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THE NEW DEAL AND ITS CURRENT SIGNIFICANCE IN RE NATIONAL ECONOMIC AND SOCIAL POLICY

Leon H. Keyserling*

THE PREVALENT MISTREATMENT OF THE NEW DEAL

The recent celebration of the Franklin D. Roosevelt centenary and the fiftieth anniversary of his coming to the Presidency demonstrate that those who look back at one of the most momentous periods in American history are divided mostly into two camps—those who apotheosize the New Deal and those who excoriate it. But both sides commit the error of looking upon the New Deal as an historic past without treating it as a prelude. Neither side recognizes that the New Deal fundamentally changed the nature of economic and social conditions among the American people, as well as the public policies affecting these conditions. Thus, neither side recognizes that these changes have become a throbbing reality in all that has happened since. In relatively minor details, the New Deal may not be relevant to present problems. But in its broad aspects, it lives on in the thoughts and actions of both those who revere and those who condemn it. National policies since the New Deal have largely been New Deal and anti-New Deal policies, because the problems they focus upon have not changed in their essential nature.

It is therefore high time to substitute objective analyses for emotional proclamations, and to undertake an empirical examination of the significance of the New Deal during its time and during the last half century. This should be beneficial to those who want to carry the New Deal forward in its basic thrust. It should also help to terminate misinterpretations of the New Deal, which have brought a long train of confused and misdirected national economic and social policies, thus imposing terrific costs upon the American economy and people. Such an evaluation of the economic and social effects of New Deal policies and programs, and of departures from them, is in effect a study of the role of government and law in society because, to be meaningful, such an evaluation must evaluate government and law in terms of their purposes and results.

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Instead of systematic undertaking of such an empirical appraisal, the New Deal and all its works have been subjected by many to a veritable farrago of calumny and misinterpretation, partly ignorant and partly deliberate, partly sincere and partly for palpable "political" reasons in an invidious sense. These aberrations from both fact and reason are now being shared far too generously among both political parties, economists and other scholars, and still other makers of public opinion, including the media, which have come to exert an excessive influence upon overall thought and action.

Much of the criticism of the New Deal is filled with inconsistencies. Some say that the New Deal was a substantial failure even in its time, in that a healthy economy was not restored until we became the "arsenal of democracy" in 1939 and then plunged into World War II. Others say that the New Deal was fine in its time, but that changing circumstances have by now rendered it outmoded and irrelevant. Finally, there is a widespread charge that the New Deal and later programs modeled on the New Deal are relevant today only to warn us against a repetition of their errors. This charge does not realistically attribute the excessively low real economic growth and excessively high unemployment, inflation, and federal deficits that have recurrently plagued us to the more proximate national economic and social policies of Richard Nixon, Gerald Ford, Jimmy Carter and Ronald Reagan. Rather, they unrealistically attribute these evils more remotely to what Franklin D. Roosevelt started more than fifty-one years ago, Harry Truman more than thirty-nine years ago, and John F. Kennedy and Lyndon Johnson more than twenty-three years ago. Ironically, these criticisms lead to rejection or modification of policies and programs which were in effect when real economic growth was high, when inflation, unemployment, and deficits were very low, and when the great national priorities were adequately served. Even more ironically, the misplaced criticisms are used to support later policies and programs which have brought forth and then exacerbated the troubles ascribed to New Deal-style programs. To be sure, such programs were not perfect. Policy modifications are required in the course of time. Nevertheless, if they are pragmatically judged, the consistent successes of New Deal-style programs are their own justification and vital guides for the present.

THE NEW DEAL RECORD IN REDUCING UNEMPLOYMENT

Foremost among criticisms is the claim that the New Deal failed in its primary purpose of reducing unemployment and restoring a healthy economy prior to the advent of World War II. This indicates, first of all, a failure to appreciate several barriers to reviving the economy of the

1930's. The unemployment rate was 24.9 percent in 1933.¹ The steel industry was running at 11 percent of capacity. Nowhere in the private sector were the resources and confidence available to commence the recuperative process. Moreover, the concept of the positive economic role of the federal government was only in its infancy. Thus, the economic tools and know-how that we have today were just beginning to emerge.

Despite all these impediments to the New Deal, the rate of unemployment dropped from 24.9 percent in 1933 to about 14 percent in 1937, a reduction of almost 44 percent and a drop in unemployed workers of 5.1 million. The setback during the next two years, beginning with the sharp recession of 1937, was not caused by defects in earlier New Deal policies. It stemmed rather from powerful conservative forces that caused these policies to be modified and cut back. For example, the federal budget was tightened at the expense of unemployment reduction.

Some years ago, *Fortune* magazine contained a long article to the effect that the New Deal did not do better because its programs were defectively small. Indeed, the increased New Deal spending for employment and relief did not compensate for the contraction of outlays at state and local levels. Despite these setbacks, the about 17 percent rate of unemployment in 1939 was almost 32 percent below the 24.9 percent rate in 1933, an absolute reduction of 3.35 million.² This achievement was far greater than those of recent years, and more so when the massive problems of the New Deal era are compared with the smaller problems of recent times, and when the improved economic tools and added experience of recent times are compared with those of the New Deal. Despite

1. The data in this paragraph and the next one are drawn from the voluminous statistical tables in the volumes of the ANNUAL REPORT OF THE COUNCIL OF ECONOMIC ADVISERS, which are transmitted to Congress with the yearly ECONOMIC REPORT OF THE PRESIDENT for the respective years. As no one of these reports covers all previous years, locating the various data cited may require looking at various reports issued in years subsequent to such data. Practically all of the data cited in this article, as well as comprehensive commentary, are contained in the following: Testimony before the Congressional Joint Economic Committee on February 22, 1984; *How to Implement the Full Employment and Balanced Growth Act of 1978: Toward 4 Percent Unemployment, 3 Percent Inflation, and a Balanced Budget by 1987*, 98th Cong., 1st Sess. (Comm. Print 1983) (statement of Leon Keyserling); *Oversight Hearings on Full Employment and Balanced Growth Act: Hearings Before the Subcomm. on Employment Opportunities of the House Comm. on Education and Labor*, 98th Cong., 1st Sess. (1983) (statements and supplemental materials of Leon Keyserling, President, Conference on Economic Progress) [hereinafter referred to as *Oversight Hearings*.] See also Keyserling's book length studies published by the Conference on Economic Progress, especially *HOW TO CUT UNEMPLOYMENT TO 4 PERCENT AND END INFLATION AND DEFICITS BY 1987* (February 1983); *MONEY, CREDIT, AND INTEREST RATES: THEIR GROSS MISMANAGEMENT BY THE FEDERAL RESERVE SYSTEM* (April 1980); and "LIBERAL" AND "CONSERVATIVE" NATIONAL ECONOMIC POLICIES AND THEIR CONSEQUENCES, 1919-1979 (September 1979). These Conference publications may be obtained from 2610 Upton Street N.W., Washington, D.C. 20008.

2. See sources cited *supra* note 1.

these increased capabilities, we have accelerated the *chronic* trend toward rising unemployment during the past decade and a half or longer.

The assertion that the dangers we now confront are much less serious than those we confronted during the New Deal period is false. The unemployment rate among minority teenagers today³ is more than 50 percent *higher* than the overall rate of unemployment in 1933. Given our vastly increased awareness that we now have the power to avoid this horror if only we exert the will, and given the rising tide of popular expectancy which the protracted results of the New Deal helped to create, this crisis in our inner cities poses social, civil, and political trends as menacing as anything during the 1930's. During the New Deal, the victims of hard times gained confidence and hope because national action was tangibly and sizably improving their lot. Today, in contrast, not only do many feel that their government is not helping them, but scores of millions feel that it is not *trying* to help them. Instead, they hear their government telling them that it had been trying to do too much, cannot afford to do more, and must cut back its efforts on their behalf.

THE ENDURING BENEFITS OF THE NEW DEAL REFORMS: HAVE OUR PROBLEMS CHANGED COMPLETELY SINCE THEN?

The current distortion of the New Deal experience stems also from forgetting or undervaluing the New Deal reforms that accompanied the recovery effort. These reforms, such as old age and unemployment insurance, protection of collective bargaining, the Tennessee Valley Authority, minimum wage laws, farm price supports, low-rent housing, bank deposit insurance, rural electrification, and others, burned deep into the hearts and minds of the American people. By building purchasing power, these reforms have prevented economic downturns from ever approximating the magnitude and severity of those that occurred during the Great Depression and even during the periodic depressions preceding it. The liberal or New Deal reforms substituted hope for despair and service for neglect. We now need to expand and improve upon these reforms, not to disparage their present significance and reduce their present scope and effectiveness.

Still another criticism of the New Deal is that, whatever its merits in its time, conditions have now changed, so that economic and social liberalism is now outmoded and *passé*. The government, moreover, is said to have become too big and powerful. Thus, the American people have been

3. See *Oversight Hearings*, *supra* note 1, at 12.

beguiled into becoming wary of economic and social democracy in its earlier manifestations. Accordingly, adherents of this position wish to clip the wings of the government and move it in the direction of benign impotence. A large part of this position is a carryover from sentiments fomented by Vietnam and Watergate. This position is tantamount to the claim that if a bank president embezzles funds, we should not only fire the individual, but also hire a weak bank president and turn the direct management of the bank over to the depositors.

Recent national policies have fallen short, not because they have become too powerful, but rather because they have tended to be vacillating and inconsistent. Recent policies have been ineffective because they have used power to confer benefits upon the wrong recipients. Fiscal, monetary, and other important national policies have been neither too strong nor too weak per se. Instead, they have simply moved wrongly on both economic and social grounds. In general, they have failed to recognize the very hallmark of the New Deal: that the ultimate responsibility of government is not to help some too much, but to help those first who need help most.

Leaders who have adopted the New Deal approach have not promised too much nor beguiled the people into “dreaming the impossible dream.” No top national political leadership within this century has promised too much in any vital respect. The trouble is not that we have promised too much in terms of our needs and potentials, but that we have promised too little. Moreover, we have frequently reduced even these promises, and then done a poor job in executing what has been promised.

THE ESSENTIAL NEW DEAL VALUES

The supreme New Deal lesson for today is that the well-being of human beings is what our economy is all about. Even from the strictly economic point of view, human beings at work are worth more than human beings denied the opportunity to work. Similarly, plants in full operation are worth more than plants operating far below capacity. Although goods and services can be distributed unwisely or unfairly, we can distribute only what we have. In consequence, the first tasks of national economic and social policy are to promote the full expansion of employment and production and then to promote their sound distribution. These goals are the *sine qua non* for all else that we do. They are not only conducive to reducing poverty and deprivation and to enlarging social justice; they are also the means to fuller and safer prosperity for all. These goals have not, however, been vigorously and consistently pursued. Instead, they have frequently been abandoned or toned down, in order to meet secondary

goals such as avoiding inflation, protecting the dollar, balancing the budget, or restoring public confidence. This process, however, confuses means with ends, the secondary with the primary. Further, even these secondary objectives cannot be achieved and maintained without a reasonably full economy. Finally, the *obsessionary* rather than the balanced pursuit of these secondary objectives prevents achievement and maintenance of a reasonably full economy.

Another essential New Deal value was confidence. The New Deal leadership instilled confidence and support in the people because it had confidence in itself. It always accented what we can and must *do*, not what we cannot afford and must do without. In the darkest days of our worst domestic calamity, the greatest words of F.D.R. were not that "the only thing we have to fear is fear itself."⁴ His greatest words were "[w]e are stricken by no plague of locusts."⁵ Even more so today, there is no plague of locusts. There is only the self-inflicted plague of underestimating our own capabilities to reduce social ills. While today's leadership has made a laudable attempt to win business confidence, this is not enough. Our leadership must also regain its confidence in itself, in the American economy, and in the about 113 million people in our civilian labor force. These people, whether now employed or not, are able and willing to help make the economy *go*.

