The Price of Prosperity:
Inflation and the Limits of the New Deal Order

A Dissertation submitted in partial satisfaction of the requirements for the degree of Doctor of Philosophy in History

by

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September 2016
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Dedicated to Jayashree Sonti and Nagesh Sonti

Writing a dissertation is at once a solitary and a collective process. Although only my name appears on the title page, and in spite of the countless hours I spent alone while producing draft after draft, I could not have accomplished this on my own.

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providing me with the funding needed to make ends meet while I embarked on an intellectual journey of precious little marketable value as well as with the faculty and colleagues that made that journey such a pleasure. The list of individuals associated with the History Department who aided me along the way is long, but I would be remiss if I did not single out one for special credit: Darcy Ritzau, the longtime graduate program coordinator, made me feel at home from the moment I arrived in California, and continued to bend over backwards – often on very short notice – to help me navigate all the administrative hurdles involved in this process.

Many institutions and individuals made this dissertation possible, but a smaller number helped to make it what it is. I could not have asked for a more supportive and attentive dissertation committee. Kate McDonald and Salim Yaqub urged me to think about the politics and policies I was studying in the broadest possible context, and made me a less parochial (if not quite global) historian in the process. Alice O’Connor challenged me to consider political economy in a more expansive way than I had, and got me reflecting on the myriad ways an issue like inflation can ramify across the social world. She also provided some of the most incisive comments on drafts one could hope to receive, and left me a better writer for it. Mary Furner taught me how to think historically about the production of knowledge, something that has and will continue to serve me well beyond the academy. Her faith in my work provided me with the confidence to pursue this challenging subject, and I left every conversation with her (which were many, thanks to her remarkable generosity) excited and with a sense of purpose. Few graduate students are lucky to have so enthusiastic and supportive a mentor.
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ABSTRACT

The Price of Prosperity:
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by

Samir Sonti

This dissertation examines the politics of price inflation in the United States from the 1930s through the onset of the crisis of stagflation in the 1970s. During this period, which encompassed the rise and fall of what historians have called the “New Deal Order,” inflation stood as one of the most contentious economic issues, affecting agricultural, industrial, and financial policymaking. While much scholarly attention has been directed at the resolution of the crisis of stagflation in the late 1970s, few have explored how political struggles over the issue shaped the contours of liberalism in the United States in the preceding decades. By placing inflation at the center of the debate over the character of the New Deal Order, this study seeks to enrich our understanding of the structural tensions that beset that reform effort from the outset.

In particular, the dissertation traces the career of a tradition that emerged out of the left of the New Deal and which offered an analysis of inflation that emphasized the importance of corporate power over the investment and price-making functions. Blending older insights from institutional economics with theoretical innovations associated with
Keynes, this tradition can be called Institutional Keynesianism. Institutional Keynesianism was born in the early New Deal Department of Agriculture, and its adherents went on to play significant roles elsewhere in the federal government and in the industrial union movement. In contrast to the “commercial Keynesians” who have loomed large in the historiography on twentieth-century U.S. history, the Institutional Keynesians sought to equip macroeconomic theory with empirically sound micro-economic foundations. This attentiveness to economic structure enabled the Institutional Keynesians to identify fundamental contradictions in corporate capitalism, including its tendency towards both price inflation and economic stagnation, and led them to propose broad social democratic reforms. Recovering this forgotten left-liberal tradition can add texture to our understanding of the fate of the New Deal Order, as well as the origins of what displaced it.
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Introduction: Class Struggle and the Politics of Inflation

WHAT DO WE MEAN when we speak about prices? To begin with there is the question of what prices we are speaking about. Take two examples: a laptop computer and a college education. Computers have in recent years fallen in price, while tuition and fees have spiraled out of control. Is there any relationship between the two, any way to reconcile the divergent trends? An economist might say that there is, and that it lies in the timeless and universal principles of supply and demand. And this, to be sure, may be part of the story. Advances in the production of laptops have made it easier for firms to crank them out, leaving each one less expensive for a consumer to buy. As increasing numbers of people have come to see a college degree as the ticket to an economically secure life, moreover, one could plausibly claim that “demand” for higher education has surged. But this view barely scratches the surface. How exactly have the corporations that sell computers been able to make more and charge less? What toll has this taken on the people who do the work? And why are colleges and universities operating like businesses and peddling a commodity called education in the first place?

Economists typically avoid these questions, but historians cannot. And while the historical process behind the declining price of consumer electronics and the rising cost of post-secondary education is not as simple as the economists’ models would suggest, it is comprehensible. A few decades of trade liberalization and deregulation have allowed international investors to take capital around the world in search of locales where labor standards are lax and environmental oversight nonexistent. These relocations, as many scholars have demonstrated, often came after workers in prior locations had succeeded in organizing and asserting themselves at the bargaining table, yet the moves were both more
traumatic and more contingent than a microeconomics textbook can ever depict. Devastated post-industrial communities in the United States and dystopian manufacturing complexes overseas are no small part of the price we pay for cheap screens. And the trip from Camden and Schenectady to Ciudad Juárez and Zhengzhou was not simply an economic expression of Newtonian gravitational pull. Government policy in the United States, Mexico, China, and elsewhere made it possible, and certain class interests have had greater influence over the shape of that policy realm than on others.¹

A similar dynamic is behind the exorbitant cost of college. Into the early 1970s, government allocations to public colleges and universities accounted for well over 80 percent of institutional expenditure on instruction, leaving students and their families with less than a fifth of the bill. In some places, such as the University of California and City University of New York systems, students did not pay at all. During that time, moreover, most of the instructional work was done by full-time, tenure-track faculty. The ivory tower was turned upside down in the four decades that followed. In the name of fiscal responsibility state after state moved away from a commitment to provision of public goods like higher education, a steady slide that intensified during those spurts of austerity which have accompanied each recession in memory. Today, students and their families pay more than half the cost of instruction, and members of a generation and counting now find themselves saddled with the

lifelong burden of indebtedness. And even as they fork over all that money, academic working conditions have deteriorated. Underpaid part-time faculty teach the overwhelming majority of college courses.²

Computers could be compared to clothing or cars, higher education to healthcare or housing. Taken together, it is clear that since the 1970s something like this has been happening: global changes in the production and distribution of consumer goods have left those things cheaper while government retrenchment has curtailed the availability public goods. Finance has loomed large through this transformation from top to bottom, facilitating exchange at the global level, encouraging greater privatization of the public sphere, and penetrating almost all aspects of everyday life.³ Through it all, the rich have gotten richer and nearly everyone else has been trapped in slack labor markets which yield stagnant wages and steady anxiety. The soaring level of economic inequality in the United States and around the world is the defining feature of this political economic era, which has now lasted as long as the one that preceded it from the 1930s to the 1970s. That earlier era, in contrast, was marked by an expanding public sector and a well organized working-class capable of forcing a downward transfer of income, a regulated financial sector and chronic consumer price inflation. How did we get from there to here? The history of how we think about prices and the changing politics and power relations they represent can help to answer that question.

IN THE 1970s no one doubted that prices were political. Through that decade, the annual rate of consumer price inflation galloped at a pace not seen before in the United States. In the fifteen years following the Korean War, the annual inflation rate averaged 1.7 percent, and in the thirty years since 1986 it has been at 2.7 percent. Between 1970 and 1982 it averaged 7.8 percent. For five of those years it hovered around or above 10 percent, and once it even touched 14 percent. At the same time, industrial capitalism showed signs of stagnation.

Growth sputtered as the economy fell into two recessions, and the extraordinary rise in productivity over the previous century slowed markedly (see Figures 1 and 2). Unemployment climbed from below 4 percent in the late 1960s to above 10 percent in the early 1980s, averaging just shy of 7 percent for the decade as compared to a little under 5 percent during the previous twenty years. Median household income stopped rising, and it has stayed flat ever since. In the context of a blazing inflation, this structural downturn amounted to the worst economic crisis since the 1930s. Contemporary observers called it “stagflation.”

Through Watergate, the Iran hostage situation, and Reagan’s national ascendance, stagflation stood as the political economic backdrop, and at the end of this turbulent decade Jimmy Carter summed up the national mood in a word: malaise. The domestic legacy of the War in Vietnam along with what working-class people of color and their allies saw as the manifest limitations of the mid-1960s civil rights reforms left many progressives searching for a world more fulfilling than the one made by industrial capitalism. Just at that moment,

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4 Unless otherwise specified inflation data refers to that presented in the Bureau of Labor Statistics, “Consumer Price Index – All Urban Consumers.”

FIGURE 1


FIGURE 2

the material conditions that had underlain their earlier struggles disintegrated. Two OPEC embargos during these years convulsed the global economy and made for endless lines at gas stations and skyrocketing fuel prices. City and state officials found themselves mired in fiscal crises and held hostage by creditors who demanded austerity measures in exchange for their help with future bond issues. The near-miss bankruptcy episode in New York City, which ended with the introduction of tuition at CUNY, was a preview of the kind of shock therapy that the financial sector would ferociously apply to revenue starved governments in the years to come. Militant workers did what they could to shelter themselves from the frightening economic storm, and the intensity of workplace struggle in the early 1970s rivaled that of any previous era. But in the hostile political climate that prevailed by the early 1980s—especially after Reagan broke the air traffic controllers’ union—their organizations became shells of their former selves.

Scholars have concluded, then, that the 1970s was a “pivotal decade,” the years when what Steve Fraser and Gary Gerstle called the “New Deal order” finally fell. Fraser and Gerstle meant by that formulation the ensemble of forces—intellectual and institutional,
cultural and political – that coalesced around the Democratic Party and which during the middle half of the twentieth-century provided the electoral foundation for a hegemonic liberal governing regime. And although their goal was to complicate that notion, to assess its coherence from the vantage point of the post-Reagan era, and in spite of subsequent scholarship demonstrating the long history of conservative opposition to it, the New Deal order framework still figures prominently in both the historical literature on and the popular memory of the twentieth century United States.\(^{11}\)

But our commitment to this periodization does put us at risk of missing the broader sweep of history within which this New Deal order rose and fell, a limitation reflected in the historical literature on the displacement of the liberal regime by its “neoliberal” successor. The basic storyline runs like this: stagflation discredited Keynesianism, the dominant economic paradigm of New Deal liberalism, and paved the way for a conservative backlash. Keynesianism, in this telling, was a macroeconomic theory of growth, meaning it operated at the level of aggregates – and the most important aggregate of all was demand. High demand meant strong growth and low unemployment, low demand the opposite. But aggregate demand also bore directly on the aggregate price level. When demand was high, prices would rise – growth, that is, came with inflation. Put another way, these Keynesians believed that there was an inverse relationship between inflation and unemployment, and they built their policy repertoire on the assumption that those two variables moved in opposite directions.

Their economic recovery measures were inflationary, and their inflation control measures were contractionary. So when confronted by stagflation, they had no answers.\textsuperscript{12}

While the Keynesians lay paralyzed by this paradox, a conservative group of economists was on the march. As their name suggested, the “monetarists,” led by Milton Friedman of the University of Chicago, argued that inflation was, had been, and would always be a strictly monetary phenomenon. The rate of inflation was a direct reflection of the amount of money in circulation. Deficit spending by governments to boost consumer demand and thus reduce unemployment flooded the system with money, and a central bank deferential to political officials exacerbated the problem by periodically resorting to the printing press to lubricate those frictions that threatened growth. The economy had been made sick by too much spending, they held, and it needed a heavy dose of austerity to cleanse it of its New Deal malady. The monetarists proposed that the Federal Reserve contract the money supply and that the federal government slash its budget, two actions that would induce a recession through which unemployment might stabilize at a non-inflationary level. In his 1977 Nobel Prize acceptance speech, Friedman called this the “natural rate of unemployment,” and it was soon incorporated by the discipline as the non-accelerating inflation rate of unemployment (NAIRU).\textsuperscript{13} Naturalizing unemployment, almost literally, was a precondition for price stability.


The monetarist eclipse of Keynesianism can be dated quite precisely to when Jimmy Carter appointed Paul Volcker to lead the Federal Reserve. The story of the “Volcker Shock” that followed has been well told, but in summary the new Fed Chairman followed Friedman’s lead. He took the unprecedented move of shrinking the money supply, and it had its predicted effect. A deep recession followed, one from which the manufacturing core would never recover, and soon thereafter Ronald Reagan won the presidency and began his frontal assault on the New Deal order. By the mid-1980s, inflation had been tamed, and it has stayed in the bag ever since. Prices ceased to function as a political issue, as plentiful consumer credit and bargain basement retail outlets provided working people with the means to hold on to at least a semblance of the living standards they had previously enjoyed, even as their wages were stuck in the mud.14 These contradictions came to a head in 2008, although most accounts of that crisis pointed to short-term financial malfeasance rather than the longer-term structural trends.15

The shortcoming with this narrative is that this version of Keynesianism and monetarism were by no means the only two available perspectives on the dual problems of stagnation and inflation, or on the making of prices as a general matter. Throughout the twentieth century, indeed going back even further, a number of intellectual traditions and

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policy alternatives had emerged to deal with these issues. The idea of a formal tradeoff between inflation and unemployment, which these aggregate-centric Keynesians and monetarists alike accepted, albeit in different ways, only gained real currency in the economics profession by the late 1960s. The history of the assumption dates to a 1958 paper published by the Australian economist, A.W. Phillips, which demonstrated an inverse relationship between money-wage rates and unemployment in Britain from the mid-nineteenth to the mid-twentieth centuries. Graced as the “Phillips Curve,” the results of this empirical study became the conceptual basis for the policies that a group of Keynesians—especially those surrounding MIT economist and famed textbook author Paul Samuelson—would advocate through the 1960s. Through applied research into the Phillips Curve, the Samuelson-wing of Keynesians felt they could offer a “menu” of inflation and unemployment rates from which policymakers might choose as per their appetite for one or the other. Friedman and the monetarists, for their part, revised the Keynesian Phillips Curve by arguing that expectations of inflation pushed the graph outwards: that is, the more people anticipated inflation, and hurried their buying to get ahead of it, the more unemployment it would take to exorcise it. The tradeoff, in the monetarist view, was not static but always moving. Still, they too saw a tradeoff.16

One goal of this dissertation is to demonstrate the historical specificity of the tradeoff between inflation and unemployment. This concept did come to set the terms of debate on economic questions in the 1970s, but, again, that was only in the 1970s. To see the fate of the New Deal order as hinging on that debate is to start the story where it ends. No doubt almost

everyone understood that under certain conditions inflation and unemployment would move inversely. Prices would probably stabilize or fall during a bad recession, as they did in the early 1980s, and robust growth, like that seen during wartime, would push prices up. Marx had contended, and every worker had long understood, that the size of the “reserve army of labor” had a regulating effect on wage rates and prices, and the historian of economic thought Robert Leeson has seen versions of that argument as far back as the eighteenth century work of David Hume.17 But there was a lot of space in between the peak and the valley, and the question of how exactly inflation and unemployment would relate to one another in that vast middle ground was much contested throughout the twentieth century. Before wading into that history, however, we need to define with greater precision what we mean by these numbers themselves. As the example of the computer and the college education indicated, this is not at all straightforward.

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MODERN STATISTICS EMERGED along with modern nation states. And as was the case with everything involved in that process, the numbers produced by statisticians were politically contested. A few modest adjustments to the calculation of unemployment or growth rates could nudge those figures up or down and thereby affect public perceptions and policies towards a problem that has not fundamentally changed at all. Given the share of

government expenditures that are indexed to inflation, we could quickly be talking about billions of dollars going one way or another.\textsuperscript{18}

Censuses were the products of the first substantial commitments by public authorities to the assembly and analysis of demographic data, but formal statistical practice in the United States only cohered in state-level commissions on labor statistics during the latter half of the nineteenth century and especially with the creation of the national Bureau of Labor Statistics in 1884. Establishment of a federal agency devoted to the production and dissemination of official labor statistics had been a principal demand of the rising trade union movement, and that the BLS today provides in depth monthly reports on subjects such as occupational health and workplace safety stands as one important legacy of this history. But from the outset the most important bit of data the federal government produced was its estimates of the cost of living. At the turn of the century, this figure was presented as the amount of income that a household needed to survive, and progressives demanding a living wage as well as businesses hoping to keep wages low had a clear interest in where it was set.\textsuperscript{19}

As the historian Thomas Stapleford has shown, the government production of cost of living statistics was most politically fraught from the founding of the BLS through World War II. In 1946, the BLS rechristened the figure as the “Consumer Price Index,” an important departure from the presumption informing the earlier generation of cost of living data. The point was no longer to determine how much money was needed to survive at a socially acceptable standard of living, but rather to calculate the amount by which the price of a


\textsuperscript{19} My interpretation has been informed by Thomas Stapleford, \textit{The Cost of Living in America}. 

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“market basket” of goods and services moved in a given period. Measurement of price movements does not, however, tell us anything about who can afford what in the first place. And while the question of who could afford what did not go away, fewer and fewer social scientists inquired into it as the movement of the CPI was reified as the basis for indexing the rate of inflation in the postwar period. Yet perhaps the remarkable ascent of the CPI in the 1970s had something to do with the old formulas used to calculate it. And maybe not everyone felt the effects of that rising CPI in the same way.

Take the “market basket” that served as composite of necessary household expenditures. What belongs in it? If its contents were meant to include social necessities, could the meaning of social necessities not change over time? Should something like access to healthcare be considered a necessity, or were necessities only the minimal amounts of food, clothing, and shelter required to reproduce a worker from one shift to the next? The quality of goods changed with time, as economists in the twentieth century did not hesitate to point out, and perhaps so too should political understandings of what all were thought to deserve. And there are practical challenges beyond these normative considerations. Say housing prices surge, but only as a result of an increasing rate of home ownership, which means that a decreasing share of the population is affected by rising rental costs. Is the cost of a roof going up or down? What if that pattern of homeownership is racialized, and the fewer people whom those rising rental prices affect are disproportionately low income people of color trapped in municipalities with a collapsing tax base due to capital flight? How, in that vein, should the availability of public goods figure into the calculation? And what about the value of unremunerated labor performed by women in the home? How seriously can one take a measure of prices or the cost of living that fails in a fundamental way to account for all
the work involved in reproducing society itself? The questions could go on and on, but by the 1970s few professional economists or policymakers paused to reflect upon them.\textsuperscript{20}

There was still another layer of complication. If there were unsettled questions about how to calculate a price index, there was no agreement at all as to where “inflation” came from. Was inflation simply a monetary phenomenon, as Milton Friedman and his associates incessantly asserted? What role did government budgetary deficits play? Did they artificially expand the money supply as the monetarists claimed? Did they risk overheating demand and thus fanning the flames of inflation, as many Keynesians worried? Did they do both, or maybe neither, depending on circumstance? Or did inflation grow out of institutional dynamics inherent in corporate capitalism itself – whether through monopolistic or oligopolistic pricing, high wages secured by trade unions, or some combination of the two? I will refer to these three broad classes of interpretations as the monetary, fiscal, and structural theories of inflation. The first two have received significant scholarly attention; the third has not. Each gained and lost traction in various quarters at various times, and this dissertation traces how and why that happened when it did.

But underneath these multiple scales and cross-cutting conceptual dimensions, the politics of inflation were at the same time quite simple. As the retired Cambridge economist Joan Robinson noted in 1976, inflation “is an expression of class struggle.”\textsuperscript{21} Around the same time, the British sociologist John Goldthorpe put it this way: “the current inflation derives ultimately from changes in the form of social stratification, giving rise to more

\textsuperscript{20} Some economists did see the commodity shocks – energy and food – of the 1970s as constituting a different kind of inflation. One perspective distinguished between this and underlying “core inflation.” See Otto Eckstein, \textit{Core Inflation} (New York: Prentice Hall, 1981). As I discuss in Ch. 4, Eckstein served in Lyndon Johnson’s Council of Economic Advisers, and his work for the Paul Douglas Chaired Joint Economic Committee in 1959 influenced Kennedy administration inflation policy.

intense and equally-matched social conflict than hitherto.” And building on both Robinson and Goldthorpe, the German economic sociologist Wolfgang Streeck more recently elaborated upon the point:

[I]nflation can be described as a monetary reflection of distributional conflict between a working class, demanding both employment security and a higher share in their country’s income, and a capitalist class striving to maximize the return on its capital. As the two sides act on mutually incompatible ideas of what is theirs by right, one emphasizing the entitlements of citizenship and the other those of property and market power, inflation may also be considered an expression of anomie in a society which, for structural reasons, cannot agree on common criteria of social justice.

The history of the twentieth century United States bears these points out. Chronic inflation as a political problem emerged with the New Deal order and disappeared with it too.

Prior to the 1930s, the politics of prices were animated by deflation, and indeed inflation – or more precisely inflationism – was conceived as a welcome antidote to the price contractions that weighed so heavily on farmers in particular. And since the 1980s inflation has simply not been an issue. The half century during which inflation figured significantly in U.S. politics was also the only half century during which economic inequality was systematically reduced. That alone testifies to the salience of the points made by Robinson, Goldthorpe, and Streeck. But the domestic distribution of income was not the only terrain upon which the politics of inflation developed in the mid-twentieth century. It had global dimensions too. And because the international monetary system erected in the wake of World War II placed the dollar at its foundation, the politics of inflation in the U.S. had global

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reach. If inflation correlated with working-class power at home, it also threatened U.S. financial might abroad.

But, of course, inflation did not exist in the abstract. When Robinson noted that the politics of inflation were a form of class struggle she also announced that there were historical actors waging it. And understanding how those actors navigated these complex politics of inflation requires consideration of the frameworks through which they made sense of the world when the problem arrived on the scene. Most immediately they had lived through what Eric Hobsbawm has called the “age of catastrophe” from 1914-1945, and as the politics of inflation first took shape just after World War II the collective fear of those three decades from hell cast a long shadow. But those catastrophic decades were shaped by even larger historical forces. The economist Robert Gordon has recently placed all the events thus far discussed in the context of what he calls the “special century” that ran from 1870 to 1970. Marked by remarkable improvements in industrial productivity and economic development that were grounded in major technological innovations, he argued, that century was an epoch of growth that could not have come before and cannot be repeated. Without subscribing to Gordon’s prophesies about the future, one can agree that the expansion experienced by the industrial world through advances in gross domestic product growth during that century was unprecedented. It created the context within which the New Deal order rose and fell. And it did so by introducing a new type of capitalist organization that in short order remade the world.

THE RISE OF THE CORPORATION, first in the United States and then elsewhere, was a principal reason why the century between 1870 and 1970 was so special. In the fifty years after the Civil War, this new form of business organization superintended a world historic transformation of production, distribution, and communication systems. The social division of productive labor stiffened while the household burdens of reproductive labor shifted. And ownership of the means of production concentrated in fewer hands. All the while, the demographic scale tilted from country to city. In 1860, more than 80 percent of the U.S. population lived on farms. By the end of World War I less than half did. These were the structural manifestations of what Martin Sklar called the “corporate reconstruction of American capitalism,” and capitalism in the United States needed to be reconstructed in the first place because the competition encouraged by laissez-faire turned out to be self-destructive, catastrophically so. But if new worlds are born out of the ashes of the old, that never happens overnight. The transition to corporate capitalism took time, and in the interregnum new ways of looking at the world emerged, as did new methods for struggling to make it more livable.

This was especially so given how volatile that transition was. The rise of the most highly capitalized industry to that date, the railroads, with their insatiable demand for both

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people and things, propelled the proliferation of capital goods firms which churned out the bars, beams, and machine tools from which modern society was built. Cutthroat price wars between these upstarts recurrently liquidated the less solvent among them, and the periodic financial crises that resulted from the fantastic degree of speculation on the railroads – in 1873, 1882, 1893 – punctuated that process of creative destruction with credit crunches even more acute. The consequence was a “long downturn” from the mid-1870s to mid-1890s, one marked by a grinding deflation that took its greatest toll on those whose ability to subsist was hitched to the plummeting prices agricultural commodities fetched on the world market.27

But if the trains stopped at the edge of the Atlantic and Pacific Oceans, the crisis did not. It ramified across the world. Indeed, corporate capitalism and the “age of empire” grew up together.28 The rising U.S. elite along with those atop the older European colonial regimes spent these decades carving up the rest of the globe in a relentless quest for materials and markets to fuel their productive engines and to absorb its surplus product. From its inception, that is, corporate capitalism drew its lifeblood from the subjugation of people living in what we now call the Global South, and from the forcible “underdevelopment” of their collective economic capacities. Still, imperialism did serve its intended purpose, for a time. During the two or so decades before World War I, the nation states constituting what radical theorists came to call the “core,” some of them brand new, experienced a period of relative economic prosperity. But the good times ended in flames, first in 1914 and yet again in the 1930s.29

Corporate capitalism was more successful at home, at least if success is to be measured by effectiveness at meeting its inventors’ original objectives. In those sectors where these industrial titans established themselves and secured enough of the market share – first in capital goods, then in consumer durables, and only much later in retail – the price level stabilized, and it stayed that way for decades to come. That, above all, had been their purpose: to put an end to competitive price chiseling and the resultant cycles of recession and deflation by fostering cooperation, or collusion. If these firms looked, smelled, and sounded like monopolies, in other words, they did not always act the way that their populist contemporaries assumed they would. In general, their pricing strategy was directed more towards achieving predictability than short-term profitability, and this took sound management just as much as it depended upon power. Corporatization in this way spawned professionalization, and during this period there emerged educational and social institutions designed to acculturate a stratum of workers – some would call it the “middle-class” – to their new white collars and to place them in administrative occupations devoted to supervision and coordination of the burgeoning industrial order.30

But the tide of professionalization did not touch only the ranks of corporate middle management. As well, it served to overhaul the schools at which these managers studied. Mid-nineteenth century higher education occurred in a patchwork of land-grant colleges and northeastern private universities – the latter of which are probably better described as elite

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social clubs, and at which course offerings included theology, the law, and not much more. This mélange turned within a few decades into the premier higher education system in the world. The disciplines as we now know them, in both the social and the natural sciences, took shape in this context, and their earliest practitioners worked assiduously to demarcate their intellectual jurisdiction and to standardize the process of credentialing within it. For many entrants into this new higher education labor market, the prestige, potential security, and even modest degree of influence that came with an academic affiliation was an end in itself. In the social sciences especially, these types ranged from passive stewards to outright ideologists for the bourgeoisie, and then as now they served a function in the establishment. But many others in this new cohort of academic workers gravitated to the universities with the honest hope of making sense of the unprecedented changes unfolding around them, and maybe even of finding ways to mitigate the suffering they saw. The opposition they confronted whenever their search for answers took them to radical conclusions was stiff, and those adverse conditions gave way to some of the earliest struggles for academic freedom. Yet if the universities were sites of critical inquiry, it was always an uphill battle to take that criticism off campus and put it into practice.31

Many of those who tried worked as what we generally classify as progressive reformers. Historians have long struggled to define progressivism, but most accept that there was enough ideological and strategic coherence among its advocates to consider it as defining of an era. Through city-based settlement houses and the networks of social work

activists and intellectuals who floated through and around them, state government and public university partnerships like that associated with Robert LaFolette and John Commons in Wisconsin, and national-level pressure groups like the National Consumers’ League (NCL) and the American Association for Labor Legislation (AALL), one current of progressivism matured into a leading edge of the protean ideological formation that came by the depression era to be called liberalism.\(^{32}\) To be sure, this movement was not without contradictions. The “middle class” sensibility with which progressivism emerged in tandem informed the way many of these reformers responded to the social question, and their proposed solutions were often dripping with mainstream prejudices. It was no coincidence that “race science” came out of this milieu; the fetish of scientific precision together with a reluctance to challenge the socially powerful can breed morbid symptoms. Yet it is the case that the New Deal could only come after the Progressive Era.\(^{33}\)

**ONE IMPORTANT INTELLECTUAL LEGACY** of progressivism was what the social scientist Walton Hamilton in 1918 called the “institutional approach to economic theory.”\(^{34}\)

Many historians of economic thought have seen the long downturn of the late nineteenth

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century as an incubator of the “marginal revolution” in economics, through which the now dominant neo-classicism and its theory of utility maximizing rational economic agents displaced classical political economy and the labor theory of value upon which it was founded. But the economics profession in the United States did not travel in a straight line from the early neo-classicists, J.B. Clark and Irving Fisher, to Milton Friedman. Indeed, the methodological, epistemological, and ideological centers-of-gravity in the discipline were highly contested from the 1885 founding of the American Economics Association (AEA) until at least World War II. Alongside the static, deductive, and self-contained neo-classicism there developed a rival tradition that saw economic development in evolutionary terms, trusted mainly in inductive reasoning, and drew ecumenically on new scholarship in philosophy, psychology, sociology, and law. As Malcolm Rutherford, the leading historian of institutional economics, has described this approach, it included “the adoption of a central focus on institutions, process, social control, new psychological foundations, and empirical and instrumental ‘scientific’ investigation.” Its practitioners, that is, denied the existence of immutable economic laws; they saw the economy as constructed by humans and as a part of history. Its workings could be understood as conditioned by time and place, and maybe even changed for the better.

Given the historical context in which their field developed, one institution in particular preoccupied these progressive economists: the corporation. This is not to say that

they approached their subject matter myopically. The range of issues that drew the attention of the founding generation – Thorstein Veblen, John Commons, and Wesley Mitchell – testifies to the breadth of this branch of inquiry. Veblen elaborated an evolutionary interpretation of economic change, and his analysis of the role of technology in ushering in new institutional configurations and of psychology in guiding the behavior of both worker and businessman was largely qualitative and schematic. Commons drilled down into specific institutions – the law, the labor movement, public utilities – and drew on the German historical tradition in explaining their trajectory. A reformer as much as an academic, his work shaped the pioneering social insurance programs in Wisconsin, and his legacy loomed large in the New Deal. Mitchell, finally, was the first quantitative economist in the United States. His famous studies with the National Bureau of Economic Research (NBER) on business cycles assembled some of the first robust economic data sets and thereby helped to make possible the econometric modeling that would later take over the discipline. In spite of their differences, however, these figures knew each other and read one another’s work, and they all started with a similar question: how had the transition to corporate capitalism reshaped the plane of economic activity?\(^{38}\)

The structural change effected by that transition worked by the end of World War I to focus institutional economists’ research agendas onto a few key issues. Most important of all was their concentration on the making of prices, and here the war itself was a trigger: it led to a tremendous expansion in U.S. agricultural output as American farms fed and clothed the combatant nations. While the carnage in Europe progressed, indices of production such as acres harvested and livestock slaughtered hit a crescendo, as did, of equal consequence,

tables of credit dispensed and prices fetched. Yet when world markets recovered upon the
cessation of hostilities and those prices began to fall, U.S. farmers’ productive capacity and
debt levels would not follow. The always tenuous dance between these three variables –
prices, production, debt – then collapsed most violently on the growing number, at that point
the vast majority, of rural Americans who owed liabilities exceeding the value of their assets
(which in more and more cases were none). Falling prices meant falling incomes, which, for
debtors, meant bankruptcy, foreclosure or worse, an intensified rerun of the long deflation of
a generation prior. And, to underline the maddening cruelty of the whole thing, the
unprecedented productive capacity of U.S. agriculture meant that crop prices would only
continue to fall.39

While they fell, however, industrial prices remained stable. Compared to a 1910-1914
benchmark of 100, the ratio of agricultural to industrial prices had by 1929 dropped to 89,
and with the Depression it fell off a cliff, plunging to 55 by 1932.40 The purchasing power of
rural incomes, that is, had been cut in half in twenty years. And the aggregate figure obscures
just how bad this was for some: to those at the bottom of the agricultural class hierarchy, the
swelling number of tenant farmers who by the mid-1930s came to account for almost half of
all white and more than three-quarters of African American farmworkers, the situation
bordered on the apocalyptic.41 Nor, moreover, were the consequences limited to the
countryside. The disappearing agricultural income registered in reduced demand for

of Illinois Press, 1965)
41 Conrad, The Forgotten Farmers, 2. Conrad’s study continues to stand as an exceptional account of the human
toll of the agricultural crisis and its relationship to the New Deal. Scholars have debated the severity of the
agricultural deflation, and questioned the degree to which it affected all producers. David Hamilton
observed some price and income improvement after 1923, a reduction in acreage of staple commodities after 1924, and
the fact that only wheat was in a real crisis of overproduction for the duration of the 1920s. See Hamilton, From
New Day to New Deal, 8-9.
manufactured products – think purchases of tractors and other fruits of the growing fossil fuel economy – and contributed to the declining rate of profit that afflicted industrial corporations in the years immediately preceding the great crash.\footnote{Slowing wage growth for industrial workers, in the wake of the post-WWI open shop offensive, also contributed to the reduction in demand. For a perspective on the cause of the Great Depression that places the composition of demand at the center, and which surveys the existing literature on the subject, see Michael Bernstein, \textit{The Great Depression: Delayed Recovery and Economic Change in America, 1929-1939} (New York: Cambridge University Press, 1987).


THE AGRICULTURAL-INDUSTRIAL price disparity was but one numerical illustration of the traumatic demographic shift that had been unfolding for more than a half century. And because that shift was tied to the rise of corporate capitalism, that development was what institutional economists focused on, often to radical effect. Rexford G. Tugwell, who during the New Deal served as Assistant Secretary of Agriculture and acted as one of the senior members of Franklin Roosevelt’s “brains trust,” became among the most influential institutional economists. And he exemplified the postures of the group’s left-wing.\footnote{The yawning gap between agriculture and industry, Tugwell believed, was an expression of a larger imbalance between consumption and production: social capacity to produce was high but ability to consume was low. In this incongruence the crisis consisted, and on this point almost everyone could agree.} The question became what came first, high production or low consumption? Herbert Hoover, the Chamber of Commerce, and the corporate liberals in that orbit saw the intractability of the Great Depression as stemming from a crisis of overproduction – just as their predecessors had diagnosed the long downturn of the late nineteenth century.
proposed as a solution suspension of antitrust laws and permissive business cooperation in setting prices and production levels as the solution. Tugwell saw it the opposite way. The problem was not that cooperation among business had failed. It was that it had succeeded famously but without any accountability to the public.  

Tugwell spelled out the point a year before Roosevelt’s election, and he began by treating nothing less central to capitalism than the profit motive itself. To begin with, Tugwell held that the presumption that only self-interested pursuit of profit could motivate anyone to do anything, an idea upon which both classical and neo-classical thought had rested, was irreconcilable, not only with “even an amateurish contact with modern psychology,” but also with the facts of modern economic life. Thanks to “the growing average size of our industrial organizations,” Tugwell noted, “fewer persons all the time are profit-receivers in any direct sense.” Indeed, “how many railway men, steel workers, or even central office employees, have any stake in company earnings? We know that there are almost none.” Workers, who constituted the overwhelming share of participants in the economy, toiled for wages. Whatever, beyond survival, motivated each of them, it was not profit. And the “truth is that if industry could not run without this incentive it would have stopped running long ago.” Anticipating an argument that his Columbia colleagues Adolph Berle and Gardiner Means would popularize with their publication the next year of The Modern Corporation and Private Property, Tugwell added that because of the “growing

separation of ownership and control” in modern industry, and because “profits only go to owners,” one also had to conclude that managerial “control is effectively separated from its assumed motive.” There was plenty of reason to believe, that is, that the modern industrial economy could run on a profitless basis.\(^\text{45}\)

In fact, the only thing the pursuit of profit did for the economy, Tugwell charged, was “produce insecurity.” Thirst for it bred speculation, a tendency “to allocate funds where we believe the future price situation will be favorable” rather than where capital would be needed. These decisions “have a considerable effect on the distribution of capital among various enterprises” but a “little effect in actually inducing or in supporting productive enterprises.” The result was irrational unevenness and instability. Used to create “overcapacity in every profitable line,” poured into “money market operations in such ways as to contribute to inflation,” and, “most absurdly of all,” invested in “securities of other industries,” Tugwell concluded that it “would be difficult to devise a mechanism less relevant to the social purpose of capital” than the profit motive.\(^\text{46}\)

Tugwell’s idea of the social purpose of capital was simple: to bring consumption and production into balance. He determined that only national economic planning could achieve that goal, and his definition of planning was as bold as they got. “[T]here is no way of accomplishing this,” Tugwell proclaimed, “except through control of prices and profit margins.” Planning, that is, meant “that profits must be limited and their uses controlled” and that “an integrated group of enterprises run for its consumers rather than for its owners.” By the “uses of profits,” Tugwell was referring to investment, and his basic view of the


\(^{46}\) Ibid.
“principles of planning” can be summarized like this: regulation of prices with socialization of profit and the investment function.\(^47\)

Planning, Tugwell then had to admit, “amounts, practically, to the abolition of ‘business.’” And he did not take the point lightly. In a planned society, Tugwell cautioned, “the few who fare so well as things are now, would be required to give up nearly all the exclusive perquisites they have come to consider theirs of right,” and “these should be in some sense socialized.” Few “understand that fundamental changes of attitude, new disciplines, revised legal structures, unaccustomed limitations on activity, are all necessary if we are to plan,” and he felt it incumbent upon himself to unambiguously set forth the stakes. But Tugwell also considered the tradeoffs worthwhile, and his eloquent argument for why merits quoting at length:

To take away from business its freedom of venture and of expansion, and to limit the profits it may acquire, is to destroy it as business and to make of it something else. That something else has no name; we can only wonder what it may be like and whether all the fearsome predictions concerning it will come true. The traditional incentives, hope of money-making, and fear of money-loss, will be weakened; and a kind of civil-service loyalty and fervor will need to grow gradually into acceptance. New industries will not just happen as the automobile industry did; they will have to be foreseen, to be argued for, to seem probably desirable features of the whole economy before they can be entered upon.

That something else may have had no name, but Tugwell did identify a model from which his AEA colleagues might take inspiration: “the institutions of the new Russia of the Soviets.” There, in his roseate view, was an example of society moving forward under a “profitless regime.” The Soviets no doubt faced “numerous difficulties” and “plenty of chances for failure,” he acknowledged, “but the failure of non-commercial motives cannot

\(^47\) Ibid, 89.
honestly be said, at this late date, to be one of them.\textsuperscript{48} This man was about to become one of the president’s closest advisers.

Few institutional economists went so far as to advocate for the Soviet model, but most agreed with Tugwell’s general diagnosis. A more mainstream thesis, and one that gained traction as Depression deepened, was that the economy suffered from a crisis of under-consumption. Production and consumption were out of balance because the masses were too poor to consume. And like Tugwell, the under-consumption theorists took this back to the corporation. Power, they had argued, enabled the corporate elite to keep prices and profits high, wages low, and investment and production levels wherever they liked. They controlled the market. Thorstein Veblen had first expounded upon this idea in \textit{The Theory of Business Enterprise} published in 1904, and by the early 1930s institutional economists were bringing innovative theoretical and statistical methods to bear on the question. Some came to see government spending as a mechanism by which purchasing power might be boosted, and a prescient institutional literature on deficit spending emerged in these years. From another angle, many came to see strong trade unions as a useful vehicle for effecting a redistribution of income from profits to wages, and their proposals became the basis for Section 7(a) of the NRA and later the Wagner Act, the first federal laws protecting workers’ right to collective bargaining. John Maynard Keynes’s 1936 publication of \textit{The General Theory} provided the most sophisticated presentation of the case for increased government intervention in the economy to raise purchasing power, but institutional economists had for years pushed for public policies of the kind that Keynes’s classic work endorsed, and in some ways even

\textsuperscript{48} Ibid, 76, 90.
anticipated his key conceptual insights. It was Roosevelt and not Keynes who put them on center stage.

MY OBJECTIVE in this study is to shed light on the central role this left-wing of institutional economists played in the politics of inflation from the 1930s until its fall in the 1970s. These figures did much to shape the character of “Keynesianism” as it developed in the United States and the New Deal order in which it existed. Their analysis started with the assumption that corporate power had transformed the world and the belief that those public consequences warranted government intervention into business operations. The most immediate of the public consequences was the ongoing crisis of under-consumption, and through their analysis of that problem the institutional economists wedded a focus on the corporation with a macroeconomic interpretation of the Depression as stemming from insufficient aggregate demand. In this sense, they blended an older institutional tradition with the best of what came to be called Keynesianism.

Although few would have identified their approach such, I refer to this New Deal left tradition as “Institutional Keynesianism.” Two positions in particular defined Institutional

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50 Scholars have treated this tradition allusively as “structural” or “left Keynesianism.” I prefer Institutional Keynesianism because it invokes the specific historical context in which it emerged. Moreover, there has in recent decades emerged a large heterodox economics literature around the ideas structuralism and structural Keynesianism, and I do not wish to create confusion between the two. See for example Thomas I. Palley, *Plenty of Nothing: The Downsizing of the American Dream and the Case for Structural Keynesianism* (Princeton: PUP, 1998). Theodore Rosenof discusses this tradition in *Economics in the Long-Run: New Deal Theorists and the Legacies, 1933-1993* (Chapel Hill: UNC Press, 1997).
Keynesianism. First, again, was the idea that corporations were social institutions, and that therefore national economic planning through direct federal intervention in their pricing, wage-setting, profit-making, and investing functions was needed to stabilize the industrial economy and to ensure an equitable distribution of the income it produced. They proceeded, that is, from what Alfred Eichner later called a theory of the micro-foundations of macro-dynamics. The relationship between pricing power and economic stagnation was a key insight, and in this way Institutional Keynesians from the outset developed a conceptual framework that accounted for those phenomena that more orthodox thinkers saw as paradoxical: stagflation chief among them. Indeed, they believed that without rigorous planning such an outcome was likely, if not inevitable.

The second important feature of Institutional Keynesianism was its adherents’ commitment to popular struggle for democratic reform from below. The planning wing of the New Deal was not composed of “high modern” technocrats dismissive of ordinary peoples’ voices. Rather, it contained some of the strongest supporters of workers’ struggles to organize, from the fledgling industrial unions to the most marginalized agricultural laborers in the South. Several of them joined the staff of the industrial unions after the CIO made its breakthrough in 1937. Planning, the Institutional Keynesians understood, would not just happen. It challenged the most deeply held values of the most powerful people in the world, and figures from Rexford Tugwell on down knew full well that only a mass movement could create the conditions under which senior policymaking officials would consider moving in

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that direction. They therefore came to see as their overriding priority the task of building a popular farmer-labor alliance, like the Farmer-Labor Party in Minnesota and the rural-urban working-class coalition which would soon build a social democracy in Sweden. Bringing production and consumption into balance, in other words, was not possible without solidarity between working people in the city and the countryside during what was sure to be an epic class struggle. Recalling the challenges that Institutional Keynesians faced on this front can be useful for thinking through the great rural-urban political divide that prevailed by the end of the twentieth century.53

The Institutional Keynesians, of course, did not succeed in making a durable social democracy in the United States. And it is true that their influence peaked during the Roosevelt years. But they did not simply disappear after that. The founders of Institutional Keynesianism, who came together around Tugwell in the New Deal USDA, and especially the younger generation of activist-intellectuals they trained, continued on as the left wing of the New Deal order in the decades to come. They lost many more battles than they won, but like their predecessors in the first third of the twentieth century they made themselves heard and functioned as a counter-weight to the more conservative “commercial Keynesians” that scholars have seen as hegemonic in the postwar period. Yet it is the case that when the next crisis arrived in the 1970s they could not prevail. The short answer to why is that the corporate class they challenged was too powerful. The long answer, following the evolution of this and competing national policy discourses, is the subject of this dissertation.

Chapter 1 uncovers the origins of Institutional Keynesianism in the New Deal Department of Agriculture. Through the 1930s, the USDA was the epicenter of the New Deal left. Rexford Tugwell was the central figure here, but even after he left government in 1937 his legacy persisted. The chapter focuses in particular on the Consumer Counsel Division of the Agricultural Adjustment Administration (AAA), which became home to a cadre of activist-intellectuals who elaborated and popularized the first articulation of Institutional Keynesianism. Chapter 2 moves into World War II and the immediate postwar period, and examines what I see as the three major defeats suffered by the Institutional Keynesians during these years. The defeats map on to what Karl Polanyi called in his famous 1944 book, *The Great Transformation*, the fictitious commodities of labor, land, and money: the termination of the wartime Office of Price Adminsitration (OPA), the failure of the full employment act, and the privatization of collective bargaining; the demise of the Brannan Plan to overhaul agricultural policy; and the 1951 Federal Reserve-Treasury Accord, which re-established an independent central bank. These were defeats from which Institutional Keynesianism would never recover.

But they were not a death knell. Chapter 3 explores the ways Institutional Keynesians functioned during the chilly 1950s, when red-baiting and a Republican presidential administration put their larger ambitions on hold. In particular, I assess the politics surrounding the strange recession of 1957-58, during which inflation and unemployment rose in tandem and which in this sense served as a prelude to stagflation. The steel industry became the site of the most intense struggle, and I analyze the political effects of a late-1950s and early-1960s investigation into industrial pricing power conducted by Tennessee Senator Estes Kefauver and his Subcommittee on Antitrust and Monopoly. The Kefauver Committee
sought to demonstrate how corporate profits were to blame for inflation, and the politics
surrounding the probe pushed industrial leaders to search for a new pricing strategy.

