April 7, 1972 (unsigned carbon copy), Folder 48, Box 11, Legislative Department Files, AFL-CIO Archive University of Maryland, College Park.

[4] US House of Representatives, *Economic Stabilization* (GPO: 1971), p. 62; US Congress, Joint Economic Committee, *The Midyear Review of the Economy* (GPO: 1972), pp. 64-5.

[5] The US District Attorney had previously disclosed that Bernard Barker, one of the five burglars, had withdrawn $89,000 from a Miami bank in the month before the break in, and that bills from the withdrawal were found on the burglars. The Dahlberg cashiers check was additional $25,000 of a total five checks deposited into Barker's account. "Bug Suspect Got Campaign Funds," *Washington Post*, August 1, 1972, p. A1. "Barker-Hunt Links in Latin Deals Cited," *New York Times*, July 2, 1972, p. 28.

Secrecy Act and the Federal Reserve's capital-export restraint programs provided the Committee with "ample justification for investigation," Reuss explained.[6]

Though House Minority Leader Gerald Ford and the White House would defeat Patman's drive for the Banking and Currency Committee to grant itself subpoena powers, the converging lines of dissent against the administration would climax after the election in the investigations of the Special Select Committee, widespread disorder over rising food and energy prices, and the convulsive reaction in Congress to seize budgetary powers from the executive branch.[7] The House Democratic Steering and Policy Committee was the legislative vehicle for this anti-Nixon movement, the body in which the New Left social movements and the Democratic party's desire for oversight of the controls program merged during the 93rd and 94th Congresses. This legislative agenda included dramatic interventions into the nation's financial institutions and government economic-planning agencies, from Congressional directives to the Federal Reserve and the Home Loan Bank Board over the terms and allocation of credit, establishing a new government lending corporation or an Economic Planning Board, to amending the Employment Act to include statutory language on unemployment minimums.

What was the fate of these reforms? Most accounts of the economic history of the second half of the twentieth century emphasize the inflection point of Paul Volcker's

[6] Reuss to Patman, August 17, 1972, Folder 30, Box 54, Reuss Papers, University of Wisconsin-Milwaukee.

[7] Stanley Kutler, *The Wars of Watergate* (Knopf: 1990), pp. 226-234. US Senate, Select Committee on Presidential Campaign Activities, *Final Report* (GPO: 1974), pp. 73-4. Reuss, *When Government Was Good*, pp. 103-4. On Ford's role in the Banking and Currency Committee, see Folder "President – Wright Patman Investigation Background," Box 55, Philip Buchen Files, Gerald Ford Presidential Library.

appointment to the Federal Reserve in August 1979 as the pivotal decision in the transition from the "age of compression" of the New Deal order to the "great divergence" of incomes during the final decades of the twentieth century. But the most striking aspect of the history of inflation are the continuities in federal efforts to centralize control of monetary policy between the wage-price spirals of the late 1940s and those of the 1960s and 1970s.[8] Volcker's appointment coincided with a broader restructuring of the financial sector forced by the long era of rising prices, prefigured by William McChesney Martin's appointment in 1951, and furthered by the deregulation of the banking industry represented by the Depository Institutions Deregulation and Monetary Control Act of 1980. A single arc in the history of the US banking system sweeps through these periods, as non-monetary anti-inflation policy—private restraint and compulsory controls over the mediating firms, unions, and financial institutions of the US economy—confronted political dilemmas, compelling banking authorities and corporation executives to look to Washington to remove money, credit, and pricing from formal debate over social priorities.

This history continues past the era of inflation, through the turn of the century, as bank holding companies in the US absorbed state-chartered banks and insurance companies and grew into the global financial behemoths. In transportation, the deregulation of trucking, the elimination of the Civil Aeronautics Board, and the eventual repeal of the Interstate

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[8] See, for example, Judith Stein *Pivotal Decade: How the United States Traded Factories for Finance in the Seventies* (New Haven: Yale, 2010), W. Carl Bliven *Jimmy Carter's Economy* (Chapel Hill: University of North Carolina, 2002). See essays by William Leuchtenberg and Bruce Schulman in *The Carter Presidency: Policy Choices in the Post-New Deal Era*, eds Gary M. Fink and Hugh Davis Graham (University Press of Kansas, 1998). For the broader turn away from regulation and the embrace of Schumpeterian "creative destruction," see Theodore Rosenof, *Economics in the Long Run: New Deal Theorists & Their Legacies, 1933-1993* (Chapel Hill: University of North Carolina, 1997).

Commerce Commission opened markets for today's "logistics" firms of Walmart, Fedex, and Amazon. These industries have defined the contours of the political economy of the George W. Bush and Barack Obama presidencies.[9] The cycle of IMF-Treasury-Federal Reserve emergency lending that confronted nations of Latin America during the 1980s, East Asian during the 1990s, and Southern Europe in the 2010s represents the imposition of this political economy on the rest of the globe.

This dissertation has examined the development of economic thought by the US federal government during the three decades that followed World War II and its implementation as policy. What, then, explains the apparent reversal between the 94th Congress and the Volcker Shock of 1979? If there is a moment of contingency in the political history of the US economy after World War II, it lies in the recession and recovery of 1974-6. In the aftermath of the Nixon administration's stabilization policy and during Ford administration's bulwarking of corporation prerogatives, economic thought and policy in the US confronted fundamental interpretative problems. Was the persistence of high unemployment a result of low investment or low consumption? Was the appropriate response a tax increase or tax cut, and distributed in favor of which groups? What authority could government invoke to raise productivity, investment, or consumption?

Three years of radical Congressional opposition to the Nixon-Ford policies the mid-seventies recession grappled with these questions. A decisive intellectual shift occurred in the Democrat's commitment to a budget ceiling and rejection of controls. As Albert said during

[9] Nelson Lichtenstein, *Retail Revolution*. Shane Hamilton, *Trucking Country*.

Ford's Inflation Summit in September 1974, ""we are fully prepared to cooperate in such traditional Republican measures as curtailed spending and restrained monetary growth."[10] The acceptance of deficit limits that equated public borrowing with inflationary pressure forced the proposals of the 94th Congress into politically fraught competition with existing spending commitments. Caucus advisers divided themselves over the effectiveness of any program absent a third wage-price freeze and the reimposition of controls. The legislative cul-de-sac of the Ford presidency imperiled liberals' calls for wage restraint from organized labor, as their inability to trade legislation for wage stabilization left the unions little choice in the market place. And while efforts to expand formal planning machinery stalled, the movement to lower industry costs through "deregulation" of the industries under New Deal-era regulatory commissions gained decisive momentum.

Following the guidance of the Ford administration, the 95th and 96th Congresses set the nation on a path out of stagflation that sought to expand business investment through top-end tax cuts—intensifying the problem of excess manufacturing capacity without stabilizing prices. This solution presented its own problems. The politically apprehensive, but morally righteous, administration of James Earl Carter completed the fateful shift in the world of ideas, rejecting proposals for greater public control over the administration of prices and wages, and embracing the Democratic party's earlier acquiescence to a federal budget ceiling. Price competition—in foreign trade, but also in the regulated domestic industries of freight trucking, airlines, and energy—was to be the preferred method for restraining

[10] Speaker Statement, Folder 21, Box 61, Henry Reuss Papers, University of Wisconsin-Milwaukee.

incomes and raising productivity, removing decisions over the distribution of income and the composition of output from political view. That shift began earlier, during the Hubert Humphrey campaign of 1968, but would not emerge triumphant until the rhetorical and legislative defeats of the Ford years left no alternative.[11]

Believing payments deficits in the context of free capital and product markets jeopardized the global position of the dollar, to which they remained committed, Democrats and liberals in the US had few alternatives but the planned recession of 1979-80 and the tax incentives to business investment enacted by Congress in 1978. While the Volcker Shock was in this sense overdetermined by changing ideas earlier in the decade, the experience of the recession of 1979-1982 did have its own effect on what remained of labor-liberalism in the US. It fundamentally altered the concept of "economic planning" as it had existed within a liberal intellectual tradition dating at latest to the 1920s.[12] As the idea of economic planning faded with the upturn of 1983 and the re-election of Ronald Reagan, many erstwhile planners began to emphasize what they had come to call "industrial policy." During the 1980s, this continued to mean a form of federal investment planning. But unlike the ambiguous earlier calls for democratic economic planning, the purpose of the new "industrial policy" idea was explicitly to cultivate export and "sunrise" industries in the United States. Establishing ways

[11] Humphrey inflation report on de-regulation.

[12] For a handful of influential Marxists, such as Gar Alperovitz or Fred Block, the experience of the Reagan recession was shattering and dramatically reduced the scale of their political aspirations. Alperovitz's turn from national politics to localism and symbolism, or Block's theorizing of the "varieties of capitalism," for example, were moves in the recent political history of the United States equally momentous, in the absences they opened, as the successful careers of Charles Murray or James Buchanan. Marxists, however, will not be addressed in this chapter

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to channel public spending into pure research and product development, opening opportunities for new private investment, and consolidating firms in sectors with declining rates of return came to replace government ownership and worker-self management as driving ideals of the labor-liberal imagination. Transforming the state into an instrument for raising the "competitiveness" of American capital and labor within a global market emerged as a guiding principle of public policy.

The Democratic Agenda in 1974

The crux over the debate of stabilization policy before the Volcker Shock was the composition of full-employment demand. The question was whether a lack of investment or a lack of consumption was the cause of the persistent unemployment that had emerged during the recession of 1969-70. Never thereafter falling below 4 percent, and exploding with the recession of 1974-5, persistent unemployment dramatically altered the stabilization dilemma that accompanied the Vietnam War. The charge that the nation's stubborn unemployment emerged from inadequate consumption—the classic interpretation of the 1930s—was present throughout the Johnson administration. "I was never as enthusiastic as many of my fellow economists over

the tax reduction of last year," Galbraith told the Congress in early 1965. "There was danger that conservatives, once introduced to the delights of tax reduction, would like it too much. Tax reduction would then become a substitute for increased outlays on urgent social needs.

We would have a new and reactionary form of Keynesianism with which to contend."[13] Writing to Reuss in preparation for Congressional hearings on fiscal and monetary policy in February of 1967, JEC Director of Research James Knowles was puzzled by the CEA's judgement that unemployment would remain unchanged despite a projected federal budget deficit of $2 billion for the coming year that accounted for the President's requested income-tax surcharge. "[A]re we to understand that from this projection of a deficit, even after a substantial tax increase, that our economy is showing signs of the Marx-Hobson-Keynes over-saving or under-consumption characteristics such that we have to have a deficit in the Federal budget at high employment in order to overcome this over-saving phenomenon?," Knowles asked. "If this is the case, why shouldn't we revise the tax structure instead to reduce the private savings rate and balance the Federal budget? Couldn't this be done by reducing taxes on the lower end of the income scale and raising them on the higher end of the scale by plugging loopholes?"[14]

The perception that the nation's tax structure was unfair plagued the Nixon administration from its opening weeks. In January of 1969, outgoing Secretary of the Treasury Joseph Barr released a report demonstrating that 155 people with incomes over $200,000 and 21 millionaires had paid no income tax in 1967. Nixon's 1971 Revenue Act restored the 7-percent investment credit, renamed the Job Development Investment Credit, expanding to include a 4-percent credit for public utility corporations, in addition to

[13] US Congress, Joint Economic Committee, *The January 1965 Economic Report of the President*, Part 2 (GPO: 1965), p. 13.

