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A PRECARIOUS AND UNCERTAIN LIBERALISM: LYNDON JOHNSON AND THE NEW ECONOMICS VOLUME I

A Dissertation

Submitted to the Graduate Faculty of the
Louisiana State University and
Agricultural and Mechanical College
in partial fulfillment of the
requirements for the degree of
Doctor of Philosophy

in

The Department of History

by
Charles David Shreve
B.A., Louisiana State University, 1983
M.A., Louisiana State University, 1985
August 1995

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"The good that we secure for ourselves is precarious and uncertain, is floating in mid-air, until it is secured for all of us and incorporated into our common life."

—Jane Addams, *Twenty Years At Hull House*

"I got ex-lax in one pocket and aspirin in the other and I work seventeen hours a day. All I ask you to work is sixteen, and we'll get that boy on the corner a job."

—LBJ in 1935, to his assistants at the Texas NYA

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Abstract

This study traces the origins and evolution of Lyndon Johnson's approach to political economics and the history of related economic policy making during the Johnson presidential years. His populist roots, experience as a liberal legislator from a conservative state in a conservative era, and the maturation of his ideology and economic philosophy—alongside the Keynesian advisers of John Kennedy's New Frontier—form the nucleus of this study's early chapters. His presidential efforts on behalf of full employment, a demand side approach to economic policy, and the "Keynesian revolution" form the second half of the study.

Ultimately, this study suggests that President Johnson's consensus politics and Keynesian economic policies were effective at producing continued and increasingly balanced economic growth (across the range of social and economic classes) with relatively stable prices that promised to be more, and not less, stable. It also suggests that Johnson's approach to economic policy, though partly dependent upon and reminiscent of several pseudo-Keynesian precursors, represented a unique and relatively untested attempt at macro and microeconomic policy configuration. More to the point, it suggests that neither the Great Society nor the New Economics (the preferred term for the Kennedy-Johnson economic policies) lay responsible for the inflation and economic instability of the 1970s and beyond.

Bound to the political fortunes of President Johnson, the New Economics remained at once a successful and eminently practical attempt at finishing and securing the Keynesian revolution, but also a precarious and uncertain political experiment. Johnson's political decline, therefore, also augured the decline and dissolution of this revolution in political economics. In the end it was the misapprehension and the intentional, but not often explicit, rejection of the New Economics, rather than its own

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contradictions or lack of economic salience, that doomed this revolution to its premature demise. And it was largely this change, rather than the legacy of the New Economics, that set the stage for a renewed conservatism and renewed economic instability.

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Chapter 1
Mighty Enough: Guns and Butter and LBJ

It seemed to some of us that the country was going to have a very, very difficult time supporting what you might call guns and butter at the same time. And it wasn't normal butter it was butter plus.

-Roger Blough, US Steel President, 1971

This nation is mighty enough, its society healthy enough, its people are strong enough, to pursue our goals in the rest of the world while still building a Great Society here at home.

- Lyndon B. Johnson, 1966 State of the Union Address

President Lyndon Johnson gazed out from behind the podium in the ballroom of Washington's Mayflower hotel and signalled that he was ready to begin his address. It was the evening of December 4, 1968, only days away from the inauguration of Johnson's successor, and the President had come to bid farewell to the members of the Business Council, a group composed of the CEOs and presidents of the nation's top corporations.[1] In the preceding five years these business executives had become very familiar with and quite accustomed to what they often termed "the Johnson treatment" and were at that moment basking in the glow of the President's undivided attention and

[1] The Business Council has been superceded by the Business Roundtable, formed in 1972-1973 by BC members who wanted to push then President Nixon harder on the issue of excessive wage gains by construction unions. See Kim McQuaid, *Big Business and Presidential Power: From FDR to Reagan* (New York: Morrow, 1982), 283-290.

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the nation's longest period of uninterrupted prosperity.[2] Over the course of his presidency, President Johnson had seldom lost an opportunity to win their favor and forbearance. He had entertained 89 Business Council members at the White House just 12 days after President Kennedy's assassination and, by most accounts, had won them over almost immediately. "Gentlemen," Johnson declared on that occasion, "banish your fear and shed your doubt and renew your hopes. We have much work to do together."[3] He entertained the entire Council at a White House dinner several weeks later in early 1964 where he gave them a preview of his upcoming state of the union address. One pleasantly surprised businessman exclaimed afterwards: "Its the first time in our history that we've been invited to dine in the White House—it didn't even happen under Ike!"[4] Johnson also chose BC legal counsel Henry Fowler to head the Department of Treasury and insured that a small BC delegation met with Treasury Department officials every three months. BC member John Connor was also selected to head the Department of Commerce. In addition, many other members were asked to help the administration find suitable candidates for government regulatory agencies. Few could doubt that President Johnson depended greatly upon these business leaders or that he considered them to be among his most dependable supporters. This bond became especially conspicuous during the 1964 presidential election campaign when BC members, including John Connor, had recruited 3000 CEOs to the National Independent Committee for Johnson/Humphrey. By late 1968, after five years of the "Johnson treatment," and five years of higher earnings and greater prosperity, President Johnson felt that he had indeed won the enduring respect and admiration of the business community.

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[2] This was an economic expansion that began in May 1961 during the Kennedy administration and would continue until November 1969, nine months into the Nixon administration. 102 months in duration, it remains the longest unbroken period of American economic expansion on record.
[3] Quoted in Hobart Rowen, *The Free Enterprisers: Kennedy, Johnson and the Business Establishment* (New York: G.P. Putnam and Sons, 1964), 280.
[4] Quoted in ibid.

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By the time Johnson met with the Business Council in December 1968, however, times had changed. It had become apparent to Johnson, always possessed of probing and sensitive political antennae, that many of these business leaders had begun to shrink from the challenge of his administration's economic strategy. Most members of the Business Council, for example, in the wake of Johnson's proposals to cut several non-defense items in the 1969 budget, had supported congressional conservatives in their attempt to wring out additional social spending reductions. Most had also supported the Republican party in the recent Presidential election. Richard Nixon had benefitted from their support, rather than Johnson's Vice-President Hubert Humphrey—a stand-in for the Johnson economic strategy even as he ostensibly represented a new voice on the war in Vietnam.[5] Less obvious, however, was the endorsement—offered by an increasing number of BC members—of President-elect Nixon's fundamental economic outlook: that the current, troublesome price inflation should be tamed by encouraging a slightly higher level of unemployment.[6]

While he intended his remarks on this evening to be informal and friendly, and hoped that he could avoid using too much of the prepared text, President Johnson also wanted to be emphatic about one thing in particular: price stability by way of increased unemployment and the old "trickle-down" orthodoxy was a foolhardy, alarmist, and ill-conceived strategy and represented an active remnant of a political economy that his administration was still trying to erase. Moreover, he believed that the Business Council—historic protagonists of this old orthodoxy and reluctant supporters of Johnson's assault upon it—needed to be told this in no uncertain terms. Sensing the nation to be on the cusp of a great change in economic policy that would insure a greater

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[5] See I.F. Stone, "Why Hubert is as Tricky as Dicky," in *Polemics and Prophecies, 1967-1970* (Boston: Little, Brown, 1970), 49-53, for an insightful analysis of Humphrey's stand on Vietnam during the 1968 campaign.
[6] Kim McQuaid, *Big Business and Presidential Power,* 223, 224, 231, 236, 255. Nixon's CEA chairman, Paul McCracken, referred to this approach as "gradualism," suggesting that *gradually* higher unemployment was what the economy needed.

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and more stable prosperity as it turned away from the traditional conservative doctrine, he also knew that this change depended now, more than ever, on the integrity, good will and support of these business leaders. The Republican President-elect, set to take office in about six weeks, had already indicated that he would try some of the old economic medicine. While the existing economic policy was perhaps less a partisan matter than ever before, thanks in part to the success of the Johnson economic strategy, it was still all too likely to unravel under a less watchful, less cognizant President, who attempted to revive much of the laissez-faire or supply side orthodoxy in the process. President Johnson knew, for example, that if left unchecked the current inflation was troublesome enough and confusing enough to make the old medicine an attractive, if poorly conceived, alternative. "This Nation should not and will not accept," Johnson declared, "falling profits, high unemployment, forced retirements, rising bankruptcies, and shriveling markets as a remedy for our present problems. We have to find the path which brings us to price stability without destroying prosperity."[7]

President Johnson had begun his speech that night by reminding the assembled business leaders, first and foremost, that the nation was currently in its 94th straight month of economic expansion. This expansion occurred, he declared even more emphatically, only because the Kennedy and Johnson administrations had turned away from the prevailing economic orthodoxy. "Trickle-down" economics would not work, Johnson assured his audience, for "it worked just like it sounded. By the time the money got down to the poor people it was nothing more than a trickle." The reliance on steeply progressive taxation—the so-called "sock-it-to-'em" theory—was equally harmful and every bit as foolish, Johnson added. "If you take too much away from the top, you discourage industrial expansion, which creates new jobs and you slow down the expansion of the economy as a whole, which creates even more jobs, and more money."

[7] *Public Papers of the Presidents: Lyndon B. Johnson, 1968-1969:II,* "Remarks to Members of the Business Council," December 4, 1968 (Washington D.C.: U.S.G.P.O., 1970), 1168.

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Declaring both of these opposing strategies to be simply "another way of slicing the same pie," Johnson moved to highlight what was to him both the object of his current concern and the real source of the nation's ongoing prosperity. "In this administration," he noted, "we set about to do something new—to use a 'New Economics.'"[8]

Here was Johnson's clarion call, urging continued trust in and support of the Keynesian economic principles that made up what he called the New Economics. Derived largely, though indirectly, from the seminal writings of John Maynard Keynes—particularly *The General Theory of Employment, Interest, and Money* published on February 6, 1936—the New Economics represented the unique American effort at implementing the ideas of the eminent Cambridge economist a generation after their inception.[9] Embracing the ideas that set Keynesian economics apart from its orthodox predecessors—that supply does not create its own demand; that savings will not automatically give rise to investment; and that substantial involuntary unemployment could exist without recourse to an automatic and efficient economy-wide adjustment—the administration of John Kennedy had formulated the New Economics in 1961. After the assassination of the young President in late 1963, Lyndon Johnson was called upon to continue the crusade, finding it to be a challenge that suited both his political prejudices and personal ambition. Political consensus, full employment, and mutual prosperity were the obvious, if crudely sketched, hallmarks of the design; few objectives had as much appeal for the new President.

To be sure, by the time John Kennedy and Lyndon Johnson began to absorb the Keynesian "system," it had been attenuated greatly by both economists and politicians. Pent-up consumer demand and Cold War fiscal demands gave the post-Keynesian economists a real-world milieu with a greater tolerance for error and left them with little

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[8] Ibid., 1166.

[9] John Maynard Keynes, *The General Theory of Employment, Interest, and Money* (New York: Harcourt, Brace, 1936).

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incentive to probe *The General Theory* all that deeply. The late twentieth century American fondness for the economics of growth also insured that much economic policy, Keynesian or not, would still serve to mask, rather than erase, economic inequality and irrational inefficiency. "All that economic policy really had to promise," Hyman Minsky once noted, "was that the Great Depression would not recur. The simple rules of fiscal policy, which took the form of government contracts and tax abatements...succeeded in guiding policy so that a close approximation to full employment was in fact achieved and sustained."[10] The implementation of the system transpired, as well, without any input from the creator, for Keynes had died suddenly in 1946 before much of the interpretive debate had even begun. He believed, nevertheless, that his ideas would flourish especially well in the United States. "Here, not in Moscow," Keynes wrote in 1934 from Washington, D.C., "is the economic laboratory of the world. The young men who are running it here are splendid. I am astonished at their competence, intelligence, and wisdom. One meets a classical economist here and there who ought to be thrown out of [the] window—but they mostly have been."[11]

Though Keynes described *The General Theory* as "moderately conservative," and though his biographers and colleagues suggested that he was a "bad party man who often detached himself from the party when they proved unhelpful," the Keynesian revolution in the United States became clearly identified with left-wing liberalism and the Democratic party.[12] Attenuated and muddled as the revolution became, even within the domain of professional economics, Keynesianism came to dominate both the political economy and the economics profession by the 1960s. A figurative

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[10] Hyman P. Minsky, *John Maynard Keynes* (New York: Columbia University Press, 1975), 17.
[11] Quoted in Arthur M. Schlesinger, Jr., "The Economist of the Century," review of *John Maynard Keynes, Volume 2: The Economist as Saviour, 1920-1937*, by Robert Skidelsky, in *The New York Times Book Review*, January 23, 1994, 18.
[12] Keynes, quoted in Joan Robinson, "What Has Become of the Keynesian Revolution?" in Milo Keynes, ed., *Essays on John Maynard Keynes* (London: Cambridge University Press, 1975), 128; D.E. Moggridge, *John Maynard Keynes* (New York: Penguin, 1976), 39.

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defenestration had indeed taken place and classical pre-Keynesian economics was clearly out of fashion, even though it had largely become subsumed under, rather than displaced by, an often vulgarized Keynesianism. In 1965, John Kenneth Galbraith would call the economics of Keynes "the new orthodoxy," and the ostensibly anti-Keynesian economist Milton Friedman would declare that "we're all Keynesians now."[13]

For both political and professional reasons, then, the Kennedy and Johnson administrations came to be suffused with economic advisers who were among the first generation of American Keynesians. James Tobin, who would become a member of Kennedy's Council of Economic Advisers, was a Harvard sophomore when Keynes published *The General Theory* in 1936, and was a student of Alvin Hansen's when Hansen transferred to Harvard from Minnesota in 1937 and became known as the leading expositor of Keynesian ideas in the United States.[14] A Yale professor both before and after his tenure on the CEA, Tobin recruited his Yale colleague, Arthur Okun, for the CEA staff in 1962. Okun, one of the brightest of the next generation of Keynesian scholars, would introduce the "growth gap" theory to President Kennedy, become a Johnson CEA member in 1964 and its chairman in 1968. Seymour Harris, Hansen's colleague at Harvard and one of the earliest converts to Keynesian economics after him, eventually served as the chief economic adviser to Senator John Kennedy. Harris's popular 1952 publication, *The New Economics*, would eventually lend its name to the Keynesian economic strategy of the Kennedy and Johnson administrations.[15] Paul Samuelson, also a student of Hansen's like Tobin, became known in the 1940s as the

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[13] John Kenneth Galbraith, "How Keynes Came to America," in Milo Keynes, ed., *Essays on John Maynard Keynes*, 141; Friedman, quoted in "We Are All Keynesians Now," *Time*, December 31, 1965, 65.

[14] James Tobin, "Keynesian Economics and Its Renaissance," in David A. Reese, ed., *The Legacy of Keynes* (San Francisco: Harper and Row, 1987), 94-95; Galbraith, "How Keynes Came to America," 136. Hansen's most popular exposition of Keynesian economics was entitled simply *A Guide to Keynes* (New York: McGraw-Hill, 1953).

[15] See Seymour Harris, *The New Economics* (New York: Knopf, 1952).

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"acknowledged leader of the younger Keynesian community." Although Harvard was the "principal avenue by which Keynes's ideas passed to the United States," according to John Kenneth Galbraith, this M.I.T. professor certainly had a leading role.[16] In 1948 Samuelson published the first American textbook which attempted to explain the new Keynesian economics, and he eventually became a key Kennedy adviser during the 1960 presidential campaign and Kennedy's first choice for chairman of the Council of Economic Advisers in 1961, an offer he spurned out of his desire to remain in academia. Throughout the Kennedy and Johnson administrations, Samuelson remained an unofficial but frequently consulted economic adviser.[17] Walter Heller, the economist who eventually accepted the chairmanship of the Kennedy CEA, and who would become Lyndon Johnson's most trusted economic adviser, served as a fiscal economist in the Treasury Department from 1942-1946. He was among the Keynesians attracted to government service in the Roosevelt and Truman administrations by the example and recruitment efforts of FDR Director of Research and Federal Reserve economist Lauchlin Currie, another early convert to the economics of Keynes. John Kenneth Galbraith, perhaps the most outspoken of the Keynesian economists who advised Kennedy and Johnson, also came to Washington through the efforts of the unflappable Dr. Currie. Currie was, with Utah banker Marriner Eccles, Works Progress Administration Director Harry Hopkins, and several others, one of those whose previous policy recommendations had been corroborated and encouraged by the publication and dissemination of *The General Theory.* "We didn't sleep much," Currie recalled in 1971, "but when we did, the *General Theory* kept working."[18]

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[16] Galbraith, "How Keynes Came to America," 136.
[17] Samuelson also became known for the creation of the "neoclassical synthesis," an integration of Keynesian *macroeconomic* principles with classical (orthodox) *microeconomic* principles.
[18] Currie, quoted in Joseph P. Lash, *Dealers and Dreamers: A New Look at the New Deal* (New York: Doubleday, 1988), 333; Galbraith, "How Keynes Came to America," 135; William E. Leuchtenberg, *Franklin D. Roosevelt and the New Deal, 1932-1940* (New York: Harper and Row, 1963), 245-246; and "We're All Keynesians Now," 65, 67A.

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Indeed, as Richard Musgrave noted, Keynesian thinking was well represented in the United States in the 1940s and 1950s. Ralph Flanders of Jones and Lamson Co. and Henry Dennison of Dennison Manufacturing even hired Harvard faculty members to tutor them in Keynesian economics and succeeded in converting many other business leaders afterward, principally through the Committee for Economic Development. Although the business community never adopted anything but a thoroughly compromised version of *The General Theory*, its willingness to approach Keynesian thinking marked the advent of a potentially rewarding dialogue between business leaders, liberal economists, and Democratic politicians. Genuine Keynesian action, on the other hand, was slow to emerge.[19] "Until Kennedy came along," Walter Heller recalled, "the country never had a President who was willing to embrace such seemingly unorthodox doctrines and move modern economics to the front burner."[20] Furthermore, until Johnson replaced Kennedy, the Keynesian ideas, front burner or not, proved difficult to implement. Even vulgarized Keynesianism was difficult to sell to the American public, and Kennedy possessed at the outset little of the political capital or the political personality required to integrate or supplant the old with the new. "The Kennedy machine," William Appleman Williams recalled, "was like a freeway cruiser: beautiful on the way to the White House or the moon, but of little help in getting coal to Grandma in the snow....Lyndon's contraption...would make either kind of trip."[21] By temperament and ideology Lyndon Johnson was, indeed, suited to the Keynesian

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[19] Richard A. Musgrave, "U.S. Fiscal Policy, Keynes, and Keynesian Economics," *Journal of Post-Keynesian Economics*, Winter, 1987-1988, 173; Galbraith, "How Keynes Came to America," 137. Dennison, once converted, derided those who opposed Keynesianism as "lazy fairies" suggesting that they believed in "a Never, Never land of invisible hands, perfectly functioning markets, and limitless economic frontiers." Quoted in Robert M. Collins, *The Business Response to Keynes, 1929-1964* (New York: Columbia University Press, 1981), 69.

[20] Walter Heller, "Kennedy Economics Revisited," in Joseph A. Pechman and N.J. Simler, eds., *Economics in the Public Service: Papers in Honor of Walter W. Heller* (New York: W.W. Norton, 1982), 238.

[21] William Appleman Williams, "Ol' Lyndon and JFK," in Richard Lowitt and Joseph F. Wall, eds., *Interpreting Twentieth-Century America* (New York: Thomas Y. Crowell, 1973), 495-496.

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revolution and the public policy challenge that it implied. His experience and personality reflected both an attraction to, and a penchant for selling, many of the prototypical Keynesian concerns. "First the U.S. economists embraced Keynesianism," *Time* magazine noted in 1965, then the public accepted its tenets. Now even businessmen, traditionally hostile to government's role in the economy, have been won over—not only because Keynesianism works but because Lyndon Johnson knows how to make it palatable."[22] But Johnson's role in the Keynesian revolution was far greater than that of a salesman or translator; he embraced Keynesianism because it often helped him say, with greater conviction and power, what he had always tried to proclaim. When Joan Robinson characterized Keynes, her colleague at Cambridge, she was in many ways characterizing Lyndon Johnson as well, a politician with an almost intuitive appreciation for Keynes's most significant insights:

> Keynes basic view of life was aesthetic rather than political—he hated unemployment because it was stupid, poverty because it was ugly, and was disgusted by the commercialism of private life....It is true that he enjoyed making money for his college and himself but only as long as it did not take up too much time....He indulged in an agreeable vision of the world where economics ceased to be important and our grandchildren [could] begin to lead a civilized life. But in that vision there [was] room for a rich man to enjoy his wealth in a civilized manner.[23]

Geoffrey Harcourt described Keynes as one who was "usually too optimistic concerning persuasion and acceptance; his touching belief that others were as disinterested and as full of well-being, as well as being as quick and intelligent as he was, was not always

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22 "We're All Keynesians Now," 65.

23 Joan Robinson, "What Has Become of the Keynesian Revolution?" 128. See Robert Heilbroner, *The Worldly Philosophers: The Lives, Times, and Ideas of the Great Economic Thinkers*, 6th ed. (New York: Touchstone, Simon and Schuster, 1992), 254, 261, 281, for details of Keynes's wealth and investment prowess. As King's College bursar he turned £30,000 into £380,000 and speculation in international markets helped him turn a few thousand pounds into a personal fortune worth over $2,000,000. See also Johnson's "Great Society" speech for comments strikingly similar to the Keynesian outlook described by Robinson. "It is a place where the city of man serves not onlt the needs of the body and the demands of commerce but the desire for beauty and the hunger for community..." *Public Papers, Lyndon Johnson, 1963-1964: I*, "Remarks at the University of Michigan," May 22, 1964, 704-707.

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well-founded."[24] William S. White judged Lyndon Johnson in remarkably similar terms: "He is weak in understanding that many others are not as perceptive as he is...persisting in the assumption that sensible men will understand his purposes without being told, just as he would, in fact, understand theirs."[25] Keynes was a tireless worker who often placed apparently unreasonable demands upon his colleagues. "Some of those who worked with him could not stand the pace," recalled John Hicks.[26] Johnson, too, often by the force of his own example, left many of his associates in a state of bewildered fatigue.[27] Johnson seems to have shared Keynes's basic approach to political economics, his somewhat more hazardous approach to consensus politics, and his affinity for hard work.

The Keynesian political economy matched Johnson's affinities, however, precisely because it was not a one-sided system based upon class conflict assumptions. Contrary to the conventional wisdom, it did not imply a narrow and exclusive focus upon fiscal policy or the demand side of the economy. Although the Keynesian disease was insufficient demand and Keynes himself considered the capriciousness of the supply side as the Achilles heel of any capitalist economy, total supply was to Keynes still the essential long term factor. "The Inducement to Invest," after all, Book Four of *The General Theory*, comprised 114 pages. Book Three—"The Propensity to Consume"—comprised only 43 pages.[28] "It is very much easier to influence the rate of investment,"

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[24] Geoffrey C. Harcourt, "Theoretical Methods and Unfinished Business," in Reese, ed., *The Legacy of Keynes,* 17.
[25] William S. White, *The Professional: Lyndon B. Johnson* (Boston: Houghton Mifflin, 1964), 65.
[26] John R. Hicks, *The Crisis in Keynesian Economics* (New York: Basic Books, 1974), 4-5.
[27] The example of Wilbur Cohen, HEW official and long-time adviser on Social Security to all Presidents from FDR to Johnson, may well illustrate this tendency. As a recent biographer put it, "Cohen, a prodigious worker, even had difficulty matching Johnson energy and appetite for work....If necessary, he took a nap in the late evening so he would be ready for the President's call after midnight. Working for Johnson required Cohen to put in twelve-hour days and still be ready 'to take a call from the President at two o'clock in the morning.'" See Edward D. Berkowitz, *Mr. Social Security: The Life of Wilbur J. Cohen* (Lawrence: University Press of Kansas, 1995), 189.
[28] Emphasis on investment and pagination of *The General Theory* from Minsky, *John Maynard Keynes*, 25.

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Keynes once noted, "than to influence the rate of consumption."[29] Nor did the Keynesian system imply great levels of government intervention, big government in general, or opposition to investment or the marketplace. Investment was so important to Keynes's way of thinking, in fact, that he urged it not be left only to the whims of the potential investors themselves. Keynes emphasized, as did his Polish contemporary, Michal Kalecki, that the role of investment was not to provide enough work to employ all available labor, but simply to provide tools for the production of the consumption goods demanded by the populace.[30] Full employment naturally depended upon something else all together. "I see no reason to suppose," Keynes wrote, "that the existing system [free market corporate capitalism] seriously misemploys the factors of production which are in use....It is in determining the volume, not the direction, of actual employment that the existing system has broken down."[31] At the beginning of his presidency, in December 1963, Johnson echoed this often ignored Keynesian sentiment. "The excellence of the marketplace as a device for distribution," Johnson declared, "is beyond question in our minds."[32] To Keynes, and to Presidents Kennedy and Johnson after him, marketplace dynamics were valuable and worthy of unflagging encouragement, but they could not guarantee full employment. "Keynes's argument is not that markets cannot deliver," Frank Hahn noted, "but quite simply that the route the economy must take when workers must signal their willingness to work by lower money wages is more costly and more uncertain than is the alternative which he proposed."[33] Bequeathed to him by Walter Heller, Arthur Okun, and his other

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[29] Quoted in Moggridge, *John Maynard Keynes*, 133.
[30] Michal Kalecki, *The Economics of Full Employment* (Oxford: Basil Blackwell, 1944), 49.
[31] John Maynard Keynes, *The General Theory*, 379.
[32] *Public Papers, Lyndon B. Johnson, 1963-1964: I*, 53. See also Michael Harrington, "Markets and Plans: Is the Market Necessarily Capitalist?" *Dissent*, Winter 1989, 56-70, for a variation on this theme that dovetails nicely with the Keynesian approach (though Harrington accused Keynes, on page 64, of subscribing completely to the Phillips Curve analysis of employment and inflation).
[33] Frank Hahn, "Some Keynesian Reflections on Monetarism," in Fausto Vicarelli, ed., *Keynes Relevance Today* (Philadelphia: University of Pennsylvania Press, 1985), 12. See also Tobin, "Keynesian Economics and Its Renaissance," 108-110.

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Keynesian or neo-Keynesian advisers, but shaped critically by his own experiences and political insights, this approach became the means by which Lyndon Johnson proposed to silence critics, win converts, and transform the American economy. The emphasis was clear: the New Economics was much more than an exercise in inflationary demand management, just as it was also something comprehensible and attractive to business leaders who surely understood the benefits of steady demand and the socialization of investment even without an understanding of Keynes and his rebellion against economic orthodoxy.[34] While Johnson sought nothing more zealously than full employment, he also realized, partly through his immersion into the economics of Keynes, and partly through his absorption of the Democratic party's corporate liberalism, that this was impossible without a square focus on, and the partial socialization of, the supply side of the economy. "The discouraging pattern of recessions every two or three years btween 1949 and 1960," Walter Heller remarked in 1966, "has been broken not by a simple-minded devotion to demand stimulus, but by a tight coupling of measures to boost demand with measures to boost productivity and hold costs in check."[35] Johnson sought to remind the Business Council in December 1968, therefore, and dozens of other business leaders throughout his presidency, that the New Economics had rich payoffs for the supply side, even as it sought to ameliorate joblessness and poverty. "I pointed out," Johnson recalled in his presidential memoirs, "that the more people who were employed and working at good wages, the more people there would be to buy their products."[36] To the Business Council in 1968 Johnson summoned one of his favorite metaphors. "We decided to bake a bigger pie each year," Johnson reminded his

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[34] Joan Robinson, ridiculing the notion that Keynes saved capitalism from itself, pointed out that this presumes that "capitalists are so stupid that they would fail to learn from their experiences during the war [World War II] that government outlay maintains profits, unless they had Keynes to point it out to them." See Robinson, "What Has Become of the Keynesian Revolution?"128.

[35] Walter Heller, *New Dimensions of Political Economy* (Cambridge: Harvard University Press, 1966), 73.

[36] Lyndon B. Johnson, *The Vantage Point: Perspectives of the Presidency, 1963-1969* (New York: Holt, Rhinehart, and Winston, 1971), 30.

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audience, "a pie with more and bigger slices, including some for a direct attack on our neglected social problems."[37]

Although he tended to use rhetorical examples—like the "pie with bigger slices"—that seemed to signal a "growth at all costs" approach, Johnson usually exercised this rhetoric only when he wanted to highlight economic uncertainty and the not yet eliminated spectre of the nation's traditional and deflationary economic disposition. "Unless we are careful," he declared on another occasion, "we can easily become fascinated with production for the sake of production alone."[38] Implicitly warning the Business Council at the end of his presidency that a fair measure of uncertainty still prevailed in the nation's economic affairs, and that economic promise or disaster remained equal possibilities in the near future, Johnson urged them to get behind the new system that had rewarded them so handsomely. He warned them as well of the implications of a return to the old ways. "God help us," he said, "if we find ourselves returning to a period of high unemployment, with the 'haves' fighting off the 'no longer haves' for precious jobs. That is a prescription for social disaster."[39]

In the long run, President Johnson was acutely aware of how little impact he would have on the emerging economic debate, and how critical would be the collective participation of the assembled business leaders. For that reason he strained to reproduce for these visiting business leaders a vision of the consensus he had sought throughout his presidency. "But the President does not put his purely personal stamp upon the future," Johnson had advised a similar contingent of business leaders in July 1964. "His vision is compounded of the hopes and anxieties and values of the people he serves. He can help guide them toward the highest and most noble of their desires. He cannot take them where they do not want to go."[40] Four and one half years later Johnson sounded

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[37] *Public Papers, Lyndon B. Johnson, 1968-1969: II*, 1168.
[38] *Ibid., 1963-1964: I*, 53.
[39] *Ibid., 1968-1969: II*, 1168.
[40] *Ibid., 1963-1964: II*, 883.

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the same theme, urging his friends in the business community to cling to what he perceived as their highest and noblest desires. "I hope my successor will use the tools of economic policy forcefully," he declared in his address to the Business Council. "I hope he will insist on using them to guarantee full employment. For without full employment, he cannot succeed in his other urgent objectives."[41]

Johnson also acknowledged the presence of the economy's "Scylla and Charybdis"—inflation and recession—and recalled for the Business Council how he had seen a similar trend in 1957-1958 when the Eisenhower administration thought a recession would bring price stability. "As the experience of 1957-58 reminds us," Johnson declared, "even a recession won't give us instant price stability, but it would give instant misery throughout our economy."[42] He might have reminded them of his first year in Congress as well, for it was then, in 1937, that the Roosevelt administration had also placed their concern for price stability above all else. That year, amid tentative growth and rising employment—but also increasing inflation, Roosevelt had attempted to balance the federal budget and had endorsed an increase in the reserve requirement for banks in the Federal Reserve system. "Every time that goddamned fool announces a balanced budget," Securities and Exchange commissioner Jerome Frank complained in early 1938, "it means that government purchasing power is being cut and that's about the only thing that's keeping things together....Nobody on the outside will believe the trouble we have with him. Yet they call him a big spender. It makes me laugh." [43] With this fundamental shift Roosevelt accomplished little in the way of improved price stability but sent the nation's unemployment rate into a renewed upward climb, creating what many historians and political pundits would refer to as the "Roosevelt

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[41] *Ibid., 1968-1969:II*, 1168.
[42] Ibid., 1168.
[43] Quoted in Lash, *Dealers and Dreamers*, 322.

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depression."[44] Johnson had learned, indeed, almost from the moment he had entered Congress, that putting price stability ahead of jobs was a policy fated to ineffectiveness and disaster.

Near the end of his presidential term, Johnson expressed his hope that President-elect Nixon would *not* heed the advice of economists and business leaders who extolled the benefits of "just a bit more unemployment." He remained skeptical, however, for the 1968 campaign had clearly moved the nation onto new political ground. Civil rights, the Great Society, and the New Economics had all come under fierce partisan attacks. "I just want to say this," Johnson had remarked only a few days before the election, "in all my years in politics—and I went to Washington when Herbert Hoover was President, in 1931—I have never...seen a slicker, more overorganized, trumped up, misleading, now-you-see-it-now-you-don't political campaign than the one the Republicans are waging this year."[45] Johnson was also skeptical of his successor. On the evening before the Nixon inauguration, he whispered to domestic policy adviser Joe Califano: "You're going to make some money now for the first time in your life. First, invest it in land. This Nixon knows nothing about the economy and its going to go to hell."[46]

Ironically, Johnson's most tangible source of optimism lay with the nation's business leadership. He knew that many of them were willing to try progressive policies and had recognized the blessings of the New Economics. His greatest hope was that they would become more allied with labor and government in the quest for relative price stability at full employment, and he was convinced that more than a few of the nation's business leaders understood, by late 1968, the connection between this nascent alliance

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[44] Peaking at around 25% at the depth of the Great depression, the unemployment rate had improved to approximately 14% by 1937. By early 1938 the unemployment rate was back up to approximately 19%. Sources: *Economic Report of the President, 1966*; *Federal Reserve Bulletin*, *Survey of Current Business*, various issues.

[45] Johnson, "Remarks in Morgantown at a Dinner Honoring Representative Harley O. Staggers of West Virginia," October 26, 1968, *Public Papers, 1968-1969: II*, 1080.

[46] Joseph A. Califano, Jr., *The Triumph and Tragedy of Lyndon Johnson: The White House Years* (New York: Simon and Schuster, 1991), 337.

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and their own profitability. Trends in the economics profession, current economic statistics, and sheer momentum all seemed to be on the side of the New Economics. Not to be discounted, however, was the temperament of the President-elect and the often contradictory nature of the advice he had thus far received. Johnson's greatest fear was that Nixon would heed the counsel of Maurice Stans, rumored to be Nixon's choice for Treasury Secretary, or of Vice-President-elect Spiro Agnew who both equated profitability with general economic health and who also believed that the nation needed much more unemployment to achieve reasonable price stability. It was not that Johnson deemed profits or price stability to be insignificant, for he had tried to convince the business community through both words and actions that he did not. Profits, he believed, could rise both at the expense of the general welfare or in tandem with it, and he left little doubt that he preferred the latter course. Indeed, as he had reminded the Business Council in December 1968, corporate profits and dividends had increased by about 50% since late 1963, both before and after taxes, had made these advances on the heels of similar gains registered during the Kennedy administration, and were the result of an increasingly balanced economy and rising demand. Profits were up but they had not risen at the expense of the working class or American consumers in general. Likewise, Johnson let it be known, price stability could most assuredly be achieved with economic contraction and higher levels of unemployment, but it could also be attained without recourse to such a strategy. Price stability certainly demanded a balanced fiscal and monetary approach and his administration was achieving that, but it also demanded a vigilant and organized microeconomic strategy that took into account productivity advances, corporate cost accounting, relative profitability, and corporate price discretion. Such was the challenge Johnson laid out for the business community as he prepared to depart the White House for retirement in the Texas hill country. Though many political opponents were working to convince the business community that their recent gains were now threatened by a continuation of the New Economics and the

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inflation that had risen up with it, Johnson remained hopeful that the economic progress established under his administration was simply great enough to outlast deluded businessmen, President Nixon, or anyone else hoping to turn back the tide, no matter what kind of divisive, knuckle-headed politics they practiced. Because real civil rights gains—a significant part of the Johnson economic strategy—were still very much in jeopardy, and because the New Economics itself still depended too heavily upon Johnson's persuasiveness and upon a small number of political compromises, the direction of policy and the trajectory of the nation's economy would be very much dependent upon the leadership and vision of the business community.[47] Johnson hoped they would cling to both the principles and the promise of the New Economics.

Despite the unfinished business and his concern for the near future, as 1969 and the inauguration of Richard Nixon approached, President Johnson appeared fatigued and began to look forward to retirement, for whatever reason. This was a politician, after all, who had almost always crowded two workdays into one, and who had clung to a seven-day work-week from the beginning of his political career. The clear, cold Pedernales river and the purple-crowned hills of Central Texas beckoned, as did a lighter, less frenetic daily regimen. He looked forward to schedules with lots of room for improvisation and time for quiet reflection. He vowed to start smoking again and to quit worrying about his diet. And he longed to escape the feeling, as he once put it to Jack Valenti when he felt hemmed in by the daily schedule before him, that he was being killed slowly, "like being nibbled to death by ducks."[48]

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[47] Johnson was sympathetic to criticisms of civil rights progress, in particular, having remarked in August 1965 after the Watts explosion, "I've moved the Negro from D+ to C-. He's still nowhere. He knows it. And that's why he's out in the streets. Hell, I'd be there too." Quoted in Doris Kearns, *Lyndon Johnson and the American Dream* (New York: Harper and Row, 1976), 305. Johnson also made a similar remark after the King assassination and subsequent riots in April, 1968. "If you keep your foot on a man's neck for a hundred years," Johnson told George Christian, "then you take your foot off, what's he going to do?" Cited by George Christian in Robert Hardesty, ed., *The Johnson Years: The Difference He Made* (Austin: Board of Regents, University of Texas, 1993), 31.

[48] Kearns, *Lyndon Johnson and the American Dream*, 176. After a trip to the LBJ ranch in late 1969, ostensibly to brief Johnson on the Nixon administration plans for foreign policy, Henry Kissinger

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The most interesting aspect of President Johnson's demeanor, however, as he prepared to step down from the presidency, was the surpassing confidence he exuded whenever he referred to the legacy of his social and economic policies, an outlook that was exemplified in large measure by the December 1968 Business Council dinner. Vietnam would always be a badge of not inconsiderable shame, but the Great Society, the thriving U.S. economy, these were things of which he could always be proud. In the autobiography of his presidential years, published in 1971, Johnson noted proudly how United Nations ambassador Russell Wiggins underlined this point at his administration's last cabinet meeting on January 17, 1969:

> It is seldom that within the electoral span of a single administration do we plant and harvest. Usually the results are deferred until after the administration has been succeeded by others. We are really orchardists and not grain growers. Crop maturity is long deferred. I feel confident, Mr. President, that when the fruits of your policies are gathered in, Americans are going to say, 'How great the harvest has been.'

At the same meeting, Secretary of the Treasury Joseph Barr added, "I suppose I leave as one of the rare Secretaries of the Treasury who could say the cash register is full."[49]

Indeed, when Johnson turned the presidency over to Richard Nixon on January 20, 1969 the cash register was quite full indeed. Management of the most pressing economic problems also seemed well within the expanding grasp of his departing administration. The nation's unemployment rate stood at 3.3%, the lowest figure since 1953. The budget for the current fiscal year was in surplus (Johnson's second, and the third of the Kennedy-Johnson era), and in fact, would eventually show a higher ($3.1 billion) actual surplus than Johnson predicted ($2.4 billion) when he left office. The budget for fiscal year 1970, submitted on January 15, 1969, anticipated an even larger

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recorded a somewhat different perception. "Lady Bird Johnson drove me back to the airstrip and she asked me how I thought President Johnson seemed these days. I mumbled something about 'serenity in retirement' and she almost drove off the road. I suppose flattery has to be related to reality, however vaguely." Quoted in Miller, *Lyndon*, 576.

[49] Lyndon B. Johnson, *The Vantage Point*, 550.

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budget surplus ($3.4 billion).[50] The nation had a favorable balance of trade for the first time in 11 years, the Dow-Jones index had reached the magical 1,000 level, and the economy in general showed little signs of faltering. Outside of the high jobless figures and the continued underemployment among many of the nation's minorities, the lone trouble spot in the nation's economic picture was price inflation. "America's economic success story does have a major blemish—inflation—and I would be less than candid to gloss over it," Johnson noted in his December 1968 address to the Business Council.[51] Even here, however, there did not seem to be great cause for continued alarm. While the increase in the Consumer Price Index for 1968 stood at 4.7%, too high by almost any standard, the CPI increase for Johnson's last full month in office (December 1968) was only 0.2%—the equivalent of a 2.4% annual rate.[52] Outgoing chairman of the Council of Economic Advisers, Arthur Okun, remarked that the nation was finally witnessing the "obsolescence of the business cycle pattern," adding as well, in a November 1968, memo to Johnson, that the "economy is moving into better balance and we have turned the corner toward price stability."[53] To the members of the Business Council the following month, Johnson warned that "the slowdown is coming very gradually," but that "the economy is no longer plagued by the fever it had earlier this year."[54] Johnson also continued to receive estimates, after Okun's November memo, suggesting that the recently passed tax surcharge bill (June 1968) had begun to subdue inflationary

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[50] Deficit statistics from Robert J. Gordon, *Macroeconomics*, fourth edition (Boston: Little, Brown, 1987), Table B-1, and Lester A. Sobel, ed., *Inflation and the Nixon Administration* (New York: Facts on File, 1974), 19. The FY 1970 surplus turned into a deficit, however, as Nixon's policies led to higher interest rates (intentionally)–that increased payments on the national debt, higher Medicare and Veterans' benefits payments (because of rising health care costs), and an underestimate of tax receipts (for the first time since FY 1960) due to the recession beginning in November 1969.
[51] *Public Papers, Lyndon B. Johnson, 1968-1969: II*, 1168.
[52] *Consumer Price Index Detailed Report*, January 1969.
[53] James E. Anderson and Jared Hazleton, *Managing Macroeconomic Policy: The Johnson Presidency* (Austin: University of Texas Press, 1986), 6.
[54] *Public Papers, Lyndon B. Johnson, 1968-1969: II*, 1168.

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expectations.[55] While investment demand seemed to be responding perversely, factoring in, perhaps, the supply side tendencies of the President-elect, consumers were changing their outlook. As a result. the Gross National Product had slowed from a 6.5% annual rate early in 1968 to a less rapid 4% at the end of the year. The budget surplus for fiscal year 1969, the curtailment of Vietnam related military spending in the fiscal year 1970 budget, and a renewed attack on significant microeconomic problems—from wage-price policy to health care costs—also signalled at least some improvement in the price inflation outlook. "The budget is now in harmony with the needs of the economy," Johnson added in his January 1969 Economic Report to Congress, "and its welcome effects are gradually emerging."[56] Even on the price front things were looking up.

Despite the promising outlook for price stability as he prepared to leave the White House, Johnson remained wary of the *political* gamesmanship to which his inflation fighting policies would be exposed. Johnson's Republican and conservative Democratic opponents had exhibited little inclination to stage a vigorous battle against the growing inflationary momentum largely because it had provided them with a convenient tool with which to attack and discredit the liberal policies they opposed.[57] To many of them it was simply evidence—difficult to refute or qualify—that they were right and their liberal opponents were wrong. As a consequence, effective anti-inflation policy had to be as politically resilient as it was economically circumspect. If Nixon chose to ignore inflation, then, simply because he could still blame it all on his political opponents in general—and Lyndon Johnson and the New Economics in particular—there was every likelihood that it would begin to feed on itself, altering the expectations and

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[55] The surcharge called for an additional tax equal to 10% of the tax paid under the previous tax schedule. If a taxpayer owed $400 in federal tax for 1967, for example, they would owe $440 for 1968. See Chapter 8 for a more detailed examination of the tax surcharge issue.
[56] *Public Papers, Lyndon B. Johnson, 1968-1969: II*, 1314.
[57] See Joseph Kraft, "Republicans Seek to Blame Democrats for Any Inflation," *Washington Post*, October 5, 1967, A25. Kraft reported here on the Republican effort to stall the Johnson administration's tax surcharge proposal "to the point of assuring a stiff dose of inflation bound to be blamed on the Democrats." See also Chapter 9 for examples of this ruse within the Nixon administration.

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prerogatives of a increasing number of economic actors and confounding the efforts of economic analysts and policymakers. Indeed, Johnson had been warned by Arthur Okun in May 1968 that accelerating inflation would in itself "strengthen the hand of reactionaries on the Hill."[58] Since Johnson had far more to lose at the hands of continued high inflation than did his Republican successor, it is quite ironic that Nixon—who ultimately confirmed Johnson's suspicions and ignored inflation throughout most of his first term—retained the mantel of the serious inflation fighter while Johnson came to be known instead as a President who carelessly fanned the flames of price inflation.

In Johnson's final analysis, however, Vietnam—rather than inflation—had given Nixon the keys to the White House. Accordingly, he hoped that inflation might very well cease to be the object of partisan politics, keeping it open to solutions suggested by the New Economics. "I do not doubt," Keynes once noted, "that a serious problem will arise when we have a combination of collective bargaining and full employment. But I am not sure how much light the analytical method you apply can throw on this essentially political problem."[59] While they utilized macroeconomic adjustments, such as budget cuts and a small tax rise (surcharge) in mid-1968, Johnson and his economic advisers had addressed the inflation problem much the way Keynes had suggested. Urging cooperation between labor and business, deploying the significant microeconomic leverage that extensive government contracting allowed, and highlighting the bargaining power of managers against consumers, rather than workers alone, they had transformed the struggle against inflation from a matter of macroeconomic routine into a largely microeconomic effort with primarily political overtones and variables. This kind of politics, unlike that which made inflation a

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[58] *Administrative History of the Council of Economic Advisers, vol.II*, Box 1, L.B.J. Library

[59] Quoted by Aubrey Jones, "Inflation as an Industrial Problem," in Robert Skidelsky, ed., *The End of the Keynesian Era: Essays on the Disintegration of the Keynesian Political Economy* (New York: Holmes and Meier, 1977), 53.

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political football, thrived on consensus and cooperation rather than confrontation or party ideology. As such, it served as a substantial source of the retiring President's cautious optimism.

Twenty-five years later, President Johnson's optimism is shrouded in irony and the New Economics remains a relic of the recent past, discredited for its well meaning but presumably naive approach to the nation's political economy. Leaving the White House in 1969, clearly dragged down by the war in Vietnam, Johnson still believed that the New Economics possessed great unfulfilled potential.[60] Sensing that the initiatives of the new approach had only begun to prove themselves, he believed that future historians would record a notable and auspicious achievement when they began to judge him on the basis of his protracted economic and social policies, rather than his prosecution of the war in Vietnam. While this seemed unlikely in 1969, with the war raging on, and only a little less so when Johnson died in January 1973—two days after Nixon's second inauguration and three months before the last American troops left Vietnam—Johnson remained hopeful to the end.

Nearly a decade after his death, Johnson truly came to be judged on the basis of the economic and social policies he so confidently bequeathed to the next generation. Despite the unrivaled economic and social progress of the Johnson years, however, the judgement that Johnson expected to be generous and laudatory turned out to be an unambiguous, even chiding, repudiation. By 1980, when Ronald Reagan capped off the return to the traditional political economy that had preceded the Kennedy and Johnson administrations, the Johnson years came to be seen as as a watershed in American economic history, but one with a profoundly sour and economically debilitating legacy.

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[60] Johnson invariably referred to the 1965 Voting Rights Act as his greatest *single* accomplishment. In many ways, however, he also saw voting rights as the key to improved economic opportunity under the New Economics strategy umbrella. "It is the effort of American Negroes to secure for themselves the full blessing of American life," Johnson remarked of the Voting Rights struggle in his March 15, 1965 speech to Congress. See Johnson, "Special Message to Congress: The American Promise," March 15, 1965, *Public Papers, 1965: I*, 284.

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Ironically, the "bitch of a war" that critically undermined the Johnson presidency suddenly became a noble crusade hampered only by liberal disdain and left-wing divisiveness, while the New Economics and its otherwise sparkling record became the symbol of American decline and economic instability. Intoning what became a mantra for Democrats and Republicans alike in the 1980s, Reagan summed up the Johnson years with one of his most commonly accepted, yet thoroughly misleading, perorations: "In 1964 the famous War on Poverty was declared, and a funny thing happened. Poverty, as measured by dependency, stopped shrinking and then actually began to grow worse. I guess you could say poverty won the war."[61]

Although it represented a conclusion that rested upon myth and upon the nation's jumbled emotional compass as much as historical fact, Reagan's assessment was generally made believable only for what it implied about the latent, long range effects of Johnson's War on Poverty. No one, Reagan's economic advisers included, could very effectively advance the claim that poverty in the U.S had not declined under Johnson, for it had by a considerable amount. It became accepted, rather, for its much harder to disprove claim that the War on Poverty, the Great Society, and the New Economics had saddled the American economy with an inflation that wreaked most of its havoc after the Johnson presidency. The true consequences of Johnson's economic policies, critics would hasten to point out, simply were not evident until one had a good look at the long run. Producing an inflation that possessed a virtually unstoppable momentum, Johnson's economic policies, according to these critics (and the now traditional reading), doomed the last quarter of the twentieth century to economic upheaval and instability and to the social malaise created by declining productivity, a parasitic "culture of poverty," and

[61] Ronald Reagan, "Radio Address on Welfare Reform," February 15,1986, in Davis W. Houck and Amos Kiewe, eds., *Actor, Ideologue, Politician: The Public Speeches of Ronald Reagan* (Westport, CT: Greenwood Press, 1993), 288. Pretending, here, that poverty began to grow worse in 1964, and not in 1973 when statistics revealed the first increase in the poverty level since the 1950s, Reagan still convinced many that Johnson's War on Poverty created little but economic instability and deterioration.

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fractured and uneven economic growth. The "stagflation" of the 1970s had presumably confirmed what the radical right had been saying about the Johnson political economy all along: it would achieve little but fleeting economic gains, it would promote a welfare dependency that would destroy American productivity, and it would create a raging inflation that could be tamed only with a strong dose of economic austerity.

The Great Inflation of the 1970s, then, is seen as both the critical economic malady of the late twentieth century United States, and as the Achilles heel of Lyndon Johnson's Great Society. Johnson tried to do too much too soon, critics charged; his attempt to have both guns *and* butter sparked an inevitable inflationary spiral. When Nixon and his economic advisers spoke of having inherited a classic demand pull inflation caused by the Great Society, few doubted their claims, and the still prevalent assessment of the New Economics began to take shape. The Democrats' attempt, Nixon Undersecretary of the Treasury Charls Walker exclaimed in 1970, "to have guns, butter, fat, and a Great Society, all within a few years, assured that the economy would fall prey to the ravages of deep and accelerating inflation."[62] Johnson, himself, had once suggested that "the Democratic party had pressed too far out in front of the American people." By this, however, he had implied that his party had pushed political, not economic, changes too fast and too far.[63] "You wind up reacting when you ought to be acting on a positive plan," Johnson told his former assistant Bobby Baker in 1967, "because there's seldom time to think things through. You run around putting your fingers in the leaks, trying to patch this or that up, but its all too hully gully."[64] Vietnam was a quagmire. Community Action was often politically divisive. Medicaid and Medicare urgently required cost controls. Many other Great Society programs—from Highway Beautification to the Job

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[62] Cited in Sobel,ed., *Inflation and the Nixon Administration*, 115. "Charls" is the correct spelling for Nixon's one-time Undersecretary of the Treasury, a conservative Texas Democrat who had actually assisted Johnson in his 1941 senatorial campaign.
[63] Johnson, *The Vantage Point*, 549.
[64] Quoted in Bobby Baker with Larry L. King, "Wheeling and Dealing," *Playboy*, June 1978, 266.

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Corps were also contaminated by hasty compromise and profound political fragmentation. The arrest and resignation of Walter Jenkins in 1964, Johnson's most trusted aide and a man whom journalist Sarah McClendon called the "most efficient person I ever witnessed in government," also hampered Johnson's organizational efforts to some extent.[65] "...There was never anyone to really take his place," Jack Valenti recalled.[66] But when it came to the management of the economy, President Johnson had always marshaled his greatest managerial attributes and his most principled uncompromising efforts. That task, Johnson believed, was undertaken methodically and coherently; it was anything but "hully gully."

Utilizing both the "perverse effect" theory, which highlighted unintended consequences, and still popular fragments of the "old-time" economic religion, critics—like Charls Walker—grumbled mostly, however, about a government that tried to do too much *economically*, about the resulting excess demand, and the inevitable inflation that followed. To these critics hasty compromise and political fragmentation were irrelevant; inflation was clear evidence, they claimed, that the New Economics and the Keynesian revolution had simply reached its logical and ignominious conclusion. Foolish enough to tangle with the natural laws of the free market, the plaintiffs lamented, Johnson paid for it in the long run when the market determined that jobs and economic growth—the primary goals of his policies—would have to be sacrificed to control the price inflation produced by these same initiatives.[67] To President Johnson and his advisers, however, "the market" had played only a secondary role in the creation of the late 1960s price inflation. Inflation was certainly not mitigated by the high demand and full employment

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[65] Sarah McClendon, Oral History Interview, interviewed by Joe Frantz, February 16, 1972, LBJ Library, 38.

[66] Valenti, *A Very Human President*, 92. Eric Goldman believed that Jenkins' departure led to a "permanently fragmented" White House staff. See Goldman, *The Tragedy of Lyndon Johnson*, 275.

[67] The theory of the "perverse effect" is often invoked to suggest that Johnson's attempt to push society in a given direction moved it wholly in an opposite direction. For an extended discussion of the "perverse effect" theory as fallacy see Albert O. Hirschman, *The Rhetoric of Reaction: Perversity, Futility, and Jeopardy* (Cambridge: Harvard University Press, Belknap Press, 1991).

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of the Johnson years, but it did not arise exclusively, or even primarily, from these factors either. In certain businesses and even in certain sectors there was evidence of some demand-pull inflation, but it was neither widespread nor lasting and in some cases would have occurred even below full employment or with a budget in surplus. The macroeconomic priorities of the New Economics were seldom the cause even where demand-pull inflation existed to an obvious extent. Inherent productivity lag, for example, along with the need for upward adjustment of relative wage compensation, often created genuine demand-pull inflation in the nation's service sector, a sector that had begun to exhibit substantial growth in the 1960s. Likewise, food and raw materials prices also exhibited great sensitivity to increases in aggregate demand and they displayed authentic demand-pull inflation midst the full employment of the late 1960s. Yet, they also tended to be triggered by temporary supply shocks and were often buttressed by tariffs, import quotas, and subsidies—non-market forces that could be readily adjusted with substantial price softening consequences. Changes in supply, not demand, were often the key factor. There were also more specific cases, such as the shipbuilding industry, in which wartime demand and the need for specialized human and physical capital forced a constrained supply to brush up against a burgeoning, and in the short run, excessive demand. Despite the residual effects of inflation in an industry such as shipbuilding, with its obvious implications for commercial shipping in general and transportation costs to a lesser extent, this was not truly a problem, however, related to an economic policy that was somehow too insistent on high demand or full employment. A more long-term decline in the dead-weight tonnage of the nation's merchant marine and the special demands of Vietnam had far greater bearing on this still relatively isolated problem.[68]

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[68] Dead weight tonnage of the nation's merchant marine fell from 13.8 million in 1950 to 12.8 million in 1973. See "Federal Aids to the Maritime Industry," in *Economics of Federal Subsidy Programs*, part 6, "Transportation Subsidies," Joint Economic Committee, prepared by Gerald Jantscher, 93rd Congress, 1st session, February 26, 1973 (Washington: U.S.G.P.O., 1973).

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It was also true, as the Reagan administration proved to a certain extent in the early 1980s, that a wide retreat from full employment, combined with curtailed government assistance to the unemployed poor and the working class (and *higher* taxes as well if state, local, and social security liabilities are included), could tame much of the nation's demand-pull inflation and some of the inflation that was not of the demand-pull variety.[69] To Keynes, Johnson, and the New Economists of the Kennedy-Johnson era, however, that was like washing a car with a belt sander. Since much of the inflation of the late 1960s and early 1970s did not arise from excess demand or genuine free market forces, it could also be tamed without resorting to strategies that curtailed consumer demand, increased unemployment, or widened economic misery. Keynes had, in fact, anticipated this kind of inflation, if and when his full employment prescriptions had begun to bear fruit, and the Johnson administration had fully equipped itself, politically and ideologically, to fight it. It did imply, however, a sea change in both the habits and customs of the business world and the posture of the federal government. "It was an obvious rider to *The General Theory*, Joan Robinson asserted, that if we are to enjoy continuous near-full employment without changing the institutions and habits of industrial bargaining, we shall suffer from inflation."[70]

By the end of his presidency, Lyndon Johnson saw this need for change as both a formidable challenge that his administration had just begun to meet, and as a fundamental part of the Keynesian revolution, an aspect upon which the *general* nature of *The General Theory* rested. That Keynes himself grappled incompletely and indirectly with this challenge is testimony not to his limited relevance but to the absence in his professional career of the peacetime full employment economy necessary to bring it all about. For all of his theoretical brilliance, as D.E. Moggridge pointed out, Keynes

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[69] Just as the reversion to the old economic orthodoxy has changed the definition of "full employment"—from 3-4% to 5-6%—it has also changed the definition of price stability. A 2-3% inflation rate, considered a "stable" rate in the 1980s and 1990s, was deemed unacceptably high in the late 1960s.
[70] Robinson, "What Has Become of the Keynesian Revolution?" 129.

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was a man "whose interests in economic theory were almost completely practical; he was never much interested in pure theory except as a guide to action."[71] Reparations, currency reform, wartime finance, and post-war reconstruction all became objects of Keynes's practical concerns; pricing policies at full employment did not.

By the mid-1960s a mostly peacetime full employment economy had been established and Lyndon Johnson began what he and his advisers believed to be the culmination of the Keynesian revolution. "I believe we are entering a new era of cooperation between government and business and labor and the many groups which form this nation," Johnson declared in 1964. "This does not mean that we will always agree. It does mean that we have created an economy which has never existed before, and which some said could never exist."[72] Convinced, at the end of his presidency, that consumer demand had caused precious little of the existing price inflation, Johnson saw no reason to heed the warnings of those who decried the profligacy of his "guns and butter" strategy, who sought deep fiscal retrenchment, or who recommended austere monetary policy. He did not blanch at either budget cuts or small tax increases out of his reluctance to cripple the Great Society, though he clearly wanted to expand many of its programs. He would have cut some Great Society programs regardless of the nation's

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[71] D.E. Moggridge, "The Influence of Keynes on the Economics of His Time," in Milo Keynes, ed., *Essays on John Maynard Keynes,* 74. On Keynes's avoidance of the imperfectly competitive pricing model for his chapter on prices in *The General Theory,* Geoffrey Harcourt pointed out that Keynes was MacMillan's reader for Joan Robinson's *The Economics of Imperfect Competition*, and that Harrod highlighted for Keynes in the 1920s the advantage of having imperfectly competitive microeconomic foundations. Harcourt suggests that Keynes ignored such an advantageous microeconomic foundation, though he believed in it and understood it well, because he thought it "tactically unwise." It was as if Keynes felt compelled to say, Harcourt suggested, "I will assume a competitive environment so that you cannot say that I have obtained my unemployment results by slipping in monopoly, in which situation everybody knows (but Harrod demurred) that unemployment can result and yet I will get involuntary unemployment and an underemployment equilibrium." See Harcourt, "Theoretical Methods and Unfinished Business," 12-13. Describing what he saw as Keynes's tactical mistakes James Tobin recalled Keynes's assumption that everyone was a price-taker and added that "Keynes knew better. The discussions of price and wage formation in his book are full of realistic observations, but they are not incorporated into the structure of his argument." See Tobin, "Keynesian Economics and Its Renaissance," 117.

[72] *Public Papers, Lyndon B. Johnson, 1963-1964: II*, 881.

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fiscal status or price stability. Others sustained cuts precisely because he wanted to achieve the proper fiscal balance. Nor did he ignore sage economic advice simply because he hoped to continue the nation's tragic and flawed crusade in Southeast Asia. By the last full year of his presidency, had he been able to muster the clarity of thought and vision and the political strength required to do the job, he would have been glad to end the whole affair on a moment's notice. "Don't worry John," Johnson once Health, education, and Welfare Secretary John Gardner in 1967. "We're going to end this war and then you'll have all the money you want for education, health, and everything else."[73] He sought no retreat from existing macroeconomic policy, instead, because he believed it to be appropriate and thought it to be moving into better balance even as inflation became an increasingly tangible threat to the nation's ongoing prosperity. The prescriptions for retrenchment and monetary austerity were precisely the avenues his economic strategy was designed to avoid. What he sought instead was a new approach to inflation that focused more on the nature of industrial bargaining, fix-price markets, and an increasingly disingenuous style of corporate cost management. This was in part a struggle that Johnson had inherited from President Kennedy and had accepted early in his presidency. "Like our late President," Johnson told the Consumer Advisory Council in late 1963, "I do not believe that the Federal government should be a meddlesome busybody, sticking its nose into every aspect of private decision-making. But I am deeply aware...that a renewal of the price-wage spiral would endanger our domestic expansion and our international balance of payments."[74] The appearance of unacceptably high inflation rates (3 to 4%) in his last year in office, however, had clearly moved this struggle to a higher political ground.

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[73] Quoted by S. Douglass Cater, Oral History Interview, interviewed by Joe Frantz, May 26, 1967, Palo Alto, California, LBJ Library, 22.
[74] *Ibid., 1963-1964: I*, 54.

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The reaction to this effort, that was never popular or well understood to begin with, was as swift as it was hostile. Bereft of steadfast supporters on the Left, largely because of the war in Vietnam, confounded by the tepid pseudo-Keynesianism of his more reliable supporters in the business community, and trapped somewhat by the persistent belief that he, rather than a system of economic principles, remained the reason for relative wage-price stability, Johnson found few allies in his fight against inflation and ultimately had little impact on the economic policy debate that followed his tumultuous presidency. Besieged by both anti-Keynesian economists and conservative politicians alike, Johnson's approach to relative price stability at full employment, suitable as it may have been, stood only a slim chance of surviving his presidency.

Though their deliberations were seldom discussed publicly, economists joined the fray by assailing genuine weaknesses in existing Keynesian models and popular versions of Keynesian economic theory. Monetarists, led by future Nobel laureate Milton Friedman, charged that the Keynesians in the Johnson administration had ignored money supply to the detriment of price stability. Friedmanites judged Keynes the author of the doctrine that "money does not matter" and believed that the followers of Keynes, in the Kennedy and Johnson administrations, had ignored the quantity theory of money, a theory that predicted greater price changes than changes in output when money supply increased rapidly. In truth, money did matter greatly to Keynes—so much so that he saw it as transforming the fundamental nature of the exchange economy—and the Keynesian economists of the New Frontier and Great Society had not ignored the quantity theory of money. They simply termed it invalid and did a thorough job of proving it so. As Will Hutton noted, "the Keynesian interpretation of markets emphasizes...the manner in which uncertainty, changing expectations, *and money* all combine to put the load of adjustment in markets on quantity rather than price."[75]

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[75] Will Hutton, *The Revolution That Never Was: An Assessment of Keynesian Economics* (New York: Longman Inc., 1986), 116. Emphasis added.

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Keynes took monetary economics into the short period, D.E. Moggridge added, "into the real world where markets adjust to changes at widely different speeds under the influence of uncertainty where the analysis of neutral money is irrelevant."[76] To Keynes and the Keynesians of the Kennedy-Johnson years, money was not an exogenous factor, but it was most often a passive one. Only at full employment, when accelerated monetary expansion would indeed change prices more than output, did the classical-monetarist theory make sense. The ostensibly anti-Keynesian Arthur Burns—teacher of Milton Friedman at Rutgers, adviser to Presidents Eisenhower and Nixon, and Fed chairman in the early 1970s—may have best summed up the Keynesian position. "You know," Burns mused while serving as Fed chairman, "all this talk about the growth of money misses the point that what is important about money, particularly in the short run, is the willingness to use it—not the size of the stock or the rate at which the stock is growing."[77]

The monetarist critique remained persuasive, however, in spite of its various shortcomings. One reason was that monetary models predicted economic trends in the late 1960s with greater accuracy than did some of the Keynesian models. During that period, changes in M1, the part of the nation's money stock representing checking accounts and currency in circulation, corresponded remarkably well indeed with changes in the nation's economic output. In 1966 M1 was 22.84% of total production. In 1967, 1968, and 1969, it was, respectively, 22.45%, 21.97%, and 21.54% of the nation's GNP.[78] This should have, nevertheless, provoked little surprise in the Keynesian camp, for Keynes himself had suggested that money supply would move more in tandem with the overall economy at full employment and high capacity utilization levels (such as those that prevailed in the late 1960s). He also noted that artificial attempts to increase

[76] Moggridge, "The Influence of Keynes on the Economics of His Time," 78.
[77] Quoted in Aubrey Jones, "Inflation as an Industrial Problem," 52.
[78] Wyatt C. Wells, *Economist in an Uncertain World: Arthur F. Burns and the Federal Reserve, 1970-1978* (New York: Columbia University Press, 1994), 24; Herbert Stein, *Presidential Economics*, 397.

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output with greater supplies of money, at this same point in the economic cycle, would have a more substantial effect on price than it would on output. In fact, the Keynesian emphasis on full employment and aggregate demand stemmed largely from Keynes's realization that high demand would smooth out the otherwise highly speculative and unpredictable preferences for capital investment, and therefore the demand for money, and obviate the need for either artificial monetary stimulus or a close watch over the money supply. One of the fundamental differences between the Keynesian conception of money and that of the monetarists was that Keynes believed the private banking system, and even private corporations, to be important vehicles for money supply changes, particularly during periods of economic expansion and at full employment. The monetarists, on the other hand, conceived of a system by which all changes in money supply came at the direction of the Federal Reserve. That M1 lagged slightly behind total production in the late 1960s also suggests that the monetarists were wrong about the alleged Keynesian indifference to money supply and the resulting inflation. As Frank Hahn pointed out, their tendency to amalgamate consumption and investment into total expenditure allowed them to ignore pertinent variables, like productive capacity, in the determination of the price pressure created by total demand.[79]

Neo-Austrian economists, such as Friedrich Hayek, Ludwig Lachmann, Israel Kirzner, and Murray Rothbard, unlike the monetarists, set out to refute the whole Keynesian approach. Beginning with an antipathy toward overplanning, which Keynes and many of the Keynesians shared, the neo-Austrians suggested that New Economics erred in its reliance on a statistical aggregate of all wages (ignoring real wage structure), a simple consumption function which conceived of a fixed relationship between consumption and income, and a conception of capital as homogeneous (without a complex interlocking structure or a dependence upon market signals like interest rates

[79] Hahn, "Some Keynesian Reflections on Monetarism," 3.

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and prices).[80] Against the simple models hammered out from Keynes's original theory, used primarily by the Kennedy-Johnson advisers as starting points or crude illustrations, rather than complete models, these criticisms were as valid as they were compelling. But the New Economics was not as simple or as naive as these models often suggested. Johnson's economic advisers did utilize, on occasion, an all too generic "wage level" in their efforts to determine the general composition of the nation's demand. But it was merely one step in their far greater efforts to bridge the demand gap and to attain full employment with relative price stability. At that stage and for that purpose, anything more complex was unnecessary. They also made a distinction, between wages in different labor markets (skilled versus unskilled; blue-collar versus white collar) when it really counted, particularly in the struggle against inflation following the attainment of near-full employment in 1966.[81] Keynes had also provided the modest rationale for the consumption function in *The General Theory*, declaring that "the fundamental psychological law upon which we are entitled to depend with great confidence, both a priori and from our detailed knowledge of human nature and from detailed facts of experience, is that men are disposed, as a rule and on the average, to increase their consumption as their income increases, but not by as much as the increase in their income."[82] As Hyman Minsky pointed out, the consumption function was to be an opening wedge rather than a tool for universal analysis, for Keynes also listed a number of factors other than income that affected consumption: net income instead of gross income; capital gains and losses; interest rates; anticipated price level changes; government and business fiscal and financial policy; and expectations of future

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[80] Peter Lilley, "Two Critics of Keynes: Friedman and Hayek," in Skidelsky, ed., *The End of the Keynesian Era*, 30-32.
[81] See chapter 6 on the Wage-Price policy of the Johnson administration.
[82] Keynes, *The General Theory*, 96.

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income.[83] Explaining consumption as a psychological law truly raised as many questions as it answered, but the New Economists did not pretend otherwise.[84]

Keynes's, and Lyndon Johnson's, advocacy of low interest rates, coupled with the Keynesian deployment of the Hicks-Hansen model (IS-LM) and its more sophisticated variants, seemed to suggest that market signals (like interest rates) were not signals at all, and that they had little bearing on natural movements in the marketplace. The simultaneous equilibrium of commodity and money markets in the Hicks-Hansen model suggested as much.[85] One of Keynes's primary contentions, however, was that interest rates were significant market signals but that they often failed to bring savings and investment into identity as his Classical predecessors (and successors) claimed. "The whole point about expectations [in the Keynesian system]," Will Hutton noted, "is that they change, and they may change at any point along the schedule [supply and demand for money or L-M curve], to the extent that the very concept of a schedule in which interest and income correspond to certain levels of demand for money is bogus."[86] As Keynes himself noted, greater quantities of savings *tended* to lower the rate of interest, but "there were several slips between the cup and the lip."[87] The neo-Austrian

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[83] Minsky, *John Maynard Keynes*, 27-28.
[84] Hutton, *The Revolution That Never Was*, 135-136. Gardner Ackley, Johnson's CEA chair from late 1964 to early 1968, in his widely read publication *Macroeconomic Theory*, does assert that the consumption function lay "at the heart of modern macroeconomics," thereby exposing the New Economics to the aforementioned criticism. See Ackley, *Macroeconomic Theory* (New York: The Macmillan Co, 1964), viii. In his later publication, *Macroeconomics: Theory and Policy*, meant to replace *Macroeconomic Theory*, Ackley does explain his contention more clearly: "The purpose of this demonstration [the validity of the simple consumption function] is not to support the conclusion that this is *all* we need to know in order to understand what role consumer spending plays in determining GNP. It is intended only (a) as the starting point for a later, far more detailed and critical analysis of the determinants of aggregate consumption, and (b) to provide one ingredient for the simple static macroeconomic models that are described in Parts III and IV of this book." See Ackley, *Macroeconomics: Theory and Policy* (New York: Macmillan, 1978), 170.
[85] The Hicks-Hansen (IS-LM) model was devised by John Hicks in "'Mr. Keynes and the Classics; A Suggested Interpretation," *Econometrica*, Volume 5, 1937, 147-159. IS-LM denotes the strategic variables in the basic Keynesian model: IS = Investment/Savings Curve (sloped negatively); LM = Liquidity Preference/Demand for Money Curve (sloped positively). y-axis = interest rate; x-axis = net national product.
[86] Hutton, *The Revolution That Never Was*, 126-127.
[87] Keynes, *The General Theory*, 178.

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contention that Keynes and the Kennedy-Johnson economists ignored the varied character of the nation's capital network is even less plausible. Johnson CEA chairman Gardner Ackley pointed out how the acknowledgement of this character was, in fact, one of the primary reasons Keynes termed investment the most significant, yet also the most capricious, element in a capitalist economy:

> One possible reason why investment is so difficult to explain and predict is essentially the reason that Keynes gave a generation ago. Investment decisions depend [upon] judgements about the future, and the rather distant future at that....Even if the future is somewhat knowable in its broad dimensions, investment decisions are not made in the aggregate but one at a time and independently...and the success or failure of each such decision depends not only on what happens to the aggregate economy but as much on what happens to particular firms and industries.[88]

Although the Hicks-Hansen model was a more accurate representation of the basic Keynesian approach than a simple consumption function—which ignored the impact of the money market upon the savings-investment relationship—it did not consider the role of uncertainty in business investment and portfolio decisions and it implied an equilibrium where Keynes suggested there would be none. As such, Hyman Minsky noted, "it was an unfair and naive representation of Keynes's subtle and sophisticated views."[89] Even John Hicks, whose model lay at the source of the descriptive problem, decried its misrepresentation. "To many students, I fear," Hicks noted in 1974, "it is the Keynes theory. But it was never intended as more than a representation of what appeared to be a central part of the Keynes theory."[90] This model and its more sophisticated variants also made it difficult, to the extent that the Kennedy-Johnson advisers failed to emphasize its limited usefulness, to defend the New Economics from the swelling monetarist or neo-Austrian criticism. Because the Hicks-Hansen model

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[88] Ackley, *Macroeconomics: Theory and Policy*, 660.
[89] Minsky, *John Maynard Keynes*, 38. Minsky based this claim upon both *The General Theory* and Keynes's rebuttal to Jacob Viner's review of Hicks's model. See J.R. Hicks, "Mr. Keynes and the Classics; A Suggested Interpretation," Econometrica, 5, 1937, 147-159; and Keynes, "The General Theory of Employment," *Quarterly Journal of Economics*, February 1937, 209-223.
[90] Hicks, *The Crisis in Keynesian Economics*, 6.

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negated the essential Keynesian unpredictability and disequilibrium of the investment-savings relationship, it made it especially difficult for the neo-Keynesians to defend themselves against the monetarist proposition that real income and employment rise and fall with money supply. Keynes believed that it did when a savings to investment identity was assured; the Hicks-Hansen model (and the prevailing economic status in the late 1960s) suggested just such an identity.[91]

The debate between Keynesian and monetarist economists clearly came to a head in the late 1960s as the Consumer Price Index approached unacceptably high levels. Because near-full employment had indeed been attained at that point and the monetarist special case fitted reality, the debate tended to shift away from *general* macroeconomics and price creation and toward the issue of price control, ceding significant theoretical ground to the monetarists in the process. Inflexible money wages remained a problem for a monetarist regime and its attempts to control price inflation, Keynesian economists pointed out. Suggested that inflexible wages simply made monetarist deflation too costly and ineffective, Keynesians did much to weaken the monetarist paradigm but did little to shore up their own. "It has become sort of a skeet-shooting sport," Axel Leijonhufvud noted in 1987, "to take potshots at [Keynesian explanations of wage inflexibility] as they pop up in print."[92]

On the heels of this debate over wage flexibility arose a third major challenge to Keynesian economics. Trying to account for genuine wage stickiness and some cycle in real business activity that would still square with a non-interventionist approach, neoclassicists, led principally by Robert Lucas of the University of Chicago, maintained

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[91] See Axel Leijonhufvud, "Whatever Happened to Keynesian Economics," in Reese, ed., *The Legacy of Keynes*, 67-68; Leijonhufvud, "What Was The Matter With IS-LM?" in Jean-Paul Fitoussi, ed., *Modern Macroeconomic Theory* (Oxford: Basil Blackwell, 1983); Hutton, *The Revolution That Never Was*, 126-133; Minsky, *John Maynard Keynes*, 19-28; Hahn, "Some Keynesian Reflections on Monetarism," 7; Ackley, *Macroeconomics: Theory and Policy*, 358-369, for more detailed analyses of problems associated with popular Keynesian models, all of which I borrowed from heavily.
[92] Leijonhufvud, "Whatever Happened to Keynesian Economics?" 67.

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that short-lived, rapidly corrected misperceptions—about future prices, wages, or costs—gave way to "rational expectations" about the same that contained no perceptible forecasting errors. The neoclassical approach contained two significant criticisms of Keynesian economics: labor market stickiness was not caused by ingrained institutional habits or customs, as the Keynesians contended, but by short-lived forecasting errors; and (once rational expectations prevailed) government macroeconomic intervention was fruitless, contrary to the basic Keynesian assessment, since actual values were always close to equilibrium values no matter how rapidly or widely they changed.[93] Elaborate statistical tests do suggest that stock prices, following a "random walk," confirm this theory; applying it to the general economy is another matter all together.[94] Arthur Okun, Johnson CEA member and chairman, provided a brilliant and critical analysis of the neoclassical position, and an implicit defense of Keynesian economics, just before his untimely death in March 1980. Okun, the youngest and perhaps the most talented of Johnson's chief economic advisers, still failed to move the debate away from marginal skirmishes related to expectations and the labor market, but he was beginning to ask the kind of questions that would bring Keynesian conceptions of the whole economy into clearer focus. In a paper presented at a seminar just days before his fatal heart attack, Okun remarked:

> The theory of rational-expectations-with-misperceptions provides an explanation of the business cycle that: represents a constructive effort to deal with questions

[93] The most common hypothetical example proffered by the neoclassicists is the example where people expect a certain rate of inflation but the government expands money supply by an amount that temporarily increases inflation by a greater amount than that expected. This would reduce real income, cheapen the cost of labor for most firms, and therefore give rise to added employment. But the old expectation would soon give way to a new "rational" one that would negate this effect before it take take place. Its assumptions are generous: added employment can come only with a reduction in real income, and the economy is locked into a zero-sum game where firms cannot respond to *increased* real income with anything other than production and employment cuts. See John F. Muth, "Rational Expectations and the Theory of Price Movements," *Econometrica*, 29 number 6, 1961, 315-335; Robert E. Lucas, Jr., "Understanding Business Cycles," in Robert E. Lucas, Jr., ed., *Studies in Business Cycle Theory* (Cambridge: MIT Press, 1981); Thomas J. Sargent, *Rational Expectations and Inflation* (New York: Harper and Row, 1986).

[94] Ackley, *Macroeconomics: Theory and Policy*, 234-235.

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> that sorely needed to be asked, is logically impeccable and theoretically satisfying in its response to those questions, does not identify in operational terms the specific nature of the cyclical process, and fails to account for the duration and many key features of the actual cycle....Once imperceptions about relative prices are eliminated, what prevents that prompt restoration of a full-blown Walrasian equilibrium consistent with relative price information? Is a second type of sand being thrown on the classical machinery in such hybrid models? I look forward to further modeling in this area that should help to answer my questions.[95]

But Okun never placed supreme faith in any of the models, constructed either by his Keynesian colleagues or by the anti-Keynesian neoclassicists. "Models are bankrupt," Okun noted on a different occasion; "they pay little attention to the real world."[96]

In short, Keynesian defeats in the professional economics debate over the origins of inflation and stagflation came largely as a result of neo-Keynesian attempts to create predictive mathematical models that often obscured as much of the Keynesian revolution as they illuminated. Models that relied on computers and hundreds of equations clearly gave the New Economists insights and predictive capabilities that they would have otherwise lacked, but they always remained heavily dependent upon a shifting variety of *ceteris paribus* assumptions. Too often were the defenders of the New Economics caught in an interesting and suggestive battle over competing models when the questions they were actually trying to answer eluded any precise mathematical formula or construct. Constructive insights were achieved along the way—by Keynesians and anti-keynesians alike—but Keynesianism was somehow transformed into a system that left Keynes behind.[97] The bastardized Keynesianism that was

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[95] Okun, "Rational-Expectations-with-Misperceptions As a Theory of the Business Cycle," *Journal of Money, Credit, and Banking*, November 1980, Part 2, 817, 821. Okun's comments were part of a seminar on rational expectations held in February 1980 by the American Enterprise Institute for Public Policy Research. Walrasian equilibrium: a theory of general equilibrium developed by the French economist Marie Esprit Léon Walras (1834-1910) constructed around a system of simultaneous equations that attempted to show how all prices and quantities were uniquely determined. In comparison, as the Keynesian economist Frank Hahn once put it, "non-uniqueness of equilibria is what Keynesian policy prescriptions are all about." See Hahn, "Some Keynesian Reflections on Monetarism," 7.