If it seemed like the Institutional Keynesians were on the cusp of a resurgence,
however, the cause for optimism was fleeting. Chapter 4 shows how the Kennedy
administration brought with it a different style of liberalism that displaced the Institutional
Keynesians during the 1960s. Specifically, they replaced the earlier concern with profits with
an emphasis on productivity. Productivity, in their view, could cut through all the distributive
challenges presented by the politics of inflation. But as we have seen, productivity was on the
cusp of slowing. Chapter 5 treats Richard Nixon’s ill-fated attempts to reconcile the
contradictions that began to swirl just as he took office. Nixon was a conservative, but he was
also made by New Deal world, and his approach to the politics of inflation testified to that
tension. He became the first president to introduce “peacetime” wage and price controls –
though people in Southeast Asia may have disputed that description – but this was no OPA.
The Nixon controls program was built upon the logic that came out of the Kennedy
administration, and it failed for the same reason. The economy was not what it had been
during the special century.
Chapter One: Cultivating Institutional Keynesianism in the New Deal Department of Agriculture

TIMES WERE UNCERTAIN in 1937. In the middle of that year, Chicago police opened fire on a group of striking workers at the Republic Steel plant on the city’s south side. Ten unarmed civilians died with dozens more injured, and the workers, whose action was inspired by the breakthrough CIO victories at General Motors and U.S. Steel earlier that year, returned to their jobs soon thereafter, still without a union. In mid-1937, every economic indicator that had shown improvement since early in the New Deal reversed course. The Roosevelt administration had balanced the budget the year before, and the consequence was yet another bout of brutal recession. In mid-1937, Japanese troops launched a major invasion of China, and the next year Hitler annexed Austria. Fascism was on the march, and global war was around the corner. And in mid-1937, Rexford G. Tugwell was hopeful about the prospects for social democracy in the United States.

If scholars have seen 1937 as the year when New Deal reform ended, that is, Tugwell did not know it.¹ This is not to say that he thought that capitalism in the United States was destined to be eclipsed. The boundary of the politically possible, Tugwell understood, would only be as far out as social struggle pushed it. And he had an idea about where that social struggle might come from: a “farmer-labor alliance.” None of this, of course, would happen overnight. Political openings like that which appeared in 1932 were not in sight – they would arrive “possibly beyond the next war, probably beyond the next depression, certainly beyond the next election.” But whenever the opportunity came, it would be up to popular forces to

take advantage. Only if “there were enough thunder on the left to drown out the publishers on the right,” Tugwell emphasized, would working-people finally “be able to push the Democrats around,” especially those reactionary ones from the South.² That the New Deal had not resolved the contradictions besetting the U.S. political economy Tugwell knew full well, but he did not expect it to. The purpose of the great social reforms of the Roosevelt presidency, in Tugwell’s mind at least, was to establish a plane upon which future social movement organizing could develop. And he was not just pontificating. Tugwell had played a central role in pushing the New Deal in that direction.

In 1933, Tugwell became Assistant Secretary of Agriculture, and through Roosevelt’s first term and into the second he stood as a leading figure of the famous “Brains Trust” and he embodied the New Deal left. This chapter explores the origins of “Institutional Keynesianism” in the Tugwell-wing of the 1930s U.S. Department of Agriculture (USDA), and it does so in two ways. First, it highlights the existence and influence of a left in the USDA, especially in the Legal Division and the Consumers’ Counsel of the Agricultural Adjustment Administration (AAA). Most histories of the AAA see the famous 1935 “purge” of the radicals, when Secretary of Agriculture Henry Wallace summarily fired AAA general counsel Jerome Frank and others, as a turning point in U.S. agricultural policymaking. This chapter seeks to complicate that narrative by demonstrating the persistence of a left current in this capacious administrative body. Second, it traces how this USDA left – which had been reared in the institutional tradition – reacted to the policy-intellectual consequences of the 1936 publication of John Maynard Keynes’s General Theory. This chapter attempts to show

that what has been called institutionalism and Keynesianism should not be understood as opposed to one another, but rather as complementary.

The chapter begins by assessing the competing perspectives in the New Deal USDA, and clarifying what was distinctive and indeed radical about the institutionalists on the left. In short, a fault line emerged between those committed to the over-production and under-consumption theses. Under-consumption theorists in the Legal Division and the Consumers’ Counsel understood that the agricultural crisis extended beyond the farm, and they sought to use their positions in government to facilitate organizing that could lead to the kind of farmer-labor alliance that Tugwell had imagined. Struggles over two commodities in particular consumed much of their attention: cotton and milk. And in grappling with them, these New Deal leftists were forced to confront a number of challenges that would nag progressives in the decades to come: race, especially in the South; household work performed by women who managed family budgets and interfaced with the market as consumers; the conditions of industrial labor and the income it generated; and, ultimately, the question of ownership of socially necessary industries and, by extension, the investment function.

The chapter then examines the opportunities afforded by changing economic conditions in the years just before U.S. entry into World War II and the Keynesian ascendance. Institutional Keynesianism was born in this milieu. For the first few years of its publication, which began in 1933, the tagline of The Consumers’ Guide – prepared by the AAA Consumers’ Counsel – was “the purpose of production is consumption.” By 1939, it was instead promoting “maximum production” and “full employment,” one of the earlier usages of that term. This was not, however, simply a turn from the micro to the macro. To make that point, the chapter chronicles the development of the Food Stamp Plan,
implemented by the USDA between 1939 and 1943. On its face, the program could seem to exemplify all that would become “commercial Keynesianism” – the idea was to subsidize spending by low income groups in private grocery stores. But as we will see, those behind the program saw this as just a first step. Their intended to use the program as an opportunity to do political education and thereby to build popular support for a distinctly Institutional Keynesian national agricultural policy.

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UNDERSTANDING THE HISTORY of the radical promise of the New Deal requires first understanding just how much was stacked against it. Individuals, ideas, and institutions were all arrayed in opposition. Plastic as both the AAA and the NRA were designed to be, these twin pillars of the early New Deal were built upon a shared assumption about the character of the Great Depression, one towards which the Institutional Keynesians would grow more and more opposed as the Roosevelt years progressed. In a word, it was overproduction. Unbridled competition resulted in cutthroat races for profit; cutthroat races for profit resulted in over-investment in some lines and price slashing in others; and over-investment and price

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slashing were rather circularly taken to imply the existence of too much supply for the level of demand, which resulted in declining profitability and economic crisis. The solution, then, was to limit competition and allow businesses, whether industrial or agricultural, to regulate supply so as to generate stable returns. Corporate capital was not the problem. The antitrust laws were.

From the Institutional Keynesian perspective, the overproduction reasoning seemed not only unsound but also mean-spirited. National Farmers’ Union leader John Simpson’s remark that the only things in overproduction during the Depression years were “empty stomachs and bare backs” got to why. The real pathology, these critics argued, was not overproduction but its inverse: under-consumption. Limiting production would do nothing to address the growing industrial and agricultural price divergence, but it would intensify the already catastrophic rate of joblessness that was sapping demand. A better way forward was to increase production while controlling prices and profits. That is, to plan. This under-consumption thesis would serve as the intellectual foundation of a formidable working-class consumer movement, one allied with trade unionists and Institutional Keynesians in government, that emerged during the 1930s. Still, it must be noted that the gap separating proponents of the overproduction and under-consumption theses was not static. It grew and became more pronounced over the course of the Depression, but only with the help of hindsight can one discern the earlier genesis of two discrete ideological formations which, as it would happen, informed two distinct perspectives on reform. In the 1920s, one could plausibly have one foot in each camp, supporting associationalism in one context and

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planning in another. Only the struggles of the 1930s would sharpen the contradictions between them.\(^7\)

Moreover, different people and organizations had different ideas about how to put these competing analyses into action. Inside the USDA, one of the most influential viewpoints came from what was referred to as the Farm Bloc. Its leading force was the American Farm Bureau Federation (AFBF), a national body representing the largest agricultural interests that was organized along state lines, with branches reaching down to the county level. By the 1930s, the AFBF had developed close institutional and personnel linkages with the leaderships of state land-grant colleges as well as the vast Extension Service maintained by the USDA, so much so that the boundaries separating the three were often indistinguishable. This was the agrarian establishment.\(^8\)

Among the Farm Bloc’s chief legislative goals in the 1920s, one that in spite of two vetoes by Calvin Coolidge continued to shape their agenda into the Roosevelt era, was the McNary-Haugen bill. The proposal was first advanced by George Peek, head of the Moline Plow Company who would in 1933 take his sympathies for agricultural processors and implement manufacturers to Washington as the first Director of the AAA.\(^9\) It began with the idea that the U.S. agricultural woes began abroad. There was indeed too much supply in the country, Peek held, but that was because the domestic market enjoyed no protection from foreign dumping. Something like a tariff on agricultural goods, like the one on industrial

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\(^8\) See Christina M. Campbell, *The Farm Bureau and the New Deal: A Study of the Making of National Farm Policy, 1933-1940* (Urbana: University of Illinois Press, 1962). The USDA Extension Service had been established by the Smith-Lever Act of 1914 with the purpose of facilitating communication and dissemination of information from the USDA to agricultural producers around the country.

wares, would limit supply and help to realign the agricultural-industrial price disparity without necessitating statist controls. The bill itself would have identified a reasonable price level and established a government corporation to purchase whatever surplus agricultural production could not be sold at that rate and then to unload it on the world market. Whatever loss the government incurred would be recoverable through an “equalization fee” on beneficiaries of the program. For commercial agriculturalists wary of state coercion but in need of relief, the McNary-Haugen bill seemed an ideal stopgap measure.\(^{10}\)

A competing proposal came from what the rural sociologist Jess Gilbert has called the “agrarian intellectuals” in the USDA. Led by figures trained early twentieth century Midwestern land-grant colleges – like Henry A. Wallace, M.L. Wilson, and Howard Tolley – their vision for agriculture evinced the two dimensions of their Progressive educations: ecological conservation and economic exactitude. The real source of the intractable agricultural deflation, the agrarian intellectuals held, was the irrational and anarchic way land was put to use in the U.S. They called, in turn, for a kind of planning, but not the kind Tugwell had envisioned. Agricultural distress in their view stemmed less from power imbalances between classes than from ignorance among all. Education, then, was the answer, and the agrarian intellectuals saw research into both the optimal uses of land and advanced statistics as central to that project. Armed with reliable information, farmers, with help from the government, could cooperate to rationalize the nation’s agricultural system. The agrarian intellectuals were sincere in their democratic principles, as Gilbert makes clear in his important study of their efforts in the late 1930s and early 1940s, but, in the face of the

growing class antagonisms in the U.S. countryside (and especially in the South), the
voluntarism animating their politics should have seemed hopelessly naïve. That Henry I.
Harriman was an enthusiastic supporter might have indicated something.11

The agrarian intellectuals’ main policy legacy was the “domestic allotment plan,”
through which agricultural producers would limit production in exchange for a subsidy from
the federal government, to be financed through a tax on corporate processors of food and
fiber.12 And although the Agricultural Adjustment Act of 1933 left room for both this and the
McNary-Haugen idea, and in spite of George Peek’s appointment as AAA head,
operationally New Deal agricultural policy was the domestic allotment plan in action. Still,
the AAA could not run without support from Peek and his commercial agriculturalist allies,
and this wing – who thought more like big businessmen than farmers – would be well
represented in the Administration’s various commodity divisions. On whether production
cuts, which would increase the price of food, made any sense when so many had so little, and
on whether the program might intensify the hardship already endured by the poorest
agricultural workers, the agrarian intellectuals, in contrast to George Peek, were not
dismissive of the planners’ concerns. These were real risks, and it might be necessary for
administrators to adopt mitigating measures as issues arose. But the emergency was acute,
and the domestic allotment plan could immediately get at its root and begin to lift prices.
That argument, the need for some action to meet the emergency, was enough to convince

11 See Jess Gilbert, Planning Democracy: Agrarian Intellectuals and the New Deal (New Haven: Yale
University Press, 2015) and Richard Kirkendall, Social Scientists and Farm Politics in the Age of Roosevelt
(Columbia: University of Missouri Press, 1966). On Harriman’s support, and for a useful if dated explanation of
the proposal, see Schlesinger, The Coming of the New Deal, 36-38.
12 Though the idea behind the domestic allotment plan has been attributed to two agricultural economists,
William J. Spillman and John D. Black, for respective their books, Balancing the Farm Output (1927) and
Agricultural Reform in the United States (1929), the economist, Macy’s executive, and Laura Spellman
Rockefeller Foundation official, Beardsley Ruml played an important role in popularizing it. See Hamilton,
From New Day to New Deal, 182-183.
enough planners in the USDA to go along with it – not that they had much choice in the matter.

Important among them was Mordecai Ezekiel, an author of the farm bill and also a clear example of the relationship between professionalizing agricultural economists, state capacity, and the nascent Institutional Keynesianism. Born outside Washington D.C. in 1899, Ezekiel at nineteen completed a Bachelor’s degree in agriculture at the Maryland Agricultural College, a land-grant institution, and began a career in the federal government, first with the Census Bureau and then as an economist in the USDA Division of Farm Management. During those years he took courses at the USDA Graduate School and the Brookings Graduate School in Economics and Government, earning a doctorate from the latter institution in 1926. The USDA program had a strong statistical focus, and when Ezekiel published his first book in 1930, *Methods of Correlation Analysis*, he established himself as one of the world’s leading statisticians. He was also quite the economist, utilizing both quantitative and institutional methods. Price making was, no surprise, a principal interest, and Ezekiel brought a rigorous approach to data together with a Veblenian analytic in studying the issue, something that he passed to many students as an instructor in the USDA Graduate School. But he was also concerned with the issue of economic growth, or, more precisely, its inverse – stagnation. He spent most of the 1920s in the Bureau of Agricultural Economics (BAE), where by 1933 Ezekiel was anticipating Keynes’s insights, calling for deficit spending on a robust public works agenda, an argument he expanded upon in his two books published during the New Deal. Appointed Economic Adviser to the Secretary of Agriculture
that year, he would be a leading Institutional Keynesian in the Department throughout the New Deal.  

The planners in the BAE, including Ezekiel’s close associate, Louis Bean, would also play an important role in the coming struggle over social reform. As Ellis Hawley has observed, the staff of the BAE, the most robust social scientific research center in the federal government, “became engaged not only in using their skills to provide informational services but also in developing their discipline and expanding the frontiers of knowledge.” The historian of economic thought Malcolm Rutherford has seconded this assessment and contended that the researchers with the BAE, as well as those who taught at the USDA Graduate School (to no surprise there was tremendous overlap), with their particular style of quantitatively informed institutionalism, deserve to be placed at the center of the story of the American economics profession in the twentieth century. And one of their most important contributions, again, was to highlight how the relationship between agriculture and industry affected production, prices, profits, and purchasing power in general. Louis Bean was exemplary in this regard. His work on the dynamics between the steel industry and agriculture, which he continued into the Truman administration, would serve as fodder for

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industrial unions’ public relations campaigns and bargaining efforts during the war and after.\textsuperscript{16}

Not all Institutional Keynesians in the USDA were men. Around the same time Henry C. Wallace established the BAE, he created a Bureau of Home Economics (BHE) to help households navigate the welter of new consumer goods they confronted in the marketplace. The field of home economics paralleled agricultural economics: it emerged through the USDA, both in Washington and in local communities through the Agricultural Extension service; it gained a foothold among progressive intellectuals in the universities and in many places became established as its own department; and its practitioners were mainly concerned with the relationship between agriculture and the rest of the economy. From 1923 until 1943, the BHE was led by Louise Stanley, a 1911 Yale PhD in biochemistry and a member of the Department of Home Economics faculty at the University of Missouri. At the BHE, she hired more female professionals than any other federal agency, and as the historian Carolyn Goldstein has shown, their “approach to the home would prove to be wide ranging, covering issues of production, distribution, and consumption of foods, clothing, and household equipment.”\textsuperscript{17} During the New Deal, activist-intellectuals in the BHE used their positions as spokespersons for “housewives” as an opportunity to articulate under-consumptionist and planning arguments that aligned with those coming from the BAE. The mere presence of


women, however, would not change the fact that virtually all New Dealers thought about production and consumption in terms of the family-wage. And the women in the BHE were not exactly a representative sample. Still, if by the end of the twentieth century just about everyone had come to see home economics as an artifact of a bygone era, in the 1930s the profession played a progressive function even though it should not be remembered as a feminist one.

A figure who did little to account for gender but much to shape the character of Institutional Keynesianism was Gardiner Means, who joined Ezekiel in the Office of the Economic Advisor to the Secretary of Agriculture. Means would become among the most important figures in the Institutional Keynesian tradition for his articulation, in an internal report later published by the Senate, of a simple principle long recognized by many institutional economists, as well as almost every consumer: the theory of administered prices. Whereas economic orthodoxy held that prices were constantly “made in the market as the result of the interaction of buyers and sellers,” Means began that famous paper, administered prices were “rigid, at least for a period of time, and sales (and usually production) fluctuate with the demand at the rigid price.”¹⁸ The implied peril was grave – in the face of low demand, administered prices may remain stable or even rise while production fell. These were conditions that could result in simultaneous stagnation and price inflation.¹⁹ And he showed how industries with high levels of concentration had behaved just that way during the depths of the Depression. But the practice, Means admitted, was not necessarily pernicious. It stemmed from the “shift from market to administrative coordination of

¹⁹ Ibid, Industrial Prices, 8.
economic activity,” one that “made possible tremendous increases in the efficiency of industrial production” but which also “by its nature destroyed the free market and disrupted the operations of the law of supply and demand in a great many industries and for the economy as a whole.” As a result, Means observed, “a major part of American economic activity” occurred not in response to the market, but at the will of those “great administrative units – our great corporations.”

This was all familiar enough to those on the USDA left. But context mattered more than content in making Means’s 38-page paper, the glamorously titled Industrial Prices and their Relative Inflexibility, a success – although the pithy formulation he introduced in it surely did not hurt. Though he had published drafts of the study as early as 1933, the Senate edition was released only in 1935, just as the Supreme Court struck down the NRA and appeared poised to do the same to the AAA. With the centerpieces of the New Deal tottering and the Depression grinding into its fifth year, popular sentiment towards big business hit a nadir, a turn to which Berle and Means’s own book, The Modern Corporation, had contributed at least in part. The so-called “Roosevelt Recession,” which began in 1937 and had by 1938 erased most of the gains achieved by the early New Deal, only added to the widespread frustration. To address this growing concern, Roosevelt established the Temporary National Economic Committee, a body that for the next three years would study and issue reports on corporate power in a number of industries, becoming the most extensive federal inquiry on that question to date. Scholars have with some cause characterized the TNEC as a last gasp of the New Deal anti-trust impulse – certain old-school populists were behind its creation, like Wyoming Senator Joseph O’Mahoney, and its investigations

20 Ibid, 10.
21 Ibid, 10.
dovetailed nicely with Assistant Attorney General for Antitrust Thurmond Arnold’s crusading efforts around the same time. But the principal inspiration for the TNEC was Means’s administered price thesis, and, as he had stressed all along, “[a]dministered pricing should not be confused with monopoly.” “Few realize the extent to which it would be necessary to pulverize industry,” he observed, nor appreciate “the loss of efficiency which it would entail,” to break up the great corporations. To Means, the answer laid, as it did for Tugwell, in planning. He would spend the rest of the decade at another center of the New Deal planning impulse, the National Resources Committee, which became the NRPB, to do just that.

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INSTITUTIONAL KEYNESIANS in the New Deal Department of Agriculture did not just write about the need for planning. They also sought to educate ordinary people about their findings, and at times even to organize around them. Indeed, efforts by USDA officials to facilitate self-activity among rank-and-file workers and consumers – and to draw on their collective power – established a template for what Meg Jacobs has in reference to the

22 See especially Hawley, *The New Deal and the Problem of Monopoly.*
wartime Office of Price Administration (OPA) called “state building from the bottom up.”

Together with the tremendous authority granted the Department from above – which among other things provided the capacity for the first time since Reconstruction to reach deep into the South – this “democracy in action,” to borrow M.L. Wilson’s term, threatened to destabilize all manner of hierarchies. And by serving to unite such a broad coalition of groups around a common social vision – those ranging from the pedigreed, urban professionals of the New Deal left to the white industrial working-class to the most marginalized sharecroppers in the cotton South – it might have done more than destabilize. Paranoid as it could appear, then, the business conservatives and southern reactionaries who responded with a foretaste of the red-baiting that was to come after World War II did have reason to feel under fire.

The events leading to Henry Wallace’s infamous purge of AAA reformers in 1935 offered a concrete example of why. The dispute was rooted in the tension at the heart of the agricultural program – overproduction versus under-consumption – yet, in touching on the most complex issues of class, race, and section, it stood for much more than that. For while the crop reduction schemes could affect all working-class consumers by increasing the price of food, they had truly cruel consequences in store for some. Bearing the greatest share of that cruelty were landless agricultural workers in the South, the majority of farmers in the region. As had so many of their ancestors, most of them toiled in fields of cotton.

The stage was set early on, in the weeks after passage of the Agricultural Adjustment Act, when the Director of the AAA Cotton Section, Cully B. Cobb, began to implement the


1933 cotton contract. Given the preponderance of tenant labor in the cotton economy, the agreement set the pattern by which the AAA would relate to this downtrodden class of workers, one that accounted the majority of agricultural workers in the country and the overwhelming share of rural African Americans.\textsuperscript{27} That pattern was one of heinous neglect. Payments were made directly to landowners, and though the planters were charged with distributing a portion of the sum to their workforces according to a predetermined rate schedule – one based on tenancy classification, with sharecroppers receiving the least and cash-tenants the most – federal oversight, at least initially, was far from rigorous. The first line of defense for aggrieved tenants were the county production control agencies, bodies under the firm grip of the AFBF and the local planter aristocracy, so little of the money trickled down.

Nor did the landed elite stop there. As expected, the AAA’s acreage reduction program cut their demand for labor – they needed fewer workers to harvest fewer crops. Fewer workers meant fewer tenants, and by the end of 1933 landowners were evicting southern farmworkers in droves. Winter was the worst time for tenant farmers to be “run off,” as that was when they had only whatever resources remained from the previous crop, a rapidly dwindling amount, and during those months they could not count on access to credit from the big landowners, who withheld liens until the spring planting season began. Efforts by the AAA Legal Division to insert stronger tenants’ rights language into the 1934-35 contract went down in the face of intransigent opposition from Cobb and his lieutenant,

\textsuperscript{27} As of 1930, the majority of southern farmers were tenants, and almost three-quarters of cotton farms were worked by tenant labor. Cotton farms accounted for one-quarter of all farms in the country and half of all farms in the South. In 1930, the top ten cotton producing states were home to 936,896 white and 670,665 African American tenant farmers. Conrad, \textit{Forgotten Farmers}, 1 and M.S. Venkataramani, “Norman Thomas, Arkansas Sharecroppers, and New Deal Agricultural Policy, 1933-1937,” \textit{Mississippi Valley Historical Review} 47, no. 2 (1960), 225.
Finance Director Oscar Johnston, both allies of the southern planter class. It is thus no stretch to conclude that at least one consequence of early New Deal agricultural policy was to turn the crushing poverty already endured by these “American peasants” into a full blown humanitarian crisis.  

But Southern farmworkers did not just roll over. In short order, the Department of Agriculture and the White House became flooded with complaints from those stung by the debilitating effects of the new program. Robert Allen charged that “Mr. James Robb [the landlord]…has never give w[ene] the agricultural workers…not one dime of our Rightful Part,” while tenant organizer J.R. Butler demanded that the federal government “stop such ‘rackets’

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28 The term “American peasants” is taken from Conrad, The Forgotten Farmers, Ch. 1. No serious history of New Deal agricultural policy can go without addressing the heavy displacement caused in the South during the life of the AAA by the crop reduction program. See Badger, The New Deal, 163-169 and 182-189; Conrad, The Forgotten Farmer, 37-82 passim.; Peter Daniel, Breaking the Land: The Transformation of Cotton, Tobacco, and Rice Cultures since 1880 (Urbana: University of Illinois Press, 1985), 91-109; Gilbert Fite, Cotton Fields No More: Southern Agriculture, 1865-1980 (Lexington: University of Kentucky Press, 1984), 120-161; Irons, New Deal Lawyers, 156-161; Kennedy, Freedom from Fear, 207-213; Jack Temple Kirby, Rural Worlds Lost: The American South, 1920-1960 (Baton Rouge: Louisiana State University Press, 1987), 51-79; Jason Manthorne, “As You Sow: Culture, Agriculture, and the New Deal” (PhD Diss., University of Georgia), 221-275; Gavin Wright, Old South, New South: Revolutions in the Southern Economy since the Civil War (New York: Basic Books, 1986), 226-238. More favorable accounts are provided by Van Perkins, Crisis in Agriculture and Edwin Nourse et al, Three Years of the Agricultural Adjustment Administration (New York: De Capo Press, Reprint 1971), esp. 40-49. Originally published by Brookings in 1937, the eminent agricultural economists Nourse, Davis, and Black defended the AAA’s work in the South as such: “Those who have most strongly criticized the working of the program on this score in effect contended that it should have operated to correct conditions which have been more than a century in the making, which the Adjustment Act was never designed to correct, and which call for readjustments so fundamental that another century will probably not see them nearly made,” 345. Comprehensive data on the AAA’s impact on southern tenant farmers – in terms of payments withheld, evictions, etc. – does not exist. The complexities of AAA contract requirements, along with highly inequitable and archaic southern tenancy practices, made thorough documentation very unlikely in the absence of a larger presence of federal personnel in the region. There were, however, some attempts to measure the severity of the crisis. The League for Industrial Democracy commissioned a study by University of Tennessee physiologist and Socialist Party activist, William B. Amberson, which was published as “Report of Survey Made by Memphis Chapter, League for Industrial Democracy and the Tyronza Socialist Party,” and was printed in Norman Thomas, The Plight of the Sharecropper (New York: League for Industrial Democracy, 1934). The AAA also dispatched Duke University economist Calvin B. Hoover to study the problem. His 1935 report, “Human Problems in Acreage Reduction in the South,” concluded, like Amberson’s, that the program had led to widespread evictions. On the Hoover report, see Conrad, Forgotten Farmers, 123-126 and F. Raymond Daniell, “AAA Aims At An End To Sharecropping,” New York Times, April 22, 1935. On Cobb, see Jimmy Shoalmire and Roy Vernon Scott, The Public Career of Cully Cobb: A Study in Agricultural Leadership, (Jackson, Mississippi: University and College Press of Mississippi, 1973). On Johnston, see Lawrence J. Nelson, King Cotton’s Advocate: Oscar G. Johnston and the New Deal (Knoxville, TN: University of Tennessee Press, 1999).
and give the man who tills the soil a break.” Conniving as they were, Butler continued, these “planters are not such big devils that you need to be afraid to crack down on them.”

But those southern devils were big enough, and many tenants understood that, against such an opposition, letters not backed up by organization were worth little more than the scrap on which they were written. So they organized, spearheading one of the most courageous, if also tragic, struggles to unfold during those turbulent years. As field organizer Martha Johnson described the tenants’ activity to Socialist Party leader Norman Thomas in late 1933, in the land of King Cotton “you will find the true proletariat…moving irresistibly toward revolution and no less.”

That movement first erupted in northeastern Arkansas, an area that was relatively new to cotton farming. The soil there, by then some of the most fertile for harvesting the white gold, had until a few decades earlier laid beneath virgin forest, one that large lumber interests only got to in the first quarter of the twentieth century. On what remained they established a few industrial scale plantations that employed a workforce of white and African American tenant laborers, many of whom had once earned their keep as wage workers cutting and hauling timber for those same companies. The place was a study in just how compatible capitalist society could be with persistent forms of unfree labor – as a New York Times correspondent noted, “Here Ole’ Master has assumed a corporate aspect.”

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31 See Daniell, “AAA Piles Misery on Share Croppers,” April 15, 1935. The uneven development of this “corporate aspect” in American agriculture is worth noting, and it speaks to the great diversity of land, crops,
Mitchell and Clay East, Socialist Party activists from Tyronza, Arkansas, and with the help of Martha Johnson, the daring exhibited by this “true proletariat” quickly captured the imagination of luminaries on the left, like Thomas, who after visiting the region in early 1934 wrote to Wallace that “never in America have I seen more hopeless poverty,” and warned the Secretary that unless his Department took swift action there would be blood.\footnote{Thomas quoted in Auerbach, “Socialist Critics of the New Deal,” 6.} At the urging of the country’s most recognizable Socialist, Mitchell, East, and others then began the arduous task of consolidating what they had built into the Southern Tenant Farmers’ Union (STFU). As a founding principle, the STFU was committed to interracial organization, and it therefore marked a challenge not only to the authority of the planter class in the fields but also to the white supremacist order upon which that authority rested.\footnote{On the Southern Tenant Farmers’ Union, see Donald H. Grubbs, *Cry from the Cotton: The Southern Tenant Farmers’ Union and the New Deal* (Chapel Hill: UNC Press, 1973); H.L. Mitchell, *Mean Things Happening in This Land: The Life and Times of H.L. Mitchell, Co-Founder of the Southern Tenant Farmers Union* (Montclair, N.J.: Allanheld, Osmun & Co., 1979); Conrad, *Forgotten Farmers*, 82-104; Michael Honey, *Sharecroppers Troubadour: John L. Handcox, the Southern Tenant Farmers’ Union, and the African American Song Tradition* (New York: Palgrave Macmillan, 2013); Jason Manthorne, “The View from the Cotton: Reconsidering the Southern Tenant Farmers’ Union,” *Agricultural History* 84, no. 1 (2010): 21-45. For a contemporary perspective, see Howard Kester, *Revolt of the Sharecroppers* (New York: Covici, Friede, 1936). On the STFU and the Socialist Party in particular, see Auerbach, “Southern Tenant Farmers: Socialist Critics of the New Deal,” 3-18 and M.S. Venkataramani, “Norman Thomas.” For a more critical assessment of the Socialist Party’s relationship to the STFU, see Grubbs, “Gardner Jackson, that ‘Socialist’ Tenant Farmers’ Union, and the New Deal,” *Agricultural History* 42, no. 2 (1968): 125-137. See also Norman Thomas, *The Plight of the Sharecropper* (New York: League for Industrial Democracy, 1934), which contains the findings of an LID study, directed by University of Tennessee physiologist and Socialist Party-member Dr. William B. Amberson, on post-AAA conditions in the Mississippi Delta. See William B. Amberson, “Report of Survey Made by Memphis Chapter, League for Industrial Democracy and the Tyronza Socialist Party,” in Thomas, *The Plight of the Sharecropper*, 19-33. See also, Amberson, “The New Deal for Sharecroppers,” *The Nation*, Feb. 13, 1935.} The landed elite responded with the kind of viciousness that had been their trademark at least since the interracial Populist insurgency of the late-nineteenth century last seriously contested their power. In this case, their preferred weapon was the violent eviction, and throughout 1934 and social relations discussed under the auspices of “agriculture.” The cotton and tobacco plantations of the South and what Carey McWilliams described as the “Factories in the Field” in California were not quite comparable with the family farms that dotted the Midwest. On how region could influence AAA administrators’ perspective, see Gilbert, *Planning Democracy*, Ch. 3.
union activists were thrown out of the makeshift huts that passed for homes and terrorized out of town. By early 1935 several of them had been forced into hiding, only granting interviews to journalists who swore not to reveal their whereabouts.\textsuperscript{34}

If Norman Thomas’s plea to Wallace went unheeded, however, the Secretary’s inaction should not be taken as an indictment of the entire USDA. A cohort of left-leaning attorneys in the AAA Legal Division and activists in the Office of the Consumers’ Counsel, in particular, recognized the stakes involved in the STFU fight, and sought to use it as an opportunity to challenge the retrograde social relations that undergirded Jim Crow Democracy, their intra-party nemesis whose legislative clout stood as one of the chief obstacles in the way of a genuine planning.\textsuperscript{35} Most were Ivy League educated, several maintained close ties to the Communist Party, a few would have prominent careers in the CIO, and a few more – future Assistant Attorney General for Antitrust Thurmond Arnold, Supreme Court Justice Abe Fortas, and U.S. Senator Adlai Stevenson – were bound for even greater acclaim.\textsuperscript{36} In short, this was an able and committed group of progressives, but it was

\textsuperscript{34} See Daniell, “‘Run Off Farms,’ Tenants Declare,” April 20, 1935.
\textsuperscript{35} On southern Democrats’ influence on the New Deal, see Katznelson, \textit{Fear Itself}.
\textsuperscript{36} On the AAA Legal Division, see Irons, \textit{New Deal Lawyers}, 111-199, passim.; Robert Jerome Glennon, \textit{The Iconoclast as Reformer: Jerome Frank’s Impact on American Law} (Ithaca: Cornell University Press, 1985), 68-101, passim. For an interesting sociological comparison of the Legal Division and another group of progressives in the USDA, the “Midwest agrarian intellectuals” like M.L. Wilson, Howard Tolley, and Wallace himself, see Gilbert, \textit{Planning Democracy}, Ch. 4. On the agrarian wing of progressives, see also Kirkendall, \textit{Social Scientists and Farm Politics in the Age of Roosevelt}. The list of Harvard-trained attorneys who passed through the AAA Legal Division alone reads like a who’s who of mid-twentieth century left-liberals: John Abt, Thurmond Arnold, Artie Bachrach, Margaret Bennett, Howard Corcoran, Abe Fortas, Alger Hiss, Leon Keyserling, Jerome Frank, Mary Conner Myers, Paul Porter, Lee Pressman, Frances Shea, Adlai Stevenson, Wesley Sturges, and Nathan Witt. See, Gilbert, \textit{Planning Democracy}, 70. The CP members were Pressman, who went on to an influential but short-lived – thanks to his Party affiliation – tenure as General Counsel of the CIO and the steelworkers, and Abt, who became one of Sidney Hillman’s trusted lieutenants as counsel for the Amalgamated Clothing Workers of America. Hiss, another AAA attorney, was famously accused of Party membership by Whittaker Chambers, but he denied the charge for the remainder of his life and no definitive evidence of his membership exists. In spite of their relationship with the Party, there is no evidence to suggest that their membership had any appreciable affect on the legal work they performed for the AAA. By and large, their activities appear to have been limited to attendance at a discussion group of progressives and radicals in the USDA convened by the CPUSA’s agricultural export, Harold Ware. Ware was the son of famous radical organizer Ella Reeve Bloor. See Gilbert J. Gall, \textit{Pursuing Justice: Lee Pressman, the New Deal, and the CIO
also one that lacked familiarity with the peculiarly racialized character of southern society, much less respect for it. They were “Boys with their hair ablaze,” as George Peek had famously – and, in terms of gender, somewhat inaccurately – lampooned, who “floated airily into offices, took desks, asked for papers and found no end of things to be busy about.” They seemed intent on transforming the Department of Agriculture, Peek often complained, into the “Department of Everything.”

On this account, at least, they were guilty as charged. And, much to the chagrin of the top brass of the Cotton Section, taking on southern race relations was one of the things that kept them busy. In early 1935, after the Arkansas Supreme Court sustained the evictions of several of the founding members of the STFU, Gardner Jackson of the AAA Consumers’ Counsel arranged a meeting between union leaders and Secretary Wallace, who immediately thereafter ordered an investigation into their charges. Mary Conner Myers – an AAA attorney who earlier, as a Treasury Department official, had gained some renown for her work in prosecuting Al Capone – was chosen to conduct it. Myers’s reputation, in fact, was as one of the more conservative lawyers in the Division, but what she witnessed apparently dissolved any ideological predispositions. After collecting hundreds of affidavits from tenant farmers who had only seen their conditions worsen in the year and a half since the AAA went into effect, Myers prepared a blistering report for Chester Davis, Peek’s successor as AAA head,


Schlesinger, The Coming of the New Deal, 52.

See Grubbs, “Gardner Jackson” 128-129. The Arkansas Supreme Court case involved 23 families who had been evicted from Hiram Norcross’s plantation. Norcross, was a Kansas City corporate lawyer turned cotton planter, and 18 of the families forcibly removed – eleven white and seven African American – had a member at the founding meeting of the STFU, held at a schoolhouse adjacent to Norcross’s property. Years later, Clay East recalled Myers commenting that “Capone and all them boys was sissies besides this bunch down in Arkansas,” quoted in Sue Thrasher and Leah Wise, eds., No More Moanin’: Voices of Southern Struggle (Chapel Hill: Institute for Southern Studies, 1974), 21.
and Jerome Frank, the General Counsel. It never saw the light of day. Deeming it too critical and explosive, especially as legal challenges to the entire New Deal made their way through the courts, Davis killed it.\(^{39}\) The Myers Report must have been blistering indeed, because a study completed by Duke University economist Calvin B. Hoover, which the AAA did release a few months later, was not exactly flattering. Concluding that cotton planters were only brought to sign contracts “by an inducement obtained at the expense of the share-tenant and share-cropper,” Hoover exhorted the Administration to change course and to “spare no effort in preventing the unequal distribution of the advantages of the acreage reduction, and particularly to prevent the operation of that program from making the situation of any class of producers worse.”\(^{40}\) The obvious implication being that it already had markedly worsened the situation of at least one class of producers.

The tipping point occurred a few weeks later, during a confrontation over Section 7 of the 1934-35 cotton contract – they were lawyers, after all. In spite of its stated purpose of guaranteeing tenants’ rights, the paragraph in question had been drafted in intentionally vague terms so as to provide clear channels through which landlords could evade its spirit. The Section stipulated that the landlord “shall, insofar as possible, maintain on this farm the normal number of tenants and other employees” and that “[he] shall permit all tenants to

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continue occupancy of their houses on this farm, rent free, for the years of 1934 and 1935, respectively (unless any tenant shall so conduct himself as to become a nuisance or a menace to the welfare of the producer).” What constituted a “nuisance” or a “menace” was, of course, in the eye of the beholder, and to many cotton planters tenant organizing qualified as such. Landowners therefore claimed to interpret Section 7 as a requirement that they retain the same number of tenants while denying that it compelled them to keep the exact same ones. On those grounds, they planned to hang on to their most docile workers, and to replace any troublemakers with those willing to accept their divinely ordained place at the bottom.41

In February, with Chester Davis away from Washington, senior AAA attorney Alger Hiss, along with his associate, Francis Shea, drafted and gained Jerome Frank’s authorization for a new interpretation of Section 7, one that made explicit the requirement that cotton planters keep the same individuals and not just the same number of tenants. This was as clear a case of federal intervention on behalf of workers’ right to organize as any in the 1930s. But upon his return Chester Davis responded in kind. Warning that the cotton contract, and the AAA as a whole, had been imperiled by Frank and Hiss’s act of insubordination, the AAA Director demanded that Wallace cut loose all the activists responsible for the Section 7 revision. And, in what he readily admitted was the lowest point of his public career, the

41 Conrad provides the full text of Section 7, with emphasis added to highlight the intentional vagueness of the language: “The producer shall…endeavor in good faith to bring about the acreage contemplated in this contract in such a manner as to cause the least possible amount of labor, economic, and social disturbance, and to this end, insofar as possible, he shall effect the acreage reduction as near ratable as practicable among tenants on this farm; [he] shall, insofar as possible, maintain on this farm the normal number of tenants and other employees; [he] shall permit all tenants to continue in the occupancy of their houses on this farm, rent free, for the years of 1934 and 1935, respectively (unless any such tenant shall so conduct himself as to become a nuisance or a menace to the welfare of the producer); during such years [he] shall afford such tenants or employees, without cost, access to fuel such woods lands as he may designate; [he] shall permit such tenants the use of an adequate portion of the rented acres to grow food and feed crops for home consumption and for pasturage for domestically used livestock; and for such use of the rented acres [he] shall permit the reasonable use of work animals and equipment in exchange for labor.” See Conrad, Forgotten Farmer, 58.
Secretary acceded. On February 6, 1935, in a beleaguered appearance before the press, Wallace announced that Jerome Frank, Lee Pressman, Victor Rotnem, and Francis Shea would be relieved of their duties in the Legal Division. As the rather random assortment of individuals selected for the “purge” indicated, however – Hiss, for instance, who bore as much responsibility for the Section 7 action than anyone, was not among those fired – it seemed clear that Davis and Wallace were reacting against something larger than the lawyers’ quixotic ploy on behalf of southern tenant farmers. In Rexford Tugwell’s mind, at least, it was all “part of Davis’ studied plan to rid the Department of all liberals and to give the reactionary farm leaders full control of policy.” This, Tugwell continued, really meant “full satisfaction to all the processors with whom we have dealings since most of the farm leaders are owned body and soul by the processors.”

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IF THE RACIALLY charged drama developing on southern cotton fields provided a fitting backdrop, the fault line separating the two camps in the USDA was over nothing less than the soul of the AAA – as Raymond Gram Swing worried in The Nation, the purge seemed to mark “the defeat of the social outlook in agriculture.” The struggle over that social outlook had played out from the beginning. A little over a year earlier, in December 1933, President

Roosevelt opted to let George Peek go from his post as AAA Director after the latter issued an ultimatum demanding autonomy from Secretary Wallace and calling for Jerome Frank and his cadre of radicals to be removed.\textsuperscript{45} Among those Peek had in mind was Lee Pressman – later the CIO General Counsel and, unbeknownst to Peek at the time, a Communist Party member – who would become a victim of the 1935 purge in spite of having had little to do with the cotton dispute.\textsuperscript{46} For the first six months of the AAA’s existence Pressman oversaw the drafting of marketing agreements with large processors, and during that time he had repeatedly feuded with Peek over the character and scope of those contracts. The issue which, as Pressman saw it, “led to the most bitter disputes within the AAA,” was whether or not the government had the authority and the right to access corporate processors’ account books and records so as to ensure that, as middlemen, they did not accumulate excessive profits at the expense of consumers. Such transparency, Pressman argued, was a most reasonable concession in exchange for the immunity from antitrust prosecution those firms enjoyed, and he went on to insist that this issue more than any other would determine whether the AAA would actually seek “to regulate, or whether the government would merely be a cat’s paw for the processors.”\textsuperscript{47}

Managers of big processors felt otherwise. Internal financial data – on capital outlays, costs, profits – must, for long-term competitive purposes, remain confidential, they held, and in any event the government had no constitutional right to encroach on this most dearly held prerogative. The sanctity of private property itself was at stake. George Peek, a representative

\textsuperscript{45} Peek had harbored a longstanding hostility towards Frank from his time as head of the Moline Plow Company, when the company was forced to declare bankruptcy at the hands of Frank’s Chicago corporate law firm. Irons, \textit{New Deal Lawyers}, 122.

\textsuperscript{46} On Pressman, see Gilbert J. Gall, \textit{Pursuing Justice}. After leaving the AAA and before joining the CIO, Pressman served as General Counsel for Rexford Tugwell’s Resettlement Administration.

\textsuperscript{47} Gall, \textit{Pursuing Justice}, 29-30.
of those big farm leaders Tugwell had accused of being “owned body and soul by the processors,” tended to agree. He would act, as he put it in his first of only two public statements as head of the AAA, “with as little interference with established institutions and methods – indeed with as little administration of any kind as is consistent with the fixed purpose of the law; namely, to raise farm prices.”48 This tension, then, between pure and simple farm stabilization and a broader social outlook, underlay the bureaucratic civil war in the New Deal Department of Agriculture. These were the politics of overproduction and under-consumption.

A look at the other casualties of the purge – Consumers’ Counsel Frederic C. Howe and his assistant Gardner Jackson – underscores the point. Though he would later regret it as among the worst decisions he made as AAA Director, Peek had established the Consumers’ Counsel in June 1933 at the behest of Wallace, who was himself urged on by Mordecai Ezekiel and Tugwell. Given that the AAA provided “for adequate representation of the producer and the distributor and processor,” Wallace wrote to Peek, the Department’s ability “to justify our decisions before Congress and other political groups” will require showing “that we have given equal interest to consumers’ interests.”49 The Secretary, in other words, acknowledged a glaring weakness in the entire agricultural program – that higher prices for

48 Schlesinger, *Coming of the New Deal*, 55. His second came the day before he stepped down from the position.  
farm commodities, if simply passed on by processors and distributors, meant an increasing cost of living for already hard-pressed consumers. And, after some convincing by his Institutional Keynesian advisors, he demanded that something be done about it.

At the recommendation of BAE official Louis Bean, Wallace tapped Frederic Howe to serve as head of the new Office of the Consumers’ Counsel.\(^{50}\) Howe was a veteran Progressive – he had earned his doctorate at Johns Hopkins in 1892, cut his teeth at the famous Goodrich Settlement House in Cleveland, and authored a number of books on reform causes. George Peek, for his part, felt that he “had been seriously bitten by some kind of pink bug and had accumulated a hazy half radical, half uplifter set of views and attitudes.” Howe “was against the profit system and was all for abolishing it,” he continued, “without, however, exactly knowing what he wanted to put in its place.” Still, Peek had to admit, Howe’s views spread through the AAA “like an epidemic,” and to many of the young reformers this sixty-six year-old stood as a towering figure of the ascendant American liberalism.\(^{51}\) Joining Howe was Gardner Jackson, a crusading journalist who Lee Pressman and another CP affiliated AAA attorney, Nathaniel Witt, had recruited “to get in the show and help remake the world.” The wealthy son of a Colorado mining executive – he attributed his progressive politics to a “terrible resistance to the social privilege concept into which the accident of birth brought me” – Jackson devoted his fortune to, as Arthur Schlesinger put it, “helping the submerged people of his day, the subsistence farmers, the sharecroppers.”\(^{52}\) Jackson was, again, the key figure in arranging that important meeting between Secretary


\(^{51}\) Peek quoted in Howe, *From Progressive to New Dealer*, 394.

Wallace and the STFU leadership. Along with Thomas Blaisdell, a Columbia University economist who Tugwell had brought to Washington, the Consumers’ Counsel possessed considerable firepower.

They also had real institutional capacity. A defining feature of the AAA Consumers’ Counsel, in contrast to the three other New Deal consumers’ agencies, was its status as an administrative unit with paid staff as opposed to an advisory committee composed of subject matter experts. What was more, they had influential internal allies in the Legal Division’s left-leaning attorneys. As Jackson remembered, “in actual practice, from the very start, the consumers’ counsel’s office and the general counsel’s office collaborated with great intimacy and always took the same positions.” The Consumers’ Counsel therefore, in Blaisdell’s words, “became the focus for internal Agricultural Department conflicts between the traditional conservative elements whose thinking represented the larger, successful farmers and those with a more social outlook who were regarded as liberals or radicals.”