THE FEDERAL GOVERNMENT, THE STATES AND LOCALITIES, AND THE PEOPLE

Many now claim that more of the functions of the federal government should devolve upon the states and localities. Other functions should devolve directly upon the American people at large, in a sort of "do-it-yourself" program. Admittedly, there is some need for innovation in these directions. But common sense and empirical observation make it clear that our federal government will need to assume increasing net responsibilities if we are to meet critical *nationwide* troubles that call for coordinated nationwide remedies. The federal government should, of course, deploy its resources more judiciously than it has in the past. Federal leadership, however, is still necessary.

The following analogies show how the "do it yourself" position is no more tenable today than it was at the start of the New Deal. In 1933, what success would Roosevelt have had if he had sent emissaries to the bread-

4. Franklin D. Roosevelt, Inaugural Address (March 4, 1933), *reprinted in* INAUGURAL ADDRESSES OF THE PRESIDENTS OF THE UNITED STATES FROM GEORGE WASHINGTON 1789 TO LYNDON BAINES JOHNSON 1965, 235, 235 (1965).

5. *Id.* at 236.

lines and apple sellers and asked *them* what to do about it all? Today, what answers can the unemployed black teenagers give, or for that matter the vast number of unemployed white adults? The real function of national leadership in the Congress, the White House, and elsewhere is to initiate and develop viable and progressive economic and social policies, and then persuade the people to support them. That is what F.D.R. meant in his last written words: "Let us move forward with strong and active faith."⁶

IMPORTANCE OF IMPROVED INCOME DISTRIBUTION: WATERING THE ECONOMIC TREE AT THE BOTTOM, NOT THE TOP

The New Deal always recognized that a more equitable distribution of income and opportunities, not to be confused with socialism or a drab egalitarianism which militates against incentives, is indispensable to the improved functioning of the entire economy. A long list of New Deal programs and policies were directed toward, and substantially accomplished, improved distribution of income and opportunity. These included spending and tax policies in general, the early public employment and relief acts, the wage and working condition provisions of the National Industrial Recovery Act, and minimum wage legislation. Other measures include the huge reduction in interest rates and the cost of credit, the early housing reforms, the farm price supports, the original Social Security Act, the Tennessee Valley Authority Act, labor legislation protecting collective bargaining including section 7(a) of the N.I.R.A. and the Wagner Act, and the early banking and security exchange reforms. As a consequence of these reforms, the economy to date has performed better than before the New Deal. While there have been recessions since the New Deal, none has reached the magnitude of those that occurred periodically during and even prior to the Great Depression. Post-New Deal recessions have been caused by inadequate maintenance and strengthening of New Deal protective devices. They have not been caused by the redistributive policies of the New Deal.

When the New Dealers talked about "watering the economic tree at the bottom rather than at the top," they were articulating the most profound truth about the nature of the modern American economy. When F.D.R. once talked about the "silly old dollar sign,"⁷ he was not disparaging the

6. THE PUBLIC PAPERS AND ADDRESSES OF FRANKLIN D. ROOSEVELT, 616 (S. Rosenman ed. 1950).

7. This phrase was used several times by F.D.R. in fireside chats and other speeches in the years 1933-34, in defending public outlays to put people to work.

dollar, nor failing to recognize the need for its protection. Instead, he was merely bringing home to the people that the dollar is but a medium of exchange, that it can be managed in various ways, and that the soundest management of the dollar or the federal budget is that which does most to facilitate optimum growth of production, employment, living standards, and social justice. The New Deal rejected the artificial dichotomy between economic advance and social justice; it knew that these are mutual objectives, with each fortifying the other. Specific fiscal and monetary policies were generally attuned to these purposes.

Recent policies have often taken another road. The incomplete application and, in some instances, direct violation of the New Deal approach are by far the most important explanations of why we are falling so far short of our best. Such policies include the regressive composition of recent tax programs and current tax proposals. Other examples are the excessively tight money and exorbitantly high interest rates engineered mainly by the Federal Reserve. These policies distributing income upward have been followed during both Democratic and Republican administrations—under both William McChesney Martin and Arthur F. Burns and now under Paul Volcker. Further examples of regressive policies include the excessive commitment to reducing taxes at the expense of increasing public investment to serve vital national needs, and the futile attempt to balance the federal budget at the expense of the national economy. All are examples of policies that have been consistently hurtful and truly antithetical to the applied philosophy of the New Deal.

SHORTCOMINGS OF THE NEW DEAL WITH RESPECT TO PLANNING

We have failed to learn sufficiently, not only from the worthy and successful elements in the New Deal, but also from its most important shortcoming. The New Deal had many good policies and programs, but it never fused these into a consistent and comprehensive overall policy and program. Some of the programs and policies conflicted and many of them were excessively ad hoc and improvised. These shortcomings cost us dearly during the New Deal; more recently, they cost even more. The New Deal, however, had unity and consistency in its ultimate objectives, which were based fundamentally on human values. Today, because our leaders have shortchanged these values and have experienced a growing aversion to planning, our programs and policies lack this fundamental unity.

So let us not today attempt to preserve the New Deal in the fading embers of our reminiscences. Let us instead learn from the New Deal

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example, its successes and shortcomings, and use our growing resources to achieve even greater material progress and a deeper sense of social responsibility.

DIFFERENCES BETWEEN “LIBERAL,” OR NEW DEAL, AND “CONSERVATIVE” POLICIES

In order to appraise the meaning and lessons of the New Deal when considering later economic and social policies and results to date, it is very helpful to use the terms liberal and conservative to describe two fundamentally competing approaches to national policies. The utility of this terminology is not reduced because the two words have different connotations to different people, nor because both Republicans and Democrats have employed elements from each approach. The two approaches are widely apart in their practical application.

DIFFERENT POSITIONS REGARDING FULL PRODUCTION, EMPLOYMENT AND NEEDED ECONOMIC GROWTH

The liberal position is that the foremost priority of national economic policies is to promote, within a free and flexible economic and political system, sustained full production through full use of available capabilities. This requires a rate of real economic growth that makes full use of a growing civilian labor force, gives impetus and incentives to a high growth rate in productivity or output per hour worked, spurs and provides adequate funds for expansion of private capital investment in the production base, and draws fully upon advances in technology, labor skills, business aptitudes, and both private and public economic policy “know-how.”

Beginning in 1953, and especially since 1969, frequent departures from full use of our capabilities have inflicted far greater economic and social damage than any other trends in the economy. The real strength and progress of the economy is measured and supported by real increases in the output and distribution of goods and services and, above all, by gains in living standards per capita. This was once an accepted axiom of economics, but it has tended to become forgotten or neglected. As a result, many fail to appreciate the extent of our economic and social default.

Some barriers stand in the way of liberal goals. It is true that portions of what we produce are at times used very unwisely. This calls, however, for changes in the *structure* of output, not for economic slowdowns and recessions. It is also true that we have shortages of some resources. The

meaningful remedy, however, is to overcome these as rapidly as we can. In the meantime, we should promote shifts in resource use that maintain a reasonably full economy, even while conserving scant resources like energy until these can be enlarged. We now have no shortages or other handicaps that necessitate economic stagnation or recession, or that preclude policies and programs designed to restore a full economy. Instead, some of the most serious and inflationary shortages are due to national policies based upon the philosophy of scarcity rather than abundance. Accordingly, barriers to liberal goals can be surmounted.

The conservative position might in principle agree with most of what has just been said. But in actual practice, conservative policies of excessive restraint have repeatedly sacrificed real economic growth, full employment and production, national priorities, and social justice. This has brought on repeated periods of stagnation and recession, contrived in pursuit of other objectives like restraint of inflation. These other objectives, even if attained, are of relatively less value than a fully used economy. But one need not belabor this point. Prolonged restraint of inflation has proved to be utterly unattainable without making a fully performing economy the top priority. The attempted "trade-off" between unemployment and inflation has been a monumental failure; it has enormously aggravated chronic inflation.

AVOIDANCE OF RECESSIONS ALONE IS NOT NEARLY GOOD ENOUGH

The conservative thought and action, today as earlier, is that it is reassuring to assert or to speculate that any current recession will be short and not severe. Thus, any sort of upturn, such as the current one, is cause for optimism, however inadequate the upturn may be. Accordingly, the conservative then continues noncorrective national policies and programs. This is a very hazardous road. It is not good enough that the American economy stop moving downward, any more than it is good enough for a student to be demoted from the sixth grade to the fifth, stay two years in the fifth grade, and then finally be promoted back to the sixth grade. It is not good enough for a tree to grow two or three feet during a period when it should have grown five. It is not good enough to become resigned to economic problems and to let nature take its course. Experience should teach us that things do not straighten themselves out "automatically." But conservative policies do not take account of this lesson—hence the extremely costly roller coaster economic performance.

The liberal position has always been that the economy is not doing well enough unless it is coming close to doing its best without forced strains.

Moreover, we can least afford to sacrifice deliberately the incalculable economic and related social gains that accrue under a fully producing economy. This position has not been confined to pleasing words; it has been translated into deeds during many periods when liberal or New Deal-style national policies were ascendant. The Employment Act of 1946,⁸ for example, said nothing about avoiding recessions. Rather, it mandated efforts to promote “maximum employment, production, and purchasing power.”⁹ When in power, liberals carried out this mandate fairly well. The Humphrey-Hawkins Act of 1978,¹⁰ based upon thirty-two years of additional experience, adopted this approach and extended it. Conservatives in power, however, have ignored this law in its entirety.

DIFFERENCES IN ATTITUDES TOWARD THE BUSINESS CYCLE

Liberals and conservatives also differ in their attitudes toward the business cycle. Liberals dislike the notion of a business cycle. They believe experience has proven that we can maintain a fairly stable rate of real economic growth when we make reasonably full use of our growing capabilities. Thus, we can and must avoid periods of economic stagnation and recession, which have occurred all too frequently. At the very least, we should act promptly to remedy such recessions when they become manifest, and before they become lengthy and very hurtful.

Conservatives, by contrast, seem to accept or even give impetus to the business cycle. They believe that the business cycle may have “curative” or “purgative” effects, and that economic downturns will help to reduce inflation. These curative effects have not been accomplished. Economic downturns, moreover, have not reduced inflation. Acting on these repeatedly disproved assumptions, conservatives have deliberately employed policies conducive to serious economic downturns, despite the economic and human costs. The analyses of various periods which will follow are illustrative.

DIFFERENCES IN ATTITUDES TOWARD THE GREAT PRIORITIES OF OUR NATIONAL NEEDS

The liberal or New Deal position is that economic progress must be combined with devotion of enough of our total output of goods and ser-

8. Ch. 33, 60 Stat. 23 (codified as amended at 15 U.S.C. §§ 1021–1024 (1982)).

9. *Id.* at 23.

10. Pub. L. No. 95-523, 92 Stat. 1887 (codified in scattered sections of 12 and 15 U.S.C. (1982)).

vices to take care of the nation's great economic and social needs. These great priorities are set forth in the Humphrey-Hawkins Act. These priorities are numerous. Adequate health services and decent housing should be available to all Americans at costs within their means. Adequate educational opportunity should be available to all in accord with their abilities and aspirations. Our deteriorating urban areas must be rescued and renewed. Reasonable parity of income and public services must be restored to those in rural areas, especially the farm population. The environment should be cleansed and maintained. Mass transportation must be improved. Poverty and deprivation must be not only reduced but liquidated within a decade at most. Satisfactory standards of living should be provided to senior citizens and those who cannot obtain enough work at adequate pay or have some disability for which they are not responsible. Workers should earn standards of pay which are in accord with their capabilities. Gross disparities in income, job opportunities, and living standards based upon color, sex, or age should be eradicated. An adequate national defense must be provided. Finally, the United States should bear its fair share, with other free nations, in helping to overcome starvation, disease, ignorance, and economic underdevelopment in other parts of the world. Though this list is a long one, the American people subscribe wholeheartedly to these objectives. They need to be fully informed by our leadership that we have the economic capacity and organizational skill to achieve all of them within a decade or less, if only we have the moral commitment to do so.