[14] James Knowles to Henry Reuss, February 1, 1967, Folder 13, Box 47, Henry Reuss Papers, University of Wisconsin-Milwaukee.

establishing export-oriented Domestic International Sales Corporations (DISC) earning federal subsidies. Opposing the administration, Congressional Democrats charged that such business tax reductions unfairly burdened lower earners and simultaneously prevented full employment. "Corporate income tax as a percent of total federal revenue has declined since 1960," Reuss said in a debate with former Treasury Undersecretary Charls Walker at the American Enterprise Institute in August 1973. "It was 23 percent in 1960, 20 percent in 1969, and is estimated at 15 percent in 1973." In the same period, real corporate profits, including capital consumption allowances, had remained a constant 14 percent of GDP. "Does our present tax system make jobs?," Reuss asked. "Just the contrary, in many respects, these loopholes fracture American jobs." Reuss cited both the non-taxation of foreign profits, which encouraged investment abroad at the expense of domestic employment, as well as the domestic employment effects of the distribution of income. Citing the growth of the share of national income claimed by the top 5 percent of earners, Reuss argued that "unless we have a federal tax system which is fair and progressive, which redresses this imbalance, we're gonna make the gloomy prediction of Karl Marx one hundred years ago come true." That prediction, he argued in with more recent terminology, was that "the private enterprise system will run out of effective demand, and consumers won't be able to take the product off the marketplace, and you're headed for a depression." Because he did not "want to have Marx's prophecy come true," Reuss argued the nation must "plug these loopholes now before our income shares get further out of whack."[15]

[15] Allen J. Matusow, *Nixon's Economy: Booms, Busts, Dollars, and Votes* (University Press of Kansas, 1998), pp. 42-3. Folder 10 "American Enterprise Institute Speech, 1973," Box 62, Henry Reuss Papers,

As high unemployment persisted after the 1972 election, tax reform took on new urgency in response to the Nixon administration's impoundment of federal funds in the anti-inflation austerity drive of 1973. Reuss and liberal Republican Jacob Javits led the cause of tax reform in the 93rd Congress by proposing legislation to end the corporation investment credit, accelerated depreciation, and raising the minimum tax, while Northern liberals continued to press for ending the oil depletion allowance, preferences for hobby farms, and other favorable tax treatment on businesses.[16] The administration drew opposite conclusions from persistently high unemployment, however. Slack, they argued, was evidence for the need of greater tax reduction on business. "What we really need is to ask whether our system is biased against investment in favor of consumption," Charls Walker told Reuss in 1973. "I think it is." Such a bias threatened the nation's long-term economic health, Walker reasoned, since "productive investment is the mainspring in creating new jobs, raising the standard of living of the working man, containing inflation, and maintaining and sharpening U.S. competitiveness in world markets." After price controls expired in April 1974, disencumbering firms from reporting price increases that followed the wage increases of 1973 and the autumn oil embargo, Gerald Ford, newly installed in the Oval Office, considered an across-the-board income-tax increase the cornerstone of his administration's anti-inflation program. The proposed 5-percent surcharge on individuals and corporations would be offset by increasing the corporation investment credit from 7 to 10 percent.

University of Wisconsin-Milwaukee. American Enterprise Institute, Rational Debate Series, "Major Tax Reform: Urgent Necessity or Not?," August 1973. Recording online at https://www.youtube.com/watch?v=zSrXbISoHiE.

[16] Box 62, Folder 9, Reuss Papers.

Accounting for the investment credit, the administration projected corporations would experience a net tax decrease. House Majority leader O'Neill considered the proposals "extremely unfair," while Reuss described them as a "rip-off of the middle class."[17]

Democratic party advisers considered redistribution of the tax burden after the 1972 election crucial for stabilization for two reasons. The first was the composition of demand, what Leon Keyserling referred to as the need to achieve "a higher rate of growth in ultimate demand in the form of consumer spending or consumer spending plus public outlays." As Reuss put the challenge of stabilization policy in the era of stagflation, the question was "how we spend our money rather than by how much we spend."[18] The second reason Democratic advisers considered tax policy central to stabilization during the 1974 recession was the need for what Reuss called a "new social contract." This referred to the need to stabilize wage negotiations. As Associate Director of the Cost of Living Council Don Conlan said in April 1974, "The big question mark in the period immediately ahead, of course, is the behavior of wages."[19]

In the absence of a national wage policy, and with the Nixon administration's price control regime having antagonized workers for three years, rising wages threatened to continue to push up production costs and prices. Government tax relief to workers represented one device to attempt to reduce wage demands, bringing fiscal policy into the

[17] Miezckowski, pp. 122-3.

[18] May 17, 1974 (62/27) Reuss to California Bankers Association. Reuss here referred to increasing federal funds for savings and loans through the HLBB and through the discount window at FRB, rather than direct consumer incomes.

[19] Don Conlan, "We Still Need a Cost of Living Council," *Challenge*, July/August 1974, p .15. Reprinted remarks to the New York Association of Business Economists on April 15, 1974.

broader social negotiation over labor income. As Reuss told the national Chamber of Commerce in April 1974, "To fight inflation, government must make a social contract with its people, particularly the two-thirds who have lost out in the struggle, which would look to more moderation in wage increases." Such a social contract would entail a commitment that "unemployment will not be allowed to increase," that taxes would decrease for low-income workers, to advanced planning in food and fuel, and to channel credit from export industries to mass transit and housing. "With the government making a good faith effort to reduce unemployment, repair the after-tax position of modest income families, increase supplies, blunt inflation where possible through subsidies," Reuss reasoned, "wage earners will be more likely to moderate their wage increase requests and avert a wage-price spiral."[20] As he wrote to President Ford just after his inauguration, "I urge you sit down with George Meany, who has already volunteered his cooperation, with I.W. Abel, Leonard Woodcock, Arnold Miller and other labor leaders, to propose to them a social contract, to secure their agreement to work for responsible wage increases."[21]

The outlines of such a program had come into view during the debate over renewal of price control authority in the spring and summer of 1974. On June 18, Leon Keyserling spoke to the members of the Steering and Policy Committee about the composition of demand in coming anti-recession legislation. Writing to Reuss, Keyserling reiterated that while no economist would deny the importance of stimulating business investment in plant and equipment as the path to full employment, in the absence of "ultimate demand" such

[20] June 2, 1974, Reuss calls for "new social contract." (Box 62 Folder 27)
[21] August 11, 1974. Reuss to Ford. (62/27)

capital investment left businesses with inadequate markets and contributed to the decline in capital investment and the later growth of unemployment. "Especially during 1960-1966, both GNP and ultimate demand grew enormously more slowly than investment in plant and equipment," Keyserling wrote. "These imbalances were created or aggravated by income imbalances, for example comparing corporate profits with wages and salaries and labor income." Even with the slowdown in investment spending between 1969 and 1973, business purchases of plant and equipment "continued to grow more rapidly than private consumer spending and Government outlays combined, and I view this as one of the reasons why the economy has been in trouble ever since."[22]

Keyserling's letter is worth quoting in full for its evidence of the maturation of what Collins calls "growth liberalism" and the ways in which it had fractured between the eras of Truman and Ford:

> "Whenever the economy has required stimulus in the past as it does now, economists, financial analysts, business and labor, and others have divided between those who urge direct stimulus of plant and equipment and direct stimulus of ultimate demand…. I have begun by looking at the periods of upturn or 'boom,' for it is during these periods that the imbalances or misallocations of resources have occurred which have explained the subsequent periods of stagnation and recession. This has now happened five times since 1953, and I am convinced that the fundamental process has always been the same.
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> "During the periods of upturn or 'boom,' with all measurements in real terms, the rate of growth in the investment in plant and equipment which increases our ability to produce has grown very

[22] Keyserling to Reuss, August 5, 1974, Folder 27, Box 62, Henry Reuss papers, University of Wisconsin-Milwaukee.

much faster than ultimate demand in the form of consumer spending and public outlays combined. When the imbalances thus created have become large enough, investment has been cut back sharply; and this, combined with the larger and more enduring deficiencies in ultimate demand, have brought on the periods of stagnation and recession.

"If the cutbacks in investment in plant and equipment were occasioned by inadequate prices and inadequate profits per unit, they would be cause for tax concessions to investors or other measures to reactivate such investment. But this has never been the case. Even when the cutbacks in investment have occurred, prices and profits per unit have been high enough or even too high. If total profits have been too low to stimulate adequate investment, it has been rather because of inadequate volume, calling for the remedy of more stimulus to ultimate demand. Besides, the inadequacy of investment has generally not been due to inadequate profits and other available funds, but rather to the dissuading force of inadequate ultimate demand, current and foreseeable….

"Despite all this, whenever national policy has taken large steps to stimulate the economy, an undue portion of the stimulation has been in the form of direct tax benefits to business investment. The most massive example of this was the tax reductions of 1964, which I forecast would stimulate the economy for a while but then move us in the opposite direction because of the imbalances they aggravated. My forecast was correct. During 1966-1970, the real average annual growth rate was less than 2.5 percent. The same mistakes were made, with the same results, in later tax reduction programs. We should not make the same mistakes again."[23]

On June 27, House Speaker Carl Albert convened a panel of economic experts to advise the Steering and Policy Committee on its legislative agenda for the coming months. Otto Eckstein, Walter Heller, Leon Keyserling, Arthur Okun, Paul Samuelson, Charles Shultze and James Tobin—all former members or consultants to the CEA under Democratic

[23] *Ibid.*

party presidents—explained to the Steering and Policy Committee that there were "no quick solutions to the present inflation." The price structure would rise to match the rising costs of wages and raw materials. "To help undo the decline in real earnings and reduce the need for extraordinary catchup wage settlements," the group wrote, "the Congress should enact a balanced tax reform package" before the end of the year to benefit "low and moderate income families [who] have suffered most from the higher food and energy prices and should be given tax relief." Relief should take the form of reducing the rate structure of employee payroll taxes, increasing the standard deduction and low-income allowance, and possibly changing the standard deduction to a credit. These personal income tax reductions should be tied to "full offset" or near full offset tax increases on higher incomes, including increasing the minimum tax, "tougher treatment" of foreign oil producers and hobby farms, "abolition of DISCs," taxation of capital gains at death and reform of estate and gift taxes, and incentives to states and localities to issue taxable bonds "instead of the tax exempts that are a major loophole for the very rich." Referring to the Budget Reform Act of 1974—establishing the Congressional Budget Office—the economists "urge[d]" the Congress to use the "new system" to set national priorities and "set long-term revenue and expenditure goals." "For the first time, the Congress has the ability to control the budget," the group advised, to plan "tax and expenditure decisions in the context of overall fiscal policy goals."[24] As Keyserling wrote to Reuss, this consensus among Democratic party advisers marked a departure from

[24] "Statement on the Economy and Policy" of Economists Panel, members Otto Eckstein, John Kenneth Galbraith, Walter Heller, Leon Keyserling, Robert Lekachman, Arthur M. Okun, Paul A. Samuelson, Charles L. Shultze, and James Tobin, Folder 21, Box 61, Henry Reuss Papers, University of Wisconsin-Milwaukee. Galbraith and Lekachman declined to sign this statement and issued an independent explanation.

the thinking of the 1970s. "It is interesting that, as of our June 18, 1974 DSPC meeting, Tobin and others agreed to the direct stimulation of consumption, not investment. *They have learned something*."[25]

Consensus on the imperative of redistribution for stabilization did mask one fundamental disagreements among the advisers to the Steering and Policy Committee. Dissenting from the June recommendations, John Kenneth Galbraith and Robert Lekachman wrote to the House members explaining that inflation was the nation's primary malady, and that all government effort should be directed immediately toward freezing wages and prices and raising taxes on top incomes to stabilize prices. "With regret, for we respect the careful efforts of those participating, we are refraining from signing the Report on Inflation for the Democratic Steering and Policy Committee," they wrote.