And along with Lee Pressman and others in the Legal Division, the Consumers’ Counsel officials understood that advancing that social outlook would require the capacity to keep the corporate beneficiaries of AAA policy – the processors and distributors – in line. To do so they would need access to those firms’ books and records, authority that Howe understood would serve as “a kind of Damocles sword hanging over the processors.” Because “he will not know how closely we follow his accounts,” Howe noted in the summer of 1933, “he will be operating with a daily concern for his standing with the third party to the

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53 This point is central to Persia Campbell’s analysis in Consumer Representation in the New Deal. The other New Deal consumer bodies were the Consumer Advisory Board of the NRA, the Consumers’ Division of the National Emergency Council, and the Consumers’ Counsel of the National Bituminous Coal Commission. For a brief history of each, see Richard J. Leighton, “Consumer Protection Agency Proposals: The Origins of the Species,” Administrative Law Review 25, no. 3 (1973): 269-312.

54 Quoted in Miller, From Progressive to New Dealer, 387-388.
agreement, which is the Government.”55 Secretary Wallace was just as clear on the issue. The federal government “will have to insist on a complete look at the books,” he averred before the Special Industrial Recovery Board in the fall of 1933, “because of the fact that capitalism, as I see it, inevitably takes out too much in the way of profits and does not pay out enough for labor and agriculture.”56

Their first bid for such regulatory power came in a stand off with cigarette manufacturers. Although the September 1933 marketing agreement on flue-cured tobacco was completed too late to effect acreage reduction for that year, the AAA staff did enlist a strong majority of growers to commit to crop cutbacks in 1934 and 1935, and, with the help of militant farmers who pushed the Governors of tobacco growing states to temporarily close markets for the commodity, they also managed to convince the giant processors to offer a higher price for that year’s harvest.57 Given that leaf costs constituted only a fraction of cigarette manufacturers’ total investment, this much was easy enough. But big tobacco would not stomach the Consumers’ Counsel and Legal Division demand that, in exchange for exemption from anti-trust prosecution, they provide the government with detailed cost accounting and price data. The remarkable profitability this industry enjoyed – if not, at the time, the public health hazard it posed – made it a logical target, but the urgency of getting the tobacco program going, not to mention the political capital required to wage such a

55 Quoted in Miller, From Progressive to New Dealer, 388.
56 Quoted in Schlesinger, The Coming of the New Deal, 56.
confrontation, led President Roosevelt to authorize a more conservative contract that had been drafted by Peek.  

The political struggle over the social outlook in agriculture became more acute in the dairy industry, source of what nutritional experts had come to call “nature’s perfect food.” This was owing in large part to the peculiar geographical political economy of milk. Because its rapid perishability necessitated constant refrigeration, the economics of milk production and distribution were tailored to specific urban markets, a practice that created distinct regional dairy systems known as “milksheds.” There were hundreds of milksheds scattered around the United States, and within each the balance of power between competing stakeholders – farmers located closer to the city who were organized into powerful cooperatives, smaller independent producers farther afield, corporate scale milk dealers like Borden and National Dairy Products, and teamster deliverers and consumers – varied dramatically. Consequently, whereas for staple crops like cotton, tobacco, and wheat, the AAA could implement master marketing agreements covering all producers, in dairy a separate contract for each milkshed had to be devised. If the bureaucratic challenges confronting the Dairy Division were amplified accordingly, however, the fragmentation of the industry did afford greater opportunities for local activists and their sympathizers in the AAA to challenge entrenched interests than might have been the case in a national showdown against the likes of the Tobacco Trust.

In spite of its diversity, precedents would emerge in the regulation of dairy, and for that reason the development of the first AAA milk code in Chicago proved a contentious affair. Milk prices had fallen by more than 50% since 1929, and the despair wrought by that deflation was by early 1933 precipitating episodic violence – a series of milk strikes erupted that year in Wisconsin, in which members of the Wisconsin Cooperative Milk Pool vowed to forcibly prevent deliveries into Milwaukee until corporate distributors offered a higher price. It was against this backdrop that the AAA Dairy Section crafted their Chicago code. Put into effect on August 1, 1933, the agreement established a minimum price for milk sold in the city, one intended to put an end to competitive chiseling between dealers and thereby to enable them to pay producers more. But as the historian Shane Hamilton has noted, the order left “two very important groups – organized urban milk deliverymen and city consumers” vulnerable to dealers’ inclination to pass on higher costs. The agreement said nothing of a maximum price – it actually mandated that cash-and-carry vendors with much lower costs charge the same price as home deliverers – and, in spite Jerome Frank’s efforts to get teamster workers covered by Section 7(a) of the NIRA, neither did it say anything about wages.  

But the Chicago milk deal was not a total racket. First, the Legal Division was able to get a books and records clause into the agreement, and, as Howe had anticipated, this at least created the possibility that strong regulation of dealers’ prices and profits could be forthcoming. Equally important, in the fall of 1933 the Office of the Consumers’ Counsel initiated a public campaign against the rising cost of milk, placing the blame squarely on the powerful milk dealers. In anticipation of public hearings on the situation in Chicago that had

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been scheduled by the AAA to take place in November, the Consumers’ Counsel began featuring stories in its bi-weekly publication, *Consumers’ Guide*, to raise awareness about and mobilize the public around the issue.

The *Consumers’ Guide* was edited by Mary Taylor, a veteran consumer activist who studied at Mt. Holyoke and did graduate work at the University of Wisconsin and the London School of Economics. Taylor’s work for the *Consumer’s Guide* made it one of the most widely circulated government publications, and in the years to come it would serve as an important vehicle by which Institutional Keynesians would broadcast their message. Taylor had worked as a foreign correspondent for the *Chicago Tribune* before joining government, and after leaving the USDA in 1943 she joined the Women’s Bureau, where for fourteen years she worked as an editor. They proved to be the last years of her life. Taylor became a victim of McCarthyism, spent much of the 1950s worried about her career, and died in 1957 of a brain tumor that those close to her believed had to have resulted in part from the stress.62

In a late October issue, Taylor ran a cover story demonstrating that the lion’s share of the price paid by consumers wound up as a “distributor’s margin,” and she followed up, in the subsequent issue, with a survey soliciting the views of “The Women of Your Community” on the matter.63 Then, on November 29, while the Chicago conference was in progress, in another cover story entitled “The New Deal Comes to Town,” Taylor informed *Consumers’ Guide* readers that public hearings on the agricultural program were being

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planned across the country, and exhorted them as such: “IF YOU THINK YOU’RE NOT GETTING YOUR MONEY’S WORTH FOR THE FOODS YOU BUY – go to these hearings.” She included, for good measure, a list of questions that consumers might ask at such a milk hearing.\(^6^4\) This would not be the last time Taylor would use the *Consumers’ Guide* to encourage rank-and-file consumers to take action.

The Consumers’ Counsel’s educational efforts around the Chicago hearings paid off. During the first two days of consumer testimonials, the 600-person occupancy room in the Stevens Hotel was packed, so much so that they relocated to a venue that could accommodate 3,000 for the remainder of the hearing.\(^6^5\) And Chicagoan consumer sentiment, it seemed, was unanimous: milk prices were too high, and the prohibition on cash-and-carry vendors from selling for less than home-deliverers had placed a special burden on lower-income households. So familiar did the themes become that Jerome Frank had to conclude that “there is no use hearing the same story again and again.”\(^6^6\) One reason behind Frank’s frustration was that the big milk dealers had not as yet furnished the AAA with satisfactory accounting data, and had therefore prevented the government officials from assigning definitive culpability for the consumers’ expressed woes. As Frank’s co-Chair, Elmer Hays, put it, the “AAA has not made a complete audit of the books in Chicago.” “We were given figures,” Hays continued “but that doesn’t mean we were satisfied with them.” The applause he received after promising a more thorough inquiry, as a *Chicago Tribune* correspondent described it, “was long and loud, despite Attorney Hays’ attempt to quell it with his gavel.”\(^6^7\)

\(^6^4\) *Consumers’ Guide*, Nov. 29, 1933, 4-5.
\(^6^6\) Ibid.
\(^6^7\) “Show How Milk Code Fails To Help Farmers,” *Chicago Tribune*, Nov. 29, 1933. Around the same time, Wallace rejected a proposed marketing agreement covering the meatpacking industry for its failure to include a provision granting access to corporate books and records. See “Roosevelt Curbs AAA Power As Peek Revolts,” *New York Times*, Dec. 7, 1933.
What constituted access to corporate books and records, it turned out, would have to be determined through struggle.

It did seem, though, that the Legal Division and Consumers’ Counsel were beginning to amass the support needed to wage such a struggle – on the heels of the Chicago hearings, for instance, petitions from thousands of consumers demanding cheaper milk at cash-and-carry stores poured into the AAA.68 This kind of popular participation was too much for Peek. But, again, when he presented his ultimatum to Roosevelt that week, the President sided with Wallace and Frank. For a moment, then, it could have felt like the New Deal was indeed adopting a social character. One New York Times reporter could not help but wonder “how far the AAA will swing to the left without the opposition heretofore provided by Mr. Peek,” and noted the “frequent” speculation that “under the dominance of the ‘brain trust’ the AAA would strike out for strict government control over [the] food processing industries” which could result in “Federal limitation on the profits of corporations subject to AAA jurisdiction.”69 Alas that would not be the case. Just a year later Peek’s wish was fulfilled, when the progressives in the Legal Division and Consumers’ Counsel were purged, and a year after that the Supreme Court struck down the AAA in the famous Butler case. By 1936, it instead seemed like the “social outlook” in agriculture might in fact be in eclipse.

BUT INSTITUTIONAL KEYNESIAN influence in the Department of Agriculture was not so short-lived. One layer of progressives was gone, to be sure, but a number of others – including Tugwell – remained, as did key institutional loci like the Consumers’ Counsel. As Jess Gilbert has demonstrated, moreover, that it was only in the late 1930s and early 1940s

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68 “Milk Consumers to Petition AAA For Cut Prices,” Chicago Tribune, Dec. 4, 1933.
69 “Peek Ready to Go As Chief of AAA,” New York Times, Dec. 8, 1933.
that a vision of more equitable and sustainable agricultural planning – the “Intended New Deal” – was beginning to take shape. In excavating the largely overlooked history of USDA efforts to promote continuing education and participatory research directed towards cooperative land-use planning in the American countryside, Gilbert makes a strong case for the conclusion that a progressive wing of what he calls “agrarian intellectuals” played more of a role in shaping New Deal agricultural policy, and for a more extended period, than scholars tend to appreciate. A similar argument can be made for the Department’s urban liberals and radicals whose planning instincts tended more toward distributive concerns than land-use.⁷⁰

Again, the Consumer’s Counsel – which, incidentally, had been reclassified as an AAA Division amid the shake-up in 1935 – was still around. That fall, Donald E. Montgomery became Director of the Consumers’ Counsel Division, and for the next seven years his office would play a leading part in the campaign to keep the social outlook in Department of Agriculture alive.⁷¹ After studying economics at the Universities of Pennsylvania and Wisconsin, Montgomery entered government service, spending most of the

⁷⁰ See Gilbert, Planning Democracy. The classic studies on these “agrarian intellectuals” and their relationship to the New Deal are Kirkendall, Social Scientists and Farm Politics in the Age of Roosevelt and Sidney Baldwin, Poverty and Politics: The Rise and Decline of the Farm Security Administration (Chapel Hill: UNC Press, 1968). While Gilbert’s study of figures like Wallace and M.L. Wilson and the programs implemented between 1939 and 1942 stands as an important contribution to New Deal historiography, I do take issue with his characterization of what he calls the “urban liberals,” who I classify as Institutional Keynesians. A central objective of his study is to complicate the rather crude dismissal of New Deal agricultural policy as “high modern,” and to do so he introduces the notion of “low modernism,” which, he argues, more accurately expresses the worldview of his agrarian intellectuals. Contrary to what thinkers like James Scott would suggest, Gilbert contends, while Wallace, Wilson and others did appreciate the material benefits that modern knowledge and technique could afford, they did not intend to impose it from above. Rather, they sought to achieve modern results through participatory democratic action – hence, low modernism. Gilbert contrasts this with what he sees as the more blatant high modernism coming from urban liberals like Tugwell and his coterie of recruits. As I attempt to show, however, the Institutional Keynesians were very much committed to encouraging rank-and-file self-activity. See esp. Gilbert, Planning Democracy, 60-79.

⁷¹ Montgomery officially became the Director of the AAA Consumers’ Counsel Division in the fall of 1935. In the intervening months between Howe’s removal in February 1935 and the beginning of Montgomery’s tenure, Duke University economist Calvin B. Hoover, served as Director. On the period under Hoover, see Campbell, Consumer Representation in the New Deal, 243-249.
1920s investigating the meatpacking industry for the Wisconsin State Department of Markets and several years after that split between the FTC Securities Division and the SEC. When he joined the Consumers’ Counsel in 1935, then, he had extensive experience with both the food processing industries and corporate finance, not to mention a Progressive academic pedigree. Montgomery left the Department of Agriculture in 1942 to join the staff of the UAW, after being recruited by Victor Reuther, and would for the final fifteen years of his life serve as a key member of the brains’ trust that contributed to making that union such an important part of the history of postwar American liberalism. The arc of his career therefore offers a window into the strange ways the politics of agriculture intersected with industrial class struggle.

Like his predecessors, Montgomery would wage some of his most important battles over “nature’s perfect food.” Once more, the geographical specificity of milk production and distribution and the regionally distinct politics that resulted created opportunities for Institutional Keynesians that did not exist against more nationally coordinated industries. But big city markets were still formidable, and, like the earlier one in Chicago, the struggle that unfolded in 1937 over the price of milk in New York City testified to as much. Presaging what was to come at the federal level, in early 1933 New York State passed a Milk Control Act that granted the legislature emergency powers to stabilize prices, and after the Butler decision in early 1936 the state resorted to that law as the principal means of regulating the New York milkshed. A year later, however, Governor Herbert Lehman suggested that that program too be dispensed with. The legislature followed Lehman’s lead, and on April 1, 1937 the production and distribution of milk in the nation’s most populous state was left to its own devices for the first time since Roosevelt had taken office. Prices immediately
plummeted, in some cases by more than 50%. But dairy producers were too well organized for this to go on for long, and within weeks their organizations had pushed Lehman to sign a new law establishing state guidelines along which producers and distributors could bargain over price. As the Governor put it rather straightforwardly, the bill returned “milk control to the milk industry, where it belongs.” That it did, but by ending direct state intervention in the process it also opened the door to galloping prices – if big distributors like Borden were going to pay farmers higher prices, they would surely try to sell to consumers for at least that much more. And by the fall of 1937, even as the economy sank into the “Roosevelt Recession,” New York milk prices began to gallop indeed.72

The fall of 1937 was also election season in New York City, and the popular, social democratic Mayor Fiorella La Guardia was running for another term. A rare kind of Progressive Republican, that year La Guardia faced an internal challenge from the conservative wing of the city’s GOP.73 As as an insurance measure he therefore accepted the nomination of the American Labor Party (ALP) – La Guardia actually wound up on both ballot lines, something enabled by the state’s electoral fusion system, and won the general election in a landslide. Sidney Hillman, leader of the ACWA and a New Deal insider, had spearheaded the establishment of the ALP in 1936 as a mechanism for channeling labor support towards Roosevelt, and by 1937 the fledgling party was strong enough to command


20% of the city vote for La Guardia, incidentally his exact margin of victory. It was not without cause, then, that some trade unionists, like Alex Rose of the Hat, Cap, and Millinery Workers, imagined the ALP developing into the “New Deal Party of our country.” And if it was not quite ready to become the mass organization through which an American social democracy could be achieved, Rose understood, the ALP might set its sights on favorable city like New York and work to build a model of what that future society might look like. An equitable and balanced relationship between city and country was, of course, a precondition of such a vision, and at the municipal level that meant dairy. So the ALP focused on milk, including a plank in the 1937 New York City platform that called for a municipally owned milk distribution system to serve as a “yardstick” for regulation of the private sector. Operating without concern for “tremendous profits” that motivate the “milk trust,” the ALP platform read, a city facility would eliminate “the wide gap between the amount the trust pays the farmer and the price it extorts form the consumer” and could thereby ensure fair returns to producers and affordable milk to working-families.

La Guardia and the ALP received a boost from the Consumers’ Counsel Division. Beginning in the late summer and running through the fall of 1937, the Consumers’ Guide ran an extended series entitled “Milk for Millions,” which provided analyses of everything from the history and geography of the development of regional milksheds, the political economy of milk pricing, the role of and potential for cooperatives, and the dairy production process itself – the sophistication of the articles and the complexity of the issues with which

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they dealt, it should be noted, served as a testament to the level of confidence this group of Institutional Keynesians had in rank-and-file workers and consumers as organic intellectuals. In one piece, “Mapping the Road to Plenty,” Consumers’ Guide editor Mary Taylor publicized the findings of a study of the Milwaukee milk distribution system that had been commissioned by the city’s Common Council and completed over two years by public sector workers from the Civil Works Administration, the Federal Emergency Relief Administration, and the USDA. It found, the Guide summarized, that “Competition in milk distribution results in a musical comedy parade of milk men up and down the streets of American cities. But besides, it contributes to the higher prices of milk.” A “publicly owned system of milk distribution in Milwaukee,” by contrast, “could sell milk to the consumer for 2 cents per quart less than the present price and could pay farmers 21 cents more a hundredweight for their milk.” At such prices, 30% of Milwaukee residents indicated that they would consume more milk, and estimates were that low income families would enjoy 12.5% more dairy than they were getting at the time. What was more, the public investment required was modest enough that the milk plant would pay for itself in less than 20 years. Here was a federal publication touting the findings of a study, completed thanks to federal public works programs, that reinforced the American Labor Party’s social democratic agenda during an important election in the nation’s biggest city. The social outlook seemed alive and well.

And the Consumers’ Counsel Division did more than issue a publication. On the heels of La Guardia’s resounding victory, the Milk Consumers Protective Committee, an umbrella group comprised of some forty activist consumer organizations, hosted a conference at the Manhattan headquarters of the Transport Workers Union to explore further the issue of municipal ownership. Various producers’ organizations, including the progressive Dairy Farmers’ Union, settlement houses and consumer cooperatives, and trade unions and the American Labor Party were all represented. Also in attendance was Donald Montgomery, who heartily endorsed the meeting, proclaiming that “the consumers and the producers are both getting the run around.” The big distributors, he continued, were chiefly responsible for the escalating prices, and they got only away with it by manipulating their books and publishing “manufactured” profit margins. In his capacity as a Department of Agriculture employee Montgomery was not authorized to explicitly endorse the municipal ownership proposal, but his presence at the event, not to mention the favorable treatment the idea received in the Consumers’ Guide, suggests the degree to which direct public ownership and operation of basic industry could seem, at least to a wing of Institutional Keynesians in the 1930s, to be the best way of mitigating the economic hazards posed by oligopolistic control of pricing and production. If corporations would not allow for effective regulation by opening their books and records, the government could just as well supplant them.

The ramifications of this insight obviously extended beyond milk, and corporate America understood as much. In the spring of 1939, Archie Wright, head of the CIO-backed Dairy Farmers’ Union, reported learning from reliable sources that the Chairman of General

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79 The TWU had a radical leadership that included its President Mike Quill. See Joshua Freeman, In Transit: The Transport Workers Union in New York City, 1933-1966 (New York: Oxford University Press, 1989).
Electric, Owen D. Young, “was preparing to finance [a] Central Sales Committee” – with support from G.E., U.S. Steel, International Harvester, and General Motors – to serve as “a more closely controlled milk shed-wide front organization.” And as a DFU attorney suggested to Montgomery, “this same source might well be supplying the funds for other reactionary farm organization committees.” If true, one can only conclude that the largest corporations in the United States were not actively organizing themselves and committing material resources simply to protect the profit margins of milk distributors like Borden Dairy by some few percent. They were doing so because the burgeoning movement of rank-and-file farmers, working-class consumers, and their allies in the federal government was mounting a real challenge to the most dearly held prerogatives of the capitalist class – indeed, to the very prerogatives that made them capitalists: the rights to invest, to price, and to accumulate without restraint. It was this movement, and not the politics of milk per se, that really threatened their class interest.

ANOTHER EXPRESSION of that threat came from the Temporary National Economic Committee (TNEC), a joint executive-legislative body that from 1938 through 1941 conducted what to that point was the most exhaustive empirical study of corporate power in the U.S. economy. Formally established by Congress at the recommendation of President Roosevelt, who warned of the dangers posed by the present “concentration of economic power without equal in history,” the genesis of the TNEC really began with the publication

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81 Archie Wright to Meyer Parodneck, May 22, 1939, 4/8 DEM; Meyer Parodneck to Donald Montgomery, May 26, 1939, ibid.
82 On the TNEC, see Hawley, New Deal and the Problem of Monopoly; Brinkley, The End of Reform; Furner, “From State Interference to Return of the Market;”; Jacobs, Pocketbook Politics, 166-175. See also,
of Gardiner Means’s *Industrial Prices and their Relative Inflexibility* in 1935. Since its inception, critics have questioned whether this “anti-monopoly committee” was up for the challenges of modern industrial society. Eggs, they would say, could not be unscrambled. Means would have agreed. A the time, he was at the NRC preparing what would become the most rigorous study on national economic planning completed to date.83

These competing perspectives, planning and anti-trust, were at the center of what Ellis Hawley classically described as the “problem of monopoly” in the New Deal. Given this contradiction, the TNEC can seem destined to have done little more than gather facts – the consensus required for anything more was lacking. As Progressive Republican Senator William Borah predicted, while the probe might “string along” for a time, before long it was likely to gather “the dust of the upper shelf in the form of ten or twenty volumes which few will ever consult.”84 Illuminating as Hawley’s formulation has been, however, the dichotomy can obscure the extent to which the two tendencies intermingled with one another and overlook the ways “planners” used the politics of anti-trust to their advantage. And while hindsight does make Borah’s remark seem prescient, embarrassingly so, given that a major obstacle confronting Institutional Keynesians in their efforts to regulate corporate capital had been a paucity of reliable data, the enormous amount of information gathered by the TNEC – and the precedents set in gathering it – could at the time hardly be seen as irrelevant.

Donald Montgomery’s experience with the TNEC helps to illustrate the point. In May 1939, Montgomery orchestrated the TNEC investigation into the “Problems of the Consumer,” and he used the three days of hearings to rehearse the agenda the *Consumers’ Guide* had promoting for years. Banal as some of the subject matter might seem – detailed


84 Borah quoted in Hawley, *The New Deal and the Problem of Monopoly*, 412-413.
testimonies covered things like federal publication of grades for essential commodities, standardized packaging, and retail price maintenance – there was a deeply critical undertone to the entire proceeding. Subject to particular scrutiny was the advertising industry, which, Montgomery concluded, not only withheld important information from consumers but also added to the prices they paid. Consumers, he emphasized at the conclusion of the hearings, “need information about commodities which ordinarily, and as illustrated by numerous exhibits and testimony here, they do not get from advertising.”

Persia Campbell, a Columbia trained economist and Director of the Consumers’ National Federation, drew more attention to this point. Founded in the mid-1930s, the CNF was a national body composed of left-labor consumer groups around the country. One of its member organizations, the League of Women Shoppers, was at the time of Campbell’s appearance actively engaged in support of an American Newspaper Guild-CIO strike against Hearst newspapers in Chicago; the LWS was, at the same time, organizing a consumer boycott of firms that failed to comply with the National Labor Relations Act. Meanwhile, the CNF had filed a complaint with the FTC charging Good Housekeeping, a Hearst publication, with fraudulent advertising. In short, this was a partisan group, and the fact that Montgomery provided its leader a national platform from which to voice her views was only the latest example of Consumer Counsel Division support for activist working-class consumers. Much like the cotton planters in the South, the Hearst interests shot back. With material assistance from other business interests, the media tycoon launched a red-baiting campaign against the labor-consumer movement, one seized by Martin Dies’s House Committee on Un-American

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Activities. As J.B. Matthews, an assistant to Dies, intoned to the Committee the movement was but a “Trojan horse” for the Communist Party.  

These proto-McCarthyists went after the Consumers’ Counsel Division, as well. In the summer of 1939, Richard E. Berlin, Executive Vice President of Heart Magazines, began accusing Montgomery and the TNEC of enabling “subversive elements, pretending to serve the consuming public but actually motivated by communistic theories” and demanded that “this subversive movement [be] publicly exposed.” And in December Matthews released a report that singled out the Consumers’ Counsel Division and the Consumers’ National Federation, charging that the Consumers’ Guide “has given frequent and favorable publicity to the CNF” and other organizations in which “Communists had played the leading role.”

As Montgomery well understood, Matthews’s report was simply part “of a concerted plan to smear as communistic certain persons and organizations in the consumer movement for the dual purpose of dividing that movement and throwing a smoke screen around the facts” of the FTC case against Good Housekeeping. But the stir it caused did raise questions among more respectable authorities about the scope of the Consumer Counsel Division’s activities.

As Montgomery had suspected, evidence demonstrating a clear connection between Hearst interests, business groups like the NAM, and the Dies Committee damaged the

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87 Richard E. Berlin, August 18, 1939, 2/16, DEM.
89 Montgomery to Alice E. Trevleaven, undated, 2/13, DEM.
credibility of the Matthews Report, and therefore while that episode may have been a harbinger it was not the most significant challenge facing the Consumer Counsel Division. That came from inside the Department of Agriculture itself. And it was rooted in the fact that, in spite of all the constitutional, legislative, and administrative overhauling that had occurred since the AAA was established in 1933, the basic tension that had beset New Deal agricultural policy all along – between over-productionists and underconsumptionists – persisted. The alignment and balance of various forces both inside and outside the USDA had of course changed since the bureaucratic civil war between George Peek and Jerome Frank first erupted five years earlier. On the one hand, it was in the latter 1930s that the democratic planning impulse in the New Deal reached its apogee. Initiatives directed towards encouraging cooperative land-use planning and new programs like the Resettlement Administration and Farm Security Administration represented attempts to rectify some of the deficiencies of earlier agricultural policy – related to both soil erosion and human displacement – while the TNEC and NRPB served a similar function with regards to industrial policy. But on the other hand, in the wake of the recession of 1937 business interests and conservative policymakers intensified their campaign against the New Deal. Moreover, by the end of the decade the specter of war weighed more and more heavily on President Roosevelt’s mind, and he understood that it could not be waged without cooperation from big business. It was this context more than the red-baiting campaign itself that changed the USDA’s internal politics surrounding the Consumer Counsel Division.

In this round the main antagonist was Paul H. Appleby, a confidant of Secretary Wallace and effectively the USDA director of operations. Appleby, it must be noted, was no reactionary – in 1935 he had opposed the purge, and many of the Department’s conservatives
saw him as belonging to the Tugwell-Frank camp. But by 1939, it seems that those atop the USDA hierarchy began to see the Consumers’ Counsel’s activist orientation as a liability that needed to be reined in once and for all. It was one thing to maintain that regulation of corporate food processors required proper government audits of their records. It was another altogether to basically advocate for socialization of the milk industry and to crusade against advertising, both as an idea and a practice. Those USDA leaders, like Secretary Wallace and Paul Appleby, who might appreciate the spirit behind the social outlook were not quite willing to expend the political capital required to sustain it under the less favorable conditions of the late 1930s. The week after the TNEC hearings on consumers, then, Appleby argued to the members of a Department committee charged with issuing recommendations on the role of the Consumer Counsel that Montgomery’s Division should stop pursuing “activity with regard to things of consumer interest generally” and instead limit its purview to “the programs provided for in the act.” This was especially important when it came to the Consumers’ Guide, he added, which ought to focus its content on “matters directly related to the program carried on under the act.” Some independent adjudication of these boundaries was needed, Appleby complained, as he had “found it exceedingly difficult if not impossible to arrive at an understanding with [Montgomery]” on his own.90

The Committee’s report endorsed Appleby’s views, concluding that “it is not proper, and should not be permissible, for the Consumers’ Counsel to express public disapproval of any action taken by the Secretary of Agriculture.” The Consumers’ Guide, the report added, should present only “information relating directly to the programs administered by the Department,” an editorial shift that the authors understood “may materially change the

90 Paul Appleby to Milton Eisenhower et al, May 20, 1939, 2/2, DEM.
character and the appeal of the Consumers’ Guide to its current readers.” The committee grounded its judgment in the fact that appropriations for consumer representation in the agricultural program came with specific statutory guidelines, and that the Consumer Counsel needed to stop using the money for things Congress had never intended. 91 Having been sanctioned by Secretary Wallace, the committee’s report marked a turning point for the Consumer Counsel. 92 By the summer, the USDA Director of Information was trying to exert greater editorial control over the Consumers’ Guide, writing to Montgomery that “several articles [for the forthcoming issue] could hardly be brought under the new tent of prescriptions…on functions of the Consumers’ Counsel and field of the Consumers’ Guide.” 93 Wallace himself followed up in the fall, instructing Montgomery that “the activity of the Consumers’ Counsel in initiating formulation of consumer groups and consumer expressions” was “outside the proper function of the organization,” as was its efforts at “fostering the consumer interest in the general field of consumer concern, rather than restricting activities to those essential to our specific program.” Both, Wallace added, were “an unwarranted stretching of our legal authority and therefore an unwarranted use of appropriated funds.” 94

As the committee on the Consumer Counsel Division had to acknowledge, however, “Mr. Montgomery expresses a strong conviction that he cannot adequately discharge his responsibility under such a limitation.” 95 Protesting the new constraints on the Consumers’ Guide, Montgomery explained that if the publication was required to rely only on “farm

91 Milton Eisenhower et al to Appleby, June 30, 1939, 2/1, DEM.
92 Paul Appleby to Milton Eisenhower et al, May 20, 1939, 2/2, DEM.
93 Morse Salisbury to Montgomery, August 18, 1939, 2/2, DEM.
94 Henry A. Wallace to Montgomery, October 21, 1939, 2/1, DEM.
95 Milton Eisenhower et al to Appleby, June 30, 1939, 2/1, DEM.
program funds” it would surely “lose its consumer character and become an agricultural publication.” And a host of other educational programs supported by the Consumer Counsel Division – a weekly radio program broadcast on NBC, local consumer study groups, Montgomery’s ongoing work with the TNEC on the issue of consumer cooperatives – would likely have to be terminated as well. In Institutional Keynesian influence in the Department of Agriculture, however, was not what it had once been. Not only would the source of funding for the Consumer Counsel Division limit the scope of its activities, but so would the size of the allocation. For the coming fiscal year, Montgomery saw his budget cut by some 25%. It would only shrink from there.

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AFTER A GAP in publication, as this internal review was completed between November 1939 and March 1940, the Consumers’ Guide returned with a new character, one that reflected the deeper political shifts afoot in the Department of Agriculture and the New Deal at large. No longer were Mary Taylor and Montgomery featuring stories critical of processors and distributors which drew attention to the power relations mediating the process by which agricultural goods traveled from producer to consumer. The new guidelines authorized by Secretary Wallace had their intended effect of stymying the more aggressive campaigns waged by the Consumer Counsel Division. What had been scrupulous reporting on the ins and outs of the dairy industry became, between 1940 and 1941, a thirteen-part “Milk Glossary for Consumers,” which included extended definitions of terms ranging from “Cow”

96 Montgomery to Leo Wolcott, Nov. 4, 1939, 2/1, DEM; Montgomery to Wolcott, Nov. 13, 1939, 2/2, DEM.
97 Montgomery to Appleby, August 9, 1939, 2/8, DEM; Appleby to Montgomery, August 10, 1939, Ibid.
to “Acidophilus” (“A form of buttermilk made from sterilized skim milk by adding a culture of bacteria known as *Lactobacillus acidophilus*”). This was stuff the ruling class could live with.

Still, in spite of the changes, the Department of Agriculture in the late 1930s and early 1940s remained an outpost of liberals, and Montgomery and his staff continued to try to make the most of the circumstances. In that first installment of the milk glossary, for instance, Taylor included “Administered Prices” and noted that “Milk is a commodity whose price is sometimes administered. When the price of milk is fixed by administrative decision, consumers should have a hand in determining the decision.” Definitions apparently did not have to be free of value judgments. Moreover, progressive USDA initiatives like Wallace’s pet project, the Ever Normal Granary, and the cooperative credit and land-use planning program implemented by the Farm Security Administration, began to receive greater coverage in the *Consumers’ Guide*. To be sure, this was not quite the radical radical planning Rexford Tugwell had hoped to achieve, but nonetheless it was among the more ambitious federal anti-poverty programs to date. Ecological concerns, like issues related to soil conservation, also drew increasing attention in the refashioned *Consumers’ Guide*.

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98 *Consumers’ Guide*, August, 1940. Installments of the milk glossary ran from August 1940 through April 1941.

99 On the Ever Normal Granary and the FSA and the co-operative movement, see, respectively, *Consumers’ Guide*, March 1, 1940 and *Consumers’ Guide*, May 15, 1940. Montgomery had been a forceful advocate of producer and consumer cooperation throughout his tenure as Consumer Counsel. In early 1938 he had appeared with the Communist leader of the United Cannery, Agricultural, and Packing Workers of America, the CIO’s agricultural workers’ union, to support former sharecroppers who had established a cooperative in northwest Mississippi. And in early 1939, before the first annual meeting of the Consumers’ Co-Operative Institute, Montgomery expressed his support as such: “People rather than property are the primary consideration of the co-operative movement.” See “Tenant Solution by Co-Operative Farm Predicted,” *Washington Post*, Jan. 31, 1938; “Greenbelt Parley Hears Co-Operative Aims Expounded,” *Washington Post*, Feb. 6, 1939. The definitive account of the Resettlement Administration and the FSA is Sidney Baldwin, *Poverty and Politics*. 83
There was also a noticeable “Keynesian” turn in the content contained in the *Consumers’ Guide* and the activities pursued by those in and around the Consumer Counsel Division. If campaigns directly targeting specific industries were too politically risky, a similar agenda might be advanced by couching their proposals in the new language of economic aggregates. Achieving a “greater abundance” of milk, the *Guide* reported in March 1940, had become the principal goal of consumer organizers.\(^{100}\) Whereas in its early years the *Guide* consistently featured the tagline, “consumption is the end and purpose of production,” the Consumer Counsel staff was now contending that only through maximum production could consumers get the things they needed at prices they could afford. The great scourge, in other words, was under-consumption – and as Milo Perkins put it in the pages of the *Guide*, the time had come to “Wipe It Out!” “The term ‘surpluses,’” Perkins noted, “is simply a smug, polite name for a shocking amount of under-consumption.” The only way to put an end to this “black plague of the twentieth century,” he concluded, is full utilization of resources and “full employment.”\(^{101}\) Some of the earliest proponents of the idea of “full employment,” that is, which would become central to postwar American liberalism, came from the Department of Agriculture.

The style of Keynesianism emanating from the USDA did not, however, represent an abandonment of the structuralist outlook that those in the Consumer Counsel and Legal Divisions had earlier maintained. Indeed, their agricultural frame of reference all but guaranteed that they would remain sensitive to the uneven nature of the economy – maximum production was important because it would create a working-class consumer base

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\(^{100}\) *Consumers’ Guide*, March 15, 1940.

\(^{101}\) *Consumers’ Guide*, April 1, 1940, 9. Perkins was President of the Federal Surplus Commodities Corporation of the USDA, the body responsible for implementing the “Stamp Plan.” Mordecai Ezekiel’s 1939 book was tellingly titled, *Jobs for All Through Industrial Expansion* (New York: Knopf, 1939).
for agricultural goods, thereby ensuring security for urban and rural workers alike, and not because “economic growth” was desirable in and of itself. Keynes had only published *The General Theory* in 1936, and by the end of the decade the idea of growth – as well as attempts to measure it – was as yet very new. Mitigating social under-consumption rather than fetishizing individual consumption was liberals’ order of the day.

The “Stamp Plan” exemplified the USDA left’s vision of a structural reform directed towards enhancing purchasing power and spurring industrial production, things that would later fall under the rubric of Keynesianism. Formally established in 1939, the Stamp Plan grew out of federal efforts beginning in 1933 to utilize some amount of the surplus crops produced by providing it as food relief to the needy. But basic nutritional standards were not guaranteed by this earlier measure, nor was there much of a role for private food distributors. Progressives in the USDA, led by Secretary Wallace and Louis Bean of the BAE, along with grocers and wholesalers therefore came together in the late-1930s around a compromise proposal that would subsidize low-income consumers’ purchases at participating grocery stores. First unveiled in Rochester, NY, the plan functioned by allowing individuals to purchase Orange stamps for $1 a piece – with each $1 Orange stamp came a Blue stamp, valued at 50 cents each. Consumers could use the Orange stamps on anything – with the exception of alcohol, tobacco, and the like – and the Blue stamps on good which were in surplus, which especially included dairy, poultry, and fruits and vegetables.102 Calling it “a, if not the, most important feature of the farm program from a national point of view” thanks to

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its wide ranging “educational, sociological and political effects,” Montgomery would become a leading champion of this innovative and ambitious program for most of its four years in existence. By moving “away from the notion that farm welfare must be achieved at the expense of the non-farm population,” and instead toward “a genuine identification of farm welfare with national welfare,” he insisted that the Stamp Plan marked an important step in the direction of a “program of national food supply, rather than a farm program.”

Mary Taylor made sure that the Consumers’ Guide got this message out. In a feature story on the implementation of the plan in Dayton, Ohio, one single mother stressed “You can’t tell me that you can raise a child right on flour and dried beans” – thankfully, “Now I don’t have to worry about that anymore. I have some fruits and eggs and butter and vegetables in the kitchen all the time.” The Guide also became a leading source of information for the cotton stamp plan, which followed the food program – cotton stamps, the publication reported, would “give relief to cotton growers, jobs and wages to workers, and clothing and household articles to the needy.” The cheap mattresses that came out of the program, for instance, were going “to make sleeping a little more comfortable for some low-income families.”

Still, the program was not without flaws. The Stamp Plan functioned, as the Guide put it, by pulling “farm surpluses through commercial channels and into the market baskets of poorly fed citizens.” Citizens using food stamps had to fill those market baskets, the historian Rachel Moran has observed, at grocery stores, and the program therefore institutionalized a private intermediary at the center of this early Keynesian policy. That

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103 Montgomery to Roy Hendrickson, Oct. 20, 1941, 3/11, DEM.
105 Consumers’ Guide, April 1, 1940, 3; Consumers’ Guide, May 1, 1940, 3.
arrangement would become more familiar as the postwar decades progressed. The safety net the Stamp Plan provided also was not that wide at first, though it did balloon. Covering a half dozen cities in 1939, by mid-1940 the program had been expanded to more than 80 areas serving 1.5 million recipients. At the end of 1941, the rolls had increased to 5 million, or 4 percent of the population, and a year later some 60 percent of the country’s poor, in well over 1,000 locales, were feeding themselves thanks to the stamps.107

But Montgomery still found the Stamp Plan insufficiently robust. The program “should be extended to all families under a given income level,” he argued in 1941, and “this level should be high enough to reach all families that are in need of assistance in order to achieve a satisfactory diet.”108 And his criticism had more to do with political economy than nutrition. The basic problem confronting the Department of Agriculture, Montgomery reasoned, had changed since 1933. At that time, when the national economy was in free fall, a grinding deflation in the price of agricultural commodities devastated workers in the American countryside. To them what economists might call exogenous variables like interest rates and price levels were matters of life and death, and at the depths of the Depression their survival depended on government intervention. That intervention, Montgomery continued, had been successful, so much so that by the end of the decade agricultural prices had risen to the point that inflation posed a greater threat than deflation. With regards to food stamps, he noted that “the limited kind of Plan we now have becomes – to state it crudely – a device to enable certain needy families to go into market armed with the money to put up prices and beat other needy families to a share of the total supply.” That is, unless the income ceiling determining eligibility was raised – admittedly “far beyond what seems politically possible”

107 Moran, “Consuming Relief,” 1009.
108 Montgomery to Hendrickson, Oct. 20, 1941, 3/11, DEM.
at present – the program would be “open to the criticism of practicing an obnoxious discrimination between those who shall be given more food and those who shall do with less.” His sense of foreboding over the resentments such means-tested programs could incubate was prescient indeed.

Instead, Montgomery proposed that agricultural policy should be directed towards formulating a “national food program,” one “not tied to high prices.” The Stamp Plan should be part of a larger effort in which “the Government would state what production is required to meet all needs, including enough to guarantee a satisfactory food minimum to the whole domestic population” and then “take steps to assure distribution of those quantities, including low market prices to encourage larger consumer purchase.” “The greatest contribution of the Stamp Plan to date,” he concluded, “has not been its contribution to better diets at low-income levels, but its preparation of public thinking for a program that would in fact get us all the food we need and get it distributed where it is needed.” Rather than seek to improve farm incomes by reducing output, Montgomery was suggesting that the government guarantee a certain income to agricultural producers in exchange for their maximizing production. The result would be security for farmers and affordable food for consumers, which sounded good enough, but achieving it required severing the link between price and income in the countryside. This radical reformulation of agricultural policy became the core of the Brannan Plan, advanced by President Truman’s Secretary of Agriculture in the late 1940s.

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WITH THE ONSET OF WAR, the purview of the Consumer Counsel Division and the 
Consumers’ Guide, already limited, shrank appreciably.\textsuperscript{109} The imperatives of combat 
apparently left no room for a social outlook in agricultural policy. Upon Montgomery’s 
departure, an incensed Mary Taylor put it straight to Roy Hendrickson, director of the 
Agricultural Marketing Administration, which oversaw the wartime food program: “I’ve 
done my work, month after month, year after year, in the belief that sooner or later the 
Department would come to tolerate, if not to welcome, the service of people whose 
peculiarity is that they think of food as something to eat,” and yet it had become clear that 
“we have no place in your new job.” And with that she got to the basic problem with the 
overproduction thesis undergirding that always undergirded New Deal agricultural policy. 
One cannot eat prices.

The Institutional Keynesianism that was born in the 1930s USDA would for the next 
three decades be central to the politics of inflation in the United States. It was a 
macroeconomic theory with microeconomic foundations, one that integrated production and 
distribution, a new idea called growth with older notions regarding wages, prices, and 
profits.\textsuperscript{110} And it was a tendency that the scholarship on the triumph of “commercial 
Keynesianism” has too often overlooked.\textsuperscript{111} Its most visible legacy incidentally came from 
someone who only briefly passed through the USDA: Gardiner Means and his administered

\textsuperscript{109} Montgomery to Hendrickson, June 29, 1942, 3/12, DEM; Hendrickson to Montgomery, September 4, 1942, 
2/2, ibid; Montgomery to Hendrickson, September 8, 1942, 3/12, ibid; Montgomery to Hendrickson, December 
19, 1942, 5/3, ibid. The material pressures imposed on the Consumers’ Counsel adversely affected workplace 
satisfaction at the Division. Sept. 4, 1942, F. Barber, Policy Committee, United Federal Workers of America 
(UFWA) Local 2 to Donald Montgomery, 3/12, ibid. The labor issues in the Consumers’ Counsel had begun as 
early as 1939. Feb. 7, 1939, Consumers’ Counsel Division Committee for Adjustments, UFWA Local 2, 
“Petition to Mr. D.E. Montgomery, Director, Consumers’ Counsel Division,” 5/23, ibid. See 5/23, DEM for 
additional materials related to workplace grievances at the Consumers’ Counsel Division.

\textsuperscript{110} For a later and more mature ‘post-Keynesian’ articulation of this perspective, see Alfred Eichner, \textit{The 

\textsuperscript{111} For the classic expression of this argument, see Brinkley, \textit{The End of Reform}. 89
price thesis. But Institutional Keynesians had a deeper influence than that. This would become more clear in the 1940s, during World War II and in the years immediately thereafter, when the new industrial unions forming the CIO established themselves as formidable players in national politics. The fate of a planning vision that could approximate what Tugwell had outlined in 1931 would in many ways hinge on their efforts during those years, the subject of the next chapter.

It would also hinge, Tugwell noted in a May 1937 piece for *Harper’s Weekly*, on the emergence of a “farmer-labor alliance,” the progressive coalition that he hoped as on the horizon. Coming in the interregnum between the UAW’s historic sit-down strikes and SWOC’s crushing defeat by Little Steel after the Memorial Day Massacre, these were optimistic words. But Tugwell had always been ahead of his times, and his yearning for the world to come was never without a heavy dose of pragmatism. It would not be immediately forthcoming—“possibly beyond the next war, probably beyond the next depression, certainly beyond the next election”—and, whatever the timeframe, it would not come from above. Only if “there were enough thunder on the left to drown out the publishers on the right” Tugwell understood, would those masses whose toil produced the nation’s wealth finally “be able to push the Democrats around,” especially the reactionary ones from the South, and move towards the kind of planning that would provide security for workers in rural and urban America alike.¹¹² In the absence of such an alliance, capital could not be stopped. And for that reason capitalists would do everything in their power to stop that alliance from forming. To that struggle we now turn.

Chapter Two: Institutional Keynesianism and the Fictitious Commodities

WORLD WAR II TURNED THE ECONOMIC CONDITIONS of Depression on their head. Maximum production for the war effort along with high levels of federal spending provided more of a jolt to investment and employment than the New Deal ever could. But strong economic performance only made the politics of inflation more acute. And if Institutional Keynesians in the USDA, the TNEC, and elsewhere had offered one of the most powerful explanations for the rising price level in the 1930s, conservative forces joined them in offering compelling theories of their own during the 1940s. Two causes in particular drew their ire, both of which were integral to the Institutional Keynesian program: federal deficits and growth in labor costs.