Neglect of these great national objectives is a core characteristic of the conservative position and practice. This neglect has been based upon the false idea that stunted production and employment make us "unable to afford" these objectives. How can we be more able to afford them, when vast unused human and other resources are pleading to be used?

DIFFERENT ATTITUDES TOWARD ECONOMIC JUSTICE

Conservatives and liberals differ widely in the degree to which they pursue economic justice, in practice if not in words. The enlargement of economic justice has always been and still is one of the great purposes of the American society. Perfect justice is unattainable, and cannot even be defined. But rank injustice is easy to define and easy to observe, and it is all around us. Failing to give sufficient attention to economic justice is not only a social and moral error, it is an economic error as well. There is no way to avoid massive idleness of workers and other production resources so long as scores of millions of Americans are not brought up to much higher standards of living. Unlike liberals, conservatives have all too often made this mistake.

DIFFERING ATTITUDES TOWARD INCOME DISTRIBUTION AND ECONOMIC BALANCE: SHOULD THE ECONOMIC TREE BE WATERED AT THE BOTTOM OR THE TOP?

A comparison of attitudes toward income distribution and economic balance is also instructive. The liberal position is that full production and full employment depend primarily upon maintaining economic balance between the real growth rate in private investment, which enlarges the production base, and the real growth rate in ultimate demand, which is represented by private consumer spending and public outlays by federal, state, and local governments. This means really a balance between investment and consumption, for even the portion of ultimate demands represented by public outlays is predominantly public consumption (although frequently called investment) because it takes the form of adding to consumer goods and services rather than financing plants and other production facilities. And because the pattern of distribution through both private action and public spending and taxation largely determines the balance between investment and consumption, it follows that the distribution of income is central to the whole problem of economic balance. The distribution of total consumer income is also vital to balance, because those with lower incomes consume a larger percentage of their incomes than those with higher incomes.

The liberal position in practice has been and still is that investment and consumption should both be treated in a manner designed to induce *balance* between the two. But the record over the decades reveals a chronic although not constant tendency for investment in the expansion of production to outrun private and public consumption during non-recessionary periods. This has been the central cause of recessions and depressions. Practically all national policies and programs substantially affect the balance between investment and consumption through their influence upon the distribution of income. Thus, liberals believe that the usual task of these national policies is to promote a more viable distribution of income between producers and consumers and also a more progressive distribution of income among consumers. Because public outlays are for goods and services which are also used by consumers, public outlays are an integral part of a satisfactory consumption-investment relationship. Thus, liberals believe that policies should be designed to maintain adequate levels of public outlays, which should increase in aid of real economic growth and social justice.

This does not mean that liberals favor attempts to equalize or nearly equalize the distribution of income. As has been stated, liberals do not favor socialism's drab egalitarianism, which would militate against

necessary incentives. Liberals favor unequal rewards, based upon unequal abilities and unequal service to the economy and the people. But liberals, now as during the New Deal, do believe that national policies and programs must help effect economic balance in income distribution.

Liberal policies intended to achieve economic balance in income distribution are embodied in a central axiom: the most help should be extended to those who need help most, and excessive help should not be extended to those who need help least. This applies not only to the balance between investment and consumption, but also to the distribution of before-tax and after-tax income among consumers. For almost half a century, this approach has been known as "watering the economic tree at the bottom rather than at the top." The term describing this approach recognizes that the chronic economic liability in the United States economy has been absolute and relative underconsumption. And liberal or New Deal-style national economic policies have clearly adopted this approach.

The conservative position is entirely at variance. There is not much talk about income distribution among conservatives, because those distributing income upward regard this as an unpleasant or controversial subject. Yet it is the core issue of national economic policy because almost all economic programs affect income distribution, which in turn affects economic performance.

Conservative policies favor watering the economic tree at the top rather than at the bottom. This decision is especially prevalent in the most important fields of economic policy: public spending, taxation, monetary policy, and wage-price policies, whether under guidelines or under direct controls. This decision has resulted in neglect of both economic justice and economic performance, and has aggravated chronic imbalances in the economy. Current national policies continue to move very strongly in this direction, and additional public policies now under consideration are moving even more strongly in the same direction.

For example, top official spokesmen now insist that one of our main economic troubles has resulted from an excessive accent in national policy upon stimulating consumption. Accordingly, they believe this calls for a turn-about toward more accent upon public aid to the private investment function. To claim that this conservative position is a new departure is ironic, because the pronounced bias toward investment has marked national policies for many years. To continue these policies under existing circumstances would aggravate current imbalances and the roller coaster performance of stagnation, recession, and inadequate recoveries.

BROAD IMPLICATIONS OF THESE DIFFERENCES

The liberal or New Deal position has always held that reasonably full use of our growing economic capabilities is our first economic and social priority and that “the well-being of the people is the supreme law.” More than this, liberals believe that sound economic policy is impossible, even in a narrow sense, without full attention to social priorities and economic justice.

The conservative position, on the other hand, has always held that sustained full resource use is to be sacrificed repeatedly. They believe that full economic progress can be achieved without full attention to priorities and justice, which they view as expendable or postponable objectives. This position has turned out to be a dismal failure in practice. And even if full resource use were to be attained, without attention to social priorities and economic justice we would become a land where wealth accumulates and people decay; we would observe neither the “public welfare” provision of the Constitution of the United States nor the deepest sentiments and needs of the American people. And even if—contrary to fact—less economic progress were required to enlarge justice, we are a rich and decent enough people to make this choice.

DIFFERENCES AS TO SPECIFIC NATIONAL POLICIES: THE FEDERAL BUDGET IN ITS SPENDING AND TAX ASPECTS

The differences between liberal and conservative groups are illustrated by their different economic and related social policies. The federal budget is a good example, as it is the prime instrument of national economic policy. The liberal position is that balancing the budget should be subordinated to balancing the national economy in a manner compatible with growth, priorities, and justice. Liberals also believe that this is the only practical way to balance the budget, because rising economic activity and income will cause public revenues to rise even faster.

The conservative position, by contrast, has led to repeated attempts to balance the budget, at the expense of the economy and the people. This, in fact, has produced increasing federal deficits because the blood of adequate revenues cannot be squeezed from the turnip of a repressed and stunted economy.

The difference between the two positions is also illustrated by their views and practices regarding the relative roles of federal spending or investment and changes in rates of taxation. The liberal position is not to reduce public spending or investment when the economy is deemed to be advancing too rapidly and thus generating classic or supply-demand

inflation. A policy favoring reduction embodies the mistaken idea that public spending or investment should at times be slashed rather than expanded despite growing needs and capabilities. To the contrary, a growing population and an expanding economy depend upon and need growing public investment. The proper solution to an "overheated" economy is to increase taxes, in a manner designed to reduce spending for luxurious or deferrable items by those who have more than they need to remain comfortable.

For these same reasons, liberals believe that when the economy is moving too slowly, public spending or investment should not be held back nor priorities sacrificed on the ground that we "cannot afford more." This "cannot afford" idea is a very harmful course when there are vast unused human and other resources available. Whatever a nation is able to do and needs to do economically, it can and should find the ways to undertake financially. Financial capabilities are created by financial policies, which are not limited in the same manner as the supply of steel or workers. This approach has clearly been demonstrated to be the best financial course, and the best for the federal budget, in the long run.

When liberal or New Deal-style national policies have been applied, they have proved that increased public spending or investment for high priority needs are, dollar for dollar, a much less expensive means of stimulating production and providing jobs than tax reductions. Tax reductions are a far less efficient means of stimulating production because taxpayers use their tax "savings" for a variety of purposes, which often do not stimulate production or provide jobs. For example, portions of tax reductions are saved rather than spent, intensifying the imbalances between investment and consumption. Other portions are invested abroad, increasing our balance of payments difficulties, and used to push up the stock market excessively. Still other portions are spent upon relatively less important purposes. Liberals therefore tend to attach a relatively low value to tax reductions, especially of the headlong-variety so recently in vogue.

The conservative policy has other related defects. Conservatives have consistently short-changed public investment in programs intended to meet urgent national needs, even when vast idle resources make it easier to expand such investment. Meanwhile, conservatives have repeatedly used tax reductions in the name of economic stimulation, and as an almost magical solution for almost every economic problem. This error has been compounded, almost without exception, during the past fifteen years or longer.

An egregious example of conservative policy is the tax reduction effort in early 1981. While this effort was intended to stimulate private investments, its results were very disappointing. Much of the 1981 tax

reduction was grossly misdirected. Bonanzas have gone to those who need help least. Regressive tax increases have hurt those who need help most, including, for example, recipients of social insurance benefits. By distributing income upwardly, recent tax reductions have increased the imbalances in the economy, and have thereby worked against growth, priorities, and justice. Recent tax reductions have accordingly worked against balancing the federal budget. For all of these reasons, tax reductions have contributed greatly to chronic inflation. None of this is negated by the economic upturn of 1983–84, the main elements in which have been due to factors other than the measures to which the upturn is ascribed; for example, the huge federal deficit has been very stimulative and the efforts to reduce it by measures which slow down the economy rather than by reversing the current economic slowdown are misplaced. Thus, the measures for which improper credit have been claimed have worked against full recovery and are likely to perpetuate the roller-coaster economic performance and lead into still another recession.

All this does not mean that liberal national policy makers are opposed to carefully selective tax reductions. When in charge of national policies, liberals have resorted on occasion to large personal tax reduction programs, but on a progressive rather than a regressive basis. They have also resorted to tax concessions to certain business investors, when the nation has needed an expansion of certain types of production, and when genuine inadequacy of capital funds has stood in the way of such expansion. The author of this article has on numerous occasions advocated selective and discriminating tax concessions to investors, and, on other occasions, he has favored a larger rate of expansion of investment than of consumption. But unlike conservative policy makers, liberals have recognized that relatively lagging investment has usually been due, not to inadequacy of capital funds, but rather to deficient consumer incomes and spending, plus deficient public demand for goods and services; consequently, liberals have not granted huge tax reductions to investors.

Further, liberals have recognized that widely dispersed tax reductions are not the main road toward improving our schools or health services or housing, rescuing our urban areas, clearing our polluted waterways, or stamping out poverty and other forms of human suffering. These and many other national priorities require large increases in public spending or investment, whether directly by the federal government, or indirectly through federal funding for private, state, and local endeavors.

DIFFERENCES IN ATTITUDES TOWARD THE MONETARY POLICIES OF THE FEDERAL RESERVE BOARD AND SYSTEM

The varying monetary policies of the Federal Reserve Board and System provide still another illustration of the profound difference between the two approaches. The liberal position in practice has usually been that the money supply should grow enough in real terms to help achieve and then maintain the full use of our resources. For the same reasons, interest rates should be held reasonably low. Liberal practice has followed this position. New Deal liberals brought interest rates down to very low levels in 1933, and liberals held them down until circa 1952–53. This was greatly beneficial to producers and consumers alike.

Reasonably low interest rates are beneficial for many reasons. They stimulate economic activity. They make it less costly for the federal government and the states and localities to meet priority needs insofar as these are financed by borrowing. Low interest rates help all businesses, especially small businesses, and lighten the debt burden upon consumers. They also advance justice, because low interest rates avoid the problems associated with rising interest rates, which regressively transfer scores of billions of dollars annually from those lower down in the income structure to those higher up.