[96] Quoted in Richard Rose, "Changing Markets," in James P. Pfiffner and R. Gordon Hoxie, eds., *The Presidency in Transition* (New York: Center for the Study of the Presidency, 1989), 275.

[97] See Ackley, *Macroeconomics: Theory and Policy*, 406; and Tobin, "Keynesian Economics and Its Renaissance," 120, on the contributions of the anti-Keynesian monetarists and neoclassicists. "In

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presumed to be the modus operandi of the Johnson administration had downplayed the system of taxation, the relative prices of commodities, the distribution of wealth, and the distribution of consumption; government only had to insure that investment absorbed the amount of savings at full employment and then all would function smoothly, efficiently, and equitably. But all was not well for those who followed this pseudo-Keynesian formula.[98] The mid-1960s success of the New Economics "was too good to be true," Gary North contended, even though this success stemmed more from sincere attempts to transcend the corporate liberalism that most everyone (including North) had mistaken for the economics of Keynes.

> What followed was at least mildly disturbing to the faithful Keynesian victors: the price inflation and rising interest rates of 1968-69, the recession of 1969-71, back to back federal deficits of 25 billion each (big money in those days) in 1971 and 1972, the price and wage controls of 1971-73, the recession of 1975, the coming of double digit inflation in 1978-80, the worst recession(s) in 40 years in 1980, and in 1981-82, and the $200 billion annual federal deficits after 1982. These unpleasant events did not fit the glowing Keynesian paradigm.[99]

Nor did they *stem from* anything but the most vulgarized version of the Keynesian paradigm, in ascendence only after Lyndon Johnson and his Keynesian advisers left the White House. "If Keynesian economics failed," Geoffrey Barraclough remarked, "it was because they were not Keynesian enough."[100] It was Nixon in 1971, when he told

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particular," Ackley noted, "monetarists point out that central bankers concentration on the level of interest rates or on the 'condition of credit markets' as appropriate targets or indicators of monetary policy has often been the source of perverse monetary influence." Predicting a "ressurection of Keynes" James Tobin declared that one constructive insight attributed to the "rational expectations" approach was that "the effectiveness of policies requires both that they be anticipated and understood by the public and that they will work if anticipated and understood."

[98] Much of my thesis suggests that Johnson, Kennedy, Heller, Ackley, Okun, et al were *not* among those who followed it.

[99] Gary North, "Why Murray Rothbard Will Never Win the Nobel Prize," in Walter Block and Llewellyn H. Rockwell, Jr., eds., *Man, Economy, and Liberty: Essays in Honor of Murray N. Rothbard* (Auburn: Ludwig von Mises Institute, 1988), 99.

[100] Geoffrey Barraclough, "The Keynesian Era in Perspective," in Skidelsky, ed., *The End of the Keynesian Era*, 110.

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Howard K. Smith, "now I am a Keynesian," rather than Johnson in 1969, who failed to realize this.[101]

Monetarists, neo-Austrians, and neoclassicists all determined that there were numerous weak spots in what passed for the Keynesian system. They did not launch a public policy revolution, however, to match the coherence and integrity of even the vulgarized Keynesianism they helped to disintegrate. Some economists invoked the neoclassical rational expectations approach to predict that oil price rises in the 1970s, given the nominal GNP, could not raise the general price level.[102] In the wake of this obviously erroneous prediction, Axel Leijonhufvud noted that neoclassical theory "made macroeconomics go the same way as the movies: the plots became strangely simple-minded, but the new special effects were simply mind boggling!"[103] Few politicians or public policy analysts have found the mathematical rigor of the neoclassicists to be very useful as a result. Likewise, monetarism enjoyed a brief heyday in the first few months of the first Nixon administration, and then again under Presidents Carter and Reagan, when stubborn inflation seemed to call for an unwavering monetary fix. In both cases policymakers were forced to abandon monetary targets to pull the economy out of recession. On the other hand, to the genuine Keynesian economists and to the intuitive Keynesian politicians such as Lyndon Johnson, public policy was the realm that mattered most. "When men get heated about Keynesianism," J.T. Winkler suggested, "their concern is with public policy, not the realm of ideas."[104]

In the realm of public policy, the attack on Keynesianism and the New Economics assumed only a pseudo-technical character, and borrowed little more than the unproven assumptions or the often incompatible conclusions of the more persuasive and

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[101] See Tom Wicker, *One of Us: Richard Nixon and the American Dream* (New York: Random House, 1991), 551-552.
[102] Okun, "Rational-Expectations-with-Misperceptions," 822.
[103] Leijonhufvud, "Whatever Happened to Keynesian Economics?" 70.
[104] J. T. Winkler, "The Coming Corporatism," in Skidelsky, ed., *The End of the Keynesian Era*, 79.

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sophisticated professional economics criticism. Often depicted as a "supply side revolution," this attack tended to have only a tenuous relationship to either economics or a revolution, and it actually began (in the administration of Richard Nixon) long before it was officially declared (in the administration of Ronald Reagan). Its most significant and compelling premise was that Keynesianism implied great and increasing government intervention, that this described a tendency toward socialism and away from capitalism, and that Keynesian failure (inflation and stagflation, with all of their concomitant disasters) also implied, therefore, the salience of the orthodoxy Keynes and the Keynesians had tried to overturn. That this orthodoxy was in essence corporate capitalism—a system that required significant government intervention and which often possessed profound anti-capitalist tendencies—was often glossed over in a mish-mash of conflicting microeconomic prescriptions. Many of its benefactors, for example, harbored (and exercised) the belief that corporations should not be allowed to fail. Risk aversion had clearly become a significant part of a system that presumed to enshrine the risk- taker.[105]

Implicit to the defense of the resurgent corporate capitalism was a faith its benefactors had assumed anti-Keynesian economists had already justified: government intervention on behalf of the poor and the unemployed was destined to fail unless it came voluntarily by way of profitable, carefully nurtured private companies responding only to market forces. Often unaware that this approach made these very market forces, upon which the welfare of the working class theoretically depended, harder to estimate or even understand, policymakers, political pundits, journalists and historians alike began adding an elaborate social and political context to the economic criticism of the Keynesian revolution. Moreover, analysts who found reason to doubt the claims of the

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[105] See John Kenneth Galbraith, "The Nixon Administration and the Great Socialist Revival," chapter in *Economics Peace and Laughter* (Boston: Houghton-Mifflin, 1971), 100-113, for an extended essay on this subject.

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supply side insurgency—and there were many who did—tended to highlight its shortcomings either by a simple comparison to the more interventionist liberalism of the 1960s or by isolating them without a clear view of the fundamental economic strategy that had provided their ideological foundation.

The distillation of borrowed economic criticism into a more fundamental political attack on the New Economics may be best exemplified by Charles Murray's influential 1984 publication *Losing Ground.* Referring to the 1967-1973 period as the latter stage of the Great Society, Murray suggested that policies established during this period helped the poor in the short-run but created dependencies that were economically destructive in the the long run. Invoking the perverse effect theory but ignoring the trend whereby the supply of labor actually *increased* along with poor relief benefits, Murray suggested that the War on Poverty and its constituent programs had created a powerful work disincentive.[106] Basing overall welfare benefits on those offered in Pennsylvania (benefits that increased at twice the national average), and ignoring both the sharp reduction in real welfare benefits after 1972, and the impact of the 1975 Earned Income Tax Credit (with its added work incentive), Murray contended that minimum wage employment simply offered less financial reward than a broken marriage and welfare assistance.[107] He added that it was this work disincentive that fractured and weakened thc U.S. economy in the 1970s and beyond. Moreover, the root of the problem, to Murray, was *Johnson's* economic strategy, even though Richard Nixon presided over much of the period in question. Murray simply assumed that the 1970s inflation originated with excess demand, that Johnson's strategy consisted largely of social spending programs aimed exclusively at the poor and that, until Nixon ordered John Ehrlichman to "flush the Great Society," in 1973, he had continued to structure (or

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[106] See Michael Katz, *The Undeserving Poor: From the War on Poverty to the War on Welfare* (New York: Pantheon Books, 1989), 174, for an analysis of the labor market effects of the War on Poverty.
[107] Robert Greenstein, "Losing Faith in 'Losing Ground,'" *New Republic*, March 25, 1985, 12-17.

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expand upon) its programs with Johnson's priorities and strategies intact. This last assumption has, indeed, become an article of faith among most historians of the period. Taking the harmful inflationary and work disincentive effects of these programs for granted, Murray's work purported to show how the "welfare" programs of the Great Society, coupled with Johnson's New Economics, led directly to the productivity decline and unemployment of the 1970s.[108]

Herbert Stein, a member and eventual chair of Nixon's Council of Economic Advisers, also framed a critique of Johnson's economic policies around the idea of the perverse effect or the notion of unintended consequences. Noting what he calls "incipient inflation" in the economy as early as 1965, Stein faulted Johnson for relying on an "incomes policy" to hold down inflation.[109] Professing his belief that federal policymakers under Johnson were not cagey or sophisticated enough to follow a deliberately inflationary policy (to increase revenues without a tax rise so as to finance wide-ranging social spending schemes), Stein blamed Johnson for the Great Inflation, but felt compelled to say that he probably did not mean to do it.[110] Johnson erred intentionally, as Stein saw it, only in so far as he rejected fiscal and monetary measures in the struggle against inflation. To Stein, inflation simply caught President Johnson off-guard and relatively unprepared—and unwilling—to do battle.

Louis Galambos and Joseph Pratt echoed the first part of Stein's appraisal, suggesting that the Johnson administration doomed its economic policies to failure by relying too exclusively on the "jawboning" of America's corporate leaders. Designed to hold the line on prices by gearing prices and profits to productivity levels, this scheme

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[108] Charles Murray, *Losing Ground: American Social Policy, 1950-1980* (New York: Basic Books, 1984).

[109] Stein was instrumental in helping Nixon categorically reject Johnson's wage-price policy in 1969, in itself one of the primary causes of the 1970s inflation. See Chapter 9 for more on Nixon, Stein, and the rejection of the Johnson strategy against inflation.

[110] Herbert Stein, *Presidential Economics: The Making of Economic Policy from Roosevelt to Reagan and Beyond* (New York: Simon and Schuster, 1984).

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broke down, according to Galambos and Pratt, under the strong inflationary pressures created by the concurrent impact of Great Society and Vietnam War spending. "The nation bought more guns and more butter," they declared, "but at the cost of strong inflationary pressures."[111] The primary assumption here was that excess demand created these "strong inflationary pressures", and that the proper management of this inflation was incompatible with the Great Society, at least while the war in Vietnam raged on.

In 1991 a partial reformulation of these earlier appraisals appeared in *Chain Reaction: The Impact of Race, Rights, and Taxes on American Politics,* coauthored by Thomas Byrne Edsall and Mary D. Edsall. The Edsalls, attempting to explain the backlash against the liberal policies of the Democratic party, suggested that Johnson erred in making certain special interest groups (blacks and the poor in general) the favored wards of the state, thereby alienating white middle-class voters. The Edsalls also claimed, in contrast to their thesis, that "the presidential realignment of the electorate that began after the election in 1964 has created a politics in which neither national party effectively represents the shared economic interests of the poor and of the working and lower middle classes."[112] Scolding liberals, for doing both too much and not enough, and for aiming their programs exclusively at the poor, the Edsalls portrayed the mid-1960s as "The Fall."[113]

To the Edsalls, Johnson simply adopted an economic strategy that was as expensive as it was self-defeating, that brought inflation instead of growth and productivity, and that also allowed the Democratic party to stray from universal concerns to the concerns

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[111] Louis Galambos and Joseph Pratt, *The Rise of the Corporate Commonwealth: United States Business and Public Policy in the Twentieth Century* (New York: Basic Books, 1988), 206.
[112] Thomas Byrnes Edsall and Mary D. Edsall, *Chain Reaction: The Impact of Race, Rights, and Taxes on American Politics* (New York: W.W. Norton, 1991), 30.
[113] See Adolph Reed Jr. and Julian Bond, "Equality: Why We Can't Wait," *The Nation*, Dec. 9, 1991. 735. See also Ronald F. King, *Money, Time, and Politics: Investment Tax Subsidies and American Democracy* (New Haven: Yale University Press, 1993), for a similar treatment of the Great Society and the New Economics. King cited excess demand and overcommitment to the Great Society as harbingers of inflation and economic deterioration. See ibid., 323.

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of special interest groups alone. It was this fatal meander that created the Great Inflation of the 1970s and which also forced the American electorate further and further away from traditional Democratic liberalism. To explain this, however, the Edsalls were forced to assume that the over-regulation and the web of special interest projects—that made the 1970s so objectionable to them—were really products of the New Economics and the Great Society, and not an offshoot of the anti-Keynesian strategies that followed their dissolution.

Of all their assumptions, the most significant was the suggestion that Johnson's macroeconomic strategy (which they regarded as something less than a strategy), led directly to the economic deterioration of the late 1970s and early 1980s. As they saw it, this strategy prevailed in the 1970s because conservative interests were held at bay throughout the decade by "the liberal tilt of the electorate," even when Nixon and Ford (or the economically conservative Carter for that matter) sat in the White House. Overlooking critical macroeconomic and microeconomic changes ushered in by these conservative administrations (often with the acquiescence of the liberals they implicated) the Edsalls imagined a history where conservative interests lost out on any effort to create a viable economic strategy, and, as they would have it, any chance to revive the eroding economic power of the nation as a whole.[114] Ignoring the ascendency and reemergence of conservative economics in 1969, the Edsalls proclaimed that the inflationist, self-defeating economics of the 1960s held sway until the Republican party won a "major ideological victory" in 1980 by "assigning responsibility for the economic deterioration of 1978-1982 to a history of misguided Democratic policy decisions."[115] Equating the continued popularity of liberal *ideas*—expanded educational opportunities and civil rights, improved health care, safer working conditions, for instance—with hegemony over the nation's economic strategy, the Edsalls failed to make a most critical

[114] Edsall and Edsall, *Chain Reaction*, 158-159.
[115] Ibid., 175.

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distinction. Their analysis was nevertheless compelling for its clear and precise cause and effect illustrations and, as a result, has carried much weight with those who have examined the Great Society and the presidency of Lyndon Johnson since its publication.

In addition to the critics who disparaged the Great Society along with the New Economics, were many who admired Johnson's commitment to economic and social change but who also tended to implicate his "guns and butter" strategy for the unraveling of the American economy in the 1970s and beyond. Doris Kearns's 1976 biography of President Johnson, for example, the only notable work on Johnson in the 1970s, portrayed the Johnson presidency sympathetically, but placed the blame for the Great Inflation, nevertheless, squarely at the feet of the towering President from the Texas hill country. "The painless phases of the Great Society and Vietnam," Kearns declared, "came to an abrupt end as the rising costs of the war combined with the increased consumer demand and rising expenditures for the Great Society to produce inflation." Total demand was simply pushed "beyond the speed limits at which production could be expanded." Recalling Johnson's failure to enact a tax surcharge in 1966 or 1967, Kearns blamed Johnson for the ensuing inflation. "By refusing to administer counter-inflationary measures in the early stages," she noted, "Johnson allowed the economy to heat up to the point where even drastic measures could have little impact."[116] Though she revealed Johnson at one point muttering about how Nixon was ruining everything, the economy and the Great Society together, Kearns concluded that Johnson, rather than Nixon, was to blame for the inflation and economic deterioration that followed his presidency.

In 1984, Allen Matusow, who also professed an admiration for the *objectives* of the New Economics, singled out the Kennedy and Johnson administrations for what he saw as their fateful adoption of Keynesian economic policies. "Keynesian ideas," Matusow

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[116] Doris Kearns, *Lyndon Johnson and the American Dream* (New York: Harper and Row, 1976), 296.

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concluded, "played no small role in the unraveling of both liberalism and the economy—and no small role, therefore, in the unraveling of America."[117] While Matusow regarded the social and economic goals of the New Frontier and the Great Society as praiseworthy, he considered the New Economics, particularly as it was practiced in the Johnson administration, to be an inept and counterproductive means to the attainment of a "Great Society." Johnson's errors included ignoring the potential inflationary consequences of his tactical demand oriented policies, exhibiting a lack of concern for monetary policy and money supply, and refusing to consider policies with implications of wealth redistribution. Borrowing heavily from the monetarist critique of Keynesianism, Matusow pronounced the New Economics a harbinger of destructive inflation and economic decline.[118]

Matusow did isolate, however, one of the Johnson administration's greatest obstacles, lending his thesis a depth that many other histories of the Johnson years or the Great Society lacked. Suggesting that many of Johnson's economic difficulties came from having to do everything for the poor "with the permission of the affluent," Matusow found one of the most prevalent weaknesses intrinsic to most American poverty relief programs.[119] Factoring in the political and financial aspirations of doctors under Medicaid and local school board officials under the Elementary and Secondary Education Act of 1965, Matusow illustrated how the Johnson administration created a

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[117] Allen J. Matusow, *The Unraveling of America: A History of Liberalism in the 1960s* (New York: Harper & Row, 1984), 179.
[118] The latter contention placed Matusow in the camp of New Left critics, helping to characterize him as one who appreciated the goals of Johnson's Great Society, but who felt, at the same time, that the policies chosen to fulfill these goals left much to be desired. During a 1986 symposium on the Great Society, Matusow put greater emphasis on the wealth redistribution problem. Suggesting that the New Economics failed simply because it did not fight poverty as it should have—with a direct attack on income inequality, Matusow contended that the only way to combat it is through a redistribution of income. See chapter for a more detailed analysis of the statistical evidence Matusow relied upon. Quoted in Barbara Jordan and Elspeth Rostow, editors, *The Great Society: A Twenty Year Critique* (Austin: LBJ Library, 1986), 144. Matusow cited statistics which showed the bottom 20% of the nation's population receiving 5% of the nation's income—in 1964 *and* in 1984.
[119] Ibid., 144.

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situation where these more affluent or more politically powerful citizens, rather than the poor, came to be the programs' primary beneficiaries. Indeed, the dealing in of private interests—on government programs in general—has been a traditional American problem, one that prevailed even in the eighteenth century.[120] Matusow could have added numerous other examples of the same phenomenon; as Johnson economic adviser Arthur Okun once described it, Great Society benefits for the poor truly came in "leaky buckets." Housing assistance, for example, delivered great financial benefits to landlords, contractors and the craftsmen hired by these building contractors, almost to the exclusion of the inadequately housed underclass.[121] Clearly, but these buckets were never counted on for anything more than temporary, stopgap solutions; the critical goals and functions of the New Economics lay elsewhere.

Contending that the inevitable outcome of Johnson's Keynesian economic policies, presumably defined by these inefficient, and increasingly costly, programs, was a destructive inflation, Matusow raised his class-based analysis of Great Society politics to an entirely different and perhaps more significant level. Adopting the logic of the anti-Keynesian economic critics, Matusow blamed Keynesian economics and the Johnson strategy for the economic decline of the 1970s and ignored economic orthodoxy that undercut and stymied them both. Whatever benefits the New Economics provided in the short run, he maintained, came at simply too great a cost and were more

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[120] Its prevalence in the early days of the Republic, in fact, when most Americans were self-employed or were in direct, often symbiotic, relationships with entrepreneurs, may help to explain its persistence. Though the growing numbers of wage-earners changed the economic equation, certainly in the second half of the nineteenth century, the American public continued to understand economic success and the government's "proper" role as a catalyst for that success, largely in terms that made sense only in the earliest days of the Republic.

[121] Racial discrimination played a large economic role here as well for it strictly limited the location and availability of prospective housing regardless of the ability to pay. Even rent supplements, then, introduced as a way to avoid some of the contracting abuses, ended up doing little more than artificially inflating the prices of housing for many of those (poor blacks) who received them. See Jill Quadagno, *The Color of Welfare: How Racism Undermined the War on Poverty* (New York: Oxford University Press, 1994); and Phyllis Groom, "Prices in Poor Neighborhoods," in Frederick Sturdivant, ed., *The Ghetto Marketplace* (New York: Free Press, 1969), 118-128.

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than offset by the inflationary impact of the overall scheme. Suggesting that plans for genuine wealth redistribution were yet far too idealistic and doomed by the stubborn resistance of economic elites, that the concept of corporate liberalism "cut to the heart of the post-1945 political economy," and that the willingness to work with corporate America was tantamount to faith in corporate benevolence, Matusow judged the New Economics a failure and suggested a supply-side regimen as the only practical alternative. The cardinal sin of the Kennedy-Johnson New Economics, in this conception, was Johnson's abandonment of critical supply side components inherent to the prevailing corporate liberalism. Price stability by way of fiscal and monetary austerity, as Matusow saw it, was the most important omission. Not comprehending Johnson's skepticism toward, and disparagement of, corporate liberalism in the first place, or the real origins of the Great Inflation, Matusow tied Kennedy and Johnson firmly to this tradition of presidential corporate liberalism instead, and blamed them for the unraveling of the American economy.[122]

In 1986, Paul K. Conkin published a biography of Lyndon Johnson that portrayed him as both an effective leader and a master of consensus politics. Praising him as a politician with a genuine affinity for idealism and an eye for effective strategy, Conkin even graced the cover of his work with President Johnson's favorite photo of himself. Found in the LBJ Library files under the rubric "John Wayne photo," this portrait captured a tanned, cowboy-hatted Johnson wearing bushy sideburns and looking out over the majestic hill country horizon.[123] In a brief section devoted to Johnson's economic policies as President, however, Conkin was far less charitable. "It was not as clear to him [Johnson], as it is today," Conkin declared, as he summarized Johnson's economic record, "that the achievement [of his presidency] rested more on factors

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[122] Matusow, *Unraveling of America*, 33.
[123] Paul K. Conkin, *Big Daddy From the Pedernales: Lyndon Baines Johnson* (Boston: Twayne Publishers, 1986).

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beyond his control than on any of his economic policies."[124] Referring to Keynesian economics as "the fashionable approach," and attributing Johnson's full employment-low inflation record to a "happy coincidence of circumstances," Conkin maintained that the prosperity and stability of the 1960s had been produced by a post-World War II agricultural boom, weak foreign competition, baby boomer demand for products and services, low interest rates, and low foreign resource costs. On inflation, for example, Conkin suggested that Johnson's record looked good because of high agricultural productivity and three Eisenhower recessions in the 1950s. These factors allowed the nation to start the 1960s with virtually no inflation, and gave the Kennedy and Johnson administrations, as it was implied, time to fool around.[125] On jobs, Conkin contended that "Johnson was [relatively] lucky on the employment side," pointing out how 1980s politicians were not as lucky—having to absorb a higher percentage of the potential workforce (new women entrants), and having to deal with a "more intractable" black male labor force. Without questioning how these factors came to be, Conkin suggested that post-Johnson economic policy had little or nothing to do with their emergence, and that they could only be held in check by demographic changes rather than real policy choices.[126]

Where Conkin credited Johnson with a successful economic policy initiative—the imposition of the 1964 tax cut—he repeated the mistake made by everyone from Ronald

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[124] Ibid., 200.
[125] Ibid., 201-202. Although Kennedy economic advisers often acknowledged the advantage that the late 1950s price stability offered, they were also aware of alternatives to the use of recession as a price stabilization tool and realized how rising agricultural productivity and declining farm prices had obscured substantial industrial sector price inflation by offsetting it. Conkin also overlooks the role of the Kennedy and Johnson administrations in keeping interest rates low. From the Kennedy administration "twist" in 1961(where the Fed adopted a policy of supporting long term interest rates while they allowed short term rates to decrease) to Johnson's late 1968 recommendations for Federal Reserve reform, low interest rates remained a high priority in both administrations. See also Wyatt C. Wells, *Economist In an Uncertain World*, 22. Wells describes Arthur Burns's analysis of economic success in the early 1960s in terms very much like Conkin's. "The economy had responded so well to stimulus in the early 1960s, he thought, because the Eisenhower administration had reduced inflation to practically nothing, creating an atmosphere in which business responded to higher demand by increasing output, not prices."
[126] Conkin, *Big Daddy From the Pedernales*, 201-202.

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Reagan to Rush Limbaugh: characterizing the cut as a *supply-side* alternative to a plan for increased spending. "In later jargon," Conkin asserted, "Johnson had proved that supply-side economic policies could sometimes work." Moreover, Conkin made this assertion notwithstanding his contradictory remark in the same paragraph. "The tax cut worked," Conkin explained. "It helped stimulate *demand* and increase production." For Conkin and others, the notion of a demand side tax cut was almost a contradiction in terms. Tax cuts were, by their nature, supply side tools. He did suggest at one point that "the exact nature of the cuts or increases determines the areas of the economy stimulated," but ultimately brushed this consideration aside to follow the lead of other commentaries, lumping tax cuts exclusively on the supply side and spending increases exclusively on the demand side.[127] In Conkin's analysis, therefore—as in Matusow's—the New Economics became only a precursor to the supply-side revolution of the 1980s and failed only where it strayed from the supply-side recipe for price stability.[128]

Other more recent studies, not unsympathetic to the Johnson administration in general, have echoed the same themes. William Greider, for example, in his influential and critical study of Federal Reserve conservatism, *Secrets of the Temple*, highlighted the early results and the great promise of the New Economics. "The New Economics worked," he remarked. "For 106 months, from February 1961 to December 1969, the nation enjoyed its longest era of uninterrupted economic expansion." Greider also noted, however, that "the political reality confirmed in later years by subsequent episodes of congressional inaction and presidential evasion, was that the New Economics could not

[127] Ibid., 202-203.

[128] Herbert Stein, a conservative critic of Johnson's policies cited earlier, did take a look at the "exact nature" of the 1964 tax cut and, unlike Conkin, found it to be thoroughly oriented toward the demand side of the economy. Pointing out how output per person employed actually grew more slowly after the tax cut than it did before, Stein invalidated the claim that the 1964 tax cut had great supply-side consequences. Summarizing, he declared that the supply-side benefits of the tax cut were "modest" compared to its demand-side benefits. See Stein, *Presidential Economics*, 110. Stein's comments on the tax cut, however, were only offered as a statistical commentary on an isolated, and as he saw it, relatively insignificant economic event. Conkin's conception, tied as it was to the greater history of a twenty-or thirty-year period, remains the more popularly accepted of the two divergent analyses.

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keep its promises [for price stability].[129] In his memoirs, Clark Clifford, unofficial adviser and a Secretary of Defense in the Johnson administration, indicted the Johnson economic strategy on similar grounds. "That he [LBJ] overextended himself," Clifford declared, "brought on an inflationary spiral, and demanded too much of a nation already in turmoil is clear."[130] John Morton Blum offered a similar indictment of Johnson economics, even though he inverted the traditional "guns and butter" explanation of many Johnson critics. Blum asserted that while "domestic expenditures on anti-poverty measures were growing," they remained insufficient, and that it was defense spending that created the inflation of the late 1960s and early 1970s. It was "guns," then, according to Blum, and not "guns and butter" or even what US Steel's Roger Blough called "butter plus" that brought on the Great Inflation of the 1970s. Blum continued to assert, however, in line with most of the other Johnson critics, that this inflation was generated by an economy beset with excess demand. Laying the blame on military spending but squarely at Johnson's feet, Blum contended that Johnson "had no intention of curtailing the war in Vietnam to contain military expenditures."[131]

One of the most recent attempts to gauge the effectiveness of the Johnson economic strategy appeared in Hobart Rowen's 1994 *Self-Inflicted Wounds: From LBJ's Guns and Butter to Reagan's Voodoo Economics*. While Rowen illuminated many of the more

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[129] William Greider, *Secrets of the Temple: How the Federal Reserve Runs the Country* (New York: Simon and Schuster, 1987), 331-334. Greider assumed, as have many others, before and after him, that Nixon, and perhaps even Jimmy Carter, were devotees of the New Economics. Moreover, though he openly rejected the way monetary policy had been utilized, Greider remained a monetarist, maintaining that "[Milton] Friedman was right" when monetary contraction in 1969 led to a recession. Greider forgot, however, that the object of Nixon, his CEA chairman, Paul McCracken, and Friedman, was not so much to create a recession, but to lessen price inflation with one. In that, their new approach was a clear failure. Ibid., 334. See Chapter 9 for a more detailed analysis of the Nixon monetary policy.

[130] Clark Clifford, with Richard Holbrooke, *Counsel to the President: A Memoir* (New York: Random House, 1991), 655.

[131] John Morton Blum, *Years of Discord: American Politics and Society, 1961-1974* (New York: W. W. Norton, 1991), 184. Blum also echoed the thesis of David Zarefsky in *President Johnson's War on Poverty: Rhetoric and History* (University, AL: University of Alabama Press, 1986) who contended that Johnson promised more than he could deliver, thereby handicapping the political success of the Great Society, the War on Poverty, and the New Economics.

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commonly obscured economic policy changes of the 1960s and 1970s, including the sharp break between the Johnson and Nixon policies, and provided a scrupulously detailed and insightful analysis of the period's international economic developments, he also blamed Johnson, like the others, for the Great Inflation of the 1970s. Although Rowen weaved a narrative surpassing in its attention to detail and the nuances of the policy changes between the Johnson and Nixon administrations, he concluded that Johnson created an inflation over which Nixon had little control. Reflecting on the two decades after Johnson's departure, Rowen remarked: "Johnson's embrace of a forlorn and unwinnable war in Vietnam, his insistence that the country could have, in the phrase of the time, both 'guns and butter,' put America on a course from which it has yet to recover."[132]

Bruce J. Schulman offered a similar interpretation in *Lyndon B. Johnson and American Liberalism*, a brief biography released just after Rowen's publication. "No decision," Schulman remarked, " so compromised Johnson's presidency as his determination to secure both guns and butter—to fight simultaneous wars against communism and poverty and to finance both through a dangerous fiscal sleight of hand." This effort to have guns and butter, Schulman concluded, "exacerbated a host of economic woes—stimulating inflation, slowing growth, weakening the dollar in international currency markets, intensifying an unfavorable balance of payments in foreign trade, even undercutting the Great Society."[133]

Other analysts, still wedded to the excess demand-inflation theme, have suggested that Johnson had few economic policy alternatives, given his goal of continuous near-

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132 Hobart Rowen, *Self-Inflicted Wounds: From LBJ's Guns and Butter to Reagan's Voodoo Economics* (New York: Times Books, Random House, 1994), x. Rowen does treat the Nixon years differently than most, however, making it clear that Nixon mismanaged the economy and worsened an already troublesome economic situation. For his efforts at investigating and analysing Nixon economic policy during the Nixon presidency, Nixon advisers Herbert Stein and Charles Colson identified Rowen as "an implacable and unscrupulous enemy of this administration." Ibid., 78-79.

133 Bruce J. Schulman, *Lyndon B. Johnson and American Liberalism: A Brief Biography with Documents* (New York: Bedford Books, St. Martin's Press, 1995), 156, 157-158.

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full employment. Steve Fraser and Gary Gerstle, for example, compiled what they referred to as an "historical autopsy," in *The Rise and Fall of the New Deal Order*, and offered a convincing explanation for the failure (or political weakness) of Lyndon Johnson's economic strategy. The social democratic initiative necessary for the success of Johnson's Keynesian economic strategy, they suggested, was simply cut off in the 1940s when labor unions lost their class identity, workers moved to the suburbs (and became expectant capitalists), and the "social Keynesians," concerned more with regulation and reform, lost out to the "commercial Keynesians," who based their more conservative concerns on fiscal policy, alone. Afterward, Fraser and Gerstle pointed out, it was possible to organize the nation economically only within a limited framework—where corporate interests reigned supreme and where the social interests of the poor and the working class would be relegated to the sphere of interest group politics. Such a fate, they noted, made it impossible for Johnson to wage a successful struggle against the commercial Keynesians (or those favoring a return to economics of austerity). When the imminent failure became reality, it led naturally to economic disorder and the inflation of the 1970s, and it also made Johnson the unwitting agent of this conservative historical trajectory.[134] William Appleman Williams, expressing a similar sentiment in 1973, remarked that "the gut truth of it is that the Great Society was what Franklin Roosevelt should have proposed in 1936. It was too little and too late in 1963."[135] While Fraser, Gerstle, and Williams admired the way Johnson pushed the limits of the framework within which he operated, they faulted him, nevertheless, for the economic woes that followed his presidency. Failing to comprehend the futility of his task, they

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134 Steve Fraser and Gary Gerstle, "Introduction," in Fraser and Gerstle, editors, *The Rise and Fall of the New Deal Order, 1930-1980* (Princeton: Princeton University Press, 1989). See also Robert Collins, *The Business Response to Keynes*, for an explanation of the "commercial Keynesian" victory. "America defined its postwar political economy," Collins noted, "by embracing the right wing of the Keynesian spectrum, a right which almost seemed like the center (as it does to historians today) as the defeated alternatives of the left receded into sectarian memories." Ibid., 16-17.
135 William Appleman Williams, "Ol' Lyndon and JFK," 495.

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argued, Johnson muddled economic policy to the point where instability, confusion, and the stagflation of the 1970s would soon (and automatically) prevail.

Equally prepared to accept Johnson's responsibility for the unraveling of the American economy, others have even suggested that his lack of commitment to genuine change proved to be the most significant source of economic disarray and the descent into stagflation. Irwin and Debi Unger, for example, in *Turning Point: 1968*, underscored the contention that Johnson fought the War on Poverty more for political than social or economic reasons. Though they acknowledged Johnson's political dexterity and genuine concern for the fate of the underclass, the Ungers also suggested that Johnson failed because he did not seek the requisite organizational change. Highlighting Lester Thurow's charge that the War on Poverty was impelled largely by Cold War considerations, and the contention of Frances Fox Piven that it was created to placate militant blacks, the Ungers portrayed Lyndon Johnson the economic strategist much the way Robert Caro portrayed Lyndon Johnson the politician—as a public figure with a desperate hunger for power. William Julius Wilson, took a similar approach, contending that the problems of the poor were marginalized within the War on Poverty and never became the focus of Johnson's broader efforts at economic organization. Concerned primarily with the inapplicability and fate of the marginalized and often race-specific efforts to combat poverty midst a backdrop of corrosive corporate capitalism, Wilson suggested, as did some of Johnson's other critics, that the New Economics came unwound in a disoriented inflationary spiral precisely because corporate liberalism, rather than a genuine war on poverty, served as its primary foundation.[136] To these critics, Johnson was simply too fond of the prevailing "system" to effect any lasting or profound change.

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[136] Irwin and Debi Unger, *Turning Point: 1968* (New York: Scribner's, 1988); Frances Fox Piven, "The Great Society as Political Strategy," in Richard Cloward and Frances Fox Piven, *The Politics of Turmoil: Essays on Poverty, Race, and the Urban Crisis* (New York: Pantheon, Random House, 1974), 271-283;

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Despite the prominent consensus that implicated Johnson era policies for the inflation and economic decline of the 1970s, there are a surprisingly large number of historians, economists, and political scientists who have, at the same time, defended the Johnson economic record. One of the most detailed and complimentary examinations of Johnson's economic policies came from James E. Anderson and Jared Hazleton, in their 1986 *Managing Macroeconomic Policy: The Johnson Presidency.* Identifying Johnson as a President who established a closer relationship with the Council of Economic Advisers than any before or after, Anderson and Hazleton concluded that Johnson absorbed remarkably large quantities of economic information, that he grasped economic ideas readily, and that he also acted—unlike almost every other twentieth century President—as an effective coordinator for all of his administration's economic plans.[137] Citing testimony by Council of Economic Advisers chairman Walter Heller, they pointed out, for example, that Johnson expected, received, and read approximately 250 CEA memos per year. Grading Johnson highly in all four categories into which they divided macroeconomic policy—fiscal, monetary, wage-price, and international—Anderson and Hazleton pointed out only one flawed policy endorsement over the entire course of the Johnson presidency: the advocacy of expansive monetary policy after the passage of the tax surcharge in June 1968.[138] They suggested, in short, that he was one of the nation's ablest and most effective chief executives when it came to the management of the nations' economy. Their narrative ended in 1969, however, and offered, therefore, no analysis of Johnson's relationship to the impending inflation and economic turmoil of the 1970s.

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and William Julius Wilson, *The Truly Disadvantaged: The Inner City, The Underclass, and Public Policy* (Chicago: The University of Chicago Press, 1987), 132.

[137] Only John Kennedy, among twentieth century presidents, seems to have approached Johnson's level of control over the planning and implementation of his administration's economic policy. Nixon, for example, relegated most of his economic planning to Arthur Burns in 1969, George Shultz in 1970, John Connally in 1971, and Herbert Stein, thereafter, with John Ehrlichman—as Nixon's chief domestic policy adviser—also playing a significant role throughout Nixon's two terms (until he resigned in April 1973).

[138] Anderson and Hazleton, *Managing Macroeconomic Policy,* 20.

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In a 1994 essay focused largely on the Carter presidency, Ann Mari May presented a statistical examination of presidential economic scorecards (from Eisenhower through Reagan), and concluded that Johnson's record easily surpassed the others. Using productivity growth, unemployment, real capital spending growth, inflation, GNP growth, and interest rate statistics, May produced a ten-point scale by which to rate overall economic performance. With 10 being the best possible score and all categories weighted evenly, May's classification system produced the following results: LBJ—8.2; JFK—7.3; Eisenhower—5.7; Carter—5.3; Nixon—5.1; Reagan—4.3; and Ford—3.9. While many would contend that some of these variables, such as unemployment and real capital spending growth (if one uses Keynes as a guide), should be weighted more heavily than some of the others, Johnson finished atop the categories of unemployment, GNP growth, and capital spending growth, and second in all other categories except for inflation (in which he finished third out of seven). Admittedly crude measures, these statistics still reveal important distinctions between the Johnson administration and the others, particularly if scorecard disparity is considered (12% better than Kennedy in the second spot and 44% better than Eisenhower in the third position). Based on these selective economic statistics, Johnson truly produced an unparalleled economic record.[139] Like Anderson and Hazleton, however, May did not attempt to gauge the effect of one President's policies upon those of his successor. The connection between Johnson's policy choices and the economic record of the 1970s remained uncertain.

Most analysts who rated Johnson highly on economic management, unlike May or Anderson and Hazleton, tended to focus on specific microeconomic issues rather than his larger economic strategy. James L. Cochrane, John Sheahan, George Perry, and Arthur Alexander, for example, all published studies of Johnson's wage-price policy,

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[139] Ann Mari May, "Economic Myth and Economic Reality: A Rexamination of the Carter Years," in Herbert D. Rosenbaum and Alexij Ugrinsky, eds., *The Presidency and Domestic Policies of Jimmy Carter* (Westport, CT: Greenwood Press, 1994), 650-654.

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and determined that Johnson's policies and personal management techniques helped to increase price stability.[140] John E. Schwarz took a second look at Johnson's War on Poverty, in his 1983 *America's Hidden Success*, and found that "progress did follow promise" despite the Great Society's reputation for waste and failure.[141] Demonstrating that the War on Poverty accomplished much of what it set out to do, Schwarz also suggested, however, that the New Economics (though he simply says "the private sector") failed to do its part. "The government's programs were vital in fighting poverty," Schwarz asserted, "precisely because the private sector was itself incapable of making more than a marginal dent in poverty among the many millions of Americans who remained trapped within the weaker economic groups."[142] Michael Katz seconded Schwarz' assessment about the progress made against poverty in the 1960s and suggested that when the U.S. really fought poverty under the Johnson administration, poverty did not win but was actually reduced by about 50%. Crediting government transfer programs for the change, Katz noted that in the 1965-1972 period infant mortality decreased by 33%; food stamps improved the diets of the poor and materially lessened hunger; Medicaid payments helped decrease the percentage of the poor who had never seen a physician from 20% to 8%; consumer credit legislation extended the first real protection to many purchasers of credit, saving them millions in the process; and new federal housing legislation lessened overcrowding in the nation's urban

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[140] John Sheahan, *The Wage-Price Guideposts* (Washington: The Brookings Institution, 1967); George Perry, "Wages and the Guideposts," *American Economic Review 57*, September 1967, 897-904; Arthur J. Alexander, "Prices and Guideposts," *Review of Economics and Statistics*, February 1971, 67-75; and James L. Cochrane, "The Johnson Administration: Moral Suasion Goes to War," in Crauford Goodwin, ed., *Exhortations and Controls: The Search for a Wage-Price Policy, 1945-1971* (Washington: The Brookings Institution, 1975), 194-293. I drew heavily upon these works (especially for chapter 6), particularly Cochrane's essay with its frequent verbatim transcription of important memos and its ample documentation.

[141] John E. Schwarz, *America's Hidden Success: A Reassessment of Twenty Years of Public Policy* (New York: W.W. Norton, 1983). See also William Raspberry, "Johnson War on Poverty Wasn't a Failure," *The Advocate*, Baton Rouge, LA, January 13, 1995, 7B.

[142] Ibid., 39. Like many others, Schwarz used figures for the War on Poverty that included figures from the first Nixon administration (1965-1972, in his case), making it more difficult to isolate the effects of the New Economics.

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dwellings, even though Katz demonstrates that many of the real benefits here went to building contractors and landlords instead of the poor.[143] Christopher Jencks offered a similar assessment of the War on Poverty and found that food stamps and Medicare payments in particular helped improve the lot of the poor in the United States. Jencks noted that there was less evidence to suggest positive results from 1960s federal housing initiatives, but concluded that overall, while it did not make poor people live like others, the War on Poverty did materially improve their lives.[144] Jonathon Kozol recalled his own experience teaching in a Roxbury, Massachusetts "freedom school"—funded by the Johnson administration under the Office of Economic Opportunity—and remembered it for both its accomplishments and its economic efficiency. "I'm always amused," Kozol remarked, "when I hear conservatives say 'we threw all that money at the poor, and it didn't do any good.' They didn't throw that much money at the poor, and it did a lot of good. We ran that program on $3,000 per year—that was my salary, the salary of a local mother who became a co-director...we bought all the books we needed, and we served almost 500 children."[145]

Most who saw much to admire in Johnson's handling of the economy or the War on Poverty, however, still treated the 1970s as an almost irrelevant part of their calculations. The inflation and joblessness of the period were acknowledged, but only reluctantly, as if these trends mystified explanation, confounding all ideological approaches to economic management in the process. Most who disparaged the New Economics, on the other hand, for social, political, or economic reasons, found in the

[143] Katz, *The Undeserving Poor.* Katz also echoed William Julius Wilson's contention that these programs failed, eventually, because they were separated from the broader and more fundamental strategy by which the nation guided its economy in general. Schwarz pointed out that after government transfers, poverty (based on was reduced from approximately 18% in 1960 to about 4-8% by the mid 1970s. See Schwarz, *America's Hidden Success*, 31-32.
[144] Christopher Jencks, "Economic Inequality and Political Legitimacy," in Thomas R. Dye, ed., *The Political Legitimacy of Markets and Governments* (Greenwich, CT: Jai Press, 1990).
[145] Jonathon Kozol, "Jonathon Kozol," interview by Gordon W. E. Nore, *The Progressive*, December 1991, 34-36.

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stagflation of the 1970s either a ready-made confirmation of their often deep-seated economic prejudices or a logical explanation of shortcomings in the existing Keynesian economic models. Few—on either side of the debate—have addressed the most significant economic questions. Many of Johnson's critics, for example, simply assumed that there was excess demand, that it caused inflation, and that this inflation, in turn, brought economic decline. Even economists, who have developed far more compelling and sophisticated analyses of the New Economics—also concluding that it was destined to fail—have generally discredited economic models that reflected the thinking of Keynes or the genuine objectives of the New Economics only vaguely or incompletely. Those who sympathized with Johnson's political and economic objectives, on the other hand, often found it difficult to disentangle the Johnson and Nixon policies or to discern the real trajectory of the New Economics, and largely avoided the effort all together, accepting the conservative diagnosis of the 1970s inflation as a consequence.

When Lyndon Johnson left office in January 1969, he clearly left a number of small fires burning. Indeed, the struggle against inflation, particularly in 1968 and 1969, was often described as "firefighting" by many of Johnson's economic advisers. Was the New Economics, however, an instrumental and necessary part of the firefighting? Or was it the primary reason for the persistence of those economic problems that were the object of this activity? Moreover, what was it that came unraveled first? Was it the economy at the hands of an ill-fated scheme for full employment with price stability? Or was it the New Economics, held fast by the personal energy and political power of the nation's thirty-sixth President, and fated, perhaps, to oblivion without him? Did the United States simply aim too high, only to be humbled by an economic reverberation from which it would never recover? Or was it mighty enough to pursue the goals of the New Economics, even as it fought a tragic war half-way around the globe? These are among the most pressing—and most often ignored—economic and political questions of the last quarter of the twentieth century.

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Chapter 2.
Learning The Political Economy

It isn't a new car that pulls over to help you when you are broke down with the senile carburetor; it is somebody who knows what it is to be broke down with a hurt machine.

- Ken Kesey

He mocks the people who proposes that Government shall protect the rich and they in turn will care for the laboring poor.

- Grover Cleveland, message to Congress 1886

Though he often mimicked the style of reactionary businessmen, and was perpetually intrigued by the schemes of power politics, most who knew him well described Lyndon Johnson as a thoroughgoing populist. "Oh yes," Gardner Ackley remarked, "he had all kinds of prejudices and ideas. Pro-farmer, pro-small businessman, anti-banker, anti-Wall Street. He was a real populist."[1] At a 1990 symposium on the Great Society, Harry Middleton cited a letter written to Johnson by John Kenneth Galbraith: "You and Wright Patman and I are the last of the populists. When we die they will have to stuff the corpse."[2]

There are a large number of books and articles, of course, that assert the opposite—that his populist sentiments comprised only the polished veneer of an unmitigated

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[1] Gardner Ackley, Oral History Interview, in Erwin C. Hargrove and Samuel A. Morley, eds., *The President and the Council of Economic Advisers: Interviews with CEA Chairmen* (Boulder: Westview Press, 1984), 232.
[2] Harry Middleton, introductory comments at a symposium celebrating the 25th anniversary of the Great Society, "LBJ: The Difference He Made," Austin, Texas, May 4, 1990.

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wheeler-dealer personality with conservative instincts. Robert Caro's two volumes, *The Path to Power* and *Means of Ascent* are perhaps the most notable in this regard, but Caro was anticipated as early as 1960 by Ronnie Dugger's work for *The Texas Observer* and by books such as J. Evetts Haley's 1964 publication, *A Texan Looks at Lyndon: A Study in Illegitimate Power* and William Pool, Emmie Craddock, and David E. Conrad's *Lyndon Baines Johnson: The Formative Years*, published in 1965.[3] Stressing Johnson's ties to conservative lobbyists, lawyers, political fixers, and campaign contributors, these writers suggested that Johnson moderated his conservative instincts only as he sought a wider political constituency, moving steadfastly from New Deal bureaucrat to Congress, the U.S. Senate, Senate majority leader, and finally to the Vice-Presidency and Presidency of the United States.

Some evidence does suggest that Johnson was the type of political character described by Caro, Dugger, and his other critics. Johnson's refusal to sign the March 1956 "Declaration of Constitutional Principles," otherwise known as the *Southern Manifesto*, for example, long regarded as a symbol of his incipient liberalism, may have come at least partly out of concern for the preservation of Southern political power. Richard Russell of Georgia, an ardent foe of black civil rights and a signer of the *Manifesto,* but also one of Johnson's most powerful supporters in the Senate, seemed almost anxious to bless Johnson's refusal to sign this document, a document by which 101 southern congressmen and senators pledged their undying faith to the old order and their commitment to resist school desegregation in the wake of the 1954 *Brown* decision. "Dick Russell," Strom Thurmond recalled, "told us that Johnson couldn't sign it because he was the majority leader."[4] Mississippi's segregationist senator, John Stennis seemed as

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[3] See J. Evetts Haley, *A Texan Looks at Lyndon: A Study in Illegitimate Power* (Canyon, TX: Palo Duro Press, 1964); and William C. Pool, Emmie Craddock, and David E. Conrad, *Lyndon Baines Johnson: The Formative Years* (San Marcos: Southwest Texas State College Press, 1965).
[4] Quoted in Mark Stern,"Lyndon Johnson and Richard Russell: Institutions, Ambitions and Civil Rights," *Presidential Studies Quarterly*, Fall 1991, 692.

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anxious as Russell to absolve Johnson of any genuine predeliction for black civil rights. "Just Senator to Senator, of course, we wanted him to sign it," remarked Stennis, "but at the same time we recognized that he wasn't just a Senator from Texas. He was a leader and had a different responsibility to that degree....It wasn't held against him...by the Southerners."[5] While Johnson, Estes Kefauver, and Albert Gore, Sr. were the only southern senators not to sign the *Manifesto*, Russell was shrewd enough to see that this would enhance Johnson's power as Senate majority leader, perhaps a more significant consideration for besieged southerners in 1956.[6] When Johnson helped pass the first civil rights bill since Reconstruction the following year, Senator Russell was equally anxious to qualify Johnson's role. "The victory [for the civil rights bill] would help Johnson in his 1960 bid," Russell told a group of southern leaders, "to win the Democratic presidential nomination."[7]

Johnson's reputation as a conservative "wheeler dealer" was also founded upon concrete evidenceand was certainly not mitigated by his close association with prominent conservative politicians, lobbyists, and business leaders. Indeed, many of his benefactors were outspoken conservatives. Alvin Wirtz, a prominent Austin attorney who represented oil and gas companies; George and Herman Brown, the fiercely anti-labor commercial contractors who financed many of Johnson's political campaigns; John Connally, who eventually became a Republican and a Nixon administration cabinet member; Roy Miller, the rich and powerful lobbyist for the Texas Gulf Sulphur Company; and Richard Russell were all key Johnson associates. Johnson's legislative scorecard was also punctuated with support for prominent conservative initiatives. His support of Taft-Hartley restrictions on labor unions in 1947 disillusioned many of his

[5] Quoted in ibid.
[6] When Johnson agreed to seek the Minority leader, soon to become Majority leader, position in late 1952 he asked Russell to move his seat behind his so that he could more easily seek advice from the senior senator.
[7] Quoted in Stern, "Lyndon Johnson and Richard Russell," 695.

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closest liberal supporters and convinced many others that his conservative instincts were beginning to surface.[8] Failing what was regarded then as a litmus test for liberals by supporting this legislation, Johnson voted for the bill and to override President Truman's veto; to many he was simply staking out a more conservative position for himself in the wake of President Roosevelt's death. In 1949, as chairman of the Senate Interstate and Foreign Commerce subcommittee, Johnson helped engineer the rejection of Leland Olds, a liberal maverick and technical expert on the Federal Power Commission, from the FPC's chairmanship. Olds had antagonized Texas oil and gas interests by supporting the regulation of all natural gas sold in interstate commerce, hitherto inapplicable to all but large utility companies, and Johnson responded, in part, by allowing demagogic, ad hominem attacks on Olds during his confirmation hearing. In a speech before the full Senate that outraged some of Johnson's liberal friends, Johnson leveled his own charges against Olds: His "record is an uninterrupted tale of bias, prejudice, and hostility, directed against the industry over which he seeks now to assume the powers of life and death....Shall we have a Commissioner or a commisar?"[9] Two years later, as chairman of the Senate Preparedness subcommittee during the Korean conflict, Johnson issued stinging reports of a "dangerous armament lag" and a policy that produced too much butter, but not enough guns. In one report, issued in December 1951, Johnson noted: "This report spells out for the American people the payoff for the wasted months that have been spent in a fruitless search for a formula that will give us both butter and guns in ample quantities. The results have been excellent in terms of butter. But unfortunately

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[8] Conkin, *Big Daddy From the Pedernales*, 116.

[9] Robert Dallek, *Lone Star Rising: Lyndon Johnson and His Times, 1908-1960* (New York: Oxford University Press, 1991), 373-378; Paul Conkin, *Big Daddy From the Pedernales*, 125-127. Johnson, quoted in Dallek, *Lone Star Rising*, 377. See also Ronnie Dugger, *The Politician: The life and Times of Lyndon Johnson, The Drive for Power from the Frontier to Master of the Senate* (New York: W. W. Norton, 1982), 350-356. Dugger called Johnson's "purpose" in this charade to convince "the oilmen back in Texas that he was their man." Ibid., 355.

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butter—even fortified butter—is not enough to stop Communist armies."[10] Even in the late 1960s, when there seemed to be a liberal ascendency in American politics, and little reason, therefore, to clothe liberal tendencies in conservative rhetoric, Johnson exhibited what some would characterize as conservative or reactionary tendencies. "He privately expressed some quite reactionary views on welfare," Johnson CEA chairman Arthur Okun recalled in a 1978 interview, "concern about disincentive effects, concern about creating a mentality of being on the dole."[11]

This evidence notwithstanding, Johnson generally remained a "liberal as conservative," or genuinely conservative only with respect to thrift, the work ethic, or the willingness to confront foreign aggression or government fraud. His refusal to sign the *Southern Manifesto* undoubtedly improved his political stature, but it was also something about which he never hesitated to remind his southern friends. He had also been instrumental in preserving much of the Supreme Court's *Brown* injunction when Senator Eastland's Judiciary committee attempted to weaken it. When he shocked a New Orleans audience in 1964, by telling them that it was time to cease playing "Nigra, Nigra, Nigra" politics, the nineteen hundred Louisiana Democrats in attendance, two thirds of whom opposed his civil rights policies, knew they had heard the unvarnished truth.[12] According to Eric Goldman, Johnson deployed a three-pronged strategy vis-a-vis the South and civil

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[10] Quoted in "Rearmament Lags Dangerously—Senators Denounce Fumbling," *Newsweek*, December 3, 1951, 19. There is more than a little irony here in that Johnson's opponents would make the same claim, over his strenuous objections, a decade-and-a-half-later. As Evans and Novak noted, however, "Johnson's private dislike and distrust of the uniformed military deepened even as he took their side in the rambunctious quarrelling between civilian and military authority at the Pentagon." See Rowland Evans and Robert Novak, *Lyndon B. Johnson: The Exercise of Power* (New York: The New American Library, 1966), 47. Eliot Janeway in the *New York Times Magazine*, on June 17, 1951, and the *Saturday Evening Post*, on May 19, 1951, also published accounts of the "watchdog committee" very favorable to Johnson.
[11] Arthur Okun, Oral History Interview in *The President and the Council of Economic Advisers: Interviews with CEA Chairmen*, edited by Edwin C. Hargrove and Samuel A. Morley (Boulder,CO: Westview Press,1984) 276.
[12] See Eric Goldman, *The Tragedy of Lyndon Johnson*, 245-248, for an eyewitness account of the speech, truly one of Johnson's most electrifying, and the audience's response to it. Although they gasped and sat in stunned silence for a moment at the conclusion of the speech, the audience soon responded with growing applause and a roaring five minute standing ovation.

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rights: talk straight and don't water down your liberalism; emphasize the Constitution; and highlight the economic deception practiced on the South in getting them to "hold the negro down."[13] Johnson's outlook on civil rights, like his economic philosophy, bore the stamp of Texas hill country populism, national liberalism, and his own seasoned disdain for what Richard Hofstadter called the "paranoid style."[14] To Johnson, every culture and nearly every political persuasion had redeeming values; the politician's task was to forge a consensus built upon the most honorable concerns of the nation's various regions and political parties, often the very concerns least prominently displayed. Manifested in Johnson's concern over welfare work disincentives as well as civil rights, this approach enabled Johnson to see that some welfare program (Aid to Families with Dependent Children) requirements contained real work disincentives. AFDC payments in some states, during the late 1960s, were as low as $8 per month, and remained intact only if the recipient earned less than $30 per month. At that point and above, every three dollars earned forced a two-dollar reduction in welfare benefits. Although the infamous Laffer Curve remains an indistinct phenomenon that cannot describe real-life responses to the existing tax code, this 67% real tax rate, at such low levels of income, may have come closer to a Laffer Curve scenario than any rate imposed on the America's wealthiest citizens, before or after.[15] Okun, fellow CEA member Merton J. Peck, Joe Califano, and Johnson all sought changes in the AFDC program to remedy this and other problematic side effects.[16] The sums were paltry, the rules were self-defeating, and the programs

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[13] Ibid., 244.

[14] See Richard Hofstadter, *The Paranoid Style in American Politics and Other Essays* (New York: Knopf, 1965).

[15] The Laffer Curve, devised by Art Laffer of the University of Southern California, suggested that since tax revenues would equal zero at a 0% rate and (theoretically) at a 100% rate, there must be a theoretical midpoint above which any rate increase would actually *reduce* total revenue (and a continuum of points above this level where a rate decrease would *increase* total revenue). The only sure thing about the Laffer Curve is that a 0% tax rate would produce zero revenues and that the middle of the curve is, as John Allen Paulos described it, "a whirlpool of snarls and convolutions" without a distinct turning point. See John Allen Paulos, A Mathematician Reads the Newspaper (New York: Basic Books, 1995), 21.

[16] See memo, Arthur Okun to LBJ, July 22, 1968, and attached memo, Joe Peck to Joe Califano, White House Central Files, LA 8, Box 33, LBJ Library.

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contained real work disincentives. Johnson did not forsake liberalism by recognizing as much nor did he adopt the all too familiar but illogical corollary to the recognition of these disincentives: that welfare recipients were fundamentally different from other more productive American citizens. Johnson's striving for political power, his close association with conservative or reactionary individuals, his support of Taft-Hartley, and his concern over welfare work disincentives, indicated little more than his willingness to work with conservative politicians and his recognition of partial truths within their greater, often thoroughly misguided conservative ideology. John Maynard Keynes once warned Franklin Roosevelt that if he worked business leaders "into the surly, obstinate, terrified mood of which domestic animals, wrongly handled, are so capable, the nation's burden will not get carried to market; and in the end, public opinion will veer their way."[17] Not privy to Keynes's instructions, Johnson had, nevertheless, absorbed their critical insights; at their worst, he believed conservative business leaders susceptible to careful political manipulation, at their best, the possessors of integrity and misguided altruism and the potential benefactors of an entire nation. "I never wanted to demagogue against business, Wall Street, or the power companies," Johnson told Doris Kearns, "I wanted a minimum of rhetoric that would inflame or incite...either business, management, or labor. Whenever I talked with businessmen I never engaged in personal infighting. I thought FDR was wrong; he didn't realize you can appeal to the pride of businessmen—make them know that their grandchildren will be looking to see how their money was spent..."[18] There is precious little evidence to suggest that Johnson's "conservatism" was anything more than an habitual frugality embellished by the apparent success of this

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[17] Quoted in James McGregor Burns, *Roosevelt: The Lion and the Fox* (New York: Harvest, Harcourt Brace Jovanovich, 1956), 332.
[18] Quoted in Kearns, *Lyndon Johnson and the American Dream*, 92.

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approach, an approach designed to construct a practical and more universally acceptable brand of liberalism.[19]

Perhaps the earliest, and certainly one of the more enduring political lessons Lyndon Johnson ever learned was that populists or genuine liberals seldom succeeded with the kind of partisanship that entailed either/or political solutions. For the populist or liberal politician, failure to compromise usually implied complete legislative failure simply because the political odds were almost always stacked overwhelmingly against them. Johnson also became convinced that the rare liberal victories, that came on such partisan grounds, inevitably achieved solutions that were as dissatisfying as they were incomplete. In 1958, when he attempted to outline his political philosophy, Johnson declared:

> There is likely to be merit in the views of the minority, quite as much as there is wisdom in the views of the majority. We have, as I see it, an obligation to seek out that merit, if it is there, and not merely content ourselves with obliging the majority, for the majority's wisdom—however wise—is never the sum of all wisdom....To grant audiences to 170 million Americans would be exhausting. So we make our divisions, our classifications, and our cross-classifications which permit us to forego the listening and searching we ought to do. This popular view is, I feel, very much counter to our American philosophy based on the thinking of men like Jefferson and Madison. I do not believe we have arrived at an answer until we have found the national answer, the answer all reasonable men can agree upon, and our work is not done until that answer is found—even if the process requires years of our lives.[20]

One remarkable feature of Johnson's career in the Senate was that out of the hundreds of reports filed by committees and subcommittees over which he presided, not one was ever handed down with a negative vote or minority report.[21] "It came and went

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[19] See Robert A. Caro, *The Years of Lyndon Johnson: The Path to Power* (New York: Vintage Books, Random House, 1983), xiii-xx, 369-386, 469-475; Dallek, *Lone Star Rising*, 268-297; Conkin, *Big Daddy From the Pedernales*, 76-147, for more detailed accounts of Johnson's relationships with Wirtz, the Browns, et al, and Johnson's "conservative" tilt in the 1940s and 1950s.

[20] Lyndon Johnson, "My Political Philosophy," in *A Time for Action: A Selection From the Speeches and Writings of Lyndon B. Johnson, 1953-1964* (New York; Atheneum, 1964), 8-10. Reprinted from the *Texas Quarterly*, Volume I, No. 4, Winter 1958.

[21] Sam Houston Johnson, *My Brother Lyndon* (New York: Cowles Book Co., 1969), 100.

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and the country was preserved," Johnson noted of his years as Senate majority leader, "even though we had a Democratic Congress and a Republican President, because we tried to understand each other, and we tried to give each other credit for being motivated properly."[22] The public's relative ignorance of the odds favoring conservative lawmakers and their corporate constituents made it even more unlikely that principled liberal convictions would evoke enough public sympathy or outrage to offset their otherwise politically untenable positions. Politically active citizens, such as those in the nation's business community, tended to have an influence on public policy issues that far exceeded the level implied by either their number or their political visibility. As Sidney Verba put it in a 1990 study of economics and political equality: economically advantaged groups tended to be less visible in their political activity, and therefore tended to have their influence underestimated; less advantaged groups who, out of necessity, engaged in more conspicuous political activity, tended to have their influence overestimated.[23] Favoring the affluent over the disadvantaged, this phenomenon tended to cement the conservative tilt of American politics and made liberal flexibility an absolute necessity. To Johnson there were several ways out of this political conundrum, each of them likely to reinforce the practicality and strength of the other: outright bargaining, by which lesser policies were *sacrificed* for policies of greater import; compromise, by which lesser policies were *substituted* for policies of greater integrity and significance; and the search for the more transcendent middle ground, by which liberal or populist strategies genuinely satisfied the fairest, most disinterested, concerns of both camps. Johnson's willingness to forego an attack on Taft-Hartley, a bill he believed to be more symbolic and innocuous than the conventional wisdom had suggested, in exchange for the ability to support liberal minimum wage, federal

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[22] Lyndon Johnson, *The Johnson Presidential Press Conferences, Volume 2* (New York: Earl M. Coleman, 1978), 1014.
[23] Sidney Verba, "Politics, Economics, and Equality," in Dye, ed., *The Political Legitimacy of Markets and Governments*, 44-45.

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assistance, and tax legislation, was an example of the first tactic; the 1957 Civil Rights bill, an example of the second; and the Keynesian economic strategy of his presidential years, an example of the third.[24]

When he began forging a close and lasting political friendship with Hubert Humphrey in the early 1950s, Johnson would often chide Humphrey for being a member of the liberal group of senators he called "the bomb throwers." Humphrey's proposals were "bombs" not because they were too radical for Johnson's political tastes, but because they too readily polarized the debate and aroused the more powerful conservative opposition, an opposition that could otherwise be neutralized or tamed more effectively with a quieter and less defiant political strategy. Indeed, one of the reasons Johnson chose Humphrey to be his running mate in 1964 was because of his subsequent willingness to absorb and utilize this political lesson. "I want to work with you and only you from the bomb throwers," Johnson told Humphrey late in 1952.[25] Republican Everett Dirksen often proved to be a dependable Johnson ally for much the same reason. "I trust that the time will never come in my political career," Dirksen once declared, "when the waters of partisanship will flow so swift and so deep as to obscure my estimate of the national interest."[26]

Marking Lyndon Johnson's path to power were numerous examples of bargains struck, compromises offered, and apparent capitulations to conservative adversaries. Most often, however, these did not represent a lack of principle or the lack of a firm commitment to a populist-liberal ideology but opportunities, lost on or lost by politicians of a similar stripe, to adapt and implement an instinctive populist approach to the nation's

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[24] When Lyndon's brother Sam announced that he had prepared a press release attacking Taft-Hartley, Lyndon asked him, "Have you read the bill, Sam Houston?" When his brother replied that he had not, Lyndon then suggested, "Well, you'd better read it before you go off half-cocked and start calling it anti-labor. I've read every word of that bill—several times—and it isn't what labor says it is." Quoted in Sam Houston Johnson, *My Brother Lyndon*, 74.
[25] Dallek, *Lone Star Rising*, 425.
[26] Quoted in Sam Houston Johnson, *My Brother Lyndon*, 145.

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economic policies. That this path coursed over the uneven and shifting landscape that was the American political economy for much of the twentieth century—charted for the voting population by little more than corporate profitability figures—made it difficult to follow or discern. No liberal or populist scheme, imaginative and captivating as many were, possessed an explanatory power comparable to that of the reigning supply side pattern. Seven and a half million Americans may have joined Huey Long's "Share Our Wealth Society" by 1935 but sixteen and a half million voted for Republican presidential nominee Alf Landon in 1936, who carried only Vermont and Maine. Even Long's "radical" blueprint failed to recommend real changes in the way the private economy was structured and explained; what it suggested was little more than the need for substantial tax code revision and roughly sketched changes in the nation's spending priorities. "Other politicians had promised to remake America," Long wrote, "I had promised to sustain it." Long's "Share our Wealth" was clearly designed to modify, not supplant, the existing corporate capitalism.[27]

Equally significant to Johnson's search for the appropriate economic strategy was that he came of political age during the era of Franklin Roosevelt's New Deal when the lines separating liberal from conservative economics were as indistinct as they would ever be. Roosevelt, a politician Johnson once referred to as "a second daddy," seemed to have thrived on the blurring of these lines; they helped him weaken his conservative political opposition even as they allowed the strengthening and preservation of the

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[27] See T. Harry Williams, *Huey Long* (New York: Knopf, 1969), 676-706; Alan Brinkley, *Voices of Protest: Huey Long, Father Coughlin and the Great Depression* (New York: Vintage Books, Random House, 1983), 179-186; and Glen Jeansonne, *Messiah of the Masses: Huey Long and the Great Depression* (New York: HarperCollins, 1993), 114-120, for details regarding the "Share Our Wealth Society" and analysis of its goals, especially Brinkley, *Voices of Protest*, 179-182, and Jeansonne, *Messiah of the Masses*, 119-120. Discussing Long's hastily written My First Days in the White House, Williams noted that Long proposed to appoint Herbert Hoover as Secretary of Commerce and John D. Rockefeller, Jr. and Bernard Baruch to head the "Federal Share Our Wealth Corporation." Cited in Williams, *Huey Long*, 845-847.

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corporate capitalism he deigned to accept.[28] If the New Deal was truly new in its approach to economic strategy, it remained a precursor to something greater, a way of resolving the imbalance between state and society that simply had to precede a more profound economic revolution. Its economic blueprint remained, in the lifetime of its creator, a diverse and incomplete document. The only thing certain about the Roosevelt economic strategy, Ellis Hawley noted, was that laissez-faire was dead.[29] Indeed, Roosevelt's most pressing and intractable political problem was learning how to appease, tame, or otherwise harness powerful and often intransigent conservatives who had been sufficiently comfortable with the political status quo and the prevailing definition of laissez-faire. Laissez-faire had never implied a truly "hands off" approach to political economics; government efforts to enhance and protect profit had always comprised a frequently exercised proviso to the general rule. After Roosevelt, it implied little more than the imagined, wholly absurd concept that it was.[30] While Johnson sought to mimic Roosevelt's tactics for disarming conservatives, he also sought to transcend the crisis-bound New Deal, and to answer a problem FDR never was able to resolve: how to subvert and replace conservative recipes for economic success, dominant even when conservative politicians were not.[31] Had Roosevelt not died suddenly just before the end of the Second World War, perhaps he could have confronted this predicament. Forced to coax the nation out of the Great Depression and into a global war, he found that he had

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[28] "He was just like a daddy to me," Johnson remarked when he first heard of FDR's death. Quoted in Wliam E. Leuchtenburg, *In the Shadow of FDR: From Harry Truman to Ronald Reagan* (Ithaca: Cornell University Press, 1983), 121.

[29] Ellis Hawley, *The New Deal and the Problem of Monopoly: A Study in Economic Ambivalence* (Princeton: Princeton University Press, 1966), 52.

[30] See Allen Dawley, *Struggles For Justice: Social Responsibility and the Liberal State* (Cambridge: Belknap Press, Harvard University Press, 1991), 1-13, 297-417, for an analysis of the New Deal as both a resolution to the prevailing imbalance between the state and society (primarily corporations) and as a product of the search for consensus that was shaped critically by the era's class conflicts. See also Ellis Hawley, *The New Deal and the Problem of Monopoly*, 12-52, for an examination of the incoherence of the New Deal economic philosophy.

[31] See George Wolfskill, *The Revolt of the Conservatives: A History of the American Liberty League, 1934-1940* (Boston: Houghton-Mifflin, 1962), for a detailed examination of FDR's most powerful conservative opposition and the tactics by which he undermined their political effectiveness.

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neither the time nor the wherewithal to propose sweeping economic change. "It is fashionable to praise FDR for his lightness and skill in maneuvering over the muddy terrain of American government," Andrew Shonfield noted. "It is less usual to recall that he left it a lot muddier than he found it."[32] As he advanced to national prominence, Johnson became convinced that he could clean up this muddy landscape. His praise for FDR and the New Deal continued throughout his career, and came without hesitation, but he knew there was much more left to do. "We cannot be content in the 1960s, he would later declare early in his presidency, "with the answers of the 1930s."[33]

This murkiness, however, did open up unique opportunities for Lyndon Johnson as he tried to create a more liberal economic blueprint for the South and for the nation at large. Few politicians, if any at all, possessed his affinity for and understanding of both conservative political personalities and liberal or populist economic principles. He truly believed that he could persuade any one, and he saw consensus as something valuable in itself, not just as a means to a better end. "If I hadn't left when I did," George Wallace remarked after meeting with Johnson during the 1965 Selma voting rights protest, "he'd have me coming out for civil rights."[34] On the other hand, this would be a handicap as well, for it insured that any populist or liberal reorganization of the nation's economy had to pass muster in two distinct ways. It must bring unparalleled prosperity and, at the same time, it must also convince the general public that this prosperity was dependent upon—and not created in spite of—the populist or liberal reform blueprint. Much of Lyndon Johnson's political career, steeped in the populism of the Texas hill country and the national liberalism of the Roosevelt revolution to which he was apprenticed, turned out to be preparation for this two-pronged challenge.

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[32] Andrew Shonfield, *Modern Capitalism: The Changing Balance of Public and Private Power (New York: Oxford University Press*, 1965), 318.
[33] Lyndon B. Johnson, *Public Papers, 1963-1964: I,* 250.
[34] Eric F. Goldman, *The Tragedy of Lyndon Johnson* (New York: Knopf, 1969), 315.

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Born August 27, 1908 at Stonewall, Texas, in the heart of the central Texas hill country, Lyndon Johnson was reared in a family well known for its populist political views. Lyndon's grandfather, Sam Ealy Johnson, Sr., joined the Texas Populist party in 1891, railing then against former President Grover Cleveland for the gold standard-tight money views he espoused in his campaign to regain the presidency in 1892. Sam Johnson, Sr. had also made a small fortune raising and driving cattle in the late 1860s, but had lost it all beginning in 1871. The first extensive railroad company agreements to fix prices combined with a subsequent recession (1873) in the Northeast to destroy the opportunity for profit in the cattle trade. The role of Eastern bankers and corporate price-fixers here, though he learned about it second-hand, would not be lost on Sam's grandson Lyndon.

Lyndon's father, Sam Ealy Johnson, Jr., was a cotton farmer and populist politician elected to the Texas legislature in 1904 who made a career out of fights against railroads, lumber companies, and utility companies. Burned financially in the 1905-1906 cotton futures market, he gave up his legislative seat in 1908, the year Lyndon was born. Regaining it in 1918, Sam, Jr. became one of the few Texas politicians of the period not to support any of the anti-German sedition laws sweeping through the Texas legislature. Lyndon's brother, Sam Houston, captured vivid memories of their father cursing the local "kukluxsonofabitch" for their moronic, predatory racism. "I never realized," Sam Houston noted later, "that 'sonofabitch' was a separate word, standing all by itself, until I got to high school."[35] Lyndon's father developed a reputation for this defiant support of civil liberties and for his unswerving populism. But, like his father before him, Sam Jr.was struck by an economic recession generated elsewhere. In the 1920-1921 recession

[35] Sam Houston Johnson, *My Brother Lyndon*, 30.

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cotton prices dropped to 8 cents/lb. and Sam Johnson, Jr. went $40,000 into debt, later fell ill, and was forced to accept donations of food from neighbors to survive.[36]

Lyndon looked up to his father, was often allowed to sit by his desk at the state capitol building in Austin, and plainly absorbed many of his views on politics and economics. "I want to be like my daddy," he once remarked as a youngster, "getting pensions for old people."[37] In 1919 and 1920, when Sam Johnson led the fight in the Texas legislature to procure funds for drought relief, Sam's poorest constituents and his oldest son recognized and remembered both his concern and effectiveness. Of Representative Sam Johnson the *Blanco Record Courier* recalled: "Because of his influence and insistence, Texas was one of the first states to recognize the public emergency which arises from a long series of private disasters—the foundation stone upon which has been built the modern conception of government as exemplified in the administration of President Roosevelt."[38] It seems that Lyndon was also greatly affected by his father's financial setbacks, and by the impact of his father's insolvency on the rest of the family. He always vowed, for example, to relieve his mother and other hill country women of the back-breaking domestic labor they were required to perform just to keep their families healthy and alive. Much of Lyndon Johnson's later effort on behalf of public power and rural electrification stemmed from a long felt desire to change materially the lives of the hill country women.[39]

Though Lyndon's father attracted great opposition from conservative bankers and merchants as well as members of the KKK, the Texas hill country was clearly fertile

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[36] Caro, *Path to Power*, 89-94; Dallek, *Lone Star Rising*, 55-56; Conkin, *Big Daddy From the Pedernales*, 24-25.

[37] Dallek, *Lone Star Rising*, 50. Doris Kearns noted that the death of Lyndon's grandfather, in 1913 when Lyndon was five years old, also instilled in Lyndon "a feverish eagerness" to resemble his father. Cited in Kearns, *Lyndon Johnson and the American Dream*, 34. Pool, Craddock, and Conrad, *Lyndon Baines Johnson: The Formative Years*, 34, noted that Sam Ealy Johnson, Jr. was also a "warm admirer of the progressive legislation that comprised Woodrow Wilson's 'New Freedom.'"

[38] Cited in Caro, Path to Power, 83. *Blanco Record Courier*, October 28, 1937.

[39] Virginia Durr, Oral History Interview, LBJ Library, interviewed by Mary Walton Livingston, October 17, 1967, 13.

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ground for populist sentiment. The Texas Farmer's Alliance, which eventually gave rise to the more nationally oriented People's party, was created in Lampasas, Texas, in 1877, a town on the northern edge of the central Texas hill country. In 1892, although Lyndon's grandfather was not among the winners, Populist candidates swept the hill country in both state and congressional elections. If the Texas hill country possessed an affinity for populist politics, however, it tended to favor a unique version of populist protest, for the traditional foes—banks and railroads—were absent there. Some hill country cattlemen, like Lyndon's grandfather, were affected at one point by late nineteenth century railroad companies, by way of the Chisholm trail and the Topeka, Kansas railroad terminal, but most hill country citizens were not. Instead, they turned their scorn and resentment, Robert Caro pointed out, on local merchants who offered expensive products and expensive credit. "Ninety-five percent of the merchandising business was a credit business in those days," remarked Simon Burg, grandson of a hill country merchant.[40] When Texas Farmer's Alliance membership swelled from 50,000 in 1885 to over 200,000 in 1890, it did so largely because of a single simple message: "join the Alliance, build a county cooperative, a county general store if need be, and get free of the credit merchant."[41] But most of these efforts failed. Aided politically by Dallas bankers and the Eastern manufacturers who supplied them, and economically by the lack of competition in such a sparsely populated area, hill country merchants continued to administer monopoly prices and interest rates well into the twentieth century. The speeches and slogans of the populist minority, Robert Caro noted, "were hopeless exercises, irrelevancies when the reality of legislative action was considered."[42] Weaned politically on local opposition to these kind of schemes, Lyndon Johnson would have little trouble recognizing similar practices later at the hands of the nation's largest corporations.

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[40] Quoted in Miller, *Lyndon*, 18.
[41] Caro, *Path to Power*, 35.
[42] Ibid., 82.

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Ultimately, the populist political persuasion of Sam Ealy Johnson, Jr. provided his eldest son with a bridge to the class-based economic populism of other more successful and well known Texas politicians. Lyndon's father was known to be an admirer of populist Texas governor Jim Ferguson, and this admiration, according to Eric Goldman, rubbed off on his son.[43] Though Ferguson served as governor from 1915 to 1917 when Sam Johnson was out of office, Sam was known as a Ferguson man. "Our daddy," recalled Lyndon's brother Sam, "was a staunch supporter of that wonderful rambunctious liberal, James E. Ferguson, about the most popular governor in Texas history."[44] Ferguson, often referred to as "Farmer Jim," entered the 1914 gubernatorial campaign without having held any political office, running as a quiet anti-prohibitionist and as an outspoken defender of Texas tenant farmers. He began his campaign that year with a provocative statement not unlike those Sam Johnson was known to proclaim: "Whereas, I, James E. Ferguson, am as well qualified to be Governor of Texas as any damn man in it; and Whereas, I am against Prohibition and always will be; and Whereas, I am in favor of a square deal for tenant farmers; Therefore Be It Resolved that I will be elected."[45] A lawyer, insurance agent, and banker by trade, Ferguson built his campaign largely around promises to tenant farmers, 52% of all Texas farmers in 1910. He also succeeded—judging from his campaign speeches and from election returns—in convincing landowners and businessmen that *all* would benefit from his proposals to assist tenant farmers. Unlike many radicals and reformers of his era, Ferguson never adopted a "soak the rich" economic strategy. When he was elected he delivered a law that limited crop rental percentages to one third of the cotton crop and one fourth of all other crops and abolished the practice of requiring tenant farmers to pay additional cash bonuses. He began the practice of furnishing state aid to rural schools, expanded appropriations for

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[43] Goldman, *The Tragedy of Lyndon Johnson*, 44-45.
[44] Sam Houston Johnson, *My Brother Lyndon*, 46. When Johnson ran for the senate in 1948, Miriam "Ma" Ferguson, widow of "Farmer Jim" lent her name and influence to Johnson's campaign.
[45] Ibid.