These arguments, to be sure, were not new. At the height of the New Deal, conservatives both in and out of the Roosevelt administration – above all Secretary of the Treasury Henry Morgenthau – warned of the inflationary implications of a budget chronically out of balance. Such fiscal largesse had monetary consequences – it dramatically increased the volume of money in circulation – and in investors’ eyes it indicated a depreciating value of the dollar.¹ And business concern with wages, productivity, and prices – what came to be called the “wage-price spiral” – was as old as the capitalist labor relation itself. Rising corporate leaders had more than once since the late nineteenth century used it as

an excuse to crush nascent industrial unions.\textsuperscript{2} If their efforts on this front in the postwar era lacked the overt violence of that earlier era, the objective was the same.

Confronted by these conditions and a corporate class emboldened and valorized by its centrality to the war effort, the Institutional Keynesian suffered a monumental defeat in the immediate postwar years. It occurred in three registers, each related to the others and together constituting the political economic base of that New Deal tradition. The defeats mapped on to what Karl Polanyi in his 1944 classic, *The Great Transformation*, called the fictitious commodities of labor, land, and money. These were things, Polanyi held, that could not be commodified but were treated as such in capitalist society. Indeed, they became the commodities upon which capitalist society rested. Only struggle could remove them from the nexus of exchange, and while the New Deal may have represented a start, by 1945 Institutional Keynesians understood they had quite a way to go.

The first round was over the labor question. The experience of war had convinced rank-and-file workers and consumers, along with their allies in government, that full employment with price control was both possible and desirable even in peacetime. Access to a useful and remunerative job, as Roosevelt put it in his 1944 Economic Bill of Rights, should be a social right and not something over which capital should have veto power. Next came agriculture. The myopic focus on prices, Institutional Keynesians had argued through the 1930s, benefited commercial agriculture at the expense of both the rural working-class and urban consumers. An agricultural policy that instead directed support to ordinary farm workers and encouraged maximum production could serve the dual purpose of providing industrial workers and their families with affordable food and incorporating that rural

working-class into the New Deal coalition. Last was the fight over the social nature of money, or more precisely capital. Starting during the Depression emergency and continuing through the war, the leadership of the historically independent Federal Reserve System subordinated its autonomy to the needs of the Roosevelt administration. Deficit spending has to be financed somehow, and the best way to do so is to have a national central bank coordinate its activities with the imperatives of fiscal policy. So from early in Roosevelt’s presidency until late in Truman’s, the Fed functioned at the will of the Executive. It was a period of political – indeed democratic – control of the financial system without precedent in history, and for a time it seemed as though the Fed might become the central bank for a U.S. social democracy.

Between 1945 and 1951, the Institutional Keynesians failed on each of these fronts. Congressional conservatives killed the full employment and price control proposals, and by the end of the 1940s collective bargaining at the firm level became the pillar of the country’s industrial relations system with an embryonic private welfare state displacing the more capacious vision of industrial democracy. They did the same to the legislative agenda pushed by a coalition of industrial unionists and small farmers, and in so doing sealed the rural working-class out of the New Deal order. Out of that exclusion would grow the cultural shock troops that would contribute to the fall of that political regime a generation later. And outside of Congress, the leadership of the Federal Reserve fought a protracted battle for autonomy from the political realm itself. In 1951, the “Fed-Treasury Accord” granted such “central bank independence,” an agreement suffused with political significance that was struck with a handshake behind closed doors. Without ever having agreed to it through democratic process, workers, farmers, and their Institutional Keynesian allies thus found
themselves confronted by an opponent in the politics of inflation who did not have to play by the same rules.

When Eisenhower entered the White House in 1952, on the heels of this triple defeat, it could seem that Institutional Keynesianism was dead. Many historians still feel that way. But as we will see in Ch. 4, that tradition was more durable than most have appreciated. Exploring in some detail the failures of the immediate postwar period, then, can both illuminate what they were up against entering the latter half of the twentieth century, as well as how they would have to adapt.

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IF WORLD WAR II did much to rehabilitate corporate America’s image in the public eye, it also provided Institutional Keynesians with a new set of opportunities. And in attempting to exploit them, left New Dealers found an important ally in the burgeoning industrial union movement. Indeed, it was the wartime situation that created the necessary conditions for that alliance to mature. The CIO may have been born through the great strikes of the 1930s, but only in the 1940s did it come of age, neither the first nor the last time that the American working-class would enjoy the perverse benefits accruing from an economy devoted to the production of the means of destruction.

Roosevelt understood, as Wilson had during the First World War, that his administration would have to accommodate certain trade union demands in order to achieve the stable labor relations vital to maximum and continuous defense production. So in May 1940 the President established the National Defense Advisory Commission (NDAC) – the
first of several “alphabet agencies” charged with coordinating the defense effort – and appointed Sidney Hillman head of its labor division. As the top leader of the ACWA, Hillman had since the 1920s played a central role in negotiating industrywide standards on wages, prices, and output – what Steve Fraser has termed a “strategy of microregulation” – that brought order to chronically volatile clothing markets and caught the attention of the reform-minded from Hoover on leftward (Ch. 1). Throughout the New Deal Hillman functioned as the most influential labor official in Washington, and his stature in the wartime mobilization program would remain high. On the eve of Pearl Harbor, Roosevelt elevated him, along with William Knudsen of GM, to the even more important position of co-director of the War Production Board (WPB).³

Hillman’s was not a token appointment, but industrial unionists understood that it alone was insufficient. In order to ensure both that workers would share in the abundance offered by the war economy and that their organizations would stand on strong enough footing to survive what past experience suggested was likely to be a perilous transition back to peacetime, labor needed to achieve an institutional role in the war effort. Nor was this just for the CIO’s sake. The sluggishness with which the largest corporations converted from civilian to military production, and the bottlenecks and resultant waste this caused, led unionists like Walter Reuther to conclude that such an institutional role – through which workers’ expertise on the technical issues of production could be tapped – was essential if the “war at home” was to be executed with maximum efficiency.⁴

Philip Murray, President of the CIO and SWOC, was the first to articulate this position. In late 1940 he called for a system of “industry councils” composed of representatives of labor, business, and the state, which would bargain over and set industrywide production standards – a macro version of Hillman’s micro approach, or something of a democratized NRA. Murray indeed saw the industry council plan as a step towards the “industrial democracy” vision discussed in Ch. 1, by which worker and consumer interests would gain real influence over the shape of the national political economy in the years after the war. Many Institutional Keynesians agreed. Speaking at the final meeting of the TNEC in early 1941, Donald Montgomery, then still with the USDA, called Murray’s idea “the best consumer program that has been suggested since the war began.” While it “doesn’t attempt to solve all consumer problems,” Montgomery added in a remark that highlighted the increasing influence of Keynesian-proper thinking on New Deal planners, “it goes to the root of the most vital one – production.” Walter Reuther, for his part, took Murray’s plan and ran with it, proposing that the federal government establish an Aviation Production Board, modeled on Murray’s industry councils, which would be charged with rolling out “500 planes a day.” A plane, Reuther commented with characteristic punch, is simply a car with wings, and, indispensable as these flying cars were to the war effort, the companies best positioned to produce them – the automotive industry – had for the sake of short-term profitability proved reluctant to do so. Their intransigence, Reuther implied, left

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the state no choice but to intervene. There was more than a trace of Veblen’s imagined soviet of engineers in the UAW leader’s vision.\(^7\)

Neither the Murray Plan nor its more concrete expression from Reuther was ever realized. Such direct worker participation in industrial operations signaled too grave a violation of managerial prerogative for corporate executives to accept. Still, the war meant that the scope of state intervention in the economy would reach unprecedented levels, and for labor that meant an opportunity to continue politicizing the workplace nonetheless. And the politics of inflation was the most important terrain on which the trade unions would wage that struggle. Wartime conditions had definitively inverted the political economic dilemma confronting federal officials – and if scarcity gave way to the abundance of war production, this transition brought with it hazards of its own, above all the question of how to balance wages, prices, and profits in an economy awash with government contracts. This, of course, was a question to which the Institutional Keynesians had been honing an answer for some time.

The Office of Price Administration (OPA) – which started as a Price Division within the NDAC before being reclassified as its own agency in April 1941 – became their home base in that struggle.\(^8\) To serve as director Roosevelt appointed Leon Henderson, a progressive economist and Executive Secretary of the TNEC, and his choice indicated the type of agency the OPA would become. The historian Meg Jacobs has described it as “a radical model of state management: a popular government agency working in alliance with a coalition of labor, consumers, and social liberals that challenged the right of private interests

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\(^7\) Lichtenstein, *The Most Dangerous Man in Detroit*, Ch. 8.
\(^8\) The best history of the OPA is Meg Jacobs, *Pocketbook Politics*, esp. Ch. 5.
to set their own prices and sell their items freely.” The name itself harked to Gardiner Means’s “administered prices”, and he and other Institutional Keynesians – including Mordecai Ezekiel, Louis Bean, and John Kenneth Galbraith – gravitated towards the OPA in its early years.10

The OPA also attracted the consumer activists and feminist Institutional Keynesians that had cohered intellectually and organizationally in the 1930s, in no small part thanks to the work by the AAA Consumer Counsel Division. As Caroline Ware, who joined the OPA as Consumer Division Director Harriet Elliott’s deputy, observed, “In the past seven years, the consumer movement has gained great momentum.”11 And the women leading the Consumer Division continued this activist-administrative tradition, agitating housewives with provocative literature and organizing them through regional consumer information centers. In this campaign they partnered with the CIO, with working-class consumer organizations like the League of Women Shoppers, and with activists in the struggle for racial justice. Indeed, Ware, who taught history at Howard University, self-consciously worked to cultivate relationships with black reformers, and her efforts bore fruit. Her comrade Frances Williams, a black woman affiliated with the Negro branch of the YWCA, joined the Consumer Division and toured the country, meeting with people from Harlem to the STFU heartland, to organize around its agenda. The tens of thousands of women they recruited to police prices at the local level, and the national administrative infrastructure they constructed to enforce OPA policy, testified to the democratizing potential of Institutional Keynesianism at its best. It is

not too much of a stretch to conclude that the OPA represented the most remarkable experiment in economic democracy since Reconstruction.  

This could not but affect the labor movement. After Roosevelt signed the Emergency Price Control Act in January 1942, a measure granting the OPA statutory authority subject to annual renewal, trade union officials responded with an offer of wage restraint and a pledge not to strike for the duration of the war. Labor’s gambit for stable real wages did not yield as much as workers had hoped. The National War Labor Board’s summer 1942 Little Steel wage formula set January 1941 as the baseline, a date that erased a number of collective bargaining victories. What was more, the Little Steel formula relied on BLS cost of living measurements that trade unionists found significantly – indeed insultingly – understated the real prices people paid to survive in a wartime economy. But the deal did deliver something else: union security. The “maintenance-of-membership” clause endorsed by the NWLB finally institutionalized a version of the “union shop,” one of labor’s oldest demands.  

It was in this context that Donald Montgomery joined the UAW staff. In early 1943, soon after his arrival, Montgomery became Chairman of the newly created OPA Labor Policy Committee, the establishment of which he considered “historic,” a bold “attempt to represent consumers after the virtual breakdown of all the consumer counsels within administrative agencies.” From this position, as well as his concurrent role as head of the CIO Cost of Living Committee, he would become the leading figure in the formulation of a laborite politics of inflation that persisted well into the postwar era.

14 See Lichtenstein, *Labor’s War at Home*, Ch. 5.
15 Donald Montgomery to Chester Bowles, Sept. 9, 1943, 7/9, DEM.
And if ever there was an opportunity to push that agenda further it was in the mid-1940s. Although Congressional conservatives had forced Leon Henderson out of the top OPA position after the Republican rout in the 1942 midterms, the former TNEC official had by then built the agency upon radical foundations. Foremost among them was his price policy itself – Henderson employed an “overall earnings standard,” which called for keeping prices as low as possible without pushing an industry into the red. In other words, the OPA used industrywide profit margins to determine the lowest price that average performers could charge without being forced to operate at a loss. To corporate executives who hoped for a replay of the First World War’s War Industries Board (WIB), which implemented a “cost-plus” price policy that guaranteed a certain rate of return for all firms, the overall earnings standard was not far short of expropriation.\(^\text{16}\) On top of this, Henderson oversaw the tremendous expansion of the OPA – under his direction its staff increased tenfold to 30,000, and it doubled again by the end of 1943, with 90% of the employees stationed outside of Washington.\(^\text{17}\)

But even in this most favorable climate – as an industrial union representative in a proto-social democratic body – Montgomery faced steep challenges that illuminated just how much was at stake in the politics of inflation. In October 1943, Roosevelt appointed Chester Bowles, then state director of the Connecticut OPA, to lead the national price control program. Bowles counted Montgomery as an important personal and intellectual influence, and looked to him for guidance every step along the way. Soliciting Montgomery’s advice before accepting the position, Bowles admitted to being “very fearful [the OPA] will get in the hands of a reactionary group who are more anxious of appeasing business than really

\(^{16}\) Jacobs, *Pocketbook Politics*, 192-93.  
\(^{17}\) Jacobs, *Pocketbook Politics*, 199.
controlling inflation and the cost of living.”\textsuperscript{18} Still, he noted that Montgomery was “so right in sensing the opportunity that faces the labor movement on price control,” and felt that if “labor can only bring that fight to a successful conclusion and successfully dramatize the part that it played in bringing that victory about, it will be able to store up a huge backlog of good will which will come in very handy in the trying days after the war was is over.”\textsuperscript{19}

Montgomery may have appreciated the sentiment, but admiration would not stay mutual for long. Over the next three years he would grow increasingly frustrated with the OPA director’s unwillingness – or inability – to take the bold steps needed to help labor achieve that “successful conclusion.” Montgomery grew frustrated, that is, but not surprised – “No disparagement of your personal anatomy is implied,” he wrote to Bowles, “in recalling [UAW staffer] Paul Sifton’s definition of the upright public servant as an official whose backbone is maintained in that position by approximately equal pressures from all directions.”\textsuperscript{20} The problem, Montgomery knew from his time in the USDA, was that those pressures are never applied equally. This was something the fate of the OPA would bear out.

The issues arose immediately after Bowles took office. In early 1944, Congressional Republicans and Southern Democrats used the annual renewal process of the OPA to amend the Price Control Act in ways that Montgomery and the OPA LPC felt would “grossly vitiate the emergency wartime controls…as well as the enforcement essential to the exercise of those controls.”\textsuperscript{21} The new bill granted cotton interests their demand for special price treatment, and it substantially reduced penalties for non-compliance.\textsuperscript{22} What disappointed

\textsuperscript{18} Chester Bowles to Helendeen H. Dodderidge, June 9, 1943, 7/9, DEM; Jacobs, \textit{Pocketbook Politics}, 205.
\textsuperscript{19} Bowles to Donald Montgomery, July 3, 1943, 7/9, DEM.
\textsuperscript{20} Montgomery to Bowles, Sept. 9, 1943, 7/9, DEM.
\textsuperscript{21} OPA Labor Policy Committee to Bowles, June 27, 1944, 7/10, DEM.
labor representatives the most, however, was Bowles’s apparent spinelessness in the face of the assault. Attuned to the OPA’s widespread popularity – polls repeatedly showed strong public support – the LPC called for Roosevelt to veto the bill, thereby forcing the conservatives’ hand and turning the upcoming 1944 election into a referendum on the merits of price control. But Bowles demurred, criticizing the bill yet refusing to discourage the President’s from signing it, a stance against which Montgomery and the LPC felt “compelled to take strong exception.” The trade unionists’ displeasure would with the OPA director would only increase. The cuts to enforcement, the LPC noted to Bowles, would place “a very heavy burden of responsibility and expense” on the labor movement, which was left on its own in mobilizing “voluntary consumer participation” for the bottom up campaign to politicize prices. The OPA ought therefore, Montgomery would plead to Bowles more than once, to create a Deputy Administrator position “responsible for general supervision and coordination of labor activities” and to place paid labor coordinators in all district offices. Bowles replied the same way each time – that it would be “extremely tough from an organizational point of view,” not least because the Bureau of the Budget refused to make funds available for such a purpose. Such was the peak of the labor movement’s influence on the OPA. Still, in the face of mounting corporate and congressional opposition it was significant that the OPA even managed to survive, and although the LPC would spar with Bowles for the next year over things ranging from the price of vacuum cleaners to steel, state

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23 OPA Labor Policy Committee to Bowles, June 27, 1944, 7/10, DEM; OPA LPC to Bowles, July 5, 1944, 7/10, DEM.
24 Bowles to LPC, July 4, 1944, 7/10, DEM; Bowles to LPC, June 7, 1944, 7/10, DEM.
level personnel to the content of official pamphlets, for the duration of the war the cost of living would remain stable.\textsuperscript{25}

After V-J Day, however, when the imperatives of wartime emergency no longer seemed to hold, the class conflict at the root of the inflation question exploded volcanically, and the UAW was at the center of this epochal struggle. In the summer of 1945, Walter Reuther submitted to William H. Davis, the sympathetic Director of the Office of Economic Stabilization, which oversaw both the OPA and the NWLB, a report prepared by Montgomery that highlighted the perils involved in the reconversion process. In order to sustain mass purchasing power and prevent a sharp postwar downturn, Montgomery’s analysis held, workers needed a substantial increase in real wages, which industrial corporations showered with wartime profits could surely absorb without raising prices. Davis endorsed the proposal – indeed he concluded that real wages would have to rise by some 50 percent over the next five years if another slump was to be avoided – as did other high ranking progressives like Henry Wallace, who was then Secretary of Commerce. The new President Truman, however, was less enthusiastic. He called for restraint by all parties until the fall, when he hoped to convene a grand Labor-Management conference at the White House charged with settling the matter.\textsuperscript{26}

Walter Reuther and the UAW were unwilling to wait, and just a week after Nagasaki the autoworkers’ leader unveiled his union’s “Purchasing Power for Prosperity” bargaining program to GM. Drafted by Montgomery, its central demand was a 30 percent wage hike without an increase in the price of a car. The proposal was intended to be political, and the

\textsuperscript{25} Clifford McAvoy to Bowles, Nov. 15, 1944, 7/10, DEM; Walter Reuther to Bowles, Dec. 11, 1944, 7/10, DEM; OPA Draft Letter to Bowles, Jan. 13, 1945, 7/11, DEM; OPA LPC to Bowles, Feb. 27, 1945, 7/11, DEM.

\textsuperscript{26} Lichtenstein, \textit{The Most Dangerous Man in Detroit}, 223-225.
strike that resulted – the company refused even to entertain the idea that “capacity to pay” represented a bargaining subject, let alone to discuss figures – had a radical character throughout. In late November 1945, 175,000 autoworkers walked out of GM plants, and they would stay out for the next 113 days. Before long they were joined by tens of thousands of steel workers, meatpacking workers, electrical workers, miners, and many others – more than 4 million in total – in what became the largest strike wave in U.S. history.27

It ended in what Reuther and Montgomery considered a disaster. For if the UAW leadership saw the politics of price as the key battleground of reconversion, the same could not be said for other CIO unions. This was especially the case for the USWA. Ever since the founding of U.S. Steel, out of the deflationary wreckage of the late nineteenth century, the wage-price relation in this “fundamental” industry had drawn political scrutiny. And as we will see in later chapters, this continued well into the postwar period. As a result, steel executives were less wary than their counterparts in auto of brokering deals with the state and the union over wages and prices.28 Moreover, productivity in the expansive internally complex steel plants always lagged behind the Fordist pace pioneered in Detroit, and a reasonable case could be made that for that reason steel needed more price relief than the Big Three car manufacturers. Stir into the mix Philip Murray’s less confrontational style, as well as the USWA leader’s perhaps misplaced hope that Truman was on the cusp of spearheading a new New Deal, and it is less than surprising that the leadership of the CIO’s biggest union proved hesitant to hitch their fate to Reuther’s bold gamble. Others, like the electrical

27 Lichtenstein, The Most Dangerous Man in Detroit, Ch. 11, passim.
workers, followed Murray over Reuther. That most unions only began their strikes in January 1946 – two months after the UAW – when it became clear that the President would be unable to get corporate leaders to the table suggested just how divided the industrial union movement was.  

The division was underscored in mid-February when the USWA accepted a contract that provided a sizable wage hike but said nothing of prices. Days later, the OPA approved a steel price increase of more than five dollars a ton, twice what Bowles had earlier indicated would be a reasonable bump. Isolated and vulnerable – a frustrated Reuther had to admit that the steel settlement “weakened our position” – the UAW carried on for another month, but in mid-March settled for a less than satisfactory wage boost without, again, any promise on prices. If “Treason and Double-Cross” by others in the labor movement was one way to make sense of the defeat, Montgomery understood that it was the Truman administration and the OPA that had “abandoned the hold-the-line policy” – whether they knew it or not, they had “converted [the OPA] into a price-raising agency.” And his criticism was not without cause. Two weeks before the UAW strike began, Bowles had authorized modest price increases for Chrysler and Ford, a move that Montgomery felt amounted to “in practical effect – seating yourself and, with you, the United States Government on the GM side of the bargaining table” because the “rank and file of UAW-CIO feel personally that any price increase on automobiles is as much a defeat for them as the denial of a wage increase.”

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31 Montgomery to Bowles, Nov. 14, 1945, 7/11, DEM.
Montgomery’s hope that, “in the last moment, you will not stand against us” was to no avail.\(^{32}\)

Montgomery’s pointed criticisms notwithstanding, the OPA did still place some downward pressure on prices. But its future was very much uncertain. Congressional conservatives would spend the two months following the GM strike settlement trying to gut it, and the amended Price Control Act they presented to Truman that summer was so weak that even this most cautious President felt compelled to veto it. On July 1, 1946, then, the OPA became a dead letter. In a memo delivered to Reuther the next day, Montgomery assessed the situation. “Inflation is here,” he began, and the real “issue in that controversy is who is to get the blame.” Unfortunately, he continued, that issue had already been decided. “Labor has been made the scapegoat of this inflation.” And for a variety of reasons the unions should not expect to find relief from it any time soon – with the government running large deficits a tighter monetary policy (which itself would be of questionable efficacy) was not on the table, and consumer spending power in the immediate postwar period appeared to be higher than anticipated. The inflationary pressures would therefore be “self perpetuating, and will spread and accelerate.” An increase in the general price level of “far more than 20 percent” was, remarkably, not inconceivable. “We have lost round one in our wage-price fight,” Montgomery had to admit in conclusion, but he added that the “fight will go on.” And a “valuable by-product” of it “will be that our members through their own experience in the fight will enlarge their understanding of the larger wage-price battle which organized labor must win if it is ever to get a good living.”\(^{33}\)

\(^{32}\) Montgomery to Bowles, Nov. 14, 1945, 7/11, DEM.

\(^{33}\) Montgomery, “Memo on Inflation” for Walter Reuther, July 2, 1946, 378/11, DEM.
But politics often outpace the development of the kind of class consciousness Montgomery had in mind. Inflation skyrocketed for the remainder of the year – Montgomery’s estimate of 20 percent was close to the mark – and it became the biggest issue in the 1946 midterm elections. Widespread frustration with the galloping cost of living, as well as an effective business campaign to “scapegoat” organized labor, combined with low voter turnout to deliver a Republican majority in Congress for the first time since Roosevelt first took office. And led by the rabidly anti-union Senator Robert Taft from Ohio, these conservative shock troops struck while the iron was hot, passing the Taft-Hartley Act in 1947 over Truman’s veto. If it was not quite a “slave-labor bill,” Taft-Hartley did weaken the Wagner Act in a number of ways – it allowed states to abolish the union shop; prohibited secondary strikes; prevented supervisors from unionizing; expelled Communists from union leadership positions – and its passage rightly stands as among the most significant defeats in twentieth-century U.S. labor history.34

The fate of the OPA stymied the development of Montgomery’s hoped for class consciousness in still another way. It signaled the death knell of labor’s other political objective at the end of the war: full employment legislation. Indeed, as Michal Kalecki had predicted in 1943, even under the best of circumstances the obstacles capitalist society placed in the way of full employment may just be too great to overcome. His prescient words are worth quoting at length:

under a regime of permanent full employment, ‘the sack’ would cease to play its role as a disciplinary measure. The social position of the boss would be undermined and the self assurance and class consciousness of the working class would grow. Strikes for wage increases and improvements in conditions of work would create political tension. It is true that profits would be higher under a regime of full employment than they are on the average under laissez-faire….But ‘discipline in the factories’ are more appreciated by the business

leaders than profits. Their class instinct tells them that lasting full employment is unsound from their point of view and that unemployment is an integral part of the ‘normal’ capitalist system.\textsuperscript{35}

That, again, is what they could expect to confront if successful. But the struggle did not even get that far.

By all accounts, a full employment policy without attendant economic controls would prove inflationary. When times were good, high levels of investment and employment would drive demand up and take prices with it. And when times were bad, the federal government would have to prime the pump with heavy doses of deficit spending which would in turn fan the flames of inflation. The defeat of the OPA and the great inflation of 1946, then, gave business conservatives just the issue they needed to kill the full employment campaign. How could Congress authorize even more inflation in this economic climate?

That the original version of the bill itself had been drafted by none other than Mordecai Ezekiel and Louis Bean of the BAE along with NFU Legislative Director Russell highlights both the centrality of the Institutional Keynesian tradition to this struggle and the significance of the failure.\textsuperscript{36} In its final form, sponsored by Montana Senator James Murray, the Full Employment Act of 1945 called for the president to submit to Congress an annual National Production and Employment Budget that forecast the number of jobs and the amount of investment that would be required to provide work for everyone in the national labor force. If private investment was expected to fall short of the necessary amount, the federal government would step in to make up the difference. The idea was to break capital’s

\textsuperscript{35} Michal Kalecki, “The Political Aspects of Full Employment,” \textit{The Political Quarterly} 14, no. 4 (1943), 326.
monopoly on the investment function, and like Kalecki predicted capitalists understood the threat. Through 1945 and 1946, until the midterm elections bought them some breathing room, corporate America waged a relentless two-pronged war against the OPA and the full employment bill, finally using the demise of the first to justify their opposition to the second.  

But popular demand for full employment was high – not least because the war had proved it possible – so the business community responded with a measure of their own. The Employment Act of 1946, differed from the Institutional Keynesians’ measure in fundamental ways, name included. First, it had two goals, not one: maximum employment, which it defined as an unemployment rate of three percent, and price stability. Whether those goals might conflict its sponsors failed to mention. They also failed to reckon with the consequences of attaching a number to the optimal rate of unemployment – this provided an institutional foundation for the idea of a “natural rate of unemployment,” one that we will examine in Ch. 5 but whose potential ideological implications should be clear. Second, it dispensed with the National Production and Employment Budget, the substantive core of the law. The Employment Act did create the Council of Economic Advisers, charged with publishing an annual *Economic Report of the President*, and a congressional Joint Committee on the Economic Report (later changed to the Joint Economic Committee), both of which have remained mainstays of the federal economic policymaking top brass. And both, indeed, would provide Institutional Keynesians with opportunities to advance their agenda in the

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postwar period. Still, the derailment of full employment policy during reconversion stood as an epochal defeat for the New Deal order.38

A third, less perceptible but equally profound defeat lay in the years ahead. With the end of the OPA and the fate of full employment legislation, the state formally extricated itself from involvement in labor relations for the first time since Roosevelt and Michigan Governor Frank Murphy had in 1937 dispatched the National Guard to protect UAW sit-down strikers in Flint. In contrast to the experience in 1919, however, this round of postwar workplace depoliticization did not spell immediate disaster for the labor movement. Five years of NWLB maintenance-of-membership policy provided the industrial unions with a stable constituency, one that in the decade after the war would grow to an apogee of one-third of the non-farm workforce. And in 1948 and again in 1950, the CIO, led by the UAW, successfully translated this raw power into collective bargaining agreements of a scope that most workers would have found unthinkable a decade earlier. When Reuther and the UAW accepted the famous Treaty of Detroit in 1950, which provided employer funded pensions, healthcare, and an annual productivity-based income supplement, all on top of strong wage gains, it was clear that organized labor was there to stay, at least for the foreseeable future. During the quarter-century “Great Compression” that followed, workers’ real incomes, as well as their share of the total pie, climbed at a rate without precedent in the United States.

But when the social critic Daniel Bell observed that the billion dollars GM paid for labor peace in 1950 was in fact a bargain, he highlighted the darker side of this achievement. As scholars have noted, the CIO’s commitment to an expansive political economic vision fell in inverse proportion to the benefits its affiliate unions secured from employers at the firm-

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level. The workers’ victories in the immediate postwar years, then, did in a sense signal the “eclipse of social democracy.” Without assigning blame to labor officials who accepted agreements that objectively improved their members’ standard of living, one can conclude that this success brought with it contradictions of its own. But neither the severity of those contradictions nor the means by which they would be resolved was foreordained. That history too would be the subject of struggle.

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THE LABOR QUESTION in the immediate postwar years was rivaled in significance only by the question of what to do about agriculture. War had transformed the issues facing the U.S. countryside, as two decades of downward pressure on commodity prices, which the New Deal met with production restraint, gave way to a booming demand and the threat of inflation. The political economy of war, that is, called for a different approach than seemed appropriate in a time of depression. But old habits, especially those conditioned by material interests, died hard. As Donald Montgomery and others had learned in the 1930s, commercial agricultural producers and processors fixated on price movements alone would resist any obstacle in the way of an upward drift. Complicating matters was the changing character of the USDA. In 1940, Roosevelt put Henry Wallace on his ticket, and as a result of the personnel shakeups and the exigencies of war the Institutional Keynesians lost much of the

ground they had held since 1933. Soon after Montgomery’s departure, for instance, the Department closed the Consumers’ Counsel Division’s doors.

Throughout the war, then, tensions flared between big agricultural interests, along with their representatives in the USDA, and the planners in the Office of Price Administration. And during reconversion these tensions erupted to catastrophic effect. Indeed, agribusiness and corporate processors bore as much responsibility for the death of the OPA, the inflationary spike that followed it, and the political consequences that resulted, as any other single issue. Freed from price control, the cost of food surged through 1946 – and as one of the largest items in working-class household budgets this took a more immediate toll than did climbing industrial prices, which crept into consumer goods more gradually. Arriving at a national agricultural policy that ensured both stable incomes for farm workers and affordable food for urban consumers – a challenge that had bedeviled Institutional Keynesians in the New Deal – therefore took on renewed urgency.⁴⁰

But that challenge had only become more complex since the war. For one, commercial agricultural interests were themselves divided over what was to be done. Whereas producers of “basic commodities” like cotton, wheat, and tobacco feared a repeat of the surpluses and deflation of the 1920s and called for a maintenance of production restraint, corn and livestock raisers, who stood to benefit directly from rising consumer demand, hoped for a return to the free market. After the war, these competing interests vied for control within the AFBF, and following a heated leadership fight the corn and hog forces emerged triumphant. The division had a geographic, and therefore partisan, character – the Democratic South and northern Plains versus the Republican Midwest – and it was through

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⁴⁰ Jacobs, Pocketbook Politics, Ch. 5-6, passim; Allen J. Matusow, Farm Policies and Politics in the Truman Years (Cambridge: HUP, 1967), Ch. 3.
this internal struggle that the AFBF became firmly planted in the GOP camp, where it would stay through the 1950s. Still, in the short-term the result was a political stalemate. The wartime agricultural program had mandated a two-year extension of production controls after the cessation of hostilities, a preventative measure informed by the experience in 1919, and the Agriculture Act of 1948 that followed effectively kicked the can for an additional two years. The struggle over a long-term agricultural program, which had begun in 1933, was still very much ongoing.

Donald Montgomery was of course familiar with the challenge, and he continued to voice concern about it from his position with the UAW. “Always,” he noted to a New York State committee on nutrition in late 1943, commercial agriculture “has been concerned primarily with price.” Judging by recent federal policy, Montgomery continued, borrowing a formulation coined by Mary Taylor, an observer could reasonably “think that the purpose of agriculture was to produce prices” rather than “food as something to eat.” Why? Because “the big farmers who control government policy” and who, through depression and war, had accumulated a larger and larger “proportion of the total agricultural productive capacity of this country,” profited from the continuation of the status quo. Not unlike their industrial cousins GM and U.S. Steel, the owners of the means of agricultural production would always charge as much as they could get away with. The difference was that they did so with government sanction. As a result, Montgomery soberly concluded, while there “will certainly be enough food for our country as a whole” after the war, “mismanagement” would lead to unfair distribution and waste. Poor “families will continue to starve on their feet, as they

always have,” and, he feared, many middle-class “families are going to have to join their low-income colleagues because of the rise in the cost of food.”

James Patton, the young, progressive leader of the revitalized National Farmers’ Union (NFU), felt the same way. Founded in 1902, in the wake of the Populist defeat, the NFU through the 1930s could not shed the increasingly outdated worldview and political program that had energized its forerunners. Its central demand in the Depression years was currency inflation, and if the shadow of William Jennings Bryan was long, it was not that long. The AAA represented a firm rebuke of the NFU agenda, and during Roosevelt’s first two terms the organization fell into disarray. By 1939 its membership had plummeted to 65,000, a sharp contrast to the AFBF, which grew three fold over that same period to 450,000. Patton, a shrewd organizer who was then the head of the Colorado Farmers’ Union, took control of the organization in that moment of crisis, and he quickly stabilized its membership and reoriented its political vision. Born the year the NFU was founded and raised in a western Colorado experimental community called Nucla (New Utopia Cooperative Land Association), Patton’s father was a socialist and an active supporter of the striking miners who were savagely killed at Ludlow in 1914. Those politics would stay with rising farm leader.

Under Patton’s direction, the NFU endorsed left USDA initiatives like the FSA, and it was the only farm organization to throw its full support behind the OPA. The timing was ripe, as the civil war within the AFBF which pushed that group into the Republican Party had left an opening for the NFU among Democrats, at least those outside the South – the

42 Montgomery, “Statement before New York State Joint Legislative Committee on Nutrition,” Dec. 15, 1943, 6/1, DEM.
organization, composed mostly of small to mid-sized Midwestern wheat farmers, was hostile to the big landowners, and this along with Patton’s avowed commitment to racial equality made the NFU anathema to those southern agriculturalists on the losing end of the internal AFBF struggle. As a result, the NFU grew closer and closer to the CIO, and in the latter half of the 1940s the two worker organizations showed signs of fusing into the kind of labor-farmer alliance that Institutional Keynesians had long hoped to see.

And they had reason to be optimistic. Again, the BAE and NFU had been central in the legislative struggle for the ill-fated Full Employment Act, and the latter was a leading force behind the passage of the scaled down Employment Act of 1946. In the spring of 1946, moreover, Patton co-sponsored a conference, along with A. Philip Randolph of the BSCP, H.L. Mitchell of the STFU, and others, that led to the establishment of a National Educational Committee for a New Party (NECNP). The NECNP, which received support from both AFL and CIO unions, was intended to serve as “a clearing house and coordinating center” that could “carry on educational work for independent political action” in pursuit of a broadly social democratic agenda.44 Discussing agriculture, the NECNP declaration of principles, drafted by largely by Lewis Corey (the socialist formerly known as Louis Fraina), began by noting that although “stability of farm prices is important for farmers, a progressive farm program must go beyond price policy.”45 In the postwar struggle over agriculture, the


labor-farmer coalition would finally move this perspective – long advocated by Institutional Keynesians inside the USDA Consumers’ Counsel – to the center of debate.

And there it would die, but not without a fight. In 1948, after Truman’s conservative Secretary of Agriculture, Clinton Anderson, resigned to run for an open Senate seat in his home state of New Mexico, the President appointed Charles Brannan to fill the vacancy. Brannan was an exemplar of the 1930s and early 1940s USDA liberal-left. Having never lived on a farm, he joined the Tugwell-led RA as an attorney, worked for its successor, the FSA, and in 1944 rose to the position of Assistant Secretary of Agriculture. A native of Colorado, Brannan and James Patton were longtime friends, and he was the NFU’s top choice to replace Anderson. In spite of their political differences, Brannan’s able service to the Department also earned him a recommendation from Anderson, the outgoing head.46

The timing of Brannan’s appointment was significant. In the 1948 election, Truman faced two formidable challenges. From his right was the popular liberal Republican Governor of New York, Thomas Dewey, and from his left the former Secretary of Agriculture, Commerce, and Vice President, Henry A. Wallace, running on the ticket of the newly formed Progressive Party. Wallace’s platform was unabashedly social democratic, much like the one outlined by the NECNP, and, on the eve of the Cold War, he advocated cooperation with the Soviet Union. Both stances won him favor with Communists, who used the election season to show one last display of political dynamism before the hammer of McCarthyism came down on the U.S. radical left. If awareness of the witch-hunts to come can leave one with the impression that the Wallace campaign was at best quixotic, however, to labor-liberals at the time it posed something between an agonizing dilemma and an

outright threat. The Democratic establishment, along with most of the CIO leadership, saw it as the latter – a strong Wallace performance could well deliver the White House to the GOP – and the Progressive Party’s Communist ties did not hurt their case. Truman managed to win, in what many pollsters considered the greatest upset in the history of U.S. presidential elections, but increasingly anti-communist industrial union officials still used the occasion to purge CP members from their ranks – adhering to a Taft-Hartley provision that they might have resisted on civil libertarian grounds. In the process, they happened to consolidate their control over the CIO. By 1950, the industrial union federation had expelled eleven left-led unions – including the mighty United Electrical Workers (UE) – and blacklisted scores of its most brilliant organizers, those with the deepest commitments to the struggle for racial justice and without whom the CIO project would have been stillborn.\(^{47}\)

Still, the challenge posed by the coalition surrounding the Wallace campaign, as well as the fact that CIO and NFU support proved indispensable to Truman’s success, convinced the President that a program appealing to his twin urban and rural constituencies could solidify Democratic control at the national level for the foreseeable future. And to wage that legislative struggle, he turned to Charles Brannan. The Brannan Plan that resulted, unveiled soon after the inauguration in 1949, represented the culmination of more than fifteen years of Institutional Keynesianism inside and out of the federal government. The proposal was complicated in its technical details, but straightforward in principle: the purpose of agricultural policy should be to guarantee farmers stable incomes, not high prices. This the

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government could achieve by providing producers with subsidies and encouraging high production to bring down consumer prices. To protect natural resources and to direct production towards low supply but nutritionally valuable crops, receipt of the subsidies would be conditional upon following USDA guidelines about conservation and diversification. And, most controversially, to promote family farming over large-scale commercial agriculture, a cap would be placed on the number of acres for which a producer could collect the subsidy.\textsuperscript{48} No more handouts to the southern planter class.

The Brannan Plan, it should be noted, was premised upon the understanding that U.S. agriculture was undergoing a wholesale transformation through which mechanization on farms and employment opportunities off them would substantially reduce the number and proportion of farm workers.\textsuperscript{49} This process had been underway since early in the century, and it accelerated during World War II, as evidenced by the Second Great Migration of African Americans from the rural south to urban-industrial centers. And Brannan felt it should not be resisted. Greater support for resettlement and a full employment economy would offer security for the landless, while the institutionalization of a mosaic of independent, mid-sized farms, could serve as a New Dealized version of the old republican dream for those who remained. A healthy urban economy, that is, was a precondition for rural prosperity. As Donald Montgomery put it a few weeks before the plan was announced, in an NBC broadcast debate with representatives of the AFBF and the Chamber of Commerce, whatever “the


\textsuperscript{49} On this point, see esp. Michael W. Flamm, “The National Farmers Union.”
details of the farm program are, it is not actually going to get prosperity and security for the farmers unless we make up our minds that we are going to maintain full employment and a full productive economy year after year.” To James Patton, the synthesis Brannan had achieved represented “a milestone in the history of American agriculture.” As Truman had hoped, the proposal had the potential to formally incorporate an urban-rural alliance under the auspices of the Democratic Party, one that would have tilted the balance away from both Republicans and the reactionary South once and for all.

Conservatives were aware of that threat, and the campaign they waged against the Brannan Plan was accordingly determined. Republicans, southern Democrats, and every farm organization excepting the NFU opposed it, with more than few labeling it “socialistic,” “Communist bunk,” “un-American,” and other buzzwords of the paranoid style then gaining currency in U.S. political rhetoric. The most powerful criticism of the Brannan Plan, however, was that it would be inflationary – just as was the case with the Full Employment Act. Although the Secretary insisted that its cost would be comparable to that of the existing agricultural program, critics charged that it would encourage dangerous amounts of deficit spending and thereby serve to depreciate the value of the dollar. This was an argument Institutional Keynesians had heard since early in the New Deal, and it was one from which they could not escape. Led by freshman Senator and former Secretary of Agriculture Clinton

50 “Transcript of NBC program – “Should the Agricultural Act of 1948 be Revised?” 35/5, DEM.
52 “Lourie Denounces Brannan Plan,” New York Times, May 12, 1949; Dean, An Opportunity Lost, 153. For a range of perspectives on the Brannan Plan, see House Committee on Agriculture, General Farm Program, including Joint Hearings with the Senate Committee on Agriculture and Forestry, 81st Cong., 1st sess., pts. 3 (Testimony of farm organizations) and 5 (Testimony of producers’ groups) (Washington, D.C.: GPO, 1949); Subcommittee of the Committee on Agriculture and Forestry, United States Senate, 81st Cong., 1st sess., Hearings on S. 1882: A Bill to Amend the Agricultural Adjustment Act of 1938 and S. 1971: A Bill to Stabilize Farm Income and Farm Prices of Agricultural Commodities (Washington, D.C.: GPO, 1949).
Anderson, and with strong support from the AFBF and its processor allies, the anti-Brannan forces prevented the bill from coming to a vote, replacing it with a modest refinement of the 1948 law. Brannan tried again in 1950, but his proposal did not even make it out of committee, and with the onset of the Korean War the Truman administration abandoned its pursuit of Fair Deal, of which a new agricultural policy was to be a central part.\textsuperscript{53}

Brannan continued to harbor hopes that his idea might be revived in the 1950s, and he corresponded about it with trade unionists and leading Democratic officials well into that decade.\textsuperscript{54} But the tide had turned. During the Eisenhower administration, Secretary of Agriculture Ezra Taft Benson represented everything the Institutional Keynesians had opposed. A Mormon raised in Idaho – later in life he would serve as the thirteenth president of the Church of Latter Day Saints – Benson sympathized with the John Birch Society and hated the New Deal. Early in his tenure, which lasted both Eisenhower terms, he shut down the BAE, terminated the Department’s soil conservation program, and strengthened the Extension Service, which was infamously controlled by the AFBF. And though he railed against state intervention of any kind, that did not stop him from showering the corn interests – who led an AFBF with which he was closely allied – with generous aid. But Benson did face stiff opposition through the 1950s, not least from a NFU that retained substantial influence in Congress, especially among the growing number of Democrats in what had been the AFBF-GOP stronghold, the rural Midwest. Producers of other commodities, too, resented Benson’s special treatment of the corn bloc, and as a result the search for a long-term national agricultural policy stalled during the Eisenhower years just as it had in the 1940s.\textsuperscript{55}

\textsuperscript{53} See esp. Dean, \textit{An Opportunity Lost}, Ch. 6-8, passim.
\textsuperscript{55} Sheingate, \textit{The Rise of the Agricultural Welfare State}, 134-139.
That long-term solution was only achieved in the mid-1960s. And like the Kennedy-Johnson solution to the labor question, the subject of Ch. 5, it was an ostensibly progressive measure that implicitly served to ratify the existing class structure. The Food and Agriculture Act of 1965, which set the parameters within which agricultural policy would be conducted for the next three decades, did include some of the key features of the Brannan Plan. It offered tailor-made subsidies to different commodity groups, guaranteeing a stable income regardless of fluctuations in the market price. It allowed global market forces to drive down the prices consumers paid. And it dramatically expanded the Food Stamp Program, providing millions of low income households with access to a more nutritious diet. On the whole, it signaled that the state was in agriculture for good. But just as important is what it did not do: it said nothing about ownership of the land. Brannan’s effort to check the concentration of land ownership by limiting provision of subsidies to smaller landholders had failed, and under the long-term farm program finally reached under Johnson corporate agribusiness claimed most of the benefits, as it had since the days of the AAA. By the late twentieth century, the family farm had faded out of existence and rural populations continued to shrink. Working people who remained in the countryside were effectively shut out from whatever social contract the New Deal Order signified. Proletarianized and poverty stricken, many of them found it easier to blame their hardship on that liberal political project – and the industrial unionists, African Americans, immigrants, and feminists who seemed to benefit from it – than on the absentee landowners who had stymied Institutional Keynesian

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ambitions of extending the New Deal in rural America. To answer the question of what is the matter with Kansas and places like it, one must start there.\footnote{This argument has been informed by Shane Hamilton, \textit{Trucking Country}. See also, Thomas Frank, \textit{What’s the Matter with Kansas?: How Conservatives Won the Heart of America} (New York: Holt, 2004).}

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LESS VISIBLE TO THE PUBLIC EYE but just as significant as the immediate postwar responses to the labor and agriculture questions were the politics surrounding the social character of capital. The financial sector, including the Federal Reserve and Treasury Department, has been thus far absent from our story, and given that financial legislation was Roosevelt’s first order of business in 1933 this might seem a curious omission. But it was the efficacy of the banking and securities acts of 1933, 1934 and 1935 in meeting their stated objectives that left the captains of finance and their representatives in government as secondary actors in the struggle over economic policy in the 1930s and through the war. That would all change by the early 1950s.