The conservative position in practice has favored policies of “tight” money and fantastically rising interest rates. These policies have prevailed in the Federal Reserve for more than three decades, and have been especially dominant during recent years. These policies have spawned a number of injuries. They have been a main cause of stagnation and recessions. They have been unusually harmful to home builders, owners, and renters. They have also been very harmful to the auto industry and consequently to the steel industry, and to utilities and small business. Tight money supplies have played havoc with farmers, who are unusually dependent upon credit. The same policies have made it much harder for at least half of all consumers to make ends meet, contributed mightily to the financial “crisis” in many large cities, and have furthered neglect of the great national priorities. They have also been a major factor in inflation, because the rising cost of money affects the entire economy. In all these ways, tight money supplies have been used as an engine to redistribute income in the wrong directions.

DIFFERENCES REGARDING TREATMENT OF INFLATION

The liberal treatment of inflation has always recognized the undesirability of sharply rising prices and has dealt effectively with this phenome-

non. But the liberal remedies for inflation have never included the now discredited trade-off of increased unemployment for lower inflation. In pursuit of this trade-off, conservatives have deliberately contrived slowdowns in the rate of real economic growth, which has led to repeated recessions, reduced production, rising unemployment, neglect of the great national needs, and shrinkage of social justice.

The liberal position has always rejected this “trade-off” because the economic and social costs would be far too high even if they resulted in a marginal reduction in the rate of inflation—which has not been the case in the long run. To the contrary, protracted empirical evidence about the performance of the United States economy makes it crystal clear that the “trade-off” increases rather than decreases chronic inflation, a point demonstrated empirically in this article’s discussion of various periods beginning with 1947–53. Further, the “trade-off” burdens millions of the unemployed and their dependents and the underprivileged or dispossessed, while providing the more fortunate with supposed protection from increases in the prices they pay. This is not merely immoral; it is a public crime.

The liberal position today, like the New Deal in its day, recognizes that low prices, like high wages and high profits, *are not ends in themselves*. Rather, prices, wages, and profits are the means to allocate resources and to distribute income in a manner conducive to the most important purposes of our economic system: growth, full resource use, meeting national needs, and justice. The historical record proves that these great purposes may be advanced whether prices are falling, stable, or rising. This depends upon whether prices and other economic adjustments, like the cost of living adjustment, result in balanced rather than distorted relationships in resource use and income flows. Neither stable nor declining prices automatically prevent the distortions or imbalances which defeat these purposes. Nor do rising prices automatically defeat them. Whether these purposes will be achieved depends upon the entire range of economic policies, both private and public which, like prices, serve to allocate resources and incomes. Thus, to treat price trends themselves as the dominant preoccupation of national economic policy is to forget that price trends do not exist in a vacuum.

Economic history proves that the conservative preoccupation with prices is self-defeating. Prices from 1922 through 1929, with the exception of falling farm prices, were remarkably stable. During the same period productivity gains were used to enrich investors rather than to help wage earners and other consumers. This misallocation was the central cause of the Great Depression, as shown in the great books by Paul H.

Douglas and John Kenneth Galbraith.¹¹ The unparalleled stock market “boom” of the late 1920’s was evidence of this maladjustment of income flows. Investors poured so much into the stock market because the funds available for actual investment grossly exceeded investment opportunity, which was cramped by consumption deficiencies. The great stock market boom of 1983 has caused similar misallocation, though it too has been widely misconstrued.

Liberal national policies have not, however, been “soft” on inflation. This article reveals the vivid contrast during most years between the low average rates of inflation during periods of liberal economic policies and the high rates of inflation during periods of conservative economic policies. But liberals do object to making inflation the dominant preoccupation or “top priority” of national policy. They object to this because it substitutes illegitimate fear for legitimate concern; serves as an excuse for inattention to growth, priorities, and justice; and, as most obsessions do, works against even its avowed purpose.

The conservative position, in contrast, repeatedly makes use of concern about inflation to restrain economic growth, multiply unused resources, neglect national needs, and adopt regressive measures which redistribute income upwards. Recent budgetary and monetary policies are the best examples of this. When liberal economists demonstrate again and again that such policies increase inflation, conservatives usually answer that the medicine which has made the patient worse will make the patient well if tried long enough. This medicine, however, has been prescribed for several decades. That is long enough, because dismal failures continued to result.

DIFFERENT ATTITUDES TOWARD THE ROLE OF GOVERNMENT, ESPECIALLY THE FEDERAL GOVERNMENT

The differences between liberals and conservatives are also illustrated by their attitudes toward the role of government, especially the federal government. The liberal position has always been against encroachments of government upon the constitutional rights of the people. And the liberal stance has not favored the super-state; it has favored a largely private enterprise economy. Accordingly liberals, in devising national policies to stimulate the economy and increase employment, have usually put the expansion of the private sector first.

But the liberal or New Deal position has always agreed with the great Justice Holmes’ proposition that “a constitution is not intended to

11. P. DOUGLAS, *CONTROLLING DEPRESSIONS* (1935); J.K. GALBRAITH, *THE GREAT CRASH 1929* (3d ed. 1972).

embody a particular economic theory, whether of paternalism and the organic relation of the citizen to the State or of *laissez faire*.”¹² In other words, liberals have never forgotten Abraham Lincoln’s view that it is the role of government to do for the people what they need to have done and cannot do for themselves or cannot do as well individually. Conservatives might argue that Lincoln did not envision the degree of government intervention which occurred with the advent of the New Deal. Liberals, however, have recognized that since the 1930’s, the relationship between responsible free enterprise and responsible free government could not be the same as when Lincoln spoke. Mistakes have been made, as with any affirmative and enterprising course of action. But viewed at large, the practical application of “liberalism” during many years was accompanied by far greater economic, social, and civil gains than have been registered within a similar span of years by any other people in history, and with relatively little bloodshed and civil turmoil.

The conservative position would have one believe that the activities of the federal government should be described in scornful terms, and that vast nationwide problems should in large measure be acted upon separately by the states and localities and by more than 225 million Americans. Increases in domestic federal spending or investment are presumed to be bad without regard to their purposes and results. Increases in private spending are presumed to be preferred without much regard for their intent and results. Similarly, conservatives hold that the federal debt is an evil, especially when enlarged in ratio to the size of the economy even when such enlargements have been moderate, and beyond this when no such enlargement has occurred. On the other hand, conservatives hold that private borrowing is a healthy thing, even when it forces scores of millions of families to incur more debt than they can afford, and even when they have been driven to borrow because their incomes are inadequate. Conservatives also blame the federal government almost exclusively for roaring inflation, while conservative policymakers ignore or even at times abet price malpractices among monopolistic or quasimonopolistic pricemakers. Many years ago, most economists recognized that a primary cause of inflation was found in “administered prices” (that is, “imperfect competition”) rather than in “perfect competition” under the laws of supply and demand as set forth by the early classical economists. But many have recently lost sight of this valid proposition, although inadequate market demand continues to aggravate “administered” price increases to compensate for reduced volume.

In all aspects, the now prevalent conservative policies accomplish just

12. *Lochner v. New York*, 198 U.S. 45, 74 (1905) (Holmes, J., dissenting).

the opposite of their avowed intent. These policies multiply the costs of government and swell public deficits because of their adverse impact upon trends in the sources of revenue. In addition, they use the crusade against government as a smokescreen in order to exert government powers to feed the fat and starve the lean.

DIFFERENCES IN ATTITUDES TOWARD OPERATION OF THE MARKETPLACE, AND THE ISSUE OF ECONOMY IN THE GOVERNMENT AND ELSEWHERE

Liberal and conservative positions regarding the extent of the government's role in the economy are influenced by widely differing attitudes regarding the efficacy of the private marketplace. The liberal position respects the marketplace, and looks to private decisions for the major role in economic performance. With rare exception, liberals are distinguished neither by insistence upon public intrusion in private decisionmaking nor by any yearning to substitute public ownership in the private sector.

Like conservatives, liberals believe that private enterprise plays a vital role in the economy. Thus, liberals believe that private enterprise should produce the preponderance of goods and services, enlarge their sales, reduce the real costs of production, and seek fair and growing profits in an expanding economy by setting prices compatible with these objectives. By fulfilling these responsibilities, private enterprise can contribute mightily to the general progress and well-being. Liberals also believe, however, that it is unwarranted and even unfair to impose upon private economic ventures the major responsibility for vindicating more and more aspects of the public interest. If these private entities were to perform better their own functions instead of generating difficulties by not doing so, there would be less need for expansion of the government's role.

There are vitally needed goods and services which only government can provide. There are also vigilant protections of the public interest which only government can assert, including regulation and oversight of private actions. During the past half century and longer, our worst economic and social disasters have resulted from errors of commission by the private economy in doing what it ought not to do, compounded by errors of omission by government in not assuming responsibilities which it ought to fulfill. This is still the situation today. Conservatives charge that the federal government is now too strong. In response, liberals should enlarge recognition that the government has been and still is too weak and timid in exercising the powers required to promote the general economic health and help those who need help most. The American people repeatedly indicate that they want and need economic health and equity, but they are today grossly and deliberately misled as to how to get them.

The New Deal and its Current Significance

Actually, the conservative position has been and still is that the marketplace, if only left alone by the government, can and will provide good solutions to most of our most vexatious problems. Conservatives urge that mismanagement of public affairs or excesses in their application have been the central cause of tremendous nonutilization of the nation's plants and workers. This, as both experience and reason indicate, is simply incorrect.

Clearly, there is need for true economy in government, and for reduction or abandonment of unnecessary activities which were erroneously commenced or have outlived their usefulness. But conservatives have failed to distinguish between what government ought to do more efficiently and what it ought not to do at all. The appropriate role of government will probably need to be gradually enlarged in some important respects.

Vast inefficiencies in the private sector must also be corrected. For example, the economy and the public should not be forced to bear the costs of automobile recalls for dangerous defects, which at times involve millions of cars in one year. Furthermore, true national efficiency and worth should not be measured by the purely technical efficiency in terms of productivity or output per man hour. Instead, efficiency should be measured by the value to the economy and the people of the goods and services produced. Cigarette factories may have a higher rate of productivity growth than health services, but this does not make them more useful. Accordingly, there is considerable need to shift resources from purely private endeavors to either public endeavors or endeavors involving more interaction between the public and private sectors. In short, the utility of the marketplace should be valued and encouraged, but it should not be worshipped to a degree which overlooks the inescapable role of government in economic life.

The need for economy in the federal government is still an important issue. It is also one which distinguishes liberals from conservatives. Most government waste comes from continuing government functions which have outlived their usefulness; duplication and cross-purposes; doing in five places what should be done in one; indecisiveness and false starts; and the absence of a coherent and comprehensive long-range plan for what the government itself does. Conservatives believe that such inefficiency can ultimately be eliminated only by transferring many activities from the public sector to the marketplace. Liberals, on the other hand, believe that many of these government activities are not only necessary to the nation's health, but are also activities which only government can perform. Accordingly, liberals recommend that government waste be eliminated by reevaluating existing policies and programs, and by developing

new policies and programs more consistent with overall objectives. The Humphrey-Hawkins Act mandates that the government plan its activities in this fashion. Thus far, however, dominant conservative national policy makers have ignored the Act.

DIFFERENCES IN ATTITUDE TOWARD PLANNING

Liberals and conservatives are also distinguished by their attitudes toward government planning. There are similarities in their general attitudes toward planning, however. Neither the liberal or New Deal position nor the conservative position favors the use of planning to intrude the federal government excessively upon either the private sector or individuals. Neither favors, in relative peacetime, the comprehensive planning of so large a part of the economy as was necessary during World War II, and to a much lesser degree during the Korean war.