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education in general, and, after being elected to a second term in 1916, created the Texas Highway Commission that began a massive statewide roadbuilding campaign.[46] Ferguson was a politician who could appeal to landowners and businessmen but at the same time concentrate his efforts on helping tenant farmers, the poor, and the disadvantaged. Populist in spirit, when populism implied a firm grasp of the era's genuine class struggle, Ferguson emerged as the liberal prototype to which Lyndon Johnson ultimately aspired. He was not averse to the amassing of either substantial company profits or great personal wealth but believed that both should rise in tandem with, rather than at the expense of, the general welfare. As difficult as it was to recognize this amid the acrimony of Ferguson's feud with the University of Texas (he believed the university weighed too heavily upon the state treasury to the detriment of the state's grade schools and high schools) and his subsequent conviction on 10 of the 21 impeachment charges brought against him, it was not lost on Sam Ealy Johnson, Jr. or his son Lyndon.[47]

After receiving his high school diploma at age 15, spending a year in California working odd jobs, and another year back in Texas working as a bulldozer operator and truck driver, Lyndon Johnson headed off to Southwest Texas State Teachers College in San Marcos, Texas. Because the president of the college, Cecil Evans, let Lyndon live in his garage apartment, Johnson was eventually able to win the president's favor and often accompanied Evans on trips to the state capitol in Austin for the debates over the state's budget priorities. Here, more than anything else, Johnson began to appreciate what it took to wring money out of a conservative legislative body and also saw how only the

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[46] Joe B. Frantz, *Texas: A Bicentennial History* (New York: W. W. Norton, 1976), 165-167; Walter Prescott Webb and H. Bailey Carroll, eds., *The Handbook of Texas, Volume I* (Austin: Texas State Historical Association, 1952), 590-592.

[47] Frantz, *Texas*, 167. Lyndon's brother Sam pointed out how Clarence Martin, a neighbor and political associate of their father, served as Ferguson's chief counsel during the impeachment proceedings. Cited in Sam Houston Johnson, *My Brother Lyndon*, 47.

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most persuasive and strident lobbyists commanded the attention of the state's lawmakers.[48]

His favorite professor at Southwest Texas State, H. M. Greene, undoubtedly reinforced Johnson's nascent liberalism, as well as his appreciation for consensus politics and his talent for winning conservatives over to liberal economic policies. Greene, considered to be a liberal by some and a populist radical by others, lived in a "Thoreau type cabin" in the still magnificent Devil's Backbone area of the hill country and ran a small experimental farm as well. He taught Government to Lyndon Johnson, developing rapport with the young man largely because they shared an affinity for populist politics and an appreciation for learning outside of the classroom. Greene maintained, Johnson recalled, invoking his own appreciation of consensus politics, that "Democracy is of necessity a compromise. It is made of strong-minded men who cannot all prevail as individuals. Therefore, their concerted action must be a compromise."[49] At the very least, Professor Greene encouraged the populist outlook and the emerging liberalism of his gangly and aggressive student. "I didn't go to Harvard or Yale," Johnson later remarked. "But I believe Professor Greene knows more government than any professor up there. When the going gets rough, I draw upon the wisdom of his teachings."[50]

After interrupting his studies in 1928 to serve as principal and schoolteacher at the Welhausen School in Cotulla, Texas, a small Mexican-American grade school sixty miles from the Mexican border, Johnson graduated from Southwest Texas State in August, 1930 with a degree in education and history. Much like his brush with prominent

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[48] Dallek, *Lone Star Rising*, 72-73; Kearns, *Lyndon Johnson and the American Dream*, 48; Conkin, *Big Daddy From the Pedernales*, 48-49; Caro, *Path to Power*, 144-146.

[49] Quoted in Pool, Craddock, and Conrad, *Lyndon Baines Johnson: The Formative Years*, 96; and Miller, *Lyndon*, 28.

[50] Quoted in Dallek, *Lone Star Rising*, 72. See also Philip Reed Rulon, "The Education of Lyndon Baines Johnson," *Presidential Studies Quarterly*, Summer, 1982, 403; Kearns, *Lyndon Johnson and the American Dream*, 48-49; Caro, *Path to Power*, 151. After retiring in 1957, Greene moved to the Ozark Mountains of Missouri, but visited the White House often during his star pupil's presidency. Cited in Pool, Craddock, and Conrad, *Lyndon Baines Johnson: The Formative Years*, 96.

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populist educators and politicians, the Cotulla experience proved to have great impact on Johnson's outlook upon and approach to political economics. Speaking before Congress in 1965, he recalled his brief tenure at the Welhausen school:

> My students were poor and they often came to class without breakfast, hungry. They knew even in their youth the pain of prejudice. They never seemed to know why people disliked them. But they knew it was so because I saw it in their eyes. Somehow you never forget what poverty and hatred can do when you see its scars on the hopeful face of a young child.[51]

Johnson Health, Education, and Welfare Secretary Wilbur Cohen suggested that Cotulla was basic to President Johnson's political philosophy. The "experience of his teaching those Mexican kids," Cohen noted, "was a very important aspect of his whole life. It motivated him on...a great many basic ideas that were developed during his presidency. I think when he saw those hungry children digging into garbage, it was the first time he had really seen grinding poverty."[52] Johnson's youthful experiences, Cohen added, "were very meaningful to him. He was not an intellectual in the typical meaning of that word, being able to develop a theory or concept just by spinning it out as a professor would. It all grew out of his relationship with reality."[53]

After his graduation in 1930 Johnson went on to become the speech and debate instructor at Sam Houston High School in Houston, Texas, took the boys and girls debate teams to the state finals, and won both reappointment and a raise for the following school year. At Sam Houston, however, he would not complete even the fall semester, for in November 1931 he won an appointment to his first significant political job, as Secretary to newly elected Congressman Richard Kleberg. This position, won with the help of

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[51] Quoted in Miller, *Lyndon*, 31. Principal and teacher at the Welhausen school from September 1928 to June 1929, Johnson managed in the short time he was there to organize a literary society, coach the debate team, organize recess play activities against the wishes of the school's six teachers (who had always used recess as a cigarette break instead), tutor one student in English after school, tutor the school's previously illiterate janitor in reading, and earn twelve hours of correspondence credit from Southwest Texas State Teacher's college.
[52] Quoted in ibid.
[53] Quoted in ibid., 32.

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State Senator Welly Hopkins, lobbyist Roy Miller, and most of all Sam Ealy Johnson, Jr.—who provided crucial Blanco County campaign support to Kleberg—placed Lyndon Johnson's political career on a trajectory that would confirm his predeliction for populist sensibilities, consensus politics, and liberal economic policies.[54] Hired largely as a political favor to his father, Lyndon clinched the position, it seems, at least in part because of the "political touch" he had already exhibited to Hopkins and Miller, and because of the impressive interview he had with Kleberg himself a few days after the election.[55] Off to Washington with Congressman-elect Kleberg, Johnson soon exercised this "political touch," on a much broader scale and quickly established close political ties to even more powerful politicians, convincing himself in the process that his political instincts were appropriate and incisive.

In Washington, three Texas congressmen and one senator from Louisiana, in particular, helped refine and shape the young congressional secretary's liberal-populist outlook on the nation's political economy. Adding the otherwise menial job of House doorkeeper to his duties as Kleberg's assistant, Johnson used the job to gain access to other congressmen in general, especially those in the Texas congressional delegation. In short order, he would endear himself to Sam Rayburn, House member since 1913, and Wright Patman, member since 1928. Patman, who once referred to Lyndon's father as "the best man he ever knew," remembered Lyndon from his days in the Texas legislature with Sam Johnson.[56] Sam Johnson respected Patman's views enough to tell his son in 1937, when Lyndon boarded the train for Washington and his first term in Congress, "If any question comes up and you don't know how to vote, then go with Wright. You'll never make a mistake that way."[57] When Patman opened up the 1932 congressional

[54] Dallek, *Lone Star Rising*, 91-92; Conkin, *Big Daddy From the Pedernales*, 60-61; Kearns, *Lyndon Johnson and the American Dream*, 70; Miller, *Lyndon*, 37; Caro, *Path to Power*, 213-214.
[55] Sam Houston Johnson, *My Brother Lyndon*, 44; Dallek, *Lone Star Rising* , 92.
[56] Caro, *Path to Power*, 83.
[57] Quoted in Joe Phipps, *Summer Stock: Behind the Scenes With LBJ in '48, Recollections of a Political Drama* (Fort Worth: Texas Christian University Press, 1992), 58.

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session by moving to impeach Secretary of the Treasury Andrew Mellon, he left an indelible impression upon the young congressional secretary. Mellon, Treasury Secretary since the beginning of the Harding administraton in 1921, had incurred the wrath of the fiery Texan for his opposition to Patman's veteran's bonus bill introduced in May 1929. Able to speak for an hour "because the Republicans were so shocked," Patman hammered away at Mellon's trickle down tax policies, and chastised him for his obsession with a balanced budget in the middle of a Depression.[58] When it was Mellon's turn to respond, there was a recess, and what transpired next was announced in the following morning's papers: "Mellon Resigns, Appointed to the Court of St. James."[59] Lyndon had finally witnessed the persuasive power of the populist politician his father had so often praised.

Sam Rayburn, another one of the Texas politicians to which Lyndon gravitated, did even more to encourage the liberal or populist sensibilities of Kleberg's aggressive young secretary. Rayburn, who served briefly with Sam Ealy Johnson, Jr. in the Texas legislature (1907-1908)—where each held the other in great esteem—arguably came to be Lyndon Johnson's most important political mentor. Johnson went out of his way to speak to Rayburn as he worked the door to the U.S. House chamber, and he always followed Kleberg if the Congressman was headed to Rayburn's office. He really got to know "Mr. Sam," however, only after his marriage to Lady Bird in 1934, and after Rayburn began accepting the newlywed couple's invitations to dinner. Flattered by Lady Bird's attempts at reproducing his favorite Texas recipes—especially chili, black-eyed peas, cornbread, and peach ice cream—and by Lyndon's eagerness to listen to his political recollections, Rayburn soon began visiting the couple's apartment for Sunday

[58] Wright Patman, Oral History Interview, in Studs Terkel, *Hard Times: An Oral History of the Great Depression* (New York: Pantheon Books, Random House, 1970), 283.
[59] Ibid., 284.

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breakfast as well.[60] "You must never underestimate the importance of Sam Rayburn to Johnson's career," Hubert Humphrey once remarked.[61]

Known for his integrity and for his steadfast opposition to railroad companies, banks, utility companies and Republican high tariff and "sound money" policies, Rayburn saw a lot of himself in the young Lyndon Johnson. For his part, Johnson was attracted to Rayburn not just because of Sam's support of the people over "the interests," but also for Rayburn's uncanny ability to measure and control fellow lawmakers. Tommy Corcoran, FDR assistant and himself an adept political fixer, said of Rayburn, "Sam was a genius in handling men...the guy would say exactly what Sam told you he was going to say, and if you just answered exactly what Sam told you to answer, you could just see these conservative sons-of-bitches coming around right before your eyes."[62] To Lyndon Johnson few other politicians could be as compelling.

Although Rayburn was no less the stubborn populist than Johnson's father or grandfather, he differed from them in one significant way. Where Sam Ealy Johnson, Sr. and his son had a difficult time securing reform, outside of the pensions Sam, Jr. won for many of his constituents, Rayburn got things done. Rayburn showed the young Lyndon Johnson, in other words, how to remain true to his populist instincts and, at the same time, get in on the real action. Pensions were nice but they represented an issue on the periphery of the nation's political economy, and Johnson—like Rayburn—never one to set his sights too low, hoped for more fundamental and significant reform. Rayburn showed him how to attain the kind of reform that was truly fundamental and worthwhile.

"His family had been poor, and he had been poor," Virginia Durr recalled of Johnson, "and he just hated to see people poor."[63] On the other hand, he was also captivated by the quiet and confident power of wealthy businessmen and their lobbyists,

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[60] Caro, *Path to Power*, 333-334.
[61] Quoted in Merle Miller, *Lyndon: An Oral Biography* (New York: Putnam's Sons, 1980), 43.
[62] Caro, *Path to Power*, 323.
[63] Virginia Durr, Oral History Interview, LBJ Library, 9.

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and intrigued by the relative ease with which they defeated populist or liberal opponents. Johnson was especially intrigued by the élan and the shrewdness of Texas Gulf Sulphur lobbyist Roy Miller.[64] In Austin and in Washington D.C., Miller always seemed capable of dictating the terms of debate or influencing most any legislator, with the possible exception of Lyndon Johnson's father Sam.[65] Sam Rayburn would introduce Johnson to the political game where populists and liberals could wield similar power, where conservatives could be shamed, tripped up, baited, trapped by their own rhetoric, or where they could somehow be convinced to yield some of the influence they so jealously protected. About a year after Johnson came to Washington, he witnessed Rayburn's successful efforts on behalf of the nation's first "truth-in-securities" legislation. This showed Johnson how a skillful politician could combine populist instincts with effective legislation. To Johnson, Rayburn was worth emulating, particularly when it came to the task of winning conservative support for liberal economic policies. When the "truth-in-securities" legislation went into conference committee, Rayburn, as chair of the House Interstate Commerce Committee, succeeded first in making the tougher House version the basis for negotiations. And when FDR signed the bill on May 27, 1933, it was essentially the House bill championed by Rayburn that wound up on his desk, despite persistent efforts by John Foster Dulles and a team of Wall Street attorneys to eviscerate the legislation. Explaining this outcome, Robert Caro credited Rayburn's handling of the Senators in the conference committee: "Senators were guided with deference, deference in tone, in solicitation of their opinions—in all matters except matters of substance."[66] Little excited Lyndon Johnson more than to watch a genuine populist or liberal

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[64] Johnson held Roy Miller's son Dale to be a similarly attractive figure. See David Broder, "Dale Miller: The President's Favorite Lobbyist," *Look*, April 6, 1965, 66-68.

[65] Robert Caro pointed out how Miller "dispensed the 'Three B's' [beefsteak, blondes, and bourbons] with the most liberal hand in Austin," but also how Lyndon's father resisted Miller's lobbying efforts. "While Sam [Johnson] would drink with Roy Miller and the other lobbyists who held court every afternoon at the huge Driskill [hotel] bar," Caro noted, "he would insist on 'buying back'—for every drink Miller bought him...Sam insisted on buying him one in return." Caro, *Path to Power*, 80.

[66] Caro, *Path to Power*, 325.

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politician, historically the outmaneuvered and overwhelmed political figure, round up the conservative votes. At that, Rayburn was clearly the reigning champion. Rewarded for his political prowess by being selected Speaker of the House in 1940, Rayburn remained one of Johnson's most influential and powerful supporters until his death from cancer in 1963.[67] On the evening of November 22, 1963, not long after Rayburn's death, when Kennedy's assassination suddenly and shockingly thrust Johnson into the oval office, Johnson saluted Rayburn's portrait in the living room of his Vice Presidential residence. "I salute you Mr. Speaker," Johnson said reverently, raising a glass of orange juice toward the living room wall, "and how I wish you were here now, when I need you."[68]

The third Texas congressman who would bolster Johnson's faith in liberal economic policies and in his own populist political orientation was Maury Maverick, the third generation son of a famous Texas pioneer family. While Maverick would not enter Congress until 1935, Lyndon got to know him "darn well" in 1932, and helped him buy votes in the San Antonio slums (at $5 per head) in that year's county tax collector race.[69] Maverick was an outspoken liberal, a politician who enjoyed shocking people, a champion of minority rights, and an ACLU member. When Maverick ran for Congress in 1934 he enlisted the support of Congressman Kleberg's young assistant, telling reporters that "Lyndon Johnson...is considered to be the brightest secretary in Washington."[70] When he joined the Texas congressional delegation in 1935, Maverick became known as one of the few rookie congressmen who could simply pick up the phone and dial and get President Roosevelt on the line.[71] While Lyndon admired Maverick's spirited liberalism,

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[67] Rayburn was selected to replace Tallulah Bankhead's father William, congressman from Alabama and Speaker since 1936, when Bankhead died in 1940.
[68] Quoted in Jack Valenti, *A Very Human President* (New York: W.W. Norton, 1975), 7. Valenti, a former Houston, Texas advertising executive was decribed by Johnson as "the only man who knows everything that goes on in the White House." Quoted in "The Presidency: The American Civilization," *Time*, May 29, 1964, 18.
[69] Lady Bird Johnson, quoted in Merle Miller, *Lyndon*, 47; Dallek, *Lone Star Rising*, 111.
[70] Quoted in Caro, *Path to Power*, 276.
[71] Miller, *Lyndon*, 47.

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and learned much from his principled support of the poor and the disadvantaged, he learned an even more significant lesson in 1938 when Maverick lost his bid for reelection. "Don't forget our friend Maury...." Lyndon told White House assistant James Rowe, "There's nothing more useless than a dead liberal."[72] Despite the ingrained American distrust of power, and Johnson's own disdain for the kind of power that exploited the poor and the disadvantaged, political power itself became an elemental part of Lyndon Johnson's search for pragmatic liberalism with a populist soul. "When I thought about the kind of congressman I wanted to be," Johnson told Doris Kearns, "I thought about my Populist grandfather and promised myself that I'd always be the People's Congressman, representing all the people, not just the ones with money and power."[73] Johnson's brush with powerful lobbyists and overwhelmed populist politicians, such as Maverick, convinced him, nevertheless, that power, and the ability to compromise from a powerful footing, were every bit as important as unswerving political ideals. Years later the *Economist* of London would describe this approach in terms of a deceptively simple concept: "The big thing to understand is that Johnson's consensus is in large measure a brilliant word play for an older concept, more controversial in a society where government is ritualistically distrusted; and that is leadership...the immediate political fact is that he is leading Congress and the American public as they have rarely been led before."[74]

Though Johnson assiduously cultivated friendships and political ties to Patman, Rayburn, and Maverick, all fellow Texans, he also became mesmerized by the senator from Louisiana who called himself the "Kingfish." Huey P. Long, elected to his Senate seat in 1930, came to the Senate only after the 1932 elections enabled his friend Oscar

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[72] Quoted in Dallek, *Lone Star Rising*, 169.
[73] Quoted in Kearns, *Lyndon Johnson and the American Dream*, 91.
[74] Cited by Howard K. Smith, "Prologue: A Strong Thread of Moral Purpose," in James McGregor Burns, ed., *To Heal and to Build: The Programs of President Lyndon B. Johnson* (New York: McGraw-Hill, 1968), 13.

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Allen to take Huey's place in the Louisiana governor's office. Arriving in Washington at the same time as Lyndon Johnson, he immediately went to work flouting tradition in the Senate, expressing contempt for greed and for the existence of poverty, and boasting about how he wanted to cut the great American fortunes "down to frying size."[75] Lady Bird Johnson recalled that "Huey was something of a mystery to Lyndon, like he was to a lot of people."[76] Lyndon Johnson knew enough about Long, however, to be intrigued, and to mark Long as one of his political heroes. "When I first came to the Congress with Kleberg," Johnson recalled, "I was simply entranced by Huey Long, so much so that I made special deal with the doorkeeper to let me know when Long was about to speak on the Senate floor."[77] When Huey remarked that education should be "regulated on the capacity of children to learn, and not on the ability of parents to pay the costs," Johnson applauded.[78] When Long recalled his tangles with Standard Oil, Johnson recognized, and identified with, his populist vision. And when he lamented the presence of poverty amidst plenty, Johnson realized that the "Kingfish" had his finger on the most critical political and moral dilemma of the age. "He thought that every man had a right to a job," Johnson recalled fondly, "and that was before the Full Employment Act....He hated poverty with all his soul and spoke against it until his voice was hoarse."[79]

When Johnson became speaker of the Little Congress, a club comprised of the congressional secretaries prominent in the 1930s, Johnson invited Long to speak to the group. Long obliged in early 1935 and delivered one of his more memorable speeches comparing Rockefeller, Baruch, and the wealthy elite to "fifteen people" at a church picnic who "go take eighty-five percent of the food" intended for a hundred church

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[75] T. Harry Williams, "Huey, Lyndon, and Southern Radicalism," in *The Selected Essays of T. Harry Williams* (Baton Rouge: Louisiana State University Press, 1983), 226.
[76] Quoted in Miller, *Lyndon*, 47.
[77] Quoted in Kearns, *Lyndon Johnson and the American Dream*, 92.
[78] Huey Long, *Kingfish to America: Share Our Wealth, Selected Senatorial Papers of Huey P. Long*, edited by Henry M. Christman (New York: Schocken Books, 1985), 129.
[79] Quoted in Sam Houston Johnson, *My Brother Lyndon*, 45.

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members and "run off" with it. "Are we going to let them go?" Long asked the Little Congressmen. "No sir! We're goin' to go get 'em by the neck and say, 'Come back with that grub you ain't got no business with!'"[80] "Many people thought Lyndon, when he spoke of doing things for 'the folks,' was talking pure hogwash," Johnson's brother Sam recalled, "but it was a direct pickup from Huey's language."[81]

For all his admiration, Johnson responded only reluctantly to Long's call for programs that clearly entailed a massive amount of new public spending. At this stage in his political career, Johnson still subscribed to fairly orthodox views of the nation's political economy, including the concept of a limited if not balanced budget. Without an extensive economics education, Johnson found that balanced budget views simply dovetailed too readily with his more deeply held convictions on personal, corporate, or governmental spending in general. Frugality would always characterize his approach toward spending and he would always insist upon "a dollar's worth for a dollar spent;" in the 1930s he was also unable to conceive of a fiscal policy that employed intentional deficit spending. He agreed with Long that the poor and the disadvantaged should receive a fairer share of the favors local, state, and national governments were already dispensing, and that there were additional things that state and federal governments could do for the poor. He was convinced, however, that this could be done largely with a shift in fiscal priorities and with improved government efficiency. Directing more of its current funding toward the poor and less of it toward the wealthy—and ridding itself of wasteful practices—the federal government could bring about the redistribution of wealth that Long clamored for and substantial poor relief without having to resort to large spending increases or intentional deficit spending.[82] Johnson was somewhat

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[80] Quoted in Miller, *Lyndon*, 49.
[81] Ibid., 47.
[82] Given the prevailing fiscal policy (that Roosevelt only reluctantly abandoned)—a supply side approach best symbolized by the Reconstruction Finance Corporation and the National Recovery Administration—such a limited non-Keynesian approach would have undoubtedly produced some truly beneficial Keynesian results. Government deficit spending, had it been endorsed by a Keynesian president, would

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dismayed, then, by Long's apparent willingness to spend the most enormous sums imaginable and to do so without the slightest trace of concern for efficiency. It should be noted, of course, that Long's willingness to spend came largely from his eagerness to be politically unorthodox or even politically wreckless; it did not hinge upon any carefully sketched budget plans, nor did it stem from any academic conviction that fiscal deficits were inherently valuable. He clearly gave no one the opportunity to challenge him *or to support him* on such an unorthodox view. Moreover, parts of the orthodox view, even for radical populists like Huey Long and liberals like Lyndon Johnson, still possessed great explanatory power. Keynes had not yet published his *General Theory*, and it was widely known among political insiders, though seldom acknowledged, that a vast, and often incoherent, array of corporate-government arrangements had soaked up much of the public treasury for as far back as most could tell. It took little political imagination, then, even for a well-placed congressional secretary, to conclude that the poor could be lifted up without significantly greater public spending. One only had to take some of the generous appropriations earmarked for corporate America, Johnson and others like him reasoned, and spread them out a little more widely among those Americans struggling to survive. At this stage, few populists or liberals saw government as a potential economic manager (except with regard to specific industries), and hardly anyone at all spoke of demand as the key to investment and growth. Most who championed the cause of the poor and the working class believed, instead, that government only had to police the existing fiscal policy to liberate enough money for poor relief, improved education, and job training. For someone like Lyndon Johnson, who would carry this persuasion into the era of a more professional and scientific political economy, this meant that efficiency and generosity toward the poor could go hand in hand. In his mind they always had.

have been utilized to bolster consumer and investment demand; differing marginal propensities to consume would have enabled the shifting of government assistance away from the wealthy and to the poor to produce, without resort to deficit spending, a smaller but still beneficial increase in aggregate demand.

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In the midst of the Great Depression, Johnson was not yet able to see this in technical economic terms, nor was he able to produce a comprehensive substitute for the economic orthodoxy he still partly accepted. He admired and appreciated Patman, Rayburn, and Maverick because they were outspoken and crafty defenders of both the poor and the working class and because they were perfectly willing to use the unique powers of the federal government to solve economic problems. He admired Huey Long simply because Long cared for the poor and because he forced conservative opponents to confront the many awkward truths that defined American corporate capitalism. When Long was shot on September 8, 1935, and died two days later, many folks in Louisiana and throughout the nation rejoiced; the "dictator of Louisiana" was dead. "There weren't many poor folks among them," Johnson later recalled, "they knew who and what Huey was."[83]

Johnson's entry onto the Washington political scene, however, provided him with more than just introductions to the era's leading populist politicians. He also saw, for example, how silly and destructive partisan politics could be, for he spent his first year in the capital city watching his own party encourage economic turmoil for political advantage. As much as he thought Herbert Hoover to be an oafish politician and all too strangely detached from economic reality, and as much as he regarded the 269-165 Republican advantage on Kleberg's side of the Capitol as a genuine liability, he was still chagrined by the level of Democratic party obstructionism designed solely to prevent President Hoover's reelection.[84] Working with Kleberg, an ultra-conservative Democrat who often referred to FDR as a "Bolshevik," Johnson also became more confident in his own ability to persuade or soften the conservative opposition, in the fashion of his political mentor, Sam Rayburn. "Easily the richest man in Congress," Johnson's brother Sam recalled, "Dick [Kleberg] had a flair for social life and was only too happy to have a

[83] Quoted in Miller, *Lyndon*, 48n.
[84] Dallek, *Lone Star Rising*, 106.

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diligent resourceful assistant 'tending the store.'"[85] When Johnson realized that his assumption of almost all of Congressman Kleberg's day-to-day office responsibilities—warranted by Kleberg's inattention to practically everything but his daily pilgrimage to the Burning Tree Country Club—had made him somewhat indispensable, he found that he could convince the conservative congressman to support liberal New Deal measures that he would have otherwise forsaken or opposed. Partly by threatening to quit his post, for example, he persuaded Kleberg to support the Agricultural Adjustment Act of 1933.[86] The folks at home "need this legislation," Johnson warned Kleberg when the congressman proposed to vote against the AAA. "With some of those families down there, it's a matter of keeping bread on the table. If you throw them down, I can't go home and face them."[87] Taking on added responsibility also exposed Johnson to the many avenues upon which congressional power flowed. In 1933, when he outmaneuvered Vice President and fellow Texan John Garner for the right to appoint postmasterships in Texas (on Kleberg's behalf), Garner replied, "who the hell is this boy Lyndon Johnson? Where the hell did Kleberg get a boy with savvy like that."[88] He also learned that he could charm conservatives like his boss, by renouncing supposedly "liberal" propositions with which he genuinely disagreed and which otherwise warranted little attention. Roosevelt is "spending us into bankruptcy," Johnson would tell Kleberg, Roy Miller, and the many other conservatives whose paths he often crossed, often provoking an equally inane but salutary response from his conservative audience.[89] When Miller's son, Dale, also a powerful and conservative lobbyist, seemed dismayed by the rapport between his father and Kleberg's "New Deal" secretary, the elder Miller told

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[85] Sam Houston Johnson, *My Brother Lyndon*, 44. Bruce Schulman reported that Kleberg "devoted most of his attention to golf, fine dinners, and good whiskey." Schulman, *Lyndon B. Johnson and American Liberalism*, 10.
[86] Dallek, *Lone Star Rising*, 108.
[87] Quoted by Russell Morton Brown in Miller, *Lyndon*, 43. Brown worked alongside Johnson in Congressman Kleberg's office.
[88] Quoted in Dallek, *Lone Star Rising*, 113.
[89] Quoted in Caro, *Path to Power*, 272.

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him not to worry, that Johnson "was not a wild-eyed liberal."[90] To Johnson, liberalism never would imply unqualified government spending, nor had it ever been that way for FDR, Rayburn or any of his other political mentors. Walter Lippmann once noted that "no one feels it necessary to identify the science of chemistry with every theory that Davy or Faraday propounded, and there is no more reason for identifying liberalism with all that liberals, or men who supposed they were liberals, have at one time or another promulgated as gospel."[91] Such a characterization reflected much of Johnson's basic approach. It nevertheless served him well to pretend among conservative colleagues that liberalism was defined by a willingness to soak the rich or spend vast sums of the public's money—as it certainly was for some—and to renounce that approach boldly and with colorful contempt. Wastefulness or indiscriminate spending was something Johnson truly always abhorred, and he believed that opposition to such calamity defied ideological description. But it was also convinced that it was an effective way to make conservatives listen more reasonably and carefully to liberal argumentation. FDR often blurred his political ideology or economic strategy to irritate opponents, who enjoyed, as Arthur Schlesinger, Jr. put it, "the advantages of oversimplification which come from observation without responsibility."[92] Johnson did it to gain their ear and their forbearance. Convincing himself that conservatives—even reactionary ones—were more politically malleable than they were often perceived to be, Johnson also became convinced, more and more, that consensus politics could provide the key to a successful liberal economic strategy.

In early 1935, near the end of his stint as Kleberg's congressional secretary, Johnson was offered a $10,000 a year position as General Electric's number two lobbyist. Though

[90] Quoted in ibid., 273.

[91] Walter Lippmann, *An Inquiry Into the Principles of the Good Society* (Boston: Little, Brown, 1937), 239. It is from this work that Johnson and his speechwriters derived the "Great Society" label for Johnson's domestic agenda.

[92] Arthur Schlesinger, Jr, *The Age of Roosevelt: The Coming of the New Deal* (Boston: Houghton Mifflin, 1959), 530.

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the salary would have been over three times what he earned working for Kleberg and equal to Kleberg's own salary, Johnson spurned the offer. Robert Caro suggested that he turned it down only after Roy Miller advised him that acceptance would preclude any chance for a major political office in Texas. "His reason for hesitating was not principle," Caro maintained, but his unrelentless drive for political power.[93] Although political power was important to the young congressional aide—Johnson would have been foolish to think that he could push for economic reforms or win the kind of gratitude he longed for without it—so was his predilection for electoral politics and his guarded repugnance toward companies like General Electric. Although G.E.'s Gerard Swope had lobbied strenuously and effectively for Roosevelt's National Recovery Administration, and former G.E. executive Owen Young had just engineered the renegotiation of German reparations in 1929, the company had also just emerged (1931) from a well publicized anti-trust lawsuit and had agreed to divest themselves of RCA as a result. Implicated in numerous price-fixing schemes, both prior to and following the offer made to Johnson, General Electric found itself as the defendant in sixty-five separate anti-trust actions between 1911 and 1967.[94] The G. E. position truly offered the kind of power Johnson sought, but it also seemed likely to restrict the opportunity for meaningful economic and political change, the primary reason for which Johnson sought power and influence in the first place. In 1936, Johnson would refuse an offer to become a commissioner on the powerful Texas Railroad Commission for many of the same reasons.[95] By mid-year 1935, however, Johnson was offered another position, ending the internal debate over the G.E. offer. With help from Rayburn and Maverick, and conservative Democrats Senator

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[93] Caro, *Path to Power*, 339.
[94] Theodore Philip Kovaleff, *Business and Government During the Eisenhower Administration: A Study of the Antitrust Policy of the Antitrust Division of the Justice Department* (Athens: Ohio University Press, 1980), 120-124. G. E. had also been associated historically with public utility subsidiaries, the very companies that had resisted schemes to electrify the Texas hill country. See Louis D. Brandeis, *Other People's Money and How the Bankers Use It* (Boston: Bedford Books, St. Martin's Press, 1995), 118-120.
[95] Caro, *Path to Power*, 363.

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Tom Connally and Congressman Martin Dies as well, on July 26, 1935, Johnson was appointed as the Texas state director of the National Youth Administration, an arm of the Roosevelt administration's Works Progress Administration. Designed to help high school and college age kids stay in school, the NYA turned out to be tailor made for a man of Johnson's interests and ability. Although the youngest of all the state NYA directors, at 27 years old, Johnson soon won praise from NYA national director Aubrey Williams and from Eleanor Roosevelt for his leadership of the Texas NYA. Williams, the son of an Alabama sharecropper and a Southern liberal in the mold of Leon Keyserling, Abe Fortas, and Will Alexander, found much to admire in the young Texan, and soon regarded him as the NYA's best and most energetic state director. Eleanor Roosevelt added her commendation on a visit to Austin in 1936.[96] Praise also flowed from many other quarters. Frank Horne, uncle to Lena, and one of the first blacks hired by the NYA, told Robert Weaver, then at the Department of the Interior, that there was "this guy in Texas who was really something....Johnson didn't think the NYA was for middle-class people, the way a lot of congressmen did; he thought it was for poor people, including Mexican-Americans and Negroes."[97] Unlike previous federal and state assistance programs in Texas, Johnson's NYA did not exclude blacks. Texas' four black colleges and numerous black teenagers benefitted from the aggressive efforts of the Texas NYA and its youthful director.[98]

By June 1936, the Texas NYA had 135 roadside parks under construction—a project idea invented by someone on Johnson's staff and copied by several other NYA programs—and 3,600 youths earning thirty dollars per month working on them.[99]

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96 Conkin, *Big Daddy From the Pedernales*, 75.
97 Quoted in Miller, *Lyndon*, 56.
98 Caro, *Path to Power*, 364; Conkin, *Big Daddy From the Pedernales*, 78-79. See also Richard A. Reiman, *The New Deal and American Youth: Ideas and Ideals in a Depression Decade* (Athens: University of Georgia Press, 1992), 2-3, for an appraisal of overall NYA efforts at combatting racial discrimination.
99 Caro, *Path to Power*, 348.

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Despite Robert Caro's charge that Johnson saw the NYA only as a stepping stone to greater political power, and as a way to control men, getting large chunks of the approximately two million dollars allocated to the Texas NYA into the hands of the state's poorest citizens is largely what compelled Johnson to curse his assistants, gobble lunch at his desk, and work from seven am to midnight, seven days a week. When Johnson's boss came to town everything remained the same, including the breakneck pace. "One time Aubrey Williams came to Texas," Fenner Roth, one of Johnson's NYA associates, recalled, "It got around one or two o'clock and Aubrey said, 'I'm hungry.' And Lyndon just wheeled into a hamburger joint and said, 'Give him a hamburger. We're in a hurry.[100]'" Since Williams and Johnson were already friends and mutual admirers, there was little compelling reason for Johnson to offer him lunch on the fly other than his desire to keep the Texas NYA on its feet. "Put them to work; get them into school!" Johnson would shout to his NYA assistants.[101] "The days did not include breaks, coffee or otherwise," Robert Caro noted, "and lunch was a sandwich at the desk, or a hamburger or a bowl of chili hastily gulped at the six-stool cafe downstairs."[102] Although he may have wanted to impress Williams with his tenacity, Johnson was anxious to do so largely because he was genuinely proud of his NYA accomplishments and because he knew that Williams was too. In 1935 and early 1936, few state NYA programs had managed to meet established hiring quotas and Williams admitted that the overall program was "off to a bad start."[103] The Texas NYA, despite the unique scope and complexity of its mission, was one of the exceptions, a source of considerable pride and optimism for both Aubrey Williams and Lyndon Johnson.

One of the unique characteristics of the NYA was its requirement that 75% of its funds be spent on wages. Mandated by NYA Bulletin #11, this requirement was

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[100] Quoted in Miller, *Lyndon*, 55.
[101] Quoted in Caro, *Path to Power*, 358.
[102] Ibid., 353.
[103] Quoted in ibid., 364.

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implemented largely to ensure that the program did what it proposed to do: use its limited funds to help high school and college age kids stay in school rather than to enrich private contractors or suppliers. With the 75% rule, the federal government was, in effect, telling its NYA directors that "trickle-down" economics did not produce jobs in sufficient number and that supply side leakages were a real problem in any jobs program. Whether Johnson acknowledged this explicitly in 1936 or not is unclear. What was certain, however, was that he made a strenuous effort to conform to or to exceed the 75% rule. "He was very, very detailed, far more than I knew Lyndon was," remarked Johnson's NYA assistant Sherman Birdwell. "....He got down to exactly what Washington was trying to tell us ought to be done and what it meant to us....He wanted things to be absolutely correct."[104] Accordingly, Texas NYA jobs were designed to produce something of value and to use as little private contracting as possible. The Texas Highway department, created two decades earlier by Sam Johnson's political idol, Jim Ferguson, provided concrete and lumber and ferried the student workers to and from jobsites in department trucks. The trees and shrubs that the NYA planted along Texas roadways, purchased from private nurseries at the outset, were, by 1937, coming from a central greenhouse that the NYA had constructed the year before.[105] Setting a precedent that he would follow throughout his political career, Johnson also endeavored to spend as little as possible on administrative expenses. Indeed, the two years during which Johnson presided over the Texas NYA, the agency spent less on staff expenses than the modest amounts budgeted by the federal government.[106] Dependent upon eligibility certification from other agencies, Johnson even once organized and arranged an operation by which twenty NYA employees attempted to visit the homes of approximately 8000 Austin area students in one weekend. Eligibility certificates had arrived for these students late on a

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[104] Quoted in ibid., 354.
[105] Ibid., 368.
[106] Conkin, *Big Daddy From the Pedernales*, 76. The administrative budgets for 1936 and 1937, respectively, were $90,000 and $133,000.

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Friday afternoon and Johnson informed his staff that he wanted every one of the 8000 on the job by Monday morning. "We didn't contact all of them," NYA project supervisor Ernest Morgan recalled, "but we had 5,600 of them down there, and we put them to work."[107] No other NYA office came close to matching the efficiency of Lyndon Johnson's. "The productivity of his staff," Paul Conkin asserted, "had to rival, if not exceed, that of any government operation in American history."[108] In the end, Johnson's NYA experience did little to dissuade him from the political economics he had already begun to absorb: concerned most critically with full employment, dependent upon government guidance and efficiency, and disdainful of independent supply side strategies.[109]

Only when James P. "Buck" Buchanan, Texas' congressman from Johnson's Tenth District, suffered a fatal heart attack on February 22, 1937, did Johnson divert his attention from his NYA directorship. "When I come back to Washington," Johnson had promised, "I'm coming back as a Congressman."[110] Buchanan's death clearly presented Johnson with the opportunity to make this return trip and while Aubrey Williams protested, Johnson wasted little time announcing his candidacy for the vacant office.[111]

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[107] Caro, *Path to Power*, 358. Approximately 8000 of these certificates had arrived that Friday; Johnson's employees managed to reach only 5600 of them.
[108] Conkin, *Big Daddy From the Pedernales*, 76.
[109] The NYA also initiated the first affirmative action program in U.S. history, creating an aid program for black graduate students. With the encouragement of Aubrey Williams, Mary McLeod Bethune, and Johnson (though his tenure at the NYA, and therefore his efforts, were much more short-lived) the NYA urged the study of problems unique to America's black youth. See John A. Salmond, *A Southern Rebel: The Life and Times of Aubrey Willis Williams, 1890-1965* (Chapel Hill: University of North Carolina Press, 1983.), and Richard A. Reiman, *The New Deal and American Youth: Ideas and Ideals in a Depression Decade* (Athens: University of Georgia Press, 1992), for analyses of the NYA mission and Johnson's brief but not insignificant role. It is interesting to note that Reiman, in his comparison of the NYA and the Great Society, suggested that the Great Society planners "believed that the poverty problem required a surgical solution, not the assault on a broad front preferred by the New Deal." See ibid., 194-195. Suggesting that Johnson envisioned his entire economic strategy as part of the War on Poverty, I contend just the opposite.
[110] Quoted in Caro, *Path to Power*, 436.
[111] According to Johnson's brother Sam, Lyndon was anxious to run from the start but hesitated briefly until their father advised him that he should declare right away to discourage Congressman Buchanan's widow. "You go on and announce right away," Johnson's father advised. "The minute Mrs. Buchanan knows she's got opposition she won't get in. Hell, Lyndon she's too old to campaign." Quoted in Sam

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"There were times when I thought I'd explode from all the excitement bottled up inside," Johnson later told Doris Kearns.[112] In declaring his candidacy, however, Johnson faced tremendous odds and was, at the outset, perhaps the least likely of the ten announced candidates to replace Congressman Buchanan; he was not even mentioned among the several "favorites" for the position and his most significant political connections were in the Congressional district's least populated area. Yet, not quite two months later, when election day came, Johnson received word that he had won the special election over seven other candidates with 8,280 of the 29,943 votes cast.[113] Although he had been all but counted out at the beginning, Johnson had begun his campaign only eight days after Buchanan's death and had campaigned longer and harder than any of the other candidates. Lady Bird had also given the campaign an early infusion of cash with an $10,000 contribution—drawn from her expected inheritance—and Johnson collected thousands more from a variety of sources.[114] Indeed, from this point on, Johnson would exhibit a virtually unsurpassed ability to raise campaign funds—both for himself and for colleagues in the Democratic party—and would also witness the rapid growth of his own net worth.[115]

Like Keynes or "Farmer Jim" Ferguson, Johnson saw little contradiction between populist or liberal economic policies and substantial personal wealth. As Johnson saw it, economic liberalism stood, first and foremost, for the eradication of poverty and for full employment, but this also implied stronger markets and greater opportunities for

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Houston Johnson, *My Brother Lyndon*, 54. See also Caro, *Path to Power*, 390-392; Dallek, *Lone Star Rising*, 144-146; and Conkin, *Big Daddy From the Pedernales*, 79-81.

[112] Quoted in Kearns, *Lyndon Johnson and the American Dream*, 86.

[113] As a special election no run-off was necessary under the existing Texas election code. Two of the original ten candidates dropped out of the race before election day.

[114] According to Johnson fundraiser, Ed Clark, total contributions amounted to between $75,000 and $100,000. Two of Johnson's opponents, C. N. Avery and Houghton Brownlee, raised similar amounts and a third, Austin attorney Polk Shelton, raised between $40,000 and $50,000. Dallek, *Lone Star Rising*, 154-155; Caro, *Path to Power*, 408-409.

[115] See also Robert Caro, "The Years of Lyndon Johnson: The Power of Money," *Atlantic Monthly*, October 1982, 50-84.

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successful investment and individual affluence. Johnson also engineered a political arrangement with Washington friends that allowed him to pass out federal parity checks to the district's farmers, a move that almost certainly translated into more than a few extra votes. "Well, it outraged me too," one opponent exclaimed, "but I thought he was smart as hell to get it done."[116] Johnson's father's political connections, and those he had established as the director of the state's NYA, augmented these other efforts and helped provide Johnson with a reliable if slim electoral base. Nevertheless, the two most significant factors that helped him win six of the district's ten counties and the special election itself were the support he derived from casting himself as a 100% Roosevelt man and his access to state senator Alvin Wirtz' political influence in Austin, the city where most of the district's population lay. Presenting himself to the voters and political power brokers of the 10th Congressional District as a New Dealer and a supporter of President Roosevelt proved to be an obvious but potentially unprofitable campaign strategy. Texas governor James Allred, *Austin American* and *Austin Statesman* publisher Charles Marsh, and five of Johnson's opponents were also outspoken supporters of Roosevelt and the New Deal. Poll results published in Marsh's papers reported that Tenth District voters supported FDR and his court-packing plan by a 7:1 ratio.[117] "Nowhere in the state," Robert Caro noted, "was support for the President more firm than in the Tenth District."[118]

However questionable the strategy may have seemed, Johnson exploited the Roosevelt connection unstintingly, proved himself the only candidate willing to support Roosevelt on the infamous "court-packing plan"—introduced only weeks before the campaign—and gained a real advantage in the process. "Franklin D. and Lyndon B." proclaimed billboards throughout the hill country.[119] That President Roosevelt admired

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[116] Dallek, *Lone Star Rising*, 155.
[117] Poll results cited in Caro, *Path to Power*, 395.
[118] Ibid.
[119] Dallek, *Lone Star Rising*, 148.

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Johnson's political savvy, depended on Southern liberals like the young Texan, and offered indirect campaign support also improved Johnson's chances. "It is my conviction," Roosevelt proclaimed the following year, "that the South presents right now the nation's number one economic problem..."[120] Determined to encourage Southern liberalism as a solution to this problem, Roosevelt clearly pinned his hopes on politicians like Johnson.[121] In early April, Elliot Roosevelt, the President's son, wired best wishes for a "glorious victory in your race for Congress," and Roosevelt spurned C. N. Avery's requests to disavow whole-hearted support of Lyndon Johnson.[122] "On the surface the administration is keeping hands off the contest," Washington columnist Drew Pearson reported, "but under cover is quietly boosting Johnson."[123]

Johnson had cultivated Alvin Wirtz' friendship while working as Kleberg's secretary and had established his NYA office in Austin's Littlefield Building, one floor below Wirtz' law office. He had also named Wirtz chairman of the NYA's State Advisory Board. When Johnson climbed the stairs to Wirtz' office for one of their frequent conversations, Wirtz would tell his secretary, "Here comes m'boy Lyndon."[124] What ultimately clinched Wirtz' support for Johnson's congressional campaign, however, and therefore the support of a number of Austin voters, was his awareness of Johnson's political skills and access to influential congressmen and members of the Roosevelt administration. For his part, Wirtz was an outspoken New Dealer and a proponent of public power and aid to the poor, but, like so many of Johnson's role models, he also had little dispute, per se, with prosperous corporations, powerful lobbyists, or wealthy entrepreneurs, and he liked to effect compromise and cooperation between wealthy clients and the less well-off beneficiaries of the New Deal reforms he actively supported.

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[120] Quoted in Frank Freidel, *FDR and the South* (Baton Rouge: Louisiana State University Press, 1965), 99.
[121] See ibid., 20-22, 99-102.
[122] Dallek, *Lone Star Rising*, 150.
[123] Quoted in ibid.
[124] Caro, *Path to Power*, 392.

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"You're conclusion wasn't very good," Wirtz once counseled Johnson after Johnson had excoriated a local corporate executive. "It's one thing to tell a man to go to hell. It's another thing to make a man *go* to hell....It took me months to get him here and it just took you minutes to bust up the whole meeting..."[125] Despite this transgression, Wirtz sensed that Johnson had a similar disposition, and he knew that he did not lack the skill or the influence to effect artful compromise and provident legislation.

In the early 1930s, Wirtz had cozied up to the Samuel Insull power generation empire by acting as its legal representative for potential hydroelectric projects in central Texas. By the time of Congressman Buchanan's death in 1937, he was actively lobbying for federal approval of and assistance with a series of dams on the central Texas Colorado River. While the biggest of these dams, the Marshall Ford Dam, had been given a green light by the Roosevelt administration and had secured tentative financial backing from the Department of Interior's Bureau of Reclamation, all at the behest of Congressman Buchanan, only half of the $10 million price tag had been guaranteed when Buchanan died in February, 1937.[126] Wirtz was in a real bind, then, for he had to find someone to continue the work that Buchanan, the powerful chairman of the House Appropriations Committee, had initiated. Jobs, abundant and cheap power for the recently established Lower Colorado River Authority, a state agency represented by Wirtz; and profits for the construction firm of Brown and Root, also represented by Wirtz and chosen to do the construction work on the dams, all hung in the balance.[127] Because, as Kleberg's secretary, Lyndon Johnson had already opened doors for Wirtz in Washington, and because Johnson's lobbyist friend Roy Miller was a confidante of Texas congressman Joseph Mansfield, chairman of the Rivers and Harbors Committee that

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[125] Quoted in Dallek, *Lone Star Rising*, 183. Emphasis in original.
[126] This was done at the request of the Comptroller General's office who discovered that Buchanan had gotten authorization from Roosevelt without any congressional hearing or vote during the 1936 summer recess. See Caro, *Path to Power*, 379.
[127] Caro, *Path to Power*, 376-385; Dallek, *Lone Star Rising*, 174-176; Conkin, *Big Daddy From the Pedernales*, 90-93.

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would decide the dam's fate, Johnson had little difficulty overcoming Wirtz' initial reluctance to encourage or support his congressional campaign.[128]

Indeed, Wirtz had chosen the right candidate; President Roosevelt liked Johnson and Roosevelt would ultimately provide all the backing the Marshall Ford dam project required. "Give the kid a dam," Roosevelt told Tommy Corcoran after Johnson's election, whereupon Corcoran then proceeded to help engineer special authorization for the project.[129] With the second appropriation approved, the Marshall Ford Dam (later renamed the Mansfield Dam) became a certainty, Wirtz and the Browns stood to make a great deal of money, and Lyndon Johnson secured the allegiance and gratitude of powerful, soon to be much wealthier, constituents. Often overlooked, however, was the most significant payoff here, especially for a professed liberal of populist origins like Lyndon Johnson: cheap and abundant power for an area that previously had little at any price. In Johnson's mind, alongside the dreams of higher office and greater power, were the memories of hill country women laboring in primitive kitchens, cooking and washing without the benefit of any electric appliances. "I had visions of damming the Colorado and Pedernales rivers," Johnson later recalled, "of building a simple, rural electrical line out to the farmers that lived in my Hill Country, of providing flood control, irrigation, cheap power, of conserving the land....But the power companies wouldn't let me do it."[130] Lamenting the prohibitive cost of stringing new lines into a region populated by so few people, Texas Power and Light, the local utilities company, had refused, despite numerous entreaties, to provide more than one line for the whole congressional district.[131] Johnson's persistent lobbying and Roosevelt's empathy spelled the difference

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[128]Caro, *Path to Power*, 285.
[129] Ibid., 460.
[130] Quoted in Miller, *Lyndon*, 69-70. See also Lady Bird Johnson and Virginia Foster Durr, quoted in ibid., 9-10, both of whom suggest that Lyndon's memory of the back-breaking chores his mother had to perform motivated his efforts on behalf of public power and rural electrification projects.
[131] Dallek, *Lone Star Rising*, 177. The Rural Electrification Administration had also stymied the transmission of electrical power to the Texas hill country because of its own population density rule. When Johnson convinced FDR to support hill country electrification and to override the REA density rule,

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and though the dam projects greatly benefitted Alvin Wirtz and Brown and Root, they also brought power to the farmers and housewives of the Tenth Congressional District. "Of all the things I have ever done," Johnson wrote former Rural Electrification Administration director, John Carmody, in 1959, "nothing has ever given me as much satisfaction as bringing power to the hill country of Texas."[132]

When the Austin Dam project, further down the Colorado and within Austin's city limits, met an impasse in early 1938, Johnson resolved the political and financial problems here as well. Because the city of Austin wanted ownership for the power revenues that funded other services, and because the Lower Colorado River Authority sought ownership as well to prevent the rise of a significant competitor in the generation of local power, Johnson was forced to engineer a compromise. On May 2, 1938 the PWA granted final approval for a $2.3 million loan with which to rebuild the Austin Dam. This was achieved, however, only after Lyndon Johnson devised a plan where the city of Austin would lease the dam to the LCRA for $20,000 annually—payable in electricity for a period of thirty years—and where the city could reclaim sole ownership at the end of the thirty year period for cost plus depreciation. Johnson managed to satisfy both the city and the LCRA (and the PWA as well, who did not want to see the LCRA's ability to pay back other previous loans compromised) with this innovative financial arrangement, and he was able, once again, to secure cheap electricity for the hill country.[133] On top of everything else, the Austin dam negotiations proved to Johnson that liberal economic and social objectives need not be sacrificed with consensus politics or creative financial management. He would seldom hesitate to use the same tools in the future.

Roosevelt told John Carmody, then REA director, "you just go ahead and approve this for me—charge it to my account. I'll gamble on those folks because I've been down in that country and those folks—they'll catch up to that density problem because they breed pretty fast." Quoted in ibid., 181.

[132] Quoted in ibid., 183.

[133] L. Patrick Hughes, "Working Within the System: Lyndon Johnson and Tom Miller, 1937-1939," *Southwestern Historical Quarterly*, October 1992, 198-200.

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The dam-building exercises clearly gave Johnson an opportunity to ingratiate himself with powerful, wealthy, and therefore politically invaluable, Texans like Alvin Wirtz and George and Herman Brown. But they did not signal, as it has so often been assumed, either a growing acceptance of economic conservatism or a growing preoccupation with money. What "conservative" instincts Johnson possessed clearly preceded his congressional career and remained with him for the balance of his public life. Frugality and the willingness to entertain conservative, even reactionary, economic *concerns*, always marked Johnson's approach to political economics. Johnson did not simply begin to appreciate the ideology of reactionary figures like Herman Brown in the late 1930s any more than he had the equally pernicious outlook of his father's conservative opponents in the 1910s or 1920s. He did find, nevertheless, amid Brown's generally repugnant conservatism, as he almost always had before with others, what one historian referred to as "points of convergence," and what Johnson's father referred to, citing the prophet Isaiah, as the capacity for "reasoning together."[134] Regarding general political economics and basic economic strategies, Johnson and Herman Brown remained polar opposites, but they also shared a "distrust of bureaucratic waste" and "intellectual abstractions" and a thorough respect for "practical accomplishments."[135] Despite their ongoing differences, Johnson managed to enlist Brown's financial support for liberal causes and Brown managed to win political favors from a true ideological opponent. They benefitted each other enormously but they could also "reason together." After acquiring radio and television stations and commercial ranch property, Johnson's advancing entrepreneurial experience also increased his appreciation of technical and managerial innovation as well as the necessity for adequate profits and sound monetary

[134] "Points of convergence" reference from Conkin, *Big Daddy From the Pedernales*, 93. Johnson's favorite biblical quotation, that his father often invoked at family meetings, was *Isaiah 1:18*, "Come now, let us reason together, saith the lord: Though your sins be as scarlet, they shall be as white as snow, though they be red like crimson they shall be as wool."
[135] Conkin, *Big Daddy From the Pedernales*, 93.

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policy. But it hardly deepened his already noticeable penchant for consensus or his willingness to listen to all sides of any economic policy debate. "Business," Johnson came to say, "is what makes the mare go....I want businessmen to make just as much profit as they reasonably can."[136] Accordingly, he always reminded business leaders that he shared many of their noblest concerns and that he appreciated their often unique talents and personalities. Though he felt much differently about the business community's all too frequent willingness to exploit the poor and their equally prevalent tendency toward selfishness and social indifference, he also found that consensus politics and discourse made it that much easier to establish constructive criticism.

His attitude toward money, too, remained essentially the same over the course of his career. Once he had entered electoral politics, it had indeed become a larger issue and an inescapable part of any successful campaign, and he had always believed that productive enterprise should be rewarded with substantial income, but he tended to regard money then as he always had: little more than a vehicle by which he could help or please others. As Paul Conkin noted, Johnson was the financial mainstay of an extended family for much of his adult life. "He helped buy his mother's house in Austin, found a job for his sister Josefa in the NYA, tried to keep Sam Houston sober enough to hold down a job, and still made payments on old family debts contracted by either his father or himself."[137] This, coupled with his desire to avoid the economic fate of his father and grandfather—who both died penniless, compelled Johnson to become both an incessant provider and a person given to almost ineradicable concern for financial solvency and the accumulation of wealth.[138] Impressed by what he referred to as Johnson's "peculiar attitude toward money," Robert M. Jackson, aide to Texas congressman R. E. Thomason in the 1930s, recalled that Johnson's "idea of money was to buy something for somebody

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[136] Quoted in Hugh Sidey, "LBJ Populist versus LBJ Entrepreneur," *Life*, September 9, 1966, 34D.
[137] Conkin, *Big Daddy From the Pedernales*, 93.
[138] See Caro, *Path to Power*, xiii-xv, for a brief but close examination of this "fear."

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with it. I remember one time just before Mother's Day when I told him I was going downtown to get my mother's present. He thought that was a wonderful idea and so he went with me. But instead of just buying a present for his mother, he bought things for the mothers of many people that he knew from Texas."[139] Attorney General Ramsey Clark referred to Johnson as a "compulsive giver" and recalled that "he just wanted to give something always....You could laugh about some of it, because a lot of it was kind of junky stuff, but the point was, he wanted to give people something..."[140] Johnson paid for renovations to the homes of his less wealthy hill country neighbors, and he once arranged and insisted on paying for the emergency surgery of a former campaign worker, blinded suddenly by an allegedly inoperable brain tumor.[141] Even when he attracted benefactors such as George and Herman Brown, Johnson remained, as Paul Conkin asserted, "unusually circumspect in accepting financial help....He remained a relatively poor man until after World War II and then accumulated wealth through the indirect, not the direct, patronage of well-placed friends."[142] In short, Johnson often agreed with conservatives who otherwise disparaged his populist heritage and liberal economic perspective, used many of the same to finance increasingly expensive political campaigns, but did so largely because it enabled him to gain rhetorical, ideological, and pecuniary leverage in a conservative political economy. He was not only willing to

[139] Quoted in Miller, *Lyndon*, 537.
[140] Quoted in ibid., 538.
[141] Ibid.; Ernest Goldstein, in Hardesty, ed., *The Johnson Years*, 131-132. Craig Raupe, the former campaign worker in question, was told originally that he would not live another forty-eight hours. His wife panicked, called the White House, whereupon Johnson arranged a transfer to Walter Reed hospital. At Walter Reed, Raupe's tumor was removed and his health restored.
[142] Conkin, *Big Daddy From the Pedernales*, 93. See also Dallek, *Lone Star Rising*, 359-360; and Louis M. Kohlmeier, "The Johnson Wealth: How the President's Wife Built $17,500 Into Big Fortune in Television," *Wall Street Journal*, March 23, 1964, 1,12; and ibid., "Johnson and the FCC: Agency Curb on Rival of Wife's TV Station Spotlights Touchy Issue," *Wall Street Journal*, March 24, 1964, 1,14. In the first article Kohlmeier noted how the rising fortune of the Johnson's broadcast holdings freed Johnson for politics and "financed handsome hospitality in surroundings appropriate to increasingly lofty office." He also noted how Mrs. Johnson won the valuable wattage increase and network affiliation, which catapulted the first Johnson station into financial solvency, more on the basis of her husband's liberal beliefs than the implementation of any political "arm-twisting." (Conservative Texan Robert Anderson headed the group of previous owners denied similar wattage and frequency requests.)

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oppose his conservative friends and benefactors on issues of economic policy, but seemed positively geared for such opposition. Johnson incurred the wrath of Austin mayor Tom Miller, for example, a party to the Austin Dam negotiations, a man for whom the Austin Dam was eventually named, and a frequent Johnson benefactor, by proposing lower utility rates for LCRA's rural customers in 1939.[143] A few years later, when Miller wanted Johnson to denounce government gasoline rationing during World War II, Johnson defied Miller's wishes and denounced, instead, "those people in Texas who would withhold from our armed forces in order to use it at home."[144] When he sought, in 1937 and 1938, to provide better public housing and to clear the slums in Austin that he referred to as "the tarnish on the Violet Crown," Johnson veered onto a "collision course" with Herman Brown, dam-builder and Austin slumlord.[145] Yet, after less than two years as Texas' Tenth district congressman, Johnson had secured for Austin a part of (along with New Orleans and New York City) the first federal aid to cities for low-rent housing projects, and Austin's slum dwellings were razed. Indeed, despite warnings to the contrary, government competition clearly helped improve housing in Austin and it made it possible to remove much of the "tarnish on the Violet Crown;" for that Lyndon Johnson could take much credit.

Over the course of his early political career Johnson also began to understand how to assuage the often far more intransigent followers of these southern conservatives. When he fought for slum clearance and public housing in Austin, one resident complained that such programs created more problems than they solved because they competed with

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[143] Hughes, "Working Within the System,"209. Johnson was equally adept at finding those uncommon "points of convergence" where conservatives could support, often for selfish reasons, liberal economic policies. Senator Henry Jackson noted, for example, in a 1978 interview, how oil state conservatives (such as Oklahoma Senator Robert Kerr) were also typically "public power men" because they wanted cheap electricity for their ranches and farms. Henry M. Jackson, Oral History Interview, LBJ Library, interviewed by Michael Gillette, March 13, 1978, 12.
[144] Quoted in Dallek, *Lone Star Rising*, 259.
[145] Caro, *Path to Power*, 473. O. Henry, a one-time resident, referred to Austin as "the city of the Violet Crown."

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private business. "Yes sir, it is true," Johnson replied, "the government is competing with shacks and hovels and hog sties and all the other holes in which the underprivileged have to live....If you object to that kind of government competition, then I'm disappointed in you."[146] In 1938, Johnson, Maury Maverick, and Sam Rayburn cast their votes for the Roosevelt administration's Fair Labor Standards Act, the initial federal minimum wage law. Because the idea of a federally mandated minimum wage was perhaps least popular in the South where it often confronted profound racial discrimination, Johnson received a substantial amount of criticism for his affirmative vote. But he struck back boldly and directly and spoke as if he possessed not just abiding sympathy for the underpaid working class, but also a technical understanding of minimum wage economics: "They said it was government interference," he noted in one public address, "and it was. It interfered with that fellow who was running that pecan shelling plant [where workers averaged $1.29/week]."[147] Without explaining or perhaps even understanding the textbook economics behind a mandated minimum wage and its impact on a monopsonistic employer (who could previously pay less than competitive wages), Johnson proved, nonetheless, that he could absorb what were often technical principles in a decidedly non-technical fashion.[148] As he mastered an ever-widening array of political and economic details and came into contact with a greater variety of economic policy solutions and problems, he also came to value a more direct approach to the encouragement of liberal economics. By the 1960s, Johnson would argue that reformers could not "water down" their liberalism and expect to succeed with a civil rights

[146] Quoted in Miller, *Lyndon*, 72.
[147] Dallek, *Lone Star Rising*, 167.
[148] A non-discriminating monopsonist, one who is either the only buyer of labor services or who colludes with others to set a below competitive level wage, and who pays all of its workers the same wage, can become a wage-taker instead of a wage-setter under a government mandated minimum wage. Thus it is theoretically possible that a minimum wage might do what the cherished free market was supposed to do: increase, rather than decrease, employment in some industries as it provides greater income for that industry's workers.

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revolution in the American South; by the 1940s, in the province of economic policy, he had already begun to wield the same strategy.

As Johnson became more experienced with congressional politics he refined his understanding of the nation's political economy, and for the most part, his early experiences with national economic policy taught him two things: that his populist instincts dovetailed nicely with new economic theories appearing in the 1930s, and that his predilection for consensus politics made eminent good sense when it came to the legislative tug-of-war over the nation's economic policy.

But if Johnson discovered the inestimable value of a direct approach to economic reform, he also found this to be effective not simply because it threw the opposition off balance or because it forced them to confront the mythology of their own persuasion. While it often did as much, it also created, in turn, a situation where consensus was more likely to emerge and with it, effective policy. When he took office Johnson was a Roosevelt man caught in the middle of the 1937-1938 "Roosevelt recession." Quickly becoming a political confidant of the President he grew to admire greatly, and someone upon whom Roosevelt would depend in his effort to overcome Southern obstructionism, Johnson gravitated toward President Roosevelt at a fortunate time for a liberal who liked to joust with conservative opponents.[149] By early 1938, Roosevelt began to realize that his orthodox "balance the budget" approach to the economy had bred little but economic disaster, and, in the face of unprecedented corporate greed and obstinacy, he had also decided to pursue a more vigorous anti-trust policy. Partly convinced by the "stickiness" of prices in the current economic downturn, Roosevelt even began to consider the novel advice of several young economists in the administration who were then urging Keynesian deficit spending. Early followers of Keynesianism, Lauchlin Currie and Harry Dexter White, were particularly successful in converting the President to new economic

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[149] See Freidel, *FDR and the South*, especially 71-102.

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ideas. Although Roosevelt ultimately failed to understand Keynesian economics, in spite of having received several cogent and politically subtle letters from Keynes himself, and although he decided to turn away from orthodox economic policy only after much hesitation and political calculation, he had, nonetheless, begun to discard many of his conservative economic prejudices in 1938.[150] He had decided, for example, to create a fiscal deficit for the first time without resort to apologetic, emergency, or transitional rhetoric—in spite of opposition from Treasury Secretary Morgenthau and others. This "turn to the left," ultimately more profound and personal than the much more frequently cited leftward transformation in 1935, would do much to convince Lyndon Johnson, as a freshman congressman, that his populist instincts and liberal policies were right for the times and that his own economic theories fit into a national, as well as a regional, blueprint. Convinced that most voters were really progressives who nonetheless tended to ignore or disparage progressive policy because it lacked the force of unity or comprehensible method, Roosevelt also served as a brilliant affirmation of Congressman Johnson's affinity for political consensus. "History...shows," FDR had declared in the late 1920s, "that conservatives find it nearly always easy to control government at least two-thirds of the time because they are *united* on the perfectly simple proposition of 'doing nothing' and of 'letting well enough alone.'" Progressives and liberals on the other hand, Roosevelt pointed out, "have necessarily a constructive program" but "insist on dividing among themselves."[151] Unity and consensus, as a result, would become, along with a decided emphasis on full employment, the hallmarks of Johnsonian liberalism. For Lyndon Johnson, Depression era politics and a President bold enough to experiment

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[150] See John Maynard Keynes to Franklin D. Roosevelt, February 1, 1938 in Howard Zinn, editor, *New Deal Thought* (Indianapolis: The Bobbs-Merrill Co., 1966), 403-409, for a representative piece of this correspondence. "Business men have a different set of delusions from politicians...." Keynes reminded Roosevelt in one paragraph. "You could do anything you like with them, if you would treat them (even the big ones), not as wolves and tigers, but as domestic animals by nature, even though they have been badly brought up and not trained as you would wish." See ibid., 408.
[151] Quoted in Freidel, *FDR and the South*, 21-22.

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with economic policy combined to underscore the practical advantages of the consensus politics he had always been attracted to. From his father's invocation of the prophet Isaiah's, "Come, let us reason together" at family meetings, to his own heartfelt (some would say "pathological") need to be appreciated and liked by all, Johnson was always inclined to seek consensus wherever it proved to be a practical option.[152] Prior to his exposure to FDR and the New Deal, however, with an outlook that was thoroughly anti-corporatist but never anti-capitalist, he had not yet learned how to build anything more than a fragile consensus that was all too dependent upon political favors and psychological manipulation. But after meeting FDR, Johnson knew where he wanted to go. The Democratic liberals in the Senate, Johnson told Arthur Schlesinger, Jr. in 1960, had left the impression that the party was hopelessly divided and that they were "wasters, spenders and wild men....The country doesn't want this. The country wants to be comfortable. It doesn't want to be stirred up. Have a revolution all right, but don't say anything about it until you are entrenched in office. That's the way Roosevelt did it."[153]

In 1938, Johnson would also witness what he perceived to be an honest attempt at consensus and progressive policy coming from the more conservative business community. Some business leaders had begun to commit themselves to both FDR and to the public at large, even if a fair measure of self-interest and perhaps a small measure of economic distress had impelled these inventive acts of statesmanship. Whatever the reason, these overtures by business leaders further encouraged Johnson's penchant for consensus politics. Edward Stettinius of US Steel, for example, approached the Roosevelt administration in 1938 with what came to be known as "the Stettinius Plan," offering to cut prices and keep wages stable in exchange for lucrative government

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[152] See John Connally with Mickey Herskowitz, *In History's Shadow: An American Odyssey* (New York: Hyperion, 1993), 63. Connally maintained that Johnson's need to be appreciated and liked was at least somewhat pathological.

[153] Quoted in Arthur Schlesinger, Jr., *A Thousand Days: John F. Kennedy in the White House* (Boston: Houghton Mifflin, 1965), 20.

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contracts. Marion Folsom, of Eastman-Kodak, had previously volunteered his company's managerial expertise to help the Roosevelt administration establish 202 regional social security centers, a favor that had helped solve a tremendous applications nightmare. In 1938 Folsom continued to work closely with the Roosevelt administration as the President mobilized for potential war.[154] Johnson knew, of course, that congress was at the same time preparing anti-trust investigations of several companies, with US Steel as the primary target, and he also witnessed, largely because of its politically unpalatable contract provisions, the speedy abandonment of the Stettinius plan. At the same time, however, he saw that there were a surprising number of corporate presidents and CEOs who would support some progressive economic policies, as Stettinius and Folsom had, confounding their liberal and populist critics in the process. Viewed critically by many, if not most, of their small business counterparts, as "tame millionaires who had become accomplices to New Deal criminality,"[155] these corporate leaders were, nonetheless, readying themselves, in Johnson's mind, to play an increasingly larger role in an economy that no longer revolved around their prerogatives alone. Managerial liberalism was out of fashion, at least temporarily, and the federal government was destined, for practical economic reasons, to be more than just a facilitator or clearinghouse for corporate profit-making schemes. As a result, much of corporate America was compelled to support a "New Deal," hoping only to have a hand in shaping it. As Kim McQuaid put it, describing the efforts of corporate lobbyists in the late 1940s, corporate leaders became proficient with the "yes, but..." rejoinder, hoping to retain the initiative for domestic economic policy even as labor and consumer groups enlarged their political clout.[156] By the late 1930s, this trend and these practices were readily apparent

[154] Kim McQuaid, *Big Business and Presidential Power*, 11-13, 59.
[155] Ibid., 114.
[156] Ibid., 127.

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to most political insiders, including the young congressman from Texas' Tenth Congressional District.

To Lyndon Johnson, this was a clear sign that the middle ground between corporate capitalism and socialism was fertile ground, not just for politically advantageous compromise, as it may have been for Roosevelt, but also for economic growth and progress. After all, business leaders were coming to President Roosevelt with their hats in their hands. While they still knew how to help themselves and were surely deserving of some continued government assistance, they were clearly faced with fewer alternatives than ever before, and they could also be compelled to accept old perquisites and prerogatives with new strings attached. This, Johnson reasoned, would allow the government to aid American businesses, not by doing so on the backs of the poor and the powerless, but with the poor and the powerless in mind, to "water the economy at its roots," as Leon Keyserling once put it. Minimum wage legislation, tax reform that favored the poorest Americans over the wealthiest, and substantial public works spending were, accordingly, all part of Johnson's economic agenda in the 1940s and 1950s.[157] This kind of legislation, Johnson became convinced, rather than an almost exclusive focus on supply side considerations and the profitability of the investor class, was the key to a more promising and a more stable prosperity.

"There were times in those days," Bill Moyers noted, recalling the Johnson presidency, "when he [LBJ] thought the poor are poor because the economy is mismanaged against them."[158] This attitude, clearly evident during the Johnson presidency, stemmed largely from Johnson's early experience as a "100% Roosevelt man" in a capital city bustling with change and experimentation and in an economy that cried out for jobs and reinforced consumer demand. Recalling John Kenneth Galbraith's

[157] Dallek, *Lone Star Rising*, 426-523; Conkin, *Big Daddy From the Pedernales*, 136-137; Schulman, *Lyndon B. Johnson and American Liberalism*, 49-50.
[158] Quoted in Jordan and Rostow,editors, *The Great Society*, 176.

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suggestion that "modern liberal politicians" had a tendency to overlook the very poor, Johnson once pointed out that he "did not suffer the disadvantage of being considered a 'modern liberal politician.' The closest I came to that description," he remarked, "was being called a 'Populist'....So I determined that this Populist politician would be the one who finally gave poor Americans some representation and helped them find their voice and improve their lot."[159] Johnson was a genuine liberal but he ultimately succeeded in the American political economy partly because his liberalism was something distinct from either the fuzzy conventional description or the withering caricature propounded by reactionary critics.

Though largely oblivious, at this point, to the young Keynesian economists who were counseling a similar approach to the nation's economy, Johnson envisioned, like the Keynesians, a "general theory" applicable during periods of prosperity and depression, and not just a "special theory" designed only for the unique demands of the Great Depression. Depression era policies could be generated, in other words, to stave off economic decline, and to quiet the suffering and impatient poor, or they could be designed to alter permanently the place of the poor and the working class in the nation's political economy. Johnson, despite the popular perception that he adopted a more conservative outlook, showed unequivocal support for the latter, essentially liberal, approach. As a congressman and then, after 1948, as a U.S Senator, despite numerous feints to the right on everything from labor laws to foreign policy, Johnson proceeded to establish a legislative record that reflected his populist roots, his steadfast economic liberalism, and his appreciation for consensus politics. And just as he hoped to convince conservatives, particularly those in Texas, that he shared some of their concerns, he also hoped to preserve much of his populist or liberal reputation on matters financial or economic in character. In August 1940, for example, amid the opulence of the Greenbrier

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[159] Johnson, *Vantage Point*, 72.

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resort in White Sulphur Springs, West Virginia, Johnson, acting out of concern for both his image and the economic liberalism he wanted to cultivate, spurned a lucrative offer from the wealthy Austin publisher, Charles Marsh. Marsh, with George Brown looking on, proposed to sell Congressman Johnson a share of his oil well partnership. Though Marsh was willing to let Johnson pay him out of the proceeds of the oil wells, with no collateral and no down payment, and though Johnson was anxious to avoid the financial fate of his father, who was penniless when he died, the young and still relatively poor congressman simply decided that he did not want to become an oil man. "I can't be an oil man," Johnson muttered, "if the public knows I had oil interests, it would kill me politically."[160] His spurning of this offer, however, which would have made him a very rich man within just a few years time, did not come only out of concern for *personal* political power, nor did it reflect any aversion toward oil producers in general. Most Texas oil producers in the 1930s were independent producers, and were often citizens with little accumulated wealth; others were like Charles Marsh's partner Sid Richardson, fabulously wealthy and the object of no small amount of populist scorn.[161] Johnson had already learned how to temper his populist rhetoric and to draw upon conservatives for political and financial support but he could not afford to obscure his economic liberalism much further. Liberal policy required the partial support or acquiescence of economic conservatives, but it also required electoral support from the poor and the working class, however beleaguered or inconsequential they were when it came to the formulation of actual policy. He could, therefore, go so far as to defend the industry's Oil Depletion Allowance, special legislation from the 1920s that amounted to an enormous windfall for oil producers, but he could not afford to become one of its direct beneficiaries.[162] He

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[160] Caro, *Path to Power*, xiv; Dallek, *Lone Star Rising*, 192.
[161] Until Tom Connally's 1935 "Hot Oil Act," which made the Texas Railroad Commission the preeminent arbiter of oil price and supply in the U.S., even Richardson and others like him were oil producers of very small means.
[162] The Oil Depletion Allowance,created in the mid 1920s under the Coolidge administration, allowed oil producers to exempt 27.5% of their income from taxation. Changed to 22% in 1969, the 27.5% figure had

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appreciated and actively courted the indirect support of wealthy oil producers for populist or liberal economic legislation, won through decisive financial contributions to the Democratic party, but he also believed that this indirect support could potentially be negated by the loss of the more direct support from farmers and from the working class if he were to become a Texas oil baron.

Yet it was, in many ways, money that mattered. "The liberals didn't have any money," Terrell Maverick Webb recalled; "that's the trouble with liberals."[163] As unofficial chairman of the Democratic party's congressional campaign effort in 1940, Johnson was well aware of the party's financial crisis. His party held a 92 seat advantage in Congress, but as many as 75 of these were likely to be lost in 1940. There was little doubt that they would be outspent by the Republican party in virtually every congressional district; Roosevelt, the party's standard bearer, was running for an unprecedented third term; and in Texas, the Republicans were stirring things up for the first time since Reconstruction.[164] Though Johnson would later admit that he was never aggressive in his partisanship, this was largely true only when liberal measures stood a chance with either party, as he believed they had in the 1960s.[165] Despite Wendell Wilkie's presence on the Republican ticket that year, a liberal on many economic and social issues, this was plainly not the case in 1940. Tapping Sid Richardson, Clint Murchison, and the Browns for enormous campaign contributions, relying at least partly

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been arrived at, according to Texas Senator Tom Connally, simply because it sounded scientifically determined. See Kenneth G. Miller, *Oil and Gas: Federal Income Taxation*, third edition (New York: Commerce Clearing House, 1957), 9-148; James Reston, Jr., *The Lone Star: The Life of John Connally* (New York: Harper and Row, 1989), 196-198; Daniel Yergin, *The Prize* (New York: Simon and Schuster, 1991), 658; Conkin, *Big Daddy From the Pedernales*, 116. See also Sam Houston Johnson, *My Brother Lyndon*, 84. Lyndon's brother Sam maintained that support for the Oil Depletion Allowance was Lyndon's way to offset, politically, his role as Senate minority leader in opposition to Eisenhower (who was extremely popular in Texas).

163 Quoted in Miller, *Lyndon*, 115.

164 John Connally, who would eventually switch to the Republican party in the 1970s, recalled that the feuds within the Texas Democratic party over the nominating process in 1940 "were the foundation for the emergence of the [Texas] Republican party as we know it today." See Connally, *In History's Shadow*, 77.

165 See Lewis L. Gould, "Never a Deep Partisan," in *The Johnson Years, Volume 3: At Home and Abroad*, edited by Robert Divine (Lawrence: University Press of Kansas, 1994).

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on the Oil Depletion Allowance and, in the case of the Brown brothers, lucrative federal building contracts to guarantee the accumulation of these expendable funds, Johnson helped engineer a campaign where the Democratic party actually gained six congressional seats in 1940. "And it impressed the hell out of Roosevelt," James Rowe recalled, for the President had called Johnson on election day and asked him how many seats they were going to lose.[166] "The Democrats gained in the House," Bruce Catton noted at the time, "instead of taking the heavy loss they were [supposed] to take. The chief reason was that the party found a new miracle worker—the youthful and energetic congressman Lyndon Johnson."[167] And while Robert Caro noted perceptively that "Political philosophy played not the smallest role in his [Johnson's] appeals for money," this was true only on the surface, for the campaign derived much of its importance from its impact on the long term prospects for New deal liberalism. Much as Johnson concerned himself with these long term prospects, he had to keep them submerged lest he fail in his efforts to raise adequate campaign financing.[168] What was most telling about the 1940 congressional campaign was that Johnson's fundraising efforts primarily benefitted Northern liberal Democrats since the one-party South was still a Democratic stronghold. Personal ambition undoubtedly had much to do with his role in this campaign, and he glowed with pride when he saw the true scope of his accomplishment. The real basis for Johnson's achievement here, though, was, as it would be throughout his career in Washington, his penchant for "bringing conservatives around" to a more liberal social and economic agenda. Called the "contemporary Henry Clay" by journalists covering the 1956 Democratic convention, Lyndon Johnson began playing the part of the "great compromiser" even as early as 1940. From that point on, consensus politics with liberal designs became his enduring formula for political success and economic progress.