The appalling degree of speculation in the 1920s, and the disregard with which investment bankers squandered workers’ savings in pursuit of each successive peak in the asset bubble that resulted, all of which served to precipitate the titanic collapse at the end of the decade, concentrated public scorn on Wall Street more than any other political or economic symbol. This was but a generation since the Populist upheaval, and ideological antipathies towards the investor class – especially in the South and West – still drew sustenance from the collective memory of that epochal tragedy. Some of the most durable New Deal policies emerged out of the legislative reforms that followed. The Banking Act of 1933 – sponsored by southerners, Carter Glass and Henry Steagall, who saw a racial caste
system and regulated finance as the twin keys to maintaining the Dixie way of life – erected a firewall between investment and commercial banking; the Securities Exchange Act of 1934 established a Securities Exchange Commission charged with overseeing the stock and bond markets; and the Banking Act of 1935 made permanent the Federal Deposit Insurance Corporation. For the next half century, these laws would do much to stabilize the financial system and to prevent the kinds of panics that had since 1819 chronically convulsed the U.S. economy (and which have again begun doing so since the 1980s).^58

The Banking Acts of 1933 and 1935 also bore significantly on the Federal Reserve. Both initiatives were led by Roosevelt’s appointee to head the central bank, Marriner Stoddard Eccles. A little known Republican banker from Utah who had been recommended to the President by Rexford Tugwell (by way of Stuart Chase), Eccles became the first westerner to hold the top Fed post. He brought with him an acute sensitivity to the social hardship induced by monetary shortages, something those in the commodity producing mountain regions had learned the hard way during the deflations of the late-nineteenth century and again in the 1920s. Monetary policy, Eccles thus concluded, should serve the public interest and not only that of the bankers. But as things stood, he complained in 1934, the Fed “cannot help but be profoundly influenced by a narrow banking rather than a broad social point of view.”^59 Its decentralized structure over-determined it. Moreover, if a flexible monetary policy was necessary, Eccles also emphasized that it alone was insufficient in the face of the crisis at hand. Only an activist and redistributive fiscal policy, directed towards putting people to work and supported by a cooperative central bank, could boost mass

purchasing power. Indeed, Eccles, an organic intellectual who lacked a college degree, anticipated the expansionist theory that would soon be associated with Keynes. He continued to expound upon it well into the 1940s, even as he insisted that he had never ready anything the Cambridge don had written.  

But Eccles was still a banker. He was interested in modernizing the financial system, not socializing it. And as a condition for accepting the position, Eccles demanded that Congress invest the Fed leadership with authority to superintend that process. Established in 1913 in response to both rural pressure for representation in the formulation of monetary policy and corporate desires for financial stability and predictability, the Federal Reserve System had from its inception been a body riven with contradiction. Composed of twelve relatively autonomous branch banks directed by members of the financial class in different geographic regions, a federated structure that lent each branch a distinct character and allowed room for conflicting interests to emerge, policy decisions were made in a most haphazard fashion. The Fed’s confused response to the 1929 crash – the money supply remained low even as the economy descended into the abyss – exposed the limitations of the decentralization that Eccles wanted changed. The Banking Act of 1933 provided a statutory basis for “open market operations,” the Fed’s term for management of money and credit through purchase and sale of Treasury securities, and the 1935 bill, which Eccles helped to draft, centralized decision making in the Washington based Federal Open Market Committee.

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(FOMC). The New Deal, then, did much to shift the center of gravity of financial policymaking from New York to the nation’s capital.

And there the Fed would be shaped by the politics of the New Deal. The “actions of the monetary authority,” as Eccles’s deputy and ardent New Dealer Laughlin Currie put it, “must be subject to the control of the Administration.” In the first instance, that implied that Fed independence would have to be subordinated to the imperatives of the federal deficit spending program. In concrete terms, this required that the central bank partner with the Treasury Department in channeling government securities into the private banking system, accessing the credit needed to finance increasing federal outlays, and ensuring that the cost of servicing that debt – above all the yield on Treasury bonds – remained low. In effect, Eccles agreed to run the Fed as a central bank for the New Deal, and throughout the 1930s and for much of the 1940s he kept his word. This was the first time national fiscal and monetary policies were implemented in a planned and coordinated fashion.

That balance was not struck without tension. The leaderships of the Treasury – during most of this period Secretary Henry Morgenthau – and the Federal Reserve locked horns more than a few times before their grand “Accord” of 1951. But the fault lines between them changed over time and with economic circumstance. In 1936, Morgenthau, concerned about

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64 Ketl, Leadership at the Fed, 49.
the inflationary repercussions of chronic federal deficits, led a successful campaign within the administration to bring the budget into balance. Eccles and Currie slammed the proposal, warning that it would sap the fragile recovery, and the deep recession that followed in 1937 seemed to validate their viewpoint. Morgenthau, for his part, placed blame for the 1937 downturn at the doors of the central bank. In response to a flood of gold pouring into the U.S. from war wary European banks, a base upon which American financial institutions had increased their lending and thus expanded the money supply, Eccles moved to raise reserve requirements on the grounds that it would check the specter of asset inflation. Fearful that the action might ever so slightly increase interest rates, Morgenthau saw it as monetary austerity. While scholars tend more towards Eccles in their assessment of the 1937 “Roosevelt Recession,” the point here is not to pass judgment but rather to investigate the conditions – intellectual, institutional, structural – that worked to set the terms of debate.65

Personality too had something to do with it. Perhaps owing to an insecurity born of his inexperience in banking and concern for his standing in the administration, Morgenthau jealously guarded his authority at the Treasury Department. And although he had approved of Roosevelt’s decision to nominate Eccles, he quickly came to see the heterodox central banker – who seemed of a piece with the New Deal left against which Morgenthau regularly stood in opposition – as a direct threat. But as a political outsider who had already conceded autonomy to the larger goals of the New Deal, Eccles harbored no such ill will. The source of tension was deeper, having to do more with institutional culture and ideological disposition than interpersonal squabbles. At the helm of the Treasury, Morgenthau retained a narrow conception of his responsibility as maintaining the federal government’s fiscal health, and

65 On the significance of the recession of 1937, see esp. Alan Brinkley, The End of Reform.
doing so required two things: limiting the accumulation of public debt and minimizing the cost of servicing it. Eccles brought a broader perspective as a central banker. General recovery meant more to him than short-term fiscal soundness – indeed, he felt that budgetary orthodoxy of the kind espoused by Morgenthau was responsible for the lumbering response to the crisis before Roosevelt’s election. And while recovery did depend upon coordinated fiscal and monetary policies, coordination required some room for negotiation. Monetary affairs were complicated, and responding to exogenous factors – like European anticipation of war – demanded a level of flexibility that Morgenthau, fixated on low Treasury yields alone, never quite trusted.66 The challenges of synchronizing fiscal and monetary policy between the two institutions would become more clear over the course of the next decade. And as we will see, Treasury and the Fed officials would view those challenges differently as the global political economy began to change after 1945.

But first came the war. After Pearl Harbor, Eccles doubled down on his commitment to facilitate Roosevelt’s deficit spending demands, promising “to assure an ample supply of funds” to the war effort.67 The mechanism for doing so came to be called the “peg” – a fixed pattern of interest rates on Treasury bonds, ranging from 3/8 percent for those with the shortest-term and 2½ percent for the longest-term maturities. Maintaining such low rates would require a high demand for Treasuries – bond prices and yields are inversely related – and Eccles promised that the Fed would step in to buy any amount necessary to keep the government’s borrowing costs low. If it was necessary to win the war, however, the banker in Eccles understood the perils that a wide open monetary spigot could pose after the war. “If left uncontrolled,” Eccles wrote to a congressional committee in early 1945, “the vast and

rising tide of war-created liquid funds could overwhelm the markets.” As the war drew to a close, the Fed Chairman also urged the Truman administration to maintain the emergency stabilization program, especially the OPA and the excess-profits tax, fearful that their repeal would only multiply the means by which those “war created liquid funds” could inflate the economy.

A related global development contributed to Eccles’s anxiety about the dangers of a postwar inflation. In mid-1944, delegates from more than forty countries – including Eccles – convened for a conference on international monetary issues at Bretton Woods, New Hampshire. The painstaking negotiations behind the agreement, however, had already been conducted by Harry Dexter White and John Maynard Keynes, representing the U.S. and British Treasuries, respectively, and their closed door deliberations laid the foundation for an international monetary order that would stand for the next quarter century. Postwar security, White and Keynes held, depended upon global economic stability. And achievement of global economic stability required two things: reconstruction of war devastated industrialized states, as well as “development” of soon to be post-colonial new nations; and promotion of domestic economic policies that would drive full employment, growth, and increased international trade. The World Bank was designed to facilitate meeting the first objective, the International Monetary Fund the second. In addition, White and Keynes understood, monetary flexibility was vital to the success of such a regime – expansionist policies required strong state spending that would induce at least temporary balance-of-payments deficits – so the new global order had no place for the rigidity of a gold standard. But the competitive currency devaluations that fueled national antagonisms after the universal abandonment of

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68 Quoted in Ketl, Leadership at the Fed, 62.
that gold standard in the early 1930s also had to be avoided. This, along with bankers’
demands for disciplinary means by which they could place at least some limit on how much
governments spent, provided the rationale for the third pillar of Bretton Woods: a system of
fixed exchange rates linked to the dollar, which would be convertible to gold at a set price.
As Leo Panitch and Sam Gindin have observed, this “institutionalized the American state’s
predominant role in international monetary management as part and parcel of the general
acceptance of the US dollar as the foundation currency of the international economy.”70 It
was, they concluded, the basis for the political economy of postwar American empire.

But power, Marriner Eccles recognized, came with responsibility. With the global
financial system resting on the integrity of the dollar, price stability in the U.S. became an
imperial imperative. And just as it did, inflation began to gallop. The end of the OPA and
other wartime controls, again, unleashed a tidal wave of consumer demand and liquid capital
that overwhelmed even the reduced government spending that came with peace. Still, if the
budget deficits after V-J Day were not what they were during the conflict – by the end of the
decade they would turn to surpluses – the Treasury nevertheless held an enormous total
wartime debt. Henry Morgenthau’s successors as Treasury Secretary in the Truman
administration, Fred Vinson and John Snyder, understood that meeting this obligation in a
fiscally sustainable way required continual refinancing. Refinancing, in turn, required that
borrowing costs remain low. And as such, Treasury leaders demanded, with Truman’s
support, that control over the central bank remain within the Executive, as it had during the
New Deal and war.71

70 Leo Panitch and Sam Gindin, The Making of Global Capitalism, 74, 72-80 passim.
Marriner Eccles and the bankers who led the Federal Reserve, however, saw the postwar political economy as a brave new world that necessitated an altogether different approach. If many New Dealers worried about a return to depression after the war, central bank officials insisted throughout the conflict that an inflationary boom was the more likely threat. But in spite of the influence of, as Eccles had put it in 1934, the more “narrow banking interests,” led by Allan Sproul, President of the Federal Reserve Bank of New York, most members of the Federal Reserve Board were reluctant to confront the Treasury – as well as the larger New Deal order – outright. Between 1946 and 1949, Fed officials therefore promoted a compromise agreement: the “special reserve plan” would have prohibited investors – namely banks – from selling government securities. That is, the government would determine the volume of and yield on bonds that each bank was required to hold. Having thus insulated Treasuries, the central bank could apply selective monetary and credit policies aimed at tempering inflation without affecting the government’s debt burden. The scope of the proposal, indeed, says something about the ideological center-of-gravity of the immediate postwar years. The special reserve plan both represented an acknowledgement from the Federal Reserve that it had and would continue to owe an obligation to the New Deal state and legitimated extensive and protracted state intervention in the financial sector. It drew strong opposition from the banking community, and after the 1951 Accord trade unionists began calling for a version of it as a solution to the challenge of synchronizing fiscal and monetary policy.73

73 Stein, *Fiscal Revolution*, 246-249. In practice, the government would give banks non-marketable securities in exchange for the marketable securities they held, which would insulate the banks’ balance sheets from larger economic forces that affecting the value of Treasuries.
The special reserve plan never got anywhere in Congress, not least because the Truman administration refused to get behind it. Their opposition was not unfounded. Radical as the proposal can seem in retrospect, at the time it did represent a concession from the Executive. Government bonds might be protected, assuming the plan worked as billed, but the range of operations an otherwise liberated Fed could conduct would surely have other consequences, intended or not. And at a more basic level, Truman, through the Treasury, had effective control of the Fed – why would he willingly give that up? The president’s stance was bolstered by that of his Council of Economic Advisers, by 1949 led by the archetypical Institutional Keynesian Leon Keyserling. Keyserling had studied law at Harvard and economics at Columbia, where he became a mentee of Rexford Tugwell, before going to work for New York Senator Robert Wagner, under whose direction he drafted such legislation as the National Labor Relations Act. Regarding the dispute between the Fed and the Treasury, he felt that decisions about the relationship between fiscal and monetary policy ultimately “should rest, putting personalities aside, in an agency such as the Council of Economic Advisers.”

That is, squarely in the Executive, where the proper balance of autonomy and accountability could be struck.

After the demise of the special reserve plan, Eccles amplified his criticism, both in public and private, of the government’s handling of inflation, and in early 1948 an irritated President Truman announced that he would not appoint him to another term as Fed Chairman. Thus ended Eccles’s decade and a half tenure as the top central banker. But he remained on the Board of Governors, and as one of its most influential members he

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continued to agitate around the specter of inflation and the need for greater central bank independence in the years to come. In this campaign Eccles got an assist from Paul Douglas, the newly elected Democratic Senator from Illinois. And if he is remembered as a “crusading liberal,” the public figure Douglas embodied all the contradictions carried by that ideological label. Having trained as an economist at the Institutional stronghold Columbia, he served on the faculty at the University of Chicago as that Department transitioned from its early eclecticism to its more famous (or infamous) monetarism. Douglas’s early academic and political work bore out the first influence – his 1930 study, *Real Wages in the United States, 1890-1926*, was an extensive empirical inquiry into a question that captivated reformers in the 1920s, the cost of living, and through the 1930s he was active in progressive Chicago politics and a supporter of the New Deal.75

But the Chicago economics experience stuck with him. Literally weeks after Douglas arrived in Washington, Joseph O’Mahoney, Chairman of the Joint Committee on the Economic Report, appointed him to head a Subcommittee on Monetary, Credit, and Fiscal Policies. Through the fall of 1949 Douglas conducted hearings touching on a host of issues but focusing above all on the relationship between the Federal Reserve and Treasury. And in January 1950, as he celebrated his first anniversary in the Senate, the Douglas Subcommittee released a report with a straightforward conclusion: “we believe that the advantages of avoiding inflation are so great and that a restrictive monetary policy can contribute so much to this end that the freedom of the Federal Reserve to restrict credit and raise interests rates

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for general stabilization purposes should be restored.” Eccles could not have asked for a clearer defense of central bank independence. He later thanked the freshman Senator for his “force, conviction, and knowledge, of the subject” which far exceeded that of “any member of Congress.” “I doubt that any accord could have been brought about between the Treasury and the Federal Reserve,” Eccles acknowledged, without Douglas’s services.

Douglas’s recommendations took on greater force with the drumbeat for war in Korea. After a brief recession in 1948-49, the mobilization for this next round of conflict rejuvenated the U.S. economy (it had an even more consequential impact on Japanese industrial recovery) and through 1950 drove prices up. The Truman administration responded with a call for a wartime wage-price control program, as well as a demand that the Fed renew its commitment to Treasury objectives. But this time the central bankers refused, setting the stage for a standoff over the relationship between the two institutions and the balance of power between the Executive and the Fed in the politics of inflation going forward. Yet again, Eccles and his allies got support from the Chicago school of economics. In early 1951, Milton Friedman, Theodore Schultz, and others presented the members of the Fed Board of Governors with a statement on “The Failure of the Present Monetary Policy.” “[T]he monetary actions of the Federal Reserve since Korea,” they began, conducted “presumably under the influence of the Treasury” were “highly inflationary” and “ill-conceived.” Moreover, the federal government’s “attempt to control prices and wages,” the monetarist economists added, “do not strike at the root cause of inflation.” Only a “vigorous monetary

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77 Marriner S. Eccles to Paul H. Douglas, March 16, 1951, Box 61/Folder 1/Item 5, Marriner S. Eccles Papers, University of Utah, Salt Lake City, UT and available digitally through the Fraser database of the Federal Reserve <https://fraser.stlouisfed.org/archival/1343> (hereafter “MSE”).
policy designed to make credit tight, to prevent an increase in the quantity of money, or if necessary, to decrease the quantity of money” could rein in the surging price level. And as to who ought to have final say on the matter, Friedman and his colleagues were clear: “Monetary policy cannot serve two masters at once.” Control should rest with the competent - that is, the central bankers.

Eccles circulated the statement widely, endorsing it as “the best and clearest exposition that I have seen on the subject,” one whose value was enhanced by the fact that “the economists who sign it are completely objective in their approach” and “are not influenced by partisan or political considerations or by special interests.” The Fed should be the “master” of all things monetary, and anyone who felt otherwise was a partisan hack – unlike the “completely objective” University of Chicago economists. Eccles had traveled a long way since his days as the New Deal’s central banker.

But there was continuity as well as change in Eccles’s perspective. His concern all along had been with the health of the economy in general and not how its returns were distributed. If he was a heterodox enough thinker to understand that during a crisis like the depression some measure of redistribution would be needed to kick-start growth, and to know that that required deficit spending supported by a liberal monetary policy, he saw that as only temporary. Indeed, once the pendulum began to move the other way and eventually reached a business cycle peak, conditions would demand the exact opposite approach. In other words, Eccles had always advocated for a counter-cyclical fiscal and monetary policies

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79 Eccles to Jesse P. Wolcott, Feb. 5, 1951, 61/2/2, MSE; “Form Letter to Senators,” Feb. 5, 1951, 62/1/4, MSE.
– he was, in this sense, an ideal type “commercial Keynesian,” and if that technocratic
tradition became the dominant current in U.S. liberalism, as historians have suggested, its
first beachhead was at the Fed. For if Eccles was willing in the 1930s to subordinate his
institution to a presidential administration with whose views he was aligned, when political
forces obstructed his ability to carry out a policy more distasteful to the Executive he
demanded that they be removed. “In dealing with the problem,” Eccles and the other
members of the Board of Governors put it in a confidential letter to Truman, “it would be a
grave mistake to have the issue confused by assertions of prerogative or interpretations of
statutory responsibility.”

Politics, they pleaded, should be removed from this most serious technical matter.

Much to Truman’s chagrin, they got their wish. Through late 1950, Fed officials
asserted themselves in increasingly public confrontations with the Treasury, and they
gradually chipped away at the administration’s resolve. First to go was the short-term interest
rate peg, and by the turn of the year they had set their sights on a clean break. But the central
bankers confronted a dilemma – they were waging a political struggle to free themselves of
politics, all while maintaining utmost secrecy about their specific plans for future monetary
policy. Those contradictions came to a head after an unpublicized late January 1951 meeting
between FOMC member and President Truman at the White House. The meeting has been
the subject of much interest by historians of U.S. monetary policy, though no one knows
what actually happened at it. What is clear is that both sides – Truman and the FOMC
members – came out of it with very different ideas about what they had agreed to. Eccles and
Fed Chairman Thomas McCabe saw it as a hand shake settling the Fed-Treasury dispute,

81 Federal Reserve Board of Governors to President Truman, undated 1951, 62/1/6, MSE.
while Truman felt, as he indicated in a public letter the next day, that the central bankers had renewed their commitment to meeting the Treasury’s needs. At a meeting of the FOMC the next week, an impassioned Eccles made a case for swift action – “The public today is confused. They think this is nothing but a feud for power between between the Treasury and the Federal Reserve. It is no such thing. We have not only the power but the responsibility to do a certain job.”

Eccles’s colleagues followed his lead. The next day Chairman McCabe made public their response letter to the Truman – “Mr. President, you did not ask us in our recent meeting to commit ourselves to continue on this dangerous road” and it “would not be consistent with our responsibility to the Congress and to the people of this country to follow such a program” – and in the week to come the administration caved. By the end of February the Fed and Treasury had ironed out the technical details of the divorce, which they made public in early March. And to provide at least a patina of political legitimacy to this otherwise backroom agreement, Paul Douglas sponsored a non-binding resolution in support of the “Accord.”

For good measure, the Fed staff provided the Senator with all the materials he would need for his floor speech.

The Fed-Treasury Accord of 1951 has received minimal attention from historians, but its consequences on the U.S. and by extension the global political economy was monumental in two ways. First, it ended the New Deal era commitment by the central bank to underwrite federal deficit spending. The federal government, that is, no longer had a reliable means of

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82 “Preliminary Draft, Confidential – Minutes from a Meeting of the FOMC,” Feb. 6-8, 1951, 62/2/1, MSE.
83 Thomas McCabe to President Truman, Feb. 7, 1951, 62/4/2, MSE.
86 “Material Furnished Senator Douglas for Senate Statement,” Feb. 16, 1951, 61/1/1, MSE.
financing a robust expansion of the welfare state. Second, it unleashed an independent, at
times rogue, central bank that could effect major economic changes relatively free of political
accountability. In this sense it also served to insulate monetary policy from the “political”
and to facilitate the ideological project of making economic management a science, one best
left to technical experts who operated over and above the public. It was, indeed, the end of
the long period during which populist thinkers grappled with the most complex economic
questions, illuminated their social dimensions, and sought to democratize their governance.
The effects would become clearer in the years to come, and they would get cruel in the
1970s.

If scholars have neglected it, however, these stakes were not lost on contemporary
observers. Speaking before a new JEC Subcommittee on General Credit Control and Debt
Management a year after the accord was struck, Donald Montgomery wondered whether the
Fed would be “a part of our Government” or “a Government apart.”87 John Baker of the NFU
compared the moment to the time when “Andrew Jackson and the people” struggled “to take
the monetary and banking policies of the country away from the privately controlled bank
and return it to the Government of the people.”88 And if his analysis was both clunky and
anachronistic, Baker did get at the class politics of Fed open market operations. Comparing
the central bank’s manipulation of general interest rates to a “broad ax,” he noted that “there
is no selectivity at all in the process, so that the fellow who is building a race track gets just
as good a chance to get credit as the farmer who is trying to increase his production of food.”
Through a “more selective credit control approach,” the NFU representative added, “credit

87 Subcommittee on General Credit Control and Debt Management of the Joint Committee on the Economic
Report, 82nd Cong., 2nd sess., Hearings before the Subcommittee on General Credit Control and Debt
88 Ibid, 807.
can be made available to add to our steel capacity, to increase farm production, to do
desirable things, while discouraging the extension of credit to” more speculative avenues.89
The Fed itself had proposed such a selective approach, Montgomery added, with its special
reserve plan in the late 1940s. But by 1952 the cold war was underway, Eisenhower was
months away from the White House, and the Fed was in the saddle. The central bank did not
need to make concessions in such a climate, and it has not to this day.

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THESE THREE DEFEATS left a crater in the Institutional Keynesian agenda, one from
which it would ultimately never recover. Industrial labor, the rural working-class, and the
financial system upon which an expansive welfare state could have rested all moved in
different directions, and the resulting misalignment undermined both the popular and
material base of the New Deal order. Trade unions depended on state support in their effort
to secure gains from employers – not least through the economic statistics the federal
government produced – but in so doing isolated themselves from a substantial share of the
working-class and therefore came to be seen as but another interest group concerned with
sectional objectives alone. To working people in rural America, increasingly squeezed by
large landowners who enjoyed a monopoly on the benefits generated by federal agricultural
policy, greedy unions, people of color, and the liberal state became easy targets for their
woes. And even if Institutional Keynesians could manage to resurrect the farmer-labor
coalition that showed such promise between the middle 1930s and 1940s, their attempts to

89 Ibid, 809.
achieve transformative social policy would be policed by an independent central bank intent upon inflation control above all else. Their fate, it seemed, was sealed.

But Institutional Keynesianism rested on old progressive foundations that would not give so easily, and however embattled they were by the 1950s they still functioned in a world made by the New Deal. Compared to things in the 1920s, that is, the opportunities were tremendous. Only in comparison to the truly remarkable potential existing in 1945 did the defeats of the immediate postwar years seem epochal. They proceeded accordingly. Although social democratic reforms of the national agricultural system were stymied during the 1950s by Ezra Benson-led USDA, by the dawn of the 1960s no long-term solution to that question had as yet been realized. And they were more successful elsewhere - through industrial labor struggles and in Congress, the Institutional Keynesians continued to advance their agenda in the 1950s.
Chapter Three: The Career of Institutional Keynesianism in Congress

THE ELECTION OF Dwight D. Eisenhower to the presidency in November 1952 punctuated the defeats Institutional Keynesians had suffered since the end of the war. For if Eisenhower existed in a world made by the New Deal, he was not a New Dealer.\footnote{See Robert Griffith, “Dwight D. Eisenhower and the Corporate Commonwealth,” American Historical Review 87, no. 1 (1982): 87-122. On the New Deal and labor influence on the mid-Century Republican Party, see Kristoffer Smemo, “A New Deal-ized Grand Old Party: Labor, Civil Rights, and the Remaking of American Liberalism” (PhD diss., University of California, Santa Barbara, 2017).} The new administration promised to balance the budget, to limit state intervention in the private sector (which included agriculture), and to stay out of labor-management disputes. And Eisenhower gave his supporters reason to believe he would keep his word. One of his first actions in office was to terminate the Korean War wage-price control program, which in spite of the defense boom had kept inflation at bay for the previous two years. This was a sharp contrast from the year prior, when Truman unsuccessfully sought to nationalize the country’s steel plant after industry leaders refused to comply with a price edict issued by that body.\footnote{Maeva Marcus, Truman and the Steel Seizure Case: The Limits of Presidential Power (Durham: Duke University Press, 1994).}

Steel collective bargaining rounds in 1954 and 1956, like those in other industries, then proceeded without federal involvement for the first time since SWOC gained a foothold in 1937, and the industry took good advantage. Led by U.S. Steel, steel management did grant their workers substantial wage and benefit increases, but they also raised prices by at least as much thereafter, a formula that resulted in the most profitable years in industry history. And it it took a fight to win even this modest concession. Only after a national strike in 1956, the fourth in a decade, would the USWA secure the kind of contract that led industrial relations experts to hail the arrival of a “labor-management accord.”\footnote{See Nelson Lichtenstein, State of the Union, Ch. 3.} Another,
even bigger work stoppage would follow three years later. Nevertheless, steelworkers’ wages surged through the middle 1950s, and the COLAs they achieved after the 1956 strike mitigated whatever burden was imposed by the low inflation rate that prevailed during those few years. This settlement was lopsided, of course, but it still provided the basis for what observers began to call the “wage-price spiral,” a term that on its face inverted the causal sequence and elided the power dynamics involved in the process of distributing industrial income.4

In any event, things began to change in 1957. The story starts with the Federal Reserve, whose 1951 “liberation” from the Department of Treasury was further institutionalized by the hands off Eisenhower administration. After a brief recession following the end of U.S. military aggression in Korea, the economy gained steam and by early 1955 registered one of the highest peacetime growth rates ever before or since.5 And the independent Fed responded the way Eccles, now retired, felt a central bank should during an expansion: by applying monetary restraint. For the next two years the FOMC, led by Fed Chairman William McChesney Martin, steadily pushed up interest rates. But their actions achieved only one of the intended effects.6 Economic growth slowed, and unemployment settled at 4 percent – the Employment Act called for a 3 percent target – before beginning to climb.7 The unemployment rate during the supposedly prosperous 1950s, that is, was at its

5 U.S. Bureau of Economic Analysis, *National Data*, Table 1.1.1. Percent Change from Preceding Period in Real Gross Domestic Product.
6 Federal Reserve Bank of St. Louis, *FRED: Economic Data*, Effective Federal Funds Rate.
best fully a third higher than Congress had deemed acceptable a decade earlier. Such was the “age of affluence.”

But while demand slackened, inflation continued to creep. This apparent contradiction became most acute in late 1957 and early 1958, when the economy sunk into the deepest recession since 1937 while the national price level kept climbing. Here steel came back into the picture. In the summer of 1957, as the tremors presaging the impending downturn were being felt, U.S. Steel led the industry in effecting an across the board price increase. The occasion was a round of wage increases stipulated by the 1956 collective bargaining agreement, but the timing of the move – not to mention the intra-industry coordination in taking it – raised questions about steel firms’ ability to charge more in a time of falling demand. And given that steel was, as Judith Stein has put it, the nation’s “fundamental” industry, these questions stood in for larger ones about the place of corporate power in the economy. The leaders of GM and GE no doubt had their eyes on steel.8

So did those Institutional Keynesians who remained in the federal government during the chilly 1950s. Having long been preoccupied by the macroeconomic dimensions of steel industry behavior, they used the opportunity in the late 1950s to mount one final campaign around their planning vision. A central actor in this struggle was the Subcommittee on Antitrust and Monopoly of the Senate Committee of the Judiciary. Chaired by Estes Kefauver, a populist New Dealer from Tennessee who had beat out John F. Kennedy for a spot on the 1956 Democratic ticket under Adlai Stevenson, the Subcommittee in the summer

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of 1957 initiated what would become a four-year investigation into “administered prices” in American industry. Charging that this practice, first described by Gardiner Means during his time in the USDA, was responsible for the “No. 1 domestic economic problem – the problem of inflation,” Kefauver chose the steel industry as his first target.9

Politically, Kefauver was primed for the challenge. For one, he was probably the only Southern Democrat in the Jim Crow era who could count a Trotskyist intellectual among his most ardent supporters. The last book published by Harvey Swados, a onetime member of Max Schachtman’s Workers’ Party, was a glowing biography – a hagiography, really – of the Tennessee Senator, Standing Up for The People: The Life and Work of Estes Kefauver.10 But Kefauver would not have gone far on his own. He depended for help on Subcommittee Chief Economist John M. Blair, a quintessential Institutional Keynesian who had ascended through the network constructed by those committed to that tradition over the previous three decades. In 1936, at age twenty-two, Blair left his childhood Louisiana to enroll in the Department of Economics at American University in Washington, D.C. At the time, American provided an accredited institutional base for the USDA Graduate School, and their curricula were very much integrated.11 As a graduate student, Blair took at least one course under Gardiner Means, through which the two established a close relationship, and he almost certainly studied with Mordecai Ezekiel, Louis Bean, and others too. During that time the precocious doctoral candidate published a regular book review in the Washington Post – through which

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his commitment to the New Deal and disdain for orthodox economics shine— and he also wrote a book himself. Blair later described *Seeds of Destruction: A Study in the Functional Weakness of Capitalism*, which appeared the year he turned twenty-four, as an attempt to relate “institutionalism to the subject matter of all that now goes under the banner of Keynesianism.”\(^\text{12}\) His brief acknowledgements singled out for credit W. Jett Lauck, a longtime advisor to John L. Lewis in the UMW, and Robert Nathan, a CIO favorite economist who would famously endorse the UAW demand for wage increases with price stability in the latter 1940s. And reviews of Blair’s statistically sophisticated and acerbically written study appeared in venues ranging form the *American Economic Review* to *The New Republic* to the *Daily Worker*, with figures like Charles Beard and Norman Thomas expressing admiration for the work.\(^\text{13}\) This was a rising star of the Institutional Keynesian left.\(^\text{14}\)

Still well under thirty and without a PhD in hand, Blair then took a job with the TNEC, where he co-authored its famous report, *Price Discrimination in Steel*.\(^\text{15}\) He next passed through the War Production Board en route to the Small War Plants Corporation, an

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\(^\text{13}\) “Praise for *Seeds of Destruction*,” undated, Box 12E2A 1/2/5 (4), Dr. John M. Blair, Personal (1939-1950), JMB. Blair appears to have remained close to the CIO favorite Nathan in the decades to come. See W. Hadler Fisher to Blair, Oct. 17, 1958, 12E2A 1/2/5 (3), Personal Correspondence (1958), JMB. On Lauck, see Leon Fink, *Progressive Intellectuals and the Dilemmas of Democratic Commitment* (Cambridge: HUP, 1999), Ch. 7.


underappreciated incubator of heterodoxy within the wartime government where, among other things, he recruited C. Wright Mills – then a little known assistant professor at the University of Maryland – to prepare a study that related economic structure to “civic welfare.”\(^{16}\) Blair would remain a close acquaintance and vocal champion of Mills until the radical sociologist’s untimely death a decade later. In 1956, he even challenged the incoming President of the American Economics Association to include a panel showcasing Mills’s soon to be released The Power Elite and David Riesman’s The Lonely Crowd at the organization’s annual convention in the hope that it might “awaken particularly the minds of our younger brethren to the existence of paths to truth other than those of [MIT economist Paul] Samuelson et al.”\(^ {17}\)

After spending the first postwar decade at the FTC, Blair joined the Subcommittee as Chief Economist when Kefauver assumed the Chairmanship in early 1957. The struggle they undertook in the years to come testified to the durability of Institutional Keynesianism even after the defeats of the immediate postwar years, but it also exposed its limitations. The experience of Kefauver, Blair, and the Subcommittee to which they were attached moreover illustrates the importance of Congress, and especially Congressional committees and subcommittees, as sites in the production and dissemination of knowledge and venues that sustain policy-intellectual traditions in otherwise adverse political climates. Passage of

\(^{16}\) CV, undated, Box 12E2A 1/2/5 (4), Dr. John M. Blair, Personal III, JMB; C. Wright Mills and Melville Ulmer, Small Business and Civic Welfare: Report for the Small War Plants Corporation (Washington, D.C.: GPO, 1946); John Blair to George Stocking, undated (ca. April 1956), Box 12E2A 1/2/5/ (3), FTC – General Correspondence, (1957), JMB. The report was actually written by Melville Ulmer, but Mills conducted the research and had substantial input into its final draft. See Daniel Geary, The Radical Ambition: C. Wright Mills, the Left, and American Social Thought (Berkeley: UC Press, 2009), 65-66.

legislation need not be the sole political function of Congress, and proponents of legislation which is at any given time forestalled for political reasons can advance their agendas through other means. Political education campaigns which seek to reframe issues and shift the terms of debate around them are one such way, and investigations conducted by congressional committees – which possess both resources and respectability – can contribute to that cause.\textsuperscript{18}

The Subcommittee on Antitrust and Monopoly is instructive in this regard. The only legislation to come out of Kefauver and Blair’s investigation into administered prices resulted from their 1960 probe into the pharmaceutical industry, which coincided with a public panic over the defective drug Thalidomide. The 1962 Kefauver-Harris amendment to the Food and Drug Act expanded the province of the FDA and mandated disclosure of side effects in drug advertisements, and it has been the subject of most scholarly attention on the Subcommittee.\textsuperscript{19} But the Subcommittee’s opening inquiries into the steel and automotive industries, although they did not ultimately result in any legislation, were influential as well. Drawing some of the most prominent corporate officials, trade union leaders, and many more professional economists to Washington for questioning, and issuing volume after volume of transcripts packed with data-rich appendices, the Subcommittee laid bare for contemporary observers – and for future historians – the inner-workings of American industry at mid-century.\textsuperscript{20}

\textsuperscript{20} The hearings produced twenty-nine volumes along with five formal reports running some 20,000 pages in total. See Appendix for full list of publications.
This chapter focuses on those early hearings into steel and auto and highlights the two conceptual points that Kefauver and Blair hoped to advance, both of which had important policy takeaways. First, they set out to demonstrate that the conundrum of 1957-58 – simultaneous recession and inflation – was no paradox. It was rooted in the structure of corporate capitalism as it stood in the middle of the twentieth century, and without proper planning it could be expected to afflict the economy again in the future. In essence, that is, they anticipated the stagflation of the 1970s and offered suggestions for how to deal with it. That later iteration would be of a greater magnitude, to be sure, but the phenomenon was not as unprecedented as scholars have made it seem. Kefauver and Blair’s punchline was that neither fiscal nor monetary policy could reasonably address this “new inflation,” as contemporaries in the late 1950s referred to it – such blunt instruments could not target with precision the sources of inflationary pressure. And, reasonably, because everyone understood that fiscal and monetary austerity that invited a deep recession could probably drag all prices down, but just two decades removed from the Depression such a response seemed outside the boundary of the thinkable. That would no longer be so by the late 1970s.

Kefauver and Blair’s second point took them back to Institutional Keynesian basics: corporate profits. If the late 1950s economic woes originated in the structure of corporate capitalism, the problem with that structure was the existence of overwhelming corporate power. Only an analysis centered on power, they held, could explain the ostensible peculiarity of unemployment and inflation rising in tandem. Here Kefauver and Blair drew most directly on Gardiner Means, whose testimony would feature prominently in the Subcommittee hearings over the next few years: such market power enabled certain firms to respond to falling demand by cutting production and raising prices, a recipe for what would
come to be called stagflation. It is indeed a historical irony that the Phillips Curve, which scholars read to demonstrate an inverse relationship between unemployment and the price level and which policymakers came to associate with “Keynesian” thought, was published in 1958, just as the Kefauver-led investigation was demonstrating the opposite.21

But, after all, this was just one Subcommittee, and the limits it faced shed light on the larger challenges confronting Institutional Keynesianism at the dawn of the 1960s. On their first objective, Kefauver and Blair met real success – by the end of the decade it was widely accepted that a new kind of inflation was on the scene, one with which fiscal and monetary policy was ill equipped to deal. As the case of the late 1970s would attest, this was no small achievement. Still, mounting a defensive campaign against contractionary measures was not the same as advancing a politically viable planning program that could render such orthodoxy moot. And winning on their second point was even more challenging. It was one thing to make a compelling case that excessive corporate profits were to blame and it was another altogether to do something about it. Complicating matters was the fact that the Subcommittee was not the only congressional entity looking into the matter. Elsewhere, especially in the Paul Douglas-led Joint Economic Committee, figures less sympathetic to the Institutional Keynesian analysis offered interpretations of their own.22


Most followed the Subcommittee’s lead on the first point, that regarding the efficacy of fiscal and monetary policy, but they diverged on the profit issue. And in the debate that followed the Institutional Keynesians fell victim to the obstacles that had long confronted them in dealing with this most basic issue of private property: corporate assertion of managerial prerogative. Unable to access corporate books and records, Kefauver and Blair found themselves building their case through reference to the relationship between two variables: labor costs and productivity. The latter was a famously slippery concept, and questions over its meaning and significance resulted in a consequential struggle around the turn of the decade. The resolution of that contest is the subject of Ch. 5, but first we must understand its stakes.

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THROUGHOUT KEFAUVER’S CAREER in public office he had been preoccupied with the perils posed by unregulated corporate power. Soon after arriving in Congress in 1939, Kefauver secured a widely coveted seat on the House Judiciary Committee and he used the post to cultivate a relationship with its second-ranking Democrat, the veteran New York antimonopolist Emmanuel Cellar. A few years later, in 1945, Kefauver petitioned to join Congressman Wright Patman’s Select House Committee on Small Business, through which he first met John Blair. The latter fondly remembered that there “was quick recognition, I
believe on both our parts, that we were intellectually, ideologically and idealistically simpatico,” and so began a close personal and professional relationship that would endure until the Senator’s death nearly two decades later. Over the next few years, Kefauver worked closely with Cellar and Blair, then at the FTC, to advance legislation closing a loophole in the Clayton Act that left corporate acquisition of assets – as opposed to stocks – unregulated, an opening that big business had used to its advantage during what Kefauver called the “third great merger movement” unfolding in their time. After several frustrated efforts, in 1950 the Cellar-Kefauver Act became among the more notable amendments to the famous Progressive law and marked one of Kefauver’s few legislative achievements. If Kefauver and his colleague shepherded the bill through Congress, however, everyone involved knew that it was Blair’s brainchild. President Truman even gave the economist the pen he signed it with.

The Subcommittee was established in 1951 at the behest of Wyoming Senator – and former TNEC Chairman – Joseph O’Mahoney, who used his position as co-Chair of the Joint Committee on the Economic Report to advance a resolution calling for improved federal data on the economic consequences of monopoly. Kefauver sought to politicize that mission, a task that required a capable staff – and none better, he felt, than alumni of the TNEC. In

27 The Joint Committee on the Economic Report, which in 1956 was renamed the Joint Economic Committee, had been established by the Employment Act of 1946.
addition to Blair, Kefauver poached two of them from the FTC. The “able trial lawyer and keen student of antitrust laws,” Paul Rand Dixon, would serve as general counsel and staff director, and Irene Till, who would become the driving force behind the pharmaceutical investigation, came on as a staff economist. Till – who, incidentally, had been the partner of the late Walton Hamilton, the famous economist who coined the term “institutionalism” – would also go on to edit Kefauver’s posthumously published memoirs on the investigation, *In a Few Hands: Monopoly Power in America.*

In addition to re-staffing the Subcommittee, Kefauver promptly set about enhancing its capacity, time and again requesting and securing larger budgets, beginning with a fifty percent bump for his first year in charge. Unable to afford a single calculator when he took over – quite a handicap for a group that published thousands of pages of statistics – by the early 1960s the Subcommittee, then just a decade old, was far and away the biggest and best funded of its kind in Washington. Given that they were “engaged in the preparation of a comprehensive, systematic study of unprecedented scope and intensity,” one that went much further than “even the monumental but now outdated studies of the Temporary National Economic Committee,” Kefauver maintained, they deserved the resources.

If Kefauver provided the infrastructure for conducting this “comprehensive, systematic study,” almost everything else came from John Blair. In February 1957, the Chief

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29 Kefauver to Donald P. McHugh, Jan. 21, 1957 with accompanying budget proposals; Senate Antitrust and Monopoly Subcommittee Financial Statement, December 31, 1956, both in Box 209, Folder 1, EK; Sen. James O. Eastland to Sen. Thomas C. Hennings, Jr., Jan. 22, 1957, Box 205 Folder 4, EK

30 Kefauver to Joseph C. Duke, August 20, 1957, Box 205, Folder 11, EK; Kefauver to Eastland, Jan. 17, 1962, Box 205, Folder 7, EK

31 Kefauver to Eastland, Jan. 22, 1957, Box 205, Folder 5, EK
Economist circulated among the Subcommittee staff a proposal for an “Investigation of Monopolistic Pricing and Production Policies” which contained the blueprint for the probe. Suggesting that the investigation be “directed toward determining the nature and possibly injurious economic effects of pricing and production policies in the so-called ‘administered-price’ industries,” Blair went on to outline a strategy intended to help “focus the attention of those involved in public policy where the real inflationary danger exists.” Without wider understanding of this threat, he warned, the old tools of reaction – fiscal and monetary restraint – would likely be deployed to stifle growth.32

To frame the debate, Blair recommended that Subcommittee open the hearings with testimony from experts which could establish that “the present inflation, about which so much concern is being voiced at the present time, is not a ‘demand’ inflation or ‘monetary’ inflation” but rather “a ‘price’ inflation which is almost entirely confined to the administered-price industries.” The distinction was critical, again, as the viability of alternative public policies hinged on it. In addition to Means, Blair’s top economist was Edwin C. Nourse, the first Chair of the Council of Economic Advisers who at that point served as President of the Brookings Institute. Scholars have with some justification characterized Nourse as a “conservative Keynesian” – he resigned from the CEA in 1949 in protest to the left-liberal Leon Keyersling’s increasing influence in the administration – but the label obscures as much as it reveals. Nourse, an agricultural economist and past president of the American Economic Association, had written extensively on administered prices – most famously in his 1945 work, *Price Making in a Democracy*. The point is, structural economic analysis was

not the exclusive property of the left – and Blair felt achievement of Institutional Keynesian goals depended in part upon demonstrating that. But as we will see, such openness could create problems. To join Means and Nourse, Blair proposed Harvard economist and acclaimed author, John Kenneth Galbraith, making the expert roster something of a composite of mid-century Institutional Keynesianism.

Next, Blair proposed that the investigation move from one concentrated industry to the next, examining the relationship between prices, production levels, and, most importantly, profits. By comparing these trends to those in more competitive industries, the Subcommittee could isolate the significance of market power as an independent variable in the price formula and highlight the “injurious consequences upon demand, production and employment” it had wrought. “Armed with factual data supporting” this point, Blair imagined, Kefauver could then confront the “representatives of the leading firms” and force them to publicly defend their actions.

From the outset Blair knew that corporate officials’ “principal line of defense would be that costs, particularly labor costs, have risen, making necessary an upward adjustment in price.” What deserved blame for rising prices – labor costs over and above productivity gains, or corporate power? For this reason, Blair cautioned, “[i]t is important that the investigation not be led into the impossible undertaking of trying to evaluate the validity of cost studies for particular products,” as reliable “data on unit costs are perhaps the most

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34 Blair, “Investigation of Monopolistic Pricing and Production Policies,” Feb. 25, 1957, Box 205, Folder 4, EK.
difficult of all types of economic data to come by and put to meaningful use.” Instead, he concluded, “the Committee would be perfectly justified in taking, in effect, the position that, while these cost increases may indeed have occurred, their impact on the company’s earning capacity could not have been very serious in view of its high and increasing rate of profit.”

Their singular focus, that is, would be on corporate profits, but from the outset Blair understood that given the limited data to which they had access there was not much they could do but point at them.

Blair’s memo echoed a complaint that Institutional Keynesians had voiced decades. During their time in the New Deal USDA, Lee Pressman, Donald Montgomery, and others had struggled to gain access to corporate processors books and records and thereby to demonstrate how they could well afford to lower the price of food. And if milk was “nature’s perfect food,” automobiles and the steel out of which they were built were the perfect industrial goods of postwar America. It made sense, then, that Pressman and Montgomery landed with the steel workers and autoworkers, respectively, and the UAW’s role in the famous 1945-46 strike wave spoke to the influence these Institutional Keynesians had on the rising industrial union movement. If the immediate postwar defeats put the issue to rest for a time, the Subcommittee investigation portended a revival of the longtime demand for transparency in corporate accounting.

Donald Montgomery did not live to see it. In the fall of 1957, while the administered price hearings were in their early stages, he committed suicide. Montgomery’s spouse, Mary Taylor, who once edited the Consumers’ Guide, had recently succumbed to a brain tumor, one that was diagnosed just as she fell victim to what Landon Storrs has described as the

35 Ibid.
“Second Red Scare and the unmaking of the New Deal left.” Taylor was a federal employee and a radical in her own right, but Montgomery is said to have believed that his politics were at least part of the reason why she became a target, and been convinced that the stress bred the disease. The tragic episode is just one of many examples of how McCarthyism slowly and invisibly served to extinguish oppositional currents in and around the federal government.