Yet, the liberal position does not go so far as to assert that the advantages of planning revealed during wartime are of no value in relative peacetime. The essence of the liberal position is that during relative peacetime the federal government should plan *its own* policies and programs. It should coordinate and make comprehensive its own efforts, instead of engaging in an endless series of ad hoc, emergency, and frequently conflicting policies and programs.

The degree of government planning advocated by liberals is not something alien to our way of life or our best traditions. It is not the road to serfdom, but the road to salvation. It means nothing more than looking and acting on a long-range basis instead of on the spur of the moment. After all, the capacity to plan ahead is that which distinguishes human beings from lower forms of life.

The typical conservative position has denigrated this type of planning within the government, while railing against the disorders which result from the lack of such planning. Constantly crying out that business principles should be applied to government, conservatives hold that the government has neither the right nor the duty to engage in the types of planning of its own activities which every large business enterprise tries to do more of every year, and could not do without.

DIFFERENCES IN ATTITUDES TOWARD THE FORECASTING PROCESS

Liberals and conservatives can also be distinguished by their different approaches to economic forecasting. Liberals, on the one hand, state *goals* in accord with our capabilities and needs and devise policies and

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programs to reach these goals. Conservatives, on the other hand, appear satisfied to *forecast* (that is, virtually guess) how bad things are going to be if we let the so-called “natural laws of economics” take their course. As followers of the conservative position, today’s national policy makers fail to recognize that the economic performance shortfalls which they project are intolerable because they can be remedied. Instead, these policy makers insist upon the inevitability of the intolerable. Some forecasting is essential to rational national economic policies, just as the doctor must make use of some forecasting in treating the patient. Nonetheless, national policy makers should at once agree to subordinate attempts to forecast the patient’s future health to attempts to treat immediately the patient’s current ailment.

THE CONFLICTS OF THOUGHT AND ACTION DURING THE NEW DEAL HAVE PERSISTED SINCE, AND THE RESULTS ARE EASILY MEASURABLE

The foregoing delineation of the distinction between liberal or New Deal-style and conservative economic and social policies is necessary to appraise the wisdom of accepting or rejecting the New Deal approach. These liberal and conservative camps were present even during the New Deal, when the strength of the latter reduced the successes of the former. Since the New Deal, many have concluded that the New Deal’s achievements were slowed down by an opposition which caused the Roosevelt administration to deploy much smaller programs than were called for.¹³ Even some conservative sources such as *Fortune* magazine have reached this conclusion. Since the New Deal, an almost metronomic regularity has existed between high levels of economic and social performance, during periods when the essential philosophy of the New Deal was applied with appropriate variations, and low levels during periods when it was ignored, retarded, or reversed. With this in mind, it is fruitful to trace the consequences of the application of liberal and conservative, or New Deal and anti-New Deal, policies and programs during the forty-five years from 1939 until now.

POLICIES DURING WORLD WAR II

In the ensuing discussion of national economic performance and policies, the division into various time periods is based entirely upon the author’s conviction that these time periods, such as 1947–53, mark distinctive differences in policies and results. The fact that, in most cases,

13. The outstanding example was the tightening of the policy belt that caused the very severe economic setback beginning in 1937.

each period coincides with a particular presidency signifies only that different presidents have had sharply different policies, and it is a central theme of this article that it is these different policies that mainly explain the differing results. The different periods have been marked by presidents of different political parties; but that the period selections have not been motivated by political considerations is indicated by 1961–66 and 1966–69 being treated separately although both were marked by Democratic presidents. The same is indicated by the treatment of 1969–83 as one period.

Several features made national policy during World War II an example of sustained liberalism. These included an accent upon full employment, full production, and maximum real economic growth; profound belief in the superlative although not limitless abundance of our available resources; the refusal to substitute forecasts of what might happen for determining what we should do and carrying forward with all deliberate speed; the use of goals for achievement as a guide to all national policies; the insistence upon a comprehensive and consistent set of national policies geared to what might be called a “nation’s economic budget” of our needs and resources, with constant attention to balance among the main components of the effort; emphasis upon national priorities; refusal to countenance use of a “trade-off” between unused resources and inflation; willingness to impose much higher taxes and the direct controls as needed; rejection of the fear that wartime economic expansion would lead to depression after the war; and retained application of social justice and “equality of sacrifice,” the well-being of the people being the supreme law.

More specifically, various policies indicate the liberal or New Deal nature of World War II planning. For example, while taxes in general were increased immensely during wartime, this was done in a progressive or liberal direction. Meanwhile, many tax concessions and other forms of aid were granted to business by national policy makers who valued the work of the private sector. These concessions operated very favorably, increasing the types of business investment which were needed as well as overall profits in American business. In contrast to recent times, reckless and counterproductive tax-relief bonanzas were not poured out to the wrong recipients, and regressive changes in the personal income tax structure were absolutely rejected.

All federal tax and spending policies, and other policies, were geared to balanced goals for full production and employment, attention to national priorities, and considerations of social equity, then called “equality of sacrifice.” These policies were always developed in the context of a comprehensive and consistent national economic and social policy. In

addition, interest rates were held very low during the war. Besides aiding all of the other objectives, these low interest rates helped to make World War II the most successfully financed war in our history.

PRODIGIES OF PERFORMANCE DURING THE WAR

Through these combined purposes and actions, we accomplished prodigies of performance during the war. During 1939–45, the average annual rate of real economic growth was nine percent.¹⁴ Unemployment was reduced below one percent, as the “unemployable” became employed. Contrary to many popular assumptions, achievement of wartime employment expansion was not made easy because of the high level of unemployment in 1939. While only nine million persons were unemployed in 1939, nineteen million were added to the armed forces and to civilian employment between 1939 and 1945.

Fitting so many new persons into the economy and the military was itself a great accomplishment. Though the draft facilitated induction into the armed forces, training and equipping raw troops for war was a massive task. This task was certainly more difficult than fitting additional workers into civilian jobs and training them. Thus training and accommodating millions of new workers and soldiers was another of the war’s prodigies of performance.

The World War II experience also supported liberal notions about the possibility of full employment. Just before the war, we heard on all sides that people were unemployed because they were too old or too young, black or female, untrained or unskilled, unwilling to cross the street to get a job, unwilling to read the want ads, or preferred relief or unemployment compensation. When the war came, women and farmers, blacks never before accepted for industrial employment, and those earlier stigmatized as “unfit” or “unwilling,” marched into the factories, were trained mainly on the job, and performed magnificently. Moreover, no compulsory manpower legislation was necessary to achieve this feat. Today, however, many still claim that most of the unemployed will not work for the same reasons given by their counterparts in the New Deal era. Viewing the lesson learned about the unemployed during the war, these claims are just as false today as they were during the New Deal era. That lesson should be followed today.

Another liberal achievement was the low rate of inflation maintained during the war. During 1941–43, there was less price inflation than

14. All data in the paragraph are drawn from the statistical sections of the ANNUAL REPORTS OF THE COUNCIL OF ECONOMIC ADVISERS for the years covering the World War II period, as transmitted to the Congress with the yearly ECONOMIC REPORTS OF THE PRESIDENT, *supra* note 1.

during 1977–79. From 1943 forward, wartime prices were held remarkably stable.¹⁵ Although we used almost half of the total national product in direct war activities, full use of the extraordinary production capabilities of the American economy enabled living standards to rise greatly during the war. For example, the so-called “meat shortage” arose because millions of civilians who had seldom enjoyed meat regularly were suddenly able to because of new jobs and higher incomes from existing jobs.

Largely because of sustained full employment, progressive income redistribution and the reduction of poverty occurred more rapidly during the war than ever before. These redistributive trends were in part due to conscious national policies. The American people supported these policies more fully than ever before or during most times since. Their support did not result only because they knew the United States was engaged in a struggle for its national existence. Rather, their support also resulted because they were kept so fully informed as to the reasons for public action, and because a rapidly expanding and fully used economy brought considerable progress to almost all.

CONSERVATIVE OBJECTIONS TO WARTIME POLICIES

At the outset of World War II, some conservatives objected to these lines of action. They insisted that inflation was so great a danger that, in some important sectors, we should try to fight the war without capacity expansion. They insisted that we could fight and win the war with the amount of steel produced when the war started even when we first became “the arsenal of democracy.” But before the war ended, the war effort itself used about the total steel capacity available when the war started. During the war, much new capacity was added to support the domestic economy. Veteran New Deal economists, who led the battles for wartime expansion, were vindicated by these results.

Others felt that the prodigious economic expansion during the war would lead to a postwar depression. Before the war came to an end in 1945, there were many people, including large numbers of prominent economists, who warned that we would have eight million unemployed when peace came. Nothing like this happened. The prophets of calamity then explained that massive unemployment was averted by the great backlog of demand created during the war for automobiles, housing, and other products. But effective demand for these commodities would not have existed if liberal national economic policies had not increased the people’s purchasing power.

15. For basic data, see appropriate issues of the ECONOMIC REPORTS OF THE PRESIDENT, containing statistical tables; see also *supra* note 1.

The fairly smooth transition from war to peace was accomplished by virtue of permanent New Deal measures, and by a wide range of postwar planning and action during the war. This planning was an aspect of the liberal approach. It took the form of easy credits for housing, other loan programs, educational opportunities for veterans, the balancing effect of collective bargaining and a variety of other preparatory measures. Such measures were not available after World War I; hence the serious economic set-back of 1920–22, long before the Great Depression starting much later due largely to the many national policy errors during 1922–29.

INFLATION DURING THE TRANSITION PERIOD FROM WAR TO RELATIVE PEACE, 1945–47

As we all know, there was a great flare of inflation during the transition period, from 1945–47 and on into 1948.¹⁶ This was not inevitable. It was due to the power of conservatives, who prematurely torpedoed price and wage controls after the war. It was also due to the conservatives who forced the Roosevelt Administration to finance about half of the war's cost through government borrowing or issuance of bonds purchased by the public, rather than wholly through taxation. These bonds were generally regarded as wartime saving, to be spent by cashing the bonds after the war. Ordinarily, saving is used to invest in production facilities. But the wartime "savings" were used for war costs (that is, they were blown up) rather than invested in production facilities to meet demand when wartime "savings" were directed toward domestic use purchases after the war. Thus, the great excess of demand over supply after the war contributed powerfully to higher inflation.

IS THE WORLD WAR II EXPERIENCE RELEVANT TODAY?

The customary conservative position is that the lessons of the World War II experience are no longer relevant because the relative peace of recent years is so different. This position is faulty for several reasons. There were many things done by the government during that war which would be improper today, such as establishment of goals for production in the private sector, unprecedented rates of taxation and public spending in relation to the size of the economy, and stringent use of direct controls. But much learned during the war remained relevant—though largely forgotten—thereafter. The superlative economic record of accomplishment during World War II was largely a result of fundamental New Deal-style

16. For basic data see *supra* note 1.

approaches which, insofar as adhered to with proper modifications after the war, brought untold benefits when the immense economic toll of fighting the war ceased. This happened in large measure under New Deal-style approaches during 1947–53 and 1961–66. However, this did not persist sufficiently after 1966, and increasingly from 1969 forward conservative departures from real commitment to these approaches has taken and is still taking a fearful toll.¹⁷

THE LIBERAL NATIONAL POLICIES DURING 1947–53

In accord with the liberal approach, the years 1947–53 were marked by adherence to the Employment Act of 1946.¹⁸ The Act requires that specific goals for employment, production, and purchasing power be included in the President's Economic Reports to the Congress each year, and that policies be used to achieve these goals.¹⁹ These goals were pointed toward the Act's stated objectives of "maximum employment, production [gross national product] and purchasing power [the total spending required to achieve the other two goals]."²⁰

The equivalent of a model national economic budget for the nation was also used during this period by the Council of Economic Advisers (CEA) in recommending to the President these goals and the policies toward their accomplishment. As the year proceeded, if actual developments were not consonant with these goals, modified policies were recommended. This model national economic budget, used internally as a CEA working tool but not published, was not designed to intrude directly upon the performance of the private economy by setting specific or quantified goals for sectors of the private economy, such as steel. That was a more elaborate process resorted to by the government under the more stringent and all-embracing policies needed during World War II. Rather, the model budget was designed to provide better perspectives for voluntary private endeavors, and more importantly to integrate and reconcile the programs and policies of the government itself—lest the government "fly blind" in the formation and deployment of its own efforts. The author of

17. For a very comprehensive and factually detailed description and analysis of the results under different national economic and related social policies, see L. KEYSERLING, "LIBERAL" AND "CONSERVATIVE" NATIONAL ECONOMIC POLICIES AND THEIR CONSEQUENCES, 1919–79, *supra* note 1.