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[166] Caro, *Path to Power*, 654.
[167] Quoted in Reston, Jr., *The Lone Star*, 57.
[168] Caro, *Path to Power*, 663.

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Despite his virtually unwavering commitment to economic liberalism, Johnson continued to be dogged by assertions that he was, at heart, an economic conservative. He continued to emphasize his frugality and anxiety over wasteful public spending and he continued to devote more energy to seeking points of convergence and alliances with conservative rather than liberal colleagues. The signal change in his political career was supposed to have been his support for Taft-Hartley restrictions on labor in 1947, a sign that he, like other politicians and the rest of the nation after FDR's death, had moved abruptly to the right. Even here, though, Johnson's stand proved to be more of a political reaction, and less a reflection of his more deeply held economic philosophy. Johnson "was one of those who gutted us in 1947," H.S. "Hank" Brown of the Texas American Federation of Labor noted. He "disqualified himself in the eyes of the working people of Texas," remarked Wallace Reilley, A.F.L. leader from Dallas, in 1948.[169] Walter Jenkins, a Johnson assistant Sarah McClendon called "the most efficient person I ever witnessed in government," remembered it somewhat differently. It was Johnson's vote on Taft-Hartley and his vote to override Truman's veto, Jenkins recalled, that secured the 1948 Senate election for him, a race he won by a mere 87 votes. "A great many voters," Jenkins pointed out, "except for that vote were convinced that he was just too far to the left."[170] Labor unions were exceptionally weak in Texas, even in its cities, and in 1948 Texas newspapers ran, by Robert Caro's count, 295 editorials suggesting that strikes be abolished because they were part of a communist conspiracy to overthrow America.[171] As a result, Johnson simply adopted rhetoric and a campaign strategy that reflected mostly his desire to hold on to political office and partly his genuine disregard for what he called "irresponsible" unionism. "I am not anti-labor," Johnson shouted at one of his campaign assistants who speculated otherwise. "You should know that. I am *pro*-labor.

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[169] Robert Caro, *The Years of Lyndon Johnson: Means of Ascent* (New York: Knopf, 1990), 125, 224.
[170] Sarah McClendon, Oral History Interview, 38; Jenkins, quoted in Miller, *Lyndon*, 121.
[171] Caro, *Means of Ascent*, 223.

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I'm even *pro*-union. *Responsible* union, that is. I am just anti-*irresponsible* union. A fool knows that."[172] Welly Hopkins, chief counsel to John L. Lewis of the United Mine Workers, helped raise money for Johnson's 1948 senate campaign despite the Taft-Hartley votes, and made several trips to Texas that year to make cash deliveries. When Hopkins arrived in Texas he was inevitably forced to witness Johnson's anti-labor charade. "He was saying things that kind of hurt my ears," Hopkins recalled, "I knew there were political reasons for it, but it made me feel a little badly."[173] While the Texas A.F.L. went on to endorse Johnson's opponent in the 1948 senate race, Coke Stevenson, national A.F.L. leaders and Walter Reuther of the Congress of Industrial Organizations worked quietly behind the scenes to support Johnson's candidacy. Tommy Corcoran also contacted a leading official in the Railroad Brotherhoods who promised to get "a favorable word" down to the Brotherhoods in Texas before the campaign ended.[174]

When Lyndon Johnson called for reporters so that he could explain his support for Taft-Hartley, he generally emphasized his unwavering commitment to workers, his contention that Taft-Hartley was not the ominous legislation it was often made out to be, and that Coke Stevenson had only made a "corrupt bargain" and was actually the anti-labor candidate. "Just a readjustment," Johnson replied when Wick Fowler of the *Dallas News* asked him about Taft-Hartley. "Just filling in the loopholes that nobody realized were in the Wagner Labor Relations Act."[175] And when Robert Wear of the Fort Worth *Star-Telegram* asked him about the union view and the potential end of the union shop, Johnson replied, "Nothing's dead. Nothin's killed....Those union fellows who negotiate

[172] Quoted in Joe Phipps, *Summer Stock*, 70. Emphasis in original.
[173] Quoted in Caro, *Means of Ascent*, 225.
[174] Dallek, *Lone Star Rising*, 314-315.
[175] Quoted in Joe Phipps, *Summer Stock*, 156. At one stop during the campaign, Johnson also used Fowler to demonstrate what he believed were the true intentions of the Stevenson campaign and the *Dallas Morning News* (which had originally reported and emphasized the union endorsement of Stevenson and condemnation of himself). "Don't blame Wick [Fowler]," Johnson told an audience in Jasper, Texas, "for his bloodsucking, scoundrel boss who has ordered him: 'Go after Lyndon Johnson. We can't have a man who knows how to get things done in Washington. Next thing you know he'd be doing something for the people." Quoted in ibid., 190.

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those contracts. They're not labor anyway. Not a callous in a carload. I just want to know—and I think the people of Texas deserve to know—if my opponent made a trade. Where does *he* stand on Taft-Hartley?"[176] When Johnson decided to issue a formal statement on Taft-Hartley for the 1948 campaign, he delivered a sermon in San Augustine, Texas that was unusually tepid and lengthy but which also emphasized his own support for "the laboring man" and the deceit of his opponent:

> I am sorrowed and profoundly shocked by printed reports out of Fort Worth that the Executive Board of the Texas Federation of Labor—a handful of labor bosses in a smoke-filled room—has decided to back one my opponents for the democratic momination to the U.S. Senate....Should the story prove true, it represents the first time that the Texas Federation of Labor will have ever given its stamp of approval to any statewide candidate for public office. Further, it would represent endorsement of one whose entire public life until this time has been devoted to undermining rather than supporting the union movement....I feel confident that if a poll were taken of rank-and-file members, ther would be overwhelming approval of my candidacy above all others.
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> Looking out for the laboring man has been a tradition in the Johnson family. My grandfather was a founder of the Texas Populist movement. My father, Sam Johnson, as a member of the Texas legislature, wrote, fought for and obtained passage of the first Texas Railroad Retirement Act more than thirty years ago. In my case, serving those who earn their living by the sweat of the brow has become more than simply carrying on a family tradition. It is an honored heritage.[177]

Staking out his support for the more popular but also more innocuous parts of the bill, Johnson also implied that he would be willing to alter Taft-Hartley if it proved to undermine real economic progress. "On one section of the law my attitude will not be changed. That's the section which requires the head of a labor union who seeks advantage under the act to file an affidavit that he's not a Communist, or member of the Communist party."[178] Choosing to support Taft-Hartley, a complex piece of legislation

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[176] Quoted in ibid., 156-157. Emphasis in original. When columnist Jack Anderson asked Stevenson to comment on Taft-Hartley, Stevenson siad he did not have his notes with him and therefore could not tell Anderson where he stood. The Johnson campaign distributed Stevenson's response, reported in Drew Pearson's column, wherever they traveled throughout Texas. Lyndon's brother Sam called the Pearson column "the single most important factor in the election." See Sam Houston Johnson, *My Brother Lyndon*, 76.

[177] Quoted in Phipps, *Summer Stock*, 186-187.

[178] Caro, *Means of Ascent*, 276.

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that was foreshadowed by state level restrictions and, surprisingly, by A.F.L. proposals made during World War II, Johnson was essentially choosing to safeguard the viability of his political career and his liberal economic strategy with a veneer of cold war anti-communism and visible resentment toward undemocratic union practices.[179] Johnson's gamble—one with compelling odds in the late 1940s—was that his career and his economic strategy would become increasingly significant while the cold war and the labor-baiting, so popular and compelling in the late 1940s, would fizzle and fade. While his response to McCarthyism later in the 1950s seemed to vindicate this approach (he was one of the architects of the plan to wait out McCarthy and let him destroy himself), the tragedy of Vietnam was constructed partly on the surprising persistence of radical anti-communism, a force that was much larger than Senator McCarthy, and on the accompanying, and equally surprising, persistence of this early Johnsonian formula for political success.

Outside of the Taft-Hartley case, and perhaps the Leland Olds affair in 1949, where he deployed the same anti-communist rhetoric, Johnson's involvement with economic legislation revealed little of this presumed "turn to the right," and more of his sustained commitment to liberal economic policy.[180] In an August 19, 1942 radio broadcast, with the nation's war effort banking on increased industrial output, Johnson criticized factory owners whose plants were running at only 70% of capacity. The following year he voted to keep private oil companies out of the Elk Hills naval oil reserve in California, and defended the federal government's Renegotiation Act which allowed for the automatic revision of government contracts with excess profits (already having saved the Treasury

[179] See James Gross, *The Reshaping of the National Labor Relations Board* (Ithaca: Cornell University Press, 1981), for an examination of labor's role in shaping what were essentially anti-labor legal restrictions.
[180] Olds was an outspoken liberal renominated to The Federal Power Commision by President Truman in 1949 who was defeated 10-2 by the Foreign and Interstate Commerce Committee of which Johnson was a part. Johnson, according to some, led the attack on Olds for his radical journalistic exploits in the 1920s. See Dallek, *Lone Star Rising*, 375-378; Conkin, *Big Daddy*, 125-7; and Kearns, *Lyndon Johnson and the American Dream*, 105.

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$4 billion). This law says to the industrialist, Johnson remarked, that he "shall not build a personal fortune out of the misfortune and miseries of this total war."[181] In 1944 Johnson helped sustain President Roosevelt's veto of a congressional tax bill that raised only 20% of the new revenues that the President had requested, and became, with Oklahoma's Mike Monroney, one of the two oil state senators to vote against the proposed 35 cents per barrel rise in crude oil prices.[182] Informed by Paul Porter of the Office of Price Administration that the increase was not necessary to spur increased supply and that it would only exacerbate other price control problems, Johnson helped defeat the proposed increase despite Sam Rayburn's and Secretary of the Interior Harold Ickes' support for a modest price rise.[183] In the congressional elections held later that year both Johnson and Rayburn were lambasted for their outspoken support of "creeping socialism."

In 1947 Johnson found himself in the minority voting against a ceiling on federal expenditures—despite his well publicized views on government economy—and also voted, in the summer of 1948, against Republican sponsored tax reduction bills weighted toward the nation's wealthiest citizens. When he moved to the Senate, after his narrow 87 vote victory in the 1948 Democratic primary run-off, he continued to support liberal economic policy. In 1951 and 1952, for example, during the Korean War, Johnson voted for excess profits taxes and for the continuation of wartime rent and price controls.[184] He always maintained that he was for "free enterprise," and much like the Populists of the nineteenth century he never railed against capitalism in general, but he also believed that the federal government could and should compel American free enterprise to be freer, stronger, and more democratic. By the time he reached the Senate, having seen the nation move under an activist federal government from 25% unemployment to almost 1% unemployment in about ten years time, Johnson was no less the pragmatist than he had

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[181] Dallek, *Lone Star Rising*, 244, 258, 259.
[182] Ibid., 258-259.
[183] Miller, *Lyndon*, 101-102; Dallek, *Lone Star Rising*, 259.
[184] Dallek, *Lone Star Rising*, 290, 404.

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ever been, but he was convinced that the federal government had a substantial role to play in a pragmatic political economy.[185]

When Johnson became the nation's youngest ever Minority leader in 1953, he strived to be a moderating influence on the newly elected and potentially reactionary Eisenhower administration, circumscribing the political consensus under which the new administration operated. He vowed to support Ike solidly on foreign affairs, to work actively to overcome the President's reticence toward civil rights reform, but to stand firm with liberal economic policies. On November 10, 1953 Johnson wrote to Eisenhower's Secretary of Labor James Mitchell, lamenting the concurrent appearance of price inflation and economic recession, a phenomenon that would curiously reappear in the 1970s under Richard Nixon, Eisenhower's Vice President in 1953. "It seems incredible," Johnson wrote, "that the cost of living is the one rising factor in an economy that is declining in so many other respects."[186] When Eisenhower's Secretary of Defense Charles Wilson made his famous "what's good for General Motors is good for the nation" remark and his less widely quoted comment comparing the poor to "kennel-fed dogs," Johnson badgered Wilson unmercifully. In 1956, in a similar vein, Eisenhower and his U.S. Information Agency director Arthur Larsen began espousing the term "dynamic conservatism," suggesting that they were liberal in human affairs but conservative (hence more efficient and wise than their Democratic counterparts) in fiscal affairs. When Larsen attacked the Democratic party in an April, 1957 speech, referring to the New Deal and to Truman's Fair Deal as "alien philosophies," Johnson leapt to the defense. As chairman of the subcommittee responsible for the U.S.I.A. budget, Johnson engineered a substantial budget cut for the U.S.I.A. (from $144 to $96 million), and

[185] Unemployment reached 24.9% in 1933 and had dropped to 1.2% in 1944. Source: *Statistical Abstract of the United States*.
[186] Qouted in H. Scott Gordon, "The Eisenhower Administration: The Doctrine of Shared Responsibility," in Goodwin, *Exhortation and Controls*, 100.

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embarassed Larsen throughout the four day long budget hearings. Larsen "really stepped in with his chin wide open," recalled George Reedy.[187]

On other fiscal matters, principally the level of federal income taxes, Johnson emerged in 1955 as the opponent of Eisenhower's conservative,"trickle down" economic proposals. After Eisenhower's plan to cut taxes on corporations and the wealthy made little headway, thanks in part to Johnson's opposition, Sam Rayburn offered the first Democratic counter-proposal. When this failed too (a $20 across the board cut), with Eisenhower calling it "some kind of height in fiscal irresponsibility," Johnson introduced a substitute measure, his first major proposal as Senate majority leader. His bill called for a $20 tax credit for heads of household, and a $10 credit for dependents other than spouses, with the revenue loss offset both by increased excise and corporate taxes and by the elimination of accelerated depreciation.[188] Failing narrowly, 50 to 44, in the Senate, with Johnson hospitalized for much of the debate, this proposal—characterized by an offsetting revenue-neutral approach—revealed both Johnson's predilection for liberal, demand side policies *and* his more orthodox conception of the overall federal budget. Proffering the same balanced budget, revenue neutral approach that his conservative counterparts had offered, Johnson remained wedded to much of the economic orthodoxy even as he sought to pass economic legislation with a liberal imprimatur. Moreover, his support for *revenue neutral* tax legislation, unlike his support for Taft-Hartley, came more as a result of genuine conviction than political calculation. Although he had learned to live with unbalanced budgets during the Depression and World War II and saw little to be alarmed about when the federal government ran a deficit during an economic or military crisis, an intentional deficit, designed solely to spur economic growth, was by the 1950s not yet an accepted part of Johnson's economic policy repertoire. His personal frugality, his general lack of technical economic knowledge, and his growing awareness

[187] Dallek, *Lone Star Rising*, 462, 516.
[188] Miller, *Lyndon*, 176; Dallek, *Lone Star Rising*, 469.

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that Republicans were beginning to attack liberal legislation more on its cost than its merits, all combined to convince Johnson that balanced budgets made good political sense. In strictly economic terms, he was much closer to the Keynesian principles he would later espouse, principles that endorsed deliberate deficits during a period of economic recession. But in the 1950s, despite an almost instinctive willingness to use government economic levers, Johnson had yet to transcend the budgetary politics of the economic orthodoxy. Even the call for tax cuts, a move loaded with revolutionary potential, was at this time largely a function of the popular and recurring "reduce the power of government" theme. As a result, Johnson showed little enthusiasm in the 1950s for most tax cut proposals, even those weighted toward the working class, for he never wanted to encourage the anti-government bias that he believed to be excessive and oversold to begin with. Johnson was much more enthusiastic, however, and therefore much more successful, in engineering the passage of both a new public housing bill, and a minimum wage increase, both in 1955. The housing bill in particular, which provided for 135,000 public housing units over three years and which prominent Senate liberals had all but written off, showed Johnson to be a crafty and tireless supporter of unambiguous legislation designed to help the poor. When Johnson engineered the defeat of a Republican amendment, authored by Homer Capehart of Indiana, designed to restrict the public housing initiative, few observers registered anything but shock, dismay, or unexpected delight. George Reedy recalled that the press gallery "nearly collapsed out of sheer shock, because they'd all written stories that morning predicting that this would be a major defeat for Lyndon Johnson as Democratic leader."[189] An elated Paul Douglas told Johnson after the housing bill passed, "I didn't think you could do it, and I will never know how you did it, but you did it, and I'm grateful."[190]

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[189] Quoted in Miller, *Lyndon*, 178; and Dallek, *Lone Star Rising*, 482.
[190] Quoted in Evans and Novak, *The Exercise of Power*, 151; and Dallek, *Lone Star Rising*, 483.

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Although Johnson could not yet envision the kind of macroeconomic scheme his liberal persuasion seemed to call for, he had at least grown to understand the pervasive mythology and impractical character of conservative economics. It became apparent to him, for example, that the prices of the nation's most significant commodities often had little to do with genuine free market mechanisms. As a result, he began to understand the crucial difference between conservative *predictions* for price behavior—that were usually correct—and conservative *explanations* of the same—that were usually erroneous. Though not an active participant in the proceedings, Johnson sat on the Senate's Interstate and Foreign Commerce Committee as it considered the 1949 Basing Point Pricing Bill, debate which ultimately exposed a surprising degree of price-fixing common to the steel and concrete industries.[191] In 1951, as chairman of the Senate Preparedness subcommittee, Johnson secured a reputation favorable to conservatives who desired a strong military but at the same time exposed the inflationary and inefficient character of many Department of Defense contracts. Price gouging by tin producers was but one example of the abuses he uncovered.[192] In April 1952, as a supporter of the Truman administration's Korean era price controls, Johnson witnessed the President's temporary seizure of the nation's steel mills. While the seizure was eventually nullified by the Supreme Court, and while Johnson angered some liberals by comparing the seizure to "practices that might lead to a dictatorship," Johnson did vote with only eleven other senators to give Truman the temporary power to seize the mills. The most significant part of this case, however, was that it became apparent to Johnson,

[191] Basing point pricing refers to the pricing system prevalent in certain industries throughout most of the twentieth century where a leading producer supplies the freight rate book, and where all rivals quote identical *delivered* prices regardless of where the customer or seller is located. It is marked by identical and stable product prices throughout the industry, and reflects phantom freight charges in many instances and the absorption of freight charges in some other cases. While the FTC ordered the steel industry to abandon its "Pittsburgh Plus" basing point pricing in 1924, and while the World War II seller's market led to a temporary abandonment of the practice, it persisted on into the 1970s. See George W. Stocking, *Basing Point Pricing and Regional Development* (Chapel Hill: University of North Carolina Press, 1954).
[192] Sam Houston Johnson, *My Brother Lyndon*, 81.

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as it had for most other observers, that the steel industry could pass on all or most of its increased labor costs to consumers, even if high profits and tight labor markets called for the steel makers to absorb these added costs.[193] Neither productivity increases nor the assertion of the steelworker's legitimate market power had much bearing at all on the industry's profit margin; that was determined by the industry itself. Bold as Truman's action had been, it ultimately forced only a temporary modification of the industry's price demands, a development not lost on Johnson when he became President in late 1963.[194] When Johnson was compelled to oversee a more informal price control scheme in the late 1960s, this experience would provide him with valuable insight.

Lyndon Johnson had also become acutely aware of how racial discrimination made a mockery of the persistent and still widely accepted Horatio Alger myth and the conservative economic policies that arose from its acceptance. This myth, which equated diligence and fortitude with success in the American marketplace, served as one of the most significant buttresses of the nation's supply side political economy. It implied that those who deserved success would receive it—automatically and without significant government intervention; only the traditional supply side efforts, by which already established fortunes were protected, could be sanctioned. But Johnson saw it, instead, as it was: a empty shell of a theory that explained precious little about the actual workings of the American economy. His experiences at the Welhausen School in Cotulla, Texas taught him about the denial of basic educational opportunities. And he remembered how his father's life had been threatened by the "Kukluxsonofabitch," as Sam Ealy Johnson called them, when Sam made a well publicized speech on racial tolerance. In 1960, in the middle of his efforts to pass a second moderate civil rights bill, he carried in his coat

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[193] Dallek, *Lone Star Rising*, 405; see also Maeva Marcus, *Truman and the Steel Seizure Case: The Limits of Presidential Power* (New York: Columbia University Press,1977).

[194] The steel companies originally sought an increase of $10-12/ton. The administration and the Wage Stabilization Board believed that a $2.50-$4 increase was more than sufficient in the face of the recommended wage increases. The Truman administration eventually granted the industry a $5.65/ton increase.

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pocket a pamphlet distributed by White Citizen's Councils in Mississippi, Alabama, East Texas, and Northern Georgia.[195] The pamphlet, which Johnson used to persuade reluctant supporters, read: "We intend to see that no negro who believes in equality has a job, gets credit, or is able to exist in our communities."[196]

Much of what comprised Lyndon Johnson's economic philosophy, during his career in Congress and the U.S. Senate, remained indistinct and quite difficult to characterize. It could be said that he was a conservative, for he had consistently preached responsibility, frugality, and had yet to transcend the balanced budget orthodoxy that he would soon reject. It could also be said that he was little more than the stereotypical liberal, for he had often suggested the need for bigger government and greater economic intervention and had proved himself willing to make the corporate payoffs that permitted such an approach. Ultimately, he was neither of these, for his basic approach was anything but conservative and his legislative practices were anything but simple exercises in the aggrandizement of corporate or governmental power. By 1960, partly because of his consisent and unsurpassed efforts to seek consensus, he had not yet shed his reputation as a Southern conservative among the general public. At the end of his enigmatic political career, when he more clearly carried the mantle of American liberalism, Johnson recalled the absurdity of this juxtaposition:

> Sometimes I have been called a seeker of 'consensus'—more often in criticism than in praise. And I have never denied it. Because to heal and to build in support of something worthy is, I believe, a noble task. In the region of the country where I have spent my life, where brother was once divided against brother, this lesson has been burned deep into my memory. Yet along the way I learned somewhere that no leader can pursue public tranquility as his first and only goal.[197]

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[195] The White Citizen's Councils, formed in the wake of the 1954 Brown desegregation ruling, were supposed to have been comprised of "respectable" Southern whites, and were indeed often outspoken in their contempt for the KKK. Applications for membership were available at places of business in most Southern towns. See Hodding Carter III, "Meanwhile in Mississippi—Solidarity Forever?" In Hoke Norris, ed., *We Dissent* (New York: St. Martin's Press, 1962), 89-99; and Dan Wakefield, "Respectable Racism: Dixie Citizen's Council," *The Nation*, October 22, 1955, 339-341.

[196] Quoted in Jordan and Rostow, editors, *The Great Society*, 36.

[197] Lyndon Johnson, *Public Papers, 1968-1969: I*, 482.

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By that time, Johnson had come to be judged in a different light, but on terms that were equally obtuse and incongruous. Because he sought to convince all, from the poor to the wealthy and reactionary, that he could help them, and that he could do so without robbing one to pay the other, Johnson's temperament and experience combined to prepare him uniquely for the liberalism of the Keynesian revolution and the reorienting of the nation's political economy. Relatively unencumbered by either the economic myths that guided the nation's conservative orthodoxy or the zero-sum politics of the nation's more conventional liberals, Johnson could see, better than most, the real strengths and weaknesses of the American economy. He had come to believe that the American economy never quite resembled the "free market" everyone seemed to think it had. He would have concurred with I.F. Stone who once remarked that, "American capitalism, like Russian communism, bears little resemblance to its idealized image."[198] It was indeed part free, part corporate, and part public, and to Lyndon Johnson it had always been that way. Secondly, since this understanding was derived largely from his efforts to help the poor and to attract the wealthy and everyone else in between, it drew Lyndon Johnson inexorably toward the political and economic center. Unlike the "center" of the late twentieth century, however, which appeared after the resurgence of a latent supply side orthodoxy, and which came to be fashioned out of little more than electoral strategies and economic tactics, Johnson's came to embody a distinct and revolutionary economic strategy.

Like the National Recovery Administration of the first New Deal (in its theoretical, idealized form), Johnson sought an economic strategy that made the traditional zero-sum game an obsolete proposition. He certainly wanted to help the nation's corporations earn greater profits, and often reduced "free enterprise" to this in many of his economic speeches, but the Depression taught him that this could not be done at the expense of the

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[198] I.F. Stone, *The Haunted Fifties, 1953-1963* (Boston: Little Brown, 1963), 214.

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poor or the working class. That kind of profitability was, to him, inherently unstable and self-destructive. Moreover, his Depression era experiences alone taught him that America's largest corporations prospered only with government assistance, guidance, and direct relief, and not in spite of it as many had claimed. Government planning and government spending, as incoherent and inconsistent as they were under FDR, saved and invigorated American corporate capitalism during the Great Depression. Johnson realized that this happened, however, only because greater economic security was also provided for those who worked for and who purchased the products of America's corporations. He sensed, in other words, that the linchpin of the nation's economy was this security and the demand for products and services that it engendered.

Long before Lyndon Johnson was introduced to Keynesian economic principles, largely at the hands of President Kennedy's economic advisers, he was singularly predisposed toward an economic strategy that focused most squarely on the demand side of the economy and on the kinds of incentives to production that Keynes had deemed significant. Through January 1961, however, Johnson had little experience or access to advice that could have placed his instinctive and richly pragmatic economic philosophy into a more coherent, technically oriented system. Outside of the irresolute and aborted attempts made during the administrations of Franklin Roosevelt and Harry Truman, no demand side economic strategy had ever been sold effectively to Washington policymakers, including himself. With the inauguration of John F. Kennedy, in January 1961, and the appointment of Walter Heller, James Tobin, and Kermit Gordon to President Kennedy's Council of Economic Advisers, such a strategy finally came into the purview of the nation's highest and most powerful office, a transformation Johnson was able to witness as the nation's Vice-President.

Kennedy ultimately failed, however, to begin the Keynesian demand side restructuring to which he seemed to be committed. Disposed toward such a change at the onset of his administration—out of academic curiosity, political sagacity, and a practiced

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"keep up with the Russians" cold war facade—he was not attracted to it in any instinctive fashion, nor was he swayed by its syncretistic character. It did not fit logically with his own political and social experiences. Moreover, as the winner of the closest presidential election in U.S. history, and as a president whose party would lose ground in the next mid-term election, Kennedy also struggled unavoidably with the nation's political compass. He sought and won a fair measure of political leverage to be sure, but also groped for, with little recourse to precedent, a fulcrum upon which to turn the nation's political economy. Then, suddenly and tragically, on November 22, 1963 these struggles were bequeathed to Lyndon Johnson. Johnson, who lacked much of Kennedy's academic curiosity, would, nonetheless, prove to be a formidable student of the professors on Kennedy's Council of Economic Advisers, and had, in fact, begun his schooling while serving as Kennedy's vice-president. Adding technical competency to a populist heritage and liberal outlook, Johnson became the first U.S. president to enter office attuned to, and wholly supportive of a Keynesian economic strategy.

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Chapter 3.
Too Close to Appomattox

The man we owe the nomination to is Lyndon; he wants the same things for the country that I do. But it is too close to Appomattox for him to get the nomination.

- John Kennedy to Walt Whitman Rostow, August 1958

Johnson was quick, surprising in what he absorbed. It was always amazing what he would bring out in these head-to-head sessions with small business or big business or labor or university presidents. What he suddenly had at his fingertips was incredible. I don't think the country ever understood that.

- Walter W. Heller, Chairman President's Council of Economic Advisers, 1961-1964

On May 7, 1960 Lyndon Johnson flew into Clarksburg, West Virginia to "stump for Hump" at the local Jefferson-Jackson dinner. This was to be Johnson's final effort at staving off John Kennedy's drive for the Democratic presidential nomination; an effort designed to boost not Hubert Humphrey's candidacy but his own. Johnson hoped to boost a third candidate—Humphrey in West Virginia, perhaps Adlai Stevenson elsewhere—so that he could have himself nominated at the party's convention later that summer. This remained a possibility, however, only as long as Kennedy could be prevented from locking up the necessary convention delegates before the convention opened. Kennedy had already beaten Humphrey in Wisconsin, and was clearly the front-runner for the party's nomination, but in Wisconsin most strategists agreed that he had benefitted from a heavy Catholic turnout and a substantial Republican crossover vote. West Virginia, on the

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other hand, had few Catholics, and Republicans there were prohibited from voting in the Democratic primary election. "If Jack wins West Virginia, the show's over anyway," Johnson remarked privately to Sam Rayburn and others, though publicly he was much more optimistic.[1]

When Kennedy defeated Humphrey in the West Virginia primary, with Sam Giancana and Frank Sinatra allegedly funneling money to sheriffs throughout the state, Johnson fought on but realized at this point that his "sit out the primaries" strategy cost him a chance at his party's presidential nomination. Some who knew him well even doubted that he wanted to make a serious run at the presidency in 1960, suggesting that he only became enthusiastic about the office when it was forced upon him in late 1963. In early 1960, for example, James Rowe asked Johnson if he was running, for Rowe wanted to work for Hubert Humphrey if he was not. With little hesitation Johnson told Rowe to join the Humphrey campaign.[2] In January 1960 Johnson also told reporter Douglas Cater, later a Johnson assistant, that he would be the worst possible candidate. "Doug, every afternoon about this time my heart is like lead," Johnson told Cater. "I had a heart attack, and I'm not sure I've gotten over it."[3] While this may have been little more than a convenient excuse for a politician who hated to lose, his health concerns undoubtedly made it easier for Johnson to accept Senator Kennedy's analysis, that it was "too close to Appomattox" for a Southern politician like himself to be elected to the U.S. presidency.

When the Democratic convention opened in Los Angeles on July 11, Johnson's troops were still eager to seize the nomination for their candidate, and tried to point out that legislative duties had prevented the Majority Leader from launching a more active campaign. Many promises, as they had hoped, were secured for second ballot support. The nomination, however, went to John Kennedy on the convention's first ballot with

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[1] Dallek, *Lone Star Rising*, 567; Miller, *Lyndon*, 238.
[2] Quoted by Orville Freeman in Hardesty, *The Johnson Years*, 150.
[3] Quoted in ibid., 41.

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remarkably little difficulty, and the outcome that Senator Johnson had expected since the May West Virginia primary was now made official.

At this point the only remaining drama at the convention would revolve around Kennedy's choice of a running mate. Johnson was thought by many to have little role in the selection of the party's vice presidential nominee, and even less of a chance at the nomination itself. Many were taken by surprise, then, when Johnson was chosen as Kennedy's running mate. Reports surfaced that both John and Robert Kennedy attempted to withdraw Johnson's selection, and that the liberal/labor wing of the party was the primary source of this indecision and renewed circumspection.[4] Indeed, though it is either apocryphal or far less significant than commonly thought to be, one of the most often repeated anecdotes from the convention weekend is Robert Kennedy's response to the Johnson nomination. "None of this would have ever happened," Kennedy supposedly lamented, "if we'd only gotten some sleep."[5]

With the exception of Bobby Kennedy's sleepless and somewhat detached machinations, there seems to be little truth to most of these reports, however, and comments from various liberal Democrats and labor leaders suggest that the situation was similar to Florida's secession crisis in 1861 where most of the state's Democratic politicians said they were against secession but were merely "following the state" out of the union.[6] While many of the Democratic party's youngest liberals and labor leaders were indeed prejudiced against Johnson's nomination, many of them did not know him well enough to judge him fairly. A great number of the party's elders and insiders, on the other hand, responded enthusiastically to Johnson's nomination. David Dubinsky of the

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[4] Thomas C. Reeves, *A Question of Character: A Life of John F. Kennedy* (New York: The Free Press, Macmillan, Inc., 1991), 179; and Paul Henggeler, *In His Steps: Lyndon Johnson and the Kennedy Mystique* (Chicago: Ivan R. Dee, 1991), 45-46, are two recent works on Kennedy that stand by these reports.
[5] See Molly Ivins, *Molly Ivins Can't Say That, Can She?* (New York: Random House, 1991), 187, for an example of this story's endurance.
[6] Eric Foner, *Reconstruction: America's Unfinished Revolution, 1863-1877* (New York: Harper & Row, 1988), 185.

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International Ladies' Garment Workers' Union, when informed of Johnson's selection, shouted "its terrific, its a winning ticket!"[7] Anthony Celebrezze, a Kennedy delegate at the convention and later Kennedy's Secretary of Health, Education, and Welfare, pronounced Johnson "a good choice."[8] Stewart Udall, eventually tabbed as Kennedy's Interior Secretary thought Johnson as the vice presidential nominee represented "perfect ticket balancing," and remembered John Kenneth Galbraith comparing the ticket favorably to Roosevelt-Garner in 1932.[9] Galbraith himself, a Kennedy economic adviser who met Johnson in the early 1940s, remembered him as "a liberal's liberal" in the U. S. Congress, and was not moved by the allegations that Johnson was too much the southern conservative.[10] Dubinsky also noted that with one phone call to each man and a brief meeting with Reuther, he was able to convince Alex Rose and Walter Reuther that L.B.J. was an excellent choice for the vice-presidency.[11] Moreover, when Ted Sorensen and Myer Feldman had prepared separate lists of potential vice-presidential nominees in June, Lyndon Johnson was first on both lists.[12] One week before the convention opened a group of the party's big city "bosses," including Carmine DeSapio of New York City and Bill Green of Philadelphia, met in Pennsylvania governor David Lawrence's hotel suite. After debating the merits of all the potential candidates they decided unanimously to urge Johnson as the vice-presidential nominee.[13] Finally, when it surfaced that his brother Bobby was suggesting a reconsideration, the presidential nominee, himself, told publisher Phil Graham, "Well, Bobby's not up to date."[14]

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[7] Quoted in Miller, *Lyndon*, 259; David Dubinsky, Oral History Interview, Mr. Dubinsky's office, 201 W. 52nd St., New York,NY, interviewed by Paige Mulhollan, May 7, 1969, LBJ Library, 11.
[8] Anthony J. Celebrezze, Oral History Interview, LBJ Library, interviewed by Paige Mulholland, January 26, 1971, 1.
[9] Stewart Lee Udall, Oral History Interview, LBJ Library,interviewed by Joe Frantz, April 18, 1969, 10-11.
[10] John Kenneth Galbraith, *A Life In Our Times* (Boston: Houghton Mifflin, 1981), 447.
[11] David Dubinsky, Oral History Interview, 11.
[12] Leonard Baker, *The Johnson Eclipse: A President's Vice Presidency* (New York: MacMillan, 1966), 56.
[13] Ibid., 188-189.
[14] Quoted in Miller, *Lyndon*, 261.

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On the other hand, there were real concerns that Johnson would not accept the nomination. Johnson's friend and mentor Sam Rayburn, for example, shared fellow Texan and former vice-president John Garner's less than sanguine view of the vice-presidency, and initially scoffed at the idea of Johnson accepting the nomination.[15] He was equally skeptical of John Kennedy's prowess as a politician, joining Johnson and others who referred to the Democratic presidential nominee as "the boy" or "young Jack." Two concerns, however, seemed to have allayed any doubts that Rayburn or any other Johnson associate held. First and foremost, Congressman Hale Boggs says that he changed Rayburn's mind by suggesting that without Johnson on the ticket, Richard Nixon would become the next president, a thought that caused both Rayburn and Johnson to recoil in horror. When the House Speaker changed his mind, Johnson was initially caught off guard. "Mr Rayburn," he puzzled, "last night you told me not to take it?" Rayburn replied quietly, thinking most likely of Boggs' premonition, "I'm a damn sight smarter [today] than I was last night."[16]

John Connally claims that he also convinced Johnson, perhaps after the latter had already listened to Rayburn's new found rationale, that he had no choice but to take it. If you take it and lose, Connally reminded Johnson, you are still the majority leader with influence (under a Republican president) and you won't be blamed for the loss. If you take it and win, you are the vice president. If you refuse the nomination, however, and Kennedy loses you will be blamed for the loss. If he wins, your influence as majority

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[15] Garner was reported as saying that the vice-presidency was "not worth a pitcher of warm spit," though his original comment was probably a scatological one. It must be recalled, however, that unlike Kennedy and Johnson, Garner and his running mate FDR were ideological opponents. By 1940 Garner would lead opponents of the New Deal within the Texas Democratic party, an insurgency that John Connally cited as the genesis of the modern Republican party in Texas. See Connally with Herskowitz, *In History's Shadow*, 77.

[16] Quoted in Miller, *Lyndon*, 257; Baker, *The Johnson Eclipse*, 184. Later Rayburn would be an ardent Kennedy supporter exclaiming "My god, the things that boy knows!" after the second televised debate with Nixon. Quoted in Irving Bernstein, *Promises Kept: John F. Kennedy's New Frontier* (New York: Oxford University Press, 1991), 228.

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leader will be greatly diminished.[17] Since Johnson shuddered at the prospect of a President Nixon, and loved political power and prestige as much as anyone, he had only a little difficulty accepting the vice presidential nomination.[18]

With the real campaign underway Johnson convinced most of the remaining skeptics that his selection had been a particularly wise one, and his relationship with John Kennedy, never as bad as the primary season led many to believe, began to improve and mature as well. The real thorny issues of the campaign—civil rights, Kennedy's Catholicism, and Johnson's conservative reputation—were confronted and defused by the vice-presidential nominee throughout the campaign. The Catholic issue, for example, utterly absurd and insignificant as it seems today, was a source of great concern in 1960. It was largely laid to rest, however, at Houston's Rice Hotel on September 12 with Johnson's operations team paving the way.[19] There Kennedy confronted the Greater Houston Ministerial Association and turned a rather hostile welcome into respectful, almost enthusiastic, applause at the finish. Journalist William White called Johnson's role at the Houston convocation "an enormous contribution not only to decently effective politics but to national unity."[20] In several areas, most noticeably Southern California, Johnson also did better than Kennedy in the cultivation of liberal audiences, convincing skeptics on the Eastern seaboard that the vice-presidential nominee was no "knee-jerk" Southern reactionary. And, in an episode at the Adolphus Hotel in Dallas on November

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[17] Connally with Herskowitz, *In History's Shadow*, 162. See also Valenti, *A Very Human President*, 16.

[18] Johnson's ill regard for Richard Nixon probably dates from the latter's prominent Senate campaign in 1950 against Helen Gahagan Douglas. Ms. Douglas, a celebrated Broadway actress in the 1920s, film star of the cult classic "She," and insightful, progressive politician in the 1940s, was labeled "the Pink Lady" by Nixon in the 1950 race, was lambasted for her suggestions that communism was no threat to the U.S., and was effectively destroyed as a politician. Some have suggested that Johnson had a brief love affair with Ms. Douglas in the late 1940s, and that at the very least admired her political prowess and conviction. See Greg Mitchell, "The Pink Lady's Revenge," review of *Center Stage: Helen Gahagan Douglas, A Life*, by Ingrid Winther Scobie, in *The Nation*, October 5, 1992, 373-374, for a brief summary of Nixon's tactics in the 1950 Senate race.

[19] Jack Valenti, *A Very Human President*, 18-20 (Valenti, an advertising executive and Johnson assistant, was perhaps most responsible for the Rice Hotel convocation arrangements); Miller, *Lyndon*, 265-266.

[20] William S. White, *The Professional: Lyndon B. Johnson* (Boston: Houghton Mifflin, 1964) 25.

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4, just four days before the election, Johnson endeared himself to liberals throughout the nation, and to Southern moderates as well, and rescued Texas' 24 electoral votes for the Kennedy-Johnson ticket. When a phalanx of Dallas Junior League Republicans, organized by Bruce Alger, Texas' lone Republican congressman, confronted Senator and Mrs. Johnson outside of and in the lobby of the Adolphus, one of the campaign's ugliest moments was recorded by television cameras. One Junior Leaguer grabbed Mrs. Johnson's gloves and threw them into the street. Signs reading "LBJ Sold Out to Yankee Socialists" and "Beat Judas" were swung menacingly close to the Johnsons as they moved into the lobby, and the young Junior League ladies gnashed their teeth for the cameras as they hurled torrents of vitriol toward the vice presidential candidate and his wife. "Nigger-lover" and "Commie" were the most frequently heard epithets, and at one point Lady Bird was even spat upon.[21]

Widely broadcast, this scene showed skeptical liberals throughout the nation what a Texas liberal was up against. Even Lady Bird was caught off guard. "If a whole bunch of Martians had suddenly dropped out of the sky," she remarked, "I would not have been more surprised, because these were people we had been working for for twelve years in the Senate."[22] As a result of the confrontation, many midwestern and northeastern liberals now saw Johnson in a different light, for he was now being attacked—physically—for his *liberal* outlook. They began to see him for what he was: the liberal as conservative, fighting against scores of reactionaries in his home state and for a consensus that was fundamentally more liberal than conservative. Milking the incident for all it was worth, Johnson instinctively slowed his step, put his arms around Lady Bird, and traversed the lobby in about thirty minutes instead of the five or ten minutes it would have taken had he tried to flee. In the aftermath, shamed and sympathetic Southern moderates, and no small

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[21] Miller, *Lyndon*, 270-272, Baker, *The Johnson Eclipse*, 85. Future Republican senator John Tower was there as well, but he remained largely inconspicuous as the mob moved in on the Johnsons.
[22] Quoted in Miller, *Lyndon*, 271.

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number of Texas conservatives, most of them ostensibly members of Johnson's Democratic party, undoubtedly found it less troubling, four days later, to cast their votes for their not so favorite son. In an election where the Kennedy-Johnson ticket won Texas' twenty-four electoral votes by a mere 46,233 popular votes (out of 2,311,084), and South Carolina's eight electoral votes by 9,571 popular votes (out of 386,688), this was significant.[23] Journalist William White even concluded that "the sights and sounds in the lobby of that hotel had made John F. Kennedy President and Lyndon B. Johnson Vice-President of the United States."[24] However one looks at the 1960 election returns, with the last of three Eisenhower recessions, Kennedy's phone call to the wife of jailed civil rights leader Martin Luther King, and the televised Kennedy-Nixon debates having great bearing on the outcome as well, Johnson's contribution was substantial and undeniable.[25] Perhaps no one was more aware of this than President-elect John Kennedy.

As inauguration day approached Kennedy began to realize how difficult it would be to "keep Lyndon happy," as he once remarked, and to utilize Johnson's talents as well. He was, however, determined to do both. A few days before the inauguration he spoke to some of his aides. "Just a few months earlier," the President-elect remarked, "you were clerks on Capitol Hill while he was the most important man there. Johnson's not going to enjoy having to deal with you and you should always take that into consideration."[26] To a different constellation of staff members, at about the same time, Kennedy also felt compelled to note that "anybody in this administration who thinks he will promote himself with me by biting at Lyndon Johnson has a very large hole in his head."[27]

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[23] See Numan V. Bartley and Hugh D. Graham, *Southern Elections: County and Precinct Data, 1950-1972* (Baton Rouge: Louisiana State University Press, 1978), 244, 203.
[24] White, *The Professional*, 7.
[25] The phone call to Mrs. Coretta Scott King was publicized via a leaflet printed on blue paper and dubbed "the blue bomb."
[26] Quoted in Baker, *The Johnson Eclipse*, 15.
[27] Quoted in White, *The Professional*, 22-23.

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For Johnson's part, while he had no illusions about the pale record Kennedy had amassed in the Senate, he had more respect for the President-elect than most observers had imagined. After all, he had arranged for Kennedys' seat on the Senate Foreign Relations Committee in 1953, Johnson's first year as party leader and Kennedy's first year in the senate all together. He had also nominated the young Massachusetts Senator for the vice-presidency at the 1956 convention, and during the same campaign, Adrian Spears, a prominent Texas Democrat, remembered Kennedy and Johnson's close relationship during and after a Stevenson rally in San Antonio. "I had the best suite in the hotel set aside for Kennedy and Johnson...." Spears remarked, "and the picture that stands out in my mind is John Kennedy sitting in a bathtub filled with hot water to ease the pain in his back, and LBJ sitting on the side of the tub pouring water on his back."[28]

After the inauguration of Kennedy and Johnson, on January 20, 1961, with Speaker Rayburn administering the oath of office to the Vice-President-elect, Johnson remained less than sanguine about the Vice Presidency. "Your daddy," Johnson remarked to Franklin Roosevelt, Jr., "never let his Vice-Presidents put their heads above water."[29] But the Kennedy-Johnson relationship continued to prosper. At the end of his first year as vice-president, Johnson exclaimed, "If I learned anything in the last year, its that Jack Kennedy's a lot tougher, and maybe a lot smarter, than I thought he was."[30] As a sign of his commitment, Johnson threw himself into the fray over the confirmation of the President's brother as Attorney General, in spite of the early opposition from almost all Southern senators. "I want you to lead all our Southern friends in here by their ying yangs, and let me work on 'em," Johnson told Senate Secretary Bobby Baker. "We've got to smooth Dick Russell's feathers, and kiss ol' Jim Eastland's ass, and mute Strom Thurmond's brayin'."[31] Johnson was particularly successful with Senator Russell, still one

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[28] Quoted in Miller, *Lyndon*, 230-231.
[29] Quoted in Leuchtenburg, *In the Shadow of FDR*, 133.
[30] Quoted in Baker, "Wheeling and Dealing," 248.
[31] Ibid., 250.

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of the Senate's major power brokers. " I need to to start off good," he told the Georgia senator, "if I'm going to be any help to the South with our new president....I'm making a personal plea that you call off the dogs in your opposition to Bobby."[32] And while Robert Kennedy's actions at the Los Angeles nominating convention had plainly irritated Johnson, he began to see the President's brother in a somewhat more favorable light as well. "It's a different matter if some ol' boy hasn't got sense enough to pour piss out of a boot," Johnson remarked, "but I don't think you can say that about Bobby Kennedy. He may be a snot-nose, but he's bright."[33]

President Kennedy lavished his vice-president with praise as well, and did all that he could to enlarge the scope of Johnson's office. "Lyndon's job is the hardest one he could ever have," Kennedy told William White, "and he is performing it like a man, M-A-N."[34] Secretary of State Dean Rusk noted later: "I had long been used to the favorite indoor sport around Washington—making fun of Vice-Presidents. But I never saw the slightest trace of that in John F. Kennedy."[35]

Despite ongoing frustration with his isolation from the sources of real political power, Lyndon Johnson performed his job as the nation's vice-president with a great deal of determination, and strived to convince the public that he was now more of a foot soldier than a commanding officer. "Where he leads me, I will follow," Johnson remarked shortly after the 1960 nominating convention, invoking the lines of a traditional gospel verse.[36] On his frequent diplomatic missions, for example, he always stuck to the policy statements formulated in advance by the President and his staff, though he frequently thumbed his nose at state department protocol where it prohibited him from mingling with crowds in Manila or fishermen in Senegal. And in the course of his vice-presidency,

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[32] Gerald S. and Deborah H. Strober, *Let Us Begin Anew: An Oral History of the Kennedy Presidency*, (New York, Harper Collins, 1993), 115.
[33] Baker, "Wheeling and Dealing," 248.
[34] White, *The Professional*, 79.
[35] Quoted in Miller, *Lyndon*, 279.
[36] Quoted inBaker, *The Johnson Eclipse*, 10.

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Johnson called no news conferences, for in his mind the President required the nation's undivided attention.

Most of his tours were unequivocal public relations successes; some even provided President Kennedy with valuable, unparallelled advice. "I wish I could share more of the burden of such trips with you," Kennedy wrote to Johnson in September 1962, "as I know they must often seem a chore. But you're a prisoner of your own success, and I hope I can count on you to take on more such travels when occasion demands."[37] At the conclusion of the Fall 1962 sojourn, which included a visit to Iran, Nelson Rockefeller added his own plaudits, introducing the Vice-President to a New York City banquet audience as "the only American who could be elected mayor of Teheran."[38] In Southeast Asia from May 5 to May 19, 1961, while the Kennedy administration's first racial crisis flared back in the U.S. (the May 14 fire-bombing and mob assault of CORE "Freedom Riders"), Johnson warned the President that Premier Diem of South Vietnam was "remote from the people," and that "the momentary threat of communism" was not the greatest danger facing the U.S. in Vietnam. It was instead "the danger that stems from hunger, ignorance, poverty, and disease."[39] This was advice that cut to the heart of a particularly thorny diplomatic problem, advice which ironically became obscured by the peculiar unfolding of military events during the adviser's own presidency.

Johnson was such a successful diplomat, particularly in less wealthy nations where he could mingle with farmers and artisans and talk politics with populist leaders, that Dean Rusk issued a standing order to state department officials wherever Johnson traveled: the Vice-President was to have the opportunity for face-to-face, one-on-one conversations with the political leaders of any host nation, whenever it was possible. "There is no person in America," Rusk remarked, "that can equal Johnson in knee-to-knee conversation with

[37] Quoted in White, *The Professional*, 232.
[38] Quoted in Baker, *The Johnson Eclipse*, 65.
[39] Quoted in White, *The Professional*, 241,242.

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another man."[40] An associate also told President Kennedy once that "no man alive...ever entirely won any face-to-face argument with Lyndon Johnson; ever came out of one feeling as sure of his position as when he entered." With a broad grin, Kennedy replied: "How right! How right!"[41]

Johnson's willing deference to President Kennedy stemmed in part from his recognition that the President held him in high regard and struggled to keep him satisfied and plugged in to the administration's day-to-day agenda. He was frequently sent advance text of forthcoming speeches, was given a six room suite at the executive office building (drawing him physically closer to the President than any previous VP), and was invited to all briefings of the President before presidential press conferences and to all Tuesday morning breakfasts with Democratic congressional leaders. Kennedy also tried to establish a precedent by meeting with Johnson after each foreign trip, and then with the press immediately thereafter, to summarize and publicize the Vice-President's findings. "President Kennedy was very good to me," Johnson once remarked, "and tried to elevate the office [of the vice-president] in any way that he could."[42] "It was a standing order of President Kennedy's," Kennedy assistant Larry O'Brien added, "that the Vice-President was a participant in all meetings involving the President and his program. And believe me, LBJ was involved."[43]

Both Kennedy and Johnson, though, found the task of elevating the vice-presidency to be a frustrating one. Johnson was determined to be an activist Vice-President, but the office provided little opportunity for activism. "I don't know what to do with Lyndon, Arthur Krock of the *New York Times* remembers President Kennedy saying, "I've got to keep him happy somehow. My big job is to keep Lyndon happy."[44] The upshot was that

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40 Quoted in Miller, *Lyndon*, 282.
41 Quoted in White, *The Professional*, 44.
42 Quoted in Miller, *Lyndon*, 277.
43 Quoted in Hardesty, *The Johnson Years*, 74.
44 Quoted in ibid., 280.

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for all of his success in the office, Johnson was still confounded by his relative impotence—often comparing the vice-presidency to a Texas steer or referring to himself as a "cut dog." Perennial Johnson assistant Harry McPherson recalled the less than favorable side of Johnson's tenure as vice-president. "It was a time of deprivation," McPherson noted, "he grew very fat and drank alot. He took up golf some, I recall, but not with enthusiasm."[45] Bobby Baker, Johnson's secretary as Majority Leader, recalled how Johnson also became frustrated in his frequent, and most often spurned, attempts to relax and talk politics with the President in the evening hours.[46] One clear difference between Kennedy and Johnson, who otherwise shared a surprising number of character traits and political affinities, was that with Johnson "everything was work, and all work was politics," whereas Kennedy generally tried to separate his social life from his workplace and from politics in general.[47] "When Kennedy was with daytime people," Elspeth Rostow recalled, "he was busy, on the job, charming, funny, but after hours he saw different people and lived differently. With Johnson it was a continuous web. Everybody was part of the act. He'd bring secretaries to supper; there was no upstairs, downstairs."[48]

Moreover, it did not take Johnson long to understand the vice-presidency as a genuine exile from his power base in the U.S. Senate. Presiding over the first Democratic caucus in the Senate after his vice-presidential inauguration, Johnson watched as the Democratic senators extended an invitation to preside over future caucuses. But when this resolution passed with only 46 yeas and 17 nays, Johnson was genuinely surprised by the number of senators in opposition. Partly concerned with the separation of powers clause, but mostly chagrined by this less than unanimous show of support, he turned the gavel over to Majority Leader Mike Mansfield at the next caucus and did not preside over

45 Quoted in ibid., 305.
46 Hengeller, *In His Steps*, 59.
47 C. Vann Woodward, "The Return of LBJ," *New York Review of Books*, December 5, 1991, 6.
48 Quoted in Miller, *Lyndon*, 344.

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another. "I now know the difference between a cactus and a caucus," Johnson quipped afterward. "In a cactus all the pricks are on the outside."[49]

Despite all this, Johnson's vice-presidency remains much more than a political time-warp or season of whither for the ambitious Texas Democrat. When Johnson learned that President Kennedy shared his predilection for pragmatic, consensus politics, as well as his desire to change an economy that both believed to be managed against the poor and the disadvantaged, he was intrigued. Kennedy desired a genuine consensus as much as his Vice-President, and he was fascinated, for example, with the amicable relations between European businessmen and their governments; often wondering aloud why the U.S. could not foster similar attitudes and relationships.[50] Like Johnson, Kennedy also became disturbed when chastised by liberals, but took conservative criticism in stride.[51] And on economic policy, at the outset, Kennedy told his economic advisers to return to not just the letter but to the spirit of the 1946 Employment Act.[52] Indeed, before his assassination in 1963, Kennedy had made the Council of Economic Advisers, created by the 1946 Employment Act, an integral part of his administration, and for the first time, had elevated it to a notable position in the eyes of the general public. "...I expect the CEA," Kennedy declared in December 1960, "to take its place as a key element within the Presidential office. I believe it can make a major contribution to the successful organization of the Presidency and by revitalizing the Council of Economic Advisers we shall fill a gap in the services available to the President."[53] Full employment, high demand, and greater

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[49] Quoted in ibid., 276; Baker, *The Johnson Eclipse*, 28.
[50] Rowen, *The Free Enterprisers*, 285.
[51] Jim Heath, *John F. Kennedy and the Business Community* (Chicago: University of Chicago Press, 1969), 37. Paul H. Douglas, Oral History, LBJ Library, 9.
[52] Walter W. Heller, "Kennedy Economics Revisited," in Joseph A. Pechman and N.J. Simler, eds., *Economics in the Public Service: Papers in Honor of Walter W. Heller*, 237.
[53] Quoted by Charles Zwicker, "The President's Council of Economic Advisers," in James P. Pfiffner and R. Gordon Hoxie, eds., *The Presidency in Transition*, 257. Because Truman had little economic knowledge and tended to distrust economists, and because Eisenhower had even less economic knowledge, the CEA had not fared well over the first fourteen years of its existence, despite the respect garnered by CEA Chairmen Leon Keyserling (1949-1953) and Arthur Burns (1953-1956). See Hugh S. Norton, *The*

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opportunity were clearly the benchmarks of his economic policy, all priorities that Johnson deemed praiseworthy and significant. The utilization of pragmatic, consensus politics to achieve greater and more widespread economic opportunities was the signal challenge of the Kennedy administration, even though it attracted far less attention than key foreign policy events.[54] This implied both a willingness to experiment and an immersion into a genuine learning process—a process that ultimately provided Vice-President Johnson with an estimable challenge and with the tools to attempt a revolutionary shift in the American political economy when he suddenly and unexpectedly became the nation's next President.

In the end, what was perhaps most significant about the Kennedy-Johnson relationship was the way President Kennedy approached the tasks of consensus-building and economic management. For here, as it was with his approach to his social life, he differed markedly from his vice-president. While their goals were nearly the same, Johnson had cultivated his economic philosophy in the working world and in government agency and legislative offices; Kennedy had little opportunity for the development of, or much interest in, an economic philosophy before he entered the White House. He was a virtual blank slate on economic issues. While Johnson seemed to be interested in economic issues at the beginning of and throughout his extensive legislative career, and eventually became the only post-World War II president to enter office with any hands-on experience making national economic policy, Kennedy seemed to be less concerned, and involved himself as a senator only when the Massachusetts textile and shoe industries began to take a nosedive in the 1950s. Known more for his interest in foreign policy,

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Employment Act and the Council of Economic Advisers, 1946-1976 (Columbia: University of South Carolina Press, 1977), 120-148.

[54] It is my contention that Kennedy historiography is dominated by two trends that obscure much of what his administration ultimately stood for: an over emphasis on foreign policy events that were partly beyond Kennedy's control, and not very malleable at all where he had a chance to make an impact; and a preoccupation with the debunking of the "Camelot myth," a myth easily destroyed by even the least perceptive viewers, but one also presented as the whole of the Kennedy revolution, even though it was an apparition created largely by journalists after the fact.

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Kennedy also had little experience in the world of commerce, for his father's wealth had insured that he need not concern himself with personal finance. His political and social milieu was, indeed, quite far removed from the day-to-day economy; he had seldom even used cash, charging many purchases to his father's credit accounts instead.

What came of this contrast in background was a President who began a serious study of economic principles as he prepared to take office, and a more politically seasoned Vice-President who gained his first real access to academic economic knowledge in the process. Like almost every other U.S. president, Kennedy came into office having to be briefed on economic principles of the simplest order. "Now tell me again how do I distinguish between monetary and fiscal policy?" Kennedy asked Walter Heller during the first weeks of his administration.[55] The questions continued throughout the Thousand Days of the Kennedy presidency, though they grew in complexity and sophistication. "Gardner," Kennedy asked CEA member Gardner Ackley in 1963, "tell me again about the multiplier. I thought I understood it once, but now I can't reproduce the argument."[56]

Kennedy was, however, a voracious reader, and possessed an unwavering academic curiosity. M.I.T. professor Paul Samuelson, one of Kennedy's most trusted economic advisers, referred to his quick mind and ability to read quickly as a "tremendous advantage," adding that "someone like Eisenhower, who just can't read, is blinded."[57] And when this curiosity could be directed at precise and attractive goals, such as excelling in the world's most powerful political office, Kennedy exhibited an affinity for diligent effort and creative statesmanship. "He had more capacity for growth than any other President I knew," Clark Clifford recalled in his memoirs.[58]

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[55] Quoted in Richard Reeves, *President Kennedy: Profile of Power* (New York: Simon and Schuster, 1993) 295. According to Reeves, Heller reportedly answered Kennedy by reminding him that "monetary is 'M,' like Martin" (Chairman of the Federal Reserve William McChesney Martin, ostensibly the nation's key monetary policy official).
[56] Ackley, Oral History Interview, in Hargrove and Morley, *The President and the CEA,* 223.
[57] Quoted in Strober and Strober, *Let Us Begin Anew,* 106.
[58] Clark Clifford with Richard Holbrooke, *Counsel to the President: A Memoir* (New York: Random House, 1991), 656.

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Consequently, while John Kennedy possessed little interest in and little knowledge of economic matters before his nomination as the Democratic candidate for the presidency, he began a serious and extensive pursuit of economic knowledge after that point. He had studied briefly under Harold Laski at the London School of Economics, and under Russ Nixon at Harvard—both left-wing Keynsian economists—but neither had much impact on his thinking.[59] He had conferred with Senator Paul Douglas (Economics PhD) and Professor Seymour Harris on economic issues while in the senate, but here as well he exhibited only a scant amount of interest and learned even less. When he became President, however, the discipline in which he had shown only a passing interest, suddenly became a valuable and intriguing field. "Send me down some good economists," Kennedy told Harvard law professor Archibald Cox in August 1960, and Cox obliged, dispatching John Kenneth Galbraith of Harvard, Paul Samuelson of M.I.T., and Richard Lester of Princeton to Hyannis Port to begin Kennedy's tutorial.[60] Found in the company of economics professors moreso than any other advisers until the April 1961 Bay of Pigs crisis, Kennedy proved to be an eager student, working quietly behind the scenes to improve his grasp of basic economic principles.

While some have implied that whenever Kennedy pressed others for information, as he did in this case, he was doing so only to "flatter and enchant;" his quiet diligence here suggests otherwise.[61] Even Eisenhower, who ridiculed Kennedy's inexperience by calling

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[59] John Kenneth Galbraith referred to the Kennedy-Russ Nixon relationship in Strober and Strober, *Let Us Begin Anew*, 245; Seymour Harris referred to Kennedy's relationship with both Nixon and Laski in his own monograph, *Economics of the Kennedy Years, And a Look Ahead* (New York: Harper and Row, 1964), 17. See also Nigel Hamilton, *JFK: Reckless Youth* (New York: Random House, 1992), 142-143, for a brief appraisal of Kennedy's short tenure at the London School of Economics. "The simple truth was," Hamilton writes, "the London School of Economics didn't impress Jack as it had his brother [Joseph,Jr.]. He had no wish to sit at Laski's feet—or anyone else's. What he wanted was fun, which was difficult when he wasn't feeling well." It must be remembered, of course, that JFK was only 18 years old when he went to the LSE.
[60] Quoted in Bernstein, *Promises Kept*, 119.
[61] Thomas Reeves, *A Question of Character*, 169.

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him "Little Boy Blue," noted in his diary that as President, Kennedy became a "serious, earnest seeker of information."[62]

The most significant of all the economics professors who advised Kennedy (and Johnson as well) was a University of Minnesota economist hurriedly introduced to Kennedy between campaign stops in October 1960. Eventually selected as the chairman of Kennedy's Council of Economic Advisers, Walter W. Heller was introduced to the presidential candidate by Hubert Humphrey as Kennedy was changing shirts in a Minneapolis hotel room. "Jack," Humphrey said as he interrupted Kennedy's preparations, "I want you to meet the finest economist west of the Mississippi." Though Kennedy was an hour and a half behind schedule, he stopped, greeted Professor Heller, and began a brief interrogation. "Well now," the presidential candidate mused, "if you're such a good economist, tell me, can we really achieve the 5% rate of growth we promised in the Democratic platform?" And then, immediately after Heller answered with a qualified "yes," Kennedy fired back: "You know, Paul Samuelson tells me that I can turn a $500 billion economy around with about a $5 billion tax cut. How is that possible?"[63] Heller's quick and dirty formulations captivated the presidential nominee, and for his part Heller was intrigued by the incisive and pertinent nature of Kennedy's questions. After the November election victory and Paul Samuelson's refusal of Kennedy's first offer, Professor Heller was anxiously offered the CEA chairmanship.[64]

Once elected, Kennedy's interest in economics education refused to wane, and he tried to insure that his tutors take nothing for granted. Archibald Cox warned Professor Seymour Harris, at one briefing, just a few days after the inauguration, to pace the instruction so the new President would not miss a beat. "Wait a minute, Seymour," Cox beseeched Harris, "you're talking mile-a-minute. Make it Econ A."

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[62] Quoted in ibid., 221.
[63] Heller, Oral History Interview, in Hargrove and Morley, *The President and the CEA*, 172-173.
[64] Norton, *The Employment Act and the Council of Economic Advisers,* 171, 177.

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"Jack had Econ A," Harris replied, to which Kennedy responded, "Yes, it's true. I had econ A, and I got a 'C' in it."[65]

Perhaps the most surprising thing about the economics education of President Kennedy was that his vice-president seemed, in the end, to have gotten the most out of it. Kennedy was, indeed, a more accomplished scholar than Johnson, and he, moreso than his vice-president, valued academic pursuits for their own sake; it was Johnson, however, who knew how to make the best use of the technical knowledge, even if he absorbed it with more of an eye for conclusions and policy implications than for the details of exotic economic formulae. Arthur Okun, Johnson's CEA chairman in 1968 and 1969, compared Johnson's approach to technical advice, for example, to a patient who chooses to "look hard in the physician's eyes when he renders the judgement," instead of asking to see the X-rays.[66] A great reader of personality and virtue, Johnson ultimately relied on advisers like Walter Heller more than John Kennedy had, but, at the same time, he had less difficulty connecting technical advice to real-life situations and to their political, as well as their economic, ramifications. While a great deal of this technical advice was showered upon Johnson *after* he assumed the presidency, his introduction to, and the development of his faith in, technical economic analysis began largely while he served as Kennedy's vice-president.

In fairness to President Kennedy, one must realize that he was hampered by many short-term political roadblocks, not least of which was the coalition of Republicans and conservative Southern Democrats in Congress that served to stymie most liberal legislation. He, much more than Johnson, then, had to concern himself with the elimination of simple legislative inertia before he could even begin to weigh the potential

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[65] Quoted in Strober and Strober, *Let Us Begin Anew*, 244. Irving Bernstein noted, in *Promises Kept*, how Kennedy actually made a "B" in Econ A at Harvard.
[66] Okun, Oral History Interview, in Hargrove and Morley, *The President and the CEA*, 271.

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effects of new policy proposals. "Great innovations should not be forced on slender majorities," Kennedy often reminded his assistants, quoting Thomas Jefferson.[67]

The first two or three years of the Kennedy presidency, then, had to be devoted to the spadework and to the education of the public that public policy innovations required. His behind-the-scenes work with Sam Rayburn to enlarge the membership of the House Rules Committee in early 1961 is a prime example of the kind of foundation-building he had to undertake before embarking upon a more substantive legislative initiative.[68] Indeed, even before the 1964 elections paved the way for the remarkable accomplishments of the 89th Congress, Kennedy administration tactics had already begun to lessen the grip of the Southern Democrat-Republican conservative coalition.[69]

Kennedy's difficulty forging a new economic policy, however, was not solely related to extant political factors. He also met with much frustration, as John Connally once described it, trying to convince business audiences that he did not have "horns and a tail;" and this stemmed as much from his unique political personality as it did from the myopia of the business world or from overwhelming conservative opposition.[70] On one side, as Senator Gary Hart put it, Kennedy possessed an "almost Dionysian unpredictability."[71] While this tended to serve him well in the long run, and while it probably represented one of the only *real* components of the Kennedy mythology, it was a source of great unease for most U.S. business leaders. On the other side, due to his temperament and

[67] Quoted in Arthur M. Schlesinger, Jr., *A Thousand Days: John F. Kennedy in the White House* (Boston: Houghton Mifflin, 1965), 709.
[68] When the House voted 217-212 on January 31, 1961 to enlarge the Rules committee from 12 to 15 members, to break the 6-6 chokehold the committee had previously exercised on all liberal economic and civil rights legislation, Rayburn, Speaker of the House since 1940 and only months away from his death, received a tumultuous standing ovation. (Though Democrats outnumbered Republicans 8 to 4 on the committee even before the expansion, conservative Democrats Howard Smith of Virginia and William Colmer of Mississippi had consistently voted with the Republican members on liberal legislation.)
[69] See Bernstein, *Promises Kept*, 287; and Schlesinger, *A Thousand Days*, 713, for a look at the surprisingly successful Kennedy legislative "scorecard."
[70] Connally, *In History's Shadow*, 181.
[71] Gary Hart, *The Good Fight: The Education of an American Reformer* (New York: Random House, 1993), 74.

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background, he lacked a fundamental understanding of the motivations and prejudices of most of these corporate presidents and CEOs. Indeed, for much of his administration, Kennedy was thoroughly confused by business response to his proposals and relied upon Lyndon Johnson as a bridge to the American business community. "Yesterday is yesterday," Johnson noted in February 1961 to a gathering of business executives, displaying the swagger and forthright speaking style that Kennedy generally struggled to adopt, "the idiom of yesterday's politics and yesterday's prejudices no longer applies—not even to the word 'Democrats.'"[72] While Johnson's success in these kind of gatherings was due, in part, to the mistaken assumption that he, as a Southerner, was naturally more conservative and more amenable to the wishes of business and industry, it also flowed from the vice-president's keen understanding of the business community and from the forcefulness of his political vision. Johnson spoke the language of the American business community, understood most of its concerns and prejudices, and knew, accordingly, how to open it up to new schemes and ideas.

By 1963 there were strong indications that President Kennedy had begun to match his Vice-President's success in this area, even though the stated purpose of his last two trips—to Florida and to Texas in November 1963—was to raise campaign funds and to prove to the powerful business interests there that he was not out to ruin them.[73] Midway through his administration, for example, he had at least begun to understand his inability to reach the business community, noting that business continued to attack him not because he was anti-business, but because he was *not* anti-labor.[74] Early in his administration, however, he was stumped. "Gentleman, I understand we're labeled anti-business," he

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[72] Quoted in Baker, *The Johnson Eclipse*, 61.
[73] Connally, *In History's Shadow*, 181; Rowen, *The Free Enterprisers*, 275. Sylvia Porter, for example was moved to write in a 1963 article: "The Kennedy administration is cooperating [with] and trusting U.S. business to a degree unprecedented in modern times...To accuse Mr. Kennedy of being anti-business is almost akin to accusing Sen. Goldwater of being pro-Communist." Quoted in Heath, *Kennedy and the Business Community*, 125.
[74] Rowen, *The Free Enterprisers*, 118.

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noted at his first meeting with the presidents of the U.S. Chamber of Commerce and the National Association of Manufacturers. "Why is that?"[75]

Had he been asked, Vice-President Johnson could have provided the answer to this partly rhetorical, mostly transparent question and to the dilemma it posed. Averell Harriman once suggested that the American business community had never forgiven FDR, and consequently the Democratic party, for having moved the nation's seat of power from Wall Street to Washington.[76] This was clearly not too far from Johnson's understanding of the situation, for he had risen through the political ranks a "liberal as conservative," making a conscious effort to appease the jealous conservatives who always held the balance of the nation's political power, even after FDR and the New Deal had left an indelible mark on the nation's political economy. He also tried, wherever possible, to emphasize and accentuate the genuine conservative elements of his own liberalism. Frugality, pride in the workplace, respect for the Constitution and for religiosity in general were among the political values that Johnson held, and they were, moreover, values not peculiar, in his mind, to a particular political persuasion. Even if he disagreed with conservative policy prescriptions, in other words—as he most often did in the realm of economic policy—he could still identify with the basic motivation for such prescriptions. "...You don't need to start off by saying he's terrible," Johnson once advised fellow liberals out to assail a conservative opponent, "because he doesn't think he's terrible. Start talking about how you believe that he wants to do what's right and how you believe *this* is right, and you'll be surprised how many who want to do what's right will try to help you."[77] When the business community asserted their traditional yen for a balanced federal budget, mostly out of concern for wastefulness and corruption, Johnson would affirm the propriety of that concern, yet use it to forge an explanation of deficit spending practices

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[75] Quoted in ibid., 72.
[76] Ibid., 128.
[77] Quoted in Miller, *Lyndon*, 562. Emphasis in original.

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that appealed to the same sensibility. If business leaders saw aid to the poor as equally pernicious and wasteful, Johnson would unfurl his "let's make tax-payers out of tax-eaters" speech, and would soon have the whole crowd on their feet applauding. If he felt that the business community was too ready to portray themselves as martyrs for the nation's economy, he would chide them for their narrow concerns and selfishness, letting them know, at the same time, that he understood both the importance and the complexity of their roles as business managers. On top of all this, Johnson's ranching and broadcast interests made him something of a businessman himself, unlike Kennedy who was simply the son of a businessman.

All this helped Johnson tune in to the psychology of the business world where cliches and symbols were often every bit as important as genuine concern or substantive legislation. This was, moreover, an ability that would also be critical for liberal economics in the early 1960s, for that period coincided with the rise of conservative groups like the John Birch Society that harbored deep prejudices against modern economics, New Deal/Fair Deal political activism, and government intervention in general.[78] With the utmost respect for their power and influence, and the good sense to notice and accentuate what little common ground there was to be found, Johnson had learned how to disarm the most reactionary opponents; tactical capitulation, symbol and cliche comprised much of his approach. For his part, President Kennedy saw the wisdom in such a strategy but generally proved unequal to the task. Kennedy "would have choked on" some of Johnson's lines, *Washington Post* journalist Hobart Rowen noted in 1964, after listening to Johnson woo prominent members of the business community.[79]

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[78] See also Zygmund Dobbs, research director, *Keynes at Harvard: Economic Deception as a Political Credo* (Cambridge: Veritas Foundation, 1962), 39, 81, 106, where Alvin Hansen, Seymour Harris, and John Kenneth Galbraith were called "modern day Fabians of stealth and deception," the claim was made that Keynesians had "captured" the editorial staffs of the *Book of the Month Club*, the *New York Times Book Review*, the *New York Herald Tribune Book Review*, and the *Saturday Review*, thereby capturing "the minds of all Americans," and that "The basic terrain for communist depredations are furnished by the interlocking Keynsian-Socialist amalgam."
[79] Rowen, *The Free Enterprisers*, 18.

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Almost from the beginning of the Kennedy presidency, then, Johnson came to be regarded as a valuable intercessor in this political game between the administration and the business community, though the President and many of his assistants quickly learned the ropes as well. After the 1962 steel crisis and stock market decline, for example, Ted Sorensen reminded the President: "any steps taken for the primary purpose of pleasing the business community should be largely psychological, not substantive."[80]

By the time of his assassination, Kennedy had, indeed, learned a great deal about the psychology of the U.S. political economy and the American business community, much of it at the hands of his vice-president. And for his part, Johnson had taken in just as much of the technical economics eagerly absorbed by the President and dispensed by his team of economic advisers. While President Kennedy was heartened by the diminishing political chasm between his party and the American business community, clearly evident by late 1963, and saw, consequently, improved chances for the success of a new economic strategy, Vice-President Johnson was able to see well beyond this relationship and its impact on the nation's legislative agenda. Already equipped with a profound populist or liberal economic faith before his tenure as Kennedy's vice-president, Johnson had gained, over the course of his vice-presidency, the technical knowledge—or at least the awareness of such knowledge—that transformed this faith into something more. What once made sense to him as a compassionate, morally correct, and affordable economic strategy now became a strategy for improved productivity and efficiency as well. What he once justified in terms of need, Christian brotherhood, and improved character, he now supported with highly specific economic principles and with the promise of an enlarged pie and greater wealth for all. And what he once envisioned as the capping off of the "Roosevelt revolution"—a revolution that was as hard to define as it was to achieve—now became a much more definitive and genuine revolution that he could call his own.

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[80] Quoted in McQuaid, *Big Business and Presidential Power*, 211.

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Johnson truly envisioned "The New Economics," as the Kennedy-Johnson economic strategy came to be called, as the first presidential *economic* strategy based on a Keynesian demand side model, in spite of the persistent claims made by anti-Keynesians that this model had already been adopted and implemented with punishing effect since the time of Roosevelt's New Deal.[81] He also envisioned it as the first presidential *political* strategy since the founding of the Republic that carried a chance for the development of a real society-wide consensus. Johnson commended and attempted to popularize the demand side orientation represented by the New Economics because his instincts told him that jobs and the elimination of poverty were preeminent, and—after his vice-presidential tenure—because Heller, Samuelson, Galbraith, and other Kennedy advisers had convinced him that such an orientation manifested itself in a political economy that would provide the greatest good for the greatest number. Johnson also longed for a society-wide consensus because he knew well that political change, meaningful or not, always hinged, first of all, on the consent of the few before the many ever got a chance to offer their own appraisal.

Of the frail consensus that had already emerged in twentieth century America, Johnson was well acquainted. And he saw this consensus, one built around the image of laissez-faire capitalism and around the Cold War, much as Richard Hofstadter had when he wrote in 1967: "the consensus point of view is limited in that it is only an assertion about the frame or configuration of history, and not about what goes on in the picture."[82]

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[81] The term "New Economics" was borrowed from a book of the same title, edited by Kennedy economic adviser Seymour Harris in 1952. See Seymour Harris, *The New Economics* (New York: Knopf, 1952). As Walter Heller noted in 1966, however, the "New Economics" was *new* in only one sense: "today's talk of an 'intellectual revolution' and a 'new economics' arises not out of startling dicoveries of new economic truths but out of the swift and progressive weaning of modern economics into the fabric of national thinking and policy." See Heller, *The New Dimensions of Political Economy* (Cambridge, Mass.: Harvard University Press, 1966), vii. Robert Solow, Nobel laureate and CEA staff member also noted that to economists the "New Economics" was "thoroughly middle-aged." See Robert Solow, "Fixed Investment and Economic Growth," in Walter Heller, ed., *Perspectives on Economic Growth* (New York: Random House, 1968), 212.
[82] Richard Hofstadter, *The American Political Tradition and the Men Who Made It* (New York: Random House, Vintage Books, 1974), xxix.

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Johnson, as one who always worried about "what goes on in the picture," believed that the New Economics, by hinging the fate of entrepreneurs and managers to the economic demand of the working class (and the potential working class), was capable of changing not only the orientation of public policy-makers—as the Cold War had—but of actors in the day-to-day commercial and social worlds as well. This would forge a consensus, he believed, that would truly evolve from the workings of American society itself, and not from a superimposed configuration designed only to give some direction to an otherwise rudderless, contentious nation. In 1948, Hofstadter had also written:

> Although it has been said that we need a new conception of the world to replace the ideology of self-help, free enterprise, competition, and beneficent cupidity upon which Americans have been nourished since the foundation of the Republic, no new conceptions of comparable strength have taken root and no statesman with a great mass following has arisen to propound them.[83]

Lyndon Johnson, quite simply, saw himself as the statesman who could propound, in the name of the New Economics, just such a revolutionary conception of the world.[84]

Because the New Economics revolution exhibited a syncretistic character, borrowing from the concerns and the partial successes of the New Deal/Fair Deal experiments, it also matched the political sympathies of no nationally prominent politician as well as it did those of Lyndon Johnson. While FDR's New Deal, or Truman's Fair Deal never meant to be revolutions in economic strategy, their concerns for justice, security, and the stability of the mixed economy, and their demonstration of full employment and its beneficent side-effects, all contributed to the forging of a revolutionary strategy that was the New Economics. While this revolution required many catalysts—the cold war and the

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[83] Ibid., xxxvi.

[84] Because I am suggesting that Johnson and the New Economics was an answer to the "new conception" that Hofstadter was seeking, it may be instructive to compare Robert Dallek's conception of Johnson mentioned here ("the Liberal as Conservative") to Hofstadter's conception of Theodore Roosevelt ("the Conservative as Progressive") and Woodrow Wilson ("the Conservative as Liberal"). My contention, elaborated upon in later chapters, is that Johnson succeeded, albeit incompletely and without a resolute validation, primarily because he was the only twentieth century presidential reformer who could be characterized as "the Liberal as... [anything else]."