> "The United States is suffering from the worst inflation since World War I. We were asked for remedies….[The Report on Inflation] proposes a highly justifiable redistribution of the tax burden but no additional tax restraint. It expresses oblique concern about military spending but makes no firm recommendations for a reduction. It is feeble on the subject of wage and price policy—a dialogue but no controls. If the government cannot use fiscal policy, cannot use monetary policy, cannot use controls, the reader will ask what's left. The answer, alas, is nothing. Or, at most, there are prayer and hopeful prediction, both of which the Administration has already exploited to the full."[26]

The two economists disagreed with their peers on the importance of using tax policy to expand lower incomes. The path to stabilization, they argued, should be in raising the total

[25]Keyserling to Reuss, August 5, 1974, Folder 27, Box 62, Henry Reuss papers, University of Wisconsin-Milwaukee.

[26] Galbraith and Lekachman to Reuss, Folder 21, Box 61, Henry Reuss Papers, University of Wisconsin-Milwaukee, supra n20.

tax burden through a "stiff surtax on upper incomes—say, above $15,000 or $20,000," and pairing this with a "solid increase in the corporate income tax" and in excise taxes on large automobiles, air conditioners, and "other heavy users of energy or scarce material for luxury purposes." Any tax reduction, "however meritorious, must be postponed until inflation is under control." Taxes on such big incomes and high-dollar purchases, they argued, "reaches an appreciable share of spending without unsettling the wage bargain." While private incomes should not expand due to tax relief, government spending should replace labor income lost to the decline in private investment. They recommended "an adequate fund for direct employment in useful civic tasks for those who cannot find jobs. Such directly financed employment is in place of general macroeconomic action to stimulate the economy with its consequent and unacceptable inflationary effect." Neither Lekachman nor Galbraith related the federal deficit directly to rising prices, but rather to its effect on private investment and consumption. Expanding the public sector to stabilize labor income would help to restrain wage increases and cushion the public from the withdrawal of business spending brought on by price control and increased taxes on high earners.[27]

Most controversially, Galbraith and Lekachman argued that prices would have to return to compulsory control. During Congressional debate over reauthorization of controls in March and April of 1974, this opinion aired widely. "I think it has become increasingly clear that today there is more to the problem of economic stabilization than the general tools

[27] *Ibid.*

of monetary and fiscal policy can encompass," argued Conlan of the COLC staff.[28] Hobart Rowen of the *Washington Post* described "the residual monitoring apparatus" that would follow such decontrol as capable of providing "only toothless jawboning" that would sunder any stabilization program. Compulsory price ceilings were necessary, Rowen argued. "The 'free market' notion that the administration has been peddling for the past five years is a myth" because "there is no free market in international relationships, when an Arab oil cartel controls the price of oil—and there is no effective retort to the monopoly. There is no truly free market at home, where the monopoly power of big business and big labor override what would be the real operation of supply-and-demand factors…. Thus, the proposition that the nation should be thrown on the mercies of the 'free market' at a time when the administration itself admits that prices have gone too high and will move even higher; at a time when we face critical shortages of materials that threaten to disrupt economic activity is manifestly absurd."[29] As Galbraith and Lekachman wrote to House Democratic leaders, "in the modern, highly organized economy, there must be firm, fair, and strongly administered wage and price controls [for stabilization]. This is not a matter of preference but of simple necessity. Policy on controls cannot be tailored to the fecklessness and incompetence of the Administration."[30]

[28] Don Conlan, "We Still Need a Cost of Living Council," *Challenge*, July/August 1974, p .15. Reprinted remarks to the New York Association of Business Economists on April 15, 1974.

[29] "End to Wage-Price Controls Triumph of Nixon Ideology," *Washington Post*, February 10, 1974, p. G1.

[30] Galbraith and Lekachman to Reuss, Folder 21, Box 61, Henry Reuss Papers, University of Wisconsin-Milwaukee.

Scholarly opinion then held that controls would necessarily evolve into broader "incomes policies" lest the inflation extinguish itself in crisis and depression.[31] "In the United States, one speaks of 'controls,' while in Europe we tend to speak of 'incomes policies,'" explained Derek Robinson, deputy chairman of the British Pay Board. The difference was not only that "controls" entailed the ideological assumption that privately determined wages and prices were "free" or efficient, but that "'incomes policy'…indicates a broader-based set of measures" that "may require restraint in money wage increases, and thus in collective bargaining, and which provide some desirable social reforms or measures which the parties to collective bargaining might themselves wish to see implemented."[32] As Gardner Ackley wrote, because incomes policies aimed to reduce rising prices by restraining the total sum of income claims to the real output of goods and services at current prices, they were inseparable from normative or political decisions about the "appropriate distribution of aggregate income." In negotiating wages and the shares of income, it was "almost impossible to escape questions as to the appropriate distribution of aggregate income: as among wages, profits, farm and professional and interest incomes, and managerial compensation—and, within wage income—the appropriate differentials among various skills, occupations, industries, and regions. This distribution is only in part affected by the standards set in a wage and price policy; but it is also significantly affected by the Government's tax,

[31] Hobart Rowen, for example, would write in late 1975 that "If the 'Government in Exile' at the Brookings Institution is right, you had better get prepared for a new dose of wage-price controls, known in the jargon of economists as incomes policies." Rowen, "New Round of Wage-Price Controls Seen," *Washington Post*, November 28, 1975, p. B15.

[32] Derek Robinson, "Wage-Price Controls and Incomes Policies," *Monthly Labor Review*, March 1974, pp. 34-9.

regulatory, tariff, agricultural, minimum wage, social security, manpower, and other policies." Without an open and formal political debate over the distribution of income, Ackley argued, attempts to restrain the private pricing and wage-setting power of the organized economy was doomed.

> "Many believe that the "consent" of the great economic interest groups—which, in the long run, is the only possible basis for a successful system of inflation control—can only be secured and maintained if the system of wage- price restraints is coordinated with the other tools of government policy in order quite consciously to promote a progressive redistribution of income in specific directions which society approves. Indeed, to the extent that the source of existing inflationary pressure lies in a fundamental dissatisfaction with the existing income distribution on the part of one or more powerful groups, while other groups resist any significant change in that distribution, there can probably be no real 'consent' to an incomes policy unless that policy is directed not only toward the total of incomes but as well to their relative size. Others fear that mixing up such questions with the control of inflation simply guarantees the failure of an incomes policy. An explicit policy on income shares might be avoided at the beginning of an incomes policy. But I suspect that sooner or later it cannot be escaped."[33]

Arnold Weber, arguing for continuation of controls, thought that "wage-price policies should be viewed as an instrument that can be applied selectively in particular…situations," and that the "selective approach…would relieve the sense of inequity arising from the inability to afford even-handed treatment of labor and business within a global [i.e. national] framework." While certain firms or unions would feel advantaged or disadvantaged, "as a tactical and political matter, it is easier to deal with special interests than class interests."

[33] Gardner Ackley, "An Incomes Policy for the 1970s," *The Review of Economics and Statistics*, August 1972, pp. 218-223.

Agreement on the continuation of such controls, selective or otherwise, he implied, would satisfy the basic class interests: both labor and industry should recognize the mutual benefit in disciplining their constituent organizations. “The task of developing a framework for selective wage-price policies and implementing them in specific cases should be given to a permanent Wage-Price Commission,” Weber concluded.[34] Galbraith had said as much throughout the previous two decades. Defending his claim on national television in 1970 before the Nixon program, he argued that “There's no reason to suppose that we've reached the end of the road in economics; there's still work to be done.”[35]

The question of control authority divided both Democrats and Republicans, liberals and conservatives. George Shultz and John Dunlop, appointed director of the Cost of Living Council in January 1973, spoke before Congress advising the lapse of controls authority on the grounds that international market forces were driving rising prices—forces that domestic price control could do little to stem.[36] Domestic producers must be exposed to international demand and competition lest shortages persist. Because so much of the recent inflation was concentrated in global commodities markets, rather than in wages and services as during the Johnson and early Nixon administrations, many opponents of federal price control argued price ceilings were exacerbating shortages. “[T]he weight of the evidence is against the idea that firms in relatively concentrated industries (e.g., steel, autos, rubber) have higher-than-average price increases during a period of inflation,” Shutlz later wrote. “Whatever the merits

[34] Arnold Weber, “Wage-Price Plan Needs Selectivity,” *Washington Post*, November 10, 1974, p. M1.

[35] The Advocates, WGBH, “Should the Government Adopt Long-Term Wage and Price Controls for Selected Unions and Industries?” accessed online https://www.youtube.com/watch?v=4J_t-sddizg.

[36] House Banking and Currency Committee testimonies.

of the arguments for and against the administered-price view, the facts of life during most of the recent controls period differed from assumptions of the large-unit theory."[37] This was a dramatic departure from thinking about export markets during the Truman administration, when the Marshall Plan was tied to export controls to insulate domestic prices.