18. See *supra* note 8.

19. The reports, as required by the 1946 Act, set forth the President's economic program for the year ahead.

20. For all practical purposes, the term "maximum" has the same meaning as the term "full." The term "full" was used in the Full Employment and Balanced Growth Act of 1978 (Humphrey-Hawkins Act), Pub. L. No. 95-523, 92 Stat. 1887 (codified in scattered sections of 12 and 15 U.S.C. (1982)).

this article has often defined this approach as the development of a national policy and program in lieu of a random congeries of discrete policies and programs.²¹ In this manner, national economic and related social policies and program were then designed to fulfill the full-economic-health objectives of the Employment Act. Priority needs were accorded appropriate attention. Strong and effective anti-inflation policies were applied. A net federal budget surplus was achieved during 1947–53 through measures fostering a full economy, instead of vast and swelling deficits experienced through measures designed to prevent a full economy in the name of reducing the deficit.

The specific economic policies employed were in accord with this general approach. Until 1952, the Truman Administration's influence upon the Federal Reserve led to the highly beneficial results of consistently low interest rates. Favorable results had already been attained by means of the progressive personal tax increases during the war years 1939–45. The large tax reductions enacted shortly after the end of the war stimulated the economy, although not as much as they could have if conservative forces had not inserted regressive elements, enacted despite President Truman's veto. With the advent of the Korean war, the Truman Administration promptly and courageously obtained tax increases, but tempered the increases with selective tax reductions to assist areas of the private sector which needed expansion.

The Council of Economic Advisers, encouraged by President Truman, maintained close and regular contacts with business, labor, farm, and consumer groups, and with state and local officials. This led to improved public understanding of what the government itself was doing, and may well have improved the decisionmaking processes in the private sector. And within the government itself, the planning of its own activities was enhanced by a highly organized relationship between the CEA, as the President's general economic staff, and a variety of agencies engaged in economic activities. In addition, the author of this article, as CEA Chairman, was accorded a de facto place in the Cabinet and the National Security Council.

21. The author of this article has often, in articles and speeches, called this process a "National Prosperity Budget" or a "National Economic Performance Budget." For initiation of this idea, see L. Keyserling, *The American Economic Goal* (1944) (author's prize winning essay in the Pabst Post-war Employment Contest). This essay was an important basis of the Employment Act of 1946 in which the author had a large role. See also Keyserling, *Toward a "National Prosperity Budget"*, *N.Y. Times Magazine*, Jan. 9, 1949.

THE FAVORABLE IMPACT UPON ECONOMIC PERFORMANCE, 1947-53

These policies resulted in an impressive economic performance. The average annual rate of real economic growth during 1947-53 was 4.8 percent.²² There was a mild and short recession in 1949, but it was reversed before the Korean war began. The average annual unemployment rate was 4.0 percent, and unemployment dropped from 3.9 percent in 1947 to 2.9 percent in 1953, a rate roughly compatible with full employment. Income distribution improved considerably, and poverty dropped substantially. The average annual rate of inflation was 3 percent, and it dropped from 7.8 percent in 1947 (the high rate being due to the method of financing World War II, as described elsewhere in this article, and to conservative pressures which forced premature abandonment of direct controls) to 0.8 percent in 1953. During the fiscal years 1947-53, there was a surplus in the federal budget averaging 1.6 billion dollars annually. No average surplus was registered during any succeeding administration.

From 1947 to 1953 the Truman Administration also emphasized home construction as an extremely important element in fostering economic performance and meeting social needs. Interest rates on new home mortgages insured by the government were held at rates only slightly above 4 percent. Non-farm housing starts in 1950 reached more than 1.9 million, about 200,000 more than the annual average during 1969-83. In 1953 investment in dollar terms in new residential and commercial structures was 36.4 percent of gross private domestic investment. In comparison, lower ratios have occurred in most years from 1956 forward, and in much lower ratios from 1973 to date.

THE PROBLEMS DURING THIS PERIOD WERE NOT EASIER THAN LATER ONES, NOR DOES WARTIME MAKE IT EASIER TO GET GOOD ECONOMIC RESULTS

The economic and financial successes during these years cannot be explained by the claim that problems then were less difficult and complex than later ones. Policy makers were confronted first by the immense problem of transition from World War II to relative peacetime, and later by the problems created by the Korean war, a war which cost more in ratio to the size of the economy than the Vietnam war. During the earlier war,

22. The data in this paragraph and the immediately following one are drawn from the official reports referred to in note 1. They are also set forth and interpreted more extensively in the Conference on Economic Progress publications cited in note 1. For succinct graphic portrayal of the source of these data, see *Oversight Hearings*, *supra* note 1, Chart 34, at 51.

acute shortages arose in some areas, but these were treated effectively as the war expanded. The political and economic conditions in Western Europe during the years immediately after World War II were also immensely dangerous and dislocating. Through the Marshall Plan and other efforts, these problems were handled constructively. They were not ignored in response to conservative claims that we could not afford what needed to be done. A healthy economy could afford the Marshall Plan.

Many argue that the Korean war made it easier or even inevitable to maintain high average economic growth and to bring the rate of unemployment, as earlier stated, down to 3.0 percent by 1952; with the momentum of policies bringing it down to 2.9 percent in 1953 even though a recession started in that year. War, however, was not the exclusive reason for the increased growth and lower unemployment during the Korean conflict. Otherwise, there could be no cogent explanation of the much lower average economic growth and the much higher unemployment at times during the Vietnam war. And if low unemployment arising during war was per se highly inflationary, there could be no cogent explanation of the price stability during most of the Korean war, nor of the sharply rising inflation during the Vietnam war.

The truth of the matter is that war in itself does not per se create domestic national economic policies or results, and certainly does not determine whether these are good or bad. The policies and results, either good or bad, are created largely by the decisions of the policy makers. Taxes were wisely increased, and on time, during the Korean war; they were neither promptly nor adequately increased during Vietnam. To be sure, war may make it politically easier to make strong and unpleasant decisions; but too often, under other conditions, political difficulties are improperly cited as excuses for timidity of leadership. It would be useful to recognize that the successful economic performances during World War II and the Korean war can more easily be achieved in peacetime or relative peacetime. To do so, today's policy makers need only to perceive and then persuade the people that our current economic problems constitute "the moral equivalent of war." Accordingly, production capabilities which have been marshalled fully to destroy others can and must be marshalled fully to increase our domestic economic strength and human enjoyments at home.

HOW DIFFERENCES AMONG THE POLICY MAKERS WERE RESOLVED DURING THE KOREAN WAR

At the start of the Korean war, there was sharp disagreement within the government and elsewhere about economic policy. Some conservative policymakers claimed that inflation was a greater danger than the

dictators. These policymakers therefore urged that the Korean war be fought largely through use of the current product, rather than through rapid economic expansion toward full use of our economic capabilities. This was a very important manifestation of the idea of the "trade-off" between unemployment and inflation.

On the liberal side, other policymakers urged balanced expansion toward full use of growing capabilities. They believed that full production was not only more valuable than price stability, but was also necessary for price stability. This group further maintained that the American public would not support the sharp cutbacks in domestic consumption needed to free resources for the conduct of a distant and limited war. This group also urged that maintaining public support during a worldwide contest likely to extend long beyond the Korean war depended upon a distribution between "guns" and "butter" which did not unduly penalize the consumer.

The liberal or New Deal position won the unalloyed support of President Truman and the Congress. It paid off in both guns and butter, plus price stability, just as it paid off during World War II when the demand for guns was so much greater. The attempt to establish an unavoidable dichotomy between guns and butter is based upon a misconception. In fact, the advent of war or a very high defense program in relative peacetime does not do away with the need for butter, a term which applies to practically all civilian supplies of goods and services. The problem of allocating ultimately limited resources between guns and butter always exists. This allocation requires planning, with use of the equivalent of a "national economic budget" described above as a guideline to public policies. The allocation problem cannot be treated effectively by insisting that butter must be sacrificed to guns, or vice versa, during periods when we are far short of full use of our economic capabilities. Conservative leaders are still advancing this position, but their position tends to create bitter and unnecessary divisions among the people, which impair morale and work against sound national economic policies.

THE CONSERVATIVE REVIVAL, 1953-61 AND ITS ECONOMIC PERFORMANCE RESULTS

During 1953-61, conservative national policies held sway, and the adverse economic performance results followed with irresistible logic. The average annual rate of real economic growth was only 2.5 percent, accompanied by three periods of stagnation and then recession.²³

23. For source of data in this discussion of 1953-61, see *supra* note 1.

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Unemployment averaged 5.1 percent, and rose from 2.9 percent in the first year of the Eisenhower Administration, to 6.7 percent in the last. And due to the huge departures from reasonably full resource use during this period, the beginning of an average annual deficit in the federal budget emerged, even though no war took place.

Statistics from this period must be closely examined. The average annual rate of inflation was only 1.4 percent. This, however, was in part due to the 0.8 percent in 1953, which was largely the product of Truman-era policies. In any event, the very low inflation rate was not worth the tragic costs of abysmally low real economic growth and an unemployment rate over twice as high in the last year as in the first. Similarly, although the average rate of inflation was low during 1953–61, the rate was 50 percent higher in the last year than in the first, largely because the attempted “trade-off” between unemployment and inflation failed.

These statistics point out that average rates of economic growth or unemployment can be deceiving. The same average may result when rates move from a very unsatisfactory figure to a very satisfactory figure as when they move in the opposite direction. Overall trends in these rates during a substantial number of years are far more indicative of the success or failure of national economic policy than the average rates during the period. Applying this rule, it appears that the increase in unemployment and decrease in real economic growth, comparing 1961 with 1953, indicates the inefficacy of the policies used then.

EARLY DISUSE OF THE EMPLOYMENT ACT OF 1946

One key element of economic policy during 1953–61 was the decision virtually to abandon the mandates and objectives of the Employment Act of 1946. This decision had much to do with the highly unsatisfactory economic performance during the period. National economic policies during these years were influenced tremendously by the views and advice of Dr. Arthur F. Burns. Burns dominated fiscal policies through his powerful influence as CEA Chairman and strongly affected monetary policy through his closeness to Federal Reserve Board Chairman William McChesney Martin. Burns’ successor, CEA Chairman Raymond J. Saulnier, who had been a colleague of Burns at Columbia University, held practically the same views, with much the same consequences.