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economic competition it implied, the spell of high finance machismo, the evenly matched partisan struggle in 1960 that led partly to a greater penchant for experimentation, and the innate academic curiosity of the nation's youngest elected president—it was truly launched only when the Neo-Keynesian ideas of a small group of America's brightest economists merged with the seasoned populist politics of Lyndon Johnson.

That Johnson found the opportunity to adopt the teachings of these economics professors was almost completely a fortuitous side effect of his party's political geography. Though a genuine liberal, and a proven friend of the emerging civil rights movement, Johnson had little chance at the Democratic presidential nomination in 1960; not because his Senate leadership responsibilities kept him from a full-fledged campaign, or because Kennedy was a more opportunistic politician than he, but because he was a Southerner, and therefore unacceptable to a great number of his party's constituents and tacticians. It was indeed, "too close to Appomatox."

Had he been nominated and elected, instead of Kennedy, it is likely that he would have sought far less undiluted, professional economic advice, for he was more confident than the senator from Massachusetts that he already possessed a practical and compelling grasp of the "dismal science." Because he was not the Democratic presidential nominee, however, he was exposed to more technical economic advice than he would have ever requested at the right hand of a President who called for an abundance of this information. Johnson's vice-presidency, then, was a significant part of his presidency, in spite of the exile from power politics, for it exposed him to his own need for technical economic advice, and it helped him find a more explicit economic *strategy* where he once sought and utilized little more than an assortment of loosely related economic *tactics*.

"We're rich, there's got to be something left over for the poor and the aged," is how Johnson would have characterized his economic outlook before 1961. In 1961 and beyond, however, when Kennedy's economic advisers showed him how he could end the zero-sum game he always detested but thought he would always have to live with, he was

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more apt to say instead: "if we help the poor and the disadvantaged, we'll grow richer doing so." It was this transformation, that revealed at once an opportunity for consensus, general prosperity, and the end of poverty, that drew Lyndon Johnson toward the economics advisers of the Kennedy administration. He was, otherwise, quite the lost soul in the Kennedy White House; not in any real position of power, and not even around much of the time. In 1961 alone Johnson traveled 75,000 miles on three continents, and in the thirty-five months of his vice-presidency he averaged a foreign trip every three months, logging 111,000 foreign air miles, and making 150 speeches in 30 foreign nations. And these figures exclude the numerous trips to his Texas ranch or to other locales within the United States. During the Bay of Pigs invasion week-end, for example, (April 15-16,1961) Johnson was in Norfolk,Virginia crowning his daughter, Lynda, queen of the Azalea Festival, and in Texas hosting German chancellor Conrad Adenauer. Throughout the James Meredith/Ole Miss showdown (September 29-30,1962) he was at the LBJ ranch, and embarked upon a Western campaign swing on the second evening of the Cuban Missile Crisis (October 17, 1962).[85]

Though Vice-President Johnson was automatically intrigued by the boldness of Kennedy's early proposals and quickly recognized President Kennedy's emerging economic philosophy as one very much like his own, his continuing interest in Kennedy administration economic policy may still have lapsed had it not been for the influence of Walter Heller, Chairman of the Council of Economic Advisers from 1961-1964. Johnson did make his presence felt at the beginning, rendering both solicited and unsolicited advice on economic policy, and Kennedy let it be known that he wanted to continue utilizing him as a liaison to the business community. When Johnson advised a hands-off approach to the Oil Depletion Allowance and a small tax rise to pay for the Berlin emergency in 1961, Kennedy took note, ultimately heeding his advice on the Oil

[85] Baker, *The Johnson Eclipse*, 44, 45, 115, 121.

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Depletion Allowance.[86] It took the wit and wisdom of Walter Heller, however, to retain Johnson's interest and to transform him into an economics student when he could have easily remained far more detached; content to play only the role of roving diplomat or host to visiting dignitaries, and having a part to play in economic policy only when a certain businessperson needed to be brought up to speed, or when a legislative course of action seemed rocky and indeterminate. Of the Kennedy-Johnson economic advisers, Hobart Rowen recalled, "they were all brilliant, but Heller was special....His talent for blending economic with political advice, spiced with witty observations, was unique."[87]

No ivory tower economist, Heller was a U.S. Treasury Adviser during World War II, was the Chief of Internal Finance from 1947-1948 for the U.S. Military government in Germany, and had served as a consultant to both the United Nations and the governor of Minnesota. His successor as CEA Chairman, Gardner Ackley, called Heller "the outstanding example" of an economist who served in government and remained informed from the outside at the same time.[88] Heller also shared Johnson's affinity for barnyard humor and colorful anecdotes, once recommending that Fed Chairman William Martin be approached with monetary policy recommendations "the way a porcupine approaches making love."[89]

Because he was both a student of politics and a first-rate economist with a fine grasp of the field's technical subtleties, Heller warmed quickly to Johnson, a man who struck

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[86] Johnson's contention regarding the Oil Depletion Allowance, a 27.5% tax credit for oil producers, was that it remained, in 1961, the linchpin of Democratic party campaign finance, and though it was an obvious and worthy target for reform its day of reckoning had not yet come. Leonard Baker adds that Johnson also felt that removal of the Oil Depletion Allowance would jeopardize other tax reforms and the tax cut proposal since quite a few members of the Congressional tax-writing committees hailed from oil producing states. See Baker, *The Johnson Eclipse*, 30. After listening to this political logic, Kennedy was evidently convinced of its soundness, telling Johnson and others to remind their "oil friends" that 10% of his trust fund was in oil, and that he would never preside over the destruction of his own wealth. See Baker, "Wheeling and Dealing," 250.

[87] Hobart Rowen, *Self-Inflicted Wounds: From LBJ's Guns and Butter to Reagan's Voodoo Economics* (New York: Times Books, Random House, 1994), 6.

[88] Gardner Ackley, "Providing Economic Advice to Government," in Pechman and Simler, eds. *Economics in the Public Service: Papers in Honor of Walter W. Heller*, 205.

[89] Quoted in Rowen, *The Free Enterprisers*, 155.

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him immediately as an artful, compassionate politician with high intelligence and a remarkable memory. "Johnson was quick, surprising in what he absorbed," Heller once recalled, "It was always amazing what he would bring out in these head-to-head sessions with small business or big business or labor or university presidents. What he suddenly had at his fingertips was incredible. I don't think the country ever understood that."[90] On friendly terms with the Vice-President almost from the very beginning of the Kennedy administration, with both men operating out of offices in the Executive Office Building where they often discussed economic policy, Professor Heller found an eager and captivated student in Lyndon Johnson.[91] "Heller made it a habit," Hobart Rowen noted at the time, "to brief the Vice-President on important economic matters...In many ways Heller has been closer to Johnson than he was to Kennedy."[92] At Kennedy's weekly briefing sessions Heller almost always sat next to the Vice-President and made a point to give him an advance copy of his briefing paper.[93] Several years later [1978 interview], Heller recalled his relationship with Johnson: "He relied on us even more than Kennedy did, and LBJ and I had first-rate personal relations."[94] When he left the C.E.A. and returned to the University of Minnesota in November, 1964, Heller became the only outside economist Johnson regularly consulted, and he remained a friend and confidant even after Johnson left the White House in 1969. A visitor at the LBJ ranch only six days before Johnson's death in January 1973, Walter Heller clearly became of Johnson's most significant political associates.

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[90] Heller, Oral History Interview, in Hargrove and Morley, eds., *The President and the CEA*, 177. Johnson speechwriter Robert Hardesty echoed Heller's judgement, calling LBJ "the President who sucked up ideas like a vacuum cleaner."

[91] Heller's office (Room 314) was approached via the main stairwell that opened in front of Johnson's suites on the building's second floor. Heller and Johnson seemed to have engaged in numerous informal conversations as the former made his way to and from his third floor office.

[92] Rowen, *The Free Enterprisers*, 166.

[93] Evans and Novak, *The Exercise of Power*, 340.

[94] Heller, Oral History Interview, in Hargrove and Morley, *The President and the CEA*, 178.

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Heller's instruction, Kennedy's newfound enthusiasm for modern economics, and Johnson's recognition of the revolutionary potential in it all, combined to spark a momentous shift in the nation's political economy. By 1963, when administration lobbying for tax reform and for a tax cut hit stride, Kennedy and Johnson had devoted themselves to one simple, albeit revolutionary, idea: government economic intervention, derived from conservative, Hamiltonian roots in the 18th century, and previously deployed almost exclusively on behalf of conservative business interests throughout the nation's history, should be utilized, finally and most efficiently, to expand the welfare of consumers and workers first. They sought nothing less than the creation of the country's first demand side economic strategy, eschewing the more traditional supply side approach that had previously acknowledged demand only out of concern for security or political stability, and not economic success.

While neither Kennedy nor Johnson hesitated in identifying this change with *liberal* politics, they hoped to exploit and to assert its fundamentally *conservative* character as well. Giving higher priority to workers, potential workers, and consumers, and envisioning increased government social spending as an offshoot of economic growth and increased revenues, their plans bore the stamp of traditional liberalism. Hoping to do all this apart from, rather than within, the traditional zero-sum game, however, where helping business or helping the working class had always implied a hindrance to one for the sake of the other, the Kennedy-Johnson political economy represented a novel approach and was anything but anti-business or anti-capitalist in its outlook. That the business community had a difficult time seeing this, always perplexed President Kennedy, even after it became obvious that he was judged an enemy or adversary simply because he was *not* anti-labor.[95] While he and Johnson could understand quite readily the reason for this prevalent attitude—business interests, after all, had always brandished the anti-labor, win-

[95] Rowen, *The Free Enterprisers*, 118.

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lose approach quite successfully—he had a difficult time understanding its resilience.[96] The incongruous, mythical nature of this attitude, where freedom was somehow dependent on the active repression of the masses, convinced President Kennedy that it could be dissolved easily. He was genuinely surprised, then, when much of the business community ignored his pleas to end the old zero-sum game and to forge a real consensus on economic policy.

Moreover, while Kennedy and Johnson sought an end to poverty and joblessness, perhaps more than anything else, they also sought to liberate and extend the free market mechanisms in the American mixed economy that always made it, almost intuitively, such an attractive alternative to its more rigid, statist counterparts. As Kennedy and Johnson began to see it, misallocation, inefficiency, and dilution of market forces stemmed more from the traditional supply side regime; expanding the demand of consumers and the working class would, on the other hand, bring American business closer to a real marketplace orientation and the economy closer to allocative efficiency. They saw greater opportunities, in other words, for stability and market clearing efficiency when business production responded to high and steady demand, rather than to the whims of preferential and politically volatile government incentives (tax breaks, tariffs, subsidies, single bid contracts,etc.). And they thought it ironic, and even absurd, that the business community, most strident in its call for the restoration of a "free market" that never really existed, also devoted itself blindly to the extension and perpetuation of policies that made real, existing market mechanisms function less well.

When President Kennedy asked Walter Heller, early in his presidency, to furnish a memo explaining why European growth rates were higher than current U.S. growth rates,

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[96] See Allen Dawley, *Struggles for Justice: Social Responsibilities and the Liberal State* (Cambridge: Belknap Press, Harvard University Press, 1991), for a persuasive rendering of this approach in the 1890-1940 period. Dawley regards the use of Pinkerton detectives, National Guardsmen, Prohibition, and the Red Scare, for example, to "impose the doctrine of minimal state intervention" as a "sign that the liberal state was not in tune with American society."

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Heller provided further justification for this demand side orientation. "They say—and they're right—" Heller reported, "that high levels of demand and the confident expectation of continued prosperity help to generate the optimism, the risk-taking, and the investment that produce rapid growth."[97]

To a seasoned populist like Lyndon Johnson this approach had even more significance and historical resonance, for he saw it as an answer to the historic conundrum that was the struggle for a more democratic political economy—a struggle so profound and so relatively fruitless that historians tend to speak of it today in terms of "irrevocable loss" or "forgotten alternatives."[98] Johnson saw in this new approach both an echo of New Deal era managerial liberalism—with its focus on growth over redistribution—and a way of explaining the failures of earlier democratic insurgencies. Populists in 1896, radical worker's groups in the 1910s, left-wing New Dealers in the late 1930s, and automobile workers in the 1950s all failed to establish a more democratic political economy, as Johnson saw it, because they were either trapped within, or were not cognizant of, the limiting, self-defeating character of prevailing zero-sum economic strategies. Even where their proposals were not characterized by a win-lose, zero-sum approach, Johnson realized that their rhetoric usually failed to match their plans, and that this enabled their opponents to attack these plans as costly, impractical schemes for redistribution.[99] "The present day

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[97] Quoted in Rowen, *The Free Enterprisers*, 284.
[98] See Lawrence Goodwyn, *Democratic Promise:The Populist Moment in America* (New York: Oxford University Press, 1976); Eldon J. Eisenach, *The Lost Promise of Progressivism* (Lawrence: University Press of Kansas, 1994); Allen Dawley, *Struggles For Justice*; Christopher L. Tomlins, *The State and the Unions: Labor Relations,Law, and the Organized Labor Movement in America, 1880-1960* (New York: Cambridge University Press, 1985), and "The New Deal, Collective Bargaining, and the Triumph of Industrial Pluralism" in Melvyn Dubofsky and Stephen Burwood,eds., *The Law and The New Deal* (New York: Garland, 1990); Karl E. Klare, "Judicial Deradicalization of the Wagner Act and the Origins of Modern Legal Consciousness, 1937-1941," also in Dubofsky and Burwood,eds., *The Law and the New Deal*; Martin Halpern, "Taft-Hartley and the Defeat of the Progressive Alternative in the U.A.W.," *Labor History*, 1986, 27(2), 204-226; and Patrick Renshaw, *American Labor and Consensus Capitalism, 1935-1990* (Jackson: University Press of Mississippi, 1991), for prominent examples of this. Goodwyn dates the point of irrevocable loss as 1896; Eisenach, 1912; Dawley, 1920; Tomlins and Klare, 1937; Halpern, 1947; and Renshaw, the decade of the 1950s.
[99] Ironically, Johnson's flair for a more effective rhetoric has been cited by David Zarefsky, in *President Johnson's War on Poverty*, as one of the primary reasons for the ultimate failure of his economic strategy.

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liberals equate that persuasion with spending the public's money," Johnson noted in the late 1950s. "They've fallen into a trap set by the Republican party."[100]

The renewed effort to sway conservative political opponents, and to produce a commodious, yet revolutionary, political rhetoric, more readily identified with Johnson's presidency, did take root, however, in the Kennedy administration. Heller explained this effort by suggesting that Kennedy and Johnson's "responsibilities as national leaders did not permit them to wait until the economic intelligence gap had been closed."[101] This effort, however, makes the Kennedy-Johnson macroeconomic strategy an easy one to misapprehend. Because Kennedy spent most of his tenure as President convincing conservatives, and the business community in particular, that the New Economics was viable and not a threat to their well being, he is often mistaken for an economic conservative. Because Johnson dwelt more on the implementation of the New Economics and on a variety of social programs designed to ease the transition to a new economic strategy, he is more often mistaken for a "free spender" or an old fashioned inflationist. Neither of these characterizations, it turns out, are very appropriate.

To some extent both Kennedy and Johnson were dogged by accusations that they were "free spenders" in the realm of public finance, Kennedy far less today than he was while alive and in the oval office. Yet Kennedy introduced the first budget in fifteen years (for FY 1962) with a reduced social spending component, and Johnson's first budget (for FY 1965) was the last one submitted with total outlays reduced from the previous year.

John Morton Blum in *Years of Discord,* 184, is even more critical: "Partly to compensate for his insecurity, partly out of lifelong habit, Johnson indulged in excesses of speech that promised more than anyone could deliver, and boasted more than anyone could believe." I concur partly with Zarefsky, in that the symbolism of a *War* on Poverty clearly exposed Johnson to greater political risks, but unlike Zarefsky, given the revolutionary aspect of this economic strategy and the urban unrest that would have manifested itself with or without a rhetoric of high expectations, I see no viable rhetorical alternative for President Johnson. Although the factors cited by Blum were real, they were really insignificant by 1964, and I do not see them playing much of a role at all in the War on Poverty. See also Johnson, *Vantage Point*, 74, for President Johnson's acknowledgement of this rhetorical liability.
[100] Quoted in Goldman, *The Tragedy of Lyndon Johnson*, 25.
[101] Walter W. Heller, *New Dimensions in Political Economy*, 38-39.

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Moreover, Johnson's final budget (for FY 1969) remains the last one ever submitted with a surplus rather than a deficit. Both made concerted efforts against government waste and fraud, and though they were both millionaires they managed their personal finances with the utmost frugality.[102] Kennedy was horror-struck, for example, when he saw what his wife's White House renovations were costing, and Johnson embarked on a well-publicized, yet sincere, campaign to reduce the White House electric bill as soon as he entered office.

Along with all of this, however, both Kennedy and Johnson called for increased government social spending. "Walter, first we're going to get your tax cut," Kennedy reminded Walter Heller only a few weeks before his assassination, "and then we're going to get my expenditure programs."[103] Johnson stressed economy and surprised many when he presented a budget for fiscal year 1965 that was less than the previous year's budget, but he, too, called quickly for increased social spending, launching the War on Poverty in 1964 and the Great Society in 1965. Though it serves to obfuscate their real ideological moorings, the reputations of both men seem to hinge on the level of social spending that ultimately prevailed under their administrations. "Now that doesn't mean that he [Kennedy] can't be a liberal in other respects," Republican Secretary of the Treasury Douglas Dillon once remarked, "but he's not a liberal in the sense of being a free spender."[104] Though Dillon knew Kennedy well enough not to categorize him as an economic conservative, and though he proved to be an open-minded economic manager himself while a member of the Kennedy cabinet, his conservative background made it difficult for him to envision a liberal Democrat who did not fit the Wall Street stereotype. One recent analyst, in a study of investment tax subsidies, remarked that "Kennedy's neglect of ideological debate led him to accept unquestioningly much of the established

[102] See Theodore Sorensen, *Kennedy* (New York: Harper and Row, 1965), 464-465, for an insider's comments on Kennedy's scrutiny of agency expenditures and his search for expendable programs.
[103] Heller, Oral History Interview, in Hargrove and Morley, eds., *The President and the CEA*, 177.
[104] Quoted in Rowen, *The Free Enterprisers*, 177.

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orthodoxy..."[105] This view is even more common than Dillon's, confusing political tactics with ideological orientation, and ignoring Kennedy's need to make political concessions to popular economic ideology. Democrat Budget Director David Bell, on the other hand, less prone to equating liberalism with "free spending," noted unequivocally that "The President [Kennedy] was in no way an economic or fiscal conservative."[106]

Unlike Kennedy, Johnson presided over substantial social spending increases, and the typical Johnson critic, who lamented in 1960 that Johnson was too conservative for a spot on his party's national ticket, suddenly termed Johnson a "free spender" who had somehow opened a Pandora's Box of political profligacy.[107] John H. Makin and Norman J. Ornstein declared that Johnson "was left with a tremendous growth bonus [after the 1964 tax cut] that ended up squandered on the twin vacuums of the Vietnam War and the Great Society."[108]

"Johnson wanted a monument of his own," Herbert Stein surmised, "and his monument in economics was to be the big growth of social expenditures."[109] Though Stein qualified this statement somewhat by suggesting that Johnson did not intend to create a sinkhole for the Federal Treasury, but that he simply ignored the long run consequences of his spending priorities, the emphasis is nearly the same: Johnson's primary focus was on spending federal tax dollars to stave off economic recession, at any cost. "The program [LBJ's fiscal policy] reflected a misconception of the long-run budget situation," Stein declared, "if not a total neglect of the long run."[110] CEA Chairman

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[105] Ronald F. King, *Money, Time, and Politics,* 216.

[106] Quoted in Strober and Strober, *Let Us Begin Anew,* 246.

[107] This assumes an exclusive focus on domestic policy, which of course, with the Vietnamese War playing such a significant role, was never quite the case. My concern is not with LBJ's overall reputation, however, but only with his standing and reputation as an economic manager.

[108] John H. Makin and Norman J. Ornstein, *Debt and Taxes* (New York: American Enterprise Institute, Times Books, 1994), 135.

[109] Stein, *Presidential Economics,* 113.

[110] Ibid., 115. It is as if Stein was suggesting that Johnson should have been able to predict a Nixon victory in 1968, and that the economy would nose-dive as a result, stripping the Federal treasury of billions in potential revenue.

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Arthur Okun (1968-1969) remembered a different outlook, however, one closer in spirit to the Johnson in 1964 who had everyone at the White House turning off lights to save money. "He[Johnson] privately expressed some quite reactionary views on welfare," Okun noted, "concern about disincentive effects, concern about creating a mentality of being on the dole."[111] And as Eric Goldman, one time Johnson adviser recalled, President Johnson never forgot the fundamental political flaw of liberal legislation in the 1950s and early 1960s: that liberals allowed themselves to be pigeonholed by conservatives as economically naive tax and spend demagogues. According to Okun's and Goldman's characterizations, and judging from the policies eventually implemented by Johnson, social spending priorities, though significant companions to an overall strategy, were in no way tantamount to the Kennedy-Johnson economic strategy itself. Opponents of the New Frontier/Great Society, however, always approached the debate over economic policy as if this really were the case. Walter Heller noted that "many an anti-Keynesian, who comes not to praise but to bury the 1960s, sees only a total preoccupation with demand management, with fine tuning, and with fiscalism."[112]

It was the political newness of the "New Economics" that made it difficult to see the Kennedy-Johnson economic strategy in any other light. Though government social spending was created in part by conservative businessmen in the 19th century, largely as a way to buy support for a regime of high tariffs, it did come to be championed, as well, by some not-so-conservative politicians looking for a way to promote a more widespread prosperity. This latter role surfaced, for the most part, only after 1913 when the Wilson administration ushered in the nation's first post-Civil War tariff reductions; accompanying them with the first federal income tax under the newly ratified sixteenth amendment.[113]

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[111] Okun, Oral History Interview, in Hargrove and Morley, *The President and the CEA*, 276.
[112] Walter Heller, "Kennedy Economics Revisited," in Pechman and Simler, eds., *Economics in the Public Service*, 236.
[113] The Underwood-Simmons Tariff of 1913 reduced import duties on 958 items, raised them on 86, and left 307 the same, reducing the average duty from approximately 37 to 29%. The first income tax imposed a

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While many of these "progressive," "populist," or "liberal" plans were utopian—Huey Long's "Share Our Wealth" scheme for example—there was one common characteristic. It was assumed that the nation's fundamental economic strategy had to revolve around the maintenance of investment opportunities and business profitability; all other concerns, including these plans, were tangential, and all social spending schemes, however radical, were necessarily part of a "safety net" or political "grab-bag" used to stave off revolution or remedy some of the externalities associated with a profit-centered political economy. No other role would fit. Ultimately it was this orientation, and the limited social spending priorities consistent with such an approach, that both Kennedy and Johnson rejected.

It was largely the rejection of a familiar but ideologically careless liberalism—equated only with greater social spending—along with the desire of both Kennedy and Johnson for a gradual and compelling transition, that make it difficult to ascertain the ideological character of the New Economics. Their rejection of what often passed for liberalism and their adoption of supply side remedies—to be used as political "convincers" or solutions to *specific* distributional or resource problems—simply made it difficult to see where the "old economics" left off, and where the "New Economics" began. Because the transition required, for political reasons, borrowings from older social spending plans and supply-side remedies alike, and because it was economically wise to fit them in as companions to the new scheme, anyway, the real ideological character of the whole approach is easily obscured. This character, based on a demand-first approach and the maintenance of demand-led full employment, was, nonetheless, an integral and uncompromising part of every Kennedy-Johnson economic policy formulation.

A CEA report, written largely by Robert Lampman early in the Johnson administration, stands as a good example of how all Kennedy-Johnson economic policies came to be placed under a more fundamental economic strategy umbrella. The Lampman

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1% tax on all incomes over $3000 ($4000 for married couples) and added a surtax ranging from 1% on incomes around $20,000 to 6% on incomes above $500,000.

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report called for social spending to combat the effects of widespread economic discrimination, inadequate educational opportunities, dual labor markets, oligopolistic product markets, and inefficient transfer payments slanted toward the wealthy, so that a strategy based on economic growth could better alleviate poverty.[114] Federal government social spending, in other words, should address these problem areas so as to sharpen the nation's economic efficiency, but it should not be counted upon to direct or to drive the overall economy. That, according to the Kennedy-Johnson economic policymakers, was the province of economic growth spurred by consumer demand in the marketplace. As Keynes himself once noted that the influence of relief for the poor "evaporates as employment improves, so that there is a dead point beyond which this factor cannot carry the economic system."[115] As Keynes also noted, "the important thing for government is not to do things which individuals are doing already, and to do them a little better or a little worse; but to do those, which at present, are not done at all."[116]

By the same token, orthodox supply side measures were rejected only as a fundamental strategy; they too, could play a significant role as catalysts or as tools for sharpening economic efficiency within the new demand side orientation. The need to replace obsolete plant and machinery, for example, or to remove rapidly shifting supply bottlenecks or restraints on the expansion of credit were problems the Kennedy-Johnson economic strategists hoped to remedy with supply side policies. "The Heller strategy of the 1960s," James Tobin noted in a 1982 publication, "was not a one-sided program of demand expansion....Although there is some merit in some of the 'supply-side' proposals so popular today, the danger is that they are considered a substitute for expanding demand."[117] Equating Keynesianism exclusively with a fiscal approach to demand

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[114] Katz, *The Undeserving Poor*, 91.
[115] John Maynard Keynes to Franklin D. Roosevelt, February 1, 1938, in Zinn, ed., *New Deal Thought*, 405.
[116] John Maynard Keynes, *Essays in Persuasion* (New York: Harcourt, Brace, and Co., 1932), 317.
[117] James Tobin, "Steering the Economy: Then and Now," in Pechman and Simler, eds., *Economics in the Public Service*, 37. Tobin, one of the original members of the Kennedy Council of Economic Advisers, and

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expansion, historians misinterpret the Kennedy economic strategy in two ways: it is not viewed as a revolution in political economy that it was, and it is often placed in a wholly misleading configuration, halfway between the "liberal" pseudo-Keynesian approach that suggested greater spending as a solution to any economic problem, and the perverse, reactionary "Keynesianism," such as that practiced by Ronald Reagan in the 1980s.[118] The Keynesianism of the Kennedy-Johnson years embraced neither of these approaches—which were never really Keynesian to begin with—nor was it simply a pragmatic combination of the two. Aggregate demand was indeed the key to the New Economics, but this implied neither a regime of unlimited taxing and spending nor an approach by which fiscal deficits, *per se*, could automatically remedy problems related to inequality and insufficient demand. Within the Kennedy-Johnson economic policy framework there was, as well, ample need for, and no reluctance to accept, both microeconomic and macroeconomic supply side measures. John Kennedy and Lyndon Johnson became convinced that adequate demand was the single most significant element in a successful economic strategy, but they were equally convinced that some problems lay well beyond its reach. Representing an activist approach at least as old as the New Deal, the New Economics sought a sharpening of focus, not the political banishment of pragmatic policy.

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the member largely responsible for convincing the Fed to modify its "bills only" approach in 1961-1962, was rumored to be the prototype for the character "Tobit" in *The Caine Mutiny* having been in the Navy training class with Herman Wouk.

[118] See David Burner and Thomas R. West, *The Torch is Passed: The Kennedy Brothers and American Liberalism* (St. James, New York: Brandywine Press, 1984), 182, and Katz, *The Undeserving Poor*, 94, for an example of this interpretation.

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Chapter 4.
Toward the New Economy

With want destroyed; with greed changed to noble passions; with the fraternity that is born of equality taking the place of jealousy and fear that now array men against each other; with mental power loosed by conditions that give to the humblest comfort and leisure; and who shall measure the heights to which our civilization shall soar?

- Henry George, 1879

The economic transition of a society is a thing to be accomplished slowly.... For it is of the nature of economic processes to be rooted in time. A rapid transition will involve so much pure destruction of wealth that the new state of affairs will be, at first, far worse than the old, and the grand experiment will be discredited.

- John Maynard Keynes, 1933

Inconspicuous and muddled as the New Economics appeared to be, Kennedy's strategy began to take shape, in mid-1962, around three distinct policy initiatives. "Wage-price guideposts" were established to check inflationary pressures coming largely from the supply side so as to make room for the non-inflationary expansion of demand; tax reforms were proposed so as to lessen or remove tax breaks utilized by the wealthy and paid for by the working poor and the middle class; and a substantial income tax cut was proposed to spur economic expansion led by the augmentation of consumer demand. These initiatives all spoke plainly and unmistakably for the New Economics and the strategy revolution it implied, and perhaps even more significantly, they helped

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Johnson, after Kennedy's death, chart the course by which he would attempt to bring the revolution full circle.

Wary of a "seller's inflation" that would impose real economic instability and thwart the drive toward full employment, Kennedy adopted the principle of a "wage-price guidepost." Designed to gear wage increases to productivity changes so that price rises would not automatically follow wage increases, the guidepost principle was introduced by Walter Reuther and the United Automobile Workers in 1948, advocated by Heller in 1961, and adopted by the Kennedy administration largely in the midst of its struggle with the steel industry in April, 1962.

The American steel industry had a long history of both volatile labor relations and disruptive price-fixing practices. In 1931, U.S. Steel became the first corporation to renege on promises made to President Hoover for the maintenance of wages, leading what quickly became a general retreat from wage maintenance. The industry had bitterly resisted unionization throughout the 1930s, had evaded the Wagner Act after it was imposed in 1935 when American unions were first guaranteed the right to organize, and even after it finally recognized a steelworker's union in the 1940s, it fought union demands to the point where the first agreement had to be imposed by the National War Labor Board in 1942. In the ten negotiations between steel companies and the steelworker's union, from 1946-1959, five had resulted in strikes, and all ten had ended with price increases above the level of the added labor costs, leading some observers to charge the industry with the imposition of "cost-plus" fees during these labor contract negotiations.[1] The 1959 negotiations, in particular, led to a costly 116 day strike. It was

[1] Bernstein, *Promises Kept*, 140; see Daniel Bell, "The Worker's Search for Security," *Monthly Labor Review*, June 1963, 614-617; and Bell, "The Subversion of Collective Bargaining," *Commentary*, March 1960, 185-197 (with comment by Arthur Goldberg and reply by author in July, 1960 issue), for an overview and analysis of this "cost-plus" pricing arrangement.

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brought to an end only after Eisenhower's Secretary of Labor James Mitchell and Vice-President Richard Nixon secretly mediated the dispute against Ike's wishes.[2]

On the pricing front, the steel industry had clearly fixed prices since the tenure of Judge Albert Gary as Chairman of U.S. Steel (1901-1927). Gary had arranged a pricing scheme built upon an informal multiple basing point system, a system that evolved into the "Pittsburgh Plus" pricing scheme of later years.[3] More formal arrangements and accompanying price rigidities were created with the ill-fated National Industrial Recovery Act (1933). Though the NIRA was dissembled by the Supreme Court and by the acquiescence of its most liberal supporters (who saw it evolve into an uneven arrangement favoring business over labor and consumer interests) the cooperation it engendered among steel companies lived on. Citing the steel industry's price increases in 1948, which he termed unjustifiable, even Republican Senator Robert Taft, usually known as a champion of conservative business interests, added his voice to the chorus of steel industry critics.[4] And when the steel industry was implicated in 1949 for price-fixing, with duplicate bids matched to the fractional part of a penny (down to 5 decimal places), proposals to tighten the anti-trust laws were shelved only as the industry promised to act more responsibly in the future.[5] In 1951, subsequent to further antitrust

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[2] Rowen, *The Free Enterprisers*, 90. The strike was costly to the steelworkers and to the public anyway; the steel companies, on the other hand, generally benefited by it, for they expected it, even welcomed it, telling their customers to stock up early in the year. Producing then at greater percentage of capacity (nearly 90%), it was much cheaper for the mills to run at a high rate of capacity for six months than at a much lower rate for ten. And to do the same thing without the strike would have required layoffs with the added cost of supplementary unemployment benefits. See I.F. Stone, "Lagging Labor Leaders," in *The Haunted Fifties, 1953-1963* (Boston: Little, Brown and Company, 1963), 292-295.

[3] These systems operated under the assumption that outlying companies would include phantom freight charges to avoid undercutting the industry prices established by U.S. Steel (Pittsburgh).

[4] LBJ and Taft sat directly across the aisle from each other in the Senate chamber in 1953. According to William White, Johnson got into the habit of teasing Taft whenever one of his fellow Republicans was making a particularly bone-headed oration or parliamentary maneuver, almost always forcing the Republican senator from Ohio to smile knowingly. Cited in White, *The Professional*, 27.

[5] U. S. Congress, Senate Subcommittee of the Committee on Interstate and Foreign Commerce, *A Bill to Clarify and Formulate a Consistent and Coordinated Policy with respect to Transportation Costs in Interstate Commerce...*, U.S. Senate, 81st Congress, 1st session, January 24, 25, 26 and February 18, 1949 (Washington: U.S.G.P.O., 1949). Steel companies tried to induce union lobbying against this bill by suggesting that its passage would prompt layoffs and paycuts. See also Robert Mann, *Legacy to Power:*

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violations, steel companies urged and signed a consent decree agreeing to keep prices stable below certain levels of capacity utilization. Senator Estes Kefauver led the charge against the industry in 1959 when it raised prices in violation of this agreement.[6]

With this history firmly in mind, the steel industry became a natural target for those in the Kennedy administration who wanted, more and more, to make a stand against rising prices and a potential wage-price spiral. If the public and much of the business world could be convinced, they reasoned, that inflation was not an automatic consequence of increased demand, their overall strategy would be much easier to implement. In addition, Senator Albert Gore had brought to Kennedy's attention a 1959 congressional study implicating the steel industry for much of the 1955-1958 inflation, and Walt Rostow had advised Kennedy as early as November 1960 to make a stand against creeping inflation in the auto and steel industries.[7] "The inflation which marked our economy before 1958," Kennedy noted in a August 30, 1961 press conference, "was, I think, tied very closely to the increases in steel prices."[8]

As the existing steel labor contract approached its July 1,1962 expiration date, then, the Kennedy administration moved to arrange an early settlement, hoping to avert either a costly strike or an inflationary price hike. Kennedy wrote to twelve steel companies urging price maintenance, and Secretary of Labor Arthur Goldberg (former steelworker's union counsel) was dispatched in January 1962 to convince the steelworker's union to moderate its demands. "Many persons have come to the

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Senator Russell Long of Louisiana (New York: Paragon House, 1992), 107, for a brief summary of Long's role in defeating the bill, commonly known as the "Basing Point Pricing Bill."(though Mann says "permit" where it should read "prohibit")

[6] S. Prakash Sethi, *Up Against the Corporate Wall: Modern Corporations and Social Issues of the Seventies* (Englewood Cliffs, New Jersey: Prentice Hall, 1971), 359. See also Theodore Philip Kovaleff, *Business and Government During the Eisenhower Administration: A Study of the Antitrust Policy of the Antitrust Division of the Justice Department* (Athens, Ohio: Ohio University Press, 1980), on Eisenhower's extensive use of the consent decree.

[7] See Congress, Joint Economic Committee, *Steel and the Postwar Inflation, Study Paper 2*, prepared by Otto Eckstein and Gary Fromm, 86th Congress, 1st Session, 1959.

[8] Cited in William J. Barber, "The Kennedy Years: Purposeful Pedagogy," in Goodwin, *Exhortations and Controls*, 158.

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conclusion," Kennedy noted in his letter to the steel companies, "that the U.S. can achieve price stability only by maintaining a substantial margin of unemployment and excess capacity and by accepting a slow rate of economic growth. This is a counsel of despair which we cannot accept."[9]

Relinquishing the right to strike by negotiating early, the steelworker's union responded to Kennedy and Goldberg's entreaties and proposed in early March 1962 a 17 cents per hour job security package with no wage increase. Though this was precisely what the Kennedy administration was looking for—a package under Walter Heller's 3% target for a maximum non-inflationary increase in labor costs—the steelmakers complained, called it inflationary, and negotiations fell apart on March 2. Goldberg intervened once again, convinced David McDonald of the steelworker's union to work for an even smaller package, and both sides eventually agreed to a new contract that added only 10 to 11 cents per hour, all to improve pensions and ease unemployment. The contract was signed on April 6, 1962, well ahead of the expiration date of the old contract, and was hailed as a major breakthrough for the administration in its fight for a non-inflationary agreement and stable prices.

It came as a shock, then, when U.S. Steel president Roger Blough arrived at the White House on April 10, 1962 to announce that his company was raising its prices. His company had already issued a press release, he told a stunned President Kennedy, announcing a 3.5% across-the-board increase in steel prices. Approved by the company's Operations Committee four days earlier, and validated by the Executive Committee just that morning, these increases were matched by five other steel companies on April 11, the very next day. And this came in spite of Bethlehem Steel Vice President Edmund Martin's announcement, to a Bethlehem stockholder's meeting in Wilmington, Delaware on April 10, that the new labor contract should not warrant

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[9] Sethi, *Up Against the Corporate Wall*, 364.

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any price increases.[10] "Dave, you've been screwed, and I've been screwed," Kennedy told David McDonald, calling him in Pittsburgh as soon as Blough left the White House. Then, only moments later, in a conversation leaked to the *New York Times* and published on April 23, Kennedy shared his appreciation of Blough's surprise with Secretary Goldberg: "My father always told me that all businessmen were sons of bitches, but I never believed it until now." Calling the steel executives "pricks" in a subsequent reference not leaked to the press, Kennedy was truly surprised and incensed by Blough's announcement.[11]

What followed was a 72 hour campaign against the steel price increase led by the President himself, Heller at the CEA, Kefauver in the Senate, McNamara at Defense, Dillon at Treasury, and Mortimer Caplin at the Internal Revenue Service. Early the next morning, Kennedy convened a breakfast strategy session with Vice President Johnson and other key administration personnel where he and the others outlined a plan to force the rescission of the steel price increases. Though Johnson was given no specific role, he understood and concurred with all proposals, adding, only later, that he would have done it all in a more "conciliatory, quiet fashion."[12]

The upshot of "the Battle of Blough Run," as many in the administration were calling it, was that U.S. Steel, and the five companies who followed its lead, eventually saw that they could not make the price increases stick. When McNamara threatened to

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[10] Sethi, *Up Against the Corporate Wall*, 369-370; Rowen, *The Free Enterprisers*, 90-98; Bernstein, *Promises Kept*, 141-142. James L. Parks of the Wilmington *Evening Journal*, John Lawrence of the *Wall Street Journal*, and Lee Linder of the Associated Press were all in attendance at the Bethlehem stockholders meeting and corroborated this story. See Rowen, *The Free Enterprisers*, 103.
[11] Quoted in Bernstein, *Promises Kept*, 142-143; Burner and West, *The Torch is Passed*, 182; Rowen, *The Free Enterprisers*, 95-96; Barber, "Purposeful Pedagogy," 172. For his part, Roger Blough maintained through it all that he had done nothing wrong, and that he had not double-crossed the President. In fact, Heller had written a memo which arrived on Kennedy's desk at 10pm, April 10—*after* Blough's announcement and press release—which suggested that the steel industry was ignoring census data, and using faulty productivity figures in accounting for the cost of the new labor contract, warning Kennedy, in other words, that the industry was not as sanguine about the new labor settlement as the rest of the free world seemed to be. See Barber, "Purposeful Pedagogy," 171.
[12] Baker, *The Johnson Eclipse*, 112.

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shift defense contracts to companies holding the line on prices (such as Inland and Kaiser); when Kefauver spoke of renewed antitrust investigations; Caplin, inquiries into U.S. Steel's new stock option plan; and Dillon the cancellation of proposals for new depreciation allowances, the unwinding had begun. Bethlehem was the first to cave in, announcing its rescission on Friday, April 13 in the mid-afternoon. Blough, in a meeting with Goldberg and Clark Clifford when the Bethehem rescission was announced, followed suit at 5pm, and the rest of the companies followed Blough like sheep, though all did so wringing their hands over poor profits, and maintaining that competition rather than the actions of the Kennedy administration had forced their collective surrender. On the "profit squeeze" issue, most of the steel executives had followed Blough's lead as well—using "profit as a percentage of sales" figures instead of "return on net worth." The former was not quite as rosy as the latter and it helped the steel executives obscure the costs of wasteful management, lucrative executive compensation, and the preference for liquidity over profit in their attempt to modernize the industry. Blough and the other steel company chairmen also used 1940 as a standard by which to compare other years' profits—a year marked by unusually high defense contract profits.[13]

When the crisis ended with a complete reversal of the steel price increases, Goldberg and Clifford reported that Blough had appeared "pale and shaken." Paul Samuelson added several years later that Blough "never recovered from that confrontation; he was a broken man. It is a very hard thing when your president

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[13] "They [Kennedy, Johnson, and their economic advisers] had some kind of an idea," Blough once remarked, ostensibly to justify the use of the profit to sales ratio, "that somehow or other there was a source of income other than the normal sales revenue, and there isn't." See Blough, Oral History, LBJ Library, 13. See also Blough, "My Side of the Steel Price Story," *Look*, January 29, 1963, 19-23, where Blough pulled out the crying towel to defend his "3/10 of 1 cent per pound[!]" price rise; blamed much of the episode on Senator Albert Gore and "other 'liberal' senators;" claimed that he would have never tipped his hand on price, one way or the other, so as to steer clear of any possible antitrust violation[!]; and also claimed to be defending the interests of his employees, U.S. Steel's shareholders *and* "those who suffered from the estimated $70 billion loss in the stock market crash... in the weeks shortly following President Kennedy's televised attack on the steel industry."

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crucifies you before the American people."[14] Kennedy had indeed broken Blough and the other steel executives who followed his lead. There would be other similar confrontations, however, and few were convinced that Kennedy had acted in a disinterested, economically sound fashion.

Ultimately the steel crisis convinced President Kennedy of two things. He began to understand, first of all, to a much greater extent than ever before, how oligopolistic industries administered prices and how they could create a "seller's inflation"—even during a recession, and certainly during a period of economic expansion. Walter Heller had highlighted this phenomemon in a "White Paper" produced explicitly for the steel crisis, a paper digested thoroughly by both Kennedy and Vice President Johnson. Thus, Kennedy and Johnson alike realized that the guidepost principle merited closer attention and further study; some tool would have to be fashioned, modeled on the guideposts or not, that would enable the government to better check the periodic outbreak of a "seller's inflation." Secondly, Kennedy realized that success in the steel crisis, both for his administration and for the economy at large, hinged too squarely on the aggressiveness and vigilance of the oval office. A lesser politician would have gloated; Kennedy was much more inclined, however, to follow the lead of his Vice-President, who had been the first to suggest a more conciliatory approach to their ostensible opponents in the business world. The steel showdown "reinforced the President's feeling," James Tobin recalled, "that he had to be more friendly toward them [businessmen]."[15] This was by no means, however, a symbol of "liberalism in retreat," as some have suggested, nor did it represent the recognition and encouragement of "corporate hegemony."[16] What it did represent, was a closely guarded search for the appropriate mix of rhetoric and policy—

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[14] Quoted in Rowen, *The Free Enterprisers*, 105-106; Strober and Strober, *Let Us Begin Anew*, 258.
[15] Quoted in Strober and Strober, *Let Us Begin Anew*, 258.
[16] See Matusow, *The Unraveling of America*, 4-5, 33, for this interpretation. He refers to Kennedy as "the quintessential corporate liberal...who never pretended to be otherwise and for whom the good opinion of big business was the highest political priority." Ibid., 33.

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a commingling of disparate but persuasive tactics—that would serve as an entering wedge for an emerging, and increasingly liberal, economic strategy.

Both Kennedy and Johnson realized, for instance, with crucial insights provided by Heller and the other economic advisers, that the steel companies could still raise prices in the near future, and that they could do so for reasons just as economically unsound as those which prevailed in April 1962. Advisers warned the President, for example, that selective, as opposed to across-the-board, price increases would most likely prevail even in the near future.[17] Both men knew, as well, that if they were truly going to transform the nation's political economy, they would obviously need the cooperation of the nation's business community. It was too prejudicial, too narrowly focused, and all too willing to portray itself as a martyr to the whims of "fuzzy-headed" politicians to do otherwise. Outright defiance would only encourage these traits, making it virtually impossible to change anything. Clark Clifford, Walter Heller, and James Tobin, in addition to Vice-President Johnson, all endorsed this line of thinking. It became more apparent and more obligatory after the 1962 steel crisis.

Indeed, Kennedy moved immediately to assure the American business community that he was not the devil in disguise, beginning by ordering his assistants and cabinet members not to crow about the "victory" over the steel companies. *Business Week* even compared him to "Grant at Appomattox...letting the vanquished forces keep their horses and sidearms."[18] Heller was instructed to bury the "White Paper," all investigations, with the exception of Kefauver's in the U.S. Senate, were called off, and Big Steel retained its lucrative defense contracts. When business leaders began sporting S.O.B. buttons at conventions, and "Help Kennedy Stamp out Free Enterprise" bumper stickers on their cars, and when a stock market decline in May was blamed on Kennedy's

[17] Exactly one year from the beginning of the 1962 steel crisis, Wheeling Steel opened a round of *selective* price increases.
[18] Quoted in Sethi, *Up Against the Corporate Wall*, 377.

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defiance of "free enterprise," the President and most of his advisers were compelled to do even more to patch up relations with the business community.[19] As a result, an investment tax credit bill was pushed through Congress, and the Treasury forged ahead with its plans to relax Bulletin F depreciation guidelines. Taken together, these policies immediately added $2.5 billion annually to corporate cash flow, at a time when most companies were already flooded with cash.[20]

The continued arrogance and contempt of this community, however, still mystified President Kennedy. "You know," Kennedy told Walter Heller, after his first post-steel crisis meeting with business leaders, "those bastards sat on their hands and didn't get up when the President of the United States walked into the room."[21] When he made a

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[19] While Kennedy never absolved himself politically of the blame for the May stock market plunge, stock P-E (Price to Earnings) ratios were then quite excessive (26 to 1 on the average), and John Kenneth Galbraith read the drop as a positive signal, suggesting that it implied public respect for the administration's inflation fighting efforts and the resulting recognition that common stocks would no longer appreciate forever for reasons of inflation. Walter Heller noted that Wall St. was, in this case, a victim of its own propaganda about a squeeze on profits. See Barber, "Purposeful Pedagogy," 177.

[20] For an indication of the tremendous corporate cash flow of the period, and the histrionic reaction to the largely contrived "profit squeeze,"see comments from Roger Blough and other steel executives during the steel showdown (attacked by Walter Heller in his White Paper) on the financing of their modernization efforts. To Blough a profit squeeze was on because his company could no longer finance its capital improvement out of cash flow or issued capital alone. They were actually having to seek funds from commercial lenders for the first time, a genuine tale of woe, indeed. Blough and the others never mention why such large sums were necessary, either, for the steel companies had wasted millions in the 1950s upgrading low-grade ore deposits they owned, instead of seeking cheaper higher grade ores on the international market; and were making a belated, and therefore more expensive, move into basic oxygen furnaces from the more traditional open hearth designs. The company's new stock option plans for its executives, legally not a part of their official balance sheets, were also pinching them a bit. See John P. Hoerr, *And the Wolf Finally Came: The Decline of the American Steel Industry* (Pittsburgh: University of Pittsburgh Press, 1988), 93-97, for an analysis of these management decisions. See also Paul A. Tiffany, *Decline of American Steel: How Management, Labor, and Government Went Wrong* (New York: Oxford University Press, 1988). On the issue of the investment tax credit, used primarily to assuage recalcitrant business leaders, it should be noted that some have ignored the *political* rationale for the I.T.C. entirely and cited it as evidence for a Kennedy supply-side economic philosophy (see King, *Money, Time, and Politics*, 195, where the author claims that long run concerns were synonymous in JFK's mind with regressive investment incentives!). The cash flow estimate is Hobart Rowen's. See Rowen, *The Free Enterprisers*, 47. On the issue of the accelerated depreciation allowance, it should be noted that this change entailed a more rapid write-off *and* a simplification as well, allowing a business to apply a single figure to a whole class of assets rather than to a single item.

[21] Heller, Oral History Interview, in Hargrove and Morley, *The President and the CEA*, 175. Hobart Rowen reports that Blough and Frederick Kappel of A,T& T were the only exceptions. See Rowen, *The Free Enterprisers*, 87.

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conciliatory speech at the 50th anniversary banquet of the U.S. Chamber of Commerce on April 30, he was again dismayed by the business response—a confrontational rebuttal delivered by Chamber President Richard Wagner. "Dictators usually come to power under accepted constitutional procedures," Wagner warned the banquet audience, making a less than subtle analogy between Kennedy activism and what one might call "creeping fascism."[22] Some business representatives even considered Kennedy's predilection for Keynesian economics a Russian plot, citing Keynes' marriage to Lydia Lopokova, a Russian ballerina.[23] And when the first indications of economic growth were acknowledged in 1962, business writers and executives alike even began questioning the reliability of GNP as a measuring device for economic growth. "Its hard as hell," Kennedy said, "to be friendly to people who keep trying to cut your legs off."[24]

Highlighting this seemingly intractable problem, Kennedy addressed the United Auto Workers convention in Atlantic City: "Last week, after speaking to the Chamber of Commerce and the presidents of the American Medical Association," Kennedy noted with mock bewilderment, "I began to wonder how I got elected. And now I remember."[25] Kennedy continued to seek the support of conservative business groups, nonetheless, becoming the first President since William McKinley to address the annual convention of the National Association of Manufacturers.[26] Ironically, what little headway Kennedy made with the American business community after the steel confrontation, came partly as a result of Roger Blough's own conciliatory efforts.[27]

However fruitless this courtship seemed in the summer of 1962, however, Kennedy was ever mindful of Walter Heller's advice offered in an April 14 memo entitled "Where

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22 Quoted in Rowen, *The Free Enterprisers*, 114-115.
23 See Dobbs, *Keynes at Harvard*, 3, 45-54.
24 Quoted in Bernstein, *Promises Kept*, 146.
25 Quoted in Rowen, *The Free Enterprisers*, 121.
26 Heath, *JFK and the Business Community*, 66.
27 Thomas Watson of IBM, Henry Ford II of Ford Motor Co., Henry Kaiser of Kaiser Industries, and Frederick Kappel of A,T,&T were others who encouraged a rapprochement with the Kennedy White House.

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Do We Go From Here?" We must "emphasize the common interest between government and the steel industry," Heller wrote, "including the need for more profits—profits generated by a more fully employed economy rather than by premature price rises in a slack economy and a slacker steel industry."[28] There would be no letting up, in other words, with the political course chosen at the very beginning of the Kennedy presidency: business would have to be won over to, and not steamrolled by, the New Economics. Kennedy's endorsement of a special tax break for Dupont stockholders (who received 63 million shares of General Motors stock in a Justice Department agreement), and well publicized banishment of prominent liberals John Kenneth Galbraith and G. Mennen "Soapy" Williams to less-than-significant diplomatic posts, was not enough.[29] Nor was his appointment of Republicans and conservative Democrats to numerous key positions in the administration. McNamara at Defense, Dillon and Robert Roosa—Undersecretary for Monetary Affairs—at Treasury, and Allen Dulles and John McCone at the CIA, were all Republicans; Postmaster General J. Edward Day (Prudential), and Secretary of Commerce Luther Hodges, (a former textile company executive) were Democrats but former business executives. These efforts, made at the onset of the Kennedy presidency, plainly had to be enlarged in 1962. Any reform, any substantive change in economic policy would be next to impossible without such an initiative.

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[28] Quoted in Barber, "Purposeful Pedagogy," 176.

[29] For a detailed examination of the DuPont tax break, approved largely at the behest of Clark Clifford, who was paid between 1 and 2 million dollars by DuPont for his lobbying efforts, see Gerard Colby Zilg, *DuPont: Behind the Nylon Curtain* (Englewood Cliffs, NJ: Prentice Hall, 1974), 393-399. Galbraith was appointed Ambassador to India; Williams, Assistant Secretary of State for African Affairs. Galbraith himself tells of the formation of the Galbraith Early Warning System (G.E.W.), devised by the CEA and the State Dept. so the CEA would not schedule too many meetings that he might attend. While Heller and company generally agreed with his assessments, they also knew that he had far less patience for the stroking of business leaders that they saw as a political necessity. His outspokenness and willingness to raise hell, in other words, was deemed a political liabilty early in the game. See Strober and Strober, *Let Us Begin Anew*, 180, for Galbraith's comments.

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He had spoken of the need for a new Fed Chairman; now he decided to reappoint Republican William McChesney Martin when his term expired in 1963. He also reduced transportation taxes and announced his intentions to reduce transportation regulations as well. He handed over $500 million worth of government developed satellite technology to A,T,&T. He reduced farm surpluses, protected the patent rights of private companies working on federal projects, and he submitted a budget for FY 1963 with reduced domestic, non-military expenditures, broadcasting it loudly. He continued to press Lee Loevinger, head of the antitrust division of the Justice Department, for a predominantly hands-off approach, and he was ultimately forced to jettison attempts to impose "truth in packaging" and "truth in lending" regulations as well as stricter regulations on the monopolistic marketing of pharmaceuticals.[30] In his attempt to win over the business community, few stones were left unturned.

Though Kennedy admired Dillon's integrity and openness, for example, and believed McNamara to be a thoroughly liberal Republican, many of these appointments and policy choices were truly made, in part, for their symbolic effect. In a similar vein,

[30] This was the same Lee Loevinger who was left off of a Justice Department study of antitrust laws in the 1950s because Warren Burger remarked that "Loevinger has been a borderline left-winger all his life; I would have little confidence in his views on anything." See Kovaleff, *Business and Government During the Eisenhower Administration*, 21. In May, 1963, in an apparent move to further appease the business community, Loevinger was transfered to the FCC, and replaced by William H. Orrick, Jr. This "hands off" approach occurred in spite of Kennedy's comment at a November 8, 1961 news conference where he answered a question about what he had to do to win the confidence of the American business community. "Well, if to... stop them from saying we're antibusiness," Kennedy replied, "we're supposed to cease enforcing the antitrust law, then I suppose the cause is lost." See "The President's News Conference of Nov. 8, 1961," in *Public Papers, 1961*, 708. Failing to understand Kennedy's concern with price-fixing over corporate bigness in general, Allen J. Matusow regarded the choice of Loevinger (who did agressively pursue price-fixing cases at the beginning) as a puzzling one. Ultimately, Kennedy appreciated the economies of scale that came with some mergers and existing conglomerates, as long as it was not accompanied by blatant price-fixing. See Matusow, *The Unraveling of America*, 34. On Kennedy's attempt to reduce transportation regulations, the Transportation Act of 1963, designed to remove inequities in interstate minimum rate regulations, was actually defeated by the lack of *business* support (railroads for, water carriers and trucking lines against). On the attempt to regulate pharmaceutical companies, though monopolistic pricing was considered to be the greatest abuse, only regulations covering the licensing of products was allowed to get by, largely because of the shocking Thalidomide controversy in 1962. The "truth in lending" proposals, perennially championed by Paul Douglas in the U.S. Senate, fell prey to business complaints, most prominent of which was the lament that listing all interest rates in terms of "annual percentage rate" was far too complex a requirement!

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in mid-July, for example, he requested the heads of departments and agencies to take careful note of programs designed to help business, and he directed cabinet and subcabinet level officials to "avoid the wrong kind of speeches or press conference remarks," adding that there should be "no commentary now on the stock market, a tax cut, gold, business ethics, wage-price intervention or antitrust laws."[31]

If, in the wake of the steel crisis, Kennedy felt the need to approach the business community in a more conciliatory fashion, he also became more confident in his ability to understand economic policy, and saw an equally pressing need to begin bringing his rhetoric into line with his economic philosophy. Heller noted simply that the steel crisis convinced Kennedy to drop the balanced budget posture he never liked in the first place.[32] While certain topics had to be treated gingerly or avoided all together, so as to soften business opposition, this approach also implied that an effort be made to prepare the business community for the real and profound economic policy changes he envisioned.

To many of his advisers, Kennedy's commencement address at Yale University on June 11, 1962 marked the onset of this effort. In a speech written partly by the President himself, after consulting Heller, Sorensen, the visiting French scholar Andre Malraux, and others, Kennedy noted that the greatest enemy of truth was not the lie but the myth. He then proceeded to assail the myths that he saw hampering the effective management of the nation's economy: that government was too big and too bad; that debt or the deficit was a bad thing in and of itself; and that confidence in the government should be blamed for turns of the speculative wheel. Arthur Okun called the address "the key manifestation of JFK's conversion to the New Economics." Heller went further, calling it "the first complete speech on economic policy—and modern economic policy at

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[31] Quoted in Barber, "Purposeful Pedagogy," 179.
[32] Bernstein, *Promises Kept*, 145.

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that—that a President had ever made."[33] While the response of the Yale audience was, indeed, far less enthusiastic, President Kennedy and Vice-President Johnson alike knew that audiences of any stripe seldom responded warmly to economic speeches. "Whenever a man makes any kind of economic speech, to any kind of audience," Johnson once told John Kenneth Galbraith, "it's like pissing down your leg; it makes you feel warm, but your audience is colder than a Texas norther."[34]

The Kennedy legacy was beginning to take shape, and the New Economics was fast becoming a recognizable commodity. Moreover, Vice President Johnson's outlook on economic policy was also evolving, wedding his seasoned populism with the academic insights of the Kennedy CEA. He now recognized, for example, how technical economics could be the ally of a populist politician; before he had ceded much of that ground to his conservative adversaries. He also recognized the continued need for "convincers," part of a political approach to the clinching of a paradigm shift where economically critical policies—clothed in the comfortable garments of economic orthodoxy—were combined with policies of marginal economic impact to attract the reluctant support of the business community; support that could make or break any new economic strategy. Most of all, however, he came to realize just what kind of policies a demand side economic strategy required, no matter how they were to be presented. Inflation would have to be fought by containing, in a precarious, politically charged atmosphere, the administered prices of American oligopolies (and other more "competitive" industries who responded rapidly and perversely to noticeable wage increases). Aggregate demand would have to be expanded, at this point in time, by introducing a substantial income tax cut, while increased government spending on the nation's infrastructure and social well-being could only play this role sometime in the near future. And last of all, social equity had to be introduced to the federal

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[33] Okun, Oral History, LBJ Library, 14; Bernstein, *Promises Kept*, 148.
[34] Quoted in Valenti, *A Very Human President*, 251-252n.

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government's fiscal practices; tax reform was required to place the poor and the middle class on a more equal footing with the wealthy, and large sums needed to be diverted to the health, education, and general welfare of large numbers of America's poorest citizens.

If carried off successfully, this regime would allow the government to avoid the old practice of dampening price pressure with unemployment and economic stagnation, though the episodes of "stagflation" in 1937, 1949, 1954 and 1957 suggest that the old method offered little in the way of positive results, even on the price front.[35] Demand could be expanded without faltering, then, even during peacetime, to levels that would finally bring genuine full employment.[36] Only this, Kennedy, Johnson and their economic advisers reasoned, would render the American social fabric fit enough and resilient enough to provide for a stable, fluid, and equitable marketplace—the hallmark of an economy Americans had almost always aspired to, but had never really encouraged.

When Kennedy announced his intentions to seek a tax cut that was not revenue neutral, in a June 7, 1962 press conference, the course had been set for this type of demand-led economic expansion. To Johnson, the tax cut proposal became the single most critical component of a demand side economic strategy—at least in terms of the circumstances that prevailed in 1963 and 1964.[37] When President Kennedy announced

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[35] Many pretended that the stagflation of the 1970s was the first of its kind, allowing them to erroneously credit the problem to the Kennedy-Johnson administrations and the New Economics. Mancur Olsen, on the other hand, cites Philip Cagan's view that stagflation has emerged gradually since the New Deal era. This is partly because successful government stabilization policies have created less severe business cycles making prices "stickier" with each new recessionary wave in the cycle. See Mancur Olsen, "An Evolutionary Approach to Inflation and Stagflation," in James H. Gapinski and Charles E. Rockwood, eds., *Essays in Post-Keynesian Inflation* (Cambridge: Harvard University Press, 1979), 146-148.

[36] See John Maynard Keynes, "The U.S. and the Keynes Plan," *The New Republic*, July 29, 1940, 158, where he notes that "It appears to be politically impossible for a capitalistic democracy to organize expenditure on a scale necessary to make the grande experiment which would prove my case, except in war conditions."

[37] One common assertion regarding the Kennedy-Johnson tax cut, as I noted previously with respect to Kennedy's overall economic policy, is that it represented a watered down "business Keynesianism" or a supply-side prototype. See Collins, *The Business Resonse to Keynes*; Matusow, *The Unraveling of*

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his intentions to reform much of the existing tax code, he also let it be known that he wanted to water the economy at its roots, rather than at the top of its uppermost branches. "The present patchwork of special provisions and preferences," Kennedy noted in a December 1962 speech, "lightens the tax load of some only at the cost of placing a heavier burden on others."[38] Expense account living, mortgage deductions that mostly benefited the wealthy, and non-compliance with taxes on interest and dividend income were among the administration's most prominent targets.

When President Kennedy was murdered on November 22, 1963, all of this seemed feasible and appropriate to Vice President Johnson, though tax reform and some of the lower bracket tax cuts ultimately had to be sacrificed to win the support of conservatives and of business groups in general. Business response to the tax reform proposals, for example, was especially hysterical and took most of the Kennedy administration by surprise. The U.S. Savings and Loan League inaugurated a exceptionally misleading and divisive campaign designed to convince the public that withholding taxes on

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America; Michael Harrington, "Reactionary Keynesianism," *Encounter*, March 1966, 50-52; and Leon Keyserling, Oral History Interview, LBJ Library, 30, for examples of the first view and Richard Reeves, *President Kennedy*, 318-319; King, *Money, Time, and Politics*, 180-186; Makin and Ornstein, *Debt and Taxes*, 124-125; and Mann, *Legacy to Power*, 210-211 for prominent examples of the second view (though King seems to straddle both views, suggesting at one point that the administration's "primary objective" was "augmenting productive capacity and output," and at another that the tax cut represented "a minimalist version of Keynesianism, stripped of the ominous forebodings and anti-investor overtones of *The General Theory*.") Tax cuts were chosen, however, over stimulatory spending for a variety of reasons. That it more closely coincided with the wishes of some business groups (who still wanted a revenue neutral tax cut) was largely a happy coincidence. Seymour Harris points out, for example, how Keynes himself would have pressed for tax cuts had rates been as high in the 1930s or early 1940s. See Harris, *Economics of the Kennedy Years*, 63. And Irving Bernstein records Heller's view that Galbraith's criticism of the tax cut was correct, in that public investment had lagged behind private wealth, but that a tax cut would act more quickly and would make the transition to a more favorable spending program an easier task in the future. See Bernstein, *Promises Kept*, 150-151. Hobart Rowen adds, "Heller, as a team player, waters down some of his own ideas. But over the long run, he has been neither so timid, nor impotent as Keyserling implies," and points out, as well, how the tax cut, as opposed to a spending increase, was "the right antidote to a tighter monetary policy that might have to be adopted to stem the outflow of gold." See Rowen, *The Free Enterprisers*, 166, 231. It should also be noted that since Kennedy included the tax cut on his list of forbidden topics—to soothe business relations after the steel crisis—it seems unlikely that he would have chosen the cut just to please business.

[38] John F. Kennedy, "Address and Question and Answer Period at the Economic Club of New York. December 14, 1962," *Public Papers of the Presidents, John F. Kennedy, 1962*, 878.

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interest and dividend income would most adversely affect the poor.[39] On June 7, 1963, however, when Kennedy decided to postpone attempts at tax reform, Walter Heller conveyed his affirmation of the move. "As you know," Heller wrote, "I opposed cluttering up the 1963 tax cut by inclusion of tax reforms—and I never bought the argument that the vested interests, just because we fed them a high protein diet of tax cuts, would be any less venal or voracious when we kicked them in their private parts. And they're not."[40]

The linchpin of the whole strategy, however, that could not be bargained away, was the proposed tax cut and the demand stimulus it entailed. Even when Kennedy spoke to conservative audiences and spent much of his time stressing his frugality and his concern for business profits, as was the case when he addressed the Economic Club of New York on December 14, 1962, he still touted the expansion of consumer demand as the key to his economic strategy. Hoping for both a rapprochement with the business community and a way to explain the often subtle differences between his economic approach and theirs, Kennedy was utterly unwilling, at the same time, to conceal the demand side focus of his economic strategy. "When consumers purchase more goods,"

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[39] The administration proposal for a withholding tax on interest and dividend income was also met with a storm of protest that generally treated this as if it were a new tax! (Since many had evaded it in the past, it was, perhaps, the equivalent of a new tax). Though studies clearly showed the inequity and wastefulness of the existing mortgage deduction, realtor's and homebuilder's groups treated Kennedy's proposal to alter this as a stab at the nation's vital organs and an attack on the middle class. See Pete Dreier and John Atlas, "Reforming the Mansion Subsidy," *The Nation*, May 2, 1994, 592-595, for a brief but illuminating history of the mortgage deduction. See also James M. Poterba, "Tax Subsidies to Owner-Occupied Housing: An Asset Market Approach," *Quarterly Journal of Economics*, November 1984, 729-752; James M. Poterba, "Tax Reform and Residential Investment Incentives," *Proceedings of the National Tax Association-Tax Institute of America*, May 1987, 112-119; and Harvey S. Rosen, "Housing Subsidies: Effects on Housing Decisions, Efficiency, and Equity," in M. Feldstein and A. Auerbach, eds., *Handbook of Public Economics, Volume I* (Amsterdam: North Holland, 1986), 375-420. The shrillest of all counterattacks came from the hotel and restaurant industries who went berserk over Kennedy's proposals to deny deductions for what were essentially living or social expenses. While all of these reforms were either postponed or shelved indefinitely, it seems that Kennedy was finally attempting that which FDR had tabbed Joseph P. Kennedy for when he appointed him chairman of the Securities and Exchange Commission. "It takes a thief to catch a thief," Roosevelt exclaimed, appointing Kennedy to the SEC chairmanship over the objections of many who thought the notorious stock market operator to be the worst possible choice.

[40] Quoted in Matusow, *The Unraveling of America*, 55.

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Kennedy noted on this occasion, "plants use more of their capacity, men are hired instead of laid off, investment increases, and profits are high." At another point in the same address he added: "we need to increase consumer demand to make these measures [investment tax credit and liberalized depreciation allowances and other potential investment incentives] fully effective—demand which will make more use of existing capacity and thus increase both profits and the incentive to invest."[41] When he spoke to Heller the following day he recalled the success of his carefully crafted address. "I gave them straight Keynes and Heller," Kennedy noted, "and they loved it."[42] When Kennedy aide Ted Sorensen recalled the address, he remembered the subtlety and ingenuity of its rhetoric above all else. "It sounded like Hoover," Sorensen remarked, "but it was actually Heller."[43]

With this frame of reference, the administration could certainly countenance the partial loss of the tax cut package and of the companion policies designed to augment its effectiveness, as long as this helped secure the cut itself. "To defend a good policy measure under the circumstances where the best is beyond the political pale," Walter Heller noted, "need not offend the conscience of the economist."[44] When the steel industry raised its prices on April 10, 1963—a conspicuous date to be sure—Kennedy and the CEA were forced to soft-pedal their anti-inflation efforts as well, also in an attempt to nail down business support for the tax cut proposal. Still refusing to sanction across-the-board price increases, the tax cut campaign forced them, however, to allow selective price increases that raised overall steel prices by approximately 1.1%.[45] These

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[41] Kennedy, "Address to Economic Club," 878.
[42] Heller, *New Dimensions*, 35.
[43] Quoted in ibid., 39.
[44] Walter W. Heller, *New Dimensions*, 22.
[45] Barber, "Purposeful Pedagogy," 188. Those who see Kennedy's economic strategy as little more than "corporate" or "managerial" liberalism also tend to misjudge the import of the New York Economic Club speech. Allen J. Matusow is one, citing this speech, rather than the less equivocal June Yale address, as the "turning point" in Kennedy's conversion to Keynesianism. See Matusow, *The Unraveling of America*, 51.

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compromises caused little alarm largely because Kennedy and Johnson both operated under the assumption that success was the best teacher, and the tax cut was judged to be the single most critical element of a successful economic strategy. It was assumed, in other words, that more secure and more extensive profits, along with fuller employment, would eventually translate into success at the polls and in the halls of Congress, and into the future acceptance of less significant but still desirable tax reform and social spending policies. Even though Heller felt compelled to rebuke the American public for its misguided "puritan ethic," out of its opposition (in 1962) to a tax cut, the cut itself was never the most difficult thing to sell. That honor, indeed, went to the deficit, and to the demand side economic strategy that Kennedy, Johnson and their economic advisers had linked inextricably to the tax cut proposal.

Because Kennedy stressed sacrifice, his own conservative prejudices, and pragmatic politics, and because he truly desired a new and genuine consensus, downplaying ideology as a result, it is too easy, perhaps, to regard him as little more than a pragmatist without a fixed ideological bearing. "His cause was not really clear," Johnson once told Doris Kearns, referring to the public perception of the martyred president's policies. "That was my job."[46] Kennedy's ideological foundation, however, shrouded in political compromise and gamesmanship as it was, remained a significant part of all that he sought and all that he accomplished. This was particularly true in the realm of economic policy. That Lyndon Johnson understood and encouraged this, made it that much easier for him to adopt and embellish the Kennedy economic strategy when thrust unexpectedly into the Oval office.

If Kennedy and Heller had to water down their liberalism to convince the business community that a Democratic president was not its natural enemy, Johnson would have to transcend this rhetorical trap. He would, quite simply, have to teach the New

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[46] Kearns, *Lyndon Johnson and the American Dream*, 178.

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Economics and the new consensus it implied to the American public, just as Kennedy tried to teach the American business community. Johnson's task, in other words, was to build upon both the economic success of the Kennedy years and upon the limited, somewhat mythical consensus that prevailed in 1963. He had to convince the American public and the American business community, once and for all, that a new consensus built on a high demand, full employment economic structure was far better than the limited one built on the "spirit of '76," laissez-faire economics, or steadfast anti-communism. That Johnson was ultimately forced to rely upon at least a skeleton of this old limited consensus—so as to transcend it—particularly the consensus that hinged upon visceral anti-communism, unfortunately proved to have tragic consequences for the new consensus.[47] Pinning its hopes upon enlightened pedagogy and an elevated political and rhetorical style, but subject to the fickle politics of the American business community—where promised long-term rewards were of only marginal significance next to the more traditional short-term inducements—the fate of the New Economics was indeed precarious and uncertain as Lyndon Johnson flew from Dallas, Texas to Washington, D.C. on the evening of November 22, 1963. He had much to build on, however, for Kennedy had plainly narrowed the gap between his administration and the business community, and the economy had been expanding since May 1961, with little inflation and both job creation and profits on the rise. "On that first night," Jack Valenti recalled, "he talked about the economy and how, above all else, he had to give it whatever sustenance the government could provide....With a robust economy, everything was possible."[48]

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[47] Though I do not subscribe here to the theory that the Great Society perished in the rice paddies of South Vietnam (for economic reasons), I do acknowledge the almost insurmountable political difficulties that the war provided, and the ease by which opponents of the Great Society and the New Economics exploited this obstacle.

[48] Valenti, *A Very Human President*, 151.

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Chapter 5.
Setting the Stage: The 1964 Tax Cut

My impression of Lyndon Johnson is that, of all the Presidents I've known since Hoover, he understood business problems better than any one of the other Presidents. And I'm including President Roosevelt, President Truman, President Eisenhower, and President Kennedy.

- Roger Blough, President, U.S. Steel

The myth persists that Federal deficits create inflation and budget surpluses prevent it....Obviously deficits are sometimes dangerous—and so are surpluses. But honest assessment plainly requires a more sophisticated view than the old and automatic cliché that deficits automatically bring inflation.

- John F. Kennedy, Yale Commencement Address, June 1962

Whisked from Parkland Hospital to Dallas' Love Field, less than an hour after President Kennedy's death, Lyndon Johnson had just entered the state room of Air Force One. "To old friends, who had never called me anything but Lyndon, I would now be Mr. President," Johnson noted. "It was a frightening, disturbing prospect."[1] For many others, the world itself had become a frightening and disturbing place; turned upside down by the untimely death of an increasingly popular President. "Kennedy's death suggested something deeper and more sinister," Gary Hart recalled. "It suggested the presence of ominous dark forces just beneath society's veneer, forces that if goaded by

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[1] Johnson, *Vantage Point*, 13.

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the threat of institutional change, could rise up to strike down anything or anyone."[2] Tom Wicker remembered the world after the Kennedy assassination as "a dark and malignant place."[3] Jack Valenti described the assassination itself as "a nightmare so unimaginable that you could not believe it, an evil so monstrous you could not contemplate it."[4]And Norman Mailer marked the disappointment that often accompanied this fear and trepidation. "For a time we felt that the country was ours," he remarked somewhat cryptically. "Now it's theirs again."[5] Prospects for the future seemed bleak, activism and reform seemed pointless, and the limits of revolutionary change seemed to be defined and underscored by the bloodstains on the First Lady's pink dress.

Along with the numbness and frustration, however, came a resolve to rise above the confusion and to effect, at the very least, a seamless transition of power. Many were responsible, friends and professional assistants alike, but this resolve was best symbolized, perhaps, by the new President himself, Lyndon Johnson. "Any false step, any sign of self-doubt, could have been disastrous," Johnson noted in his presidential memoirs. "The times cried out for leadership."[6]

Sworn in as the 36th President at approximately 2:40 pm C.S.T., Lyndon Johnson returned immediately to Washington, and made his first public address as President at Andrews Air Force base at about 6:10 pm E.S.T.

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[2] Hart, *The Good Fight*, 73-74.
[3] Tom Wicker, quoted in *The Johnson Years*, edited by Robert Hardesty, 10.
[4] Valenti, quoted in *The Johnson Years*, edited by Robert Hardesty, 18.
[5] Norman Mailer, quoted in *A Thousand Days: John F. Kennedy in the White House*, Arthur M. Schlesinger, Jr. (Boston: Houghton Mifflin, 1965), 1027.
[6] Johnson, *Vantage Point*, 18. Some, skeptical of Johnson's motives—filmmaker Oliver Stone for one—have judged this resolve and determination to be the product of Johnson's part in the assassination conspiracy. See Connally, *In History's Shadow*, 184-185 for comments on Stone's visit with Connally and his (Stone's) belief that LBJ was involved in the assassination (which Connally dismisses as phantasmagoria). Close examination of Johnson's actions on November 22, 1963, and the actions of many Johnson and Kennedy assistants (which both supported and mirrored the Vice-President's actions) on the same day, show this claim to be baseless and highly speculative at best.

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> This is a sad time for all people. We have suffered a loss that cannot be weighed. For me it is a deeply personal tragedy. I know that the world shares the sorrow that Mrs. Kennedy and her family bear. I will do my best. That is all I can do. I ask for your help—and God's.[7]

Arriving at the White House only minutes later, via presidential helicopter, Johnson spoke briefly to Defense Secretary McNamara and Undersecretary of State George Ball. He then proceeded to his second floor offices at the Executive Office Building where chief assistant Walter Jenkins was already organizing Johnson's appointment book for the first full day in office on the 23rd. Johnson continued to use his Vice-Presidential office over the next few days for he had notified Robert Kennedy that he would not use the Oval Office until Bobby had time to organize and remove his brother's papers and other materials. Likewise, he encouraged Jacquelyn Kennedy to take her time moving out of the White house living quarters; he would continue to live at his Vice-Presidential residence while she arranged the move.[8] Once ensconced at his E.O.B. office, Johnson picked up a phone and spoke to Truman, Eisenhower, and Sargent Shriver, all before 8pm, stopping only once to greet a small delegation comprised of the House and Senate leadership. At 8 o'clock, he had some soup—the first food he had eaten since breakfast that morning.

Leaving the Executive Office Building at approximately 9:30 pm, Johnson then returned to his residence where Lady Bird was busy preparing food and the Secret Service were hooking up additional phone lines. Gathering his thoughts and focusing his attention on the awesome task before him, Johnson quietly saluted Sam Rayburn's portrait in the library with a glass of orange juice, ultimately retiring to the 2nd floor sleeping quarters around midnight with Jack Valenti, Bill Moyers, and Cliff Carter in tow. There, after watching television reports of the day's events and numerous analyses

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[7] Johnson, *Vantage Point*, 17.

[8] Johnson would work out of the E.O.B. until the following Tuesday November 26, and live at "the Elms," his Vice-Presidential residence, until December 7, 1963.

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of his own political character, Johnson began talking about his plans for the next few days. Valenti, taking down only "the essence of what he was saying," filled thirty pages within an hour, and the informal strategy session continued up to about 3 am. Valenti also recalled, in spite of the intense concentration that Johnson displayed, that "there was not what one would call eagerness to greet the next day," but only "a studied appraisal of the weights and scales into which a hundred swift decisions must be fitted."[9] "Now that I have the power, I aim to use it," is how he would later sum up Johnson's thoughts on the night of November 22, 1963.[10] "That whole night," Bill Moyers added, "he[LBJ] seemed to have several chambers of his mind operating simultaneously. It was formidable, very formidable."[11]

When the next day dawned, Johnson began showing the nation just where he proposed to aim the power of the presidency. Civil rights was one target. Speaking to Georgia Senator Richard Russell that day, Johnson declared, "Dick, I love you and I owe you, but I'm going to tell you something. I'm going to run over you if you challenge me on this civil rights bill. I aim to pass this bill, Dick, only this time there is going to be no caviling, no compromising, no holding back."[12] Indeed, though Johnson's friendship with Russell was an intimate one, and though his daughters called him "uncle," by the summer of 1965 Johnson would say of Senator Russell: "Our opinions are so completely at variance we do not discuss what I regard as his extreme position on this issue."[13]

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[9] Valenti, *A Very Human President*, 9. This account of Johnson's first night as President is drawn from Valenti, *A Very Human President*, 3-10, 44-57; and Johnson, *Vantage Point*, 10-17.
[10] Valenti, quoted in *The Johnson Years*, edited by Robert Hardesty, 19.
[11] Quoted in Miller, *Lyndon*, 325.
[12] Quoted in ibid.
[13] Mark Stern, "Lyndon Johnson and Richard Russell: Institutions, Ambitions, and Civil Rights," *Presidential Studies Quarterly*, Fall 1991, 699. Stern also notes that Johnson did not attend Russell's funeral in 1971. Though Stern emphasizes Johnson's convictions on civil rights, he concludes, almost unexpectedly, by suggesting that Johnson was the "rational politician who would 'act solely in order to attain the income, prestige, and power which comes from being in office.'" He also says that he evolved from an "East Texas politician" to a "committed politician and President." Ibid.