Montgomery was gone, but he had made a lasting impression on Walter Reuther, who understood the opportunity Kefauver’s ascendance to the Subcommittee Chairmanship provided – the Tennessee Senator had been one of the UAW’s closes allies in Washington. Days after he moved into the position, Kefauver received a letter from Reuther encouraging him to conduct a “Congressional investigation into the relationship between wages, profits, and prices” that might illuminate “the root causes of the creeping inflation which…seems to be increasing now at an accelerated pace.”36 In the politics of inflation, Reuther understood all too well, public blame came with disastrous consequences. Yet, “[n]one of those who allege that wage increases are the primary, if not the sole, cause of rising prices have thus far been willing to support our efforts to have a Congressional committee conduct such an objective inquiry.” Kefauver should use his new role, Reuther urged, to determine “where the fault really lies so that the innocent will not be condemned for the sins of the guilty.” The Senator agreed, and in the Subcommittee’s investigation into the automotive industry early the next year the provocative UAW chief would play a prominent role.37

36 Walter Reuther to Kefauver, Jan. 11, 1957, Box 201, Folder 3, EK
THE INVESTIGATION BEGAN in mid-July 1957, two weeks after the steel price increase, with what Bernard Nossiter described in the Washington Post as “a catalogue of economic blasphemies that may shake the lobbyists, agitate faculty rooms, and tax the ingenuity of the public relations boys for years to come.” Feating appearances by Means, Nourse, and Galbraith, the opening phase explored top subject on Blair’s agenda: whether administered pricing was responsible for the new inflation, and if so whether alternative public policies were needed to deal with it. Each independently answered in the affirmative, leading more than a few “veteran observers of Congressional hearings” as Edwin Dale of the New York Times put it, to consider their collective performance “as among the most stimulating in memory.” If Congressional hearings set a low bar for excitement, it does say something that an academic inquiry into inflation should surpass it.

The star witness, Gardiner Means, who since the late-1940s had been an economist with the business backed Committee on Economic Development, presented a refined version of the administered price thesis he had first introduced in the early 1930s. “Even in Adam Smith’s day administered prices were known,” Means informed his audience, but they “were never taken into account in classical economic theory.” But just try, he encouraged the Subcommittee members, to make sense of orthodox theory in practical terms. A market

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41 For the broader academic contours of this intervention, see Theodore Rosenof, Economics in the Long Run: New Deal Theorists and their Legacies (Chapel Hill: UNC Press, 1997), 115-127. The other two economists to testify were John Moore and Richard Ruggles. Ruggles offered a perspective that would gain traction in the years to come: inflation was not actually increasing by as much as the CPI suggested. His main point was that the BLS’s methodology failed to adequately account for improvements in product quality. On the larger significance of Ruggles’s argument, which would be embraced by George Stigler, see Stapleford, The Cost of Living in America, 308-318.
42 Administered Price Hearings, Part 1, 76.
explanation of price-setting rested on the assumption that producers had a precise sense of both their costs and the demand for their goods, information they could use to identify the point where marginal costs equaled marginal revenue; that is, where “the additional cost of producing one more unit would just equal the additional revenue” gained from selling it.\textsuperscript{43} At this price, profits were maximized. In reality, Means averred, there is always a bit of guesswork involved in forecasting demand, and, moreover, while prices a bit above or below the optimal level would lead profits to deviate from their potential peak, they would not end up all that different. In other words, while the invisible hand guided prices within certain ranges, human beings set them at specific levels. That range of prices, within which final profits did not vary by much, constituted a “zone of indifference” to modern managers. “Within this area, prices are not dictated by market forces,” Means observed. “Within this area, Adam Smith’s unseen hand fails to operate.”\textsuperscript{44}

Means added that because of the “discretion implicit in administered prices” – there could be a lot of room within that zone of indifference – “it would be possible to have a rise in prices without a prior increase in the public demand for goods.” He labeled this “administrative inflation.”\textsuperscript{45} Bearing no relation to demand, he added, administrative inflation posed “a real problem of public policy” – neither fiscal nor monetary policies aimed at reducing “buying power” would address its root cause. Indeed, given that the practice of price administration itself could lead production to stagnate in certain industries – since administered price industries tended to meet drops in demand with reduced production rather than lower prices – such restrictive policies were likely only to make matters worse than

\textsuperscript{43} Ibid, 77.
\textsuperscript{44} Ibid, 83.
\textsuperscript{45} Ibid, 84.
proponents of such austerity realized. Administrative inflation “is a new phenomenon,” he concluded. “I do not find it anywhere in our history of prices.” And “until we understand the actual pricing processes involved” in this new phenomenon, “we are quite as likely to make bad, as good, national policy decisions.”

In general agreement with Means’s diagnosis, the other two notable witnesses’ testimonies together highlight the challenges the Institutional Keynesians would face in addressing this new administrative inflation. Nourse added that organized labor’s ability to “administer wages” deserved just as much attention as the larger issue of administered prices, and he proposed prosecuting such labor monopolies under antitrust law. Harking to the days of Pinkerton’s and yellow-dog contracts, this was indeed the only trustbusting measure worth mentioning to be raised during the hearings. In technical terms, Nourse’s point was that in many industries growth in labor costs had exceeded the improvement in productivity. This conservative variety of structuralism would gain greater traction during the Kennedy administration.

While Nourse ascribed blame, Galbraith provided recommendations. Then one of the most recognizable names in the American economics profession, Galbraith had cut his teeth in an Institutional Keynesian milieu. A native of Ontario, in 1934 he completed a doctorate in agricultural economics at Berkeley, and in the years to come would interrupt his assistant professorship at Harvard more than once to do stints with the New Deal USDA and the OPA. Galbraith’s first major work, *A Theory of Price Control*, came out of that experience, and before long he had earned as much of a reputation as a writer as he had as an economist.

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46 Ibid, 88.
47 Ibid, 89.
48 Administered Price Hearings, Part 1, 14, 19.
Henry Luce, publisher of *Fortune*, where Galbraith published a regular column in the 1940s, is reported to have admitted to John F. Kennedy years later that “I taught Galbraith how to write – and have regretted it ever since.” Each of subsequent books, beginning with *American Capitalism: The Concept of Countervailing Power*, which appeared in 1952, had mass appeal, and by the end of the decade Galbraith seemed like an ideal candidate to take Institutional Keynesianism public.

But he did not. Indeed, with hindsight we can see the course of Galbraith’s intellectual career as a harbinger of the challenges which would confront Institutional Keynesians in the 1960s. His Subcommittee appearance was in this sense illustrative. Given that nothing “is more elementary in modern public relations than to use the occasion of a wage increase as the opportunity for a price increase,” Galbraith held before the Subcommittee, in major sectors “we might have a provision for a standstill on price increases after the conclusion of any new wage contract.” This would provide a “chance to see what could be afforded before prices were raised” and to ensure that contracts would stay within those bounds. The problem was that determining “what could be afforded” was, politically, the hardest part. And by placing the wage-price spiral at the center of the analysis, Galbraith helped to ensure that the only way public officials could hazard a guess as to what could be afforded was by comparing labor costs and productivity. If, however, corporate power over price setting and investment decision-making was placed at the center, as Kefauver and Blair sought to do, the question of what could be afforded might have led to greater consideration of the social function of profit. Instead, with utmost elegance Galbraith – in both his Subcommittee testimony and in his concurrently published book, *The Affluent Society* –

skirted the issue of ownership and suggested that by connecting wages and prices to the growth in capacity, or productivity, the bugbear of inflation might be overcome. Prone to pessimism of the intellect over optimism of the will, as he said this Galbraith doubted whether the “conventional wisdom” would allow for even this minimal state intervention in the market.\textsuperscript{50} He would have done well to have reflected upon the risks that might ensue if it did.

On the questions Blair had set out to answer, however, Nourse and Galbraith were on the same page – the 1957 inflation was of a “new” sort, and conventional responses like the Fed’s stringent monetary policy would at the very best prove futile. “The old-fashioned test of the success of a policy is results,” Galbraith noted, and while “monetary policy has been applied with steady rigor” over the past two years, “the companion effect, so far, has been a steady increase in prices.”\textsuperscript{51} Galbraith, who devoted a chapter of \textit{The Affluent Society} to the limits of monetary policy in the face of the new inflation, concluded that given the landscape of the modern economy – islands of oligopolistic industries in seas of competitive ones – tight money was bound to impact certain industries and sectors more than others, creating “discrimination in anti-inflationary policy.” It would work like this: “[restraining] investment – which is the function and only function of the monetary policy” squeezed localized industries like residential construction as well as smaller businesses that depended on short-term credit, while large corporations in administered industries hardly noticed the difference.\textsuperscript{52} Drawing largely on internal retained earnings and in with the big banks, the leadership of U.S. Steel, General Motors, and their ilk were not terribly concerned with the

\textsuperscript{51} Ibid, 45
\textsuperscript{52} Ibid, 47
cost of borrowing.53 Rectifying this “discrimination in anti-inflation policy,” as Galbraith put it, would require focusing attention on the real culprit behind the “new inflation” – administered prices.

BUT AS NOURSE AND GALBRAITH’S testimonies suggested, the question of how exactly administered prices were set was still an open one. And answering it seemed to depend on access to what Blair understood were “the most difficult type of economic data to come by” – corporate costs. The challenge became clearer when the investigation moved from theory to practice in their investigation of the steel industry the next month. U.S. Steel CEO Roger Blough, who early in his career had squared off with a young John Blair in front of the TNEC and who would later go on to found the Business Roundtable and lead the corporate crusade against inflation in the 1970s, set the tone that his associates in the automotive industry would follow. First, aware of the radical stakes involved in the administered price debate in general, he denied their existence outright. Second, he asserted that insofar as the public had right to be concerned about steel prices, the focus should be on the industry’s skyrocketing employment costs, which were far out of proportion to the increase in productivity. When asked to prove the latter point by providing his firms cost data, however, Blough resorted to intransigence - “we believe that it is quite important that our costs, which are confidential, be kept confidential.”54 General Motors chief executive Harlow Curtice was not much more creative, maintaining that “all [automobile] cost increases are the result of an upward trend in wage rates,” and that the cost data requested by


54 Administered Price Hearings, Part 2, 379-386. Blough quoted on 381; Suggested Questions for Mr. Roger Blough, undated, Box 230, Folder 10, EK.
the Subcommittee was “confidential information and should remain so.” Ford’s General Counsel William T. Gossett added that his firm had “never, except as required by wartime legislation, made such information available for any purpose to anyone not in our employ,” as doing so “would put our company at a serious competitive disadvantage.” Even that corporate data in the federal government’s possession – OPA records at the National Archives and the evidence from a 1949 Department of Justice investigation – proved out of reach due to “statutory restrictions” and “pending litigation.” That it lacked the power to subpoena was just one indication of the structural limits facing the Subcommittee.

This did not stop Walter Reuther from pressing the issue. A few months after the two first corresponded about the urgent need for just the kind of investigation Kefauver later launched, Reuther had again come to the Tennessee Senator’s attention with his “positive and practical proposal to stop inflation” in the automotive industry. In an August 1957 open-letter to the chief executives of the Big Three, Reuther submitted that if the corporations would “reduce prices on their 1958 models to levels averaging at least $100 below the price for comparable 1957 models,” the UAW would promise to “give full consideration to the effect of such reductions on [their] financial position in the drafting of our 1958 demands and in our

55 Administered Price Hearings, Part 6, 2487, 2497, 2595.
56 Gossett to Kefauver, printed in Administered Price Hearings, Part 6, 3621; Colbert to Kefauver, printed in Administered Price Hearings, Part 7, 3724; Curtice to Kefauver, printed in Administered Price Hearings, Part 6, 3519.
57 Paul Lewinson to Blair, August 21, 1957, Box 229, Folder 11, EK; Kefauver to Herbert Brownell, Oct. 17, 1957, Box 229, Folder 11, EK; Brownell to Kefauver, Nov. 5, 1957 and Press Release, “Sen. Kefauver Charges Department of Justice Withholding of Information on Steel Inquiry,” Box 201, Folder 1, EK. The episode was indicative of the tensions existing between the Subcommittee on Antitrust and Monopoly and the Antitrust Division of the Justice Department throughout the Eisenhower administration. Another was Kefauver’s frustration with a report issued by the Attorney General’s National Committee to Study the Antitrust Laws, released in 1955. For additional texture, see correspondence between Kefauver and Eugene Rostow, March and April 1955, Box 205, Folder 9, EK. For a history of the report, see, Theodore Philip Kovaleff, Business and Government During the Eisenhower Administration: A Study of the Antitrust Policy of the Antitrust Division of the Justice Department (Athens, OH, 1980), 17-48.
negotiations.” Kefauver promptly wrote the other Subcommittee members urging that they take advantage of the stir caused by the UAW leader’s admittedly “vague and indefinite” proposal by bringing “Mr. Reuther and the manufacturers of the automobile companies together, with the hope of getting a firm, hold-the-line wage and price formula.” General Motors, Ford, and Chrysler had already made clear their rejection of this latest “Reuther Plan,” as they had each time the iconoclastic labor leader sought to discuss issues that they felt were their prerogative alone – like prices. But, thanks to the Subcommittee investigation, for the first time since the great 1945-46 auto strike Reuther would have the chance to air his vision before a national audience.

Reuther did make sure to preface his remarks with an obligatory paean to the virtues of free enterprise and a vow that the postwar American labor movement had “rejected the Marxist concept of class struggle.” This was 1957 after all. Nevertheless, his dozen or so hours of testimony, not to mention his 110-page formal statement for the record, highlighted once again the class politics inherent in price making. For years the UAW had been deeply concerned with inflation, Reuther reminded his audience, “not just as wage earners, but as consumers, as American citizens.” “In 1945 we walked the bricks for 113 days,” he continued, “trying to implement a socially responsible collective bargaining policy that says we do not want to make progress at the expense of our neighbor. We do not want higher wages out of higher prices.” What his union wanted, and what all workers deserved, Reuther added, was “more purchasing power out of the fruits of our advancing technology, out of

59 Kefauver to Sen. Thomas C. Hennings, Oct. 25, 1957, Box 229, Folder 11, EK.
61 Administered Price Hearings, Part 6, 2177.
automation, out of new science, out of new tools of economic abundance.” Yet, even while “the capacity to produce cars far out ran the demand for cars” over the past decade, “the price of automobiles has been raised year after year” – with the result of lower levels of production, greater unemployment, and an intractable inflation. “[W]hat we want,” Reuther concluded, “is a wage increase that essentially reflects the increase in productivity in the whole economy.”

Just like that Reuther boxed himself into the same corner as Galbraith, and the move would haunt Institutional Keynesians in the 1960s and after: the wages-productivity trap. Of course it was not so sudden, nor is it to say that he had much of a choice. For one, if only for rhetorical effect, why not connect wage demands to the great strides in productivity demonstrated by the national economy in the twentieth century? Indeed, exponents of purchasing power arguments had long made that point – that rising productivity could allow for a living wage was the core of that strain of Progressivism. And commentators lamenting the rise in inequality since the 1970s frequently do so with reference to the yawning gap between productivity and wages that has occurred since those years. What was more, veteran trade unionists well understood the perils that myopia on something so difficult to define as productivity might present. They were not ignorant of the fact that even if wages did rise in sync with productivity while prices stayed stable, the distribution of the total income would remain unchanged. They also understood that, absent a consistent rate of investment (a difficult thing to achieve when the investment function was privately controlled) and growth in demand, rising productivity was only certain to produce one thing: structural

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63 Ibid, 2211.
64 Ibid, 2308.
unemployment. If fewer people can produce more stuff, and if demand does not grow accordingly, that means fewer people are going to have jobs. As AFL-CIO Research Director Nat Goldfinger put it in 1960, “American trade unions do not necessarily accept the distribution of income among the factors of production, at any particular point in time, as ethically good, socially and economically desirable or inviolable.” This was especially so, he continued, when a “considerable portion of the economy’s potential for growth…has been translated, not into increased output but into joblessness and part time work.”

In any event, as public officials began to frame the inflation question in terms of the relationship between labor costs and productivity – itself in part a result of the limited access to corporate data – trade union officials went along. But how exactly they would go along was still an open question. The UAW’s official 1958 Bargaining Program modified somewhat Reuther’s original plan by replacing the blanket price cut with a “profit-sharing” plank. A ten percent return on investment, the union held, was a healthy base profit, and anything on top of that ought to be split in three ways – one half to stay with the firm, a quarter to go to its workers, and the remainder returned to consumers in the form of a price rebate. This was hardly the demand Reuther made during the 1945-46 strike wave – though the 10 percent figure did serve as a firm rebuke to GM’s longtime insistence on a 20 percent rate of return. Still, it marked a retreat. UAW Research Director Nat Weinberg, who accompanied Reuther before the Subcommittee, had previously opposed such profit-sharing

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65 Nat Goldfinger, “Future Role of Productivity in Collective Bargaining,” May 19, 1960, Box 40, Productivity, 1956-63, Miller Papers, USWA. Nelson Lichtenstein makes this point in relation to the UAW’s 1948 contract through which they secured a 2% Annual Improvement Factor (AIF), the first explicit productivity link in a union contract. The difference, however, is that the AIF was over and above whatever wage increases the union secured, and it thus did not presume that corporate profits ought to stay where they were.

plans on the grounds that they undermined the union’s long-held goal of industrywide wage standardization. By placing it atop the UAW’s bargaining program, moreover, Reuther foreclosed radical unionists’ demand for a shortened workweek with no change in pay or price. Such an emphasis on the workweek over wages might have mitigated a share the labor displacing effects of rising productivity. But that is not to suggest that it was winnable.

To place blame with one figure like Walter Reuther, then, misses the point. by the late 1950s all trade unionists’ social imaginations had been reshaped by the defeats of the immediate postwar years, and their incrementally less creative bargaining proposals testified above all to the contradictions inherent in bargaining over political issues at the firm level. Nonetheless, in spite of the limitations of the 1958 UAW bargaining agenda, this was still politicized bargaining, and it attested to the durability of the industrial union-Institutional Keynesian synthesis even in the face of more than a decade of resolute corporate opposition. And it was at least possible that, as Nat Goldfinger hoped, the wage-productivity link would be a starting point and not a ceiling. Toward that end they had allies in Estes Kefauver and John Blair. But that was about it.

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67 Administered Prices, Part 6, 2323. See also, Lichtenstein, The Most Dangerous Man in Detroit; Boyle, The UAW and the Heyday of American Liberalism; Jacobs, Pocketbook Politics. As Nelson Lichtenstein has noted, Reuther and Special Projects Director (and former head of the union’s research department) Nat Weinberg, who accompanied him before the Subcommittee, had in the past opposed profit-sharing plans as they represented the death knell of the union’s longtime goal of industry-wide wage standardization – with wages tied to profits, workers at GM would find themselves more privileged than those at Chrysler. Moreover, at the union’s January 1958 special convention, Reuther did much to ensure that the profit-sharing plan defeated a popular and far more radical proposal for a shorter workweek. The implications of this decision would become clear in coming years, as automation did away with more and more jobs in the industrial heartland. See Lichtenstein, The Most Dangerous Man in Detroit.
THE FINAL SUBCOMMITTEE REPORTS into the steel and automotive industries confirmed what Kefauver’s critics had been saying all along – as Maryland Republican John Butler put it, that it would “wittingly or unwittingly” advance organized labor’s political agenda.68 Released in the spring and fall of 1958, respectively, the documents were penetrating explorations of the core American industries which presented a dizzying amount of empirical evidence and concluded with what Blair had set out to prove: the new inflation was “due principally to price increases in administered price industries,” and, consequently, monetary and fiscal restraint would be of little use in combatting it.69 Power enabled firms like U.S. Steel, General Motors, and a few of their subordinates to charge prices well in excess of costs, thus driving inflation, choking growth, and enjoying tremendous profits all the while. “No matter what the change in cost or demand,” the steel study reported, “steel prices since 1947 have moved steadily and regularly in only one direction, upward.”70 Indeed, they actually continued to “climb even when unit labor costs declined.”71 USWA Research Director Otis Brubaker’s giddy report to union officers underscored the stakes involved in this conclusion: it should prove “extremely useful to our Union in the current public controversy over whether wage increases are responsible for inflation or whether it is the greed of the Industry for exorbitant Profits…which is the culprit.”72

The automotive report went further, probing into how the Big Three – especially the “monopoly” General Motors – not only gouged consumers, but also sought to hoodwink

69 “Outline of Report on Steel,” Box 229, Folder 11, EK.
71 Study of Administered Prices in the Steel Industry, 129.
72 Brubaker to Officers on Kefauver Committee Report, May 6, 1958, Box 40, Prices (General), 1956-63, Marvin Miller Papers, Research Department, USWA.
The obsession with “style” – what Kefauver called “frills” and what even GM’s Harlow Curtice admitted was but “fancification” – as well the deployment of advertising to create it, which had come to substitute for price competition within the industry, also had the effect of unnecessarily increasing the cost of an automobile. Indeed, Blair’s appreciation for C. Wright Mills and David Riesman, not to mention Galbraith, seeped throughout the report, leading I.F. Stone to conclude that this obscure government document “will be a joy to the anthropologist with a sense of humor; no primitive tribe exhibits odder folkways. The intricately planned irrationality and calculated wastefulness is here laid bare for the social psychiatrist.”

The significance of such conclusions coming from a body bearing the imprimatur of the U.S. Senate was not lost on the business community and its political representatives. Senator Everett Dirksen, expressing the lone dissenting opinion to the steel report, disagreed “vigorously from the attempt of the majority to raise the completely unfounded specter of future economic stagnation in America as a result of alleged monopoly power.” The Illinois Republican concluded that the “report is based on a theoretical, preconceived, biased economic and legal analysis developed by the subcommittee staff.” In coming years, steel

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73 On GM’s monopoly power see *Study of Administered Prices in the Automobile Industry*, 182-183.
74 *Study of Administered Prices in the Automobile Industry*, 94-103, passim.
75 Quoted in Swados, *Standing Up for the People*, 131. Stone’s essay is available in its entirety at http://www.ifstone.org/weekly/IFStonesWeekly-1958nov17.pdf. Particularly resonant for Swados was the Subcommittee’s investigation were the costs of what Kefauver called “frills” and what even Curtice admitted was “fancification.” At bottom the debate over the question was simple – industry leaders asserted that the higher prices impelled by “fancification” were a response to consumer demand, while a skeptical Subcommittee staff contended that the unnecessary “frills” were just one more means of obscuring administered pricing. Malcolm Rutherford has observed that concern over advertising could be seen in early neo-classical explorations into the “monopoly question,” for instance in Edward Chamberlin’s 1933 study, *Monopolistic Competition*. See Rutherford, “Institutional Economics: Then and Now,” *Journal of Economic Perspectives* (Summer 2001), p. 184, n. 9. The automotive report explored many of the themes John Kenneth Galbraith addressed in *The Affluent Society*, released the same year.
76 “Individual Views of Senator Everett McKinley Dirksen,” *Study of Administered Prices in the Steel Industry*, 139.
industry officials, in particular, responded by stepping up their public relations campaign on the wage-price issue, making sure to denounce Kefauver and his Subcommittee at every opportunity. Blough responded to news of the report by decrying the “thoroughly biased and distorted view” of his testimony it presented and excoriating Kefauver for having rigged the investigation. He “begins the hearings by reading a statement pronouncing your business guilty of all kinds of unsavory practices,” Blough said of the Chairman, “after which you are assured in a friendly manner that the committee will now launch a completely unbiased investigation of the facts.” Indeed, the conservative *New York Herald Tribune* business columnist Donald Rogers’s accusation, before the investigation was even underway, that Kefauver and his “anti-capitalistic aide” John Blair intended to “Crush the Skulls of the Rich,” seemed ever so slightly less hysterical by the end of 1958.

A more significant and sober response to the Kefauver’s probe, however, came from unexpected quarters. In March 1959, Woodlief Thomas, a senior economist for the Federal Reserve Board, published a piece in the *Washington Post* endorsing many of the Subcommittee’s conclusions. The occasion was a new round of the administered price hearings exploring alternative public policies, in which Means, Galbraith, and others offered a renewed criticism of monetary restraint as an approach to the new inflation. Thomas did not at all disavow the Fed’s earlier efforts to halt the mid-1950s “creeping inflation,” but he did acknowledge that the inquiry into Means’s idea had “made a significant contribution to a better understanding of the problems of inflation and fluctuations in economic activity and

77 Targeted first because their position atop an industry that was “the ‘bellwether’ of the economy,” “a basis for price increases in consuming industries,” a classic “administered price industry,” steel executives understandably felt most threatened of all by the Kefauver probe, “Outline of Report on Steel,” Box 229, Folder 11, EK.

Administered prices in heavy industry produced such “distortions and inflexibilities in the price and income structure,” Thomas continued, that they “cannot be avoided by monetary and fiscal policies.” Though this “revolution in thought” does not mean that central bankers “now favor price or wage controls or any form of direct Government intervention,” New York Times financial correspondent Edwin Dale noted, “the sharp change in thinking about the problem is the sort that would necessarily precede a decision that controls are necessary.” And, with a presidential election looming, Dale recognized that a new “Democratic President might be even less reluctant than President Eisenhower to choose the road of controls.”

Wyoming Senator Joseph O’Mahoney had already begun moving down that road by proposing a bill that would require firms in the most concentrated industries to notify the public in advance of a price increase, and the agitation for stronger regulation of prices was unlikely to stop there. Perhaps even the idea of central bank independence could again be in question. When the Democrats had swept the 1958 midterm elections, the Wall Street Journal warned that the coming years might witness the “Biggest Anti-Business Drive Since [the] New Deal.”

A month earlier, Raymond Saulnier, the conservative Chair of Eisenhower’s CEA, announced that he had been swayed by the administered price thesis, as well. An anti-inflation hardliner, Saulnier contributed to pushing upward the CEA’s definition of an acceptable – or non-inflationary – rate of unemployment, from the 3 percent level stipulated

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by the Employment Act of 1946 to somewhere around 5 percent. In other words, Saulnier was among the last economists one would expect to endorse the arguments presented by Institutional Keynesians. But, after more than two years of the new inflation, the Republican CEA head believed that “we would have been better off if we had avoided the price increases that occurred [in] the heavy industries and in those producing automobiles,” and that “these price increases were a major factor in limiting demand and thereby restraining output.”

What a contrast this would be from the Carter administration and the Paul Volcker Federal Reserve.

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KEFAUVER AND BLAIR’S SUCCESS was, however, limited by the structural obstacles confronting Institutional Keynesians by the early 1960s. And if the Subcommittee shed substantial light on those obstacles, it did little to programmatically challenge them. A senior Federal Reserve analyst gesturing towards an idea promoted by Institutional Keynesians was not quite the same as a statutory basis for subordinating the central bank to a legislature and executive committed to an Institutional Keynesian agenda. In any case, the Fed proved a fleeting ally. Over the next two decades, the independent central bank would frustrate every

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presidential administration, and those tensions contributed to more than a few personnel
shakeups during that time. But if the executive maintained some manner of influence over
the figures directing the Fed, it did so within a narrow range of options, and, in the last
instance, when the Board of Governors gathered behind closed doors there was not much any
President could do about what they decided. This separation of powers, which in modern
form dated only to 1951, was still politically contested when the Subcommittee conducted its
investigation into administered prices. But as the Fed-Treasury Accord receded from
memory, central bank independence began to seem like a natural feature of a modern and
incomprehensibly complex economy. By the time Jimmy Carter appointed Paul Volcker to
lead the Fed in the late 1970s, Estes Kefauver, John Blair, and Walter Reuther were all dead,
and there were few echoes of the politics that animated their late 1950s struggle to place the
spotlight on the social significance of monetary policy.

Of greater consequence in the immediate period were the terms on which the
Subcommittee investigation was forced to proceed: in particular, the labor cost-productivity
relation. The probe was, to be sure, just one of many factors that gave rise to the fetish of
productivity by the early 1960s. Since the late nineteenth century, purchasing power
progressives had sought to link demands for a livable wage to the remarkable strides in
productivity displayed by the new industrial economy. In its time this argument made sense,
and there was a case to be made that its rhetorical force warranted continued use even after
the material conditions that nurtured it gave way to a new era. Still, a decade after World
War II Institutional Keynesians in government and their allies in the trade union movement
understood that the logic of linking their fate to the productive capacity of U.S. industry
carried risks. Moreover, the durability of organized labor into the postwar period – which, it
must be emphasized, was unprecedented – had convinced many that such a limited demand, which did little to challenge the prerogatives conferred by ownership, was insufficient. But such a challenge was, of course, difficult to mount – not least because of the defeats suffered immediately after the war – and instead Institutional Keynesians found themselves waging a battle that at best would reproduce the status quo: synchronizing labor costs and productivity for the sake of price stability. Even this stalemate required cooperation from corporate leaders loath to cooperate, and this is to say nothing about what would occur if that status quo changed. Both would cause problems in the 1960s.

The steel industry collective bargaining round in 1959 provided a preview of how this might play out.\textsuperscript{84} Perhaps the Subcommittee’s most important effect was on steel executives, who determined that the changing political climate demanded a new strategy for shoring up profitability. Using wage increases as an opportunity to raise prices even further was no longer tenable. Unable to pay their workers less or to charge more for what they produced, then, steel managers resorted to their most tried and true method of accumulating capital: driving those workers harder. That is, increasing productivity. But achievement of increased productivity was not so simple. In theory, it required new investment in labor displacing plant and equipment, machinery that needed less labor power to churn out more stuff. This was expensive, and for two reasons industrial officials were reluctant to commit to it. First, no matter how fast the economy grew in the postwar years, steelmakers clung to old anxieties about excess capacity. The market could only bear so much steel, they felt, and those deciding how much to produce felt more comfortable tending towards too little than too much. Second, while the federal government did alleviate the burden of that expense by

\textsuperscript{84} This section draws on Kristoffer Smemo, Samir Sonti, and Gabe Winant, “Conflict and Consensus: The Steel Strike of 1959 and the Anatomy of the New Deal Order,” in author’s possession.
providing tax incentives, above all a liberal depreciation allowance, in the Revenue Act of 1954, steel management felt that support from public authorities for their investment was not generous enough. Under a profit regime governed by the return on investment (ROI), the amount of old plant and equipment that could be written off each year – that is, the depreciation allowance – had a direct and significant effect on corporate earnings. In other words, they wanted the depreciation allowance to effectively function like a state subsidy for investment. But, of course, they promised nothing in return for it.

For these reasons, steel executives did not make the investments that would have provided a technological basis for greater output. And that forced them to reckon with the greatest obstacle in the way of greater productivity: the USWA. Since the late 1940s, the USWA’s industry standard collective bargaining agreement included language – Section 2-B – that prohibited management from touching established work rules unless new technology demanded it. In 1959, steel officials led by Roger Blough and R. Conrad Cooper of U.S. Steel instigated a major confrontation over that issue. The result was the largest strike – in terms of person hours lost – in U.S. history. And following 114-days on the line, the steelworkers won. After a Taft-Hartley injunction, an unfavorable Supreme Court ruling, and just a year removed from the deepest recession in two decades, this was no small achievement.

But that it took such a titanic struggle just to maintain the status quo ante testified to just how much Institutional Keynesians and industrial unionists were up against. In Washington, where the settlement was mediated by Vice President Richard Nixon, the central issue in the strike was the relationship between labor costs and productivity in the

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postwar steel industry. Kefauver and Blair had advanced one interpretation, and the dispute was ultimately resolved in a way that accorded with their view. But they were not the only ones who chimed in. While the strike was in progress the Joint Economic Committee, led by Chairman Paul Douglas, issued a report that arrived at the exact opposite conclusion. The study, prepared by Harvard economist Otto Eckstein, held that, in fact, steel labor costs far outpaced the gains in productivity, and that, in effect, the union was responsible for the new inflation. That two congressional bodies could proffer such conflicting statements spoke to how much was uncertain, and how much was at stake, in the politics of productivity. How those politics played out is the subject of the next chapter.
A NEW ERA in the politics of inflation began during John F. Kennedy’s short presidency. In the first few years of the 1960s, the balance of power in that struggle took a decisive shift away from Institutional Keynesianism. And the Kennedy administration itself did much to impel the sharp turn. The youngest person ever to be elected president, and also one of the most privileged, Kennedy surrounded himself with economists committed to a different kind of liberalism than that which had inspired the New Deal generation, one that emerged out of the unprecedented material conditions of the decade and a half after World War II: growth liberalism. Embodied in Kennedy’s famous and influential Council of Economic Advisers (CEA), this was the tradition to which the shorthand term “Keynesian” is typically affixed. These growth liberals were more attuned to macro-dynamics than micro-foundations, and they sought to use counter-cyclical fiscal policy, deployed via automatic stabilizers, to smooth out troughs and peaks and deliver a predictable rate of economic expansion.¹ When

¹ On growth liberalism, see Robert Collins, More: The Politics of Economic Growth in Postwar America (New York: Oxford University Press, 2000). The Kennedy CEA has been the subject of much scholarly inquiry. See for example William Barber, “The Kennedy Years: A Purposeful Pedagogy,” in Crauford Goodwin, ed., Exhortation and Controls; Irving Bernstein, Promises Kept: John F. Kennedy’s New Frontier (New York: Oxford University Press, 1991), Ch. 4-5; James Sundquist, Politics and Policy: The Eisenhower, Kennedy, and Johnson Years (Washington, D.C.: Brookings, 1988); Arthur Schlesinger, A Thousand Days: John F. Kennedy in the White House (New York: Houghton Mifflin, 1965). Kennedy CEA Chairman Walter W. Heller’s papers, in particular his famous memoranda to the President, have served as an important source base for many of these studies. As Lyndon Johnson wrote to Heller soon after Kennedy’s assassination, “I like the way you write memoranda – crisp, to the point and concise. Work-think-work-think hard….I depend on you.” Quoted in James L. Cochrane, “The Johnson Administration: Moral Suasion Goes to War,” in Goodwin, ed. Exhortations and Controls, 195. This chapter draws on my own reading of these 300-plus memoranda written by Heller during Kennedy’s presidency. As such, I have in each case cited the original source, but it should be noted that there is some overlap in the source material presented here and that which has appeared in the aforementioned and other works. In other words, I credit secondary sources that offer insights on which I draw as well as direct quotes that I have taken, but given that I did my own primary source analysis I cite the original source even if other scholars have used the same material. Another important source on the Kennedy CEA is the oral history interview in which CEA members Heller, Kermit Gordon, James Tobin, as well as unofficial Kennedy adviser Paul Samuelson and Johnson CEA Chairman Gardner Ackley participated. See Council of Economic Advisers: Walter Heller, Kermit Gordon, James Tobin, Gardner Ackley, Paul Samuelson, recorded interview by Joseph Pechman, August 1, 1964, John F. Kennedy Library Oral History Program (hereafter “CEA Oral History”).
stagflation erupted in the 1970s and rendered such counter-cyclical tools ineffectual, however, the growth liberals who had advocated for them suffered a similar fate. And that, the standard story goes, left room for the onslaught of fiscal and monetary austerity which in the late 1970s and early 1980s tamed inflation only by inducing a recession of the likes not seen since the 1930s. It was a crisis from which the U.S. working-class has yet to recover.

But understanding why Institutional Keynesians were nowhere to be found in the 1970s after having met some success during the recession of 1957-58 requires complicating the history of the new liberalism and exploring its relationship to the old. This chapter seeks to do that by showing how growth liberalism displaced Institutional Keynesianism from its central position in Democratic Party economic thought during the Kennedy administration. Through their intervention in labor-capital conflicts, in particular, growth liberals introduced a new paradigm devoted to a concern with productivity instead of profitability. In so doing, they tilted the balance in the politics of inflation away from the profit-inflation thesis John Blair and the Subcommittee on Antitrust and Monopoly had advanced and towards a “cost-push” interpretation that assigned as much blame to labor as it did to corporate power.² It was this paradigm that collapsed under the weight of its own contradictions in the 1970s, but by then Institutional Keynesianism had long been in retreat. And in what seemed to be a brave new world defined by increasing global competition and declining profitability, it was easy to assume that the older tradition no longer applied, or even to forget that it ever existed.

But the question is still how the one eclipsed the other. Juxtaposing the two brings into clearer focus what was at stake. The defining feature of growth liberalism as compared

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to Institutional Keynesianism was this: it abandoned class relations as an analytic. At the core of the Institutional Keynesian analysis was an understanding that corporate capitalists as a class exerted profound influence on the course of economic development through their control over pricing and the investment function. Organization of countervailing social forces like trade unions, farmer cooperatives, and consumer groups, they felt, could place a check on corporate capital from below, while state intervention through industrial policy could do the same from above. In the last instance the idea was that redistribution of income and wealth to the working-class would enhance purchasing power, and that this coupled with state control over the terms on which that money was spent – through regulation of prices – and the uses to which the resulting returns were put – through regulation of profits and investment – was the only way to provide security for all.

The growth liberals began from a different premise. Led by the MIT economist and famed textbook author Paul Samuelson and his acolytes, they saw the economy as a single unit could be managed with proper technical expertise. Although that single unit was internally complex, it was governed by certain laws of motion. And one of the most fundamental laws was the inverse relationship between inflation and unemployment. Samuelson was responsible for popularizing the Phillips Curve, which had been published in 1958 amid conditions that belied its central conclusion: that is, the new inflation. But in spite of its dubious applicability to the twentieth century U.S. economy, Samuelson saw an opportunity in the Phillips Curve. Technical experts like himself could use it to advise policymakers on the optimal balance between inflation and unemployment – offering, as they put it, a menu of choices – and in the process may be able to push things in a progressive direction. It gave them the scientific means by which to argue for expansionary policies when
inflation was not on the horizon. The problem was, inflation and unemployment did not always act the way the Phillips Curve said they should, and this conundrum forced Kennedy’s economic advisers to devise a different kind of solution.³

This chapter focuses on that effort. Specifically, it explores the genesis of the Kennedy administration’s signature inflation control policy, the productivity guideposts for wages and prices, which took shape around the 1962 steel collective bargaining round. Designed by Kennedy’s CEA and formally unveiled in the 1962 Economic Report of the President prepared by that body, the guideposts would set the terms of debate in the politics of inflation into the Nixon administration. The wage-price control apparatus that that Republican administration constructed was but a more robust version of the program Kennedy started, and it failed for reasons that were evident as early as 1962. But, first, what were the guideposts? The logic behind them was simple: tying wages to productivity would allow business and labor to share the fruits of economic growth without increasing real labor costs and therefore without necessitating an increase in prices. Economic growth with price stability was achievable after all. On its face it was a reasonable, even progressive idea – Gardiner Means, John Kenneth Galbraith, and Walter Reuther had all endorsed some version of it before the Subcommittee on Antitrust and Monopoly in 1957.

But as Charles Maier has argued, “the politics of productivity that emerged as the American organizing idea for the postwar economic world depended upon superseding class conflict with economic growth.”⁴ And that ostensible panacea brought contradictions with

which these labor-liberals proved either unable or unwilling to reckon. For one, while the
guideposts were designed to address the new inflation that surfaced in the late 1950s, the
CEA, led by Chairman Walter Heller, viewed that problem much differently than had John
Blair and Estes Kefauver. Administered pricing in uncompetitive industries was the problem,
they acknowledged, but business and labor deserved more or less equal blame for that
process. And in a sense, as we will see, they placed greater blame on labor. What was more,
their proposed solution was not to regulate wage and price setting industry by industry, but
rather to force “uncompetitive” industries to act more competitively by imposing a universal
standard of productivity on all. This was a clear departure from Institutional Keynesians
who felt the answer to economic concentration was public control through comprehensive
economic planning. It also ignored the history of that thing they were calling the economy,
which was of course never a single thing at all but rather a set of relations and processes that
unfolded in dynamic and uneven ways across space and time. One number could never
account for the economy’s complexity.

Here the other instruments in Kennedy’s economic policy repertoire came into the
picture. Following the Institutional Keynesians, Heller and his associates urged the Federal
Reserve to adopt an expansionary monetary policy, and like those predecessors the growth
liberals had to contend with the challenges presented by an independent central bank. But
there were differences here too. Wary of rocking the boat with the global financial elite,
Kennedy’s advisers took to issuing behind the scenes suggestions instead of public
exhortations. This was in part because the Kennedy CEA took Fed independence as a given,

5 See Barber, “The Kennedy Years,” 161-164.
Their goals for monetary policy underscored the point: instead of pushing for a progressive monetary management to be integrated into a government spending program, they called for low interest rates only on the grounds that it would stimulate private investment. Their fiscal policy was similarly revealing. In addition to easy money, Heller felt that the most effective way to spur investment was to offer tax incentives to business. Passage of an investment tax credit and liberalization of the depreciation allowance became their first order of business, even before the more widely celebrated “Keynesian” income tax cut. In other words, private rather than public investment was their key to growth; and voluntary discipline by labor and capital the key to price stability. These early economic policies testified above all to the Kennedy administration’s firm conviction that pricing and investment were the sole prerogatives of capital. The class politics were there even if they did not mention them.

And there were still further pitfalls with their structural policy, the guideposts. First, even under the best of circumstances the guidepost program could only reproduce the status quo ante distribution of income. Whereas Institutional Keynesians criticized the existing share between profits and wages, growth liberals effectively naturalized it. Their insistence in the 1962 Economic Report that “there is nothing immutable in fact or in justice about the distribution of the total product between labor and nonlabor incomes” highlighted just how conscious they were of this consequence. Second, for all their gusto about the promise of productivity, Kennedy’s economic team largely failed to grapple with the one consequence it

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6 Walter W. Heller to President John F. Kennedy, June 6, 1961, Box 5, Walter W. Heller Papers, John F. Kennedy Presidential Library and Museum (hereafter WWH).
7 Heller to JFK, March 16, 1961, Box 5, WWH.
was sure to have: structural unemployment thanks to the introduction of labor displacing machinery. Their disinterest in the unevenness of the national economy in an equally uneven global economy led them to neglect the fact that productivity growth came with costs in addition to benefits, and that the burden of those costs could well be felt more acutely in some places than others.

Then there was the question of what exactly productivity was. As we have seen in relation to the definition and measurement of inflation, the production of economic statistics was itself a political and ideological process. Did labor productivity refer to output per hour worked or output per dollar spent on labor? The first definition would allow for workers to share in the gains created by new machinery, while the second would punish those able to bargain for higher wages. Also, how should capacity utilization figure into the calculation? Firms were most productive when they ran their plants at the highest possible rate, but as Institutional Keynesians had long understood powerful corporations often had reasons for operating only a low part of their capacity. Should they be rewarded for doing so in the form of a lower guidepost for wages? Moreover, given that productivity did develop unevenly, how should one account for the fact that increasing output by, say, a supplier, might affect the cost composition and by extension a number of other things for a purchasing firm? Economic change could ripple far and wide. And finally, if it was at all reasonable of Marx to refer to productivity as an expression of the “rate of exploitation,” was it not the greatest of contradictions to hitch workers’ fate to its intensification?

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9 On the increasing prominence of ideas about automation and structural unemployment in the 1960s, see Gregory R. Woirol, *The Technological and Structural Unemployment Debates* (Westport, Conn.: Greenwood Press, 1996), Ch. 7-10; Bernstein, *Promises Kept*, Ch. 5.

The gravest implications of the guideposts, however, only became clear as the program was implemented. Through their control over that magical productivity figure, presidential administrations were able to delimit the boundary of the winnable for organized labor in the 1960s. A few additional decimal points could make quite a difference to workers, and only the President and his closest advisors had the power to nudge the number in one direction or the other. To be sure, the arrangement depended on cooperation from labor officials, and there were legitimate reasons why trade unionists might go along. The guideposts represented a step towards the further institutionalization of political collective bargaining, and against increasingly intransigent corporations such state intervention was by the 1960s most welcome. The case of the 1959 steel dispute, in which the Eisenhower administration brokered a deal favorable to the union, proved that this could be so even under a Republican president. But the guidepost program was more presidential involvement than thoroughgoing politicization, and it came with tradeoffs. For the sake of the productivity figure unionists would have to subordinate both principle and pride to John F. Kennedy and Lyndon B. Johnson, often to ugly effect. Indeed, as U.S. military aggression in Southeast Asia picked up during the 1960s, the tragedy of this Faustian bargain would be thrown into painful relief. The trade union movement found itself on the wrong side of history in its support for the Vietnam War, in large measure because complicity in carnage on the other side of the world was the price its leaders had agreed to pay for a few tenths of a percent more at home.

And while the labor movement had to kneel before the President and contractually bind itself to the figure he announced, business was under no comparable legal obligation.

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Good faith along with a helping of moral exhortation – what they called “jawboning” – was supposed to be enough to get the most powerful corporations in the world to voluntarily limit their prices and profits. To little surprise, it did not work. Throughout the 1960s labor leaders complained about the fundamental unfairness of a program that really only applied to one party, and by the end of the decade few had any faith in it. But this basic limitation was visible as early as 1962, both in the famous confrontation between Kennedy and U.S. Steel’s Roger Blough and in how it was resolved. That both Democratic administrations remained committed to it in spite of its manifest weaknesses testified to the shifting terrain in the class politics of inflation.