Dr. Burns decided practically to abandon the Employment Act’s mandate that the Administration set forth “needed levels of employment, production, and purchasing power” consistent with “maximum” or full levels. His stated reason was that economists do not know enough to set such goals. But setting goals is not harder than devising policies. And

without the former, sound economic analysis directed toward creative policies is impossible, because such policies must be determined and tested in the light of quantified objectives within our reasonable capabilities. Policies are not derived from the sky nor do they exist in a vacuum. They are designed to achieve concrete results and can be judged only by their degree of success or failure in doing so.

Dr. Burns also turned back the educational process by refusing to testify before the Joint Economic Committee except in closed sessions and off-the-record. With the advent of President Kennedy, CEA Chairman Walter W. Heller, in notably brilliant fashion, resumed the public exposure practice initiated under President Truman by the author of this article, after the reluctant attitude of Dr. Edwin G. Nourse, the first CEA Chairman.

Most important of all, Dr. Burns translated legitimate concern about inflation into a blinding obsession, to the exclusion of other even more important objectives of national economic policy. Although Burns inherited an inflation rate of only 0.8 percent in 1953, his fears and prophecies of calamitous inflation, shared by Dr. Saulnier, led to an excessive tightening of both fiscal and monetary policies. By 1961 this helped to bring about three recessions, more than doubled the rate of unemployment, and increased the inflation rate by fifty percent.

THE RECORD DURING 1961-66

The nation's economic performance improved considerably during the years 1961-66, a period when the liberal position was ascendant. Primarily under the forceful influence of Dr. Walter W. Heller as Chairman of the CEA, the commencement of this period was marked by full acceptance and vigorous public expression of two liberal propositions: first, that it is not enough merely to avoid stagnation or recession; and second, that it is equally important to create adequate real economic growth which can reduce or remove the amount by which actual economic performance falls short of reasonably full use of capabilities.

The economic performance record during 1961-66 as a whole was very good. The average annual rate of real economic growth was 5.4 percent.²⁴ Average annual unemployment was 5.2 percent, substantially because of the 6.7 percent inherited during the first year, but the rate was reduced to 3.8 percent in the last year. The average annual rate of inflation was only 1.6 percent. In the last year, inflation had risen, but only to 2.9 percent, which would be regarded as a very acceptable rate today.

24. See sources cited *supra* note 1.

The average annual deficit in the federal budget was held to 4.4 billion dollars, a tolerable figure indeed when compared with more recent deficits.

THE DAMAGE DONE BY THE 1964 TAX CUTS: DISREGARD FOR THE CORE PURPOSE OF THE BUDGET

In 1964, Congress enacted a series of tax reductions advocated by the Johnson Administration, but first proposed by the Kennedy Administration. Despite their stimulative effects in the very short run, these tax reductions had adverse consequences in the longer run. They also marked a sharp departure from the core purpose of the federal budget.

The core purpose of the federal budget can in part be defined by determining what it is not intended to do. The core purpose of the federal budget is not to stabilize the economy by applying stimulus or restraint when needed, although this is a very important and useful purpose if properly executed. For if stabilization alone were the core purpose, a lot of difficult and complex problems could be avoided by having no federal spending at all and 20–50 billion dollars of tax collection when the economy needed restraint, and the reverse when it needed stimulation.

Rather, the core purpose of the federal budget is to allocate a sufficient portion of our resources to public performance of needed tasks which cannot be carried forward adequately elsewhere. These tasks include promoting optimum real economic growth and full use of economic capabilities, service to those needing direct help, and economic justice. Thus, the budget should be regarded basically as an instrument to implement priorities.

The tax-cutters of 1964 lost sight of these priorities. They asserted that a given number of dollars in tax reduction would have approximately the same stimulative consequence as a given number of dollars in increased public spending or investment. Further, they asserted that the former was preferable because it was politically easier. This position minimizes the indispensable allocation purposes of the budget.

The application of this approach has been just as incorrect as applied during the most recent years. First, tax cuts, dollar for dollar, are not nearly as efficient in creating jobs and stimulating the economy as increased public spending or investment. Second, the elevation of tax-cutting to the first and foremost solution to more and more types of economic problems has resulted in deplorable and increasing neglect of great domestic needs. This is a very costly misapplication of the federal budget on both economic and social grounds.

There was some postponement of the longer-range harmful aspects of the massive 1964 tax cuts; even twenty billion dollars thrown into the

streets and scrambled for would have stimulated the economy for a while. But the longer-range adverse consequences of the excessive emphasis upon tax-cutting in 1964 were compounded by the nature of the cuts. The personal income tax cuts were extremely regressive in their effects upon after-tax or disposable income.

The regressive aspects of the 1964 (and later) tax cuts should be measured by their percentage effects upon disposable income at various income levels, not by the percentage tax cuts at various income levels.²⁵

In addition, the distribution of the 1964 tax cuts between the investment function and the consumption function turned out to be imbalanced, and this was clearly foreseeable before the cuts. They were strongly biased toward the investment function, even though all of the empirical data then available indicated a greater need to stimulate consumption directly than to stimulate investment, as a sound aid to both.²⁶

Unfortunately, the harmful long-range effects of the 1964 tax cuts were not recognized by the policymakers. Although these cuts were in later years widely advertised by their prime proponents as working miracles, analysis of their true consequences was seldom made or revealed to the public. Hence, misinformation and continued approbation of these tax cuts have been used recurrently to justify more and more of the same, with more and more of the same bad results.

THE RECORD, 1966–69

The economic performance record during 1966–69 was not as satisfactory as during the immediately preceding years. This drop in performance was caused by the imbalances resulting from the 1964 tax cuts, improperly restrictive monetary policies, and a trend toward other conservative policies.

During this period, the average annual rate of real economic growth was reduced to an entirely inadequate rate. The average annual rate of real economic growth, which had been 5.4 percent during 1961–66, fell to 3.2 percent during 1966–69 and to 2.6 percent in the last year.²⁷ A recession came in 1969–70. True, unemployment averaged only 3.7 percent, and was reduced from 3.8 percent in the first year to 3.5 percent in the last. These figures do not tell all, however. There is generally a lag

25. See Chart I7 in testimony of February 22, 1984, *supra* note 1.

26. The author has stated this conclusion in scores of articles, books, and Congressional testimony since 1964. See, e.g., "LIBERAL" AND "CONSERVATIVE" NATIONAL ECONOMIC POLICIES, *supra* note 1.

27. For sources of basic data see *supra* note 1. See also *Oversight Hearings*, *supra* note 1. Chart 34, at 51.

between a decrease in the rate of real economic growth, or even a recession, and the increase in unemployment. In due course, unemployment began to rise sharply to 4.9 percent in 1970 and 5.9 percent in 1971, in consequence of the the low economic growth rate during 1966–69 and an even lower rate later on.

The average annual rate of inflation during 1966–69 was 4.1 percent, and rose from 2.9 percent in the first year to 5.4 percent in the last. This increase was not due to low unemployment; the unemployment rate of 3.5 percent in 1969 was much higher than the 2.9 percent rate in 1953 when the rate of inflation was only 0.8 percent. What caused inflation to almost double during the period? The failure to increase taxes sharply when the Vietnam War greatly increased inflationary pressure was a partial cause. The low rate of real economic growth was probably the chief cause, however. Inflation was not the only result. Because of the sharply reduced rate of real economic growth and the reluctance to increase taxes, the average annual federal deficit during 1966–69 was almost twice as high as during 1961–66.²⁸

OTHER CONSERVATIVE INFLUENCES: MONETARY POLICY

In addition to the tax cuts, there were other examples of conservative and restrictive national economic policies. The Federal Reserve Board's policies were unduly restrictive, and the upward spiral of interest rates was very injurious. Admittedly, the "Fed" is not under the direct influence of the executive branch, as it should be and once was. President Johnson's protests against the "Fed's" monetary policies were weak and contributed to his lack of influence over it. The resulting high interest rates stood in sharp contrast to the low interest rates of 1933–52, which had been a hallmark of the New Deal.²⁹

THE "WAR AGAINST POVERTY"

The "war against poverty" was wonderful in purpose and fully capable of fulfillment. But its approach exhibited some defects which are relevant to the discussion in this article. Some important aspects of this "war" were predicated upon the assumption that the poor, even more than the unemployed, suffer primarily because of personal fault, or because of personal shortcomings due to neglect or abuse. The Johnson

28. Based upon federal budget tables contained in ANNUAL REPORT OF THE COUNCIL OF ECONOMIC ADVISERS, *supra* note 1.

29. For full treatment of Federal Reserve policies and consequences, see any of the Keyserling studies or testimony cited herein, especially those cited *supra* note 1.

Administration therefore concluded that, because there were thirty-six million poor people in the United States when the "war against poverty" started in 1964, and because it was said that each of these persons had his or her personal defects, there should be hundreds of programs to help them become "better qualified" and "better motivated." Some part of this idea was legitimate, and required programs to carry it out. But this was vastly overdone, and spawned a welter of disconnected federal, state, and local efforts.

Meanwhile, the "war on poverty" largely ignored the fact that the central reasons for the amount of poverty, then as now, were low economic performance plus bad income distribution. The central task of the "war on poverty" should have been to reduce these problems, rather than to permit them to worsen. The women and children on the *Titanic* were saved and the men drowned because their differing characteristics were used for *selection* of those to be saved and those who drowned. But the *cause* of the drowning was that the boat sank and there were not enough life boats to go around. Similarly, the *selection* of who are poor and unemployed is determined in some degree by their personal characteristics or qualifications. But the *number* of the poor is determined predominantly by the condition of the national economy. Walter Heller once said that "when the tub is full, all the fish will float." He was speaking about the problem of unemployment. But the observation is almost equally true of the problem of poverty, especially because unemployment is its most important cause.³⁰

The acceptance of the personal characteristics thesis in some aspects of the "war against poverty" led to some ineffective and conflicting programs. It led also to the location of too many programs at state and local levels and in the hands of private groups. Instead, a few strategic programs at the national level should have been emphasized. Such programs would have included a full employment and adequate minimum wage program for those who could work, and adequate income supports for the old and others who could not. In contrast with the diverse localized programs of the "war," such strategic national programs would practically liquidate poverty.

Much of the poverty in the United States during 1966-69 was then, as now, due to unemployment, underemployment, and inadequate pay when employed. Redress required much federal help. If national policymakers had recognized this need, they could have instituted fiscal, monetary, and

30. For comprehensive treatment of the problem of poverty in the context of the functioning of the entire economy, see L. KEYSERLING, *PROGRESS OR POVERTY: THE U.S. AT THE CROSSROADS* (1964).

other policies during 1966–69 designed to help bring us back to full use of our capabilities.

A large portion of the poor, then as now, was concentrated among our senior citizens. With the exception of a very small proportion, all of these senior citizens could have been helped by raising social security payments. To do so would have brought our social security policy fully into line with our economic needs and capabilities. Unfortunately, this was only partially done during 1966–69. Most recently, the government has moved in the opposite direction, cutting social security benefits, evidencing an almost all-pervasive conservative trend.

There was also, during 1966–69 as now, a great deal of poverty among the “working poor.” This could and should have been attacked by adequately improving our minimum wage legislation and by instituting a more effective full employment policy which would result in larger increases in real wage rates at all levels without inflationary pressures. These efforts were not made. There was also a great deal of poverty, then as now, among those who could not work. This required—and still requires—initiation of a nationwide system of adequate income supports financed by the federal government.

A great deal of poverty, then as now, was also caused by placing excessive responsibilities upon state and local governments. There was then, and still is, need for the federal government to assume more responsibility for public welfare through both consolidation and improvement of public welfare programs. To marshal our full capabilities to overcome poverty requires cooperation at many levels, but above all requires greatly increased federal efforts.