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Just the morning before, in what amounted to his last conversation with John Kennedy, Johnson had also discussed civil rights issues with the late President. "We've got this civil rights thing whipped," Johnson told Kennedy and a small number of his advisers and assistants, "They've quit blaming Kennedy for it. They think its going to be inevitable."[14] When one assistant warned Johnson that "the presidency has only a certain amount of coinage to spend," and that he should therefore hold off on some civil rights proposals, Johnson responded tersely: "Well, what the hell's the presidency for?"[15] Indeed, over the first two weeks of his presidency Johnson met individually with civil rights leaders Roy Wilkins, Whitney M.Young, Jr., Martin Luther King, Jr., James Farmer, A. Philip Randolph, and Clarence Mitchell, and promised nothing short of an all-out effort to attain a new and comprehensive civil rights bill.

The economy was clearly the other major area of concern for the new President. Like his predecessor, he saw economic policy as the umbrella under which all other policies and concerns would be subsumed—including civil rights. Senator Russell Long recalled, for example, how Johnson deliberated on the economy on the night of Kennedy's funeral, though the emotional weight of the event bore down upon him quite heavily.[16] Joe Califano, who became Johnson's top assistant for domestic affairs in July, 1965, noted that "Johnson considered a robust, non-inflationary economy so critical to his domestic program that he spent more time on economic matters than any other subject [including Vietnam] during my years at the White House."[17] It was in no way a

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[14] Cited in Baker, *The Johnson Eclipse*, 263.
[15] Cited in Miller, *Lyndon*, 337. Johnson's appraisal of this "presidential currency" theory paralleled his appraisal of monetary policy; in both cases he believed a powerful "multiplier" to be at work , and took little stock in the "crowding out" theory.
[16] Mann, *Legacy to Power*, 217.
[17] Califano, *Triumph and Tragedy*, 75. Califano was Johnson's top domestic policy adviser from July 1965 until January 20, 1969.

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fleeting concern, confined only to election year strategy; economic policy would always occupy center stage in the Johnson presidency.[18]

Name	Term	Inst. Affiliation
Walter Heller*	January 29, 1961-November 15, 1964	Minnesota
Gardner Ackley*	August 3, 1962-February 16, 1968	Michigan
John P. Lewis	May 17, 1963-August 31,1964	Indiana
Otto Eckstein	September 2, 1964-February 1, 1966	Harvard
Arthur Okun*	November 16, 1964-January 20, 1969	Yale
James Duesenberry	February 2, 1966-June 30, 1968	Harvard
Merton Peck	February 16, 1968-January 20, 1969	Yale
Warren Smith	July1, 1968-January 20, 1969	Michigan

* Chairman

Fig. 1. The Johnson Administration Council of Economic Advisers.

When Eisenhower drove in from his Gettysburg farm on November 23, he and Johnson launched into a discussion of the nation's economy, speaking of the budget and the proposed tax cut in particular. Ike went to McGeorge Bundy's office afterward and dictated a memo to Alice Boyce on these issues, instructing Ms. Boyce—former secretary to Ike's friend General Andrew Goodpaster—to deliver it to President Johnson. The memo read, in part:

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[18] Ann Mari May's essay "Economic Myth and Economic Reality," in *The Presidency and Domestic Policies of Jimmy Carter*, edited by Herbert D. Rosenbaum and Alexej Ugrinsky (Westport, Connecticut: Greenwood Press, 1994), for example, pointed out how there have been only two occasions since WWII on which a President has not embarked upon an expansionist economic strategy during an election year: Eisenhower in 1960; and Carter in 1980. She did not generally try to distinguish, however, between an expansionist policy initiated during, and created for, the election year only, and a more continuous program of expansion that covered election and non-election years alike. (Except for the case of Ronald Reagan, where she does point out how the growth of the Reagan years was packed almost entirely into the election years 1984 and 1988.) See Ibid., 664, 658.

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> One matter of immediate and urgent impact is the possibility of a prompt tax cut. On the necessity of such an act you believe we all agree. In order to make even more firm the basis for such a cut, it will be your purpose to reduce the expenditures of fiscal year 1964—so far as may be profitable but consistent with our nation's security. It will be your further purpose to present the budget for 1965 in connection with any subsequent expenditures so that they will not exceed those of 1964 except in the case of unforeseen emergency.[19]

Before Eisenhower left, he recommended that Johnson seek out the advice of his former Secretary of the Treasury, Robert Anderson—a conservative Texas Democrat with whom Johnson was familiar. Ike had included this suggestion in his memo as well. "Because of your known competence [*sic*] in the judgement and integrity of Robert Anderson," Eisenhower wrote, "I would suggest that in the near future you send for him to confer on general subjects, and particularly those of a fiscal and financial character."[20]

At 7:40 pm Johnson met with CEA Chairman Heller who had been en route to Japan with Dean Rusk and several other Kennedy cabinet officers when the news of the assassination broke. Though Heller and Johnson would soon be preoccupied with efforts to guarantee passage of the tax cut proposal, Heller chose to brief Johnson, that evening, on Kennedy's late breaking plans for an all-out attack on poverty, plans that were distinct from, but ultimately hinged upon, the administration's macroeconomic policies designed to do much the same thing. When Heller asked Johnson if he too would give a green light to such a program, Johnson responded enthusiastically. "I'm sympathetic," Johnson replied. "Go ahead. Give it the highest priority. Push ahead full tilt."[21] Heller and Budget Director Kermit Gordon would soon find themselves cloistered at the LBJ Ranch—over the Christmas holidays—sketching out the first plans, and creating the

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[19] Quoted in Johnson, *Vantage Point*, 32. For a brief, cogent analysis of Eisenhower's balanced budget concerns see Iwan W. Morgan, "Eisenhower and the Balanced Budget," in *Reexamining the Eisenhower Presidency*, edited by Shirley Anne Warshaw (Westport,Connecticut: Greenwood Press, 1993), 121-132. Morgan says of Eisenhower: "At best Eisenhower was a passive and half-hearted Keynesian who mainly relied on automatic stabilizers—in other words, falling tax receipts and increased payouts for unemployment insurance—to counteract economic decline." Ibid., 122.
[20] Johnson, *Vantage Point*, 31.
[21] Ibid., 69-71.

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title for, Johnson's "War on Poverty." Bill Moyers and Jack Valenti also joined the two economists for the working vacation. "We're going to abolish poverty in this country," Johnson challenged the four assistants, "and I'm going to lock this door and you guys can't come out until you bring me a plan to do just that."[22] Reminiscent of the New Deal crusades Johnson had once relished, the War on Poverty struck him immediately as a fitting and indispensable challenge. "...In talking privately of the program," Washington reporter Joseph Kraft noted later, [Johnson] repeatedly cited the work of Roosevelt's Secretary of the Interior, Harold Ickes."[23]

On Sunday, November 24th, as Eisenhower had advised, Johnson met with Robert Anderson. Anderson told Johnson to dump the tax cut proposal and to cut the budget at the same time. Though Johnson saw instant merit in cutting the budget—mostly for political reasons, but also in an effort to root out waste—he was not about to heed Anderson's advice on the tax cut. Anderson's opposition to the tax cut, however, was significant in and of itself, for it revealed much about American conservatives' approach to the fiscal strategy behind it. If the tax cut did not imply a permanently diminished budget and role for the federal government, it had no place in their orthodox paradigm. When Arthur Okun warned Johnson, several years later, that Anderson held economic views at variance with his own and that he should be careful not to heed too much of his advice, Johnson's reaction brought both his relationship with Anderson, and his rejection of Anderson's advice on the tax cut, into clearer focus. To Okun's warning, which came after Johnson sought out Anderson's view on another more recent economic proposal, Johnson responded knowingly. "You're telling me he's a goddamn reactionary," Johnson began. "I know that. That's exactly why I called. I wanted to find

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[22] Quoted by Jack Valenti in Hardesty, ed., *The Johnson Years*, 20.
[23] Joseph Kraft, *Profiles in Power: A Washington Insight* (New York: New American Library, 1966), 13.

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out what the views of a sophisticated and thoughtful goddamn reactionary are and that's what I use Bob Anderson for."[24]

Before the day ended, Johnson had visited with 11 others, including Ambassador to South Vietnam Lodge who had just returned from Saigon. He also made 32 phone calls, urging a rapid upgrade of the White House phone system afterward. Evans and Novak wrote that "Johnson's capacity for work in those first few days after he became President was superhuman."[25] Joe Califano, who would eventually become Johnson's top domestic policy adviser, then working for McNamara at the Department of Defense, found out quickly that this whirlwind was not a passing thing. Like many others, the Kennedy assassination had deflated his outlook on public service in general and he told Cyrus Vance that he intended to leave government. "This town has never seen a President like Lyndon Johnson," Vance replied. "Stay around for a while. You're going to see things move."[26]

On Monday, the 25th, in an off-the-record session after President Kennedy's funeral, Johnson met with 40 of the nation's governors. Stressing the need for consensus and for an effort to "get to the root of hate," Johnson entwined his economic strategy with a call for the eradication of "poverty, disease, and illiteracy;" all problems he identified as "the roots of hate." Urging on the Republicans in the group with his call for a consensus effort on economic policies, and for the achievement of greater prosperity, Johnson told the assembly of governors that he "never questioned the capacity or the ability of any man because he belonged to a different political party."[27] Princeton historian Eric Goldman, hired as a Johnson assistant, only weeks later in December, 1963, recalled how Johnson continued to press this theme. In their very first meeting, for example, Johnson "lectured" Goldman on bipartisanship, consensus, and rising

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[24] Arthur Okun, in Hargrove and Morley, *The President and the CEA*, 271.
[25] Evans and Novak, *The Exercise of Power*, 347.
[26] Califano, *Triumph and Tragedy*, 13-14.
[27] Johnson, *Vantage Point*, 28-29.

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above too sharp divisions so as to lead the nation forward.[28] To Johnson, consensus was not just a slogan, but the key to most of the nation's past successes. "LBJ was really concerned about national unity," Goldman added, "and not just as a political ploy typical of most new entrants to the White House."[29]

Tuesday, November 26, as financial markets opened for the first time since the assassination, the Dow Jones Average soared 32.03 points—the largest single day advance up to that time (an ascent of approximately 4.3%; roughly equivalent to a 160 pt. advance in 1994). Most analysts read this as an affirmation of Johnson's prevailing reputation for conservatism; Johnson himself, however, seems to have read it as a harbinger of success for a new consensus and at least a partial affirmation of the New Economics. "Four days after assuming office," Johnson recalled, "we witnessed one of the first evidences that we were gaining the support and confidence of the American people."[30]

On the 27th, Johnson spoke to a Joint session of Congress where he emphasized his commitment to the policies of his predecessor. "No words are strong enough," Johnson noted, "to express our determination to continue the forward thrust of America that he began." Later in the address, as he alluded to Kennedy's inaugural and his reknowned "let us begin" summons to renewed governmental activism, Johnson spoke even more succinctly. "Today in this moment of new resolve," he declared, "I would say to all my fellow Americans, let us continue." He then finished by asking Congress to deliver both the tax cut and a civil rights bill. "No act of ours," Johnson added, "could more fittingly continue the work of President Kennedy than the early passage of the tax bill for which he fought all this long year....This is no time for delay. It is a time for action."[31]

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[28] Goldman, *The Tragedy of Lyndon Johnson*, 5-9.
[29] Ibid., 170.
[30] Johnson, *Vantage Point*, 40-41.
[31] *Public Papers, Lyndon Johnson, 1963-1964: I*, 8-9. According to Evans and Novak, Johnson asked Ted Sorensen and John Kenneth Galbraith to collaborate on the speech, a request to which both men

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Alluding to Johnson's pledge for genuine civil rights reform, comedian and civil rights activist Dick Gregory recalled that "as soon as Lyndon Johnson finished his speech before Congress, twenty million of us started unpacking."[32]

Renaming Cape Canaveral for President Kennedy the following day, Johnson established a precedent in his own administration by setting out to honor the late president as best he could, hoping to tap the nation's growing admiration and sympathy for the recently martyed President. This, he reasoned, would help pave the way for previously stalled Kennedy proposals that he now hoped to enact on his own. "President Kennedy fought hard for this," he would often say.[33] Indeed, over the course of the next few months, particularly with the tax cut and the civil rights bill, Johnson would invoke Kennedy's name on numerous occasions—in both public and private situations. "It was very clear," Clark Clifford recalled, "that after the assassination, President Kennedy's popularity grew all the time; he was revered in a manner after his death that perhaps didn't exist before his death."[34] While the image of the late President plainly helped Johnson overcome some of the general legislative inertia that plagued Kennedy's domestic program, Johnson realized that the economic proposals of the New Frontier, which he now believed in more strongly than ever, would require a great deal more. First and foremost in Johnson's mind when he entered office was the tax cut idea. "Sold with it all the way along," according to Joseph Barr, Johnson felt that the tax cut proposal needed more than even the soaring popularity of his martyred predecessor and that it would simply not pass without a reduced budget for FY 1965.[35]

Having received a memo from Heller on November 23, on the terms of the upcoming budget proposal, Johnson met with the CEA Chairman two days later to

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complied, and submitted it to Abe Fortas afterward who "corned it up a bit." See Evans and Novak, *The Exercise of Power*, 348.

[32] Quoted in Miller, *Lyndon*, 340.

[33] Quoted in Goldman, *The Tragedy of Lyndon Johnson*, 29.

[34] Ibid., 330.

[35] Joseph Barr, Oral History Interview, interviewed by Joe Frantz, August 25, 1969, LBJ Library, 18.

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discuss budget politics and its implications for the tax cut proposal. Agreeing with Heller that budget cuts made little economic sense, Johnson convinced him, however, that they simply had to be offered to ensure the success of the tax cut. "Tell them to lay off, Walter," Johnson beseeched Heller after Orville Freeeman and Willard Wirtz complained of his plan to reduce the budget. "I'm for them. I know they have good programs and the economy needs to have money pumped in. I want an expanding economy, too, and I'd like a budget at 108 billion dollars."[36] But conservative members of the Senate Finance Committee, Johnson informed Heller, simply made a budget over $100 billion a virtual impossibility. "Unless the budget fell below $100 billion," Johnson told his chief economist, "you won't pee one drop."[37]

Emboldened by Heller's assurance that he was taking the right approach after all, particularly after Johnson compared himself to Eisenhower who "talked economy, and then spent," Johnson tried to convince the Executive Council of the AFL-CIO, on December 4 at the White House, that the tax cut proposal should take precedence over any marginal and temporary budgetary changes. "The tax cut bill now pending in Congress," Johnson noted, "is the most massive single attack we can make on this problem [of joblessness]."[38] Repeating the persuasive rhetoric provided by Walter Heller, after Heller had become convinced of the political need for budget cuts, Johnson had little difficulty convincing George Meany and the other AFL-CIO leaders of this approach. When it became clear that budget cuts were a political necessity, that his economic advisers understood the validity of his approach, and that he could sell it to

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[36] Quoted in Evans and Novak, *The Exercise of Power*, 371. Freeman and Wirtz were Kennedy and Johnson's Secretary of Agriculture and Secretary of Labor, respectively.
[37] LBJ to Heller, quoted in Blum, *Years of Discord*, 143; and Evans and Novak, *The Exercise of Power*, 372.
[38] *Public Papers, Lyndon Johnson, 1963-1964: I*, 21. Allen J. Matusow suggested that "Heller's strenuous objections" to the budget cuts remained largely unaffected by Johnson's pleading. See Matusow, *Unraveling of America*, 56. That Heller immediately launched an effort to help Johnson explain the budget cutting exercise to liberals who would oppose it, suggests otherwise. See Heller's memo to LBJ, December 3, 1963 (in preparation for Dec. 4 meeting with AFL-CIO leaders) *Personal and OrganizationalPapers of Fred Panzer*, LBJ Library, Box 472.

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outside groups like the AFL-CIO, Johnson immersed himself in practically every detail of the budget-making process. "I studied almost every line, nearly every page," Johnson recalled, "until I was dreaming about the budget at night."[39]

To achieve substantial budget cuts, Johnson looked in several directions at once. McNamara was encouraged to continue his cost-cutting efforts in the Department of Defense, heads of all agencies were instructed to "strip work to its essentials," government use of limousines was cut by 75%, and Johnson even began a campaign to conserve electricity in the White House.[40] A number of Republicans, looking for a way to criticize a Democratic President who had seemingly stolen the "economy" issue, began badgering Johnson for having turned off the spotlights on the White House and for trying to save "pennies." This was a disgrace, they suggested, to a symbolically important national monument. Some even lampooned Johnson's efforts by ostentatiously passing the hat to help pay for the White House electric bill. "A Republican inspired campaign," Johnson remarked later that Spring, "to collect pennies to help pay the White House light bill has so far netted $1.50. That's about the way most Republican [charity] campaigns operate."[41]

While this kind of efficiency-minded campaign appealed to Johnson regardless of the prevailing political climate, and while it continued long after the passage of the tax cut, the Chairman of the Senate Finance Committee, Harry Byrd of Virginia, made it a virtual necessity during the tax cut campaign. Byrd was simply not going to allow the tax reduction bill to reach the floor of the senate without accompanying budget cuts. It

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[39] Johnson, *Vantage Point*, 35, 36.
[40] Memo from LBJ to Heads of Depts. and Agencies, "Administrative History of the General Services Administration," Vol. I, Part II, Box 1, LBJ Library, 496. See also Johnson's "Letter to Defense Contractors On the Need for Cost Reduction," in *Public Papers, Lyndon Johnson, 1963-1964: I*, December 1, 1963, 16; and Harvey C. Mansfield, Sr., *Illustrations of Presidential Management: Johnson's Cost Reduction and Tax Increase Campaigns* (Austin: LBJ School of Public Affairs and the University of Texas, 1988), 9-10. Among other things, Mansfield points out how Johnson aimed to reduce the White House electric bill from $5000/month to $3000/month.
[41] Quoted in Bill Adler, *The Johnson Humor* (New York: Simon and Schuster, 1965), 84.

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was of little consequence to him that the U.S. Chamber of Commerce, the National Planning Association, and the Committee for Economic Development—all fairly conservative, business oriented groups—had already endorsed the tax cut idea. To Byrd, and undoubtedly to many of their members as well, these groups had really only endorsed the tax cut itself and not the deficit finance, production gap economics that Kennedy, Johnson and the CEA had attached to it.[42] It was this extra baggage, rather than the notion of cutting taxes, that made Byrd and many other conservatives resolute opponents.

Knowing that some cuts were certainly feasible, Johnson told his CEA that they "might be able to sell me on the New Economics, but not Harry Byrd," and immediately went to work on the senior senator from Virginia, a man known by many to be the most conservative member of the Senate from either party.[43] On December 5, 1963, he invited Byrd to the White House for lunch and a one-on-one conversation. After hearing Johnson's pitch, Byrd still opposed the tax cut but he also agreed to release it to the Senate floor if the budget for FY 1965 came in at under $100 billion. Anything at or over that figure, Byrd maintained, and the tax reduction bill was sure to remain bottled up in his all important committee. "Get Kermit Gordon (Budget Director and former

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[42] See the papers of the National Association of Manufacturers, Series I, Box 97, Box 215, Hagley Library, for testimony favoring tax cut legislation in a more conservative, revenue-neutral setting (the Sadlak-Herlong and Herlong-Baker bills of the late 1950s and early 1960s in particular). While it is true that a small number of business leaders, prodded somewhat by the professional economists who advised them, began to subscribe to *selective* Keynesian economic principles, and therefore professed to accept a tax cut and a deficit, they seldom digested the whole of Keynes, nor were they ever able to bring the bulk of their corporate associates around to anything more than a pure and simple tax cut. See Collins, *The Business Response to Keynes* for a cogent and illuminating view of this progressive business leadership and a study that credits business groups with a greater impact. "At the very least," Collins says, "the development of a sophisticated Keynesianism by even a relatively small segment of American business in the years immediately after World War II calls into question the common belief that the New Economics was somehow imposed on a reluctant business community by antibusiness liberals." Ibid., 142. I contend that it *was* largely imposed, though by liberals who were in no way *antibusiness*. (It is perhaps significant that Collins ended his study in 1964 with the passage of the tax cut, thereby ignoring the eventual unfolding of an economic strategy, in the 1964-1969 period, that would confound his claims for an unbroken, only slightly altered business hegemony.)

[43] Johnson, *Vantage Point*, 36.

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CEA member), in here," Johnson told Jack Valenti once he had Byrd's promise. He and Budget Director Gordon, Johnson figured, ought to be able to find enough budget cuts to satisfy Harry Byrd, even enough to bring the whole package in at under $100 billion.[44] As soon as Gordon showed up, the two men launched a laborious line-by-line effort to find additional cuts and to resume the cost-saving plans already set in motion.[45] Within a few days, the task would be relatively complete, and Johnson would attain a budget that was low enough to safeguard the tax cut bill from the chairman of the Senate Finance Committee.

Though budget gimmicks played a significant role in this attempt to satisfy Harry Byrd—a rational response in light of Johnson's desire to pump *more* money into the economy and his fundamental disagreement with Byrd's economic philosophy —much of the savings he and Gordon effected were real and substantive.[46] Insisting on a "dollar's worth for a dollar spent," Johnson made a genuine effort to cut *wasteful* spending even if he still believed in the need for *greater* spending in a number of key areas.[47] In the Department of Defense, for example, McNamara and Johnson agreed to close 26 bases in 14 states, and 7 overseas bases as well. Civilian employment in the DoD was also reduced to approximately 997,000—the first time it had been reduced to under one million since the Korean War.

Many of these cost-cutting measures, of course, were already planned before Johnson and Harry Byrd had hatched any agreement. Byrd's compromise on the tax cut, however, impelled them further and faster. The General Services Administration realized several million dollars in additional savings, as well, mostly by switching the

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[44] The initial budget outline for FY 1965, submitted earlier by President Kennedy, called for expenditures of approximately $102 billion.
[45] Valenti, *A Very Human President*, 197.
[46] Some of the "gimmicks" utilized by Johnson were the use of seignorage profits (by switching from a silver to a sandwich currency), and the use of participation certificates (loan financing) over direct outlays.
[47] Johnson used this phrase in his January 8, 1964 "State of the Union" address. See *Public Papers, Lyndon Johnson, 1963-1964: I*, 112-118.

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sites of government office buildings to government owned land. While this paled in comparison to the several billion dollars saved at the DoD, it proved to be even more substantial over the next few years. Moreover, following the lead of McNamara at Defense, all agencies and departments began to realize substantial savings (several billion dollars in the aggregate) through large volume buying, new supply standards, transfers of excess real and personal property, and even by switching to a new size envelope ($300,000 in savings over the 1964-1968 period).[48] Because Johnson was more interested in trimming waste from the budget than in reducing the total level of federal outlays (which he believed had to grow over the next few years), even small cuts were deemed important, and they were pursued with great vigor. "I've never seen anyone," Joseph Barr insisted, "who was better with the budget process, who understood it more thoroughly than President Johnson."[49]

When Johnson and Gordon wrapped up their surgery on the 1965 budget, they had surpassed even Harry Byrd's expectations. On January 8, 1964, in his first State of the Union address, Johnson unveiled their handiwork. Watching her husband deliver the address, Lady Bird Johnson noted that she searched for Harry Byrd "every time the word 'budget' was mentioned..."[50] But even the archconservative Finance Committee chairman was pleased, despite Mrs. Johnson's anxiety. With expenditures set at $97.9 billion, the budget for FY 1965 met with Byrd's approval, paved the way for the tax cut, and even represented a decrease from the previous year's outlays (of $98.4 billion). At the time of writing, this was the last budget to accomplish such a reduction, yet it also included small increases for health, labor, education, space research and technology, and welfare, and entirely new outlays for the "War on Poverty."

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[48] "Administrative History of the General Services Administration," Vol. I, Part II, Box 1, LBJ Library, 531.
[49] Barr, Oral History, LBJ Library, 29.
[50] Lady Bird Johnson, *A White House Diary* (New York: Holt, Rhinehart, and Winston, 1970), 35.

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"But it is not a standstill budget," Johnson announced as he presented it to Congress and the American public, "for America cannot afford to stand still. Our population is growing. Our economy is more complex. Our people's needs are expanding."[51] Indeed, this budget and the tax cut that it enabled, were only the first, and certainly not the final, steps of an economic revolution envisioned by Johnson and his economic advisers. "I've got a surprise for you Harry," Johnson announced later that month when the budget was made official, "I've got the damn thing down under $100 billion...way under. It's only $97.9 billion. Now you can tell all your friends that you forced the President of the United States to reduce the budget before you let him have his tax cut."[52]

As he had promised, Byrd allowed the tax cut bill to reach the floor of the Senate, and told Johnson that "I'm going to have to vote against the bill, but I'll be working for you behind the scenes."[53] Despite Byrd's assistance it fell into jeopardy once more in the Senate Finance Committee. Trouble began there when Russell Long of Louisiana introduced a surprise amendment repealing excise taxes on a variety of luxury items. Long's amendment, introduced on January 23, threatened a potential avalanche of other special amendments that would surely unbalance the final bill. Richard Goodwin called it "an augury of disaster."[54] Tipped off by a phone call from Senator Smathers of Florida, also a member of the Senate Finance Committee, Johnson quickly organized an effort to save the bill from the barrage of amendments. He immediately dispatched Henry Fowler and Joseph Barr, newly sworn in as Undersecretary of the Treasury and FDIC Chairman just that morning, to Capitol Hill to straighten things out.[55] Within hours he spoke on the phone to most of the seventeen members of the Finance

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[51] *Public Papers, Lyndon Johnson, 1963-1964: I*, 112-118.

[52] Quoted in Richard Goodwin, *Remembering America: A Voice From the Sixties* (Boston: Little, Brown and Co., 1988), 262. Though LBJ introduced the budget proposals during his "state of the union" address—the first of its kind to focus on *domestic* issues since WWII, according to Eric Goldman—the *official* budget message was not delivered until January 20, 1964.

[53] Quoted in Evans and Novak, *The Exercise of Power*, 375.

[54] Goodwin, *Remembering America*, 262.

[55] Barr, Oral History, LBJ Library, 20.

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Committee. When Johnson spoke to committee member Vance Hartke of Indiana, for example, Hartke explained that his attempt to eliminate the excise tax on musical instruments was particularly dear to the good folks from the Hoosier state, and that he would have a difficult time backtracking. "What's important," Johnson replied, "is the big credit to the Democratic party. The goddamned band and musical instruments, they won't be talking about them next November. They're going to be judging us by whether we can pass a tax bill or not, and whether we got prosperity." When Johnson spoke to Abraham Ribicoff of Connecticut, Ribicoff said that he would like to help, but that one of the amendments, "something for my home state," had already been announced. "I know it," Johnson replied. "But it's the same for everyone....You save my face this afternoon, and I'll save your face tommorow."

Using a similar approach with nearly all 17 members, and organizing a motion to eliminate all excise tax repealers, Johnson appealed to Chairman Byrd last of all. "Listen Harry, they're going to offer a motion this afternoon to take all these excise repealers out. I hope you can help them, because it will throw everything out of caboodle if we lose 450 million on this thing." To Johnson's relief, The Finance Committee convened again in the afternoon, and voted 9-8 to expunge all of the excise tax cuts they had introduced that morning. By doing so, the committee avoided a vote on any one repealer, saved face, and narrowly averted a derailment of the general tax cut bill at the same time.[56] To further speed things along at this point, Johnson called "startled officials" from the Government Printing Office and told them to expect the Finance Committee report, after which he phoned chief Finance Committee clerk, Elizabeth Springer, to tell her that the GPO was "on alert waiting for the manuscript of

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[56] Quoted in Goodwin, *Remembering America*, 262-265. Goodwin recounts on these pages a more detailed and complete version of this episode.

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the report." No President, Evans and Novak remarked, had ever been "quite so familiar with the minutiae of the legislative process."[57]

When it reached the senate floor, Johnson convinced Byrd to let Russell Long act as the bill's floor manager, despite Long's previous role in the excise tax amendment fiasco. "Like a kid who has gone fishing for the first time and caught a whale," was Long's response to the assignment.[58] Even though he was the Finance Committee member who first threatened the bill's existence in committee, Long was a logical choice to carry the ball on the senate floor, for Johnson surmised, correctly, that he would not be as willing to allow a command performance. "In the senate everybody was his own boss and, my lord, it was the awfulest thing, Joseph Barr once observed. "You got to the floor of the senate and every law firm in town would rush through their files and drag out every specious argument that they had ever heard of....you just fought off one cruddy amendment after another."[59] Indeed, when debate began on February 3, Senator Albert Gore succeeded in passing an amendment to the tax cut bill (increasing the tax on income earned by Americans living abroad) that threatened to reopen Pandora's box. On February 4, however, with Long leading the way, one amendment after another was rejected, and the bill emerged very much as it was presented by the administration. This was deemed to be particularly crucial since the administration's version of the bill had already undergone a series of changes, most of them adopted to appease conservative opponents.[60] Long's leadership was so effective, and so exasperating to opponents of the tax cut, that William Proxmire, one such opponent, suggested that if Long were to defend a man who murdered a "crippled, enfeebled

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[57] Evans and Novak, *The Exercise of Power*, 374.
[58] Quoted in Mann, *Legacy to Power*, 218.
[59] Joseph Barr, quoted in *Among Friends of LBJ*, October 1987, 12.
[60] Accompanying tax reform, as previously mentioned, had already been dropped by the Kennedy administration; the lowest bracket under the new bill (14%) was changed to affect only the first $500 instead of the first $1000 as planned; and the top corporate rate cut to 48% instead of the 49% originally planned (22% regular rate plus a 26% surcharge for income over $25,000).

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orphan at high noon on the public square in plain view of a thousand people" the man would be found innocent and awarded one million dollars on the grounds that he was provoked.[61]

When the final vote was taken, the Revenue Act of 1964, now known as the Kennedy-Johnson tax cut, passed the senate 71-21, and Johnson signed it into law on February 26, 1964.[62] In remarks broadcast on TV and radio, Johnson called it "the single most important step that we have taken to strengthen our economy since World War II."[63] He and Lady Bird then went directly to 3017 N Street N.W. where they presented pens to Jacquelyn, Caroline, and John Kennedy, Jr.

The passage of the tax bill accomplished three things at once. First of all, when the regular withholding rate was changed from 18% to 14% in March 1964, the take-home pay of millions of Americans increased immediately, igniting a real surge in the nation's economy.[64] While the full two-stage corporate tax cut (from 52% to 50% to 48%) would not be realized until January 1, 1965, and while the reduction of personal tax rates (from a range of 20-90% to a range of 14-70%) would also come in two stages (retroactive to January 1, 1964 and January 1, 1965), the change in the withholding rate would have an immediate and profound impact.[65] In fact, the estimated total reduced withholding for

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[61] Ibid., 219-221.

[62] It passed in the House on September 25, 1963 by a vote of 271-155, mostly along party lines (Democrats for; Republicans against), and in the Senate on February 7, before going to the House-Senate conference, by 77-23.

[63] *Public Papers, Lyndon Johnson, 1963-1964: I*, 311.

[64] Though the lower withholding rate was originally designed to be instituted in a two-step process, from 18 to 15 to 14 % by Jan. 1, 1965, Johnson urged Sen. Byrd to forego this in favor of a single-step reduction, from 18 to 14%, so as to compensate for the delay in the enactment of the bill itself. See "Letter to Senator Byrd Urging Further Reduction in Tax Withholding Rate," January 9, 1964 in *Public Papers, Lyndon Johnson, 1963-1964: I*, 118-119.

[65] See "What the Tax Bill Will Do," *Time*, February 28, 1964, 21, for a brief, but nicely detailed summary of the Revenue Act of 1964. Other significant provisions: A new standard deduction ($300 for the short form plus $100/dependant instead of the old 10% of gross income which remains an option); the maximum deduction for child care expenses was raised from $600 to $900; large capital losses can now be carried forward indefinitely, as opposed to the old 5 year maximum; dividend credits against taxable income were doubled from $50 for a single tax payer and $100 for a married couple to $100 and $200 respectively; and stock options granted employees may no longer be priced below market value, they

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1964, of $8 billion, exceeded the overall first year reduction in personal income tax liabilities by approximately $1.3 billion.[66] This was earliest and perhaps the most obvious impact of the Kennedy-Johnson tax cut.

Secondly, it convinced Johnson, as its economic impact began to be measured and evaluated, that his inclination to rely heavily upon Walter Heller, the CEA, and his other economic advisers, had been a mark of shrewd and perceptive statesmanship. His relationship with these advisers would continue to flourish as a result. "LBJ encouraged us to keep sending him a maximum amount of information on economic questions," CEA member Gardner Ackley recalled. "We often sent him three or four a day, certainly fifteen a week, on the average, maybe twelve at the minimum."[67] "Over 300 economic memoranda went to President Kennedy in the thousand days of his presidency," Walter Heller remarked in 1966, "and the volume has risen under President Johnson."[68] Johnson also became much more outspoken about his growing faith in, and reliance upon, his economic advisers. At the induction of James Deusenberry to the CEA, for example, Johnson declared: "Dr Deusenberry, as we all know, is one of the nation's leading economists. When I was growing up, that didn't seem to mean very much, but since I grew up we have learned the error of our ways."[69]

Last of all, the *political* success of the bill—though derived from a number of disparate sources—convinced these economic advisers that President Johnson was a political leader they could count on to deliver reforms and policy changes fundamental to the liberalism of the New Economics. A year after the tax cut had been implemented James Tobin declared:

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must be exercised within 5 years instead of the old 10 year limit, and they must be held 3 years or more, instead of the old 6 month minimum, to qualify any profits for the lower capital gains tax rate.

66 Arthur Okun, "Measuring the Impact of the 1964 Tax Cut," in Walter Heller, ed., *Perspectives on Economic Growth* (New York: Random House, 1968), 30.

67 Gardner Ackley, quoted in Hargrove and Morley, editors, *The President and the CEA*, 227.

68 Heller, *New Dimensions of Political Economy*, 29.

69 Quoted in Heller, *New Dimensions of Political Economy*, 3. Deusenberry was sworn in as a member of the CEA on February 2, 1966.

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> Liberals should give credit where it is due...at long last a planned deficit is accepted to gain economic strength. satisfaction with this victory should not, I think, be appreciably dimmed by the evident fact that tax reduction has been supported for a mixture of motives and justified by a variety of arguments. There is not a Keynesian majority in Congress, and conscious deficit financing is still not respectable. But actions speak louder than words. The country and the Congress accepted the view of Presidents Kennedy and Johnson that the economic pump needed priming, and that a tax cut was the way to prime it.[70]

To his economic advisers, both in and outside of the administration, Johnson was virtually unsurpassed in the ability to achieve a fragile consensus based on the highest, rather than the lowest, common denominator. That the tax bill emerged almost wholly intact and void of any cumbersome amendments or crippling compromises was ample evidence of this. More and more confident that Johnson shared their basic beliefs and economic philosophy, and that he knew how to translate them into effective legislation, these advisers were now more willing than ever to provide him with the "quick and dirty" formulations he so often desired.[71]

That the tax cut spawned the ensuing prosperity of the mid to late 1960s is certainly a debatable point. To suppose that it worked, solely because the cut was followed by a period of burgeoning prosperity, relies on a *post hoc, propter hoc* form of logic, for example, that should invite considerable skepticism. Indeed, when Arthur Okun set out to measure the impact of the tax cut in 1965, this was one of the first conclusions he rejected.[72] While the nation's GNP rose 6.5% in 1964, and the unemployment rate dropped from 5.5% to 5.0% over the same period, and while this conformed almost perfectly to the forecasts of the CEA, this was not, in and of itself, undeniable proof of the tax cut at work.

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[70] James Tobin, "The Tax-cut Harvest," in Arthur M. Okun, ed., *The Battle Against Unemployment* (New York: W. W. Norton, 1965), 153.

[71] Arthur Okun once noted that "the ability to do quick and dirty" was an important prerequisite for CEA staff members (one could not take a week, for instance, to formulate a memo). See Okun's comments in Hargrove and Morley, eds., *The President and the CEA*, 282.

[72] Okun, "Measuring the Impact of the 1964 Tax Reduction," 28-29.

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While Okun eventually concluded that the tax cut had considerable positive impact, others ignored (though never refuted) Okun's calculations and carried their skepticism much further. Fashioning what has become the orthodox analysis of both the tax cut *and* the New Economics, some of these skeptics suggested that the post-tax cut expansion, as well as the improved jobs picture that accompanied it, had little, if anything at all, to do with the Kennedy-Johnson tax cut. The tax cut, they argued, while significant politically, was largely an irrelevant economic policy change.

Allen J. Matusow—following the lead of Milton Friedman—was one such critic.[73] This new found prosperity was necessarily a fleeting one, Matusow claimed, and had little to do with the tax cut, for it was based not on the simple expansion of aggregate demand, as Johnson, Heller, Okun and others claimed, but on the accompanying (and preceding) expansion of the nation's money supply instead. "If despite that effect [the tax cut], interest rates didn't go up," Friedman once asserted, "monetary policy must have been doing something."[74]

Constructed, then, on what Friedman called a "money illusion," where workers and consumers, indeed, had more money to spend, this prosperity was destined to vanish, however, when these workers and consumers "woke up" to see accelerating inflation offset the positive effects of the added money. This inflation was produced, of course—in the Matusow-Friedman scheme of things—by the increased number of dollars that had been pumped into the economy. Produced by deliberate Federal Reserve action, these dollars presumably chased after a more static supply of goods, thus introducing

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[73] Herb Stein, one-time CEA chairman under Richard Nixon, is another who posits this analysis. Furthermore, his 1984 publication *Presidential Economics*, where one will find his analysis, remains a popular and frequently assigned or cited work on the general subject suggested by the title.
[74] Milton Friedman, quoted in Friedman and Walter W. Heller, *Monetary Policy vs. Fiscal Policy: A Dialogue*, the 7th annual Arthur K. Saloman Lecture, the Graduate School of Business Administration, New York University, Nov. 14, 1968 (New York: W.W. Norton, 1969), 56. Friedman, the 1976 recipient of the Nobel Prize for Economics, said when informed of the award, that he was "delighted" but would not have chosen "the particular seven people who make these awards as the jury to which I would want to submit my scientific work," and added when accepting it that it did not represent "the pinnacle of my career." Quoted in Rowen, *Self-Inflicted Wounds*, 390n.

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price inflation, and as Matusow put it, letting the "genie out of the bottle."[75] Market forces, in other words, insured that this monetary action produced positive short-term effects, but medium and long-term effects as well that were at best irrelevant, and at worst destructive. When the "money illusion" dissolved, unemployment returned, and it returned with a vengeance, bringing with it both a higher level of inflation and the means by which the New Economics would allegedly self-destruct.[76] "The resurgence of neo-classical pre-Keynesian macroeconomics in the guise of monetarism," one economist noted in the early 1980s, "can be linked in part with the increased rates of inflation in capitalist economies from the 1960s onward."[77]

Implicit in Matusow's and Friedman's critique of the Kennedy-Johnson tax cut, was an additional, more general critique of the New Economics that came to the fore after Johnson had departed the White House and the New Economists had been given their

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[75] Matusow, *The Unraveling of America*, 159.
[76] Ibid., 53-54. Matusow also posited an additional criticism that is largely irrelevant, but thrown in anyway to emphasize the hopelessness of the Keynesian strategy he purports to analyze. If the Fed does not allow an increase in money supply (which it did), Matusow contended, then additional federal borrowing would be necessary to finance the tax cut, borrowing that would only absorb private money that would otherwise be spent or loaned out (this is what Friedman was referring to when he said "if interest rates didn't go up..."). Even though this is not the case (a major part of Keynes' work served to explain why these funds would often lay idle instead), Johnson's advisers *were* aware of potential financial bottlenecks (though they saw less of a "crowding out" effect, as Matusow and Friedman did, than an unnecessarily expensive but temporary skirmish for loanable funds), and chose to encourage the expansion of money supply instead. Matsow also suggests that one-time CEA member James Tobin was particularly concerned about this "crowding out" effect, (p. 52) and that, in large measure, he left the CEA because of differences with administration strategy (Matusow has Tobin counseling a budget surplus in 1962). In reality, Tobin was concerned about investment (as Heller, Kennedy and Johnson were), but was also investigating issues Keynes had raised in his 1930 publication, *Treatise on Money*, that showed how aggregate investment decisions could be substantially independent of prior aggregate saving. Followed by Alan Blinder, Benjamin Friedman and others, who showed that the increasing velocity of money enabled the financial system to create as much credit as it needed, Tobin was hardly endorsing the "crowding out" thesis. See the British government's 1959 *Radcliffe Committee Report* for an early analysis of the potential for change in the velocity of money, and Gary Dymski and Robert Pollin, "Introduction," in Dymski and Pollin, editors, *New Perspectives in Monetary Macroeconomics: Explorations in the Tradition of Hyman Minsky* (Ann Arbor: University of Michigan Press, 1994), 5-7, for this analysis of Keynes, Tobin, Blinder, et al. From 1960 to 1989 the velocity of money rose from 3.67 to 6.64 (where, in the latter case, each dollar of currency and transaction accounts produced $6.64 of GNP).
[77] Malcolm C. Sawyer, with Sam Aaronovitch and Peter Samson, *Business Pricing and Inflation* (New York: St. Martin's Press, 1983), 3.

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walking papers. While this analysis of the Kennedy-Johnson economic regime was even less rigorous and more politically oriented than the monetarist critique of the tax cut, it was also infinitely more compelling. Tapping the nation's most resonant political mythology, Friedman and his followers created a counter-revolutionary critique of Keynesian political economics built upon but easily outdistancing their more limited and abstruse critique of the 1964 tax cut. To Friedman and his followers, Kennedy, Johnson, and their economic advisers had erred in thinking that an activist government could, through its own devices, create full employment without inflation. Because there existed a "natural rate of unemployment," according to Friedman, beyond which an economy could not be driven without triggering a case of counter-productive inflation, the Kennedy and Johnson administrations were simply wrong to assume that they could ignore or remove this barrier.[78]

Friedman also contended that the Kennedy-Johnson strategy implied an added threat, for their approach ordained an increasingly large role for the federal government, both in terms of economic regulation (derisively called "fine tuning") and government spending. As revenues increased under this strategy, for example, presumably out of the artificial money-driven expansion, and if the government remained true to its Keynesian countercyclical strategy, a situation would naturally arise, then, where this government had to spend more, and therefore grow larger, simply to avoid economic contraction. As a threat to basic democratic liberties and an inefficient, wasteful way to conduct the nation's economic affairs, this strategy was, to Friedman, both misguided and harmful. To Friedman basic democratic liberties and laissez-faire economics were inseparable, and government exhibited a natural tendency to be captured by special interests and a wasteful, parasitic bureaucracy. Built upon the mistaken assumptions that the Johnson administration sought spending increases alone (and not additional tax cuts as well) and

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[78] See footnote #1 in chapter 6.

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that government is inherently less efficient than the private sector, these views practically define the current American political economy; since Lyndon Johnson left the White House, they have seldom even been questioned.

As much as Friedman and his followers were correct about the unusually rapid increase in the nation's money supply during the 1960s, and as much as he seemed to prophesy events that really took place in the 1970s (rising inflation and stagflation), their critique of the 1964 tax cut and the New Economics suffered from the same *post hoc propter hoc* logic Okun rejected when he analyzed the tax cut. On an even more significant level—at its most critical points—this critique also suffered from a variety of profound conceptual errors.

On the issue of money supply and the "money illusion," for example, Friedman drew upon two assumptions that clashed quite clearly with historical reality. He assumed, first of all, that the nation's stock of money was determined only from the supply side, that is through the actions of the Federal Reserve—actions that also determined final demand, and in turn, the prices of a stable supply of goods and services. Friedman and his followers, however, had it backwards. Though the powers of the Federal Reserve board are quite substantial, it was not, and is not, the only mechanism by which the nation's money supply is changed. "Money does not enter the system like manna from heaven—or from the sky via Milton Friedman's helicopter," one economist noted. "Nor is it simply the creature of the centra bank's policies."[79] Throughout the 1960s, for example, private banks, and many non-bank corporations as well, acted to increase the nation's supply of money without prodding from the Federal Reserve bank.[80] Moreover, they did this largely *in response to*, rather than as a way of creating, the increased demand for and the profitable production of new goods and

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[79] B. Moore, quoted in Sawyer, *Business Pricing and Inflation*, 9.
[80] This became quite noticeable in 1965, when in spite of a less expansive monetary *policy*, exceptionally strong business demand for credit caused money supply to advance faster than it had in 1964. See *Administrative History of the Federal Reserve System*, Volume I, Box 1, LBJ Library, 32.

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services. Commercial bank participation in Eurodollar, commercial paper, and municipal securities markets, in addition to the non-bank use of various forms of trade credit and flexible liability management, all played a role in the vast expansion of money supply in the late 1960s.[81] As Walter Heller once pointed out, that is why with M1 rising 6%, and M2 rising 12%, both in 1967, there was still a sharp increase in interest rates (as corporations strove to build up liquidity cushions).[82] Money supply raced ahead in 1967 as corporations geared up for a renewed flurry of production, but inflation ebbed and prices rose less fast than they had in the previous year.

Recognizing only a stable, historical relationship between money supply and inflation, when real output remained relatively constant, Friedman ignored both the special circumstances of this relationship, and the capitalistic nature of the nation's credit markets.[83] Expansion of the nation's money supply had, in the past, a direct and predictable effect on inflation, largely because it had always followed periods of money-limited deflation, and because changes in the velocity of money (the relative willingness or unwillingness to hold money balances) remained either very stable (during the most commonly exhibited periods of deliberate demand suppression) or very predictable

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[81] See Leonard Rapping, "The Domestic and International Aspects of Structural Inflation," in James H. Gapinski and Charles E. Rockwood, editors, *Essays in Post-Keynesian Inflation* (Cambridge: Harvard University Press, 1979), 36-37, and Antonio Kandir, *The Dynamics of Inflation: An Analysis of the Relations Between Inflation, Public Sector Financial Fragility, Expectations and Profit Margins* (South Bend, Indiana: University of Notre Dame Press, 1991), 30, for an extended analysis of this phenomenon.

[82] Walter W. Heller, quoted in Friedman and Heller, *Monetary vs. Fiscal Policy*, 21. It is also worth noting that the GNP price deflator for 1967 was *smaller* than it was in 1966, though 1967 is plainly the year of "easier money," a point emphasized by Kenneth Boulding in his essay, "Inflation as a Process in Human Learning," in Gapinski and Rockwood, editors, *Essays in Post-Keynesian Inflation*, 16. (1966 M1: +2.5%, 1966 M2: +5.5%) M1= demand deposits plus currency in circulation; M2= M1+ savings accounts, money market funds, and dollar balances abroad.

[83] See Friedman's comments in Friedman and Heller, *Monetary vs. Fiscal Policy*, 59, where he claims that you can get a better picture of price behavior during the Civil War, World War I, and World War II by looking at money supply, not fiscal policy. See also Boulding, "Inflation as a Process in Human Learning," 24, for a alternate view of the relationship between money supply and inflation (Boulding points out that there is a very direct relationship between M1 and the Consumer Price Index *until the mid 1960s* when the CPI begins to lag behind M1. Boulding holds this to be surprising evidence that there may have been a drop in the velocity of circulation; I hold it to imply, instead, that demand led growth, coupled with a fairly effective incomes policy—discussed in Chapter 6, unhinged this relationship for the first time in U.S. history).

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(during those wartime periods of obvious demand expansion). Post World War II economic policies, however, had effectively uncoupled the deflation-inflation relationship by removing the deflationary precursor, and effective countercyclical economic policies, led primarily by the New Economists of the 1960s, made the willingness to hold or spend money more a product of speculative investment decisions than of deliberate government action.[84] That this outcome was too ironic, or at least too surprising, to the nation's economic orthodoxy, helps to explain, perhaps, why it was not clearly apprehended. What this ensured, nonetheless, was that the creation of money, created by central bankers and commercial lenders and investors alike, would have less of an impact on price, and more of an impact on quantity (as a prerequisite for the production of new goods and services) than ever previously witnessed.[85] The "quantity theory of money" which suggested that only *prices* would be affected by changes in money supply, was one of the basic premises of classical economics undermined by both Keynes's theories and the empirical results of the New Economics. As James Tobin

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[84] The nature of money velocity did, however, begin to revert to the older pattern somewhat as Vietnam spending became a more significant economic factor. I contend that it was this transformation, rather than the increase in the absolute level of demand induced by the Vietnamese War, that makes a real and significant economic impact. Guns *and* Butter were possible without significant or accelerating inflation, as long as this transformation, and its impact on corporate pricing and investment, were properly ascertained and regulated.

[85] Friedman's conception, often referred to as the "quantity theory of money and prices" does make eminent good sense, of course, when describing a period of hyperinflation and predictable change in the velocity of money. The German inflations of 1923 and 1947, still considered by many to be the classic models for government led inflation crises, are good examples of this. In 1923, when the government financing of passive resistance to French occupation of the Ruhr valley signalled a clear intent to impose no limits on deficit financing, money velocity increased quite predictably, and hyperinflation emerged. In 1947, when the scarcity of some products, the hoarding of others, government rationing, and government reformulation signalled a temporary hiatus from any rational, permanent economic system, money velocity slowed also quite predictably, and hyperinflation emerged. See Otto Pfeiderer, "Two Types of Inflation, Two Types of Currency Reform: The German Currency Miracles of 1923 and 1948," *Zeitschrift fur die Gesamte Staatswissenschaft*, September 1979, 353-363. See also Richard H. Day and Wayne Shafer, "Keynesian Chaos," in Jess Benhabib, ed., *Cycles and Chaos in Economic Equilibrium* (Princeton: Princeton University Press, 1992), 340, where the authors point out how interest rates are shown to depend "not on some kind of government interference, but on precisely the non-linear properties economists have thought were intrinsic to the demand for money and investment goods." In addition to supporting the notion that money supply is demand driven, thereby exerting demand related effects on interest rates, Day and Shafer also imply that the absence of consistent, high demand alone introduces chaotic instability exaggerated by the mere passage of time.

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noted, "Keynes himself would suggest that both prices and output would rise" with a theoretical increase in dollar spending. In a deep recession the adjustment would fall more upon output; in a tight economy with no reservoirs of idle labor or productive capacity, it would fall more readily upon price. These two scenarios, however, as Tobin also noted, are "special cases of the genuine Keynesian prediction, which stemmed, after all, from a 'general' theory."[86] When Kennedy asked Walter Heller to study European growth rates of the 1950s, to find out why they were increasing faster than those in the U.S., Heller came to the same conclusion. More money did not chase fewer goods in the 1960s, but chased, instead, an ever increasing supply, much of it sparked by the decade's consistent rise in demand.[87]

With respect to Friedman's "natural rate of employment," hypothesis, part of the attack on the New Economics that came largely *after* the Johnson presidency, one only has to look back at the years of the Great Depression to see that it is a neatly packaged, logically ordered theory that describes, nonetheless, little more than an imagined scenario. This hypothesis reiterates the misleading suggestion that expanding demand can only push on a relatively finite supply of goods and services (thereby causing inflation above a specified level), and cannot independently influence the growth of that

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[86] Tobin, "Keynesian Economics and its Renaissance," 114, 115.

[87] For the period 1964: I to 1969: IV, industrial production increased *39.6%* while money supply increased *32.5%*. Source: Board of Governors, Federal Reserve System, *Federal Reserve Bulletin*, various issues. Money was significant to the New Economics, despite rumors to the contrary. Kennedy, Johnson, Heller, et al simply came to see it as it was—more a lubricant for the economy than the engine driving it. Recognizing that its availability in too large quantities could exacerbate dangerous tendencies on the *supply side* (when capital investment booms fed on themselves, for example), the Johnson administration, in 1968, even recommended *greater* powers for the Federal Reserve (and closer coordination between the Fed and the White House). Where Friedman was right, then, to Johnson and his advisers, his way of thinking implied greater, rather than less, government intervention, continuing the trend established since the creation of the Federal Reserve system in 1913 (including the 1935 assumption of exclusive control over the open market trade of federal government securities, and the 1951 Fed-Treasury accord whereby the Fed discontinued its role as a guarantor of low interest borrowing for the federal government). See Friedman, *Capitalism and Freedom* (Chicago: University of Chicago Press, 1962), 51-55, where he discusses "Rules instead of Authorities." This is his classic explanation of how money supply should be manipulated, an explanation that truly ignores the capitalistic nature of the banking system and the way money is actually created.

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supply. It also suggests, however, that the only way to reduce unemployment without inflation is for hiring firms to realize a decrease in real wage costs. Presumably, this would improve the employment picture without a corresponding diminution of buying power because profit-maximizing firms would then decrease their prices as their labor costs dropped and their profits rose. A.C. Pigou used a form of this argument to counter Keynes' claim in the 1930s that real wage cuts would only reduce consumption, income, and demand, thereby offsetting any positive impact of the increased demand for cheaper labor.

Empirical evidence from the 1930s, however, suggests that Friedman and Pigou imagined a market pricing mechanism that did not usually exist. While prices fell in1932 and 1933, for example, they rose quite precipitously in 1934, and did not fall for the rest of the decade—in spite of constant unemployment rates of 10% or higher (and 20% or higher, for half of the decade). If the natural rate hypothesis had much validity, these rates (of 10% or better) would have represented that natural rate, then, below which price inflation could not be avoided.[88] The history of price and unemployment trends in the twentieth century clearly refutes this notion. Moreover, the price stickiness of the 1930s replicated itself during recessions in the 1940s and 1950s as well.

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[88] Henry Aaron, *Politics and Professors: The Great Society in Perspective* (Washington: The Brookings Institution, 1978), 125. While the price-fixing or price supporting mechanisms of the National Recovery Administration had much to do with this effect, these mechanisms only extended or embedded the price stickiness and the administered prices that already prevailed in many key industries; they did not create them. This was one reason why the success of the NRA was so lopsided and problematic, for while it was supposed to support prices in exchange for other concessions to labor and consumers, corporate leaders, with very few exceptions, were the only participants to catch on quickly and win real concessions. See Ellis W. Hawley, *The New Deal and the Problem of Monopoly,* for an illuminating study of the NRA and industry (in chapters 1-7); and Martin J. Sklar, *The Corporate Reconstruction of Capitalism, 1890-1916: The Market, The Law, and Politics* (Cambridge, U.K.: Cambridge University Press, 1988), for a richly detailed history of the transition of American capitalism from its "proprietary-competitive" stage to its "corporate-administered" stage. From 1900-1974, despite numerous recessions and the Great Depression, there were only 13 years when general prices registered any drop at all, and many of these years saw general prices decline only as drastic declines in the prices of some commodities skewed the overall average (usually agricultural products).

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Perhaps the most compelling argument made by Friedman and his followers, largely because it relied less on economic formulae than abstract political philosophy, was that basic democratic freedoms were dependent upon laissez-faire economics. Because economic liberty and political liberty had indeed risen in tandem in the United States, and because they had risen, moreover, from the same constitutional liberalism, this connection seems quite unassailable.[89] As Loren Okroi pointed out, however, this does not imply that these liberties are necessarily dependent upon one another. Capitalism had indeed provided a necessary precondition for political freedom, Okroi suggested, but it was by no means the only decentralized economic system with that potential. Even classical liberals, Okroi hastened to point out, held other freedoms and rights to be just as significant as "those that were strictly economic." They judged the vote or one's self, for example, as things people should *not* be free to sell. And when certain economic freedoms were proscribed, as was the case with the first child labor laws, it was difficult to argue, he contended, that employers were "less free in any meaningful political sense because of this."[90]

John Kenneth Galbraith isolated an additional problem with Friedman's conception of political and economic freedom. "It is the unfortunate habit," he declared, "of those who speak of the effect of government on freedom, that they confine their concern to the loss of freedom for the affluent. All but invariably they omit to consider the way income creates freedom for the indigent."[91] Adding to Galbraith's critique, Okroi also highlighted the often contradictory side of this restricted definition. "Concrete and disturbing evidence of the conflict between economic and political liberalism," he added, "is seen in the open hostility to active democratic participation and even to basic

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[89] See Friedman, *Capitalism and Freedom*, especially 7-21.
[90] Loren Okroi, *Galbraith, Harrington, Heilbroner: Economics and Dissent in an Age of Optimism* (Princeton: Princeton University Press, 1988), 252-254.
[91] John Kenneth Galbraith, "The Conservative Onslaught," *New York Review of Books*, January 22, 1981, 31.

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political equality and freedoms evinced by the remarks of many business executives in interviews and discussions."[92] At another point Galbraith is even more succinct. "Professor Friedman's belief," he suggested, "that liberty is measured, as currently in New York City, by the depth of the uncollected garbage is...deeply questionable."[93]

Despite the rumored clash between Galbraith and Walter Heller over the tax cut campaign, Heller also identified the New Economics with this Galbraithian critique. "As to the individual," he noted in 1966, "abundance enlarges his options, his meaningful freedom to choose among goods and services, among jobs, and between work and leisure....Prosperity extends economic freedom more deeply, creating jobs and enabling a President to battle the tyranny of poverty for some without wrenching resources away from others."[94] The New Economists were clearly the heirs to economic philosophers such as Henry George and Herbert Croly who believed that the limited state failed, in the modern age, to serve the interests of the common people as it once had. To Kennedy, Johnson, Heller, and their fellow economic strategists, the strong Hamiltonian state was now necessary to carry out the Jeffersonian ideal. Friedman, on the other hand, ignored even Jefferson's America, where the notion of laissez-faire economics crumbled quickly in the face of increasingly complex economic challenges.[95]

Friedman's negative critique of Keynesian government finance is also rooted in persuasive and enduring historical myths that are always quite difficult to isolate. Stressing, for example, what he sees as the inherent tendency of government to become riddled with fraud and corruption, alongside the virtues of laissez-faire liberalism, he

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[92] Okroi, *Galbraith, Harrington, Heilbroner*, 254. And, one might add, by politicians "sponsored" by corporate interests. Frank Hague, leader of the Jersey City political machine from 1917-1948, sponsored chiefly by area building contractors once said, "Whenever I hear a discussion of civil rights and the rights of free speech and the rights of the Constitution, always remember you will find him with the Russian flag under his coat, you never miss." Quoted in John Hutchinson, *The Imperfect Union: A History of Corruption in American Trade Unions* (New York: E.P. Dutton, 1972), 49.
[93] Galbraith, "The Conservative Onslaught," 31.
[94] Heller, *New Dimensions*, 13.
[95] See Frank Bourgin, *The Great Challenge: The Myth of Laissez-Faire in the Early Republic* (New York: Harper and Row, 1989), for a persuasive exposition of this point.

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ignores one elusive yet critical factor: government has no special claim to bureaucratic inefficiency and corruption. In fact, because of the historical role played by quasi-public commmercial elites in American governance, and the traditional American practice of "dealing in" private interests on public business, the weaknesses of government may simply be less obscure reflections of the same tendencies in private life.

Though Sinclair, Tarbell, and Nader, are notable exceptions, history also documents far less scrutiny of the nation's private, as opposed to its public, affairs. Because they are seldom judged by the same standards or to the same extent, public inefficiencies are notorious while those in the private sector are largely hidden from view. Even among those "muckrakers" who unearthed a sordid record of corporate corruption and exploitation in the early twentieth century, the less glamorous issue of simple inefficiency almost always took a back seat to the broader, more compelling issues of public and worker safety and oligopolistic price-gouging. Befitting this approach, one common analysis of oil companies during the crisis years of the 1970s, for example, suggested that no consumer exploitation occurred then simply because company profit margins witnessed only a small, barely discernible rise throughout the decade. Substantially rising profit margins were deemed to be the only genuine indicator of oil company exploitation; no complicity could be established without their presence. All company costs at a fairly stable level of profitability, in other words, were typically assumed to be legitimate and a function of "normal" business practices. Government agencies, on the other hand, partly because there is no profit margin scorecard to divert one's attention, are more typically analyzed at every point, from salaries all the way down to the cost of their Pink Pearl erasers. Alternating employment between Time Inc. and the federal government at one point, John Kenneth Galbraith compared private and public bureaucracies and found that it was the private, rather than the public, version which evinced the greatest inefficiency. "It took more people," Galbraith noted, "to do less work in New York than in Washington....Expense account

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writing at Time was a small creative art, so discussed."[96] The recent experience of the American Express corporation, in its attempt to market a revolving charge card, also illustrated the same tendency. In the 1980s, AmEx marketed the "Optima" card exclusively to existing AmEx cardholders, thinking that these customers—whose annual fees were generally paid for by their companies—would be good credit risks. The card flopped, however, precisely because the opposite was true. On their own, conditioned perhaps by corporate largesse, these customers proved to be the worst credit risks imaginable.[97]

Friedman's view, however, suggested instead that the opposite had to be true, and that this was made certain by the relative absence of market forces in government bureaucracies. That the political marketplace may remain more open and far less regularly compromised than its counterpart in private industry is seldom considered. In projecting a powerful self-fulfilling prophecy, where conservative, anti-government *corporate* bureaucrats are often relegated to the government service they imagine to be ridden with imperatives of waste and inefficiency, Friedman's critique itself becomes a prominent factor in the debate. Americans would not typically entrust a daycare center to directors who exhibited a profound contempt for children, yet we readily do the equivalent with government agencies, and the consequences are as tragic as they are ironic. Throughout U.S. history, whenever government corruption and inefficiency have reached intolerable heights—on local, state, and federal levels—the prescription for reform has typically been a massive infusion of the very elements that often led to the problem in the first place (*private* interests previously entangled in *public* affairs).[98]

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[96] Galbraith, "The Conservative Onslaught," 33.
[97] "American Express Extends Grace Period," *USA Today*, September 7, 1994, C1. See also Michael Lewis, "Leave Home Without It: The Absurdity of the American Express Card," in *The Money Culture* (New York: W.W. Norton and Co., 1991), 11-20.
[98] See Seymour J. Mandlebaum, *Boss Tweed's New York* (New York: Wiley and Sons, 1965), for a persuasive analysis of this phenomenon as it occurred in New York in the 1860s and 1870s. Mandlebaum is seconded by Mark Wahlgren Summers in *The Era of Good Stealings* (New York: Oxford University Press, 1993), who assays this phenomenon from a national, rather than regional, perspective.

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Governments everywhere are troubled, indeed, with inefficiency and corruption. Contrary to Friedman's conception, however, these problems seldom arise in a vacuum from within, but often emanate, instead, from that strange American (though fast becoming a worldwide) admixture of government and private enterprise. To the genuine efficiency expert, government bureaucracy may even be preferable to its counterpart in private industry.

However weak the monetarist criticism of the New Economics may have been, this did not imply that the New Economists wanted a growing government bureaucracy simply because they did not believe in its inherent corruptibility. In many ways, knowing the history of *private* bureaucracy and realizing that this history did not suggest, at the same time, the impossibility of constructive change, Kennedy, Johnson and their economic advisers sought to change the "marketplace" as much as they did the political apparatus by which it was governed. Just because private institutions allowed for great corruption and inefficiency in the past, they surmised, was no reason to assume that this situation must always prevail. Indeed, Keynes's *General Theory* suggested a need for institutional changes that involved private economic actors quite deeply. "His [Keynes's] message was plain," Will Hutton observed. "If we are to enjoy the benefits the market can deliver, we must understand the dynamic of the market economy, understand it has no tendency to stability, and attempt through our collective institutions (for there are no other) to make up for the market's proven inability to coordinate the actions of economic agents in the present and in the future."[99] Indeed, the New Economics worked partly because it encouraged private as well as public efficiency, much as Herbert Hoover had hoped to do in the 1920s. If laissez-faire economics was self-destructive, inefficient, and often the source of great social and economic instability, the private sector could still be counted on to effect positve change even if it

[99] See Hutton, *The Revolution That Never Was*, 142-143.

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had to come at the hands of enlightened government policy and persuasive government pedagogy. Summing up the political economy of the 1960s, Walter Heller recognized both the remaining weaknesses of the unfettered marketplace and the *increasing* efficiency and public mindedness of private industry:

> The political economist is well advised to recognize that a key factor, not only in the length and strength, but particularly the balance of the great expansion of the 1960s, has been the impact of effective private policies—better inventory and cost control, less speculation, better matching of plant capacity to markets, and more restrained wage-price policies than we have had in any previous expansion in our history.[100]

That much of this impact depended upon government prodding and presidential leadership—largely in the form of the wage-price guideposts—as well as a more balanced and predictable fiscal and monetary approach, was certainly not lost on Professor Heller. Couching this observation midst further comments on the pedagogic role of Presidents and presidential economic advisers, Heller suggested implicitly that this transformation came largely as a result of the New Economics and the leadership of Presidents Kennedy and Johnson. "Experience of recent years," he noted, "has demonstrated that education—of the President, by the President, and for the President—is an inescapable part of an economic adviser's function."[101] To Heller, Johnson's leadership in particular had a direct, and not insubstantial effect on the management of the nation's corporations. Writing in 1966, he noted:

> The education and consensus process has undergone some change in President Johnson's hands. He too [like JFK] has achieved remarkable internal consensus on policy, but has gone beyond this to externalize it....And the results are counted on not only to benefit but to educate the country. As I perceive it , then, this method combines presidential persuasion and education of hundreds of the country's 'movers and shakers' *in person* in small White House meetings and large with public persuasion of millions of citizens by *performance* under the resulting policies and legislation.[102]

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[100] Heller, *New Dimensions*, 25.
[101] Ibid., 17.
[102] Ibid., 37.

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While some of these "movers and shakers" were clearly not business managers, accounts of significant White House meetings suggest that many were. Johnson clearly sought a close and amicable relationship with the nation's business community, surprising many business executives with his candor and ability to understand their perspective and convincing just as many that they played as significant a role in the pursuit of full employment and prosperity as did his still essential fiscal and monetary policies. Although the abject failure of Herbert Hoover's "associational" planning in the 1920s and FDR's National Recovery Administration in the 1930s—directives designed to sway corporate executives in similar fashion—suggested that this approach held little promise, Johnson possessed two vital resources that both Hoover and Roosevelt lacked. Armed with the logic of the Keynesian revolution and a rhetoric that was an amalgam of populist sensibility and modern economics, Johnson could establish among his corporate allies the salience of what Hoover called the "purchasing power theory." Armed, as well, with a macroeconomic approach that developed around purchasing power and the demand side of the economy, Johnson could also present the corporate community a thriving and predictable market for their products and services. With Keynesian economics as yet undigested by the American political economy—even in a bastardized form—and with Andrew Mellon and Henry Morgenthau presiding over the Treasury department, demand-side economics stood little chance of surviving in the nation's pre-World War II corporate boardrooms.[103] With a Keynesian in the White House and Douglas Dillon and Henry Fowler appointed to manage the Treasury

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[103] See Ellis W. Hawley, "Herbert Hoover and Economic Stabilization, 1921-1922," in Hawley, ed. *Herbert Hoover as Secretary of Commerce, 1921-1928: Studies in New Era Thought and Practice* (Iowa City: University of Iowa Press, 1981), 43-79; Robert K. Murray, "Herbert Hoover and the Harding Cabinet," in ibid., 17-42; and Hawley, "Herbert Hoover, the Commerce Secretariat, and the Vision of an 'Associative State,' 1921-1928," *Journal of American History*, June 1974, 116-140, for analyses of Hoover's approach and activities that Hawley briefly refers to as being "intermixed with the policies of Mellon and Daugherty [Harding's thoroughly anti-labor Attorney General]..." Cited in Hawley, "Herbert Hoover as Secretary of Commerce," 66. See also Brinkley, *The End of Reform*, 26-28, for a concise analysis of Secretary Morgenthau's power and prejudice.

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department, its chances improved considerably. Among the business community, Johnson always wanted to educate much more than he wanted to please; his confident grasp of economic principles and his practiced liberalism allowed him to do just that. Departing from the Johnson White House in early 1964, where he and his colleagues had been invited to preview the upcoming State of the Union address, one business executive (and Business Council member) described his feelings toward the new President and his economic outlook: "I am not sure that I like everything he does, but he understands my problems, and he is smart as the devil, and I think I'll go along with him."[104] Roger Blough of US Steel recalled that Johnson understood business problems better than "any one of the other Presidents" he had known since Herbert Hoover.[105] From his first courtship of business support only days after the Kennedy assassination, to the formation of the National Alliance of Businessmen in March 1968, Johnson maintained close contact with the nation's business community and continued to insist that his economic strategy was as good for business as it was for the nation's unemployed or working poor. President Johnson was "the first Democratic president since Grover Cleveland to have won the full confidence of business," economist Seymour Harris noted in 1965.[106]

The shortcomings of the monetarist critique also do not imply that the tax cut single-handedly lifted the American economy out of recessionary doldrums. Neither President Johnson, nor any of his economic advisers believed this. "Like most legislative proposals," James Tobin noted in 1965, "the tax cut has probably been overadvertised."[107] In 1966, Walter Heller also called for an end to the tax-cut-as-

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[104] Quoted in Valenti, *A Very Human President*, 200.
[105] Blough, Oral History Interview, 3.
[106] Harris, *Economics of the Kennedy Years*, 261. After acknowledging the increased responsiveness of private enterprise to "the needs of the times," () Johnson launched the National Alliance of Businessmen, appointing Ford vice-president Leo Beebe as executive director of the organization designed to obtain jobs, and on-the-job training, for the nation's hard core unemployed. See Johnson, *Vantage Point*, 332-333.
[107] James Tobin, "The Tax-cut Harvest," 157.

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manna-from-heaven orientation. "Not that it didn't work, or that it wasn't wonderful," Heller remarked. "But I think we have overdone the tax cut story a bit."[108] Applying this concern to future economic policy as well, Heller added, "I would hope that the tax cut lesson of the past few years has been learned wisely, but not *too* well. The on target success of the 1964 tax cut should not blind us to the special circumstances that made massive tax cuts the clear choice over more rapid expenditure increases at that time—circumstances that may not repeat themselves in the future."[109] Future economic circumstances, Tobin added, "may require either higher or still lower rates than those now enacted. The history of this legislation indicates that we in the United States still have much to learn in making taxation a flexible and responsive instrument of economic stabilization."[110]

The best, as yet unrefuted, measurements of economic growth and change in the 1960s do suggest, however, that the tax cut led a significant demand side economic expansion. Heller pointed out, for example, that however you sliced it, consumption spending, up by an average of $4.4 billion per quarter in the three quarters preceding the tax cut, jumped ahead by $8.4 billion per quarter in the three quarters following the tax cut.[111] However profound Heller's misgivings were, they were not directed at the income producing effect of the tax cut, only at its general applicability. "With consumer spending boosted by the tax cut," Tobin noted, alluding to the most critical feature of the tax cut legislation, "demand may rise enough in 1964 to cut down excess capacity. This will add the strategic investment incentive that has so far been missing throughout much of American industry, the need to build new capacity to meet expanding demand."[112]

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[108] Heller, *New Dimensions*, 70.
[109] Ibid., 112. It is my contention that, with respect to the *Federal* income tax, they have not.
[110] Tobin, "The Tax-cut Harvest," 159.
[111] Walter W. Heller, quoted in Heller and Friedman, *Monetary vs. Fiscal Policy*, 68.
[112] Tobin, The Tax-cut Harvest," 156.

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Arthur Okun's analysis, conducted in 1965, remains the most accurate and thorough appraisal of the tax cut and its effect on the American economy. Okun found that one dollar of the tax cut produced 1.82 dollars of national income, and determined that the bulk of the consumption gain produced by the cut resulted from the *personal* tax reduction (approximately $18.2 billion, with the corporate tax reduction contributing approximately $3 billion). Citing the smaller contribution made by the *corporate* tax cuts and the lag time associated with corporate dividend adjustments, Okun noted that "this is not a great performance as a consumption stimulus, but corporate tax cuts have never been expected to star in that respect."[113]

When it came to recognizing induced investment, where corporate tax cuts have been expected to shine and where supply side theorists—then and now—saw the greatest economic potential, Okun was forced to admit that the choice of an equation was "exceedingly difficult." No single factor proved to be a reliable indicator of the propensity for business investment. "Sales, utilization measures, and cash flow variables," he reported, "all have excellent claims for appearing in the equation. But when all of these are allowed to compete in equations fitted from time-series data, chaos results."[114] Essentially what Okun had confirmed here was that supply side decisions in the marketplace were always more speculative in nature than those on the demand side, and they became less chaotic and unpredictable only as demand increased—both in terms of its relative strength and overall consistency. It could be said that Okun had also

[113] Okun, "Measuring the Impact of the 1964 Tax Reductions," 40. Okun's measurement of the economic impact of the 1964 tax cut was based on a two equation system for the impact on consumption, plus a separate equation for induced business investment. An equation for marginal consumption told him how much added consumption resulted from the added income, and a second equation relating marginal income to GNP expressed the amount of further gains in disposable income derived from the added consumption. For induced investment, he used a cash flow equation, determining that an extra dollar in after tax corporate profits raised investment by 75 cents (compare to the .949 marginal propensity to consume derived from the personal tax reduction). He also found that inventory investment, associated with a maintained one dollar increase in GNP begins to decline after three quarters, eventually turning negative and oscillating around zero.
[114] Ibid., 41.

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reasserted what Friedrich Hayek had admitted to Walter Lippmann in 1959 when Lippmann expressed puzzlement over Hayek's general lack of reference to corporate policy. "I'm afraid you are right," Hayek wrote, "and the reason is that there is not much in the field of corporation policy which can be derived from general principles."[115] As Hyman Minsky would note nearly a decade later:

> The empirical estimation of short-period changes in investment has not been one of the outstanding successes of econometric work. Many of the models that are used have given up on estimating investment from functional relations presumed to capture economic regularities; instead, they rely upon survey data—questionnaires to businessmen—for their estimates.[116]

Herb Stein, a moderate conservative who subscribed to Milton Friedman's views, and who also disparaged the New Economics as 1960s "radical chic," still endorsed this part of Okun's analysis. Noting that some supply side benefits were claimed for the 1964 tax cut, Stein suggested that these claims were largely unfounded, pointing out that the change in *output per person employed* actually grew slower after the tax cut than before. "One would have expected the reverse," Stein wrote in 1984, "if the supply side effects were dominant."[117]

By the second quarter of 1965, Okun estimated that the 1964 tax cut had produced added federal revenues in the amount of $7 billion, and added state and local revenues of approximately $1.5 billion. While the tax cut clearly did not pay for itself, and while none of Johnson's advisers had ever claimed that it would, the income producing effects of the cut were substantial enough to pay for at least a major portion of the tax cut. As to

[115] Quoted in Barry D. Riccio, *Walter Lippmann—Odyssey of a Liberal* (New Brunswick: Transaction Publishers, 1994), 204.
[116] Minsky, *John Maynard Keynes*, 31-32.
[117] Stein, *Presidential Economics*, 110. The belief that the 1964 tax cut was a supply side tax cut still persists. At a May, 1990 symposium at the LBJ Library, for example, Charls Walker, Deputy Secretary of the Treasury under Nixon, and therefore a colleague of Stein's (Stein was on the Nixon CEA), called the 1964 tax cut a "true supply side tax cut." Reagan's misreading of history—intentional or not—when he sought a different kind of tax cut, is probably responsible for most of this. (Walker, whose mother gave him the unusually spelled first name, campaigned for LBJ in 1941, and served as the chief lobbyist for the American Bankers Association before signing on with the Nixon administration in 1969.)

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the contribution of monetary policy, touted by Friedman and his followers as the real reason for the expansion, Okun termed it a "passive supporting force." Money did matter, but simply not that much as long as it did not choke off the demand-led spurt in economic activity. "The monetary authorities," Okun added, "supplied a good, sound set of tires for the economy to roll on, but they did not contribute the engine."[118]

If there was any doubt that Lyndon Johnson saw the tax cut as an economic and political springboard, rather than a climactic, crowning achievement, his subsequent and immediate immersion into other economic policy initiatives eliminated it. "Tax reduction will not by itself solve all our other economic problems," James Tobin wrote in 1965, reflecting the approach of the Johnson administration.[119] In March 1964, for example, just as the income tax withholding changes were being implemented, Johnson submitted his "War on Poverty" program to Congress, an initiative presaged by remarks made during his January State of the Union address. Also in March, he began to focus more attention on the concept of the wage-price guideposts, the policy tool developed, but never fully extended by the Kennedy administration. Targeting the American automobile industry as a test for the guideposts that he hoped to strengthen, Johnson began a careful and rigorous search for a way to expand and deepen American prosperity without price inflation. And in April, attempting to enlarge his appeal for economic consensus and to convince the public that he was a "hands on" President when it came to the economy, he played an active and very public role in the negotiations between the nation's railroads and their employees. Even Norman Thomas, 79 year old icon of the American Socialist party, mustered subdued approval after the successful completion of these negotiations.[120] Clearly, President Johnson was not going to stand still when it came to the management of the nation's economy. It also

[118] Okun, "Measuring the Impact of the 1964 Tax Reductions," 44.
[119] Tobin, "The Tax-cut Harvest," 157.
[120] Goldman, *The Tragedy of Lyndon Johnson*, 96.

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became clear, in a departure from the norm, that he would act as his own policy coordinator. Though Joseph Califano came to play an increasingly large role in the formulation of domestic economic policy, and though the CEA achieved its greatest influence under the Johnson administration, President Johnson himself made all of the key economic strategy decisions.[121]

Blessed with a group of economic advisers who were willing to work as long and as hard as he was, Johnson found ample opportunity to exercise his penchant for economic activism and political revolution. Though he had already demonstrated an attraction to economic issues, the energy and commitment of advisers such as Walter Heller and Arthur Okun, helped intensify Johnson's focus, even as the war in Vietnam became a significant distraction. "I like the way you write memoranda," Johnson wrote to Heller in December 1963, "crisp, to the point and concise. Work-think-work-think hard....I depend on you."[122] By this time Heller had already written to President Johnson informing him of the CEA budget ($615,000), staff composition (17 members in December 1963), and willingness to work long hours. On December 1, 1963 he concluded one memo by noting that their work weeks were typically 80 hours in length "with 100 hours not unheard of," and that they stood "at your service" ready and willing to work even longer and harder.[123] Whether Heller sensed this or not, this was the kind of commitment that Lyndon Johnson readily responded to. Johnson's blustery temperament and growing penchant for secrecy aside, he saw himself first and foremost as a public servant, and to him public service always implied a regimen of hard work and long hours.