But more than this economic argument about the appropriateness of bringing administered prices under public scrutiny during the global commodities boom, intellectual apprehension about continuing authority for price control was rooted in skepticism about the possibility of political agreement over the continued administration of any formal public controls. That taming inflation required nothing less was widely apparent by the summer and fall of 1974, when wages, unleashed from guidelines, were rising under a wave of strikes that began the previous year. As *New York Times* columnist Leonard Silk wrote, "Stopping inflation is not technical, but *political* in the large, systemic sense." "I see inflation as essentially a political, not an economic problem," wrote Alan Greenspan (just months before Ford would appoint him chairman of the CEA). Some considered the limitations of formal political agreements a disadvantage to active government. Speaking at a Brookings Institution conference during autumn 1974, former Budget Director Charles Shultze thought the "more you set standards down in law, the more you have it codified, the less flexible can you be and the more difficult it is to concentrate on those industries and those situations that really make a difference."[38] Others thought formal political control in an economy as divided as that of the US would undermine democratic authority. "You can never get a consensus of

[37] George P. Shultz and Kenneth Dam, *Economic Policy Behind the Headlines*, pp. 76-7.
[38] Schultze in *Exhortation and Controls,* ed Craufurd Goodwin (Brookings: 1975), pp. 392.

labor and management people on the notion of the [guideline] number," said Dunlop. "So either you have to have your number imposed by somebody or a consensus."[39] Former CEA member Robert Solow was "convinced that the only tripartite concept that works is chocolate, vanilla, and strawberry"—organized labor and management would never function cooperatively.[40] Weber conceded that "Each instance of differential treatment comes to be viewed as evidence of class oppression rather than as an effort to deal with economic power or market deficiencies in particular cases."[41] Otto Eckstein described the effect of the new post-Watergate mood on the New Deal legacy most palpably when he argued that "wage-price control or indeed activist wage-price policies bring out what is most wrong with out political system as represented by the Federal Government, to the extend that it is controlled by outside interests, to the extend that the Congress is not a strong leader, to the extend that the Presidents have very short-sighted goals, to the extent that they do pick up staffs overnight; and in many other regards, all of that is highlighted by the process of attempting to have controls."[42] In such a divided community, many liberals thought formal political controls would allegedly threaten the consensual or democratic character of public authority. Whereas Chester Bowles or Gardner Ackley had seen in the project of continuing full employment a challenge to reform the behavior of large business managements, Eckstein and Solow saw in such conflict or prices a programmatic *cul de sac*, the overcoming of which

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[39] Dunlop in *Exhortation and Controls,* ed. Goodwin, pp. 393.
[40] Solow in *Exhortation and Controls,* ed. Goodwin, pp. p. 391.
[41] Weber, "Selectivity Needed," *Washington Post*, November 10, 1974, p. M1.
[42] Eckstein in *Exhortation and Controls,* ed. Goodwin, p. 397-8.

seemed an impossible task. In shrinking from the challenge, they opened a new path towards stabilization.

Planning: Prices, Wages, Sectors, and Money

Should something as fundamental as the structure of the national economy by subject to the discretion of politicians and political appointees? While the expiration of Defense Production Act controls authority on April 30, 1974 appeared to consign the Glabraith-Lekachman perspective to the legislative dustbin, the continuation of rising prices through the recession of 1974-5 and the Democratic party landslides in the November midterms compelled a continued engagement in the Congress with the issue of central controls on prices and allocations. This sentiment would find its way to the floor of the Congress in May 1975 in the form of the S.1795, the Balanced Growth and Economic Planning Act introduced by Senators Hubert Humphrey and Jacob Javits. Though the bill did not advance to conference committee, its introduction in the Senate sparked a wider debate about the appropriate responsibilities of public authority in the American economy.[43]

As historians such Judith Stein, and Patrick Andelic have shown, the debate over national economic planning in the 94th Congress marked a potential departure from the

[43] "Political Economy: Better Image," *New York Times*, December 3, 1975, p. 69; Wassily Leontief, "For a National Economic Planning Board," *New York Times*, March 14, 1974, p. L37; John Kenneth Galbraith, Henry Wallich, Melville J. Ulmer and Murray Wiedenbaum, "The Case for and Against National Economic Planning," and Walter Heller, Charls Walker, Robert S. Browne, Gar Alperovitz and Jeff Faux, "Can We Have Full Employment Without Inflation?," *Challenge*, Vol. 19, No. 1 (March/April 1976), pp. 30-8 and pp. 59-63; "A Planned Economy in the US?," *New York Times*, May 18, 1975, p. F1; Graufurd D. Goowdwin, Edwin T. Haeflee, James D. Head, Walt W. Rostow, Gerald Sirkin, and Herber Stein, *National Economic Planning* (Chamber of Commerce of the United States: 1976).

political drift away from the New Deal legacy during the Ford and Carter administrations.[44] The law proposed to establish an Office of National Economic Planning that would survey the capacity constraints, resources usage, and final demand of the various sectors that comprised the national economy, issuing an annual report to the Congress with potential alternatives for federal policy. As Craufurd Goodwin wrote, "In general, [the law] can be regarded as one of the latest and perhaps the last product of New Deal thought." Intellectually, it represented an effort to return institutions to the study of the national economy, which under the influence of Keynesian thinking had, since the late 1940s and increasingly during the 1960s, become increasingly focused on highly abstract models of aggregate behavior across industries. "In economic science the perfection of 'macro-economici' theory and policy by the mid 1940s seemed to reduce the need for radical reform at the micro-economic level implicit in earlier planning proposals," Goodwin explained. "It is only quite recently, since several old problems, especially inflation, have appeared to be intractable with 'Keynesian planning' alone, that micro-economic planning has once again attracted widespread attention." As Walt Rostow argued, "a sectoral approach to investment and output clashes directly with the reigning modes of economic thought…. They drive us towards highly aggregated concepts focused almost exclusively on the level of effective

[44] Judith Stein, *Pivotal Decade* (Yale: 2010), pp. 118-122. Patrick Andelic, "'The Old Economic Rules No Longer Apply': The National Planning Idea and the Humphrey-Hawkins Full Employment Act, 1974-1978," *Journal of Policy History* (January 2019). Tim Barker, *Apostle of Planning: Wassily Leontief in War and Peace*, August 30, 2016, unpublished paper.

demand which make it difficult to think systematically about our structural problems of supply."[45]

Prevailing interpretation of the Ford and Carter years hold that such proposals as the Humphrey-Javits bill and the Humphrey-Hawkins Full Employment and Balance Growth Act, ultimately passed in 1978, represent the eclipsing impulses of liberal reform, New Deal thought, or the American class struggle. Yet an examination of the way the politics of incomes policies played out in the US demonstrates greater continuity than discontinuity between the planning debate of the Ford administration and the dénouement of inflation during the 1980s. The hearings in June and November of 1975 the Joint Economic Committee held on the Humphrey-Javits proposal were but one of a series of Congressional investigations into the inner structure of the American economy. In February and March, Senator Edward Kennedy chaired eight days of hearings in the Senate Judiciary Committee's Subcommittee on Administrative Practice and Procedure on the rate-making practices of the Civil Aeronautics Board.[46] As Carter CEA Chairman Charles Shultze later admitted, the Democratic party administration "fell heir" to the Kennedy committee's findings, which laid the groundwork for Carter's own domestic agenda.[47] In the House, the Steering and Policy Committee and the broader flood of anti-Nixon sentiment would channel this energy in Congressional debate over the Federal Reserve. And, as Meg Jacobs has shown, the greatest

[45] Goowdin, et al, *National Economic Planning*, pp. 25, 27-8, and 34, supra n39.

[46] Yanek Mieczkowski, *Gerald Ford and the Challenge of the 1970s* (University of Kentucky: 2005), pp. 185-7. Thomas K. McCraw, *Prophets of Regulation* (Belknap: 1984), pp. 266-8. Laura Kalman, *Right Star Rising* (W.W. Norton: 2010), pp. 240-1. Daniel Rodgers, *Age of Fracture* (Belknap: 2011), pp. 61-2.

[47] W. Carl Bliven, *Jimmy Carter's Economy* (University of North Carolina Press: 2002), p. 219.

source of costs pressures, the petroleum industry, came to symbolize the entire panoply of federal commissions and boards that had grown up since the New Deal to structure the politically organized economy. In each instance, the introduction of competition as anti-inflation policy was rooted in a sectoral analysis reflective of the planning debate.

In February and May 1975, Henry Reuss and Wright Patman held hearings in the House Banking and Currency Committee on legislation "to lower interest rates and allocate credit" and "to maximize the availability of credit for national priority uses."[48] In August, Walter Mondale introduced parallel legislation in the Senate.[49] The House credit hearings grew out of the battle over the effects of the Federal Reserve's use of monetary contraction as anti-inflationary policy device after 1965. As previous chapters demonstrate, the turn to fiscal-monetary restraint during the late Johnson and Nixon years had little effect in depressing the wage-price spiral because corporations easily passed on higher borrowing costs in higher prices and banks rationed credit according to established business relationships. "The large, powerful corporate borrower is still able to meet his credit needs," declared the economists' Report on Inflation to the Steering and Policy Committee. "If an excessive expansion of bank loans is the central problem, the Federal Reserve should impose limits on bank loans as numerous other countries have done. It should also restrain the

[48] US Congress, House of Representatives, Committee on Banking and Currency, Subcommittee on Domestic Monetary Policy, *An Act to Lower Interest Rates and Allocate Credit,* HR 212 (GPO: 1975). US Congress, House of Representatives, Committee on Banking and Currency, *To Maximize the Availability of Credit for National Priority Uses*, HR 6676 (GPO: 1975).

[49] Reuss office notes, Box 61, Folder 19, Reuss Papers.

unsound use of credit to finance speculative inventories, enterprise acquisition, and foreign exchange speculation."[50]

Arthur Burns had constricted credit generally during the 1969-70 and 1973 periods, prompting the Congress to urge protections for small business and construction firms to guarantee financing in periods when corporate investment continued despite high interest rates. In July 1974, Reuss renewed earlier attempts at establishing federal credit allocations by proposing legislation to compel the Federal Reserve to monitor the uses of credit and establish differential reserve requirements for different asset classes in member banks. A higher reserve requirement on corporate debt, for example, would restrict the extension of credit for mergers or speculative inventory accumulation. "I think it is a good proposal," James Tobin wrote to Reuss, "although I would not be as sanguine as you are about it. It is not easy to specify priority uses or to keep priority borrowing from being used for non-priority purposes." When Reuss solicited Chairman Burns's opinion on his proposed law, the difficulty of Congress attempting to regulate the use of credit through the instruments of a hostile Federal Reserve became painfully apparent. "We recognize that monetary policy can have a differential impact on particular types of credit flows and, accordingly, that there is a continuing need to explore ways to minimize unwanted selective effects of general monetary restraint," Burns admitted. "The Board believes, however, that it would be inappropriate to grant the central bank discretionary power to allocate credit according to its judgment of national priority needs. The determination of national priority needs—that is, whether more

[50] "Statement on the Economy and Policy" of Economists Panel, Folder 21, Box 61, Henry Reuss Papers, University of Wisconsin-Milwaukee, supra n20.

or less credit should flow to housing, small business, agriculture, and so on—is highly important in a democracy, but it is unwise for a central bank to become involved in such questions….” Supplemental reserves and credits would drive down yields for banks, Burns argued. Equally difficult was the administrative burden for banks to report their loans. As Tobin warned Reuss, “I believe the main allocation problem with bank credit is the reciprocal relationship of banks and their favorite business customers, whereby preferential loan accommodation in times of tight money is given to established depositor-customers.”[51]

In response to President Ford’s announcement of an inflation summit in late September, House Speaker Carl Albert declared that “We must establish a system with clear ground rules for channeling the limited supply of credit away from inflationary uses, such as real estate speculation, conglomerate mergers, and commodity buildups.” Speaking on behalf of the party, Albert urged that the nation’s banks should be made to direct lending “toward interest-sensitive essential needs such as productive capital investment, low- and middle-income housing, small business and farms, public utilities, and state and local governments.”[52] Enumerating the “Democratic legislative program” in December, Reuss called for “credit allocation,” arguing that such a program “is needed to channel credit away from speculation and inflationary uses—ranging from conglomerate take-overs to gambling in foreign exchange or gold—and toward vital credit-starved areas, such as housing, small

[51] Burns to Reuss on HR15709, July 29, 1974, Box 62, Folder 41, Henry Reuss Papers, University of Wisconsin-Milwaukee. James Tobin to Henry Reuss, July 29, 1974, Box 61, Folder 19, Henry Reuss Papers, University of Wisconsin-Milwaukee.