SIGNIFICANT GAINS DURING 1961–69 AS A WHOLE

Despite the shortcomings in policy during 1961–69, some very significant gains were made. These gains resulted partly from the good average annual economic growth rate and the reduction in unemployment, and partly from the carryover of some liberal or New Deal policies. During 1961–69, the number of persons living in poverty was reduced by 39.4 percent, the number of families living in poverty by 40.3 percent, and the number of nonwhite families in poverty by 39.1 percent. Measured in constant dollars, the median income of all families increased 34.2 percent. While these gains were not all they could have been, they were nonetheless impressive.

Such gains are not inconsistent with measured criticism of the “war against poverty.” Most of the policies which produced these gains were outside the ambit of the “war.” Instead, these gains resulted largely from

a high average annual rate of real economic growth. During 1961–66, with high average annual real economic growth, the reduction in poverty—both in absolute numbers and percentages—had been much greater per year than during 1966–69, when average annual real economic growth was much lower. During more recent years, the amount and percentage of those living in poverty has tragically increased. This increase resulted both from the failure to maintain adequate economic growth and the economic and social neglect implicit in that failure.

A number of programs were introduced or greatly strengthened during the period 1964–69. Federal outlays in aid of elderly citizens, including social security,³¹ more than doubled. Outlays for the poor approximately doubled. Some credit for the latter should be accorded to the “war against poverty.” Federal outlays for health, comparing 1979 with 1963, increased from four billion dollars to fourteen billion. Medicare and Medicaid were enacted in 1965. In 1964, the Food Stamp Act and legislation aiding urban mass transportation were approved. From 1964 to 1969, federal outlays for education increased nearly five-fold; during this period the federal government did more to improve educational opportunities at all levels than ever before.³² In 1965, the federal government initiated a massive program of compensatory education for disadvantaged children. About twenty consumer protection measures were enacted, and environmental legislation was enacted to reduce air and water pollution and to conserve soil and water. The Head Start program was begun, which benefited more than two and a half million children. In 1967, legislation was enacted to permit the states to make federally-aided payments to families with unemployed fathers. And perhaps at the very top of the list, the Civil Rights Act was enacted in 1964.³³

These efforts were directed toward high national priorities. They embodied liberal or New Deal thought and action. But they do not gainsay some of the difficulties with the “war on poverty,” nor do they negate the need for an anti-poverty strategy stressing real economic growth and full production to a degree not present during 1966–69. Because of the lack of such an overall strategy, poverty was not reduced as much as it could have been.

Some of the New Frontier and Great Society programs did not go as far as they might well have, and some of them ran into administrative

31. Social Security Amendments of 1965, Pub. L. No. 89-97, 79 Stat. 286 (codified as amended in scattered sections of 26, 42, and 45 U.S.C. (1982)).

32. See, e.g., Elementary and Secondary Education Act of 1965, Pub. L. No. 89-10, 79 Stat. 27 (codified as amended in scattered sections of 20 U.S.C. (1982)).

33. Pub. L. No. 88-352, 78 Stat. 241 (codified in scattered sections of 5, 28, and 42 U.S.C. (1982)).

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difficulties. Nonetheless, these measures were suggestive of economic progress and social concern. And despite new captions, they were liberalism or “New Dealism” at its best. The consequences of not carrying them further in later years and moving backward in many respects are now poignantly felt throughout the land. Yet, inveighing against the New Deal-style programs of the Great Society has now become the fashion.

THE RECORD 1969–83

This period, 1969–83, was marked by the apogee of conservative or anti-New Deal policies, under both Democratic and Republican administrations. Legitimate confidence in America’s potential was replaced by illegitimate fears. Concern for real economic growth was subordinated to excessive preoccupation, amounting to an unreasoned obsession, with combatting both inflation and federal budget deficits. But resort to the wrong method of combat resulted ironically in extraordinary increases in chronic inflation after the Vietnam war and soaring deficits throughout the period.

Many other conservative policies were followed during this period. Tax policy has been used to distribute income upward, notoriously so in 1981, with both Republican and Democratic support in the Congress. Both tax and spending policies have ignored human needs and social justice, and have been inimical to economic balance, optimum real economic growth, and reasonably full employment and production. Monetary policy has aggravated recession and unemployment. Spending cuts have similarly ignored growth needs and economic and social justice. These policies have been justified by the false cry that “we cannot afford” more, despite vast human and other resources crying to be used. Compared with the early 1950’s, our nation has accordingly dropped from first place in economic growth, per capita living levels, and international competitive position. As a result, the United States has lost international prestige and influence.

The economic record illustrates the effects of sustained conservative policy. Viewing 1969–83 as a whole, the real economic growth rate averaged only 2.5 percent.³⁴ Unemployment averaged 6.6 percent and rose from 3.5 percent in the first year to 9.7 percent in the last. Inflation averaged 7.5 percent, although it dropped from 5.4 percent in the first year to

34. See sources cited *supra* note 1. See also note 22; Testimony before the Congressional Joint Economic Committee on February 22, 1984; *How to Implement the Full Employment and Balanced Growth Act of 1978: Toward 4 Percent Unemployment, 3 Percent Inflation, and a Balanced Budget by 1987*, 98th Cong., 1st Sess. (Comm. Print 1983), Chart 29. This testimony is the most recent and in many ways the most comprehensive exposition of the author’s views.

3.3 percent in the last. During 1980–83, the average annual rate of real economic growth was at the abysmally low level of 1.3 percent. Average annual unemployment was 8.5 percent, rising from 7.1 in the first year to 9.7 percent in the last. The average federal deficit was about 125 billion dollars per fiscal year, and more than 195 billion in fiscal 1983.

Inflation remained a serious problem during this period. The average annual rate of inflation was 6.6 percent, although it did fall from 13.5 percent in the first year to 3.3 in the last. The reduction to 3.3 percent was largely caused by removal of the O.P.E.C rapid price increases and by temporary food shortages due to crop failures. Even so, swift reduction of inflation occurred during the very rapid real economic growth in the second and third quarters of 1983, while some waning of the real economic growth thereafter in 1983 was accompanied by some rise in inflation. This period, contrary to official claims, did not validate the “trade-off” theory; instead, it further discredited it.

High interest rates were a key cause of the economic problems during this period. Contrary to the prevalent opinion and policy, the size of the deficit does not explain nor justify these destructively high interest rates. Rather these high rates have been set largely by the personal choice of Paul Volcker, the “Fed’s” current Chairman, who has been using his misguided alarmist views about “deficits” and “spending” and “big government” to force incorrect decisions upon the government makers of fiscal policy in exchange for the promise of lower interest rates even while this promise has hardly come to pass.

MISREADING THE 1983–84 ECONOMIC RECOVERY

The basic meaning of the current economic recovery movement has been misread. Even at its best, it has thus far continued the long established process of deeper recessions followed by recoveries inadequate in amount and duration. The rate of the current recovery has already diminished sharply, and few informed persons would bet against recession in 1985 or 1986, thus continuing the roller-coaster economic performance. The *chronic retreat* from full economic health is continuing. The huge gap between performance and potential is continuing to increase. The poor are getting more numerous and the middle class harder pressed, while the very rich are getting richer. The inflation problem remains unsolved, and the federal deficit is likely to soar further.

Worst of all, the misdirected policies which have accompanied this inadequate recovery are being reasserted instead of reversed. As the real rate of economic growth declines as of this writing, the policymakers are ignoring the signal. Instead, they are jubilantly hailing the slowdown as

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an anti-inflationary blessing! Hardly a glimmer of awareness of the drastic policy changes which are now needed can be found among the main policymakers in the White House and the Congress, or among the aspirants to the Presidency.

THE GIGANTIC COSTS OF THE LONG-TERM POLICY DEFAULTS

It is alarming that the nation's policymakers have not been awakened by the stark data showing the accumulated costs of conservative policies at the roots of the roller-coaster performance. During 1969–83, for example, the United States economy forfeited more than 12.6 *trillion* 1982 dollars worth of production, almost four times our total national production in 1982.³⁵ This type of forfeiture was called a “gap” by Dr. Heller, but it was first used and popularized by the author of this article as a “national economic deficit.” The United States economy also forfeited almost sixty-seven million years of employment opportunity, more than six times average unemployment in 1982. During the longer period of 1958–83, the economy forfeited fifteen trillion dollars of production and 105 million years of employment opportunity. In 1983 alone, the economy forfeited 350–400 billion dollars of total national production, more than ten percent of actual G.N.P. in that year. In 1983, officially recorded unemployment, which counts only those fully unemployed and seeking jobs, was more than 7.5 million too high. Part time unemployment plus the “dropouts” due to the scarcity of job opportunity lifted this figure to the neighborhood of 10 million. Dreary long-range forecasts indicate that the costs of conservative policies will continue to accumulate. These huge “gaps” or “national economic deficits” were infinitely more damaging than any marginally higher inflation rates which are claimed to result from a stronger and steadier growth in production and employment. And the roller-coaster growth in the “national economic deficits” increased the *chronic* rate of inflation, as demonstrated elsewhere in this article.

FROM DARKNESS TO LIGHT

Despite lamentations to the contrary, the wings of the great American eagle have not been clipped by inexorable fate. By recognizing our true potential and by designing national policies to achieve it, we can within a decade bring every American a good standard of living; avoid massive

35. For graphic presentation, see *Oversight Hearings*, *supra* note 1, Chart 4, at 21. The basic sources for these data are the publications of the Departments of Commerce and Labor. The dollar “gaps” between actual and potential Gross National Product are about 7.8 percent higher in 1984 dollars than in 1982 dollars.

idleness of workers and capital; spur productivity; wipe out poverty and deprivation at home; help other peoples in dire need; obliterate the conventional economic problems of inflation, deficits, and scarcities of essentials; restore the confidence of the great and aspiring American people; and release more and more time and resources for the cultivation of the higher values of living. This will require a great effort, but by no means more than what our impressive past successes indicate is feasible and essential.

The road map for resuming this process is not lacking. The Full Employment and Balanced Growth Act of 1978, the Humphrey-Hawkins Act, provides such a map. The Act codifies with precision what the Employment Act of 1946 outlines in general, and what all periods of successful policies show is necessary. Congress and the White House seem to have forgotten both Acts. Both the 1946 and 1978 Acts need to be brought to their intended vigor and pertinence. To do so does not require an exact repetition or automatic use of the New Deal. The New Deal itself had its shortcomings. But it does require a return to the economic and moral values, and the plain economic common sense, courage, and dedication which the New Deal embodied.

We hear that current times are dark. They are dark enough to have filled the American people's minds with illegitimate fears, but never dark enough to have caused the policy makers to wake up. The road ahead is not easy, but it will be made less onerous if we rekindle progress rather than dampen it.

Nothing is more disheartening today than the shameful apologia for what is going on—that the views of the American people provide an insuperable political barrier to what needs to be done in their own paramount interests. We hear this from all sides—from those in high office, and from those aspiring to it. As a result, our leaders focus upon political strategy for its own sake, rather than upon substantive content. The media and other private leaders echo this defeatist formulation, instead of challenging it.

The first answer to this parade of futilities is not to blame the American people at large merely because so many of them have assimilated the erroneous broadcasts of their elected leaders and of so many of the anointed in economics and elsewhere. The second answer is to convey to the people the true story of when and why we did best and worst economically. If our elected leaders have the courage to do this, their political successes would be far more assured than they are now. Above all, our entrusted leadership has the solemn duty to hold the ceiling of "political feasibility" above the floor of what we must do to endure, prosper, and vindicate the immeasurable promise of America.

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And so we must recall and respond to the words uttered more than sixty years ago by one of our greatest Supreme Court Justices, Justice Brandeis, who said: “If we would guide by the light of reason, we must let our minds be bold.”³⁶

36. *New State Ice Co. v. Liebmann*, 285 U.S. 262, 311 (1932).