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[121] As James E. Anderson and Jared Hazleton point out in *Managing Macroeconomic Policy*, Johnson did not create a coordinating body similar to Gerald Ford's Economic Policy Board or Jimmy Carter's Economic Policy Group, nor did he choose a single coordinator as Nixon had done with Arthur Burns, John Connally, or George Shultz. Nor did he coordinate policy via memo as Richard Nixon tended to do. With Johnson almost all economic coordination came from the oval office and it was done with frequent face-to-face meetings. See Anderson and Hazleton, *Managing Macroeconomic Policy*, 228, 236-237.
[122] Quoted in Anderson and Hazleton, *Managing Macroeconomic Policy*, 195.
[123] *Administrative History of the Council of Economic Advisers, Volume 1*, Box 1, LBJ Library.

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"Johnson's capacity for work in those first few days after he became President," noted Rowland Evans and Robert Novak, "was superhuman."[124] With much of his energy directed toward the tax cut struggle and the emerging plans for a war on poverty at the onset, it was economic policy that served, more conspicuously than any other challenge, to pull Johnson from the doldrums of the vice-presidency and to launch what would truly become a whirlwind administration. The typical Johnson workday, the legend of numerous histories and commentaries, was virtually unparalleled in presidential history. Few if any presidents worked as hard as Johnson but none had come into the White House as determined to change or as capable of changing the nation's political economy. Endless meetings, frequent chain-telephoning sessions, the constant monitoring of news, and the twenty hour work-days were as much a product of Johnson's resolve to change the American economy and the lot of the nation's poorest citizens as they were an almost irreducible part of his personality.[125] His day was usually capped off the same way every day, with a handful of phone calls and a sheaf of memos and government documents earmarked for reading in bed, many of which involved economic policy matters.[126]

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[124] Evans and Novak, *Lyndon B. Johnson: The Exercise of Power*, 347. How "superhuman" this effort was has to be qualified, of course, to the extent that Lady Bird, Zephyr Wright (the Johnson family cook), and the trappings of the Presidency itself, freed Johnson from the drudgery of child care, food preparation, and general household maintenance. Moreover, "mechanics" always seemed to be on call ready to jump start the LBJ engine with massages, enemas, or whatever else it took to energize this larger than life Texan. Johnson's intensity and willingness to work long hours were still exceptional but were more a function of his genuine interest in the work at hand than his possession of "extra glands." Jack Valenti, trying to describe Johnson's drive and personality to the Advertising Federation of America in Boston on July 3, 1965, jokingly suggested the "extra glands" explanation.

[125] Though he broke the routine on many occasions, the long days were made possible, in part, by Johnson's willingness to take a thirty minute mid-day nap. "The only way to relax," Johnson once remarked, "is to peel off all of your clothes and make believe you're going to bed for the evening." Quoted in Califano, Triumph and Tragedy, 28. See also Hugh Sidey, "The Presidency: How Not to Take it Easy," *Time*, January 24, 1964, 12.

[126] Robert Dallek pointed out that this habit of stretching the work day with reading in bed began with Johnson's first days in Washington when he worked as an assistant to Texas congressman Richard Kleberg from 1931 to 1935. See Dallek, *Lone Star Rising*, 100.

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Even when hospitalized or convalescing afterward, Johnson adhered to a furious regimen of political duties. In 1948, after checking into Minnesota's Mayo Clinic to have a kidney stone removed without an incision, he became known as the clinic's "leading pain in the ass," having three phones installed in his hospital room. One nurse counted 64 calls having been made in a single day.[127] A few years later, after his 1955 heart attack when his blood pressure dropped to zero over forty, Johnson received so many visitors calling to keep him abreast of affairs back at the Capitol that his doctors had to remind him constantly of his quota for visitors. Reaching his quota on one occasion, Lyndon pleaded with the vigilant physician on duty: "Oh now look, doctor," he said, "you're not going to count Republicans are you?" Hospitalized three times while serving as President, Johnson kept a similar regimen in each case.[128] His late 1965 gall bladder operation proved to be the one exception to the norm and the late 1965-early 1966 period was, accordingly, the one time during his presidency when economic policy seemed to veer temporarily off course.[129]

Requiring that his assistants and cabinet officers work similar protracted schedules, often without reliable holidays or weekend breaks, Johnson pushed many to their physical and mental limits. But most of Johnson's economic advisers proved resistant to the ferocious regimen, partly because they were motivated by a President who placed great significance upon their work and partly because this focus exempted many of these assistants from the harassment to which Johnson often subjected his other advisers.[130] CEA member (and eventual chairman) Arthur Okun was one of the few who

[127] Ibid., 302.
[128] Ibid., 486. Johnson was hospitalized October 8-21, 1965 for gall bladder surgery, November 16-19, 1966 to repair a defect in an incision made during the 1965 surgery, and December 18-22, 1968 with a severe case of the flu.
[129] See Chapter 8 on the struggle for the tax surcharge, a struggle that began somewhat inauspiciously during this period of convalescence. When one aide handed Johnson a lengthy memo that required a detailed response during this period, Johnson replied by scrawling in inch high letters, "I'm sick." Cited in Evans and Novak, *The Exercise of Power*, 561.
[130] See, for example, Wilbur Cohen's comments recorded in Mr. Social Security: The Life of Wilbur J. Cohen, 189-190. Cohen claimed that his association with Social Security, aid to the elderly, and the New

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could withstand the long hours. "I concluded," Okun recalled, "that some of my success as a staffer [on the CEA] came because I was the only one who could stay awake as long as Walter [Heller]."[131] Others got into the habit of celebrating holidays a day or two in advance, grabbing the chance whenever it presented itself. Joe Califano recalled telling Abe Fortas in 1966 that Johnson was ruining his Thanksgiving by making him work on the Penn-Central merger case. Fortas, acknowledging a shared predicament, replied, "Years ago, after I started working for this man, I began celebrating Thanksgiving on the day before. He ruins every Thanksgiving Day."[132] Secretary of Commerce and former Merck CEO John Connor, relied upon as an integral part of Johnson's various entreaties toward the business community, was one administration official frequently overwhelmed by the L.B.J. regimen. Before being replaced by Alexander Trowbridge in 1967, after what some describe as a falling out with Johnson, it was not uncommon to see the President phoning Connor on the weekend ordering him off of Burning Tree Golf Course and back to work.[133] Connor's reluctance to conform to the demands of the LBJ regimen, unlike most of Johnson's economic policy team, would prove, indeed, to have a profound impact on the direction and efficacy of Johnson's economic policy.[134]

Deal "exempted him from much of the harassment and humiliation to which Johnson often subjected subordinates."

[131] Arthur Okun, Oral History Interview, in Hargrove and Morley, editors, *The President and the CEA*, 284.

[132] Califano, *Triumph and Tragedy*, 162.

[133] Ibid., 26. Johnson always believed that there was enough work to fill everyone's schedule, even without specific assignments in mind, and Connor's golf outings never took precedence. While additionally concerned here in this case, like his predecessor Kennedy, that an "Ike golf image" not be created, the only really accepted form of leisure in the Johnson White House was the political dinner or cocktail party, formal or not, where a significant amount of business could still be conducted. Without the benefit of portable cellular phones, a round of golf simply meant being out of touch with much of the day's business for at least three or four hours. This was something President Johnson almost always refused to tolerate.

[134] See Chapter 6, pp. 262-263 for a brief appraisal of Connor's critical role in the implementation of the administration's wage-price guideposts.

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Most of Johnson's economic advisers or Cabinet members with economic policy responsibilities, unlike Connor, responded to Johnson's demands on their time with tempered enthusiasm, for they always understood that he worked as hard and as long as any of them and most witnessed the kind of progress that generated real enthusiasm. Johnson's fondness for storytelling, off-color jokes, dancing, and music also served to lighten the impact of his temper and the pace of his otherwise unrelenting schedule. "We've got to get it written into history," Special Assistant to the President, Douglass Cater once remarked, "that it was a hell of a lot of fun working for this man."[135] Johnson also made it a habit to combine reprimands with clearly exaggerated defiance to make them seem, perhaps, more contrived than they really were, and therefore less onerous or spiteful. One weekend afternoon, trying to track down White House speechwriter Richard Goodwin, then sailing off the coast of Martha's Vineyard, Johnson called the Coast Guard, hung up the phone, and muttered to Joe Califano with mock contempt: "We ought to blow up that goddamned island."[136]

If it seemed that this obsession with work was designed only to project an *image* of diligence or a sense of mission, many of Johnson's associates would emphasize his overriding concern for efficiency and the production of tangible results. Policy objectives produced the long hours and the frenetic pace. Accordingly, the telephone became one of President Johnson's primary economic policy tools. The War on Poverty, the 1964 tax cut, and the wage-price guideposts all succeeded in part due to Johnson's creative and persistent use of the telephone. Key representatives and senators, labor leaders, and corporate executives alike were often plugged into the New Economics via the console on President Johnson's desk. Assistant to the President Jack Valenti recalled Johnson telling him on several occasions, "If you use the phone right, you can save a

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[135] Douglass Cater, quoted in Hardesty, ed., *The Johnson Years*, 131.
[136] Ibid., 62.

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couple hours everyday."[137] Apparently, as Valenti also recalled, using the phone right frequently meant being awakened by a Johnson phone call at 530am. "Well, what are you doing?" was the invariable Johnson salutation as described by Valenti.[138] When Johnson called even earlier he would ask then, in the gracious tones reserved for 3am phone calls, if he had indeed awakened the party on the other end. "Why no, Mr. President," Wayne Hays once responded, "I'm just lying here hoping you would call."[139] At his Austin home early in the 1950s, Johnson even had a backyard tree wired for a telephone.[140] Joe Califano recalled the POTUS (President Of The U.S.) phone lines that were installed in his office and in the offices of other Johnson assistants. Emitting a single, continuous ring until picked up, these special phones insured that the President did not have to wait long to have his intra-White House calls answered. Califano also recalled the time sculptor Jimilou Mason came to the White House to have President Johnson sit for a planned Presidential bust and became frustrated by her inability to get the President to sit still or get off the phone. Mason eventually did a piece depicting Johnson at a dead run, with the base of the phone in one hand and the receiver stuck in his ear.[141] Logging approximately 100 phone calls per day throughout his presidency, President Johnson clearly transformed the telephone into an economic policy tool of great significance.[142]

As his first full year in office wound down the tax cut began to impact the U.S. economy, Johnson began to apply his vast energies and whirlwind style to other economic policy initiatives, and he seemed to be playing to increasingly more receptive audiences of all political persuasions. Heller suggested that the tax cut itself had led to

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[137] Jack Valenti, *A Very Human President*, 64.
[138] Valenti, quoted in Hardesty, ed., *The Johnson Years*, 165.
[139] Wayne Hays, quoted in Hardesty, ed., *The Johnson Years*, 37.
[140] Dallek, *Lone Star Rising*, 407.
[141] Califano, *Triumph and Tragedy*, 25.
[142] T. Harry Williams, "Huey, Lyndon, and Southern Radicalism," 221; Kraft, *Profiles in Power*, 9.

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"rapid changes in public thinking and acceptance of active fiscal policy."[143] Business publications and newsweeklies were hailing Johnson as the "prudent progressive," and referring to his "person to person" approach and his "romance" or "love feast" with business.[144] "Of late," Eisenhower economic adviser Arthur Burns noted grudgingly in 1965, "many businessmen have even become optimistic about the trend and character of federal economic policies, and not a few speak with admiration of the economic thinking that emanates from the White House."[145] After the end of Johnson's first full year in office, *Time* magazine reported:

> The old 'trickle-down' theory...was never a very realistic proposition. And it is the hallmark of the U.S.'s present prosperity that the nation's wealth has been distributed more evenly than ever before. Johnson has made it clear that he will use tax policies and the leverage of the federal budget to head off any recession that might threaten. This is a proper, limited role...and Johnson's appreciation of it may yet enable the amazing U.S. economy to defy even the law of physics: what goes up need not necessarily come down.[146]

As Johnson launched his effort to contain prices in the automobile industry, in March 1964, he would need all of this good will and more. Though the tax cut seemed to be an instant hit with most Americans, too many economic problems lay clearly beyond its reach. Moreover, Johnson fully expected other worthy economic policy changes to come at greater political expense than did the tax cut. "Virtue is so much easier," Kermit Gordon noted when sizing up the 1964 tax cut, "when duty and self-interest coincide."[147] Seldom, in the months ahead, would such a happy coincidence emerge among the imperatives and responsibilities of the nation's economic policymakers.

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143 Heller, *New Dimensions*, 36.
144 See "Business and Johnson Savor a Love Feast," *Business Week*, Jan. 18,1964; "LBJ's Brand Goes on the Economy," *Business Week*, Jan. 25, 1964; "How to Cut a Budget," *Newsweek*, Jan. 20, 1964; "As Business Leaders Sum Up President Johnson," *U.S. News and World Report*, May 18, 1964; and "LBJ's Romance with Business," *Fortune*, September 1964.
145 Arthur Burns, "The Federal Tax Cut and the Economy," in Arthur Okun, ed. *The Battle Against Unemployment* (New York: W. W. Norton, 1965), 149-150.
146 "The Nation," *Time*, February 5, 1965, 19.
147 Quoted in Johnson, *Vantage Point*, 440.

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A PRECARIOUS AND UNCERTAIN LIBERALISM: LYNDON JOHNSON AND THE NEW ECONOMICS
VOLUME II

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Chapter 6.
Wage-Price Activism: Guideposts and Beyond

Business cannot consistently have it both ways: to use market power in recessions, and act like barefooted little competitors in booms. If price maintenance is justifiable in recessions, in violation of the laws of supply and demand, then price restraint is called for in booms.

- Henry Wallich,
CEA member, Eisenhower administration

Improved guideposts, Presidential authority to raise or lower taxes within specified limits and , finally, monetary policy working in tandem with fiscal policy, could give us full employment and reasonable price stability. In the meantime, let us not blame our inflationary prêssures on the New Economics.

- Alvin Hansen, 1966

Lyndon Johnson's entry into the wage-price struggle was immediate. Though many have suggested that he and his economic advisers were naively riding up the Phillips Curve, and that inflation caught them by surprise, only the emergence of inflation itself really suggested such indifference and misapprehension.[1] All in all, Johnson was

[1] Allen J. Matusow maintained, for example, that "one of the curiosities of the period [the 1960s] was the indifference of Keynesian economists to [Milton] Friedman's two scenarios—crowding out on the one hand, inflation on the other." See Matusow, *The Unraveling of America*, 54. "Given their indifference to money supply," Matusow added, "it is not surprising that inflation would catch the Council of Economic Advisers by surprise." Ibid., 58. Introduced in 1958 by Professor A. W. H. Phillips of the London School of Economics, the *Phillips Curve* expressed the view that there was a significant relationship between the percentage change of money wages and the level of unemployment—the lower the unemployment rate, the higher the rate of change of money wages. This relationship has come to imply that the aims of low unemployment and a low rate of inflation may be inconsistent; indeed, Phillips's original contention is now usually discarded and "inflation" is used instead of "money wages," as if the two were one and the same. Milton Friedman and other conservatives have attacked the validity of the Phillips curve,

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perhaps more mindful of potential inflation than any other president in recent U.S. history. To members of his Consumer Advisory Council, in December 1963, Johnson declared:

> Like our late President, I do not believe that the Federal government should not be a meddlesome busybody, sticking its nose into every aspect of private decisionmaking. But I am deeply aware of the fact that a renewal of the price-wage spiral would endanger our domestic expansion and our international balance of payments....I believe that all of us—as prudent men and women—realize the urgency of this matter. I also believe we all realize it would be a tremendous mistake to become complacent because at this point the record is good.[2]

Johnson established an active anti-inflation policy at the onset of his administration and remained committed to it throughout his presidential term. "The stakes are enormous in our efforts to combine high employment and price stability," he noted in his final Economic Report in January 1969. "We can sacrifice neither goal."[3]

His vigilance and heightened concern regarding inflation were largely a product of two basic concerns. Johnson knew, first of all, that excessive inflation usually took the

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suggesting that real wages, rather than money wages, count in this relationship (as they do, of course), and that while the relationship can be true for a short period, as the higher money wages lead to higher prices, real wages return to the original level (taking employment levels with them) and do so at a higher price level as well. This view takes for granted, however, that increased demand will produce inflation at *any* level of economic activity, and that when it does, government is the source of this demand. It also assumes that the *tendency* for a price rise is the same as the *necessity* for one; businesses will not or cannot absorb higher real wages at full employment even though this full employment also produces other significant savings for the same businesses. All of these assumptions, however, are questionable. Attempting to discredit the potential for government induced full employment, Friedman et al were additionally motivated by the assumptions that Lord Keynes was in many ways the "Father of the Phillips Curve" and that in introducing Phillips' concept to American economists, and substituing American statistics for British statistics (in a 1959 article with Robert Solow), the neo-Keynesian Paul Samuelson was thereby endorsing it and all of its implications without reservation. Keynes' "Phillips curve," however, was of a flat, cost-push variety with an accent on collective bargaining and the passing on of marginal costs, and Samuelson and most of the other neo-Keynesians harbored considerable reservation about the Phillips curve, particularly its assumption that higher money wages automatically lead to higher prices. See A. W. Phillips, "The Relation Between Unemployment and the Rate of Change of Money Wage Rates in the United Kingdom, 1861-1957," Economica, November 1958, 283-299, for the original; and "Schools Brief: A Cruise Around the Phillips Curve," *The Economist*, February 19, 1994, 82-83, for a recent explanation of the conservative viewpoint.

[2] Johnson, "Remarks to the Members of the Consumer Advisory Council," December 13, 1963, *Public Papers, 1963-1964: I*, 54.

[3] Johnson, "Annual Message to the Congress: The Economic Report of the President," January 16, 1969, *Public Papers, 1968-1969: II*, 684.

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greatest toll on the least wealthy Americans, and he certainly opposed that. Secondly, he also knew that it remained always the greatest threat to the new regime even as it remained somewhat distinct from his administration's macroeconomic policies. To Johnson the Phillips Curve, which suggested a trade-off between employment and inflation, was simply an idea masquerading as a strategy. Although conservative economists were also among the most vocal detractors of the Phillips Curve idea, conservative politicians had always acted as if it were a valid construct, blaming inflation on the federal government's past and present efforts to construct a full employment economy. Seeking nothing less than steady full employment, Johnson was compelled, then, to be especially mindful of this most politically insidious provocation, even if it made little economic sense to focus vast energies upon it.[4]

If he seemed less mindful of potential inflation at first, this was not the result of presidential (or CEA) indifference. The earliest inflation-fighting activities, every bit as forceful as those that followed, were simply out of the limelight, notable only for the quiet confidence with which they were enacted. Johnson was also keenly aware of Federal Reserve Chairman William McChesney Martin and his critical, if somewhat overwrought, role in the fight against inflation. Martin, after all, had been sounding the inflation alarm since the first uptick in the economy in 1961. Though the CEA had scoffed at him then, and had proven him wrong, quarter after quarter, Martin continued to watch interest rates and money supply closely, and the Johnson CEA considered his actions a factor in all of their calculations.

The Wage-Price Guideposts, first implemented by the Kennedy administration, and popularized during the 1962 steel crisis, became the principle means by which the Johnson administration sought to curb price inflation. According to Walter Heller,

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[4] Keynes' biographer D.E. Moggridge pointed out that the Phillips Curve, though created after Keynes' death, was typical of the kind of economic assumption of which Keynes was always wary. See D.E. Moggridge, *John Maynard Keynes* (New York: Penguin, 1976), 24.

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Johnson immediately latched on to the guidepost concept, finding it both appropriate and useful, and taking it even further than President Kennedy would have allowed.[5] Because the guideposts relied heavily upon persuasion and education, they were well suited to Johnson's political personality. Because they represented a response to entrenched corporate (and labor union) practices that had always goaded him to action, they were equally well suited to Johnson's populist-cum-liberal economic philosophy.

The 1964 Economic Report of the President, issued only weeks into the Johnson presidency, enunciated Johnson's faith in the guideposts, and also served as the almost inadvertent source of the eventual guidepost target figure (3.2%).[6] The concept itself was quite simple: if wage gains in a given industry could be held to a percentage less than, or equal to, the increase in the nation's economic productivity, then there would be no legitimate cause for increased prices originating with the increased labor costs. Though all of the CEA economists agreed that an exact figure would be impossible to ascertain and that exceptions would ultimately have to be made, a 3.2% productivity figure was eventually adopted (representing the average annual increase in output per man-hour for the last five years) as a suitable, and relatively accurate, target. CEA member Gardner Ackley explained the purpose of the guideposts by suggesting that they were a way to make price changes "a matter of private conscience," and to "create an informed public opinion" on the issue of corporate price policy.[7] Designed more in the mold of Herbert Hoover's New Era economic policies than those of Franklin Roosevelt's New Deal, but with the Keynesian macroeconomic support to make them both effective and important, the guideposts remained a tool by which the Johnson administration sharpened, rather than dulled, market impulses and market signals.[8]

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[5] Cited in Cochrane, "Moral Suasion," 203n.

[6] The 3.2% figure was not included in the text of the report, but only in an accompanying table.

[7] Memo, Ackley to Walter Heller, December 11, 1963, *CEA History, Volume II*, Documentary Supplement, Part II, LBJ Library.

[8] See Robert K. Murray, "Herbert Hoover and the Harding Cabinet," in Ellis W. Hawley, ed., *Herbert Hoover as Secretary of Commerce*, 17-42; and Ellis W. Hawley, "Herbert Hoover and Economic

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Although Heller, Ackley and others saw President Johnson as the ideal guidepost "enforcer," adherence was always designed to be voluntary and the price objectives were neither arbitrary nor punitive but conformed to real marketplace imperatives that were otherwise hidden or ignored. Especially at full employment, many companies had been inclined to ignore those market signals that suggested stable or even declining prices (such as increased worker productivity, higher capacity utilization, or a more stable and reliable customer base) while taking great care to heed only those which suggested the opposite (such as the higher cost of increasingly scarce skilled labor). The guideposts were designed then to give credence to a much more inclusive array of market impulses than had previously been recognized or utilized and to persuade corporations, labor unions, and the public at large to adapt market signals to a full employment economy. Harvard economist and CEA consultant (and later CEA member), Otto Eckstein, suggested only weeks after the Kennedy assassination that wage-price policy take into account "Johnson's persuasiveness on the telephone."[9] Ultimately, this persuasiveness and the wage-price policy to which it became affixed would serve to liberate, rather than obscure or vanquish, much of the "free market" that more conservative actors had often hesitated to accept. At the same time, Johnson and his advisers became acutely aware of their own pedagogic limitations. Gardner Ackley, CEA chairman from November 1964 to February 1968, expressed a continual reluctance, for example, to use certain high pressure tactics against the targeted corporations. To threaten anti-trust action in the middle of price negotiations, despite Joe Califano's willingness, was one such tactic Ackley and Johnson proved reluctant to accept.[10]

Stabilization, 1921-22," in ibid., 43-79, for analyses of the New Era political economy which inform this analogy.

[9] Quoted in Cochrane, "Moral Suasion," 200n.

[10] Ackley, Oral History Interview, in Hargrove and Morley, editors, *The President and the CEA*, 261.

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Though they were administered cautiously and selectively, the guideposts clearly became the primary weapon in the struggle against price inflation and represented the revolutionary side of the New Economics. This was the case because they implied a belief in two unorthodox propositions: that *high* demand automatically triggered inflation only on those rare occasions when it became *excess* demand—a level seldom if ever seen by the U.S. economy; and that most prices were set not by market forces alone, but by a combination of oligopolistic pricing power and a concern for customary profit margins, along with those isolated and fairly unrepresentative market impulses that called for price inflation. This is one of the reasons why many observers categorized Johnson's guardianship of aggregate demand as either naive or reckless. Most simply believed that Johnson saw the situation as they did, where demand had presumably reached levels high enough to trigger price inflation *automatically*, concluding, therefore, that he also charged ahead anyway, hoping to win acclaim for low unemployment rates in spite of the inevitable and quite hurrendous price consequences that lay ahead.[11] While Johnson never concluded that high demand had no bearing on price inflation at all, he and the CEA saw it more in terms of temporary bottlenecks, structural imperfections, and institutional power, than overstimulated demand. While Heller and many of the other Johnson advisers had disagreed with the

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[11] There are several other significant explanations for this characterization. Johnson's genuine efforts at curbing demand, in 1967 and 1968 in particular, (discussed at greater length in Chapter 8) seemed to betray him, for example, as one who actually believed the charges levelled by his critics. As it was, however, with Kennedy's tax reform proposals, and to a lesser extent, the 1964 tax cut as well, the ideal policy course was never politically feasible. While the high demand of the Johnson years, in other words, never had to trigger inflation automatically, some was bound to come anyway through the administered pricing mechanisms Johnson hoped to tame. Since *any* inflation deemed excessive would destroy the political economy he was trying to erect, and since this new approach would only succeed after several more years of conclusive evidence, he had no choice but to use *some* of the old medicine, inadequate and misleading as it was. The quite formidable political task before President Johnson, as I see it, was to use enough of this "old medicine" to blunt inflation, therefore enabling the survival and the continued promotion of the New Economics, but not so much that it would be declared, once again, the correct remedy for the emerging price inflation. A second additional explanation lies in Richard Nixon's willingness to jettison key aspects of the New Economics (namely the guideposts) in 1969, and to pass himself off as a victim of economic inertia. Blaming Johnson for the inflation spurred by his own administration was simply too easy an option to be avoided entirely.

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structuralist explanation of unemployment in general, seeing it more in terms of insufficient aggregate demand, they did agree that structural deficiencies and supply side bottlenecks became a critical factor as the economy approached full employment (at or just under the 4% unemployment level).[12] Most of the critical demand pressure of the 1967-1969 period, after all, came not from consumer purchases but from factory equipment orders, or in other words, from attempts to expand the nation's productive capacity. "Investment had balooned to levels," Walter Heller remarked late in 1966, "at which its longer-term help in cutting costs and generating growth was more than offset by its short-term mischief in intensifying demand pressures and inflationary forces."[13] Since high demand only becomes a catalyst for serious inflation when it accompanies limited or curtailed productive capacity, it was obviously not the sole, or even the most significant, cause of inflation in the late 1960s; productive capacity then was expanding rapidly. As Gardner Ackley pointed out in late 1966, where capacity was an issue, skilled labor, rather than capital goods, was the basic limiting factor on increased production.[14]

While "moral suasion might restrain the greed of corporations and unions;" Allen J. Matusow contended in his critical examination of the wage-price guideposts, "it could not repeal the law of supply and demand."[15] The point that Johnson and his economic advisers were trying to make, however, was that a government "incomes policy" was necessary precisely where supply and demand had little bearing. As John Kenneth Galbraith once pointed out, "no market principles are violated when the state moves to fix those prices that, as a product of industrial concentration, are already fixed."[16]

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[12] Unemployment dropped to 4% by the end of 1965. See Gardner Ackley's remarks, October 26, 1966 at Southern Illinois University, Carbondale, IL on structural deficiencies and price inflation; Robson-Ross Papers, Box 9, LBJ Library.
[13] Heller, *New Dimensions*, 100.
[14] Notes of speech, Gardner Ackley, National Industrial Conference Board Luncheon, Waldorf-Astoria Hotel, New York City, Robson/Ross Papers, Box 9, LBJ Library.
[15] Matusow, *The Unraveling of America*, 158-159.
[16] Galbraith, "The Conservative Onslaught," 36.

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Though Johnson's guideposts represented nothing close to a "price-fixing" mechanism, and were at most only an attempt to *influence* corporate price-making decisions, Galbraith's logic remains an appropriate defense of the guidepost approach to price stability. More prices were likely to rise, Johnson believed, as a result of corporate discretion than as a result of growing demand, particularly that demand represented by the spending power of the nation's middle class. Corporate pricing decisions, then, were an appropriate target for a President who desired both a wealthier and enlarged middle class, an end to poverty, and relative price stability. There were, quite simply, few, if any, viable alternatives.

In February of 1964 Johnson selected the automobile industry, where three companies accounted for 95% of the nation's production, as the first test for the Johnson-era guideposts. Heller, having already spoken to Walter Reuther of the United Auto Workers in December 1963, was pressed by Johnson to develop a strategy for negotiations with both the UAW and the "big three" automakers. He met first with Secretary of Labor Willard Wirtz and Secretary of Defense Robert McNamara to seek out the probable labor and management positions. As a former Ford executive who was once responsible for that company's pricing decisions, McNamara would serve, here, as a source of great insight. Indeed, Johnson, who was clearly an admirer of the DoD "Whiz Kid," encouraged his participation in most of the auto pricing negotiations.[17]

On March 23, Heller also traveled to Ford headquarters to collect data, and afterward met, once again, with Reuther on April 9, and with Henry Ford II and Ford president Arjay Miller on April 10. The upshot of the administration's information gathering efforts was that adherence to the guidepost principle suggested an auto industry price cut, as long as the UAW could be convinced to settle for a wage increase

[17] Heller, Ackley and other CEA members also placed great faith in McNamara's abilities and outlook. "LBJ used to try out many of his ideas on Bob McNamara," Gardner Ackley recalled. "We were always delighted to have him do so because McNamara almost invariably supported our views..." Ackley, Oral History Interview, in Hargrove and Morley, editors, *The President and the CEA*, 224.

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at or below the 3.2% figure. As he did in the late 1950s, Reuther had encouraged this approach, and suggested that such action would also incline his union members to moderate their wage demands. "If the corporations refuse to share their productivity gains with consumers in reduced prices," Reuther warned later, "and the Council [of Economic advisers] is unable to persuade them to do so, there is no basis in justice or morality to stand in the way of workers who seek to share in them."[18] Reuther also informed Heller, however, that he would not treat the proposal for a price cut as a bargaining issue, for he hoped to avoid being charged, as he had in the past, with "trying to run the industry."[19]

For their part, the auto manufacturers expressed a reluctance to reduce their rate of return on investment, a reduction that everyone, including the CEA, acknowledged to be a consequence of reduced prices. They also suggested that the industry's productivity gains were close enough to the 3.2% figure to justify stable rather than decreased automobile prices. And this held only if union wage increases came in at or under 3.2%; higher wage increases would justify higher prices. On May 29, 1964, however, CEA member Gardner Ackley penned a memo to LBJ summarizing the findings of an administration task force on auto prices (headed by CEA member John Lewis). Citing recent industry productivity trends, estimated to be between 4.9 and 7.4%, and that a 10% price cut would result in an 11% increase in the number of cars sold (price elasticity of demand = -1.1), Ackley recommended a $60 dollar per car wholesale price reduction (for General Motors, with slightly smaller reductions warranted for Ford and Chrysler who generally sold smaller, less expensive cars). "Taking account of standard markups," Ackley wrote, "this would mean cuts in manufacturers' suggested retail

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[18] Walter Reuther, *Policies and Priorities for Progress: The Economy in 1967: Statement of Walter Reuther to the Joint Economic Committee of the Congress, February 20, 1967* (Detroit: United Auto Workers, 1967), 24. For a brief overview of Reuther's stance in the late 1950s see I.F. Stone, "The Inflationary Spiral," September 9, 1957 in *The Haunted Fifties* (Boston: Little, Brown, 1963), 214-216.
[19] Memo, Heller to LBJ, "Meeting with Walter Reuther," April 9, 1964, White House Central Files, Ex BE 4/Auto, LBJ Library.

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prices ranging from about $50 on Corvairs, Ramblers, Valiants, to about $150 on the bigger Cadillacs, the Continental, etc."[20]

Even when automaker profits for the first half of 1964, however, registered a 28% increase over the first half of the previous year, the CEA realized that price cuts would only become a reality if General Motors' chairman, Frederic Donner, allowed them. "Pricing is Donner's baby," Lewis advised Heller.[21] Though Heller, Wirtz and others had succeeded in opening up several GM executives and outside directors to the idea of an auto price cut, everyone came to the conclusion that Donner could be moved only by the President himself. Donner might respond to the "Johnson treatment," the President's advisers reasoned, and he was the key to the whole effort.

With the 1964 election looming on the horizon, and Johnson telling everyone that he wanted to be "President of all the people," he was ultimately unwilling to press Donner very hard.[22] While this, his first attempt at guidepost enforcement, may have been the most critical one of all, Johnson gambled on the assumption that a conspicuous, well-played consensus building effort, far more tenable and much more easily comprehended by the American public, would pay even greater political and economic dividends. Johnson decided, then—against the advice of Walter Heller and others—not to press Donner for a price cut. To no one's surprise, no price cuts were announced, and with industry profits soaring for the third year in a row, union wage contracts came in with increases above the 3.2% guidepost figure. At 4.3 to 4.7 %, beginning with the Chrysler settlement on September 9, these increases made price rises a distinct possibility, even though they came in under the most conservative estimates of advances in the industry's productivity. In the end, however, no price rises were issued,

[20] Memo, Ackley to LBJ, "The Case for Auto Price Cuts," May 29, 1964, Ibid.
[21] Quoted in Cochrane, "Moral Suasion," 210.
[22] Eric Goldman noted Johnson's concern for bipartisan support by recalling his eagerness to bring his campaign to a conspicuous halt for a day when he heard that Herbert Hoover was dying. See Goldman, *The Tragedy of Lyndon Johnson*, 234.

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and the "Big Three" opted to increase revenue instead only by selling larger standard engines at greater cost to the consumer.[23] While this was certainly a less than auspicious start for the Johnson guideposts, and while it seemed clear, unfortunately, that they would depend quite heavily on presidential persuasiveness, prices did stick where, in similar circumstances, they had not before.

In 1965 and 1966, Johnson would press chairman Donner, however, revealing in the process both the strengths and the weaknesses of the Johnson guideposts. In 1965, Johnson believed he had made progress in his quest for a new consensus. The National Independent Committee for Johnson/Humphrey, for example, had enlisted the support of some 3000 CEOs (headed by Republican businessman and Merck CEO John Connor) most of whom were members of the Republican party.[24] While Barry Goldwater carried Arizona and five deep South states handily, there were thirty-two states where he failed to carry a single congressional district. While Johnson insisted that his support was still "like a southwestern river, broad but not deep," and that a true consensus formed slowly and almost imperceptibly, rather than in the aftermath of a single election, he did see the 1964 landslide victory as an auspicious beginning. With seventy-one new, mostly liberal, Democrats added to the U.S. House, after all, the conservative Southern Democrat-Republican coalition was, as Eric Goldman put it, "seriously weakened for the first time in the twentieth century."[25]

With the June,1965 reduction of excise taxes on automobiles (and phone service, televisions, jewelry as well), enacted partly to continue the work of the 1964 tax cut, and automaker profits up again, the Big Three found themselves, perhaps, in a position where it was relatively easy to be magnanimous and public spirited. Johnson did

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[23] Cochrane, "Moral Suasion," 213.
[24] Speaking to this group in the middle of the 1964 campaign, Johnson told them that "our American system was not intended to be controlled by the rigid discipline of party." Quoted in Gould, "Never A Deep Partisan," 25.
[25] Goldman, *The Tragedy of Lyndon Johnson*, 282-283.

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pressure Donner at GM, however, and GM responded with small but clear price decreases. While Chrysler had already nudged prices up a bit, by switching standard for optional equipment as they added required safety features, Ford followed GM with price decreases of their own. After the reductions were announced, Ackley wrote to Johnson:

> The opinion is widely held in business circles that the new GM prices are the direct result of your influence on Fred Donner. The story is vague whether you intervened directly on the specific matter of GM's prices, or whether the prices merely reflected the respect that Donner paid to your well-known views on price stability. In any case, you get the credit.[26]

The 1966 auto wage and price decisions, however, showed that the guideposts still took a backseat to corporate short-term profits and rate of return on investment. With the guideposts coming under increasing attack from business and labor, with Ted Sorensen's law firm acting as legal representative for GM, and LBJ friend and former Under Secretary of State Thomas Mann heading the Automobile Manufacturers Association, Chrysler, Ford, and GM announced price increases.[27] Using mandated safety features as an excuse, Ford announced increases of $107 per vehicle, and Chrysler $92, even though the industry's return on equity was still well above 20%, and trend productivity showed an increase from 3.2 to 3.6% without an accompanying adjustment in the guidepost target. Chrysler chairman, Lynn Townsend, had also informed Gardner Ackley (then CEA chairman) that the entire 1967 safety package would cost "less than $20."[28]

The Big Three were clearly swimming in cash, and Ackley told Johnson that they could easily absorb the added costs of the new safety equipment. GM alone had earned

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[26] Memo, Ackley to LBJ, "GM's Prices," September 24, 1965, Papers of LBJ, White House Central Files, Ex BE 4/Auto, LBJ Library.

[27] Sorensen spoke to Ackley on September 16, 1966, informing him that his law firm was now representing GM, and that he disagreed with the government position which regarded "no price increase" as the only acceptable option. See memo, Gardner Ackley for personal files, September 17, 1966, Robson-Ross Papers, Box 9, LBJ Library. See also the *Wall Street Journal*, September 6, 1966, 1, and September 9, 1966, 1, for stories on Mann's hiring and connection to LBJ.

[28] Cochrane, "Moral Suasion," 243-4, 250; Memo, John Robson to Joe Califano, August 31, 1966, Robson-Ross Papers, Box 9, LBJ Library.

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approximately $2 billion the previous year, a figure that translated into a phenomenal 26% return on equity. When Ackley forwarded these numbers to President Johnson, he termed this rate of return "a figure more reasonably associated with a newly opened gold mine."[29] Calling on Donner again at GM, Johnson was, in this case, however, only able to force smaller increases. When GM announced a $56 increase, both Ford and Chrysler scaled back their previously announced price rises, giving Johnson some consolation. "We had hoped," Johnson was quoted in the *Journal of Commerce*, "that these businessmen could forego the necessity of increasing prices. We asked them to do that. But they were free to make their own prices, and that's what they've done."[30]

In late November 1966, several weeks after these increases were announced, Walter Reuther wrote to Johnson's Advisory Committee on Labor-Management Policy and suggested a "new incomes policy" to replace the "broken down" wage-price guideposts.[31] "The guideposts are wearing thin," Stan Ross added, writing to Joe Califano in June 1967.[32] In the auto industry, however, they had an impact on prices, and they had arguably changed, as well, the way labor and management created company wage and price policy. What became clear, in 1965 and 1966, on the other hand, was that the guideposts were still too dependent on both Johnson's persuasiveness

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29 Ackley, cited in Cochrane, "Moral Suasion," 248. Reuther also pointed out that in 1947 a GM worker would have received $3,009 if employed for 52 weeks, and a GM stockholder with 1003 shares would have received the same amount in dividends. By the end of 1966 the worker would have received a total of $110,000 in wages while the investor would have received $278,000 in cash dividends and the market value of his investment would have increased by $345,000. For Ford Motor Co., a fully employed worker would have earned $3,536 in 1949 and a total of $106,000 by 1966, while the investor who held $3,536 worth of Ford stock in 1949 would have received $309,000 in dividends by 1966 and witnessed a $475,000 increase in the book value of his stock. See Reuther, *Policies and Priorities for Progress*, 31.
30 Johnson, quoted by Sidney Fish in the *Journal of Commerce*, September 22, 1966, clipping in Robson-Ross Papers, Box 9, LBJ Library.
31 Memo, Reuther to All Members of the President's Advisory Committee on Labor-Management Policy, November 28, 1966, Robson-Ross Papers, Box 9, LBJ Library.
32 Memo, Ross to Califano, June 29, 1967, Robson-Ross Papers, Box 9, LBJ Library. Stanford G. Ross was hired in early 1967, ostensibly to replace Illinois Republican John Robson as the administration's organizer of inflation-fighting information, even though a specific Robson post never existed. Robson, who would later serve in the Ford and Bush administrations, was a Harvard Law classmate of Califano's, while Ross was an associate of Califano's in Thomas Dewey's law firm in New York.

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and the acquiescence of labor. As Ackley had pointed out, no one knew for sure whether Donner had acted on behalf of the guidepost principle or on behalf of the man in the oval office. And with respect to labor, it was becoming clear that Reuther and others like him were finding it more and more difficult to act in "the public interest," finding themselves pinched in a tightening political and economic vise. On one hand Jimmy Hoffa and union leaders in the building trades were pushing inflationary wage increases with impunity, and on the other, even more significantly, companies were not demonstrating much of a willingness at all to share their increased profits with the public in the form of stable or even decreased prices.

AFL-CIO president George Meany even went so far as to suggest that profits and productivity were so great, many companies could simultaneously raise wages and cut prices without impairing their cash flow, all to the benefit of the entire economy.[33] Others pointed out that the so-called "wage-price spiral" should more properly be termed the "price-wage spiral." In most cases, wages were, indeed, following rather than leading higher prices, particularly in the oligopolistic manufacturing sector. Eisenhower CEA member Henry Wallich contended that "the evidence is on the financial pages every day. Profits have been rising rapidly, faster than the GNP....and are now provoking excessive wage demands. Thus, though it is labor that is most ostentatiously turning its back on the guideposts, it is business that has done a large part of the damage."[34] Reuther clearly found himself hemmed in by these circumstances in the auto industry; it would hold true in other industries as well.

How did the Johnson guideposts fare in other industries? In steel, aided by Kennedy's earlier confrontation, and the public perception that steel prices were basic to

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[33] George Meany, "Wage and Price Policies and Trends," in George Meany, Roger Blough, and Neil Jacoby, *Government Wage-Price Guideposts in the American Economy, The Charles Moscowitz Lectures, School of Commerce, New York University, 1967* (New York: School of Commerce, N.Y.U., 1967), 14.
[34] Henry Wallich, "Desert Guideposts," *Newsweek*, August 22, 1966, 82.

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the whole economy, they fared well—at least until 1967. Though steel executives lamented the "profit squeeze" endlessly, and prattled on about how the guideposts favored labor over management, they tended to follow them anyway. Acutely aware of the industry's special circumstances and its relative compliance, Inland Steel chairman Joseph Block, addressing labor leaders, administration officials, and other CEOs at a June 1965 White house dinner, sang the customary steel industry lament:

> Last December my company raised its price on a relatively minor steel product—galvanized sheets. We did this because the cost of coating material—zinc—had gone up considerably and we regarded our profit as inadequate. It was in reality a minor matter, yet based on government reaction, one would have thought that we had dropped an atom bomb. We were told that we might trigger inflation. We were told that we might induce Mr. Abel here, or Mr. McDonald [leaders of the steelworkers union], to increase their wage demands. We were told that we would lose business to foreign steel. Now all this would seem to indicate that we must have been thought pretty dumb not to have considered such matters in advance of our action. And perhaps we were. But Mr. President, I know you are a strong believer in our free enterprise system. As such, Sir, my request is that you permit us the freedom of making our own mistakes without scolding us.[35]

Roger Blough of U.S. Steel, though somewhat less critical of the guideposts in general, also complained publicly in 1965 about the industry's woeful financial position, and Johnson's newly appointed Secretary of Commerce, John Connor, seemed to be endorsing the industry's view. Tabbed for the post largely as a reward for his work in the 1964 campaign, Connor began hinting that selective price increases were both justifiable and acceptable. When Clark Clifford, unofficial adviser to President Johnson, and official legal council to Republic Steel, echoed Connor's analysis, Johnson told Joe Califano—now the administration point man on guidepost activity—that he wanted "no price increase. Zero. None." Johnson then instructed Califano to tell Connor and Clifford "to give that message to Roger Blough in a tough way," and to "turn him upside down and shake him before he makes an ass out of himself again."[36]

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[35] Notes from White House speech, June 22, 1965, Papers of Joseph Block, AC 77-1, LBJ Library.
[36] Quoted in Califano, *Triumph and Tragedy*, 92.

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Despite all the sound and fury, however, and the additional threat of Connor's acquiescence, when Johnson brought steel management and labor representatives together for five days of intense negotiations in August and September, a new labor contract was signed that conformed to the guideposts and resulted in no price change.[37] The steelmakers, Block and Blough included, had responded to Johnson's appeals. Since this came only days after the first substantial escalation in the nation's Vietnam war effort, with Ackley warning Johnson on August 9 of the potential for an "inflationary psychology among businessmen," Johnson was particularly pleased with the outcome.[38]

On New Year's Eve 1965, however, Bethlehem Steel announced a $5 per ton increase in the price of structural steel. Catching the administration at a time when they judged steel prices to be a very small and fading concern, the Bethlehem announcement incensed President Johnson. "They probably thought we would all be out partying somewhere," he told Joe Califano. "I want to call these bastards war profiteers. That's exactly what they are."[39]

Though he ignored the administration's first request—an White House invitation extended by CEA chairman Gardner Ackley—Bethlehem president Edmund Martin eventually agreed to a meeting with Joe Califano on New Year's day. When Califano briefed Johnson on the meeting, where Martin seemed to offer no apology or justification, Johnson told Califano to make sure that the government "did not buy one Goddamn ounce of steel from Bethlehem or any company that raised its price."[40]

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[37] The administration, particularly the departments of Commerce and Labor, was so intimately involved in these around the clock negotiations that Secretary Connor and Labor Secretary Willard Wirtz came to be known as "the housemothers." See John Connor, Oral History Interview, June 22, 1988, interviewed by Michael Gillette, LBJ Library, 37.
[38] Memo, Ackley to LBJ, August 9,1965, LBJ Handwriting File, Box 9, LBJ Library. Ackley prefaced this warning, however, with a significant qualifying clause: "While there was no evidence that the Vietnam buildup will subject the U.S. to severe short term inflationary pressures..."
[39] Cited in Califano, *Triumph and Tragedy*, 103.
[40] Ibid., 103-104.

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Though Joseph Block notified Johnson on January 3, signalling Inland Steel's desire to follow Bethlehem—"we do not believe the arguments advanced by your economic advisers are sound," Block noted—Johnson knew that Blough and U.S. Steel, rather than Bethlehem or Inland, would ultimately be the key player in any steel price arrangement.[41] U.S. Steel was clearly the "bell cow" of the industry, chairman Blough understood well the connection between government contracts and industry profits, and they had not yet responded to the Bethlehem increase. With this in mind, Johnson arranged a meeting between Blough and Defense Secretary McNamara. If Blough needed any help making a sound judgement, Johnson reasoned, then McNamara, Pentagon purchase orders in hand, would be the ideal consultant.

When U.S. Steel announced a lesser ($2.75/ton) increase on its structural steel products, just after the Blough-McNamara meeting, and offsetting reductions in another line, Bethlehem and Inland lost no time rescinding their earlier increases. Johnson had once more rescued the guideposts from an aggressive attack, though, in this case, it was a rear-guard offensive, and there was less to crow about in the end. "It almost seemed," Califano recalled, "as if LBJ could hold down prices and wages by the force of his presence and personality."[42] Not until August 2, 1966, when Inland Steel announced a $3 per ton increase in strip and sheet steel products, were the Johnson-era guideposts compromised in the steel industry. Even then, increases were avoided in all but two of the industry's product lines.

Not long after the conclusion of the 1965 steel negotiations, in late October, the aluminum industry issued its first challenge to the Johnson guideposts. Ormet, jointly owned by Olin Mathieson and Revere, initiated the challenge on October 29 with a proposed ½ cent per pound increase in both primary and fabricated aluminum (from

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[41] Correspondence, Joseph Block to LBJ, January 3,1966, Papers of Joseph L. Block, AC 77-1, LBJ Library.
[42] Califano, *Triumph and Tragedy*, 105.

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24.5 cents to 25 cents per pound for *primary* stock). Reynolds and Kaiser followed immediately with identical increases. As it was with steel, however, pricing in the aluminum industry was typically set by one company, with the others merely following the leader. While some 200 fabricating companies had emerged by the mid 1960s, thereby bringing some competition to that field, three producers—Alcoa, Reynolds, and Kaiser—still manufactured approximately 90% of the nation's primary aluminum, with Alcoa leading the way by a substantial margin.[43] Alcoa, like U.S. Steel in the steel industry, was clearly the industry's pricing leader. Since Alcoa president John Harper was in Japan when the Ormet, Reynolds and Kaiser announcements were made, and Johnson was at the LBJ ranch in Texas recovering from gall bladder surgery, Johnson ordered CEA chairman Ackley not to respond until "Alcoa dropped the other shoe."[44]

When the shoe dropped, with Alcoa's price rise announcement on November 5, Johnson instructed the CEA to continue their usual forays into the industry's balance sheets and recent historical record.[45] Otto Eckstein, appointed to the CEA in September 1964, had already cabled Johnson on the evening of the Ormet announcement, pointing out that the industry was witnessing near record after tax profits—disguised extensively by accelerated depreciation allowances—with spare capacity and heavy cash flow to boot. The aluminum companies, Eckstein informed Johnson, should be cutting prices, not raising them. He concluded by recommending the use of the government's aluminum stockpile as a way to force guidepost compliance.[46]

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[43] Even with the appearance of marginal competition among fabricators, the larger producers of primary aluminum continued to have much more effect on their prices than any competitive forces possibly could since they set the price of both the alumina and bauxite ores and the aluminum ingots purchased by the smaller independent fabricators. Moreover, the primary producers were also fabricators, and they customarily initiated primary price changes only when they were accompanied by fabricated price changes (leaving a margin for the independent fabricators).

[44] Quoted in Gilbert Burck, "Aluminum: The Classic Rollback," *Fortune*, February 1966, 224. Ackley was also recovering from a recent surgery.

[45] Alcoa matched the Ormet, Reynolds, Kaiser increases on primary aluminum, and added even larger increases on fabricated aluminum products.

[46] Califano, *Triumph and Tragedy*, 98; Cochrane, "Moral Suasion," 229-231.

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Though the most recent industry wage agreements had fallen very close to the 3.2 guidepost figure (estimates ranged from 3.2 to 3.5%), and while the industry's rate of productivity increase for 1965 was approximately 5%, the guideposts themselves came to be used here more as a public relations device than an explicit administration policy tool. Indeed, all public pronouncements on the aluminum price change emanating from the administration suggested that President Johnson hoped to force a price rollback simply by invoking the wage-price guideposts. While this proved to be a useful approach, insofar as the need for guidepost publicity went, this was simply not indicative of the real measures eventually taken by the administration. It is somewhat misleading, in other words, to regard the simple application of guidepost arithmetic as the whole of Johnson's *microeconomic* anti-inflation policy, for it was not. The guideposts were the preferred tool, however, within this realm, and the administration also hoped that it could rely on them more completely in the future. Because they were so widely misunderstood—even by Washington insiders—so relatively unknown to the general public, and yet such an indisposable part of price stability at full employment, it behooved Johnson to invoke the guidepost principle wherever he could, even if he could effect a price rollback without it.[47] Such was the case with the 1965 aluminum price rise where Johnson eventually heeded Eckstein's advice and used the federal government aluminum stockpile instead as the chief means of attaining an industry price rescission. That this also entailed the industry's *de facto* compliance with the guideposts, was a most welcome, and politically indispensable side-effect.

When the *New York Times* characterized Johnson as "sputtering mad" over the aluminum price rise, President Johnson, according to Joe Califano, tore into acting CEA chairman Otto Eckstein. "That sonuvabitch sends a cable down here that would make

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[47] See "Guidelines for the Guidelines," *Newsweek*, August 22, 1966, 79-80, where it is suggested that many thought the guideposts allowed for 3.2% increases in wages *and* prices. Note also that the *Newsweek* editor repeatedly refers to the guideposts as the "guidelines,"a trivial error to be sure, but one also indicative of how obscure and misapprehended the guideposts really were.

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any President see red," Johnson complained to Califano. "Then when I do what he wants, he goes around bragging about how mad he got the President."[48] Johnson was upset, however, with the *New York Times* characterization, not Eckstein's analysis and prescription. He clearly wanted to be forceful with the aluminum industry, even if much of the action was to take place behind the scenes and off the record. *Fortune* magazine speculated that Johnson's approach to this situation derived largely from his experience in the 1950s as chairman of the Senate subcommittee responsible for oversight of the nation's aluminum stockpile. There, *Fortune* suggested, he became convinced of the industry's greed and malice, as they wracked up stupendous profits at government expense.[49]

For a variety of reasons, then, Johnson had decided to flood the market with government stockpile releases so as to break the aluminum price increase. Though his administration had already planned a series of releases prior to the industry price rise (the government had plainly stockpiled an excess amount throughout the 1950s), now he wanted to do it with a little more abandon and fanfare so as to remind industry officials of their real dependence upon federal government largesse. As opposed to the provisions of the already planned releases, there would now be no limit placed on the amount released, and the government aluminum would be sold at prices below the

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[48] Quoted in Califano,*Triumph and Tragedy*, 99-100. Califano suggests that Johnson's temper flared here for a number of reasons: his recovery from surgery was not going well; he was being subjected to ridicule for showing the world his surgical scar when he was simply trying to reassure the world that he had not had another heart attack; he was on a bland, strict diet that made him feel even worse; his 18 year old daughter Luci, whom he thought too young to marry had just announced her intentions to do so; a map-plotting error led two American pilots to destroy a friendly Vietnamese village that day; and he had just seen Peter Hurd's portrait of himself which he absolutely hated.

[49] Burck, "Aluminum: The Classic Rollback," 224. See also *Newsweek*, December 3, 1951, cover, 19-23, for an interesting analysis of Johnson's chairmanship of the Senate Preparedness subcommittee in question. The cover sports a businesslike portrait of the Texas senator above the label, "Lyndon Johnson: Watchdog-in-Chief." The "teaser" on the magazine's cover is also notable for its irony—"Senate Report on Rearmament: Too Much Butter, Not Enough Guns". Between 1951 and 1963 Aluminum producers sold the federal government's General Services Administration approximately 2 million tons of aluminum. In 1957 and 1958 sales to the government (stockpiles only) comprised 20% of all production.

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newly established industry figure.[50] When he called Secretary of Commerce John Connor and asked him to inform industry executives of plans for the first release and urge them to rescind their price increases, Connor refused, telling Johnson that the aluminum companies "needed price increases to get back on the profitable side of the ledger," and that he [Johnson] did not have "the dictatorial authority" to order price reductions.[51] Having read Eckstein's cable carefully, particularly where it cited the industry's high cash flow and hidden profitability, Johnson growled at Connor and slammed the phone down. This would virtually explode the already widening rift between Johnson and Connor, an often disregarded but *economically* significant rupture that would conclude with Connor's resignation on January 18, 1967. Never enamored of the guideposts, Connor simply refused to help enforce them time and time again, undercutting administration efforts throughout his tenure—a period (January 1965-January 1967) of utmost significance to the overall Johnson inflation fighting effort.[52]

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[50] When McNamara publicized the first release of 200,000 tons, he noted that 85,000 tons would be sold "at market prices." When he was asked if this meant the new price established by the industry he replied, "Not necessarily. Many transactions take place at other than the published price." Quoted in Cochrane, "Moral Suasion," 234. Much of the industry price was dependent on the stockpile purchases. When the federal government ceased stockpile purchases, for example, in 1959, even without releases, the price of primary aluminum slid from 26 cents per pound to 22.5 cents per pound.

[51] Connor, Oral History Interview, 41; Califano, *Triumph and Tragedy*, 99. Johnson had the authority to release as much as 770,000 tons of stockpiled aluminum in a given year without congressional approval.

[52] Arthur Okun also noted that Johnson was not very close to Connor's successor, Alexander "Sandy" Trowbridge, though Trowbridge was much more willing than Connor to pursue inflation fighting remedies. Only with the appointment of C.R. Smith in 1968, Okun contended, did Johnson develop a close working relationship with his Secretary of Commerce. See Okun, Oral History Interview, in Hargrove and Morley, editors, *The President and the CEA*, 272. In an address to the Economic Club of New York, on March 15, 1965, Connor made a number of telling comments on the administration's wage-price guideposts. Referring indirectly to recent and pending auto price negotiations, Connor called the suggestion to reduce prices just before going to the bargaining table with labor "quite unrealistic." He also cited and seconded industry complaints regarding the 3.2% figure as a "starting point" for wage increases, rather than an upper limit, and maintained that he supported "the use of the guideposts," but then suggested that "not nearly enough businessmen" have gone to Capitol Hill to express opinions on them (undercut them and render them harmless to industry profit margins, in other words). In his concluding remarks Connor took a swipe at Johnson's economic advisers, John Kenneth Galbraith in particular (with whom he had been engaged in a rancorous debate over the balance of payments problem), and warned, "If I lose my job, one of you had better be prepared to take it on, that is, if one of the professors isn't already sitting in the chair [to laughter and applause]." See Secretary of Commerce John Connor, "Address to the Economic Club of New York City, March 15, 1965," Sound Recording

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Ultimately, however, Johnson had the ability to roll back the aluminum price increases even without Connor's assent. After huddling with Califano and McNamara, he ordered the release of 200,000 tons of aluminum on November 6. When this failed to move the industry, he followed it with the release of an additional 100,000 tons. With Attorney General Nicholas Katzenbach applying additional pressure (reminding the aluminum companies of a pending anti-trust suit and the possibility of treble damages if they challenged rather than settled the price-fixing charges), the second release began to work its magic. On November 10, 1965, Secretary McNamara convened a press conference where he announced an Alcoa price rescission. As expected, the other producers then followed Alcoa with reductions of their own.

Much like Kennedy in the wake of the 1962 steel showdown, however, Johnson was determined, here, to play down the aggressive nature of the price rollback. He wanted to emphasize, instead, the continued applicability of the guidepost principle, and also hoped to prevent the further erosion of relations between the aluminum companies and his administration. When he and his advisers entered into subsequent negotiations with the aluminum industry on the issue of future stockpile releases, *Fortune* magazine noted that the "negotiations went very well for the aluminum companies."[53] Limits were placed on releases, and arrangements were made for orderly, evenly-timed transactions, thus removing most of the threat that the Johnson administration might ever again use the stockpile as a lever to ratchet down industry prices.

"Probably no industry owes more to the the government than aluminum," Gilbert Burck noted in *Fortune* magazine. "The government has helped it with loans, tax

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SRT 1017, LBJ Library. See also Evans and Novak, *The Exercise of Power*, 488, for a brief note on the Connor-Galbraith debate.

[53] Burck, "Aluminum: The Classic Rollback," 229. McNamara did gloat a bit in private, showing up at a costume party for Averell Harriman a few days later with his head wrapped in aluminum foil. Cited in Cochrane, "Moral Suasion," 236n.

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incentives, accelerated write-offs, and profitable orders..."[54] After the 1965 aluminum price rollback, industry executives saw Johnson as one who would not fail to remind them of this connection. Partly as a result, primary aluminum prices remained stable through mid 1967.

The use of the aluminum stockpile in 1965 signalled President Johnson's willingness to use a variety of tools and methods in his efforts to combat what he saw as administered price inflation. While he never ignored or underestimated genuine market forces when it came to corporate pricing decisions—forces that he was less inclined to subvert—he was convinced that market imperatives were often the least persuasive factor in the determination of most prices. Whether companies were really aware of their marginal production values and marginal profits or not, Johnson sensed that their prices were typically a product of decisions where government policies and special favors had a great deal of bearing. All of these policies and accomodations, then, were fair game for Johnson and his inflation fighting asssistants. In large measure, what the guideposts and the other inflation fighting tools were all about—though conservative opponents either failed or refused to understand the rationale—was the encouragement of price levels associated with a truly competitive market had it actually existed. Where

[54] Ibid., 107. If anything, Burck was conservative in his estimate of aluminum industry reliance upon the federal government. In addition to the *ongoing* assistance he cited, the industry also benefitted richly from past government assistance that provided it with much of its working capital and protected it from real competition. Arthur Davis of Alcoa received state department assistance in the 1940s, for example, in his attempt to discourage the creation (government funded) of Reynolds Metals' aluminum production facilities. While this attempt fell short, he was successful in getting the government to ignore or pigeon-hole offers from foreign companies to build U.S. aluminum production plants (one prominent Swiss company was kept out this way). Alcoa's contract with the federal government during World War II was also written and approved by Alcoa's legal counsel Oscar Ewing; the company had the final say on both prices and production levels. And when the new government owned plants (purchased by Reynolds and Kaiser after the war for pennies) starting producing aluminum, Alcoa was able to delay production, to convince the government to pad costs there so as to avoid competition, and to maintain total control over the alumina and bauxite precursors. They also used a Canadian affiliate to evade U.S. antitrust law and had veto power over the site selection process for any new plants, successfully canceling one Olin project for example. See I.F. Stone, "Their Monopoly—Right or Wrong," May 24, 1941, 65-68; "Making Defense Safe for Alcoa, I," September 27, 1941, 78-82; "Making Defense Safe for Alcoa, II," October 18, 1941, 83-87; and "Alcoa in Wonderland," March 24, 1945, 263-267, in *The War Years, 1939-1945* (Boston: Little, Brown, 1988).

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genuine hardship or market difficulties actually prevailed, as was the case with gypsum manufacturers in mid 1967, the Johnson administration had no qualms about moderate price rises. "We decided not to send letters to producers of gypsum products," Gardner Ackley wrote to Johnson in July 1967. "Prices and earnings are clearly depressed, and we did not think we could make a good case for restraint."[55]

In many, if not most cases, however, Johnson and his economic advisers found ample reason to intervene. They almost always possessed, as well, a fair number of tools with which to fight price increases. Stockpile releases, for example—as warranted and utilized in the 1965 aluminum case—were also used to dampen price pressure on grains, dairy products and oils, and on industrial commodities such as tungsten, copper, vanadium, and rubber. "Orville Freeman [Secretary of Agriculture] has moved out quite well on the food price situation," Joe Califano wrote Johnson in January 1966. The agricultural commodity stockpile sales, he pointed out, were already having a positive impact. "Excellent!" Johnson scrawled in return.[56] When Climax Molybdenum Co. raised their prices by 6% on July 8, 1967, Johnson discovered that in this case he only had to *threaten* the use of stepped up stockpile releases; there were simply too many other, more effective and equitable price fighting options available. Because Climax' parent corporation, AMAX, was currently receiving government aid and assistance in its Australian and Zambian ventures, was asking for an extension of the existing 30 cents per pound import duty on Molybdenum, and was the subject of ongoing anti-trust investigations, the Johnson administration possessed, as James Cochrane noted, "an almost embarassing surfeit of levers it could use."[57]

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[55] Memo, Ackley to LBJ, July 29, 1967, "Weekly Price Report," Robson-Ross Papers, Box 13, LBJ Library.
[56] Memo, Califano to LBJ, January 24, 1966, LBJ Handwriting File, Box 11, LBJ Library.
[57] Cochrane, "Moral Suasion," 247. 70% of the U.S. supply of Molybdenum came from one AMAX owned mine in Climax, Colorado; 80% of the world's supply came from the U.S.

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With respect to the use of anti-trust policy, Johnson largely continued the hands-off approach initiated by the Kennedy administration. Because a Democratic president had a more difficult time winning the support of the business community, and because Johnson, Heller, Ackley, and others believed corporate bigness to be, in many ways, an asset to the American economy, they seldom carried out the threats implied by their numerous anti-trust investigations. They did, however, despite Ackley's reluctance, use the threats extensively, more as a reminder of government favors that the targeted companies enjoyed than as an expression of arbitrary power. Only in a few cases were prosecutions deemed necessary, such as the early 1967 price-fixing suit against publishers of children's books bought by schools, libraries, and government agencies, and the late 1967 conviction of three major drug companies after their attempts to fix the prices of certain antibiotics.[58]

Government procurement policies were also used extensively, by themselves or in combination with other levers, to combat various price increases. Margarine was substituted for butter, for example, in 1967 contracts with the Army, Air Force, and the federal school lunch program, with price dampening effect on butter and other cream products. Also in 1967, the Department of Defense began purchasing medium rather than large eggs with favorable price effects in the egg market.[59] The DoD began, at the same time, coordinating its purchases of food with the Department of Agriculture, in order to avoid buying during seasonally tight supply situations. The Pentagon was especially mindful of its impact on the beef and veal markets, for they discovered that beef and veal accounted for one third of all military food takings in 1966, and 25% of

[58] Memo, Ackley to LBJ, "Weekly Price Report," April 22, 1967, and December 30, 1967, Robson-Ross Papers, Box 13, LBJ Library.
[59] This action was reinforced by concurrent announcements from the U.S. Surgeon General on the cholesterol hazard in eggs and egg products, announcements encouraged by Johnson the price fighter and heart attack victim.

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the consumer price index "food at home" component.[60] There was, indeed, ample room for the tightening of government procurement policy in general and military procurement policy in particular. Because these purchases had such a salutory effect, in and of themselves, on business profitability, most businesses were more than willing to suffer the slightly offsetting effects of efficiency-minded procurement reform. Department of Commerce official Rodney Borum even saw the administration's handling of Vietnam procurement as "the most obvious bright spot" in its relations with business.[61]

Government procurement policies were also utilized to drive down hardwood lumber prices when they rose in the fall of 1966. Johnson simply ordered the GSA to cease buying hardwood lumber for government projects, and to buy softwoods such as spruce and yellow pine instead. At the same time he encouraged the Small Business Administration to help small Appalachian mills expand their production somewhat, and worked with the Interstate Commerce Commission to speed the delivery of boxcars to the western U.S. where a boxcar shortage had stymied mill deliveries of already harvested and processed timber.[62] Within weeks of these changes, hardwood lumber prices had dropped to their earlier, non-inflationary levels. Similar forays, meeting with equal success, were carried out by the administration in the cotton textile and sulfur markets.

In 1966, Johnson discovered that import and export controls were also, in certain markets, useful inflation fighting tools. In early 1966, for example, the administration used export controls to depress the price of hides. It was hoped that less expensive hides would ease the cost-push price pressure on leather goods in general, and shoes in

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[60] Memo, J.P. Cavin, USDA Director, Economic and Statistical Analysis Division to Califano, October 14, 1966, Robson-Ross Papers, Box 9, LBJ Library. U.S. military purcases of food were up to $1.3 billion in FY 1967, from $1.225 billion in FY 1966, and $875 million in FY 1965.

[61] Rodney Borum, Oral History Interview, interviewed by Dorothy Pierce, October 16, 1968, LBJ Library.

[62] Anderson and Hazleton, *Managing Macroeconomic Policy*, 169.

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particular. When the administration succeeded in driving down the price of hides with the tightened export controls, however, the shoe manufacturers underscored the voluntary, "good will" component of any of these actions, thanking them for the decreased leather costs, but raising shoe prices by 2-7% anyway.[63] Banking on an emerging inflationary psychology that was in large measure a self-fulfilling prophecy, businesses like the shoe industry were more easily seduced by the prospect of higher short term profits (and quite possibly higher medium term profits as well) even if it implied the onset of an inflation that would impair long term economic prospects by itself, and medium term economic prospects by serving as a catalyst for economic policy changes (deflationary fiscal and monetary policies). Since mild inflation also reduced business' borrowing costs, it was simply easier for the business sector of the economy, moreso than any other, to devalue the cost of inflation and ignore its long term consequences.[64] This stumbling block became an increasingly significant factor as the Johnson administration moved its fight against inflation to center stage.

Import controls were utilized as well in 1966, especially in the oil and sugar refining industries where strict import quotas had supported price levels for decades. Fuel oil and sugar prices responded positively as a result, even though Senators Jennings Randolph and Robert Byrd, both West Virginia Democrats, prompted a temporary countermand of the fuel oil decontrol. Concern for the West Virginia coal industry and for Appalachian unemployment in general, forced Randolph and Byrd—along with AFL-CIO president George Meany—to discourage a too vigorous attempt at making petroleum products less expensive.[65] In spite of this, Johnson did encourage the expansion of domestic supply, largely by getting Interior Secretary Udall to work

[63] Ibid., 163.
[64] Nobel laureate (1985, Economics) Franco Modigliani's studies suggest that this debt-repudiating effect is surprisingly large, particularly at or near full employment when the incentive to invest is high.
[65] Stewart Udall, Oral History Interview, 35. Until the 1967 oil crisis, Johnson largely acceded to the wishes of Randolph, Byrd, and Meany.

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closely with Texas Railroad Commisioner Ben Ramsey, and by urging the Bureau of Mines—upon whose reports the Texas Railroad Commision relied—to give "generous estimates of needs" for domestic oil products.[66]

There were also a few cases where the U.S. government's ties to a given industry were less direct, and therefore less capable of influencing that industry's pricing strategy. Such was the case in the copper industry, where prices were largely set in the world market. Chile had the greatest influence on this market, even though production there was only about 60% as extensive as that in the U.S. This was largely because the Chilean government, beginning in 1965, controlled 51% of the nation's mining interests. The U.S and Zambia produced more, but there production remained completely in private hands. The Soviet Union also produced more, but their production was geared almost exclusively toward domestic consumption, and had little if any impact on the world market. Moreover, The U.S. imported 40-45% of its copper needs, relying on Chile for about 25-30% of this total. Copper income was (and is) also a chief source of revenue for the Chilean government, and was the mainstay of the nation's fiscal system

[66] Quoted in Anderson and Hazleton, *Managing Macroeconomic Policy*, 164. Despite its name, and the intent of its founders (est. in 1891 by Texas governor Jim Hogg to assert populist control over the railroads), the Texas Railroad Commission was most notable for its control of domestic production allowables in the nation's oil industry. Operating under the guise of a mandate to prevent "physical waste," where low-producing "stripper wells" would be shut down if supply was too great and price too low, the commission actually concerned itself more with cutbacks in supply to keep prices and profits artificially bloated. See Daniel Yergin, *The Prize: The Epic Quest for Oil, Money, and Power* (New York: Simon and Schuster, 1991), 248-259, for a brief overview of the Texas R.R. Commission, its origins and customary practices. It is also interesting to note how little attention was paid to oil production and prices by Johnson and his economic advisers, even after the 1967 crisis. This seems to be a function of their confidence (not unwarranted at the time) in the ability of domestic producers to expand their supply quite rapidly. When senator Fred Harris contacted the administration about the possibility of buying cheap imported oil and storing it underground, Assistant secretary of the Interior Cordell Moore wrote to Harris on July 20, 1967: "This proposal has been studied by government agencies and found to be impractical for several reasons. 1) Have to use expensive pumping equipment. 2) Economics unfavorable—using $2/barrel for Mideast oil... and $1/barrel as the cost of storage facilities, then the 500,000,000 barrels... mentioned represents a one and one half billion dollar investment. For comparison, the oil industry in 1965 spent in the U.S. $675 million and discovered 583 million barrels of new reserves plus 6.5 trillion cubic feet of natural gas. 3) Probably the overriding factor discouraging underground storage of emergency supplies of crude oil is the productive capacity of our domestic wells. This capacity is about equal to our total consumption and slightly greter than the capacity of our refineries." Correspondence from Cordell Moore to Senator Fred Harris, July 20, 1967, Papers of Cordell Moore, Box 4, LBJ Library.

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even before the partial nationalization of Chilean copper companies in 1965.[67] Even here, however, Johnson was able to find suitable government leverage once he understood the vagaries of the market.

When the Anaconda Company raised its copper prices on November 8, 1965, just as the aluminum crisis was ending, Gardner Ackley cabled Johnson at the LBJ ranch suggesting that some action be taken, especially when "copper companies are far more profitable than the aluminum companies."[68] Even after Califano assembled the CEA and the usual inflation "firefighters"—including Washington lawyer David Ginsburg, an unofficial Johnson adviser who had served in the Office of Price Administration during World War II—they realized that they were, in Califano's words, "woefully uninformed" about the copper market.

When Califano shared this information with Johnson, the President instructed him to track down a "Joe something or other" who had worked on the staff of the Senate Preparedness subcommittee in the 1950s and who knew, according to Johnson, "more about copper than any living being."[69] Califano ran down senate staffers and eventually discovered that he was looking for a Joseph Zimmerman who was now a metals trader living in Manhattan, and still a genuine expert on the world's copper market. Zimmerman was flown to Washington on November 13, only hours after Califano had first spoken to him, "astonished," as Califano recalled, "that the President [even] knew he existed."[70]

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[67] The Chilean copper companies were essentially U.S. companies, the four mines (Chuquitamata, Potrerillos, El Salvador, and Africana) of the Anaconda Company's Andes Copper Mining Company and Chile Copper Company being the most prominent. See Isaac Marcosson, *Anaconda* (New York: Dodd, Mead, and Co., 1957).
[68] Quoted in Califano, *Triumph and Tragedy*, 101.
[69] Ibid.
[70] Ibid.

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Citing growing demand, unrest in foreign producing countries, and the importance of the Chilean companies (and government), Zimmerman helped the administration patch together a plan that would help them roll back the world price of copper.[71]

On November 17 the Zimmerman plan was enacted. McNamara announced a 200,000 ton stockpile release, the suspension of the import duty on copper, and a tightening of copper export controls. The New York Commodities Exchange was also asked to increase the margin requirements for copper trading to halt inflationary speculation. These changes were capped off by sending Averell Harriman to Santiago, Chile to forge a price agreement with Chilean president Eduardo Frei. "Find out what it will take to get Frei to roll the price back," Johnson had instructed Califano.[72]

With Harriman on his way, Califano informed Anaconda of the Chilean mission not long after McNamara's public announcement. Two days later, on November 19, the metals giant rescinded its price increase, and was followed immediately by the smaller copper producers that had previously matched their November 8 price rise. The administration had won another price victory and American business leaders began to speculate openly about which industry would next fall prey to the government's stockpile leverage. "We're very happy that the Government doesn't stockpile automobiles," joked General Motors President James Roche.[73]

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[71] The "unrest in foreign countries" referred primarily to a Chilean strike and to political unrest in the Congo (following Mobutu overthrow of Lumumba in 1961) that led to production problems in both cases.

[72] Califano, *Triumph and Tragedy*, 102. When Califano suggested that such a strenuous mission might be too difficult for the 74 year old Harriman, Johnson dismissed Califano's concern. "You just call him up and get a car over to his Georgetown house. Ol' Averell likes women. You just tell him what the President wants him to do. And tell him we'll put a couple of pretty nurses on the plane and they'll start working on him as soon as [the] wheels are up and by the time he gets to Santiago he'll have it up!" Eduardo Frei, one-time professor of Labor Law, shared Johnson's predilection for consensus politics, and was the head of a progressive center party (Christian Democrats) in a country known for its chronically polarized politics. He was also the recipient of substantial U.S. CIA assistance (alleged to be $20 million) during his 1964 campaign for the Chilean presidency.

[73] Quoted in "Governing by Guideline," *Time*, November 26, 1965, 89. *Time* pointed out that the federal government was then stockpiling 77 different commodities.

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While these victories, at the hands of the guideposts or other more tangible levers, became less common in 1967 and 1968, by the end of 1966, business publications had begun to label President Johnson a "major economic force," and "an economic variable that every forecaster must program into his computations."[74] The business community had also, at that point, exhibited a fair amount of sensitivity to Johnson's many and varied imprecations. As James L. Cochrane once suggested, Johnson succeeded with the wage-price guideposts partly because they made sense to the nation's business community. Many of its members were simply too dependent upon government reinforcement—if not special favors—and their cost-markup pricing schemes typically lacked a great deal of precision.[75] Johnson's efforts with metals' prices, then, were typical of his inflation fighting initiatives in general—and the business response to them—in 1965 and 1966.

The guideposts, however, never relinquished as the centerpiece of the administration's anti-inflation policy (as long as macroeconomic policies remained within suitable parameters), came in for heightened criticism in 1966, and were increasingly difficult to enforce thereafter. While much of this came at the hands of labor leaders such as George Meany, who had opposed the guideposts from their inception, only with the highly publicized negotiations—in mid 1966—between the nation's major air carriers and the International Association of Machinists, did the

[74] Heller, *New Dimensions*, 90.

[75] Cochrane, "Moral Suasion," 289. On the precision of company pricing schemes, Henry Aaron noted that one of the primary reasons economists have not rejected the idea that businesses were "profit maximizers aware of marginal cost and marginal revenue," (and were not using less tightly knit pricing schemes instead) was that they could "employ calculus in drawing inferences that were subtle, suggestive, and only occasionally refuted." Close analysis, however, of actual corporate behavior tended to show firms that only "acted" as if they had such information; firms that failed to approximate this behavior closely enough, whether by intention or accident, were often bankrupted or taken over, therefore skewing the empirical evidence through their absence. When Robert Heilbroner declared that "mathematics has given economics rigor, but alas, also mortis," he may have had this example in mind. Aaron suggested, as an alternative explanation, that most firms simply sought to sell as much as they could as long as their profits were satisfactory, and that for many, in addition, profit was only one of several key motives (social status, executive perquisites, high salaries and/or bonuses, political clout,etc.). See Henry J. Aaron, *Politics and the Professors*, 129.

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guideposts attract the kind of criticism that ultimately proved to be troublesome and debilitating.[76]

The 1966 airlines case came after President Johnson had already weathered prominent guidepost-breaking labor contracts—in 1964 and early 1966—in the automobile industry and in the New York City transit worker's strike. Wage increases in the building trades had also begun to exceed the 3.2 guidepost figure, averaging approximately 4.6% in 1965. Yet, while these were truly sources of some concern for the administration, they saw them primarily as cautionary signs with little or no impact on overall price stability.[77] In October 1966, for example, Gardner Ackley noted that,

> Weather conditions for farming can hardly be worse, and may be considerably better....Capacity in key industries is increasing rapidly and labor skills are being upgraded. On the other hand...an acceleration in wage increases in manufacturing must be realistically expected, but its total impact on the overall price level should not offset the favorable factors, provided the pace of aggregate demand remains within bounds.[78]

The administration felt, in other words, that it could rationalize and dismiss the few wage settlements that exceeded the guideposts during the first two years of the Johnson presidency. The first case was warranted by the auto industry's high productivity and profitability, and Johnson blamed the second on the ineptitude and political concerns of New York's newly elected Republican mayor John Lindsay. In the case of the building trades, Johnson and his advisers knew all too well how that industry's companies and unions operated. Beset with powerful and often corrupt labor unions, the construction

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[76] When Johnson told George Meany, "I see you kicked my guideposts around the other day," Meany replied, "Mr. President, they're your guideposts and not mine." See George Meany, Oral History Interview, interviewed by Paige Mulhollan, August 4, 1969, LBJ Library, 14.