THE ECONOMY WAS IN FLUX when John F. Kennedy was elected in November 1960. Although both candidates in that year’s presidential race, Kennedy and then Vice President Richard Nixon, did their best to stay away from the word “recession,” that the economy slowed markedly during the campaign, with unemployment climbing to almost 7 percent, no doubt favored the Democrat. For years to come the ever spiteful Nixon would harbor resentment towards Federal Reserve Chairman William McChesney Martin, who in the run up to the election oversaw a policy of monetary tightening which Nixon took to have caused of the downturn. In any case, the economy was in bad shape when Kennedy entered the White House. But rejuvenating it was not his first priority, as many thought it should be. The new President did begin his first economic address before Congress by calling for “measures both to alleviate the distress arising from unsatisfactory performance and to stimulate
recovery and growth.”¹² Yet his proposals could hardly be classified as ambitious. Area redevelopment and manpower training, expanded unemployment insurance and minimum wage coverage, and, especially, tax incentives for investment stood in for substantive planning and public works. As CEA member James Tobin put it some years later, “the group around Kennedy felt politically that a kind of unmitigated [Leon] Keyserling or old-style Democratic liberalism in regard to economics and fiscal policy wasn’t going to pay off.”¹³ In other words, Institutional Keynesianism was out from the get go.

Kennedy did explain why he would not do more. He was unwilling to “buy short-run economic gains by paying the price of excessive increases in the cost of living.”¹⁴ And he even promised to use the “powerful tools of fiscal and monetary policy to arrest any such movement if it should arise in the year ahead.”¹⁵ Inflation was intolerable, that is, and progressive economic policies could not even be considered until the administration had inoculated against the threat of it. Whereas a generation of New Dealers saw such progressivism as a means of overcoming concrete economic challenges, now having overcome all concrete economic challenges was a precondition for anything more imaginative.¹⁶ Indeed, MIT economist and Kennedy adviser Paul Samuelson’s characterization of himself as one of the “little picture men” nicely describes Kennedy’s

¹³ CEA Oral History, 48.
¹⁵ Ibid.
¹⁶ This point is informed by others scholars who have argued that economic growth became a condition for rather than a consequence of reform. See Collins, More; Alice O’Connor, Poverty Knowledge: Social Science, Social Policy, and the Poor in Twentieth-Century History (Princeton: PUP, 2002), Ch. 6-7; Thomas Stapleford, The Cost of Living in America, Ch. 8.
vision in general – it was a little picture economics.\(^{17}\) The editors *Wall Street Journal* agreed, expressing pleasure at Kennedy’s “rather modest proposals,” which displayed an “evident awareness that his desire to stimulate the economy is disciplined to a great extent by avoiding dangers in other areas,” while the *New York Times* was “encouraged by his continued emphasis on the dangers of inflation.”\(^{18}\)

But by early 1961 prices had been stable for some time, and the CEA even noted after the inauguration that “Inflation dangers are at their lowest point in years.”\(^{19}\) In a much heralded public appearance before the JEC in March 1961 – Eisenhower’s CEA testified only in private – Heller and his associates reiterated the point, concluding that the risk that anti-recession measures “will aggravate an inflationary boom [is] smaller in 1961 than it has appeared in any previous postwar recession.”\(^{20}\) Still, Kennedy balked at recovery measures that he felt might prove inflationary. The administration actually came to define 4 percent as their target rate of unemployment, a figure higher than any Democrat and most Republicans would have publicly accepted through the 1950s, because they felt anything lower would feed inflation.\(^{21}\) In “terms of trade between unemployment and price stability,” Heller called a 4 percent rate of joblessness the “fulcrum.”\(^{22}\) And when the President that spring publicly


\(^{19}\) CEA, “A Second Look at Economic Policy in 1961,” March 17, 1961, Box 5, WWH.

\(^{20}\) Council of Economic Advisers testimony before the Joint Economic Committee, March 6, 1961, p. 54, Digital Identifier JFKPOF-073-002, John F. Kennedy Presidential Library and Museum.

\(^{21}\) Heller to JFK, March 21, 1961, Box 5, WWH. On the 4 percent unemployment figure, see also CEA Oral History, 277-287; Bernstein, *Promises Kept*, 133-137. The March 6 statement before the CEA was the first official pronouncement of the 4 percent unemployment target. There was strong opposition to the 4 percent target within the administration in the Department of Labor.

\(^{22}\) CEA Oral History, 278.
aspired to achieve a 5 percent rate of economic expansion, Heller, whose devotion to growth no one doubted, chided him for committing the administration to what “is really too high as an early goal.” Moreover, he added, “it is unwise to tie ourselves to a specific figure with which political opponents can belabor you in 1964.” The CEA Chairman felt no comparable reluctance to tying themselves to a specific figure of unemployment. But the question remains: with unemployment surging and inflation nowhere to be seen, why did a popular, new Democratic administration move so gingerly? Why, as Walter Lippmann wryly observed, did they act “like the Eisenhower administration but thirty years younger”? Global politics account for part of the answer. Kennedy’s chief economic preoccupation - some would call it an obsession or even “almost phobia” – from the moment he took office was the rising U.S. balance of payments deficit and the corresponding gold outflow problem. In simplest terms, the balance of payments referred to the difference between the amount of foreign exchange coming into a country and the amount going out. For the Kennedy administration, the stakes of this swelling deficit went back to what Leo Panitch and Sam Gindin have called the “political economy of American empire” in the postwar period. Starting with the Bretton Woods Accord in the mid-1940s, again, the U.S. dollar functioned as the global reserve currency. An international monetary system of fixed exchange rates was linked to it and backed by convertibility between the dollar and gold at an established price, one that the U.S. government was committed to maintaining. While the system was designed to provide most countries with some measure of flexibility so as to enable them to run budget deficits as they pursued full employment, the centrality of the

23 Heller to JFK, May 4, 1961, Box 5, WWH.
24 Quoted in Arthur Schlesinger, A Thousand Days, 630.
25 Secretary of Treasury C. Douglas Dillon quoted in Bernstein, Promises Kept, 121.
dollar to the whole arrangement put U.S. officials in a uniquely difficult situation. Stability in currency value was a greater imperative in the U.S. than anywhere else, and this had attendant consequences on every dimension of the politics of inflation.\(^\text{26}\)

Recent history complicated matters further. Internationally, the dollar had in short order gone from being in high demand to excess supply, an imbalance that raised questions about the ability of the U.S. Treasury to meet all of its obligations. In the immediate aftermath of the war, dollars flooded to war devastated parts of Western Europe and the Pacific where they served as the principal medium by which reconstruction was financed. This began with the Marshall Plan and postwar aid to the Japanese state, and as those programs proved successful investment opportunities in Europe in particular attracted ever more sums of greenbacks. The establishment at the end of the decade of the European Economic Community, which protected the Continent from imports but liberalized trade within it, encouraged additional investment in Europe itself. And the emergence of an unregulated Eurodollar market compounded things. All of this along with increasing U.S. military expenditures abroad turned what had just after the war been a global shortage of dollars into a glut, and by the early 1960s foreign holders of American paper were beginning to raise eyebrows. Whether or not they would start calling in their claims to gold depended on their confidence in those at the helm of the U.S. state, and Kennedy and his advisers took that responsibility to heart.\(^\text{27}\)

In an address to Congress soon after the inauguration, Kennedy focused on the peril of balance of payments deficits. As “the principal banker of the free world,” he warned the


legislature, “any potential weakness in our dollar spells trouble, not only for us but for our friends and allies who rely on the dollar to finance a substantial portion of their trade.” But if the balance of payments problem expressed itself financially, the new administration determined that the answer to it lay in industrial productivity. A task force on the balance-of-payments convened soon after the election recommended that the way forward was to make products produced in the United States more competitive on the world market – in other words, to compensate for the outflow of dollars by improving the U.S. balance of trade in goods and services. How to achieve that? By focusing on the “inter-related subjects of productivity, costs, and prices.” Walt Whitman Rostow, soon to be second in command at the National Security Council, elaborated upon the point and linked it to the Cold War:

I cannot emphasize too strongly that the capacity of the new Administration to do what it wants to do at home and abroad will depend promptly on breaking the institutional basis for creeping inflation, notably in the key steel and automobile industries….If we do not evoke American effort and sacrifice for communal goals at home, we run the danger of being forced by the balance of payments position and inflation into substituting rhetoric for action abroad.

Walter Heller agreed. Although unemployment stood at well over 6 percent in the summer of 1961, it was down from its 7 percent peak earlier in the year and Kennedy’s CEA, feeling the worst was behind them, used the occasion to beat the drum on the balance of payments as well. Changing economic conditions, Heller instructed the President, made it “important to watch price developments closely, lest excessive price increases imperil the recovery or add to our balance of payments difficulties.” And like both Rostow and the members of the task

29 Quoted in Barber, “The Kennedy Years,” 139.
30 Quoted in Barber, “The Kennedy Years,” 137.
force on the balance of payments, Heller understood which price developments were most important to monitor: “Steel is the major threat to price stability over the next several months,” he added, because “it can upset the price applecart all by itself.”

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THE CONTRACT ACHIEVED after the 1959 steel strike was set to expire in early 1962, and the Kennedy administration saw that collective bargaining round as central to their efforts to stabilize the price level going forward. Moreover, 1959 marked the first year that steel imports exceeded exports; the trend would not be reversed, but at the time Kennedy saw reversing it as a vital part of the balance of payments struggle. Although UAW negotiations with GM began first, in the summer of 1961, then, steel was the priority. Heller advised Kennedy that publicized “efforts to hold steel prices in check should be helpful in appealing to Reuther to accept a reasonable settlement and to get [USWA President David] McDonald in a reasonable frame of mind” for the upcoming negotiations. But if the CEA devised the strategy, Kennedy would have to rely on other members of his administration to broker the deal. And in particular he turned to Secretary of Labor Arthur Goldberg.

Goldberg was a product of the labor movement born through the New Deal, and he exemplified both its promise and its limitations. A child of working-class Russian Jewish immigrants, Goldberg grew up in Chicago and worked his way through night classes at local colleges and Northwestern Law School before establishing a small legal practice during the Depression. Swept up by the CIO upsurge later that decade, he began providing his services

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31 Heller to JFK, August 2, 1961, Box 5, WWH.
32 Heller to JFK, August 18, 1961, Box 5, WWH.
to Illinois unions and soon caught the eye of SWOC head Philip Murray, who recruited him into the inner-circle of the industrial union brain trust. Following a stint with the OSS during World War II – where he collaborated with a number of other left-liberal intellectuals – Goldberg rose the ranks of labor’s legal community, replacing Lee Pressman as CIO general counsel after the removal of the former AAA official for Communist ties. In fact, Goldberg himself coordinated the legal work for that post-Taft-Hartley Communist purge. He also helped to broker the AFL-CIO merger in 1955, provided regular counsel to the new federation, and continued to work for the USWA through the 1959 strike. Kennedy’s selection of Goldberg as Secretary of Labor no doubt attested to the respect even this new-style Democrat still had to pay to the trade union movement.33

And Goldberg hoped to cash in on the opportunity. His first goal was to establish a Council of Labor-Management Advisors, a body that would parallel the CEA and be charged with overseeing a process of tripartite bargaining modeled on European co-determinism. Part of his rationale in calling for a new executive advisory group was his belief that the CEA had failed to make good on its obligation to 1946 Employment Act. In addition to the Labor-Management Council, Goldberg proposed an Employment Act of 1961 which would redouble the federal government commitment to full employment. Harshly critical of the CEA’s decision to publicize a specific unemployment figure, he argued that it created “the impression that a 4 per cent rate is a desirable norm consistent with the meaning of full employment.”34 And his frustration ran deeper than the number itself: The problem,

33 David Stebenne’s study, Arthur Goldberg: New Deal Liberal, is a political biography par excellence, which also doubles as perhaps the best history of the steelworkers’ union. Goldberg was replaced as Secretary of Labor by W. Willard Wirtz, a progressive who sustained his predecessor’s criticism of CEA efforts on the employment front.
34 Quoted in Stebenne, Arthur Goldberg, 311.
Goldberg felt, was almost epistemic: the CEA had accepted a definition of full employment as the maximum level at which prices would remain stable – this is what neo-classical economists would later call the non-accelerating inflation rate of unemployment (NAIRU). But that definition was by no means universally accepted. The idea of a tradeoff between prices and employment, upon which the definition rested, was more a political and ideological project than a reflection of an empirical reality. As they had just seen during the late 1950s, inflation could proceed even in times of rising unemployment! As such, Goldberg wrote to Heller, “I feel very strongly that the [Economic Report of the President] should not adopt a definition of full employment cast in terms of avoiding inflation” and “that nothing should be included here which even permits the interpretation that the President is accepting 4% (or any other specific figure) as a measurement of full employment.”

He also, for good measure, countered the tax cut arguments emanating from within the CEA with pleas that the administration commit to direct government spending on public works. This was the legacy of Institutional Keynesianism in the Kennedy administration, and its steward Arthur Goldberg failed on all counts. His proposed Council of Labor-Management Advisers became a toothless Labor-Management Advisory Committee (LMAC).

And he failed largely because the Kennedy’s advisers stopped him. As CEA member Kermit Gordon later commented, Goldberg’s “real efforts to extend the range of authority of the secretary of labor came very, very early.” He was, Gordon continued, “quite obviously…making a move through the [LMAC] to extend his concerns to the whole range” of economic policy issues. But the CEA stymied that maneuver in the drafting of the

35 Quoted in Stebenne, Arthur Goldberg, 310.
36 On Goldberg’s efforts with the LMAC, see Stebenne, Arthur Goldberg, Ch. 8; Barber, “The Kennedy Years,” 142-143.
executive order that established the body. The LMAC’s mandate was accordingly limited: it would “study,” “advise,” and “make recommendations to the President with respect to policies that may be followed by labor, management, or the public” (emphasis added). The fate of the LMAC spoke to Goldberg’s minimal influence on Kennedy, at least in comparison to the CEA, and his time in the Cabinet was in any event short-lived. In 1962, Kennedy appointed him to the Supreme Court.

But even if LMAC never became the proto-social democratic body Goldberg had hoped to lead, it still had a role to play in the 1962 steel bargaining round. And Heller and the CEA were concerned with dictating the terms of that role. In preparation for Kennedy’s appearance before the first LMAC meeting in July 1961, the CEA Chairman encouraged the President to start by highlighting the tenuous “international position of the dollar” and emphasizing that its future “depends on our ability to compete internationally,” which in turn “depends in large part on the course of prices in the United States.” Heller suggested that Kennedy open the inaugural meeting of the LMAC, that is, with a warning about prices and the balance of payments, and not, say, employment or purchasing power. He did go on to talk about full employment, but not in the way the Institutional Keynesians had done so. Only if “the price level is held in check,” Heller added, will it “be possible to move ahead vigorously to achieve full recovery and more rapid growth.” This was yet another avowal of the conviction that price stability was the precondition for reform. And the best way to ensure price stability was to link wage- and price-setting to the rate of productivity of the national economy: “In industries where the increase in productivity is less than the national average,

37 CEA Oral History, 204-205.
prices may have to increase. Hence stability of the price level requires offsetting price reductions in industries where productivity is growing more rapidly than the national average.”

In practice, this would reduce to identifying which rate was lower, industrywide productivity or economy-wide productivity, pegging wages to that figure, and calling for restraint on prices.

Heller was well aware of the two most immediate drawbacks of this approach: that it froze the preexisting distribution of income between employees and employers and that it depended on introduction of labor-displacing machinery that would contribute to unemployment. “When wages rise proportionally to productivity,” he noted, “the share of wages in total income remains unchanged, so that wages and profits divide the productivity increment in the same proportion as they divided the earlier total.” And although Heller disputed those conservatives who asserted that automation was producing a kind of structural unemployment that everyone would simply have to get used to, he did concede that in the immediate term higher productivity would put people out of work. But he felt that it was a price worth paying, and as a growth liberal par excellence was convinced that the “economy should continue to yield an ever-increasing level of real wages and salaries for our labor force” and that its very boundlessness would mitigate whatever friction the new productive capacity caused. He would have a hard time accounting for the great productivity slowdown that began less than a decade later.

But of greatest importance was how Heller understood productivity itself, and especially how he made sense of its relationship to labor costs and prices. The sources from

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39 Heller to JFK, July 10, 1961, Box 5, WWH.
40 On this point, see Barber, “The Kennedy Years,” 166.
41 Heller to JFK, May 7, 1962, Box 5, WWH.
42 Heller to JFK, July 10, 1961, Box 5, WWH.
which the CEA drew are instructive in this regard. While the Subcommittee on Antitrust and Monopoly was orchestrating its investigation into administered prices and advancing an argument, backed by thousands of pages of empirical data, about how the new inflation stemmed from corporate profits, the Paul Douglas-led Joint Economic Committee was at work propagating a different explanation. Douglas, again, was the famous University of Chicago economist turned Illinois Democratic Senator whose first actions in that chamber were in defense of the 1951 Fed-Treasury Accord. His reputation as a liberal notwithstanding, he was in a sense among the first of the new-style Democrats. Douglas assumed the Chairmanship of the JEC in early 1959, and the investigation into inflation he spearheaded that year—*Employment, Growth, and the Price Level*—shed further light on the differences between his wing of liberalism and Institutional Keynesians like John Blair. They were differences that Walter Heller and the CEA shared.43

Douglas’s investigation did not match Kefauver’s in terms of pages produced, but it came close. It began in early 1959 with appearances by Sumner Slichter, Leon Keyserling, and Marriner Eccles who each presented a distinct perspective on the challenges confronting the U.S. economy. The JEC then held focused hearings on the main issues: wages, prices, and production; fiscal and monetary policy; concentration at home and competition from abroad. In the process the Committee heard from economists across the ideological spectrum

43 Douglas’s inquiry followed one completed the year earlier by the JEC, which was then chaired by Wright Patman. A long time Democratic Senator from Texas and veteran of populist struggles against corporate power, Patman had served as Chairman of the TNEC and had a reputation as a relentless critic of central bank independence. Yet the JEC study Patman oversaw was of a less partisan character than the rest. After soliciting a range of economists’ views on the new inflation, the Patman-led JEC produced a compendium a number of statements without a unifying thesis. Indeed, the point was to highlight the diversity of perspectives on the matter. See Joint Economic Committee, *The Relationship of Prices to Economic Stability and Growth: Compendium of Papers by Panelists Appearing before the Joint Economic Committee* (Washington, D.C.: GPO, 1958); Alan L. Otten, “Lawmakers Poll 47 Economists on Behavior of Prices, Get Roughly 47 Different Views,” *Wall Street Journal*, May 6, 1958; Takami, “The Baffling New Inflation,” 618-625.
– from Hyman Minsky to Milton Friedman – along with a few representatives from business and labor. In addition to the ten volumes hearing transcripts, the JEC also commissioned twenty-three independent study papers and produced a sweeping, 500-plus page staff report summarizing all the findings and offering policy recommendations.44

Like John Blair in the Kefauver-led Subcommittee on Antitrust and Monopoly, the Douglas JEC had its own influential behind the scenes economist. Harvard economist Otto Eckstein served as the Technical Director for the study and was principal author of the enormous staff report. Born to a German Jewish family in 1927, Eckstein had quite a life. At age eleven, he and other family members fled the Nazis, first emigrating to England and then settling in the United States. He attended Princeton before earning a doctorate in economics at Harvard, at which point he joined the faculty of that esteemed department. In 1964 he joined Lyndon Johnson’s CEA, and after returning to private life helped to found Data Resources Inc., the world’s largest private purveyor of economic data and macroeconomic modeling which in 1979 he sold to McGraw Hill for more than $100 million. When he succumbed to cancer at age fifty-six he was among the wealthiest professional economists in America.45

And like Blair, Eckstein brought a particular view to the JEC. Strong productivity, he felt, could dissolve the tensions placing strain on the U.S. economy. The Staff Report was an extensive and sophisticated meditation on each aspect of economic policy which repeatedly

returned to the conclusion that responsible fiscal and monetary management along with targeted efforts to harness increasing productivity would allow for growth with price stability. This insight, however, was not particularly new. Of greater consequence was how Eckstein made sense of productivity itself. In this regard, the JEC Study Paper he prepared concurrent to his work on the *Staff Report* was perhaps his most influential contribution to the investigation. In *Steel and the Postwar Inflation*, Eckstein and his associate, Gary Fromm, entered into the debate the the Subcommittee on Antitrust and Monopoly had begun two years earlier. And they arrived at a very different conclusion.

In one sense Eckstein and Blair were on the same page: steel industry pricing contributed directly to the new inflation. “[T]he extraordinary behavior of steel,” Eckstein and Fromm wrote, “accounted for 40 percent of the rise” in the price level over the previous decade.\(^{46}\) On this point Blair had to admit that Eckstein’s research was “ingenious.”\(^{47}\) But that was about the only point of agreement. To understand that “extraordinary behavior” of steel prices, Eckstein and Fromm started with labor. The ability of the USWA to bargain with the whole industry, the authors asserted, “is probably best characterized as a bilateral monopoly.”\(^{48}\) And their principal conclusion resulted from this insight: “Bargaining between a strong union and a management with strong market power in the product market, persuaded of their ability to pass higher employment costs on in higher prices and being pressured by Government to settle their differences on favorable terms are the major explanations of wage movements.”\(^{49}\) This would not have been a problem had productivity growth been strong.

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\(^{47}\) Blair to Dixon, Nov. 12, 1959, Box 229, Folder 8, EK.


\(^{49}\) Ibid, 20-21.
But steel productivity had through the 1950s been below average, Eckstein and Fromm observed, and this “in combination with wage increase above the average, has made for larger than average increases in employment costs per unit of output.” That is, steel labor costs were outpacing productivity growth in the industry, the exact opposite of what the Subcommittee on Antitrust and Monopoly investigation had concluded.

In spite of the technical terms in which Eckstein and Fromm made their argument, its implications were clear. Steelworker wages rather than corporate profits were responsible for the new inflation. Trade unionists and Institutional Keynesians responded accordingly. The day after the release of the Study Paper, AFL-CIO researcher Nat Goldfinger wrote an acerbic letter to Eckstein, and sent a copy to Douglas for good measure:

I have been painfully shocked and surprised by the poor quality, superficial nature and distortions of your [paper]. The publication is certainly not worthy of either you or the Joint Economic Committee. Its effect is harmful and damaging, not only to the United Steelworkers and the entire trade union movement in a most trying period, but this publication by a reputable Congressional committee sets back the attempt to study and analyze the causes of the slowly rising price level of recent years. Goldfinger note wasn’t all vitriol. He dissected the report, identifying five glaring weaknesses that left it “studded with bias and, for a study paper, shockingly dependent upon erroneous concepts and unsupported opinions for its conclusions.” Three of the points were technical assessments of Eckstein and Fromm’s faulty use of temporal relationships – Goldfinger argued that they drew on data from unrepresentative time periods since 1947, that they were imprecise with chronology in drawing causal conclusions regarding wages, prices,

50 Ibid, 21.  
51 Nat Goldfinger to Otto Eckstein, Nov. 6, 1959, Box 80, Joint Economic Committee, 1947-70, Office Files, Research Department, USWA.  
52 Otis Brubaker to Arthur Goldberg, Nov. 16, 1959, Box 80, Joint Economic Committee, 1947-70, Office Files Research Department, USWA.
and productivity, and that they used too early a terminal date and ignored more recent data. Compounding these methodological errors, their sample was biased – the report included many firms “which are not even a part of the Steel Industry” in its calculation of profit margins, dragging down the “average” rate. Had the study limited itself to the twelve major producers, the “sharp upward movement of steel profit margins” would have been obvious. Finally, Goldfinger concluded that the flawed methodology was not the product of carelessness, but of outright bias as “evidenced by the choice of ‘prejudice’ words, uncritical acceptance of Steel Industry allegations, and conclusions which are unsupported and unsupportable.”53

John Blair was equally dismayed. “Because of the attention given it,” the Chief Economist wrote to another Subcommittee staffer, “and also because it presents both explicitly and implicitly findings and conclusions different from those reached by us in our steel report,” it could not be ignored. The compulsively thorough Blair found “particularly annoying” Eckstein’s “lack of footnotes indicating source materials” as well as his “insertion of gratuitous editorial comments which are neither part of nor supported by the analysis,” and concluded that “the staff study falls short of those accepted standards usually associated with scholarly works.”54

Their frustrations did extend beyond Eckstein. The Harvard economist drew on BLS data about which these critics were deeply suspicious. Of particular interest in this regard was a change in how the BLS calculated steel productivity in the late 1950s. Through that decade, administrative – largely salaried, white-collar – employment in the industry increased, far outpacing the growth of production workers who had to contend with the

53 Ibid.
54 Blair to Dixon, Nov. 12, 1959, Box 229, Folder 8, EK.
displacing effects of whatever investment into new technology the industry made during that
time. The rise of this new class of workers raised questions about the measurement of labor
productivity in the industry. Should non-production workers, who were not members of the
bargaining unit, be included or not? The BLS determined that they should, but the question
was more than academic. Better paid, and, in contrast to production workers, paid year
round, inclusion of white collar workers tended to bring the total productivity number down.
“The collective bargaining implications” of the all-employee productivity figure, USWA
Research Director Otis Brubaker noted, “are obvious and cannot be avoided.” “This new
series in Steel,” he continued, “will give the employers yet another tool to try to use in their
efforts to prevent the sharing of productivity gains with their employees thru collective
bargaining.”

But the BLS’s new methodology stood, and Eckstein only rose in prominence. In
1961, Kennedy’s CEA made Eckstein its point person on steel. He was dispatched to push
the administration’s steel wage-price line before Congress; his work would inform how
Heller and his associates understood the productivity-labor cost relationship in the industry;
and Lyndon Johnson would later ask him to join his Council of Economic Advisers. Given
the choice between the two major congressional investigations into the new inflation, that is,
the incoming Kennedy administration sided with Douglas and Eckstein over Kefauver and
Blair. That one choice shed substantial light on the changing class politics of liberalism in the
United States at the start of the 1960s.

55 Otis Brubaker, “Proposed Issuance By BLS of an All-Employee Steel Productivity Index,” November 29,
1960, Box 40, Productivity, 1956-63, Marvin Miller Papers, Research Department, USWA; Otis Brubaker to
Members of Productivity Committee of BLS Labor Advisory Council, November 29, 1960, Box 40,
Productivity, 1956-63, Marvin Miller Papers, Research Department, USWA.
56 Heller to JFK, August 4, 1961, Box 5, WWH.
THE STORY BEHIND the 1962 steel crisis is well known, if perhaps apocryphally so. Early in the year, Walter Heller informed Kennedy that 2.5 to 3 percent should be the target wage increase in the steel round, and after tireless mediation by Secretary of Labor Goldberg the USWA and industry leaders settled at the lower end. The President hailed the settlement as one that was “obviously not inflationary” and which should “provide a solid base for price stability,” while Washington Post corresponded Bernard Nossiter called it a “stunning triumph for the Kennedy administration.” But the victory was short lived. A week later, U.S. Steel head Roger Blough visited the White House to hand deliver a mimeographed statement announcing a 3.5 percent price increase – that is, 3.5 percent higher than the administration had expected. Outraged, the President is said to have remarked that “my father always told me that all steelmen were sons of bitches, and I did not realize until now how right he was.” Whether or not that actually happened at least USWA President David McDonald recalls him calling to say that “you’ve been screwed and I’ve been screwed.” Arthur Goldberg reacted more perceptively. “Mr. President,” the Secretary of Labor averred, “this industry cannot be tamed, they rule this country, and even Mr. Truman couldn’t take them on.” And although Kennedy made a quick show of trying to take them on – in what Walter Heller called the “Battle of Blough Run” – the President took his labor liaison’s words seriously. Maybe too seriously.

59 Quoted in Barber, “The Kennedy Years,” 172.
60 Quoted in Stebenne, Arthur Goldberg, 296.
Kennedy did issue a forceful statement to the press the following day in which he announced that the “facts of the matter are that there is no justification for an increase in steel prices.” He also instructed his Department of Justice and the FTC to explore the possibility of pursuing antitrust prosecution and called on the Department of Defense to halt orders from complicit steel firms. Heller even quietly convened a group of economists and industrial organization specialists to look into “long-range” solutions to the steel problem, and they discussed ideas ranging from regulation of steel like a public utility and construction of government plants to serve as “yardsticks” to tariff reductions and outright dissolution of U.S. Steel and Bethlehem Steel.\footnote{Heller to JFK, April 21, 1961, Box 5, WWH.} At the same time, Estes Kefauver, Albert Gore, and others in Congress kicked their legislative bodies into gear for yet another round of investigations into steel industry.\footnote{Richard E. Mooney, “Wide Effect Seen: Kefauver and Justice Department Plan to Press Studies,” \textit{New York Times}, April 11, 1962.}

Faced with mounting pressure from the federal government and wary of smaller firms’ ability to hold the price line, U.S. Steel soon thereafter notified the public that it was rescinding the price increase.\footnote{Richard E. Mooney, “Kennedy is Victor: Uses His Full Powers for 72 Hours to Subdue Industry,” \textit{New York Times}, April 14, 1962.} Writing in the \textit{Washington Post}, Drew Pearson concluded that the episode marked the end of the “JFK-Business Honeymoon,” and the \textit{Wall Street Journal} editorial lamented how “business is back in the doghouse.”\footnote{Drew Pearson, “JFK-Business Honeymoon Ends,” \textit{Washington Post}, April 14, 1962; “Business in the Doghouse,” \textit{Wall Street Journal}, April 13, 1962; Richard E. Mooney, “U.S.-Business Rift Widened by Steel,” \textit{New York Times}, April 13, 1962.} If the steel standoff provided the opportunity for Kennedy to adopt a more antagonistic stance towards the corporate elite, however, he did not take it. The President praised the industry for its responsibility in taking back the price hike, and within weeks Kennedy invited Blough to the White House to make

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\item[61] Heller to JFK, April 21, 1961, Box 5, WWH.
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amends. More importantly, he would look away later in the year when the industry covertly raised prices on selected products.\textsuperscript{65}

The olive branch did not come out of nowhere. Kennedy had made establishment of healthy relationships with business a top priority from the outset. By the summer of 1961, Walter Heller was holding regular meetings with Roger Blough himself in the hopes of building “a good two-way channel to business, which will help reduce the feeling that the Kennedy Administration is unfriendly to business.” Heller felt that “we can get something useful from business through this relationship,” even if “business will try to get some \textit{quid} for its \textit{quo}.”\textsuperscript{66} Blough, Heller admitted in October 1961, even “seduced me into speaking before the Business Council,” an opportunity he hoped “could be a good deal more than just a bridge-building exercise.”\textsuperscript{67} And after the meeting he was even more optimistic. The “collective reception of my talk seemed quite decent and friendly,” he reported to President, and the “newer generation in the Business Council is much more receptive” to the growth liberal policies the administration was trying to advance. “Economics,” Heller wrote in the subject line, “makes strange bedfellows.”\textsuperscript{68} He might have qualified the statement by specifying which kind of economics he meant.

A sharp drop in the stock market around the time of the steel standoff only heightened Kennedy’s anxiety over the state of business confidence, and allaying investor jitters soon became his principal concern. In advance of an appearance before the Chamber of Commerce, which was celebrating its fiftieth anniversary, Paul Samuelson advised the

\textsuperscript{66} Heller to JFK, August 7, 1961, Box 5, WWH; Heller to JFK, Sept. 13, 1961, Box 5, WWH.
\textsuperscript{67} Heller to JFK, Oct. 6, 1961, Box 5, WWH.
\textsuperscript{68} Heller to JFK, Oct. 22, 1961, Box 5, WWH.
President to give a “sophisticated and non-apologetic statement concerning your recognition of the vital role of the Private Sector of the economy and of the fundamental importance that competitive profits play in economic life and growth.” Aware of the drawbacks of cozying up to business in such a climate, Samuelson added that “care must be taken to avoid sounding corny, platitudinous, hypocritical and obsequiously apologetic,” and Kennedy did his best to walk the line.69 “It is easy to charge an administration is anti-business,” the President intoned to the Chamber, “but it is more difficult to show how an administration, composed we hope of rational men, can possibly feel they can survive without business.” “I assure you,” he continued to the business representatives, that the administration “shares your concern about the cost-profit squeeze on American business” and understands that “there can be no growth without the investment that is inspired and financed by profit.” The “primary challenge,” Kennedy closed, “is not how to divide the economic pie, but how to enlarge it.”70 If Heller did not say it, there was a reason why Business Council members were sympathetic to their economics. Growth liberalism was a liberalism they could live with, especially when compared to what it had displaced.

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THE GUIDEPOST PROGRAM was one of many things Lyndon B. Johnson suddenly inherited from John F. Kennedy in November 1963. It was one he kept, and it forced him to deal with the challenges seen in that opening steel round. But if the structural policy

69 Paul Samuelson to JFK, April 27, 1962, Box 5, WWH.
remained the same, the larger political economy underwent a tremendous change during his presidency. Johnson’s escalation of the conflict in Vietnam did more to jumpstart the economy than any of Kennedy’s technocratic fiscal measures, and between 1966 and 1968 heavy federal spending drove unemployment down and growth up. Only military intervention in Southeast Asia, that is, succeeded in reducing unemployment to below 4 percent, a fact that should make the “golden age” shine a little less bright in our historical memory.

In any event, improving economic performance brought with it demand inflationary pressure, and labor’s enhanced bargaining power also increased the risk of additional structural inflation. The Johnson administration sought to limit both by strict adherence to the productivity guideposts, but their failure to hold business in line on prices only further discredited the program. In 1966, a closely watched national collective bargaining round in the airline industry resulted in an above guidepost settlement, and that same year the steel industry ratcheted up tonnage rates, and by 1967 the five year-old system was in disarray.71 Still, at least until that point trade unionists like Walter Reuther and the new USWA President I.W. Abel committed their organizations to collaborating with the Johnson administration on improving the program. In particular, they proposed that the CEA revise the guidepost to be a sum of the productivity figure and the rate of increase in the CPI, thereby deterring immediate price increases and shielding their members from those that did go through. As USWA Research Director Otis Brubaker commented to Gardiner Means in 1970, “We lost this battle with all of the members of the [CEA], both old ones and their

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replacements. This spelled the death knell of the guideposts.” “Needless to say,” Brubaker added, “it would be inordinately more difficult to revive them under today’s unsettled economic circumstances than it would have been to have made the necessary revision to keep them functioning.”

But just a year later the Nixon administration tried to revive the idea behind the guideposts, and he did so in what was in a sense a way more befitting of Institutional Keynesianism: wage-price controls. And while Brubaker was correct to note that it would be inordinately more difficult to address the new inflation in the 1970s than it would have been in the 1960s, that he continued to express faith in the principle underlying the program – the promise of productivity – spoke to just how much ground Institutional Keynesianism had ceded to growth liberalism by that point. Nixon’s wage-price control program did what the Kennedy-Johnson guideposts did not: it directly regulated price setting. But while the absence of such public authority was in the last instance responsible for the failure of the guidepost program, the logic upon which it was founded was its most important feature. That logic continued in the Nixon administration, and its continued failure served to undermine whatever support remained for a structural solution to the problem of inflation.

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RICHARD NIXON INHERITED his predecessors’ war in Southeast Asia and ran with it, and he did the same with their approach to the price level. Productivity, he felt, was the way to cut through the contentious distributive issues involved in the politics of inflation, and Nixon like Johnson and Kennedy before him placed it at the center of his economic program. But the only president to be forced out of office in the twentieth century took this reasoning further than the voluntary wage-price guideposts upon which the preceding administrations relied. This was a man who jumpstarted his political career by opposing the OPA in 1946. His first presidential term was defined by just the opposite.

Nixon in August 1971 took the unprecedented step of imposing wage-price controls in peacetime, or at least what passed as peacetime in the United States. A ninety-day wage and price freeze was followed by the introduction of an administrative body devoted to keeping wage growth within the bounds of productivity, and demanding that employers hold the line on prices. At the same time, Nixon suspended the dollar’s convertibility to gold, which had served as the foundation of the Bretton Woods Accord. 1971 was the first in what would become a chronic U.S. trade deficit; Kennedy and Johnson had fought the balance-of-payments deficit and failed, and Nixon understood that structural forces made it unwise even to try. The fixed exchange rate regime that had prevailed since the end of World War II crumbled in short order, and by the middle of the decade just about all currencies in the capitalist world would be floating. Together, this made for the biggest economic news in the postwar period.¹

¹ See the very useful volumes, Lester Sobel, ed., Inflation and the Nixon Administration (New York: Facts on File, 1974). See also Neil de Marchi, “The First Nixon Administration: Prelude to Controls,” in Craufurd
Nixon was a conservative, but he was made in a New Deal world, and the New Economic Policy he announced that August expressed all the contradictions he embodied. This was especially so given that the material conditions which had undergirded that New Deal world were disintegrating just as he took office. By the early 1970s, productivity growth had slowed markedly, and the figure would never again achieve the extraordinary dynamism is showed during what Robert Gordon called the “special century” from 1870 to 1970. With steady inflation resulting from the increased federal spending on Vietnam and the Great Society, the demand that wages be linked to a declining productivity would be a difficult one to impress upon the labor movement. The industrial unions in particular had by the turn of the decade lost all faith in the guidepost logic, mainly because it did not account for the rising cost-of-living.

And while Nixon’s refusal to honor dollar holders’ claims to gold was driven by an anxiety about U.S. financial hegemony, the action had the effect of vastly increasing the power of international financial institutions, most of which had their headquarters in New York. Almost overnight, an enormous futures market in foreign exchange emerged and the age of derivatives was upon us. These financial instruments could serve something like a productive function: they were effectively insurance against the prospect of volatile currency fluctuations which would otherwise deter investment. But they could also take on a life of

their own, and that they did. The spark that led to the explosion of the financial sector came in August 1971.²

But as Leo Panitch and Sam Gindin have demonstrated, that financial spark could not catch unless inflation had been tamed.³ And that brings us back to the wage-price controls. The controls were an expression of what the historian Kristoffer Smemo has in another context called “conservative statism.”⁴ They did evoke the tripartism central to the New Deal order, but they were designed to bear most acutely on labor. The hope of keeping wages below productivity and prices stable was increasingly untenable as productivity fell, and it became clear through the operation of the controls that the competing claims over income shares at the heart of the politics of inflation could no longer be elided. Labor refused to participate within six months of the August 1971 announcement, and while the control program continued for another two years by the time Nixon left office it was universally reviled. The OPEC embargo in late 1973, after which energy prices soared, ushered in a new wage of inflation, and from there on nothing that smelled like the New Deal would used to address it. The monetarists were on the march.

This chapter examines the period leading up to the announcement of the controls and demonstrates how the contradictions inherent in “conservative statism” doomed it from the outset. The analysis offered by the rising Republican operative Kevin Phillips in his 1969 best-selling book, The Emerging Republican Majority, which asserted that Nixon’s election “bespoke the end of New Deal Democratic hegemony and the beginning of a new era in

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American politics,” is a useful distillation of the administration’s political outlook. Reflecting on how nearly sixty percent of the popular vote went either to Nixon or to the segregationist former Alabama governor, George Wallace, Phillips predicted that a partisan realignment of historic proportions was at work. A sizeable contingent of the Democratic Party’s traditional constituency was ready to defect, due to their frustration with its “ambitious social programming” and “inability to handle the urban and Negro revolutions.” Winning their allegiance, Phillips exclaimed, could ensure Republican electoral supremacy for the foreseeable future. Nixon saw an ideological fissure within the American working-class – that between the disaffected white working class and the rest – and he sought to exploit it, above all by cultivating ties with conservative craft unions. But the politics of inflation prevented him from doing so. In the last instance, his conservative statism left him no choice but to attack labor.  

WHEN NIXON ENTERED the White House in January 1969, inflation was at its highest rate in almost two decades. Just one week after his inauguration, Nixon made his first official remarks on the issue, the control of which would soon become his principal domestic priority, suggesting that, “Unless we do control inflation, we will be confronted, eventually, with massive unemployment,” and that the administration would attempt, “to have some fine tuning of fiscal and monetary affairs in order to control inflation.” Informed by the precepts of the Samuelson inflected Phillips Curve, which posited a tradeoff between price stability

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and economic growth, the administration at first opted for a policy of “gradualism.” This rather traditional approach involved tempering the economy, and thus relieving the upward pressure on prices, through planned budget surpluses and monetary restraint.\(^6\)

Nixon’s affinity for gradualism reflected two features of the administration’s understanding of and approach to inflation in 1969, both of which began to change in response to new economic conditions by the end of that year. First, guided by a conventional interpretation of the Phillips tradeoff, they located the source of inflationary pressure in excess demand, a product, they deemed, of federal deficit spending on Johnson’s foreign and domestic initiatives. Second, from the outset they ruled out economic controls, emphasizing that government involvement in the issue would be confined to fiscal and monetary “fine tuning,” a term reminiscent of the Kennedy and Johnson era experiments with wage and price guideposts. Government, they deemed in 1969, was a culprit that could offer few solutions.\(^7\)

On the monetary front, the task initially fell to Federal Reserve Chairman William McChesney Martin, a Truman appointee and an old Nixon foe, who refused to step down before his term expired in January 1970. The tension between the two began in 1960, when then Vice President Nixon blamed the Fed Chairman’s tight monetary policy in 1958 and 1959 for triggering a recession that he believed cost him the presidential election. Seeking to “disinflate without deflating,” that spring Martin tightened the monetary spigot by raising the central bank’s discount rate, the amount charged on loans to member banks, to 6 percent, its highest point since October 1929, and increasing banks’ reserve requirements by $650


\(^7\) de Marchi, “The First Nixon Administration: Prelude to Controls 296-304; Matusow, Nixon’s Economy, esp. Ch. 4.
It brought about the pain of “deflating” with none of the pleasure of “disinflating.” While the economy contracted and unemployment rose, the administration’s gradualism had no effect on inflation, as consumer prices continued to increase, at an annualized rate of more than 6 percent during the last few months of the year, producing the first instance of what would come to be known as stagflation.

By the year’s end, Martin’s contractionary monetary policy had ignited a chorus of opposition. In the first week of the New Year, Secretary of Labor George Shultz – a confidant of Milton Friedman and former Dean of the University of Chicago School of Business – became the first prominent administration official to criticize the Fed’s approach and to call for an easing of monetary policy. Noting that, “the nation’s money supply had shown no growth at all for a number of months,” Shultz emphasized that a continuation of the policy could send the economy into a “tailspin.” Nixon, ever anxious about recessions since his 1960 defeat, had showed his hand a few months prior, when in October 1969 he appointed his economic adviser Arthur Burns to succeed Martin at the Fed. As John Bates Clark Professor of Economics at Columbia University, Chair of Dwight Eisenhower’s Council of Economic Advisers (CEA), and former director of the National Bureau of Economic Research, Burns’s credentials were impeccable. Nixon, however, had his own expectations of the nominee, and he went “about as far as he could, lecturing – even scolding” Burns about his task. At the helm of the central bank, Burns was to loosen the monetary spigot and steer the economy away from recession.

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Nixon further indicated his frustration with the gradualist approach in the way he began to reframe the inflation predicament by the end of the year. Asserting that his administration had taken monetary and fiscal action – the latter involving an income surtax along with $7 billion in federal budget cuts – to rein in inflation, he noted in an October 1969 letter to more than two thousand business and labor leaders that, because “government’s house is now in order, we can turn to business and labor to remind them that inflation is everybody’s problem and fighting inflation is everybody’s business.”12 Foreshadowing the supply-side diagnosis of inflation the administration would publicly advance beginning in 1970, the letter marked a turning point in its approach to both labor and management on the question. If in early-1969 government was the culprit, with its budget deficits and loose money, by the end of the year it had at least an accomplice in the institutional structure of the economy.

Outside the administration, criticism of the federal government’s stringent 1969 monetary policy, as well as of Nixon’s new posture, came from the labor movement. Soon after receiving the President’s letter, UAW president Walter Reuther, in discussing his union’s upcoming round of contract negotiations, made clear that the autoworkers planned to go “to the bargaining table in 1970 to get our equity, and we don’t care what business’s attitude maybe be or what the attitude of the Nixon Administration may be.”13 He continued in January 1970, just weeks after the Senate had confirmed Burns’s appointment, by excoriating Fed Chairman Martin’s financial stewardship in a similar tone. Arguing not only

1971, Memos for the President, Memoranda Files, McCracken Papers Box #42, SMOF, WHCF, RNPL; John Ehrlichman, Witness to Power: The Nixon Years (New York: McGraw-Hill, 1982), 244.
that the central bank’s tight money was sure to hamper growth, as conventional economic reasoning suggested and as the uptick in unemployment demonstrated, Reuther went on to assert that, ironically, it was “most inflationary,” as increasing borrowing costs manifested as higher consumer prices.\textsuperscript{14} Later that summer, after Reuther’s untimely death, United Steelworkers of America president I.W. Abel carried on the torch, testifying before the Joint Economic Committee that, “These interest rates are a major factor...as these peak rates are passed on, through the economic system, to consumers.”\textsuperscript{15} Moreover, Abel noted, echoing an argument John Kenneth Galbraith made in the 1950s, the interest rates had little impact on “big, blue chip corporations” who had unfettered access to “preferred lines of credit at the banks” and “pay the lowest available rates.”\textsuperscript{16}

Carrying this critique onto Capitol Hill, in December 1969 Wisconsin Senator William Proxmire muscled a bill through Congress, which Nixon “reluctantly” signed on Christmas Eve, granting the President the authority to implement credit controls at his discretion. While he feared, in public, that credit controls would put the country on the road “toward a directly controlled economy,” and, in private, that the legislation provided Congressional Democrats with a means by which to direct the blame for inflation back to the White House, Nixon endorsed the bill because of the “overwhelming urgency” of maintaining the federal government’s power to limit interest rates on savings deposits, an important tool for limiting the potentially “destructive competition” between commercial banks, savings banks, and savings and loan associations.\textsuperscript{17} The critique of tight money was

\textsuperscript{16}Ibid, 7.
not confined to the liberal-left, however, as by February 1970 even Milton Friedman was “hopeful about a decline in interest rates.”\textsuperscript{18} Tight money, it was clear to all a year into Nixon’s presidency, could not alone alleviate the inflationary pressure. Indeed, it seemed by early-1970 that the economic reasoning upon which that monetary approach was founded was itself inadequate for making sense of this peculiar price instability.