[52] Henry Reuss to Carl Albert, “Economic Summit Statement,” September 12, 1974, Inflation Conference, Reuss statement. Box 61, Folder 21, Henry Reuss Papers, University of Wisconsin-Milwaukee.

business, agriculture, State and local governments, and productive capital investment." Reflecting the broader awareness of the racial effects of public austerity since the final years of the Great Society, Reuss called for "an affirmative action target for better credit allocation by July 1, 1975."[53]

In September, in response to Democratic party pressures, the Federal Reserve announced its own voluntary credit-use reporting program.[54] On October 11, 1974, at the direction of Wright Patman, John Stark of the JEC staff began to solicit information on lending patterns from the nation's major banks, requesting the distribution of total lending between "(1) purely financial activities, such as acquisition of the purchase of a company's own shares; (2) loans for speculative purchases, such as purchasing securities or commodities other than in the ordinary course of business, excessive inventory speculation, or investing in land without well-defined plans for its useful development, (3) loans to foreigners which divert loan funds from United States customers," and categories targeted for expansion, such as "(1) normal operations of established business consumers, to assure production and distribution of goods and services; (2) home-building; (3) capital investment to improve productivity or to increase capacity… (4) consumer credit to finance the basic requirements of individuals for household needs…" Patman requested banks provide the percentage of lending in each of these seven categories, the "targe percentages" among the categories

[53] Henry S. Reuss, "A Democratic Legislative Program," December 18, 1974, Henry Reuss Papers, Box 61, Folder 21, University of Wisconsin-Milwaukee.

[54] Patman to Joint Economic Committee members, October 11, 1974; Federal Reserve Board press release, September 16, 1974, Folder 19, Box 61, Henry Reuss Papers, University of Wisconsin-Milwaukee.

guiding loan operations, and banks' "[p]rogress in meeting your target percentages as of November 1, 1974, and all subsequent first-of-months through July 1, 1975."[55]

Many banks were unwilling to divulge information on lending patterns to the JEC. "[W]e are unable to comply with the request for portfolio information…on the basis that the information s not available to us," wrote the assistant to the President of one central New York Bank. "Historically, as a 400 million dollar branch bank, we have lacked the resources to develop a sophisticated management information system." Several banks requested extensions and promised to forward information as soon as they could make it available. Others questioned the usefulness of the information or declined to respond on the grounds that they were not members of the Federal Reserve system. "Obviously, we realize that it is not your intention to place a burden of unnecessary reports upon the banks and, therefore, respectfully wonder whether they might be discontinued," wrote the Liberty National Bank and Trust Company of Buffalo. "[W]e regret that the files and records we maintain for our loan and investment portfolios do not classify our loans and investments on the basis of the criteria of the Federal Reserve Board program," wrote the senior executive vice president of the Republic Bank of New York, who declined to respond on the grounds that "This would entail a very great expenditure of time and expense on our part." "For us to furnish this information to you would require untold numbers of hours of tedious detail and the reprogramming of computer equipment at considerable expense," explained the First Security Bank of Idaho. Another argued that "It is our bank policy that the dissemination of

[55] Patman to Joint Economic Committee members, October 11, 1974, Folder 19, Box 61, Henry Reuss Papers.

information be limited strictly to the regulatory agencies who are empowered to examine our bank." A Wells Fargo vice president wrote to Reuss that "we would be unable to respond inasmuch as this information is not readily available from our computer system as it is presently constituted. To modify our computer system would require a great expenditure of time and money."[56]

From Opposition to Acquiescence

Thus, when the inflationary stagnation gave way to unambiguous recession in late 1974, the Democratic party leadership had a rough consensus on the need for redistributing income, stabilizing wages, and targeting credit to respond to the crisis of stagflation. Each of these would require legislation and some tacit agreement with organized labor. These recommendations departed significantly from those of the Ford administration, newly installed in the Oval Office, which considered business tax cuts the primary device for raising employment. They departed from Arthur Burns's and President Ford's preference of Federal Reserve independence.[57] And while the prospect of an agreement with the AFL-CIO appeared hopeful in January 1975, when Ford appointed John Dunlop Secretary of Labor, the traditional labor-liberal program would here too confront Presidential opposition when, as the

[56] Ted O'Shea to Henry Reuss, January 28, 1975; Rene Cohen to Henry Reuss, January 29, 1975; Avery Fonda to Henry Reuss, February 4, 1975; Robert J. Frank to Henry Reuss, February 10, 1975; Ralph J. Comstock to Henry Reuss, January 20, 1975; Harold R. Arthur, January 7, 1975; all letters, and others, included in Folder 20, Box 61, Henry Reuss papers, University of Wisconsin-Milwaukee.

[57] Arthur Burns, "Ford and the Federal Reserve," in *The Ford Presidency*, ed Kenneth Thompson (Miller Center of Public Affairs: 1988), pp. 135-140.

campaign for the Republican Party nomination began later that year, it would become apparent that the Ford administration opposed strengthening collective-bargaining rights.

In January 1975, when President Ford announced his anti-recession tax package raising the investment credit to 12 percent and issuing a 12-percent rebate on income taxes paid in 1974, the top-heavy stimulus confronted a fierce congressional opposition. Most of the $21.3 billion package would go to top-earners. During February and March, the Congress redistributed the refunds downward, capped the maximum rebate at $200, added a $100 one-time payment to all social security recipients, reduced the investment credit to 10 percent, and added reductions in the oil depletion allowance. Still, the President threatened to veto the package and the Senate reduced the size of the tax cut from $29.2 to $22.8 billion. Households earning up to $10,000 annually, just below the median household income, received less than half the total income-tax rebate.[58]

The Democratic party program also conflicted sharply with the independence of Arthur Burns's Federal Reserve. In February, responding to criticism that his bill threatened the central bank's autonomy, Reuss withdrew his credit-allocation priorities bill in an agreement with Burns to continue the Federal Reserve's voluntary reporting program. Hoping to repeat the winter push to alter bank lending behavior, however, in the spring of 1975 Reuss announced that the Banking and Currency Committee would begin a study of the nation's financial institutions to develop legislation for reform.[59] The Financial Institutions in

[58] Miezckowski, *Gerald Ford and the Challenges of the 1970s*, pp. 162-171

[59] Remarks of Henry Reuss at the School of Banking of the South, Louisiana State University, Baton Rouge, May 26, 1975, Folder 27, Box 62, Henry Reuss papers, University of Wisconsin-Milwaukee. Concurrent Resolution 590, House Banking and Currency Committee, 94th Congress, First Session. "Reuss

the Nation's Economy (FINE) study culminated in two sets of hearings in December 1975 and January 1976 and legislation in the form of the Financial Reform Act of 1976. The hearing conclusion and proposed legislation pointed unambiguously to the need to expand housing finance by enabling savings and loans to compete for loans and by subsidizing their lending. The drift in liberal opinion towards banking regulation could be seen in Tobin's response to Reuss's initial proposal for a credit-allocation statute. "I think this situation might be improved by allowing, or one might say forcing, banks to compete for demand deposits by paying interest," Tobin wrote.[60] Such a conclusion would find its way into law during the 96th Congress in the final form of the Depository Institutions Deregulation and Monetary Control Act.

For those who clung to the liberal label, the pursuit of deregulation represented a adaptation of the reform ethos of the Great Society guideposting era to a world of political stalemate. The continuity can be seen in the Democratic party leadership's turn against regulatory commissions for their failure to achieve wage-and-price restraint. Historians have noted how the writings of George Stigler, Ronald Coase, Richard Posner, and others associated with the University of Chicago helped to influence economic thought during the 1970s.[61] Such scholars of conservativism, however, have given less attention to the ways such skepticism of regulatory commissions permeated the thinking of Democratic party

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Withdraws Bill Hit by Burns," *New York Times*, February 21, 1975, p. 39. "Reuss and Burns Set Compromise," *New York Times*, April 30, 1975, p. 69.

[60] James Tobin to Henry Reuss, July 29, 1974, Box 61, Folder 19, Henry Reuss Papers, University of Wisconsin-Milwaukee.

[61] Rodgers, Kalman, Burgin.

leaders and advisors. During the 1968 election, for example, the Humphrey campaign commissioned a report on inflation from a committee of advisers including Otto Eckstein, Joseph Pechman, Gerhard Colm, and others, which found that “Because of the large impact of government programs and policies on the private sector, successful anti-inflation policy must include a close look at the government’s own actions.” Neither the Bureau of the Budget nor the CEA had full-time staff devoted to the question of the government’s own microeconomic contribution to rising prices, creating a “great need for a price-cost benefit review of government programs in the Executive Office of the President.” The Humphrey anti-inflation group described regulatory commissions as “fossils embedded in legislation conceived in an earlier era” that gave “little weight” to “price-cost stability” by allowing rate increases to accommodate labor and employer demands in airlines, trucking, and rail industries. “A comprehensive anti-inflation program review for price-cost stability,” the group concluded, “would include re-study of regulatory policies.”[62]

The experience of the Vietnam expansion and the Nixon administration’s controls program strengthened this view of the inflationary bias the regulated industries lodged deep in the nation’s economic structure. As Dunlop wrote during debate over the Johnson guidelines, “wage-price policy [must] be reformulated to concentrate…on expanding supplies (and constricting demands) in a limited number of bottleneck sectors which are likely to contribute most substantially to increases in wage rates and prices.” A “transformation of wage-price policy is urgently needed” that entailed “identification in the

[62] *Report of the Vice President’s Task Force on Inflation*, October 1968, pp. 20-21, George W. Taylor Papers, Box 6, Folder 8, Kislack Center for Special Collections, University of Pennsylvania Library.

short run and in the longer period of the major priority bottlenecks in the economy" by "central direction and authority" within the government. Among the sectors Dunlop considered "most critical to wage and price stability over the next five years or so" were "some branches of transportation, medical and hospital services, construction, local government services, certain professional services, and perhaps automobile manufacturing."[63] Writing of his experience as Secretary of Labor, Dunlop later remembered how the "regulatory responsibilities" of the Department had "rapidly increased… exposing quite a different posture to management, labor and the public and creating a different internal spirit from its traditional role as compiler of data, preparer of reports, stimulator of training and convener of labor and management representatives." From 18 regulatory programs in 1940, the Department of Labor portfolio had increased to 40 in 1960 and 134 in 1975, including OSHA and ERISA. "Even manpower programs which contained the large bulk of the appropriations were significantly and excessively regulatory in their approach."[64] Even Reuss, as spokesman for the Democratic party insurgency after Watergate, responded to President Ford's "Inflation Summit" by calling for "wage-price policies" that included eliminating "artificial barriers to competition."[65]

By removing employers' ability to pass on costs in commission-approved price increases, deregulation of transportation offered a market-based alternative to politically

[63] *Guidelines*, eds George P. Shultz and Robert Z. Aliber (Chicago: 1966), pp. 93-5.