BY THE EARLY MONTHS of 1970, the center-of-gravity in the Nixon administration’s anti-inflation program began to shift in response to these criticisms. Alarmed by the durability of inflation even as unemployment surpassed their 4 percent benchmark, which CEA Chairman Paul McCracken indicated to the Joint Economic Committee was likely to persist for the duration of the year, the administration began to admit publicly that their experiment with tight monetary policy had proven unworkable and to suggest that a new approach to the price question was necessary.\textsuperscript{19} In its annual study on the health of the economy, the \textit{Economic Report of the President}, the CEA acknowledged that, “the highly restrictive stance of monetary policy after mid-1969,” was, “too severe.”\textsuperscript{20} At the central bank, Burns responded to these calls, as well as to anxieties within the Federal Reserve System about a potential financial panic, hastened by the summer 1970 bankruptcy of Penn Central Transportation Company, by lowering the influential Federal Funds Rate, from 9 percent in January 1970 to close to 4 percent by the beginning of 1971.\textsuperscript{21}

\textsuperscript{21} Federal Funds Data gathered from the Federal Reserve Bank of St. Louis, \textit{FRED: Economic Data}, Effective Federal Funds Rate, available at: https://fred.stlouisfed.org/. For an interpretation that locates the change in Fed policy more to financial turbulence than to Nixon’s political calculations, see Panitch and Gindin, \textit{The Making of Global Capitalism}, 138-140.
adjustments aside, however CEA Chairman McCracken did not offer an alternative anti-inflation proposal, noting that he not only opposed overt federal intervention in wage and price decisions, but also was cool even to presidential exhortations for voluntary restraint from business and labor, a not so subtle gibe at the wage-price guideposts relied upon by the Kennedy and Johnson administrations.\textsuperscript{22} Nixon’s remark in the October 1969 letter to labor and business that “Economic policy needed backbone rather than jawbone,” still, for the moment, guided the administration’s public approach.\textsuperscript{23}

While McCracken and the CEA sounded the official White House line, one reflecting their ambivalence over how to proceed, dissent began to percolate among more autonomous economic policymakers. That May, Fed Chairman Burns became the first administration ally to indicate amenability toward an “incomes policy,” or government regulation of wage and price decisions, as a potential solution to the novel supply-side inflation. In a speech before the American Bankers Association, Burns noted that, “We are in a transitional period of cost-push inflation, and we therefore need to adjust our policies to the special character of the inflationary pressure that we are now experiencing,” and that, consequently, “we should not close our minds to the possibility that an incomes policy…might speed us through this transitional period.”\textsuperscript{24} Although CEA Chairman McCracken, in attendance at the ABA meeting, did not hesitate to counter Burns, noting that incomes policies had been ineffective

in foreign economies, he too modified his rhetoric, stressing that he harbored no “theological” opposition to such a program.\(^{25}\)

The new fault lines in the inflation control debate clarified the next month when, in an “Address to the Nation on Economic Policy and Productivity” in mid-June, Nixon began to proactively respond to the new economic atmosphere. First, he established a tripartite National Commission on Productivity charged with studying and proposing solutions to the productivity slowdown that began in the late-1960s. In 1969, the annual rate of productivity growth was a meager 0.2 percent, the second lowest in the postwar period, thus making almost any increase in wages, by the administration’s logic, inflationary.\(^{26}\)

Second, the President instructed the Productivity Commission to develop a system for alerting the public to “outstanding cases of price or wage increases,” a Nixonian expression of the “jawboning” that characterized anti-inflation politics in the Kennedy and Johnson administrations and that until the end of 1969 the administration had publicly eschewed.\(^{27}\) Nixon’s call for “Alerts” responded most immediately to what his administration deemed the most inflationary sector of the economy: construction.\(^{28}\) In a statement on price increases in the construction industry issued earlier that spring, Nixon stressed the need to expand the building trades’ workforce, through apprentice training and equal opportunity hiring practices – his first swipe the industry’s racial inequities that would become a bone of contention between the administration and otherwise sympathetic craft union leaders – in

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\(^{26}\) Productivity data collected from Bureau of Labor Statistics, “Major Sector Productivity and Costs.”


order to place limits on skyrocketing construction wages.\textsuperscript{29} Taken together, the establishment of the Productivity Commission and the inflation alert system, along with his call for an increased supply of construction labor, reflected Nixon’s acknowledgement that the new inflation was driven, above all, by labor costs.

TRADE UNION OFFICIALS did not hesitate to offer a sharp rebuke to the wage-push logic, sharpening the fault lines in the inflation debate that would become ever more pronounced during the subsequent two years. Testifying before the Joint Economic Committee in July 1970, USWA president and AFL-CIO Economic Policy Committee Chairman I.W. Abel expounded on the class bias in Nixon’s price politics, noting that, “Too many are too anxious to single out trade unions as the villain in this picture” because they “ignore completely the role of corporate greed.”\textsuperscript{30} He proceeded to offer labor’s interpretation of price instability, arguing that it was, “a profit inflation – combined with a dangerous credit inflation,” the product of robust corporate earnings for most of the 1960s coupled with the high interest rates – which Nixon had been authorized to cap since the previous December – enabled by the Fed’s strict 1969 monetary policy.\textsuperscript{31}

A seventy-four year-old Gardiner Means also made an appearance before the JEC that summer, and he said what he had been saying since his thirties. The “Nixon game plan,”


\textsuperscript{31} Ibid.
Means began, “is bound to fail unless it is radically altered.” And it was bound to fail because it did not consider administered pricing and the administrative inflation it generated. This was the last gasp of Institutional Keynesianism, and it was no without some effect. Frustrated with the Nixon administration’s “bankrupt policies” for controlling inflation, the Abel led AFL-CIO Economic Policy Committee earlier that spring unveiled its own proposal for stabilizing the price level. And they followed Means’s lead – as USWA Research Director Otis Brubaker complimented to Means after his testimony, he demonstrated “a grasp of the economic realities of our pricing system which most economists seem to lack.”

First, because Nixon had proved unwilling to employ the powers granted to him, the labor committee exhorted Congress to “direct the Federal Reserve System to establish selective credit controls.” Second, it encouraged the federal government to use all measures at its disposal to place downward pressure on home mortgage interest rates, an implicit suggestion that construction industry inflation was less about wages than the cost of credit. Finally, it called for governmental efforts to “curtail the continuing high rate of business mergers” which lent “the dominant corporations” monopoly pricing power. As for whether the AFL-CIO would cooperate with the Nixon administration were it to eventually propose an incomes policy, Abel emphasized that trade unions’ acceptance of wage restraint would be conditional on controls being “equitably placed on all costs and incomes – including all prices, profits, dividends, rents, and executive compensation.”

33 Otis Brubaker to Gardiner Means, August 5, 1970, Box 80, Joint Economic Studies, 1947-70, Office Files, Research Dept., USWA.
35 Ibid.
The Democratic-controlled Congress took notice, and in mid-August 1970 passed the Economic Stabilization Act, which granted the president the authority to stabilize wages, prices, and rents. The policy was attached to a measure to renew the two decade-old Defense Production Act, a strategic amendment that forced the control powers upon Nixon and offered the Congressional Democrats a tool with which to prod the administration towards an incomes policy. Allowing the President to set wages and prices at levels not below those of May 25, 1970 – the date was set retroactively so as to preempt reactive wage and price hikes – the authority was to expire after six months. For the first time in Nixon’s presidency, an incomes policy was on the table, and the imminent expiration date promised that it would be an immediate, and likely recurrent, subject of debate.\(^{36}\)

Nixon’s labor challenges were not confined to AFL-CIO reports or trade union leaders’ testimonies in Washington, however. They came from below, as well. Measured by strike activity, 1970 ranked among the most militant years in postwar labor history. Indeed, more worker-hours were lost to strikes in 1970 than in any single year in U.S. history.\(^{37}\) National strikes by letter carriers, truck drivers, and railroad workers crippled important communication and distribution networks, serving as a constant reminder to policymakers of the powerful counterpunch their wage-based inflationary accusations might invite.\(^{38}\) Complicating matters, many of these stoppages were wildcat strikes, unsanctioned by the official trade union establishment, which signaled a militant and, from Nixon’s perspective,


dangerous level of working-class self-activity uncharacteristic of the routinized postwar labor relations system.

Capping a year of labor insurgency, in September 1970 355,000 autoworkers walked out at General Motors, the UAW’s first major work stoppage in the post-Reuther era and one that brought the labor politics of the new inflation to the fore. Seeming to respond directly to Nixon’s new wage-push posture, the central issue in the GM strike was the extent to which the inflationary tides of previous years had eroded autoworkers’ purchasing power. In 1967, during the last contract dispute of his life, Reuther’s fealty to the Johnson administration led him to a grave miscalculation, one that set the terms for the 1970 strike. Believing assurances from Johnson that the war in Southeast Asia was in its last throes, Reuther sought to resolve a protracted strike at Ford by betting that the late-1960s inflationary pressure would subside by the turn of the decade. In exchange for a hefty wage hike and a marked increase in Supplemental Unemployment Benefits, Reuther agreed to sixteen cent-an-hour ceiling on cost-of-living adjustments, a settlement GM quickly matched. As the violence in Vietnam intensified, however, so too did domestic price instability, and consequently the “COLA cap” resulted in an effective pay deduction for the average autoworker of more than eight hundred dollars.\(^{39}\) Resolving the cost-of-living crisis was thus at the heart of the GM strike, a sticking-point that flung Reuther’s successor as UAW president, Leonard Woodcock, into the politics of inflation from the moment he took office. How the autoworkers fared, \textit{Fortune} predicted as the strike loomed, would “forecast, in large measure, the coming climate of labor-management relations.”\(^{40}\)


AS THE UAW began to paralyze the industrial Midwest, Nixon charged one of his chief political advisers, Charles W. Colson, with spearheading an administration effort to appeal to the labor vote. In accepting, “with real delight,” responsibility for their “political battle plan of winning over the union leadership and the rank and file,” Colson straightforwardly noted that his objective was “to make them part of our ‘New Majority.’” By stressing that, “romancing the union leadership is only part of the task” because of the extent to which, in certain unions, “the rank and file are especially independent,” Colson highlighted the fissures inside the House of Labor, rife with racial undertones, that the administration sought to exploit. The key union officials he identified – including the heads of “all of the construction trades” – came from craft unions historically associated with the AFL, most of whom had a less than sterling record on racial equity. His lone reference to specific rank-and-file union members, however, came in a discussion of the CIO, when, after dismissing UAW president Leonard Woodcock as “a socialist who will never support us,” he described autoworkers as “among the most conservative in the union movement” who were “keenly aware of the race question.”

A self-proclaimed “hard hat partisan”, Colson’s labor outreach program thus consisted of two prongs. First, the administration would make genuine, if modest, concessions to the building trades’ and other craft unions’ leadershps. For instance, one of

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strike to keep labor costs from increasing beyond present rates,” a managerial posture that helps to explain the labor militancy that year.

41 Haldeman to Colson, 8 Sep. 1970, Box 71, Labor Campaign [II] [1 of 3], Subject Files, Charles W. Colson Papers SMOF, WHSF, RNPL (hereafter CWC).
42 Colson to Haldeman, 14 Sep. 1970, Box 71, Labor Campaign [I] [2 of 2], CWC.
43 Ibid; Linder, Wars of Attrition, 241-263, passim.
44 Colson to Haldeman, 14 Sep. 1970, Box 71, Labor Campaign [I] [2 of 2], CWC.
45 Colson to Shultz, 17 Feb. 1971, Box 71, Labor Campaign [I] [1 of 2], CWC.
his first accomplishments in the new post was when, after the AFL-CIO lambasted Secretary of Commerce Maurice Stans for establishing a twenty-one member advisory committee on regional economic development without a single labor representative, Colson successfully persuaded Nixon that “representatives of organized labor (not those who are labor experts; actual representatives of organized labor) be appointed to every Commission that we announce.”\textsuperscript{46} In the first set of appointments after Stan’s flap, when Assistant Secretary of Labor Rocco Sciliano proposed appointing two USWA officials to a National Public Advisory Committee, Colson responded that, “it seems to me that maybe there should be a third person named who represents a different element of labor.”\textsuperscript{47} By “different element,” Colson meant, simply, a craft unionist. Second, through racialized overtures to what he perceived to be a large pool of conservative white industrial workers, like those, he believed, in the UAW, the administration would seek to drive a wedge into the tenuous electoral coalition between organized labor and African Americans.

Colson’s racialized strategy for reaching out to conservative unionized male workers encountered, from the outset, an obstacle in one of the administration’s own policies, its equal opportunity employment program, designed to target the almost homogenously white construction industry. In June 1969, Assistant Secretary of Labor for Employment Standards Arthur Fletcher unveiled the Philadelphia Plan, a revision on Lyndon Johnson’s 1965 Executive Order 11246, which established minority employment targets on federal construction projects in Philadelphia. Soon after he signed it, the courts struck down Johnson’s edict on the grounds that, by establishing employment quotas, it violated Title VII


\textsuperscript{47} Colson to Sciliano, 9 Oct. 1970, Jay Lovestone, Box 73, AFL-CIO III [1 of 4], CWC.
of the Civil Rights Act of 1964, which prohibited employment discrimination on racial and
gendered lines. The notion of “quotas,” then, became the issue upon which debate over the
Philadelphia Plan centered. In a Senate testimony on the revised Plan in October 1969,
Secretary of Labor George Shultz stressed that “it is important to understand that the plan
does not require, nor does it allow, discriminatory hiring practices as implied by the use of
the word ‘quota.’ Instead, the plan establishes a range of desirable hiring within which the
contractor must set his goal.”

Considerable scholarly debate has raged over why Nixon threw his weight around a
program – affirmative action – that would come to be a jewel in the social liberals’ policy
crown. Some have argued that it was a Machiavellian ploy by the administration to fragment
a heavily unionized industry along racial grounds, while others locate its origins in a long
movement by rank-and-file African Americans for an anti-discrimination employment policy
in this historically racially exclusive industry. While both of these factors, to be sure,
played a role in the decision, the fact that it was implemented in the industry that, first, the
administration sought to win over and, second, that was understood as most inflationary,
suggests that a strictly material motive was also at work. The Plan, it seems in this vein, was
designed in large part to increase the supply of construction labor and, consequently, to push
down wages in the industry. In a September 1969 statement on the construction industry,

where he lamented that the “cost of building a home has become exorbitant,” Nixon detailed five proactive measures he hoped would alleviate the upward price pressure. Four of the five, including the formation of a Cabinet Committee on Construction, were designed to assess, with the hope of scaling back, federal and state construction products, so as to reduce public sector demand for building trades labor. The final step, and the one most relevant to the Philadelphia Plan, was to direct the “Secretaries of Labor and Health, Education, and Welfare to move promptly to provide for manpower training and vocational education in order to achieve a major increase in needed skilled labor for the construction industry.”

Though he didn’t mention affirmative action or the Philadelphia Plan by name, and indeed would not until December of that year, given the timing of his statement, some two months after Fletcher announced the program and one month before the Congressional hearings on it, it seems safe to conclude that, “manpower” meant, in Nixon’s lexicon, equal opportunity employment.

If progressives in the twenty-first century still reminisce about this moment of Republican racial liberalism, the contemporary building trades were less enthused, as were, indeed, most African Americans, who deemed it insufficient. Arguing that it violated a sacred tenet of their internal operations, the privilege of seniority, in a Statement of Policy on Equal Opportunity Employment, the Building and Construction Trades Department of the AFL-CIO proclaimed that while “We support the right of the Negro to justice,”

[I]t must also be recognized that there is a correlative right in the existing members of the organized work force regardless of their color or race. Many of them have fought during their working lives to preserve and advance their unions against the attack of strong anti-labor forces….We are convinced that the goal of increasing Negro and other minority worker participation in the building and construction trades can be accomplished with due regard to the

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rights of the existing organized workforce. We think such an approach is preferable to unthinking actions which tend to pit one part of the population against the other.\textsuperscript{52}

Racial equality, they maintained, was important, but they were “unalterably opposed to the quota system.”\textsuperscript{53} Indeed, they emphasized, they had worked to diversify their ranks at least since the Supreme Court’s 1944 \textit{Steele} decision, and had been among the leading advocates for inclusion of Title VII in the Civil Rights Act.\textsuperscript{54} Moreover, challenging the very figures with which Fletcher and others criticized the demographic composition of their workforce, which stated that only 1.6 percent of non-laborers – that is, everyone above the most unskilled, and lowest paid, ranks – were minorities, the Department asserted that, “Even with the deduction of the laborers from the calculation, the ratio of black participation among the remaining crafts was 12%.” Whatever disproportionate white presence in the construction industry there was, the building trades suggested, stemmed not from union racism but from structural inequalities that prevented African Americans from acquiring the “higher educational requirements” needed to secure such employment.\textsuperscript{55}

By 1971, as it had become clear that the equal opportunity measure had met little success in controlling construction industry wages, the program’s political costs began to register within the administration. That spring, the hard-hat partisan Colson wrote to Nixon’s chief advisor on domestic social issues, John Ehrlichman, that continued enforcement of the policy is “the most critical political question that we face with respect to our relationships with the building trades unions.” He continued by lamenting how the administration had “not

\textsuperscript{53} Ibid, 178.
\textsuperscript{54} Graham, \textit{The Civil Rights Era}, 139.
been even-handed in our treatment of the minority-hiring problem” and that it was likely to be “the straw that broke the camel’s back and put us in a position from which I am positively confident we could not recover. On the other side of the coin, I have never seen a shred of evidence that our efforts in the area have gained us any support from the black community nor in my judgment is it likely that our efforts will.” The culprit inside the administration, he concluded, was Fletcher himself.\textsuperscript{56} Colson’s concerns appear to have been heard, as by mid-summer he conveyed to the President that he was “trying to work out a ‘transfer’ of Fletcher,” pressure that likely contributed to the latter’s resignation that December to assume the executive directorship of the United Negro College Fund.\textsuperscript{57}

Two years after implementing it, then, the administration deemed the Philadelphia Plan an utter defeat. Not only had it failed to make even a dent in the construction industry’s soaring wage inflation, by incorporating sufficient numbers of African Americans into the workforce and so increasing the labor supply, but also it had the adverse effect of deeply alienating the key to its “New Majority.” The episode, above all, shed light on the ostensibly unresolvable dilemma Nixon faced in pursuing his ambitious electoral strategy. Conservative white male workers were central to his plan, but they were also the material cause of his most acute domestic problem: inflation. Confronting them on it, whether by tight money, jawboning, or racial integration, was sure to draw ire. Their unions themselves, it was increasingly clear, were the administration’s fundamental obstacle.

\textsuperscript{56} Colson to Ehrlichman, 14 May 1971, Box 40, Building and Construction Trade [1 of 6], CWC.
IN NOVEMBER 1970, in the wake of the GM strike as well as an unfavorable midterm round of elections, a debate emerged inside and outside the administration over their labor strategy. Namely, whether or not they should draw a line in the sand and initiate an overt offensive on the trade unions. *Fortune* captured the essence of the dispute, arguing that there was something “disturbingly unreal about the President’s hopes for a détente” with the labor movement, because he has “studiously avoided facing up to the one issue that counts the most today: organized labor’s relentless pressure for inflationary wage settlements.”58 Closer to home, Undersecretary for Treasury, and conservative former Vice President of the American Bankers Association, Charls Walker directly challenged Colson’s agenda, arguing that, “for economic and political reasons, the time has come for this Administration to begin shifting its stance vis-à-vis organized labor.”59 Walker noted that this “tough stance should not be aimed at the ‘working man’ as such, but those institutions and leadership postures which…damage the stability of the economy” and encouraged the president to present this new position, along with a “clear ‘course’ on the economics of cost-push inflation,” in his annual address to the National Association of Manufacturers.60

Nixon ignored the advice. In addition to Colson, his new Secretary of Labor James Hodgson, a former executive and labor relations chief of Lockheed Martin, and George Shultz, then Director of the Office of Management and Budget, ridiculed it, and his Chief of Staff, Robert Haldeman, noted that they “have to get Walker out.”61 In their first meeting after the midterms, Nixon made his commitment to the labor strategy clear, stressing to AFL-
CIO President George Meany that “the recent election and attendant activities did not alter
the Administration’s intention to maintain communication with organized labor.”62 Indeed,
after Meany expressed to Jay Lovestone, a Communist turned Cold Warrior and Colson’s
leak inside AFL-CIO headquarters, his outrage with Nixon’s CEA, the President ordered
Paul McCracken to hold periodic meetings with Meany and his staff economists to keep them
“apprised of the Administration’s economic views.”63 The invitation, McCracken noted as he
prepared for the first get together, had been “extremely well received at the AFL-CIO.”64 To
whatever extent Nixon’s political strategists sought to maintain their “détente” with
organized labor, and with the conservative craft union leaderships in particular, however, the
inflation trap continued to interrupt their efforts.

By the last months of 1970 and the first of 1971, the center-of-gravity in the wage-push
discourse had settled firmly within the construction industry. As was becoming the
norm, Fortune again helped to define the terms of the inflation debate, arguing, in a piece
entitled, “The Building Trades Against the People,” that, through “an unabashed and perhaps
unique display of monopoly power” the building trades unions were “exploiting consumers
on a grand scale.” Turning the AFL-CIO’s critique of blue-chip corporations’ administered
pricing on its head, the business organ asserted that the building trades were “able to do this
because they control the labor supply and have created an artificial labor shortage.”65 It went
on to urge the administration to terminate the “prevailing wage” system on federally
sponsored construction projects – which required federal contractors to match the going

62 Hodgson to Butterfield, 7 Dec. 1970, Box 71, Labor Campaign [II] [2 of 3], CWC.
63 Colson to Haldeman, 5 Dec. 1970, Box 73, Jay Lovestone, AFL-CIO [II] [3 of 4], CWC; Haldeman to
Flanigan, 15 Dec. 1970, Box 1, HRH Memos, 1969-1970 (Complete) I [1 of 3], CWC; Flanigan,
“Memorandum for the President,” 13 Jan. 1971, Box 71, Labor Campaign [II] [2 of 3], CWC.
64 Haldeman to Flanigan, 15 Dec. 1970, Box 1, HRH Memos, 1969-1970 (Complete) I [1 of 1], CWC.
union wage rate in their specific region – mandated by the New Deal era Davis-Bacon Act, an argument that would soon become scripture in the Republican book of labor politics. These calls gained greater purchase after the CEA released their second “Inflation Alert” on December 1, which highlighted the average 22 percent first year wage settlement in construction industry collective bargaining agreements negotiated during the preceding three months, contracts that covered more than 300,000 workers. 66 Though Meany was “incensed” by the CEA’s statement “strong anti-labor bias,” which neglected the fact that “ten years ago over 30 percent of the cost of a home was labor; today it is 18 percent, which reflects…more worker productivity,” the “Alert” had its intended effect of reinforcing the wage-push logic. 67 The Alert also took issue with the UAW’s November agreement with General Motors which, by reinstating cost of living escalators, put an end to the two month strike at the world’s largest corporation, noting that if the autoworkers’ pact was “generalized throughout the economy” it would press further upward “costs per unit of output and, therefore, the price level.” Unless productivity improved, the Council asserted, neither could wages. Leonard Woodcock’s cry that the Alert made “no comment whatsoever on the ability of GM to absorb the cost of the settlement out of its excessive profits without raising prices” fell on deaf ears. 68 Woodcock, they might have suggested, should have known better, given his predecessor’s role in institutionalizing a direct relation between productivity and wages.

After the trends documented in the Alert manifested in another grim report on consumer prices, showing an annualized increase in December of 6.6 percent, which, McCracken lamented, continued “the string of disappointing news that we have had

66 Linder, Wars of Attrition, 307, 305-327 passim.
67 Colson to Haldeman, 5 Dec. 1970, Box 73, Jay Lovestone, AFL-CIO [II] [3 of 4], CWC.
regarding that index during recent months,” the White House, early in 1971, began crafting a more assertive plan of action.\textsuperscript{69} In mid-January, the tripartite Construction Industry Collective Bargaining Commission (CICBC), which had been established at the urging of George Shultz in September 1969, established a working group to devise stabilization machinery for the industry, the beginnings of what became, through an Executive Order that March, the Construction Industry Stabilization Committee.\textsuperscript{70} To the CICBC’s proposal that the stabilization committee would oversee voluntary negotiations between construction employers and unions, and intervene in the case of inflationary settlements, the building trades responded that their cooperation was conditional on two criteria: first, that the administration ease their enforcement of equal opportunity hiring policies, and second, that they maintain Davis-Bacon protection of prevailing wage standards.\textsuperscript{71} Having already snubbed the building trades’ leadership on the former with their Philadelphia Plan, the administration took their next shot at the ostensibly inflationary construction workers, who they still desperately sought to woo, on prevailing wages.

On February 23, with no voluntary agreement between contractors and the building trades on how to restrain inflationary wage settlements on the horizon, Nixon suspended the 1931 Davis-Bacon Act, noting in his statement that, “the operation of this law at a time when construction wages and prices are skyrocketing only gives Federal endorsement and encouragement to severe inflationary pressures.”\textsuperscript{72} The building trades’ leadership, unsurprisingly, publicly blasted the decision. At a meeting of the AFL-CIO’s Building and

\textsuperscript{69} McCracken, “Memorandum for the President,” 28 Jan. 1971, Box 42, Memos for the President – January 1971, Memoranda Files, Paul W. McCracken Papers, SMOF, WHCF, RNPL (hereafter PWM).
\textsuperscript{71} Linder, \textit{Wars of Attrition}, 311.
\textsuperscript{72} “Statement Proclaiming the Suspension of the Davis-Bacon Act of March 3, 1931,” Box 40, Building and Construction Trades [5 of 6], CWC.
Construction Trades Department in Bal Harbour, Florida, George Meany denounced the president’s move as “an open invitation to unscrupulous employers to exploit workers by competitive undermining of fair wages and labor standards,” and asserted that it would in fact “have no real effect on halting inflation.” Even one of administration’s closest labor allies, Peter Brennan, president of the Building and Construction Trades Council of Greater New York, whom Nixon appointed as Secretary of Labor in 1973, condemned the move as using construction workers as a “patsy.”

Indeed, though the administration anticipated the shrill response, their action on Davis-Bacon represented a moderation of their initial plan to freeze construction wages and price entirely. Debate as to which route to pursue persisted until the day before Nixon’s announcement, when Secretary of Labor Hodgson proposed an immediate “wage-price-profit freeze” in the construction industry, though he acknowledged that the building trades “union presidents will not voluntarily accept” it. Charles Colson, ever concerned with “keeping the ‘hard hats’ in our corner politically,” indicated that the “opinion is widespread that, if we force controls, the responsible building trades leaders will not be able to keep locals under control and there will be a serious rash of wildcat walkouts and disputes.” William Safire, Nixon’s acclaimed speechwriter and political adviser, also chimed in, arguing that if he went ahead with the freeze, “the President will be most pleasing to those academic price controllers who will never support him in the end, and most irritating to the hardhats who could possibly support him in 1972.”

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74 Hodgson, “Recommendation,” 22 Feb. 1971 and “Construction Building Trades Union Department Position,” both in Box 40, Building and Construction Trades [5 of 6], CWC.
75 Colson to Shultz, 17 Feb. 1971, Box 40, Building and Construction Trades [6 of 6], CWC.
76 Safire to Haldeman and Shultz, 17 Feb. 1971, Box 40, Building and Construction Trades [3 of 6], CWC.
indicated his awareness of the limits on how far he could push the building trades on inflation, especially as his administration continued to press them on the racial front, without alienating them entirely. It also suggests the extent to which he suspected that his decision, six months later, to freeze all wages and prices might alienate the entire labor movement. In fact, though the building trades leaders issued a harsh condemnation of the Davis-Bacon suspension, most breathed a sigh of relief that the administration had not gone ahead with the controls. Their public posture was due in large part to an anticipated upheaval among rank-and-file construction workers, a prediction that was realized in a major demonstration in New York City, ultimately endorsed by the AFL-CIO, that the administration’s “contacts within the building and trades unions are doing what they can” to contain, but over which “they have no control.”

Taking a pulse on sentiment within the union leadership toward the decision, Colson phoned more than a dozen prominent leaders, and all but one indicated that they understood the measure, and some even expressed support. Indeed, Jack Lyons, president of the International Association of Bridge, Structural, and Ornamental Iron Workers, who publicly cried that the move would have an “extremely important” impact on workers, was “very understanding” in his private correspondence with Colson. The union brass’s tolerance of the Davis-Bacon move may have exposed the disconnect between the leadership and the rank-and-file – and, indeed, the undemocratic structures in the craft unions – but it also suggested to the administration that

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77 Cahen to Chapin, 26 Feb. 1971, Building and Construction Trades [4 of 6], Box 40, Subject Files, CWC.  
78 Colson, “Memorandum for the President,” 23 Feb. 1971, Box 40, Building and Construction Trades [5 of 6], CWC. Only Thomas Murphy, president of the International Union of Bricklayers and Allied Craftworkers was “strongly opposed” noting that “Davis-Bacon is the most important symbol to construction workers.”  
they may have some powerful allies in their efforts to impose wage restraint, even if the
workers themselves were far from understanding.

Beyond the awareness that they dodged a bullet on wage controls, the building trades
leaders’ private openness to the Davis-Bacon suspension was rooted in their widespread
understanding that it amounted to little more than political bluster on the inflation front and
that, for two reasons, it would in fact have little material impact on unionized construction
workers. First, from the outset the administration indicated that the suspension would be
temporary. In his statement announcing the suspension, Nixon concluded by stressing that
the “purposes of the Davis-Bacon Act can once again be realized when construction
contractors and labor unions work out solutions to the problems which have created the
emergency.” Reacting to a draft of the speech, Paul McCracken complained that the line
suggested that Davis-Bacon was a “sound instrument” and that by concluding with it, it
appears “as if the Administration, having taken an action, is now scared.” Second, most
urban markets, the source of construction industry inflation, were thoroughly unionized, and,
thus, private sector wages would continue to be set at prevailing rates regardless of what the
federal government did. Indeed, the industry’s peak organization, the Associated General
Contractors, publicly opposed the Davis-Bacon suspension, as it was composed almost
t entirely of union contractors who felt they would be “unsuccessful now in bidding on
government contracts.”

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81 McCracken to Shultz, 23 Feb. 1971, Box 40, Building and Construction Trades [5 of 6], CWC.
82 Colson, “Memorandum for the President,” Box 40, Building and Construction Trades [4 of 6], CWC.
Ultimately, notwithstanding the political theater that unfolded around it, the administration’s suspension of Davis-Bacon, which lasted just over a month, was little more than an attempt to win political capital on the inflation issue while sidestepping a further confrontation with the building trades, who were already miffed by the affirmative action protocols they had been forced to swallow. Nixon could not forever, however, have his cake and eat it too, and by mid-1971 he could no longer evade his labor dilemma. Starting that summer, the contradictions in his attempt to reconcile his overtures to conservative craft unionists with his commitment to a wage-push interpretation of inflation began to unravel, a process that came to a head beginning on August 15, 1971.

THE STRUGGLE OVER CONSTRUCTION provided the context in which the Nixon administration finally adopted formal controls. Given that that struggle was over the wage-productivity link, and because productivity was slowing, this meant that the purpose of the controls would be to effect a reduction in wage growth. Two developments in the summer of 1971 pushed Nixon over the edge. On the domestic front, the labor upheaval that raged through 1970 continued into mid-1971, with strikes in copper, communications, and railroads indicating that the wage-price spiral had no end in sight. 83 Even more fundamental, however, was the one strike that, after being anticipated with dread for the preceding six months, was averted. On August 1, the USWA and the major steel companies reached a settlement, on a contract that had expired the previous night, guaranteeing a thirty percent wage increase for steel workers over three years. That U.S. Steel announced an 8 percent price hike the next

day came as little surprise, but to Nixon it did underscore the wage-push threat of the summer’s wage settlements.  

Internationally, the threat of a run on the dollar in foreign money markets signaled the need for preemptive action. Here, Undersecretary of Treasury for Monetary Affairs Paul Volcker led the charge, convincing the new Treasury Secretary John Connally that immediate steps were needed to prevent an immediate depletion of U.S. gold reserves. This concern, though distinct, was intimately related to the administration’s anxieties on the domestic scene. The thread connecting the two was a commitment within the administration to maintaining the stature of the dollar, the material lynchpin of American international economic supremacy. Had inflation persisted with no action on convertibility, a run on the dollar was likely; had the link between the dollar and gold been severed with no action on wages and prices, even greater inflation would have erupted. Action on one was unthinkable without the other, and, consequently, Nixon’s announcement packaged the two together in his NEP.

If the business community would ever go along with economic controls, it was under these circumstances. In 1969, Roger Blough of U.S. Steel along with other corporate leaders founded the Construction Users Anti-Inflation Round Table (CUAIR), which sought to use the example of the construction industry to drive home the wage-push argument. They advocated for training programs to chip away at the control the building trades wielded over the labor supply, and they especially railed against Davis-Bacon. Although CUAIR, along with the leaders of the National Association of Manufacturers’ and the Chamber of

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Commerce, had voiced tremendous opposition to wage and price controls, they kept their skepticism to themselves once Nixon announced the program and actually came to support it as it became clear that public frustration through the ninety-day freeze mainly focused on labor. In 1972, Blough spearheaded the merger between CUAIR and two other corporate lobbies, and the Business Roundtable was born. For the remainder of the decade it would play an important role in moving the politics of inflation to the right.\textsuperscript{86}

But by the time the Business Roundtable came on the scene, they were facing a much embattled labor movement. Indeed, structurally the trade unions – and Institutional Keynesianism more generally – had already suffered its most fundamental defeat. The panacea of productivity had eclipsed their imagined planning state in the 1960s, and Nixon only doubled down on that idea by imposing formal controls. And, again, the productivity slowdown that began just as the new wage-price policy was implemented only intensified the pressures on labor. It surprised few, then, that almost the entire labor movement abandoned the effort just months after November 1971 implementation of Phase II of the program. When the Wage Board nullified a substantial wage increase the International Longshore Workers’ Union (ILWU) had just won through a west coast dock strike. All labor members except the Teamsters’ conservative leader Frank Fitzsimmons quit.\textsuperscript{87}

This only made it easier for forces like Rouger Blough’s Business Roundtable frame the problem in terms of union driven wage-push. In spite of the controls, inflation began to pick up over the course of the next year, and when the OPEC embargo began in the fall of 1973 it shot through the roof. At that point Nixon was mired in scandal, and he would soon

\textsuperscript{87} Matusow, \textit{Nixon’s Economy}, 196-198.
be out the door. So too would his wage-price control program. His successor, the Republican Gerald Ford, would make inflation control his principal domestic objective – Whip Inflation Now buttons circulated far and wide – yet he intended to achieve that goal through more orthodox means. Milton Friedman, who won the Nobel Prize in Economics the year Ford lost the presidency to Jimmy Carter, provided one alternative. And in a testament to how far Institutional Keynesianism had fallen by the latter half of the 1970s, the Democrat Carter too turned to the monetarists on the march.
Conclusion

WHEN THE COLLAPSE of the U.S. housing market precipitated a global financial crisis in 2008, one institution did more than any other to prevent an economic apocalypse: the Federal Reserve System. And if the financial crisis still matured into the worst and most protracted general downturn since the Great Depression even in spite of the central bank’s herculean monetary efforts, one can only wonder how bad things would have become without them. Fiscal stimuli were wanting in the years after the crash with the exception a one-time shot in the arm soon after Barack Obama took office, leaving the Fed’s program of “Quantitative Easing” (QE) as about the only macroeconomic stabilization measure adopted after the infamous Wall Street bailouts. Indeed, rather than leading Congress to prime the pump, the precipitous decline in federal revenues that came with the recession gave way to calls for budget slashing. At the city and state levels, as well as across the Atlantic, the stampede toward austerity was even more intense. A half decade into the crisis, then, Fed Chair Ben Bernanke, who had been appointed by the Republican George W. Bush, could not help but lament how “tight fiscal policy [restrained] economic growth.”¹

With the federal government more or less paralyzed by what pundits liked to call gridlock, it was the Federal Reserve’s political independence that enabled it to play the leading role. And what a reversal that role was. After absorbing gobs of toxic assets from the financial system and replenishing it with enormous infusions of fresh money, the central bank has as of this writing kept interest rates near zero for upwards of a decade. This is

unprecedented in the era of independence, and can only be compared to the Depression and wartime emergencies during which Marriner Eccles voluntarily subordinated his authority to that of the Treasury Department. Nor has it been without controversy. Much to Bernanke and later Janet Yellen’s chagrin, the inflation hawks were not silenced by the crisis. But whereas the Fed once provided a home to such monetary conservatives, its leadership after 2008 simply ignored them; and given that inflation is as yet below the Fed’s 2% target while labor markets remain slack, they had good reason to do so. Now it is the Republican platform that calls for political control of Fed policymaking – GOP congressional officials would like to legislate benchmarks for monetary policy, one of Milton Friedman’s famous proposals – while many liberals hope that central bank independence will allow for continued monetary ease. One could not have made this alignment up in 1951.

Still, both sides today miss the point. It is the case that the Fed’s actions likely averted an even greater disaster. And it is also the case that the complete absence of price inflation has allowed Bernanke and Yellen to take these steps without much fear on that front. But many observers have noted how the remarkably low cost of capital has once again lubricated speculation and driven an asset inflation different from that which preceded the Great Recession only in degree. What is more, the Fed’s loose monetary policy has failed to achieve its singular aim: to induce investment. Profitable investment opportunities are so few and far between, the financial sector appears to have concluded, that bankers would prefer to sit on savings – to the tune, now, of almost $2 trillion – which generate no return than to risk sinking that capital into anything less liquid. The real problem for the Fed is that this problem is not new. Net private business investment as a ratio of capital stock has been plummeting since the early 1970s, just about the time productivity growth began to slow and the New
Deal order began to fall.\textsuperscript{2} The declining rate of investment, that is, is a structural and historical development, one against which the Fed’s stopgap measures have been nothing more than that. The problem, in other words, is not that business is unable to invest. It is that only business can decide when and how much investment will take place, and over the past four decades they have felt it less and less worthwhile to commit resources.

This crisis of investment is the most serious threat to the U.S. and the global economy in the early twenty-first century, but the issues involved are not new. The Great Depression brought similar challenges, and for a half century they were negotiated by a much different balance of class forces and on much different terms. The New Deal order, however, came with the cost of inflation, and this dissertation has sought to assess the political struggle that resulted. Inflation raised questions no less significant than the distribution of the national income, the uses of profit, and the control of the investment function. A coalition of activist-intellectuals that I have called Institutional Keynesians used the opportunity to advance a vision of social democracy for the United States: public control over industries that provided the basic necessities of life, price and profit control in the private sector, and full employment-driven economic growth. They made their greatest strides in the 1930s and early 1940s, and continued to push their agenda from the labor movement and farmers’ organizations, consumer organizations and various parts of the federal government well into the postwar period. They failed at what they set out to achieve, but not for lack of will. The Institutional Keynesians failed because of the incredible opposition they faced from forces so powerful and with so much to lose.

\textsuperscript{2} Gordon, \textit{The Rise and Fall of American Growth}, 587. See also, Levy, “Stuck in a Gilded Age.”
Inflation was not a serious problem before the 1930s. From the late-nineteenth century onwards, farmers were the ones most concerned about the price level, and the Department of Agriculture became the central site of struggle over these questions. Institutional Keynesianism was born in the New Deal USDA, when those surrounding Rexford Tugwell made their most influential calls for national economic planning. World War II brought economic recovery, and the years immediately following V-J Day witnessed the most consequential struggles over the fate of Institutional Keynesianism. The progressives lost on every front – labor, agriculture, and finance – and these defeats combined with the McCarthyist witch hunts threatened to send this New Deal tradition into the wilderness for good.

But the popular constituencies that made the New Deal, above all the industrial union movement, would not be so quick to disappear. For more than two decades after the war, trade unionists and their allies in government continued to advance the kind of anti-corporate politics that animated Institutional Keynesianism. Their efforts were felt during the recession of 1957-58, which served as something of a dress rehearsal for stagflation. But the Institutional Keynesians were also victims of their success. Throughout the postwar era they succeeded at harnessing the fruits of productivity and distributing them with a measure of equity. This became more or less institutionalized during the Kennedy, Johnson, and Nixon administrations. Equitably distributing the fruits of productivity, however, was not the same as controlling the investment that produced those gains. And in any case, productivity would not continue to grow so rapidly forever. By the late-1960s, what Robert Gordon has called the special century was coming to an end. The class struggle at the heart of the politics of inflation could not be papered over any longer.
THE PERILS POSED by a dependence on productivity growth did not, however, emerge de novo in the 1960s and 1970s. Two additional factors contributing to the decline of Institutional Keynesianism had long existed, both growing out of the historical context surrounding in which it emerged – the transition to corporate capitalism. First was their faith in the productive potential of the industrial economy, one that just about everyone at the turn of the twentieth century shared. Trade unionists and progressive intellectuals early in the twentieth century regularly pointed to the remarkable growth in industrial productivity and demanded that labor’s share of the total income be tied to it, and they had very understandable reasons for doing so. To the eyes of someone familiar with the world that existed before corporate capitalism arrived, the new businesses seemed capable of achieving the infinite. And although Institutional Keynesians did feel that corporate officials’ search for steady profits together with their power over the investment function had the potential to drive this industrial engine into the ground, they were equally firm in their belief that proper state planning in the then existing industrial economy could deliver more and more for all. At the time it could. But the extraordinary industrial expansion that began after the Civil War and lasted for a century would not continue forever. As Robert Gordon has demonstrated, some of its greatest strides were made through one time events, like enormous investment in basic infrastructure, and technological advances like railroads and automobiles do not often come around. By 1970 the special century was ending. And if had been one thing to demand an increasing share of a rapidly growing pie, it would be altogether more difficult to take more of a fixed, or even shrinking, sum.
Related to this was how Institutional Keynesians and most everyone else thought about income itself during the special century. If the distribution of income between capital and labor could be crudely put as that between profits and wages, wages were narrowly understood as those earned by the male head of a nuclear family for the productive labor he performed outside the home. Most women did not receive wages – about of quarter of women were in the paid labor force in the late 1940s – but that of course was not because they were not working. They shouldered the overwhelming burden of reproductive labor without remuneration, and that was more than a social injustice. It had structural consequences. Having never had to pay for so much of the work women did, and therefore having never been forced to account for it, the rate of “labor productivity” always appeared higher than it really was, or should have been. In other words, part of the reason the great boom from 1870 to 1970 looked so good quantitatively is because women got nothing in return for their contribution to it. Had they been compensated, that figure would not have shined so bright. 3

This began to change in the postwar period. Feminist social struggles that linked organically to the labor and civil rights movements along with strong public investment in higher education enabled increasing numbers of women to gain access to the kinds of employment from which they had previously been excluded. The growth of an industry in household appliances, together with rising working-class wages, made it possible for families to purchase things like laundry machines and dishwashers, thus emancipating many women from those old, back-breaking tasks. And a rising, public-private industry of care provision

3 On this point, see Levy, “Stuck in a Gilded Age,” Dissent (Summer 2016).
alleviated some of their affective responsibilities, especially those pertaining to the elderly, while also providing quite a few jobs, albeit not terribly well paying ones.

As more women began to get paid for more of the work they did – if not for all of it, and if not as much as they deserved – the aggregate economic indicators responded accordingly. The crisis of stagflation began just as productivity was slowing down, and we will see the two were not unrelated. Productivity slowed, moreover, just as the presence of women in the formal labor force was started to register. The simplest way to define productivity is the amount of output produced by the amount of labor put in. When half of the population suddenly started getting some compensation for the work they did, the denominator – labor input – could not but rise, and total productivity could not but fall. The gendered division of labor and the explosive growth of industrial capitalism were mutually constitutive, and they began to end together.

This is not to indict Institutional Keynesians as sexists. They functioned within the ideological limits of their times, and indeed they had more progressive gender politics than most. They were heirs to what scholars have called the “maternalist” tradition of progressive reform, and the creation of Aid to Dependent Children (later Aid to Families with Dependent Children), what people meant when they spoke of welfare until Bill Clinton terminated it in 1996, was one legacy of that commitment. ⁴ As several historians have demonstrated, moreover, women as “housewives” and “consumers” organized politically and continued to shape the character of New Deal liberalism during its rise and until its fall. ⁵ And as we will

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see, Institutional Keynesians worked closely with these organizers, and many of these organizers were as well pedigreed Institutional Keynesians as any men. But the presence of women would not on its own dispel the gendered ideology that grew out of corporate capitalism and the family wage system upon which it was built. The task before them had they taken it on would have been immense. It would have involved nothing less than socialization of reproductive labor through public provision of child and elderly care, cooperative housing that facilitated shared work on cooking and cleaning, and the like. The Institutional Keynesians were imaginative, but not that imaginative.

BUT IF INSTITUTIONAL KEYNESIANISM failed, its failure is still instructive. Corporate control over the investment function remains the single most important feature of the modern political economy. Indeed, today that control is more concentrated than ever, resting in a handful of international financial institutions possessing of awesome reach. By subjecting this small number of institutions to public control, as the Institutional Keynesians sought to do in their time, the enormous resources they have heretofore hoarded could conceivably be pumped back into the otherwise sclerotic economy. And perhaps the most important lesson to draw from the Institutional Keynesian experience is for how that process should proceed. True democratic control over the investment function would render the older imperative of productivity growth obsolete; given the ecological challenges facing the planet, there may be no alternative to that. Instead of automobiles and electronics, planners might direct

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investment towards public goods like mass transit and renewable energy, education and care.

No doubt all of this is today far fetched. But I hope that this history of Institutional Keynesianism and inflation can contribute to our thinking about how we might get from here towards there.
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