[64] John T. Dunlop, "Highlights of a Brief Tenure, 1975-6," in *The Ford Presidency*, ed Kenneth W. Thompson (Miller Center for Public Affairs: 1988), p. 295.

[65] Reuss statement for Compendium of Papers for Financial Conference on Inflation, September 20, 1974, Box 61, Folder 21, Reuss Papers, University of Wisconsin-Milwaukee.

negotiated wage restraint. This turn away from formal political exchange in wages policy was most evident in President Ford's veto of labor-law reform in January 1976. In addition to the failure to restore some form of price control, the defeat of economic-planning and federal credit allocation, and the liberal turn towards deregulation, the veto represented a final defeat for the labor-liberal program during the 94th Congress. The politics of the decision reflect the ways in which the growth of the Sunbelt since World War II had altered the economic basis of the party system. The bill in question, HR 5900, would have legalized secondary boycotts on construction sites, known as "common *situs* picketing," strengthening building trades unions bargaining power to compel employers to ensure all jobs on a site were filled by union members. President Ford promised Dunlop he would negotiate a political agreement with the building trades unions over the legislation, meeting with AFL-CIO Building and Construction Trades Department (BCTD) President Robert Georgine on April 22 and July 8, 1975. In June 1975, Dunlop testified to Congress in favor of the proposal. "[W]hen we first endorsed it, the business community went wild," Ford chief of staff Richard Cheney later remembered. "We were buried in mail….We got more mail on common *situs* picketing than we got on the Nixon pardon."[66]

In July, the House passed the common *situs* bill and in November the Senate followed. On the day in July when Ford met with Georgine, the President announced his intention to run for the Republican Party nomination for the 1976 presidential election. In September, 1975 Ford spoke before the BCTD annual convention hoping to earn labor votes

[66] Richard B. Cheney, "Forming and Managing an Administration," in *The Ford Presidency*, ed. Kenneth Thompson (Miller Center of Public Affairs: 1988), p. 70; Dunlop in the same volume, p. 299.

against Carter in the general election. But within the Republican party, the administration's endorsement of the labor-strengthening law posed an electoral threat. Endorsement of HR 5900, Cheney thought, had "incidentally given our political opponents a great device for raising money against us." As Dunlop remembered, "the politics of the Republican party changed from May and June to December when the bill sat on the President's desk. President Ford was now concerned that Ronald Reagan would use the bill if he signed it into law to defeat him in the Republican primary and caucuses." With Cheney present, Ford told Dunlop in December his intention to veto the bill, and eleven days later announced his intention publicly. In January, Dunlop resigned.[67]

The unity of deregulation and wage restraint in the Ford and Carter administrations' inflation control programs symbolizes the attenuating relationship of organized labor to the broader working class. Dunlop's position as an advocate for organized labor and simultaneously a proponent of deregulation represented the monumental organizational, intellectual, and politico-mythological challenges confronting what remained of the labor movement by 1975. How could regulated industries increase efficiency without lowering wages? Price competition would strengthen employers' resolve in bargaining, while lower barriers to entry—easier licensing for freight carriers, for example—would open opportunities for non-union firms. Without the symbolism of the New Deal or of socialism before it that had moved prior generations of workers to link their unions to federal efforts at reforming the structure of industry, organized labor was left opposing the cutting-edge of

[67] Dunlop, "Highlights of a Brief Tenure," in *The Ford Presidency*, p. 300. Miezckowski, *Gerald Ford and the Challenges of the 1970s*, pp. 255-6.

liberal thought. Liberals, for their part, had abandoned creative solutions to the inflationary bias of regulated industries. During the airline mechanics strike of 1966, for example, Robert and Edward Kennedy had proposed legislation to seize the airline companies, control their profits, and meet union demands without a price increase. By 1975, Edward Kennedy was leading Senate hearings to reform the Civil Aeronautics Board to introduce price competition into the industry. In nine years, the failure of wage restraint had burned many liberal Democrats and ceded the electoral and intellectual field to non-union alternatives.

When the 93rt Congress established, at President Ford's request, the Council on Wage-Price Stability (CWPS) in August 1974, it included statutory language declaring that the wage-price monitoring body "shall…conduct public hearings necessary to provide for public scrutiny of inflationary problems in various sectors of the economy; focus attention on the need to increase productivity in both the public and private sectors of the economy" and "review and appraise the various programs, policies, and activities of the departments and agencies of the United States for the purpose of determining the extent to which those programs and activities are contributing to inflation."[68] As President Ford made "deregulation" a centerpiece of his economic agenda during 1975, the legislation renewing the CWPS amended the statute to include the responsibility to "intervene and otherwise participate on its own behalf in rulemaking, ratemaking, licensing and other proceedings before any of the departments and agencies of the United States, in order to present its views as to the inflationary impact that might result from the possible outcomes of such

[68] *Council on Wage and Price Stability Act*, Public Law 93-387, August 24, 1974.

proceedings."[69] Charged with the wage-price problem, the CWPS devoted a staff department to the government's own contribution to rising prices through procurement and regulatory policies.

Sectoral planning thus came to the United States in the form of the Airline Deregulation Act of 1978, the Motor Carrier Act of 1980, and the Depository Institutions Deregulation and Monetary Control Act of 1980. Each law aimed to restructure its industry—air transport, trucking transport, and banking, respectively—around lowering costs and increasing price competition.[70] The context was the continuing wage-price spiral that accompanied expansion after 1975, and the eclipse of statutory price control as a method of arresting it. This was the same problem that confronted the Johnson, Nixon, and Ford administrations. What had changed was the political will to forge consensus with the organized interests in these industries, or to respond to the crisis with emergency measures. Centralized control over investment—both in the positive sense of allowing greater bank mergers and competition, and in the negative sense of empowering the Federal Reserve to reduce business spending universally—represented the keystone to an anti-inflationary arch that included transportation deregulation and wage restraint. President Carter's proposed an Economic Revitalization Board; ubiquitous calls to "reindustrialize America," Felix Rohatyn's longstanding initiative for a government "development bank," and Lester

[69] Amendments to the Council on Wage and Price Stability Act: *An Act to increase the authorization for the Council on Wage and Price Stability, and to extend the duration of such Council*, Public Law 94-97, August 9, 1975. Thomas D. Hopkins, "The Evolution of Regulatory Oversight—CWPS to OIRA," *Administrative Law Review*, Vol 63 (2011), pp. 71-77.

[70] Mieczkowski, Waterhouse,

Thurow's exhortation in his popular *Zero-Sum Society* for a "corporate investment committee"—all were euphemisms for establishing new instruments for central planning of investments in the nation's manufacturing and processing facilities. The nation's tolerance for the historic recession that followed is one indication of the public willingness to endure such centrally mandated restructuring. The distribution of the burdens—unemployment reached near 10 percent, while the black unemployment rate rose above 20 percent—reveals the power of the political coalitions that oversaw the transformation.

While historians have written about the final decades of the twentieth century and the early decades of the twenty-first as the era of neoliberalism, the transition has been less well understood. Rather than a defeat or collapse of the New Deal Order, the transition is more accurately described in terms of acquiescence and participation. The Democratic party's broad post-Watergate reform program met the rising Reagan wing of the Republican party on a path of least resistance toward business friendly and top-earner tax relief, opposition to labor-law reform, deregulation of the industries planned by sectoral commissions of the New Deal, and, finally, with Jimmy Carter's appointment of Paul Volcker as chairman of the Federal Reserve in August 1979, monetary deflation. The continuity between the era of inflation and the post-Volcker period is perhaps most plainly evident in the institutional legacy of the Cost of Living Council and its successor, the CWPS. When Ronald Reagan entered the White House in January 1981, he appointed James Miller III to direct the recently established Office of Information and Regulatory Affairs (OIRA), an agency to "regulate the regulators." Miller built his staff by absorbing two existing offices charged with studying the

cost-price effects of federal regulation: one within the Office of Management and Budget (OMB), the other in the CWPS.[71]

Picking Winners and Losers: From "Planning" to "Industrial Policy"

In its modern usage, the phrase "industrial policy" was most widely popularized in a report of a Trilateral Commission task force published in 1979. Drafted by John Pinder of the Policy Studies Institute of London, Takashi Hosomi of the Industrial Bank of Japan, and William Diebold of the Council on Foreign Relations, the report was the product of two years of discussion among dozens of academics and government ministers at over twenty meetings held between October 1977 and April 1979. "Inflation, unemployment and external [payments] deficits posed an extraordinary problem for global demand management," the authors wrote in their introduction. "Yet when stagflation and industrial malaise are still so pervasive over five years after the abnormal turbulence began, it is natural to ask whether reasonably prudent demand management is by itself enough to cure these modern economic ills."[72]

Industrial policy was the phrase the authors selected for government directives that aim "directly to affect the structure of industry rather than influencing it indirectly through a primary emphasis on regions, capital markets, the labor force, or, health, safety, and the environment." The concept was admittedly an "ungainly animal," but it was carved out of the

[71] Hpokins, Bliven.
[72] John Pinder, Takashi Hosomi, and William Diebold, *Industrial Policy and the International Economy* (New York: The Trilateral Commission, 1979), p. 1.

larger policy mix of interest rates, taxation, and manpower policies to give readers an apprehensible subject for explaining the structural dysfunction of the capitalist countries. “In a sense,” they explained, “almost all policies are relevant since they affect the various industries differently.” Yet the authors sought to define a set of policies “whose main purpose is to influence the economic structure.”[73] After surveying the guidance and protection of businesses by the Japanese, European, and American governments, the authors forewarned their prescription “differs diametrically from a concept of industrial policy that amounts to defensive interventionism.” Because “the enterprise sector is the prime mover in the economy” and “market forces and entrepreneurship are the foundation of our economic system,” they continued, industrial policy must work “with and not against them.” Public policy, “can help to strengthen industry and facilitate the structural transformation of the economy.” Breathlessly, they continued:

> “It can contain or weed out the economic and social measures that reduce the dynamism of industry, and smooth the way towards an economy that is more skill-intensive, science-based, innovative and high in value-added. Positive industrial policies can promote innovation, research, development, investment and the establishment of new firms; and this can be linked with manpower policies that ensure training for the necessary skills.”[74]

Planning itself politicized the economic problem in ways that threatened national cohesion. Even if profitability was the accepted standard for assistance, how could planners be sure in their guesses of which industries would be profitable? During the final days of the

[73] *Ibid.*, p. 3
[74] *Ibid.*, p. 67

Carter administration, *New York Times* reporter Judith Miller quoted a member of the Task Force that developed the Revitalization Board proposal, equivocating that “Such an agency could involve the government in ‘picking winners,’ or it could provide a mechanism for institutionalizing aid to losers.”[75] “Several officials on the task force were veterans of the Carter administration’s bail-outs of New York City and Chrysler, and even those who had fought hardest for the federal assistance had learned a few lessons,” she explained. “First, bail-outs of truly sick entities inevitably last longer and cost more than anticipated. Secondly, politically powerful supplicants, irrespective of the merits, tend to win assistance.”[76]

If profitability was not the standard—if social welfare or some other standard of need were decisive factors—then how could distributional claims over government favors be settled? Who was to determine the public welfare? The title and thesis of Lester Thurow’s 1980 *Zero-Sum Society* were inspired by this question.[77] Thurow, who had worked as a staffer in the Kennedy administration, was by the late 1970s a professor of economics and management at MIT. He began *Zero-Sum* by explaining that the slowed growth rate of the 1970s meant that, for new investment in more productive processes, there would have to be compromises over existing shares of income. “Given the task of raising our investment in plant and equipment from 10 to 15 percent of the GNP,” who would consume less to make room for future investment?[78] He recounted asking a group of Harvard alumni this question and receiving the answer of “eliminating welfare payments.” “Not surprisingly,” he

[75] Miller, “Emperor’s New Policy,” *Working Papers for a New Society*, p. 13.
[76] *Idem*.
[77] Lester Thurow, *Zero-Sum Society* (1980)
[78] Thurow, *Zero-Sum*, 10

continued, "the person was suggesting that someone else's income be lowered, but I pointed out that welfare constitutes only 1.2 percent of GNP. Where were they going to get the remaining funds—3.8 percent of GNP? Whose income were they willing to cut after they had eliminated government programs for the poor? Not a hand went up." The conclusion was that "Our political and economic structure simply isn't able to cope with an economy that has a substantial zero-sum element."[79]

Writing in the *New York Times* in August 1980, Thruow argued "there is nothing all that mysterious about America's economic woes." The difficulty persisted because solutions for raising productivity all invariably required "large numbers of people [to] accept a substantial, short-term reduction in their standards of living." While there were a number of "fresh and provocative proposals about how to stem America's economic decline," the intractable problem was that "the political means to such ends" were "lacking."[80] The paralysis of the American economy was a reflection of the paralysis of American government.

[79] Thurow, *Zero-Sum Society*, p. 11.

[80] Lester Thurow, "There Are Solutions to Our Economic Problems," *New York Times*, August 10, 1980, p. SM8. In *Zero-Sum Society* Thurow described this disintegration or abdication of collective purpose intriguingly as a "Balkanization issue." Thurow would also repeat one of Laura Tyson's theses about the causes of inflation. In her dissertation, Tyson distinguishes between two hypotheses about the role of workers' organizations in a wage-push theory. On the one hand, "powerful worker management bodies at the enterprise level" may induce inflation autonomously, in which case "workers' control over enterprise wage decisions is an inherent structural defect in the Yugoslav economy." On the other hand, workers' control may merely instigate wage-price spirals in response to inflation *induced elsewhere* in the economy, exogenous to the wage-price relationship within an enterprise. "In this case," Tyson writes, "the Yugoslavs are best advised not to alter their institutions, but to search out the real source of inflationary shocks, in the meantime temporarily introducing wage and price controls to cut into a wage-price spiral which develops after such a shock has occurred." (28-9) Though the need for new investment, rather than merely price stability, would alter his purpose, Lester Thurow would make a similar arguement that the American economy had an institutional bias against downward price movements; external shocks could lead oligopolistic firms with unionized employees to pass cost increases on to the public. While not the "cause" of inflation, the corporate structure "locked-in" inflationary behavior.

The presidential campaign of 1980 reveals further continuities between the 93rd and 94th Congressional impulse toward high economic planning and the Carter administration's success in passing deregulation legislation. In January 1980, California Governor Jerry Brown, discussing his candidacy for the presidential nomination of Democratic party with the staff of the *Washington Post*, called for "a mode of planning selectivity in both our credit and investment tax-credit policies that will allow us to undertake what I call reindustrializing our country."[81] "The near bankruptcy of Chrysler, the lack of competitiveness on the part of many of our steel mills and in a number of other industries are just signs that the basis of our industrial prosperity…is seriously eroding," he explained. Responding to these challenges was "going to take a more fundamental restructuring of the relationship between government and business—not exactly as it is done in Japan and Germany, but using those general models and trying to adapt them to America. *We have to recognize that the management of aggregate demand is inadequate, and we have to target specific industries for assistance.*"[82]

In May 1980, Edward Kennedy responded to Brown's campaign with a proposal to establish an "American Reindustrialization Corps" as the centerpiece of a "New Partnership" between business, labor, and government to revive national industry with "the power to provide grants, loans, guarantees and interest subsidies to promote sound economic development." Accusing the administration of bringing about a "deliberate recession," Kennedy stumped that

[81] "Jerry Brown on the Reindustrialization of America," *Washington Post*, January 14, 1980, p. A23. There is likely a connection to the *Working Papers* group through Brown confidant and New Left leader Tom Hayden.
[82] Ibid. Emphasis mine.

> "Our goal must be nothing less than the reindustrialization of America. We can plan coherently for the rapid modernization of the steel and auto industries and for the wellbeing of their workers in the meantime. We can reduce the plague of plant closings that threatens to turn industrial communities into ghost towns."[83]

In September, the Carter campaign issued its own proposal for an "Economic Revitalization Board," to be co-chaired by Lane Kirkland of the AFL-CIO and Irving Shapiro of Dupont. The board would study the national economy and make recommendations about the need for a new "investment development authority." The package, wrote *New York Times* reporter Judith Miller, was "worth re-examining because it sheds much light on the limits of conventional liberal economic policy attempting to compete on conservative territory." Both the Carter and the Reagan proposals proposed tax cuts as a way of stimulating investment and productivity growth; both used the language of "corporatist partnerships" between labor and business. "Remarkably," she concluded, "in an election year whose main public concern was economic stagnation, a sitting president could come up with nothing bolder than a largely symbolic agency, whose assignment was to consider another agency."[84]

The Federal Reserve Bank of Kansas City held a conference on the "industrial policy" idea in September 1983 that showed how widespread the unpopularity of the concept was among professional economists. The *New York Times* reported in attendance "few defenders of the basic list of industrial policy ingredients" of targeted, or "micro-economic"

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[83] "Kennedy Proposes Entity to Rejuvenate Industry," *Wall Street Journal*, May 21, 1980, p. 20. Bill Stall, "Sen. Kennedy Calls for 'New Partnership,'" *Los Angeles Times* May 21, 1980, p. 16.

[84] Judith Miller, The Emperor's New Policy," *Working Papers for a New Society*, November 1980, pp. 12-14.

assistance. Paul Krugman admitted that "At some point in the next decade the United States will probably adopt an explicit industrial policy. This policy may include general incentives for capital formation, R&D, retraining of labor, and so on, but it will also almost surely involve 'targeting' of industries thought to be of particular importance." The ways of picking recipients, however, were "poorly thought out and would lead to counter-productive policies." Government assistance to US firms in market where foreign competitors were aided by their home governments would redistribute resources to low-profit industries, and this would inhibit growth and employment. "In general, meeting foreign industrial policy seems to be almost a recipe for picking sectors where there is excess capacity and low returns."[85]

The historian Howard Brick has pointedly described the "industrial policy" debate of the 1980s as an "involution" of what he calls a "postindustrial discourse"—the language and thoughts of those twentieth-century thinkers who conceived of social and political problems as existing beyond the distributional problems produced under capitalism.[86] By repurposing the inherited tools of the social-democratic mixed economy to entice, rather than tame and democratize, private investment, thinkers such as Robert Reich, Michael Piore, Charles Sabel, and Lester Thurow, Brick argues, "forcefully reinstated the priority of a competitive search for profits."[87] The difference between industrial planning and industrial policy was apparently small but essential. Under the older way of thinking, production targets, prices,

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[85] John M. Berry, "Leading Economists Dispute Case for an 'Industrial Policy,'" Washington Post, September 4, 1983, p. G1.

[86] Howard Brick, *Transcending Capitalism* (Ithaca: Cornell, 2006), p. 259.

[87] Ibid, p. 258.

wages, and profits were bargained over by contending interest groups.[88] In the newer vision of "industrial policy," public officials would still influence the investment schedules of the particular planned sectors. But the targets would now be set by the world market. By subordinating public policy to raising the rate of return on investment, Brick concludes, "These legatees of postindustrial reasoning unwittingly buried it."[89]

Planning Thought at the End of the New Deal Order

Earlier advocates of adjusting the fundamentals of the American economy had couched their arguments within the more familiar rhetoric of democracy and group decision-making, rather than the signals of the international market. "Planfulness" was how Edwin Nourse, the first president of the Council of Economic Advisors, described the impulse toward forward thinking.[90] Yet the institutions that enabled planful policies on a national scale had many critics by the 1960s. Given the long abeyance in which the concept of national economic planning fell over the final decades of the twentieth century, it is worth revisiting the course of the intellectual debate on planning at the eve of its twentieth-century demise in America.

George Soule, for example, who worked as an editor of *The New Republic* from 1924 to 1945, continued to write in favor of "central economic planning" until just before his death

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[88] Asked in May 1980 what he would do differently from Carter "right now," Edward Kennedy responded, "Freeze profits, prices, rents, dividends, wages." Robert Scheer, "Kennedy Cites Failed Economic Policies," *New York Times*, May 29, 1980, p. b1.

[89] Brick, p. 259.

[90] E.g., Edwin G. Nourse, "Collective Bargaining and the Common Interest," *American Economy Review*, March 1943. Nourse also employed the word adverbally, as "planfully."

in 1970. His 1967 book *Planning USA* sought to show how "the planning and ordering faculty of man" and "the habit of planning and organizing the task and the social group" developed historically in the United States, tracing its development from the reports of Alexander Hamilton to those of the Council of Economic Advisers. "Neither the Soviet state, with its central planning of a socialist economy, nor the Western democracies, with their mixed economies and policy planning," he concluded, "can escape the need for continual analysis of the problems which confront them and the demand for discovery of appropriate measures."[91] As a director at large of the National Bureau of Economic Research, Soule represented both the centrality of "planning"-talk to postwar American political culture, and its ties to interwar intellectual trends.

Among professional economists, academics, and corporate executives, the logic of central planning was deeply entrenched through the end of the 1970s. Among historians of the Progressive Era and the interwar period, the continuities between Herbert Hoover's tenure as Secretary of Commerce and their own moment were apparent. The argument of Otis J. Graham's 1975 book *Toward a Planned Society*, for example, was that a centralizing, directing impulse had emerged in the United States during the 1920s and was evident in the numerous and continuing reorganizations of the presidential cabinet, with such instruments as the Council of Economic Advisers and the Nixon administration's Domestic Policy Council.[92] One of Robert McNamara's procedural innovations as Defense secretary had been

[91] George Soule, *Planning USA* (New York: Bantam, 1967), p. 5 and p. 158.

[92] Graham, *Toward a Planned Society* (1975). The title was an explicit homage to George Soule's 1933 book *A Planned Society*. A Columbia PhD who studied with Hofstadter and Leuchtenburg, Graham worked

the "Planning, Programming, and Budgeting System" (PPBS) designed "as a means of centralizing, depoliticizing, and bringing rational analysis to policymaking and budgeting."[93] Under PPBS, each executive department was responsible for drafting its own plans to circulate upwards to the president, who pushed his own agenda downwards onto the departments to constrain and harmonize departmental imperatives. As Elizabeth Popp Berman has shown, McNamara's PPBS system is one point, in addition to CWPS, to trace the spread of "cost-benefit analysis" in the federal bureaucracy.[94]

One common critique was that ownership had lost its importance and meaning in questions of national economic policy. As the MIT economist Evsey Domar wrote in 1966, "The central economic problem of today," was not "the question of private versus public ownership of the means of production" but rather the "optimum and ever shifting division between centralized and decentralized decision-making."[95] "The pseudo-private corporations of the United States and the pseudo-public firms of the USSR have this much in common," the political scientist Robert Dahl wrote in November 1970, "neither comes close to achieving 'industrial democracy.' As an organizing principle, hierarchy seems to have won out over democratic participation."[96]

after 1967 at the University of California at Santa Barbara, where he was influenced by Rexford Tugwell, then a fellow at the Center for the Study of Democratic Institutions.

[93] "Inventing the Federal Government's Planning, Programming, and Budgeting System," no. 15 in "60 Ways RAND Has Made a Difference," in 60 Years Ahead of the Curve, accessed April 15, 2018. https://www.rand.org/about/history/60ways/content/way-16.html

[94] Elizabeth Popp Berman, "From Economic to Social Regulation: How the Deregulatory Moment Strengthened Economists' Policy Position," *History of Political Economy*, No. 49 (Annual supplement).

[95] Evsey Domar, "Reflections on Economic Development," The American Economist, Vol. 10, No. 1 (Spring, 1966), pp. 5-13.

[96] Robert Dahl, "Power to the Workers?" *New York Review of Books*, November 19, 1970.

Domar developed his thesis as a guide for economic development: the question of the degree of micro-economic or "direct" intervention by governments in their economies had different answers for societies of different levels of wealth. The more developed a society, the deeper a government might attempt with reasonable expectations of success to reach into the micro-decisions of its economic actors. The less developed, the closer its government should restrict its managerial functions to manipulating macro-aggregates—the gross domestic product, the savings rate, the level of imports, the literacy rate, among others, for example, rather than the particular wage or price level of a given industry or firm.

Domar's thesis resonated with later interpretations of the Great Inflation of the 1970s. As Charles Maier and Leon Lindberg wrote for the Brookings Institution during the Reagan administration, "twentieth-century economies have undergone a certain evolution. While any description of stages must be oversimplified, the OECD economic systems can still be seen as moving from a phase characterized by the model of the liberal market to a stage of competitive pluralism characterized by large unions and corporations and by administered pricing, and then in some countries to a quasi-corporatist order where public authority has sought to supervise consensual bargaining among the organized interests. Of course, most real economies embody elements of all three phases at once."[97] Each phase entailed reliance on a different mode of national economic organization: liberalism or laissez faire for poorer

[97] Charles Maier and Leon Lindberg, "Alternative for Future Crises," in *The Politics of Inflation and Economic Stagnation: Theoretical Approaches and International Case Studies*, eds. Lindberg and Maier (Brookings: 1985), pp. 575.

countries, pluralism among interests for medium-income countries, and "efforts at democratic coordination" the authors called "neo-corporatism" for the wealthiest countries.

The trouble for the United States, Maier and Lindberg argued, was its failure to advance beyond the pluralist coordination of the middle phase of development to the corporatist coordination of "older" economies, in which groups acquiesced before the compulsion of a democratic state. How accurate does such a statal theory of political-economic change appear today, when the wealthiest nations of Western Europe and Japan have endured decades of higher unemployment, and in which national fiscal-monetary policies are, more than ever, subject to the speculative pressures and global conditions of a single world product and capital market? Does the decline of organized labor as a political power in many Western European nations indicate the potential for retrogression through the phases of economic development, or does the widespread national disorganization of labor represent a new phase of global markets, in which the types or organization that defined political economy during the twentieth century are increasingly beyond the imaginative pale? And does the success of coordination in countries such as Brazil or China negate the claims of Maier and Lindberg of the appropriate form of organization for middle-income countries?

A full study of the era of deflation after 1983 would have to consider the role of global exchange rate negotiations and the ways in which US commercial-bank lending to sovereign countries influenced central bank policies across the globe during. This is beyond the limits of this dissertation. But one provisional conclusion might be that the "industrial policy" of the era of neoliberalism has achieved diminishing returns because of its reliance

on foreign demand for exports. The fundamental insight of the interwar period that total spending could be made subject to conscious policy has evaporated in the world of global markets: there is no global fiscal authority to serve as a buyer of last resort for goods and services. By turning to export competition and reintroducing competition into labor markets to lessen the inflationary pressures of the middle twentieth century, national governments across the world found themselves by the early twenty-first century on unfamiliar ground. The developed structures to accommodate the pressures of class struggle persisted, but the organized groups that had filled political space withered away in many countries. Our national economies remained planned, and our currencies managed, but increasingly electorates do not feel the democratic connection to the planners that animated politics in the era of controls.

Whatever the merits of the twentieth century's sociological theories of inflation, the history of wage-and-price controls in the US does offer a few conclusions about the nation's history. One is the enormous number of obstacles the Constitutional structure of government poses to national planning. Executive independence from the legislature can block great upsurges of democratic sentiment. This one of the great lessons of the Nixon-Ford era, when a president was deposed but his appointed successor remained in office through what was then the most severe economic crisis since the transformative 1930s. The achievements of the Nixon controls further undermined public authority. During the Marshall Plan, for example, the Truman administration used export controls to channel resources to Europe without raising domestic prices excessively. The Nixon detente, by contrast saw an export drive

accompanied by domestic shortages and uncontrolled inflation. At the same time, legislative interference in executive administration has periodically sundered effective programs at wage-price restraint. During World War II and the Korean War, Congressional exemptions to price control fueled speculative price increases and gave motivation to private actors to withhold products from the marketplace. Only by centralizing purchasing authority—as the Truman administration attempted through the Brannan Plan, as the Nixon administration achieved after the shortages of 1973—could adequate supplies of food at low prices be secured. A consequence is that farms might be run at a loss: this offers a lesson for today's subsidy-absorbing sectors of education and healthcare.

Does the emergency character of these episodes have any lessons for times of peace? The historical evidence weighs on the side of the conclusion that arresting an inflationary spiral through freezes and controls requires a degree of surprise lest the momentum toward controls impel its own burst of panic buying and income protection. The absence of a standing federal authority for statutory price ceilings imperiled the Johnson administration, and may well imperil future administrations.

A more controversial lesson of this history is the notion that expanded government spending can arrest inflation by securing a national wage bargain. Such a finding is difficult to draw conclusively in the US case, since none of the administrations after Lyndon Johnson succeeded in securing commitments of wage restraint amid rising prices. Yet the lesson of the Kennedy and early Johnson eras does show that organized labor's fiscal priorities can be traded for wage restraint in the market place. More importantly, the notion that wage restraint

can be achieved in the midst of an inflation without material exchange of laws and transfer payments must be cast aside. The repeated attempts of the late Johnson administration and those of Nixon, Ford, and Carter after 1972 demonstrate that organized workers will not simply acquiesce to the erosion of their standard of living.

A more ambiguous legacy lies in Domar's question of the "optimum and ever shifting division between centralized and decentralized decision-making." In the United States, centralized decision making was achieved in fiscal policy, and, in times of war, price and wage administration. American labor only begrudgingly submitted to a national wage policy under enormous patriotic exhortation. The precondition for this restraint was organization: wages in any future period of fiscal expansion in the US may well be less amenable to control until new unions can come to exercise influence in the labor market. The collapse of wage restraint during the Vietnam war demonstrates how decentralized decision making in wages fueled a decade of inflation. Centralization of pricing and credit policy in the deregulation of transportation and banking was achieved through the virtual disorganization of entire industries and the industrial culture that had grown up around them. The disorganization of the labor market by the growth of non-union sectors likewise ended the problem of wage inflation, but at a tremendous cost.

This dissertation has not been a history of de-industrialization, but the persistence of unemployment in the US as a national political issue since the 1950s should indicate that perhaps greater decentralization in fiscal policy—either through independent spending authorities such as the Reconstruction Finance Authority, the Home Loan Bank Board, or

state and local governments—is necessary to raise aggregate demand to a full-employment level in the US. Just as global demand may require greater cooperation by national governments, demand within the US for goods and services has been strongest when control over spending is not subject to the central control of authorities unresponsive to democratic pressures. Banking and credit remained decentralized for much of the period between 1945 and 1980, only succumbing to centralization under the bank mergers of the 1980s and the final mass bankruptcy of the savings and loan industry that followed. Throughout the period of decentralized banking, the growth of credit was the number one source of new income fueling continued investment and inflation that was beyond the political exhortations of presidents and Congressmen. The unrestrained growth of credit in times of inflation undermined repeated attempts to arrest the wage-price spiral, because continued inflation raised prices and reduced real wages.

Finally, while the lessons of this period demonstrate that greater public spending can raise employment, they also demonstrate that if the government budget is divorced from the planning of incomes, the expansion of spending may dissipate in rising prices or unrealized investments. It is the composition of demand, as much as its amount, that influences capacity utilization and employment, and the ultimate ability of investments to earn returns. The planning of national wage levels and differentials is as important to future stabilization as the expansion of deficit spending was to stabilization in the past. While historians have understood the cultural dilemmas the New Deal posed for a country ambivalent about the existence of centralized power and rule by board or commission, one lesson of US history in

second half of the twentieth century is that, in the absence of such representative institutions, the economic problems of stabilization policy can be solved through the centralizing force of market competition itself. If wages and incomes are not planned democratically, they will be planned undemocratically. But no longer can we say that they will be left unplanned, for the legacies of the mixed economy remain.