[77] In a July memo to LBJ, Joe Califano outlined "excessive" and "moderate" wage increases affecting large numbers of workers since late 1963. Four settlements (in autos, aerospace, NY transit, and western lumber) affecting a total of 715,000 workers were deemed "excessive." Twenty-one settlements affecting approximately 4,900,000 workers were deemed "moderate" (highest "moderate" settlement = 4.0%; lowest "moderate" settlement= 2.5%). Papers of LBJ, White House Central Files, Gen LA 6, Box 20, LBJ Library.

[78] Memo, Ackley to LBJ, "Answers to Questions Submitted by the IMF," October 20, 1966, Robson-Ross Papers, Box 5, LBJ Library.

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industry found itself paying disproportionately high wages as the 1960s wore on, and as labor markets began to tighten. As John Hutchinson pointed out in his history of trade union corruption, however, this situation tended to prevail in industries like the construction industry because of their highly competitive nature, *naturally* small profit margins, small business units, and high proportional labor costs.[79] Corruption and unusually high wage rates, in other words, functioned as a way to promote less competition and higher profit margins, and as such, were typically encouraged more by employers than the unions themselves.[80] Until the 1960s, union corruption had usually benefitted employers with higher profits *and* lower relative wage rates. There was almost no pecuniary reason, then, for employers to oppose it.[81] By the 1960s, however, the affected unions had become so powerful that "sweetheart contracts" gave way to increasingly larger wage packages. Tightened labor markets, anti-discrimination statutes, and more extensive and valuable public contracts encouraged this trend as well. Johnson and his advisers saw guidepost-breaking wage agreements in the construction industry, then, as a problem more closely associated with government contract reform and antitrust law than with the guideposts themselves. Unfortunately, since these areas had been disregarded intentionally, as a way to win the support of a reluctant business

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[79] John Hutchinson, *The Imperfect Union,* 380.

[80] In some cases the same individuals represented both workers and employers. Jimmy Hoffa, for example, owned the Test Fleet Corporation (in his wife's name), a company that leased trucks to the same commercial carriers Hoffa squared off against in his capacity as Teamsters Union leader. See Hutchinson, *The Imperfect Union*, 260. It is no small wonder, then, with the deck stacked as it was, that Hoffa often encouraged employers to "act" more combatively, and urged a return to the pre-Wagner Act days when unions were not protected by federal law. See Ralph and Estelle James, *Hoffa and the Teamsters* (Princeton, NJ: Van Nostrand, 1965), 31, 192.

[81] The 1959 McClellan hearings (on union corruption) found this to be especially true in the restaurant industry. See Hutchinson, *The Imperfect Union*, 210. Hutchinson also points out how corruption in the garment industry was temporarily opposed by employers when the National Recovery Administration assumed the price-fixing, competition-regulating function previously served by union-employer collusion. Only at that point, Hutchinson notes, did the corruption come to be seen as "pure extortion." (Ibid., 90)

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community, they would continue to be shunted aside, especially as the 1966 midterm elections approached.[82]

The 1966 negotiations between the airlines and their machinists, however, could not be ignored or explained away quite so easily. First of all, it became a very well publicized fight—a point Johnson and his CEA eventually came to regret. "The mistake...was," Gardner Ackley recalled, "in building that up as a big issue. After all, it was a handful of workers, and it didn't make a damned bit of difference in itself. We would have been so much better off if we had not entered into a public fight."[83] When it surfaced, however, Ackley told Johnson that "the airlines dispute is exactly the kind of a situation for which the guideposts are intended. On the one hand there is a strong union; on the other a (regulated) monopoly which could successfully pass the cost of an excessive settlement along to consumers."[84]

Secondly, in the airlines case, the nation's business community suddenly encouraged the use of, and helped publicize, the wage-price guideposts. In the face of soaring corporate profits, and a revised "trend productivity" of 3.6%—estimated in early 1966—American corporations now saw the guideposts as a means to lower unit labor costs and higher profits.[85] They became popular, then, though only for a very brief period of time, with the one group that had most often fought their implementation, and had not long ago decried their use in the name of a pandemic "profit squeeze." The guideposts were less than fair, business leaders had always declared, for they implied that workers should receive *all* the gains from productivity increases; only employers were expected to sacrifice. Faulty arithmetic and slightly skewed vision aside, however,

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[82] Johnson contemplated, but ultimately decided against, the use of federal building contracts in order to discipline Newark, New Jersey labor leader Peter Weber, business agent for a Newark construction local (Union of Operating Engineers, Local 825) who was sanctioned by most of the area contractors. (Surprisingly, the Jersey City/Newark area was approximately 80% open shop until the late 1930s.)
[83] Ackley, Oral History Interview, in Hargrove and Morley, eds., *The President and the CEA*, 262.
[84] Memo, Ackley to LBJ, April 20, 1966, "Arguments For and Against Appointing an Emergency Board in the Airline Case," Papers of LBJ, White House Central Files, Gen LA 6, Box 20, LBJ Library.
[85] "Trend productivity" was equal to the average annual productivity advances based on a *five-year* trend.

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much of the nation's business community now sang a different tune, eschewing this critical approach in favor of a ringing endorsement.[86] When Johnson announced that the guidepost target would remain at 3.2%, in spite of the revised "trend productivity," business groups cheered and the U.S. Chamber of Commerce hailed the move as "an act of economic statesmanship."[87]

This effort to promote the guideposts, launched by many of the nation's leading corporations, was clearly self-serving and duplicitous, but it also succeeded in convincing much of the American public that took an interest in such matters. There was little sympathy, then, no matter what the circumstance, for high wage increases, and for the few that noticed, this implied strict adherence to the 3.2% guidepost figure.[88] Schooled for generations on the great financial impact of labor costs, and relatively immunized to the concept of productivity increase as it related to overall cost, and to the various *other* factors (liquidity versus profitability, executive perquisites, etc.) that

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[86] The faulty arithmetic is found in the persistent belief that an increase in wage rates in the same percentage as the increase in productivity does not, somehow, yield an increase of profits in that same percentage. Careful analysis, of course, shows this belief to be false. See Paul Samuelson, *Economics: An Introductory Analysis*, 7th edition (New York: McGraw-Hill, 1967), 774. The overall employer-side vision of the guidepost formula is "*slightly* skewed," because the conclusion is only partly wrong, even if the explanation is based on faulty arithmetic. Kenneth Arrow pointed out, for example, that one also had to take into account the cost of labor relative to capital. Since his calculations showed that a 3% increase in labor costs would result in only a 2% increase in the capital-labor ratio (a so-called *elasticity of substitution* of 2/3), the ultimate profit share of labor *would* increase somewhat in the long run. Arrow hastened to add, however, in concurrence with Johnson administration philosophy, that while the constancy of relative income shares was not therefore obtainable under the guideposts, this was ultimately an economically *desirable* transformation (i.e., a *slow* movement of the economy at full employment toward a position where wages comprise an increasingly larger share of the national product implies greater economic stability and less aversion to risk-taking investment decisions). Cited in Cochrane, "Moral Suasion," 201-202n.

[87] Quoted in Cochrane, "Moral Suasion," 244. Part of the rationale for this announcement was political, for the administration clearly believed that employers had to take the lead on price stability; it was designed to win them over to the administration's wage-price goals. Part of the rationale was economic, as well, for the CEA predicted actual productivity advances in 1966 lower than the trend rate (from the use of older, standby equipment and less-skilled labor as markets tightened).

[88] "We believe that the guideposts have a certain educational value, " the National Association of Manufacturers noted in September, 1966, "reminding the public of the necessary relationship between real wages and productivity." (NAM Statement submitted to the Subcommittee on Executive and Legislative Reorganization Committee on Government Operations, U.S. House of Representatives, September 15, 1966, NAM Papers, Series IV, Box 160, Hagley Library.

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impinged upon a given company's profit margin, the American public was indeed used to equating price stability with wage stability. As previously noted, *Newsweek* magazine even felt compelled to explain how a 3.2% wage increase suggested *no* price rise, rather than an increase of *up to* 3.2%, as most of the public had imagined.[89] In the public mind, there were simply no exceptions to this simple and direct wage-price relationship.

When the airline mechanics strike began, then, in mid-summer 1966, corporate support for the guideposts spawned enough public sympathy and interest to force President Johnson's hand. While he realized the impossibility, and even, perhaps, the undesirability, of a 3.2 % settlement here, he was compelled, nonetheless, to defend the guideposts as vigorously as possible.[90] Government departments and agencies were directed to curtail air travel, alternate methods of transportation were used to move the mail, and military personnel on leave were handled by military transport instead of commercial airlines.[91] Johnson had also imposed a 60 day no-strike period, beginning in late April, and had appointed Wayne Morse, David Ginsburg, and Richard Neustadt to an Airline Emergency Board, urging them to find a suitable wage increase package close to the guidepost target. When Walter Heller wrote to CEA chairman Ackley on July 19, 1966 he expressed great concern over the position of the machinists' union, but also urged Ackley to convince the airlines that the Civil Aeronautics Board would

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[89] "Guidelines for the Guidelines," *Newsweek*, August 22, 1966, 79.

[90] One of the ironies of the 1966 airlines case was that the airline industry was more capital intensive than most, with relatively low labor costs. The purchase of planes, related borrowing costs, depreciation, and fuel costs comprised much of their operating expenses. In a table prepared for President Johnson, for example, listing the wages and revenues lost per day during the airline machinist's strike, Civil Aeronautic Board chairman Charles Murphy noted that United Airlines lost an average of $2,906,000/day in revenues while its employees lost $518,000/day in wages and salaries. For TWA the figures were $2,573,000 and $406,000 respectively; for Eastern, $1,234,000 and $308,000; for Northwest, $939,000 and $98,000; and for National, $528,000 and $70,000. Memo, Charles Murphy to LBJ, July 22, 1966, Papers of LBJ, White House Central Files, Gen LA 6, Box 20, LBJ Library.

[91] Memo, Califano to Heads of Departments and Agencies, July 8, 1966, and Cyrus Vance to LBJ, July 8, 1966, Papers of LBJ, White House Central Files, Gen LA 6, Box 20, LBJ Library. Joseph Ramsey of the IAM accused Northwest Airlines in mid-July of soliciting paying passengers under the guise of military charters (flights continued by mutual agreement during the course of the strike). Vance estimated the defense requirements for "official duty travel normally provided by the 5 struck airlines" at 100,000 passengers for July alone.

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continue seeking lower airfares, even in the event of a high wage settlement. "I am sure," Heller told Ackley, "that the regulatory authorities will ask for rate cuts as needed to hold average returns on capital to reasonable levels—indeed, they would be remiss if they are not constantly on the watch for excessive profits."[92] Ackley relayed this suggestion to Califano who immediately called airline executives and reminded them of the administration position on rate cuts and CAB persistence.[93]

When the airline machinists and their employers began negotiating a new wage package in the late Spring of 1966, however, and the first numbers began to emerge, Johnson did not hesitate to endorse a settlement somewhat above the 3.2 guidepost figure. "We hoped that they would keep their increases as low as possible," he declared at a White House news conference, "but they could not be kept within 3.2."[94] Airline company profits were simply rising too fast to expect otherwise, and since the top rated airline mechanic earned only $3.52/hour—quite a bit less than comparably skilled machinists in other industries—an exception to the guidepost formula was almost certain to be granted.[95] Up 72% from 1964 to 1965, airline profits even made it difficult for the Civil Aeronautics Board (by urging or mandating lower fares) to have much impact on the case, for the machinists' unions maintained that the air carriers could simultaneously decrease fares and increase wages without impairing their profitability.[96] Unfortunately, for the Johnson administration, business lobbying efforts, and the high profile nature of the industry, had turned this exceptional case into a referendum on the

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92 Memo, Heller to Ackley, July 19, 1966, Papers of LBJ, White House Central Files, Gen LA 6, Box 20, LBJ Library.
93 Cochrane, "Moral Suasion," 261.
94 Quoted in ibid. Johnson endorsed a 4.3% wage increase that was subsequently voted down by the machinists union.
95 Memo, Califano to LBJ, "CEA Fact Sheet Prepared for LBJ," July 7, 1966, Papers of LBJ, White House Central Files, Gen LA 6, Box 20, LBJ Library.
96 Report, CEA to OECD (Organization for Economic Cooperation and Development), "U.S. Economic Situation and Outlook in Mid 1966," September 20, 1966, Robson-Ross Papers, Box 5, LBJ Library. James L. Cochrane notes that if the common stock of the 5 struck carriers were bought at their 1962 highs and sold at their January-June 1966 lows, capital gains would have ranged from 190 to 442%. Cochrane, "Moral Suasion," 261n.

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general applicability of the wage-price guideposts. This made it difficult for Johnson to downplay the eventual outcome and to adequately explain what was certain to be a wage increase well above the 3.2 guidepost figure.

Union politics also made the airlines wage negotiations particularly nettlesome. Secretary of Labor Willard Wirtz wrote to Johnson in April:

> The union will never, under any circumstance, settle here for 3.2%. P.L. Siemiller, the I.A.M. president, has been one of the two or three most bitter public critics of the guideposts. Although he pretends to be an administration supporter, his public comments have come closer to personal criticism of the President than any other labor leader.

Wirtz added that the I.A.M. and the Transport Workers Union (representing TWA and Pan Am mechanics) were strong competitors, and that Joe Ramsey, I.A.M. vice-president in charge of the airlines division, must be accounted for. He "is a strong and outspoken Republican," Wirtz noted. "He is a capable and tough bargainer. He is retiring later this year and considers this case his monument."[97] On July 1, after the end of the 60 day no-strike period and the beginning of the strike, Under Secretary of Labor James Reynolds wrote to Joe Califano: "Siemiller, I.A.M. president, encouraging militant position—is not helpful."[98]

Even before the final guidepost-breaking settlement was announced, the airline machinists managed to embarass the President and strike a blow to the guideposts. As Emergency Board member and presidential adviser Richard Neustadt explained it, Johnson's eagerness for a moderate settlement here served, in large measure, to betray his sense of political reality. When President Johnson brought negotiators together at the Executive Office Building on July 29, and prodded both sides toward an eventual agreement, he was, perhaps, all too willing, then, to believe that this agreement would

[97] Memo, Willard Wirtz to LBJ, April 20, 1966, Papers of LBJ, White House Central Files, Gen LA 6, Box 20, LBJ Library. The Transport Workers Union, then headed by Mike Quill, represented New York's transit workers when they achieved their guidepost-breaking settlement in January, 1966.

[98] Memo, Jim Reynolds to Joe Califano, July 1, 1966, Papers of LBJ, White House Central Files, Gen LA 6, Box 20, LBJ Library.

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be approved by the full union membership when they voted two days later on the 31st. AFL-CIO president George Meany promised as much, telling Johnson that he would use his considerable influence to guarantee that a majority approved the settlement. As he had, then, with the 1964 railroad industry settlement, Johnson dashed off to Washington's WTOP television studios so that he could announce (and boast of) the favorable settlement (with wage increases estimated at 4.3%). He then left for Camp David where he hoped to relax for the next two days. On Sunday, August 31, however, the news came of the machinists' vote. Whether Meany intended to mislead Johnson or not, he quite simply failed to deliver, and the union voted down the tentative agreement by an overwhelming three to one margin. Though Neustadt maintained that he and others expected such a vote, it still left President Johnson with a considerable amount of egg on his face.[99]

When James Reynolds finally announced an agreement that all parties endorsed, two weeks later on August 15, the situation had hardly improved. While the strike was now over, the new contract also contained wage increases over a three year period that averaged 4.9% annually. Johnson was reasonably certain that he could have legitimized the earlier 4.3% agreement; this one would be more difficult. I.A.M. president Siemiller even boasted of having destroyed "all existing wage and price guidelines now in existence."[100] Moreover, while Johnson's price-fighting team assured him that this settlement would still have very little impact, in itself, on the overall economy, they were more deeply concerned about its psychological impact in general, and its impact on future wage settlements in particular. If it were to set a pattern for other industries, as it was likely to, then the guideposts were clearly dead or dying. On July 27, 1966, even before the first ill-fated agreement was announced, Gardner Ackley wrote to President Johnson on the long run implications of the airlines case.

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[99] Richard Neustadt, quoed in Miller, *Lyndon*, 457.
[100] Quoted in Califano, *Triumph and Tragedy*, 146.

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> Every free industrialized country which tries to maintain full employment faces this problem: strong unions have the power to push up wages faster than productivity and thereby inflate costs and prices; and semi-monopolistic industries have the power to push up prices even if costs are stable....This is not a problem for the next six months or two years but for the decade. The end of the war won't solve it. A tax increase won't solve it (though it could help). It will have to be approached head on. Sometime, somewhere, we will have to find a way to convince the unions they cannot continually push wage costs up, and to convince business that profit margins cannot continually rise.[101]

How, then, did Johnson respond to this memo? Did he, as Ackley suggested, meet the problem "head on?" Or did the breakdown of the wage-price guideposts necessarily leave him without an equitable or reliable wage-price policy? Barring its obvious and significant psychological impact, did it also render the administration helpless in its more general struggle against a rising inflationary tide? Some have suggested, indeed, that Johnson simply gave up the fight against inflation at this point, that significant macroeconomic adjustments were his only remaining option, and that he was quite unwilling to make the sacrifice (political and economic) implied by a different macroeconomic course (spending cuts or a tax increase or a combination of the two). One prominent scholar of the decade even suggested that Johnson and his advisers found 3 to 5% inflation to be an acceptable rate.[102]

Even after the guideposts were compromised and seemingly discarded, however, Johnson continued to apply steady pressure against administered price inflation—the primary objective of the guideposts in the first place. Labor was, of course, less and less willing to practice restraint afterward, and was therefore less a part of the whole

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[101] Memo, Ackley to LBJ, "A Longer Run View of the Airlines Case," July 27, 1966, Papers of LBJ, White House Central Files, Gen LA 6, Box 20, LBJ Library.

[102] Matusow, *The Unraveling of America*, 176. Matusow cited Arthur Okun's and James Tobin's tacit endorsement of 4 or 5% inflation, but erred in linking their statements (made in *1970 and 1971* respectively) to the New Economics and to *Johnson* administration policy options. In 1970 and 1971 neither Okun nor Tobin saw 4 or 5% inflation as acceptable in itself—or even with full employment as Matusow implies—but only as a preferable alternative to the economics of austerity (through forced monetary contraction) and rising unemployment introduced by *Nixon's* policy changes in the 1969-1971 period.

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operation, but their behavior was largely considered derivative rather than basic to the price problem anyway. While many unions were continuing to make a mockery of the 3.2 guidepost target figure, for example, Johnson and his advisers often justified the higher wage settlements. "Some temporary add-on to the 3.2% seems inevitable," Otto Eckstein wrote to Joe Califano just a few days after the airlines settlement, "since labor has good cause to complain about higher prices."[103] President Johnson clearly understood both the sacrifice he and President Kennedy had urged upon the nation's labor unions, and the difficulty of asking them for more. In his quest for a consensus among labor and management, for example, Johnson had always tried to influence the behavior of one group with that of the other. He knew that long term union behavior had to be hinged upon the willingness of corporations to keep prices relatively stable; no one could expect union leaders to temper wage demands in the face of galloping price inflation. Likewise, Johnson also realized how voluntary corporate compliance would be much more easily effected if unions exhibited good behavior and a willingness to sacrifice. This had been a big factor, after all, in Kennedy's successful stand against the nation's steel companies in 1962. What this implied, however—more often than not—was a concerted push for wage settlements at or under the 3.2 figure even where the guidepost principles (or the historical standing of certain occupations) warranted or allowed higher rates of increase.[104]

A push for price decreases was, of course, the other available option. It was not resorted to as often or as readily, however, simply because Johnson hoped to teach price

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[103] Memo, Otto Eckstein to Joe Califano, August 23, 1966, Robson-Ross Papers, Box 9, LBJ Library.
[104] Paul Samuelson explained these variations when he defined the wage-price guideposts in his introductory economics text: "The average money-wage increase is to be no higher than the average national increase in physical productivity [roughly 3.2% throughout much of the 1960s]; but the increase in each industry is to be divorced from the increase in physical productivity in that industry itself, the difference to be taken up by price reductions to consumers of items with unusually high productivity growth (wheat? autos?) and by price increases to industries with unusually slow productivity growth (teaching?). Departures from the common wage increase are to be permitted primarily where an industry needs to raise wage rates to attract new labor entrants and where a declining industry needs to lower wages in order to expedite labor exit. See Samuelson, *Economics*, 774.

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restraint first and believed that he could tread only lightly in the jealously guarded arena of corporate pricing policy. He hoped, in other words, to reach first base with some regularity before he started swinging for the fence. Seeing labor, rather than management, as his more natural constituency, and as the group that required less prodding or pecuniary inspiration, Johnson was also more inclined, as a result, to ask the former rather than the latter for sacrifice. Ironically, because this was typically done with little fanfare (since wage contracts had definite expiration dates, wage demands were usually softened *in advance* rather than with publicity generating rollbacks after the fact), many corporate executives maintained and convinced the public that a great sacrifice on the part of Labor had simply never taken place. "While the administration has used its 'moral suasion'," Roger Blough lamented in 1967, "to prevent or curtail price increases in some highly visible industries...I am aware of few similar instances of success in respect to rising wages."[105] The great publicity accompanying the various campaigns to roll back corporate price increases simply made it easier to ignore the pivotal role of the corporation and to scapegoat unions, often the very group most willing to sacrifice and to act in the public interest.

Johnson and his advisers, however, knew better. Gardner Ackley, reflecting the general position of the Johnson administration, cited "an unprecedented six year rise in

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[105] Roger Blough, "Guideposts—A Business View, or Can Good Economics Be Good Politics," in Meany, Blough, and Jacoby, *Government Wage-Price Guideposts in the American Economy*, 30. Blough, of course, only had to look at the past pressure applied to the steelworker's union to see that this was just not the case. Johnson was also aware of two other somewhat less significant considerations here: productivity increases, which allowed for non-inflationary wage increases, were the result of investment in new technology as well as greater skill or effort on the part of labor; and while the frequent exclusion of the price reduction option seemed to forsake consumers at the expense of labor and management, Johnson's full employment goals caused him to treat comsumers and workers as if they were one and the same. At a conference on the Wage-Price guideposts in 1974, at Boston University, Roger Blough said that he showed up to show the conferees "what a sacrificial lamb looked like" even though he had always been one of America's most highly paid corporate executives. In 1968, for example, Blough earned $298,750 in salary plus 27,372 shares of US Steel common stock. See Crauford Goodwin, "A Report of the Conference," in Goodwin, editor, *Exhortations and Controls*, 390, for Blough's "sacrificial lamb" comment.

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profits," as the real source of the guidepost breakdown.[106] Having scorned the role of both labor and management in the current inflation, Ackley clearly felt, however, as did his boss in the oval office, that semi-monopolistic pricing had led the way into the morass; it, therefore, should be held responsible for a way out. Significant as they were, "unreasonable" wage demands had in most cases only *followed* equally unreasonable expectations for profit and the semi-monopolistic price markups that accompanied them. University of Minnesota economist George Perry discovered, for example, that for fifteen consecutive quarters (1962 IV-1966 I), wage rate gains actually fell *below* the predicted, hypothetical market rates for such a high profit, tight labor market economy.[107] In 1966 and 1967, as profits continued to soar, unit wage costs were just beginning to catch up to previous highs established late in the Eisenhower administration. Even then, in the nation's largest, heavily unionized industries, wages seldom, if ever, rose faster than industry prices. Where corporations could do so with impunity, they almost always raised prices to cover and often surpass any wage increases, creating a collective bargaining environment in the process that did little to discourage guidepost-breaking wage settlements.[108]

Even without much labor participation then, helpful as that would have been, Johnson still possessed a wage-price policy that could be directed profitably and efficaciously at the pricing strategies of the nation's leading corporations. This also implied, much to his liking, that drastic macroeconomic adjustments were not his only remaining option in the struggle against price inflation. Though fiscal and monetary policy remained the most significant *economic* policies in general, microeconomic tools

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[106] Transcript of speech, Ackley to the Annual Meeting of the Society of American Business Writers, "The Death of the Guideposts," May 2, 1967, Robson-Ross Papers, Box 9, LBJ Library.
[107] George Perry, "Wages and the Guideposts," *American Economic Review 57*, September 1967, 897-904. See also Perry's "Reply to Critics," *American Economic Review 59*, June 1969, 365-370.
[108] Arthur Okun termed this phenomenon, "the invisible handshake." See Okun, *The Invisible Handshake and the Inflationary Process, Brookings General Reprint 356* (Washington: The Brookings Institute, 1980).

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reigned supreme in the battle against inflation. "You'd be surprised," Gardner Ackley once noted, "at how much of the time of the Council [of Economic Advisers] went into micro matters, certainly if you take account of the staff work."[109]

Psychology, however, often had as much to do with inflation as economic reality, and the American business community still needed all the inveigling and coaxing Johnson could muster to continue its flirtation with the New Economics. As a result, Johnson made it abundantly clear that he would also use fiscal and monetary changes to obtain greater price stability. Although small adjustments were always considered, by the administration and the Federal Reserve Board, large ones were simply not necessary, despite all the furor over guns and butter and a strained economy. The whole point of the New Economics, after all, was that tight labor markets and high capacity utilization were good for the economy. What was a strain to some analysts was to Johnson little more than an economy and a marketplace come to life. Yet, while macroeconomic restraint was in large measure theoretically superfluous, it was also, to some extent, a rhetorical and political necessity. To treat it as something less than the primary tool most Americans and conservative politicians still believed it to be, would be to add a dangerous psychological component to the current inflation that the administration could well do without. Macroeconomic adjustments did not strike at the heart of the problem (administered prices or administered profits), but they certainly helped buy more time for Johnson's economic experiment. "His [Johnson's] idea," Walter Heller pointed out, "was that the success of the measure would itself be the education device."[110] And no one was less willing than Johnson to consider the New Economics a success in 1966 or 1967, even as he constantly extolled its virtues. Success, after all, was an unemployment rate of 3.7% (reached in February,1966), and increasing profitability, but it was also the process by which numerous skeptics tied this

[109] Ackley, Oral History Interview, in Hargrove and Morley, eds., *The President and the CEA*, 241.
[110] Heller, Oral History Interview, in ibid., 181.

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rate and this profitability together. Elusive and difficult to attain as that may have been, it was, nevertheless, the kind of success that Lyndon Johnson hoped for.[111]

On the microeconomic wage-price front, Johnson wasted little time brooding over the so-called "death of the guideposts." Gardner Ackley had already, early in 1966, called upon Saul Nelson to head up an administration price staff; its efforts continued unabated. A veteran of the Korean War price controls, as was Ackley, Nelson chaired a three man committee that met every Thursday and passed on their findings to the CEA. Ackley and Califano had also begun meeting every Friday to go over these findings, and had begun issuing "Weekly Price Reports" to President Johnson as a result. When the Nelson committee stopped meeting in mid-1966, Califano then recruited one of his Harvard Law classmates, John Robson, to head up a less formal, but even more rigorous fact-finding group linked to the administration's inflation fighting policies. "I need you more than I need a company of Marines," Johnson told Robson when he joined the administration in July 1966.[112]

Johnson continued to wire and telephone corporate executives, combining, as always, personal pleas with tangible government levers, and in many industries his success continued, unaffected by the dissolution of the wage-price guideposts. In February 1967, for example, Johnson rolled back a gasoline price rise attempted by

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[111] Johnson seemed to realize the difficulty and the time consuming nature of his economic experiment (revolution?) from the beginning of his presidency. In late February or early March, 1964 (by his account) Bill Moyers found Johnson scribbling on a notepad, measuring his projected time in office, comparing it to FDR's tenure, and adding a specific note next to each year. Next to 1964 was the word "win." Next to 1965 and 1966, "propose and pass;" 1967, "hold gains;" 1968, "win again;" and 1969-1972, "consolidate." While Johnson told Moyers on this occasion that he really intended "to finish Franklin Roosevelt's revolution," its interesting to note how much of this achievement was dependent, in Johnson's mind, on time he never had (the 1969-1972 "consolidate" period). See Moyers, quoted in Hardesty, ed., *The Johnson Years*, 65. See also Chapter 8 for a more detailed analysis of the *fiscal and monetary* adjustments made in the struggle against price inflation.

[112] Quoted in Califano, *Triumph and Tragedy*, 139-140. Robson, an Illinois Republican, officially became an employee of the Bureau of the Budget where he was hired ostensibly to use government procurement policies to influence corporate price decisions. He later served in the Ford administration as chairman of the Civil Aeronautics Board and in the Bush administration as Deputy Secretary of the Treasury.

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Phillips Petroleum. While Johnson was never enthusiastic about putting pressure on the oil industry—a traditional cash cow for the Democratic party—and while he never pushed for the price cuts that certainly could have been sustained by the industry, he was adamant about oil price *stability*. Phillips attempted price rise, after all, was only 1 cent per gallon. In late 1968, Johnson also succeeded in getting Humble Oil to rescind a fuel oil price rise. In both cases, suggested changes in oil import quotas were more than enough to force industry compliance and to maintain stable prices.

Notable price rollbacks were also achieved in the auto industry, in late 1967 and early 1968, when that industry attempted increases based on new safety features (shoulder harnesses) and greater labor costs. Auto industry contracts with the federal government totaling over $1 billion (including things like military trucks and cannon shells) continued to give Johnson a significant lever in these negotiations, and while the early 1968 (January) repricing was indeed a disturbing and largely unprecedented sign, Johnson succeeded in keeping prise rises then to a minimum (approximately $20 per vehicle).[113]

His efforts on behalf of price stability were so substantial and unrelenting, even late in his term, that some of his advisers even questioned the perspicacity of such a focus. "When you think of all the problems that the world had at that time," Otto Eckstein recalled, "including...civil rights and the beginning of the Vietnam War...that all of this good talent and presidential leadership was being applied to chop two or three tenths off the [price] index may well have been a misallocation of resources."[114] To President Johnson, however, it was clearly not; price stability was, as he saw it, the key to his entire domestic agenda. While there could potentially be much short term social and economic success without it, Johnson was convinced, nonetheless, that price stability

[113] This was unsettling because it represented a break in the traditional auto industry practice of limiting sticker price changes to a once-a-year phenomenon.
[114] Quoted in Goodwin, "A Report of the Conference," 396.

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was an absolute prerequisite for *political* success and for the longer term acceptance of his as yet vulnerable economic strategy. Benign neglect was simply not feasible, and no one was more aware of this than Lyndon Johnson.

If there was any lull at all in Johnson's struggle against price inflation, it came in late 1967 and early 1968, when price advances did recede somewhat, and when more effort was directed toward securing the tax surcharge he originally hoped to enact sometime late in 1967. Urging Johnson to renew his efforts against unwarranted corporate price rises, on July 15, 1968, Arthur Okun remarked: "Our record of activity here is considerably below any other period of the Kennedy-Johnson era."[115] Administration price fighting had slowed, indeed, but it is not often remembered that inflation was less severe in 1967 than it was in 1966.[116] However problematic price inflation had become at that time—mostly for its less than certain impact on expectations—the 1967 Consumer Price indexes suggests that it was not yet part of an "inflationary spiral." Ultimately, the low level of price fighting activity, however, was more the result of the tax surcharge debate and a number of key administrative changes than it was a surrender to an even moderate inflation. Asking bankers and corporate executives for help passing the surcharge simply made it more difficult to pressure them on price increases at the same time. And while the administration's personnel changes eventually constituted a move toward a more vigorous and capable inflation fighting

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[115] Memo, Okun to Califano, July 15, 1968, Papers of LBJ, White House Central Files, LA 8, Box 33, LBJ Library.

[116] The Consumer's Price Index for all items signalled only a small change, from +2.5% in 1966 to +2.4% in 1967, but the wholesale price index went from +1.2% to +0.9% over the same period, and both food prices and wholesale prices actually dropped in the first two quarters of 1967. Source: U.S. Bureau of Labor Statistics, "Consumer Price Index," and "Wholesale Prices and Price Indexes." Looking at it from the perspective of trend changes that did not necessarily correspond to the beginning or end of the calendar year, the annual inflation rate for the June, 1965-September, 1966 period was 3.4%, but only 2.3% between September, 1966 and June, 1967. See Johnson, *Vantage Point*, 445. Public polls taken in 1966 and 1967 also reflect this trend. In 1966 92% of those polled though inflation was rising; in 1967, 68%. Cited by Donald Kettl, "The Economic Education of Lyndon Johnson: Guns, Butter, and Taxes," in Robert Divine, ed., *The Johnson Years, Volume Two: Vietnam, The Environment, and Science* (Lawrence: University Press of Kansas, 1987), 66.

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effort, in the short run they also served to break the inertia associated with the already stunted but still somewhat effective guidepost activity.

One of the most notable administrative changes made at this time was the removal of the intransigent Secretary of Commerce, John Connor, in January 1967. While the 1965 Aluminum price fight had already damaged Connor's reputation with the President, Johnson may not have considered his removal until Gardner Ackley began questioning Connor's performance in early 1966. "Unless Jack [Connor] is willing to do some of the no-saying," Ackley reminded Johnson, "every case will wind up either in the White House or in the Council—or with a price rise. I have no objection to being the bastard; but in the long run, it may weaken the effectiveness of the Council to you."[117] While Johnson had learned how to circumvent Connor's opposition to some extent, Ackley's lament reminded him that Connor's office was simply too important to neglect completely. Less than a year later, Connor was out, and Alexander "Sandy" Trowbridge was in.

While Trowbridge never developed a close relationship with Johnson, according to CEA member Arthur Okun, he was by all accounts a much more willing participant in the administration struggle against corporate price rises.[118] When American Airlines executive C.R. Smith replaced Trowbridge in 1968 the office became even more significant. With Smith, Johnson finally had a Commerce Secretary with whom he had a close personal relationship and who became a key player in the administration's guidepost activity at the same time.[119] When Treasury Secretary Henry Fowler, for

[117] Quoted in Cochrane, "Moral Suasion," 245.

[118] Okun, Oral History Interview, in Hargrove and Morley, eds., *The President and the CEA*, 272.

[119] Smith was appointed on February 16, 1968 when Trowbridge left the administration for health reasons. See Richard H. K. Vietor, *Contrived Competition: Regulation and Deregulation in America* (Cambridge: Belknap Press, Harvard University Press, 1994), 8, 23-30, 41, for a glimpse of Smith's role at American working closely with the federal government. Smith took control of the fledgling American Airways in 1934 after rising through their accounting department, and transformed American into the nation's leading air carrier by the late 1940s. He was, perhaps, a more willing participant in Johnson's price fighting crusade because he recognized, moreso than many other corporate executives, the importance of the various levers Johnson deployed as the primary tools in this struggle. Many of these

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example, asked Secretary of Labor Wirtz and Smith whether they opposed the reestablishment of firmer wage, price, and profit guideposts (in January 1969), Smith seemed irritated by the suggestion that he would be an instinctive opponent, and evinced no opposition—even to guideposts for profits. "Hell no," he replied. "Just come up with the right number."[120] On this front, throughout Johnson's last two years in office, the administration clearly strengthened its inflation fighting machinery and stepped up its battle against price inflation, even though much of the improvement came as Johnson prepared to leave office.

Arthur Okun's ascension to the chairmanship of the CEA, on February 16,1968, was also a notable change. While Gardner Ackley had been an energetic and capable chairman, and very much admired by President Johnson, he was beginning to show signs of fatigue in late 1967.[121] While Okun had been a member (the youngest ever at age 35), and integral part of the CEA since 1964 (replacing Walter Heller), he was especially well suited to the demands of the chairmanship, particularly as Johnson entered his last year in office. Okun was, as Ackley himself put it, "the best empirical economist I know, with surpassing skills as a forecaster."[122]

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levers, after all (subsidies, lucrative government contracts, government regulation of competition, etc.), had truly enabled Smith's industry to survive the Great Depression and to prosper afterward. Sustained by the Kelly Air Mail Act of 1925, and the McNary-Watres Act of 1930, which provided subsidies of $7 million per year by 1930, rates based on miles instead of volume, and a system of monopolized routes, commercial aviation had still barely survived until it came under the regulatory authority of the Civil Aeronautics Board in 1938 (at industry request). Smith knew this history intimately, and he had also witnessed the industry's spectacular growth and increased profitability during the Kennedy-Johnson years (18% average annual increase in air traffic from 1965-1968). He was a business executive, then, who believed that the federal government could exercise a powerful and beneficial role in the nation's economy, and whose industry had profited mightily by the New Economics.

120 Quoted in Cochrane, "Moral Suasion," 288.

121 Ackley suggested that one reason Johnson may have confided in him so readily is that he (Ackley) attended a small teacher's college in Michigan and was not an Ivy Leaguer (Ackley was teaching at the University of Michigan when he joined the CEA in August, 1962, replacing James Tobin). See Ackley, Oral History Interview, in Hargrove and Morley, eds., *The President and the CEA*, 225.

122 Quoted in Roland Turner, editor, "Arthur M. Okun," *The Annual Obituary, 1980* (New York: St. Martin's, 1981) 182.

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Okun was also something of a legend in economic circles for his literary and oratorical talents. "He had a great gift for the presentation of ideas," Ackley added on another occasion, and, in the words of Nobel laureate and Kennedy CEA member James Tobin, "an unparalleled command of the facts of real world business fluctuations."[123] These attributes were clearly in great demand when Okun became the CEA chairman in 1968, for Johnson had lost much of his hold on the Congress and the American people—largely due to events in Southeast Asia—and the New Economics was drawing heavy fire from those who desired a return to a more conservative strategy and who blamed current inflation on excess demand. If anyone could help guide Johnson out of this foreboding political landscape, it was Arthur Okun.[124]

When Ackley decided to retire from the CEA—accepting the Italian ambassadorship from Johnson—he had put in motion, however, a key administrative change that would postpone somewhat the impact of Okun's emergence as CEA chairman. In October 1967 Ackley proposed the formation of what came to be called the Cabinet Committee on Price Stability. Though the CEA chairman, and the CEA in general, would become an active participant in the CCPS, it was clearly an attempt to move much of the actual price fighting out of the Council's jurisdiction. Johnson announced its formation in his 1968 Economic Report, and then in April named Federal

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[123] Ackley, Oral History Interview, in Hargrove and Morley, eds., *The President and the CEA*, 229; James Tobin, "Okun on Macroeconomic Policy: A Final Comment," in Tobin, ed., *Macroeconomics, Prices, and Quantities: Essays in Memory of Arthur Okun* (Washington: The Brookings Institution, 1983), 299.

[124] Okun was one of the first to construct a "fixed-price" *microeconomic* analysis and fit it to an aggregate analysis where fixed-price assumptions had more typically been adopted—at least since the time of Keynes' *General Theory*. Okun stressed, through his empirical observations and knack for seeing through misleading technical analysis, that demand and supply often have very little effect on price in the real world (that there are sound financial reasons for price and wage stickiness), and that the control of inflation by demand restraint will then have very high costs. See Arthur Okun, *Prices and Quantities: A Macroeconomic Analysis* (Washington: The Brookings Institute, 1981). Okun's sudden and unexpected death of a heart attack in March, 1980 (at age 51) was truly an incalculable loss. *Washington Post* economics reporter Hobart Rowen (who spoke often to Okun in the 1960s and 1970s) told me in a May 1993 phone conversation that seldom had a day passed since Okun's death that he had not wished for Okun's response to a pressing, particularly intractable, economic question.

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Trade Commission chief economist Willard Mueller as its executive director. Focusing initially on studies and proposals for new price fighting initiatives such as improved controls on government procurement and cost containment measures for government expenditures on health care (Medicaid and Medicare), the CCPS moved only slowly into actual price fighting activities.[125] By mid year (1968) it had begun the practice of sending letters—termed "pre-sin sermonettes" by Okun—to companies and unions about to engage in important negotiations. This gave Okun his first real opportunity, as CEA chairman, to exercise his much lauded gift of persuasion. According to Stanford Ross, who had replaced John Robson in early 1967 in another key administrative change, the CCPS was just becoming "workable and useful" when Johnson's term came to an end.[126]

Once the CCPS solidified its routine, the wage-price guideposts also reemerged as an important inflation fighting tool. Rumors of their death, it seems, were clearly premature. Stressing their utility as an educational device, Ackley had once compared them to roadway speed limits, suggesting that the key was "to get society to agree that the standards, although containing an element of arbitrariness, should be used as a guide to responsible behavior."[127] For his part, Johnson, too, had always affirmed the voluntary nature of the guideposts, rebuffing attempts by congressmen Henry Reuss (D-WI) and Emmanuel Celler (D-NY) to institute the guideposts in either antitrust law or Joint Economic Committee procedure.[128] "Are the guideposts really dead?" Ackley

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[125] Rising health care costs quickly became an area of great concern for Johnson. As early as April 1966 James Deusenberry (CEA) and John Douglas (HEW) conducted a joint CEA-HEW study of medical costs. Inflation figures for the following month (May, 1966) suggest that it was a critical problem for medical costs had risen by 0.5% (a 6.0% annual rate) while the overall consumer price index had risen then only by 0.1% (a 1.2% annual rate). See Memo, Ackley to LBJ, June 17, 1966, LBJ Handwriting File, Box 11, LBJ Library. See also chapter 8 for further discussion of the impact of rising health care costs on the overall price trends of the period.

[126] Cited in Anderson and Hazleton, *Managing Macroeconomic Policy*, 173.

[127] Cited in Cochrane, "Moral Suasion," 291.

[128] Even the National Association of Manufacturers supported Johnson on this, opposing the Reuss and Celler amendments - to no one's surprise - but also professing their belief "that the guideposts have a certain educational value." See NAM Statement submitted to the Subcommittee on Executive and

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queried in May 1967. "I believe," Ackley noted, answering his rhetorical question, "that voluntary restraint in the exercise of private discretion will continue because the natural leaders of labor, business and Government know that it must....And I believe that this continuing system of voluntary restraint must be based on the productivity principle because no other makes economic sense."[129] This was the approach continued by Okun and the CCPS in 1968 through the end of Johnson's term in January 1969.

While Gardner Ackley once said that the "jawboning" process inherent to the application of the guideposts was like "telling children not to put beans up their noses," it was, nonetheless, a process that Johnson continued to see as an absolute necessity. The reemergence of an inflationary psychology (and with it, real inflation) in late 1967 clearly compelled the recourse to other devices (spending cuts in some categories, less rapid increases in others, and the tax surcharge—a proposed 6% at first, then 10%), but the guidepost principle, rather than significant macroeconomic changes, remained the key to long term price stability at full employment. Moreover, Johnson and his advisers remained convinced that the guideposts were still capable of influencing responsible corporate behavior—the key, in many ways, to the whole economic struggle before them. Profits were still rising, capacity was still growing, and where tightening labor markets were working their redistributional magic on a very small scale, the relative gains were still coming out of an enlarged economic pie. Johnson had truly avoided the zero-sum game that he had always abhorred.[130]

Legislative Reorganization Committee on Government Operations, U.S. House of Representatives, September 15, 1966, NAM Papers, Series IV, Box 160, Hagley Library. While this signified, in large measure, their realization that effective guideposts would help modify *wage* increases more than anything alse, and that labor's failure to comply would only help them justify new price increases, such rhetoric also suggested that the guidepost principle was as yet a potentially useful tool.

[129] Ackley, to Society of Business Writers, May 1967, quoted in Norton, *The Employment Act and the CEA*, 205.

[130] Critics suggested that the expanded capacity was only temporary and was based on misperception by the sellers of the nation's products, services, and labor (Rational Expectations with Misperception theory). When these sellers realized that their higher nominal profits (or wages) were eaten up by higher replacement costs (for management), or by higher consumer prices (for labor) then the expansion of capacity and labor supply would cease or contract. If corporations were committing such decision-

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Contemporary opponents of the New Economics, however (and most historians of the period, as well), interpreted the economic data to mean that the zero-sum game had already made its ignominious return, perhaps as early as 1965. Johnson's choice for "guns *and* butter," they contended, had created excess demand along with rapidly advancing wage levels, and a full-fledged profit squeeze was the obvious and unfortunate result. While most of Johnson's contemporary critics blamed the Great Society and its concomitant social spending (butter) for this predicament, most historians of the period have been somewhat more judicious, blaming military expenditures in Vietnam (guns) instead. The social spending numbers themselves, they reasoned, were simply too small to have much of a macroeconomic impact.

Excess demand, however, was almost always taken for granted, and the end result of either economic analysis was the same: overall spending was pushed up too far, too fast, creating a profit squeeze and an unavoidable inflationary spiral. In *The Unraveling of America*, described as the "outstanding critical overview of the liberal Democratic party agenda in the 1960s," Allen J. Matusow noted:

> Among the war's losers might be counted the nation's businessmen. The war brought an end to the spectacular profits of the decade's first half, as rising costs, especially labor costs, cut into profit margins. Labor's share of aftertax national income grew from 72.2 percent in 1966 to 77.5% in 1970; the share going to corporate profits fell from 10.6% to 7.2%.[131]

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making errors, as Arthur Okun put it, why did their income statements continue to look so good? See Okun, "Rational-Expectations-with- Misperceptions As a Theory of the Business Cycle," *Journal of Money, Credit, and Banking,* November, 1980, Part Two, 817-825. "When sellers are price makers," Okun maintained, "they necessarily act as quantity takers. And then, any surprise in demand (even one that is correctly perceived as soon as it happens) must initially alter quantities and leave prices unchanged."

[131] Appraisal of *Unraveling* by David Farber, "Introduction," in Farber, editor, *The Sixties: From Memory to History* (Chapel Hill: University of North Carolina Press, 1994), 7; quotation in Matusow, *The Unraveling of America*, 176. This quotation comes at the end of a chapter entitled "War, Inflation, and Farewell to Keynes" and relies upon an article by Frank Ackerman and Arthur MacEwan entitled "Inflation, Recession, and Crisis, Or, Would You buy a New Car From This Man?" *The Review of Radical Political Economics*, August 1972, 4-37. It should be noted that this article was written in a slightly different form one year earlier, and was a response to the unveiling of *Nixon's* New Economic Policy that year. While Ackerman and MacEwan clearly indict the Vietnam War, in general, and not just Nixon's policy for the economic mess of the early 1970s, and are animated by their opposition to the war

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This analysis, however, which purports to incriminate the Johnson administration and the New Economics in particular, and not just the decision to fight the Vietnamese War, blurs the real trajectory of the period's economic forces by omitting or overlooking a number of critical qualifications. Its errors are threefold.

It is, first, dependent upon a conflation of late *Johnson* administration statistics with those of the early *Nixon* administration. Many histories of the period commit this same pernicious error. While the numbers related to Nixon's first year in office (1969) do have much to do with plans made during the Johnson administration (most of its fiscal priorities were set then), the key statistics cited here were clearly tied to either policy decisions of a non-fiscal nature (the decision to use or not to use the wage-price guideposts), or to others set not so far in advance (monetary policy). Even if one uses the same statistics as Matusow (see figure 2)—generated by the Nixon administration (see source note, figure 2), with profits used instead of cash flow (profits plus depreciation)—one notices a sharp break only in 1969, and not before. The marked change cited by Matusow, was in fact limited almost exclusively to the last two years of the period he surveyed (1969 and 1970).

It is, second, lacking in the recognition of the positive, welfare enhancing effect, of the *slight* gains made by wages at the expense of profits in the 1967-1968 period. Coming largely as a result of a genuine market impulse (a tightening market for skilled labor), this change also carried with it the potential for greater and more readily assured long term profits, for it clearly indicated stronger markets for the national product just as it indicated slightly increased costs. Because it followed a period of "spectacular profits," this change, as long as it remained slight and the result of enhanced rather than diminished marketplace demand, could not possibly have resulted in an insufficient

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(and therefore some *Johnson* policies), their focus is still placed largely on *Nixon's* new policies; the inclusion of Johnson and the New Economics (no relation to Nixon's NEP, as I will contend in chapter 9) is largely Matusow's construct.

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level of corporate cash flow needed to sustain the relatively non-inflationary economic expansion. This slight dip in the share of national income going to profits, in other words—in 1967 and 1968—was an auspicious rather than a foreboding development, and was in fact, something the Johnson administration hoped to see. Only a return to a restrictive fiscal or monetary policy would confound this otherwise favorable outcome. It is, third, too willing to assume that increasing wages were the only significant factor weighing upon corporate profit margins in the late 1960s. A number of relatively new managerial and accounting practices came into prominence during this period to make this assumption especially misleading. Wage costs were still the most significant factor for most businesses, but in the realm of national product redistribution—where

Year	GNP	Growth Rate of GNP	CPI	Growth Rate of CPI	Unemploy.	Govt. Surplus or Deficit	Real Corp. Profits	Real Inc. Going to Wages & Salaries	Corp. Profits as % of Nat. Income	Wages & Salaries as % of Nat. Income
1950	417.8		72.1		5.3	+9.1	36.1	189.2	12.8	68.2
1955	515.0		80.2		4.4	+4.0	35.1	240.0	10.4	71.4
1960	573.5	2.5	88.7	1.6	5.5	+3.5	31.3	275.6	8.4(26.2)*	73.8
1961	584.7	1.9	89.6	1.1	6.7	-3.8	31.5	281.1	8.3	73.5
1962	623.0	6.6	90.6	1.1	5.5	-3.8	35.9	295.4	8.9	73.1
1963	647.9	4.0	91.7	1.2	5.7	+0.7	37.7	305.6	9.1	73.2
1964	683.3	5.4	92.9	1.3	5.2	-3.0	43.3	329.6	9.6	73.0
1965	726.5	6.3	94.5	1.7	4.5	+1.2	51.2	348.6	10.6(28.6)*	72.2
1966	773.9	6.5	97.2	2.9	3.8	-0.2	53.6	367.0	10.6	72.2
1967	794.0	2.6	100.0	2.8	3.8	-12.4	49.1	380.4	9.5	73.3
1968	830.4	4.6	104.2	4.2	3.6	-6.5	49.1	397.7	9.2	74.8
1969	852.2	2.6	109.8	5.4	3.5	+7.3	44.2	407.7	8.2	76.3
1970	846.6	-0.6	116.3	5.9	4.9	-13.6	39.4	415.9	7.2	77.5
1971	869.6	2.7	121.3	4.3	5.9	-23.3	43.6	427.9	7.7	77.2

Figure 2. Data on the National Economy (values in billions of dollars)

Source: Frank Ackerman and Arthur MacEwan, "Inflation, Recession, and Crisis, or Would You Buy a New Car From This Man?"*The Review of Radical Political Economics*, August,1972, Table I, p.28.

All figures computed from *The Economic Report of the President,1972;*all price indices based on 1967 prices

* figures added to chart representing corporate profits *plus* depreciation (from G. Ackley's testimony to Congress, in 1966; see Hobart Rowen, *Self Inflicted Wounds: From LBJ's Guns and Butter to Reagan's Voodoo Economics* (New York: Times Books, Random House, 1994) 17.

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several tenths of one percent represented a marked change—other factors also held great significance.

What is certain, particularly with Fortune 500 companies where many of the period's key price and wage decisions were made, is that real profits were significantly eroded by several non-market, non-wage factors, even as overall profits soared. While some of these factors were actually beneficial to the firms in question and to the nation's overall economic health as well, several were not. All have gone virtually unnoticed, however, by historians of the 1960s economy largely because they were initially submerged within a larger trend toward widening profit margins.

In the realm of economic forces that helped erode profit margins and that were not beneficial to either individual firms or to the economy in general, most Fortune 500 firms of the period began to offer increasingly valuable stock option bonuses to their executives.[132] The problem with this behavior, which was supposed to place the executive on the same footing as the investor, was that it not only failed to do that, but—after 1950—it also failed to become a required part of any corporate balance sheet. In 1950 the Accounting Standards Board (predecessor to today's Financial Accounting Standards Board, established in 1972), in what had to be a temporary flight from either logic or responsibility, ruled that stock option grants would not be charged to company earnings at the market price or at the strike price (alternatives on which a furious debate had centered), but would be counted instead as if they simply did not exist at all (zero).[133] Substantial corporate outlays, then, that served to inflate costs and erode

[132] Stock options gave the recipient the right (option) to buy a predetermined number of shares of a given company's stock at a predetermined (strike) price, a price usually lower than the stock's current market value.

[133] See Graef S. Crystal, *In Search of Excess: The Overcompensation of American Executives* (New York: W.W. Norton, 1991), 230-235. Crystal points out why these options failed to make CEOs more responsible: the strike prices are commonly revalued (if the market dives and they end up being *higher* than market price); they are typically sold quickly, for the original strike price is almost always below the then prevailing market price (many companies do not even bother with the issuance of stock, but simply cut a check for the difference between market and strike prices); and they often carry a "reload" feature which pays the CEO the top price attained over a 10 year period if he happens to miss it. Crystal also

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reported profits, went wholly unreported themselves—and therefore unacknowledged—in the debate over cost-push inflation. A similar phenomenon, even more prevalent in the 1960s, occurred as businesses charged research and development costs only to future years rather than to the year that the costs were incurred.[134] As Kenneth Boulding once noted, economic profits and accounting profits are often best characterized as "uncongenial twins."[135]

It is difficult to say, then, just how much impact these stock option grants carried. Former compensation consultant Graef Crystal did attempt an educated guess, however, and estimated that, on the average, each long term incentive plan (of which stock options were, and still are, the most popular and expensive variety) reduced corporate earnings by 1.43%.[136] While Crystal's figures include the more lucrative and varied compensation packages of the 1970s and 1980s, stock option grants were quite prominent and lucrative even in the 1950s. President Kennedy used his knowledge of the stock option game, for example, in his attempt to fight the April 1962 steel price rise. When he threatened an IRS investigation into US Steel's new stock option plan, opponents called it a "fishing expedition," but US Steel responded in part because the President had, indeed, cast his line in well stocked waters.

One of the supreme ironies of the period is that more and more executives found themselves complaining of a "profit squeeze" while they energetically sought out an

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notes that when FASB threatened to rethink this policy in the late 1980s, company CEOs threatened to pull their company contributions to the board - a major source of FASB funding. See also Pattie Joy, "FASB Change," *USA Today*, June 9, 1994, B1, where she notes a postponement of the long awaited change. FASB "is letting companies off the hook for now," Joy noted, by postponing a requirement that companies disclose the effect of executive stock options on net income and earnings per share on 1994 financial statements. "The board may require it for 1995 statements," she added.

[134] FASB required that this practice cease in a 1975 ruling.

[135] Cited by Kenneth G. Elzinga, "Pricing Achievements in Large Companies," in Arnold A. Heggestad, editor, *Public Policy Toward Corporations* (Gainesville: University of Florida Press, 1988), 173. See also comments by Leonard Spacek of Arthur Anderson ("My profession seems to regard a set of financial statements as a roulette wheel to the public investor...") and Alan Greenspan ("Profits are only a product of accountants... you never really know what they are.") in Thomas Redburn, "Accountants: Those Wonderful People Who Gave You Maurice Stans," *Washington Monthly*, February, 1975, 7-8.

[136] Crystal, *In Search of Excess*, 76.

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ever expanding assortment of perquisites like the stock option grant. Fully paid health insurance (also not originally included on company balance sheets), private dining rooms, country club memberships, chauffeurs, and corporate jets were fast becoming the norm for executives in the nation's largest companies. Yet these same executives continued to trumpet the theme of excessive wage increases, to the exclusion of all other factors, even convincing themselves that it was the sole reason for inflated costs. "Businessmen really do worry about this," Gardner Ackley reminded Johnson, "even though it is largely nonsense because prices will go up to cover all labor increases."[137] To the extent that the lack of customary productivity increases became a real problem in the 1970s, it was a problem associated with white-collar rather than blue-collar employees. "The American factory works," Lester Thurow declared in 1987; "the American office does not." Even the office automation revolution, which was theoretically supposed to increase office efficiency, has done little in the way of improved productivity. Computers, Thurow added, were used not to decrease the number of accountants, but to increase, almost perversely, the frequency and types of accounting instead.[138] Moreover, as far as the public was concerned, never having developed much of a yen for the corporate cost accounting that was becoming more and more difficult to follow, the mechanic who succeeded in getting a raise from $3.50 to $3.75 per hour, rather than the executive dining, golfing, flying, faxing, or calling the accounting office on an ever increasing stream of corporate dollars, remained the real

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[137] Memo, Ackley to LBJ, July 25, 1966, Papers of LBJ, White House Central Files, Gen LA 6, Box 20, LBJ Library.

[138] Lester C. Thurow, "Constructing a Microeconomics That is Consistent With Keynesian Macroeconomics," in Reese, ed., *The Legacy of Keynes*, 183-190. Quotation from ibid., 184. Thurow pointed out how in the 1978-1985 period blue-collar productivity *advanced* 22% (2.9% annually) while white-collar productivity *declined* by 5%. Noting also that in 1987 there were approximately 58 million white-collar workers in the U.S. workforce and only 30 million blue-collar workers, Thurow suggested that the decline in white-collar productivity wiped out much of the gain in blue-collar productivity. See ibid., 183.

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culprit in the late 1960s cost-push inflation scenario.[139] While Ford executives received a new car every four months, had these cars washed and filled with gas free of charge every day, and traveled exclusively first class on all airlines, they, and the public, persisted in blaming their machinists and technicians for all cost control problems.[140]

In the realm of economic forces that were beneficial, but also a significant source of diminished profit margins, many companies—including those outside of the Fortune 500—found themselves in the late 1960s choosing liquidity over profitability precisely because their market positions were so fundamentally sound. Profitable, expanding businesses with secure markets, after all, were wise to increase their investment (and interest) expenditures, and to incur larger than normal outlays for raw materials to expand future profitability and to take advantage of quantity discounts. Indeed, as shown by a layer cake diagram of the distribution of national income in the 1960s, the share of profits declined at the expense of greater interest costs before unit wage costs ever become much of a problem (late 1965 or early 1966).[141] While this behavior decreased short term profit margins, it also represented a tremendous expansion of corporate assets (and greater depreciation allowances), it increased the likelihood of greater future profits, and was, at the very least, a weak rationale, in and of itself, for increased prices.

There were also a number of somewhat less significant accounting and managerial changes that lowered *reported* profits even as real economic profits continued on a

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[139] Thomas Redburn, writing for *The Washington Monthly*, commented on the public's lack of interest in corporate accounting standards and noted that "even Ralph Nader hasn't investigated accounting, presumably because the subject is too boring, even for him." See Redburn, "Accountants: Those Wonderful People," 6. In retrospect, what is even more surprising is how fervently American companies pushed the "profit squeeze" theme even in the *early* 1960s when they were literally flooded with cash and record profits. A brief perusal of most newsweeklies of the period will reveal an assortment of advertisements featuring the "profit squeeze" theme. A commonly occurring one, for example, is one produced by Bell Telephone with the slogan, "Selling by Long Distance is Our Best Answer to the Profit Squeeze."

[140] Paul H. Weaver, *The Suicidal Corporation: How Big Business Fails America* (New York: Simon and Schuster, 1988), 96.

[141] Boulding, "Inflation as a Process in Human Learning," 19.

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historically upward or stable trajectory. The switch from *first in, first out* (FIFO) cost accounting to *last in, first out* (LIFO) cost accounting was one of the most significant changes in this regard.[142] FIFO accounting, the traditional choice largely because many firms were FIFO price makers (adding set markups to inventory as it arrived, rather than when it was sold), and because it regarded historical costs as more important than replacement costs (most likely closer to a given industry's actual costs), gave way slowly to LIFO accounting in the late 1960s as businesses first sought a way to account for inflation, and later (in the mid to late 1970s) when these same businesses sought tax relief to ameliorate the alleged profit diminishing effects of inflation.[143] While only an estimated 15% of the nation's stock was valued along LIFO lines before the 1973-1974 inflationary explosion, until the late 1960s the percentage was closer to zero. Certainly small in comparison to the later shift in the 1973-1981 period, when the number of LIFO valued stocks approached 50%, this change alone does explain, however, at least some of the profit erosion reported in the 1967-1971 period.[144]

The trend toward more lucrative executive compensation also had an additional residual effect on corporate accounting practices and profit margins, particularly after the Nixon recessions in the 1969-1970 period changed company expectations and performance standards. In short, when profits as well as company stock prices exhibited steady increases as they had in the mid 1960s, executives and their compensation consultants all wanted pay for performance. When recession hit in 1969, however—the

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142 Under FIFO cost accounting a given company's stock is valued by the purchase price when it entered that company's inventory; while it still relies on actual billings to the firm and not up to the minute market price, LIFO accounting values the same stock closer to its replacement cost (by using the most recent "last in" purchase price, obviously higher during inflationary periods).

143 See Weaver, *The Suicidal Corporation,* 155-159, on the adoption and eventual abandonment of inflation accounting. On the push for the tax cut Weaver noted: "With the tax cut of 1981 firmly in place, business quietly dropped inflation accounting.... No more companies converted from FIFO to LIFO." Ibid., 158.

144 Percentages cited by Arthur Okun in *Prices and Quantities*, 159. As Paul Weaver noted in *The Suicidal Corporation,* 158, while this accounting change effectively lowered reported profits, no change was implemented to account for the way inflation lessened the cost of borrowing by making it easier to repay previous loans (thereby inflating actual profitability).

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first of its kind since early 1961—this "pay for performance" credo came at least partly unhinged. More compensation packages as a result featured bonuses that paid off even when company performance plummeted. The upshot of this change was a slightly less prominent interest in artificially bloated profit margins. While this phenomenon (artificially high accounting profits) was probably never as popular as it has often been assumed—taxes, after all, have to be paid on the artificial profits—lax enforcement of accounting standards helped it prevail in many businesses, and it was often utilized in situations where companies were desperate for investment capital (Lockheed, Chrysler). To the small extent that changes in executive compensation also changed this behavior, profit margins, again, were affected—albeit to a very small degree—by changes in accounting practices rather than changes in real performance.

As mergers became more and more popular in the late 1960s, partly because bigger companies tended to offer more lucrative executive compensation (for the executives engineering the takeover), this behavior was replicated in a slightly different fashion. Executives in targeted companies often sought lower reported, or lower actual profits, to avoid the takeover and the subsequent loss of their lucrative pay packages (or jobs). Armco Steel, for example, changed their depreciation accounting in 1969 to lower reported profits and ward off a takeover.[145] Here, a perverse rationale for conglomeration joined with defensive, self-destructive behavior to lower corporate profit margins also for reasons that had little, if anything, to do with rising unit wage costs.

The situation rapidly developing, then, in the late 1960s, which led to the higher than average inflation in the 1966-1968 period, was not of the government deficit-induced, demand pull variety, as is often assumed. A quick look at the diminishing, rather than widening, federal deficits of the period should at least partly dispel this

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[145] Redburn, "Accountants: Those Wonderful People Who Gave You Maurice Stans,"13.

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notion.[146] Nor was it, on the other hand, simply a case of oligopolists trying to wring higher and higher profits out of a bewildered and defenseless American public. Oligopolistic industries, after all, partly because they tended to have more persistent, unnaturally wide profit margins to begin with, have historically shown *less* of a tendency to increase prices in high demand situations than their more atomistic counterparts.[147] Because success often breeds success, this is, in part, why Johnson focused the guideposts most squarely on oligopolistic industries like steel, aluminum, and automobiles.

The inflationary phenomenon that was taking shape, however, came instead as a result of forces that were subject to a substantial amount of corporate managerial discretion. Business compulsion for customary profit margins; rapid, but temporary advances in customary profit levels; followed by the cessation of these advances at the hands of forces that were either intentionally disavowed (cost overruns due to corporate discretionary spending) or generally misapprehended (cost increases due to labor market tightening and the need for added capital investment) did more to create the inflationary psychology and rising prices of the late 1960s than anything else.

Because the economic expansion of the Kennedy-Johnson years was so long (a record 102 months, from March 1961 to November 1969) and because both Kennedy and Johnson found themselves having to "purchase" business support for a liberal reform agenda, profits rose to record levels by the mid 1960s and remained there for an

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[146] The deficits (-) or surpluses (+) for 1967 through 1969 are 1967: -$12.4 billion; 1968: -$6.5 billion; 1969: +$7.3 billion. Source: *Economic Report of the President*, February, 1972. Senator Gary Hart, a self-proclaimed anti-Keynesian, New Democrat, who ran in 1974 suggesting that "we don't need any more Hubert Humphreys," said of these deficits: "In retrospect, obsession with fiscal deficits at such relatively paltry levels seems quaint and almost touchingly naive." See Hart, *The Good Fight*, 122.

[147] Numerous studies have also shown that a general price stickiness prevails to a slightly lesser extent among "competitive" businesses. See Yoram Weiss, "Inflation and Price Adjustment: A Survey of Findings From Micro-Data," and Alan S. Blinder, "Why Are Prices Sticky? Preliminary Results From an Interview Study" in Eytan Sheshinski and Yoram Weiss, editors, *Optimal Pricing, Inflation, and the Cost of Price Adjustment* (Cambridge: MIT Press, 1993), for recent microeconomic analyses anticipated by the work of Arthur Okun in the late 1970s.

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uncommonly long period of time. Prepared more for the kind of politics and economic practices that seemed to be coalescing during the 1962 stock market plunge, American corporations accepted this development only grudgingly and with a trained pessimism attuned to partisan rather than consensus politics. Besides making Kennedy and Johnson's political struggle that much more profound, this development also blurred the distinction between normal (or even deficient) profits and those more commonly associated with oligopolistic windfall during a sustained economic recovery. Oligopolistic industries, and even a great number of more competitive businesses, who had expected higher than normal profits over short periods of time, sustained these profits in the 1960s over a considerably longer span of time but largely refused to recognize them for what they were.[148] Kennedy and Johnson, both keenly aware of this unprecedented situation, as well as business intransigence and pessimism, expected it to bear fruit, nonetheless, in two distinct ways: greater corporate acceptance of the liberal reform agenda that did much to create the steady stream of profits; and a greater willingness on the part of these same corporations to share future economic gains with workers and consumers by keeping prices relatively stable. Though he was clearly accommodated by other special factors (Goldwater's extremist views and fallout from the Kennedy assassination), the 1964 presidential election showed that Johnson had done much to achieve the first objective; rising inflation over Johnson's last two years in office showed the second objective to be much more elusive.

It is true, however, that inflation had become noticeable *before* this development manifested itself in 1966 and 1967 (as the nation neared full employment).[149] The first alarms, after all, both within and outside of the administration, had been sounded as

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[148] See Arthur Okun, *Prices and Quantities*, 139, for an explanation of how "competitive" businesses tend to mimic oligopolistic price setting behavior (shopping costs for the consumer, and the prevalence of a substantial number of products and services purchased too infrequently to trigger the spread of information and the convergence of prices).
[149] Unemployment dropped below 4% for the first time since the early 1950s in February, 1966 (3.8%).

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early as the summer of 1965 (curiously close to the first big escalation of U.S. involvement in Vietnam). Most of this inflation, however, could be explained by four largely benign factors: positive changes in the quality of products and services (accounting for an estimated 1% annual inflation rate); service sector "catch-up," where there was a real need for changes in relative wages; the growing predominance of "positional" versus "material" goods as general prosperity increased; and the presence of *temporary* supply bottlenecks (food and physicians were two prominent examples of this during the mid 1960s).[150]

It was only after the nation reached relatively, and seemingly persistent, full employment, in late 1967 (after an early 1967 inventory adjustment and slight economic slowdown) that the nation's price setting environment began to reflect a fundamental change.[151] It was also precisely at this point, however, where President Johnson expected corporations to temper their pricing decisions, to realize that their recent high profit levels were anything but customary, and to share willingly a greater percentage of the increased (and increasing) national product with workers and consumers.[152] A sacrifice only to the extent that it would impact short term profitability—already at peak

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[150] See Alan S. Blinder, "Why the Costs of Services is Soaring," *Business Week*, November 16, 1992, 22, for a discussion of the tendency for service sector prices to rise faster than those in the manufacturing sector (due to limitations on productivity advances); and Omar F. Hamouda and Lorie Tarshis, "Stagflation for Our Grandchildren," in Omar F. Hamouda and John N. Smithin, eds., *Keynes and Public Policy after Fifty Years, Volume 2, Theories and Method* (New York: New York University Press, 1988) 205-208, for an explanation of the "positional" versus "material" goods phenomena. Hamouda and Tarshis suggest that "positional" goods, the supply of which is relatively demand inelastic (these are goods that cannot be easily reproduced, like a designer gown or choice building site on a scenic beach), tend to price increases whenever general economic welfare is increased. "Material goods," on the other hand, tend to be produced in greater quantity and reflect little or no price increases in the same situation.

[151] 1967 was the only year during the Johnson administration in which unemployment rose from one quarter to the next, moving from 3.7% in 1966-IV to 3.8% in 1967-I, sustained over the next two quarters, to 3.9% in 1967-IV. Source: Bureau of Labor Statistics, *Employment and Earnings*, quarterly averages of monthly statistics.

[152] It is interesting to note that July 1966 was the last month in the 1960s where unit labor costs remained at or below their 1960 averages, and where the spread between unit labor costs (on the low side) and wholesale prices of manufactured products (on the high side) reached its *highest point* since 1951. See Reuther, *Policies and Priorities for Progress*, 17; and Meany, "Wage and Price Policies and Trends," 10-11.

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levels—this expectation also carried with it, through its effect upon the depth and predictability of sales, great potential for sustained savings in capacity utilization, inventory costs and production scheduling. Its positive impact on long term profitability, in other words, would have clearly produced added benefits far outweighing the fractional short term profit loss associated with relatively stable prices amidst rising wages.

Had there truly been a rational, frictionless, free market—that cleared as effectively as many monetarists or supply siders imagined it to—this favored response would have been produced automatically. Because the U.S. economy even has a difficult time, however, approximating this kind of rational, market clearing behavior, this was not going to happen without a great deal of pushing and shoving and presidential persuasion, designed in Johnson's case to remake the entire, profit-centered paradigm that so thoroughly dominated the U.S. political economy. That is why Johnson devoted so much energy to the struggle and why, as Walter Heller once noted, "he gave the guideposts [such] a bear hug."[153]

U.S. firms had encouraged the use of a relatively fixed (but inertia packed) cost standard, however, as opposed to a more reactive, profit-maximizing one based on marginal values, precisely because it was obscure enough to be useful and, at the same time, the only fair means to a price rise according to the relatively ill-informed general public. "The firm leans on a cost standard for pricing," Arthur Okun noted, "using customer ignorance about costs to lift its prices above the standard without creating waves of antagonism."[154] Johnson's almost insurmountable task, then—which he hoped to mitigate with the guideposts, corporate good will, and corporate sensitivity to political favors—was to educate the public on the vagaries of this cost standard and to convince business that it should not abandon it but only use it less selfishly. By all

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[153] Quoted in Crauford Goodwin, "A Report of the Conference," 389.
[154] Okun, *Prices and Quantities*, 154.

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indications, he had convinced many business leaders that he was a seeker of genuine consensus, and had become, therefore, a president they were often willing to follow. The guideposts had also knocked several tenths of a percent off of the Johnson era price indices, and had also affected them in additional, largely undetectable, ways through their impact on the nation's inflationary outlook. Even these limited accomplishments, however, came only with an enormous expenditure of presidential energy; the traditional willingness to shirk the challenges of full employment made such a contribution almost an absolute requirement. That Johnson was willing to accept these challenges and press on with unparallelled vigor, boded well for the prosperity and stability of the late 1960s. That his actions failed to convince institutional leaders and the public at large of the novel and quite real potential for economic stability at full employment, ensured, tragically, that future Presidents would have to make similar sacrifices and similar commitments. Unlike Johnson, few would prove equal to the task. "LBJ's energy," Otto Eckstein remarked, "was a sine qua non for the effectiveness of the guidepost policies, but was, perhaps an unreasonable expenditure....only a President Johnson could undertake it."[155]

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[155] Quoted in Cochrane, "Moral Suasion," 293.

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Chapter 7.
Guns and Butter Revisited, or How I Stopped Worrying and Learned to Love Inflated Costs

There are many strategies for the achievement of conservative—or reactionary ends. Those who drew Lyndon Johnson away from these preoccupations (federal aid to education, medical care for the aged, and civil rights reforms) into Vietnam and made that his fame were as skilled as any in all history.

- John Kenneth Galbraith

Because of the influx of U.S. supplies [into Vietnam], dockside waits are often quite lengthy...at one point late last year 120 craft were riding at anchor.

- *Fortune* magazine, March 1966

Were "guns and butter," the fabled agents of economic destruction, without impact, then, on inflation and the eventual economic decline of the 1970s? There is, quite simply, little to suggest that they did not play a significant role and that they had, on the contrary, profound implications for both the price inflation of the 1960s and the stagflation of the 1970s. Though the war in Vietnam, at its peak, comprised only 3% of the nation's GNP and never functioned as some critics had claimed—as a public employment program of last resort—it remained an irrefutable and significant factor in the economic turmoil of the age.[1] Certainly less profound was the inflationary impact of the Great Society, but in evidence here, as well, were significant and lasting

[1] Source of 3% figure: Douglas B. Lee and John W. Dyckman, "Economic Impacts of the War: A Primer," *American Institute of Planners Journal*, September 1970, 298; and Walter W. Heller, "Getting Ready for Peace," *Harper's*, April 1968, 57.

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consequences. Neither the war nor the Great Society, however, produced much inflation or economic mischief based solely on their fiscal impact. Throughout the Johnson presidency, that was mostly negligible and benign.

In a layer-cake diagram, for example, depicting the components of gross capacity product, expenditures for the war in Vietnam—as opposed to those for World War II and even the Korean War, appear as a hardly noticeable bump.[2] Until 1968, despite the often unpredictable path they took, most outlays for Vietnam were actually offset by reductions in other areas of Defense spending and by new DoD efficiencies. Only in 1968, when these offsets approached their political limits, did the marginal fiscal impact of the war truly carry significant and noticeable weight. It was also precisely at this point that Johnson began to reconsider the whole war effort and sought to bring the CEA into the critical debates over future Vietnam policy, requesting input from CEA chair Arthur Okun in a March 1968 memo.[3] "We began rooting for the doves," Okun recalled, "and hoping that the President was paying more attention to them than worrying about what Walt Rostow was telling him."[4] 1968 was also the year in which the fiscal impact of expenditures for Vietnam reached their peak (as reflected by additions to GNP).[5] By 1969, a year in which the Johnson administration achieved a budget *surplus*, spending for Vietnam no longer impelled a greater than desired level of fiscal stimulus.

Despite its not insignificant proportions and its emasculation of preferred spending alternatives, the war in Vietnam sparked little concern, within the Johnson administration, over "runaway spending" and produced a fiscal policy that failed to measure up to only the high and unprecedented standards set by Johnson and his

[2] Boulding, "Inflation as a Process in Human Learning," 17.
[3] Okun, Oral History Interview, in Hargrove and Morley, eds., *The President and the CEA*, 279. Okun also noted here that this change led to Johnson's first rejection of a Vietnam spending proposal.
[4] Okun, Oral History Interview, LBJ Library, March 29, 1969, Interview III, 6.
[5] Citing a 1978 Wharton econometric study, Anthony S. Campagna points out that Vietnamese war additions to GNP went from $10 billion in 1966 to $25 billion in 1967 and 1968 to $3 billion in 1969. Campagna, *The Economic Consequences of the Vietnam War* (New York: Praeger, 1991), 45.

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Keynesian advisers. In October 1966, Gardner Ackley referred to the new financial demands of the war as "an unexpected and unwelcome source of further fiscal stimulus," but Walter Heller still warned of the potential for impending fiscal drag rather than excess demand. If defense spending were to level off at FY 1967 levels, Heller noted, a fiscal drag of $12 billion would still develop by FY 1969, and of $20 billion by FY 1970.[6] In a speech delivered the following year, in which he suggested the likely need for fiscal stimulus, Ackley would repeat this theme: "If the Vietnam war ended soon—by surprise—it should not set off a financial panic, and we could look forward to a tax cut, a reimposition of suspended credits [investment tax credits for business] and easier monetary policy."[7] And even by mid-1968, Heller continued to stress the compatibility of the otherwise regrettable military outlays and necessary social spending. "War in Vietnam—or elsewhere—is not necessary to create jobs and to keep factories humming in America," Heller declared. "Nor is it such a drain on the economy that we have to give up our wars on poverty, slums, ignorance, and pollution here at home...wars do generate demand and thus enlarge total spending, income, jobs, profits, and production. But today we can do all these things in other ways and do them far better."[8] Responding to critics who suggested that the war functioned as a chosen fiscal instrument, Johnson declared, in January 1966, that "production for Vietnam accounts for less than 1½ percent of our GNP....Our prosperity does not depend on our military effort."[9] In October 1966, citing the declining level of defense spending relative

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[6] Ackley, Notes of Vandeveer Memorial Lecture, Southern Illinois University, October 26, 1966, Robson-Ross Papers, Box 9, LBJ Library; Heller, *New Dimensions*, 106. "Fiscal drag" referred to the phenomenon by which growth produced added revenues which produced, ceteris paribus and at approximate budget balance, stagnating fiscal surpluses.
[7] Ackley, Notes of speech, Luncheon of NICB (National Industrial Conference Board), Waldorf-Astoria Hotel, "Business in 1967," Robson-Ross Papers, Box 9, LBJ Library. Ackley compared the "recent" $8 billion increase in defense outlays to the $23.5 billion increase that occurred in a much smaller economy from 1950-III to 1951-III.
[8] Heller, "Getting Ready for Peace," 57.
[9] Johnson, "Annual Message to Congress: The Economic Report of the President," January 27, 1966, *Public Papers, 1966: I*, 97.

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to GNP since mid-1962, CEA member Arthur Okun even felt compelled to remind the American Ordnance Association of this outlook. "Defense spending was clearly not the fuel propelling the economy toward full employment," Okun noted, but was instead "a lubricant that greased the wheels."[10] By the end of the Johnson presidency, it remained an economic stimulus only by default and it was a lubricant for which the administration could find ample and much more suitable substitutes. "If we put our growing economic knowledge to work in sensible postwar planning," Walter Heller remarked in April 1968, "an end to the Vietnam War will be, not just a political and moral, but also an economic blessing."[11]

While the war in Vietnam had inflationary consequences that were not insignificant, it is therefore misleading to suggest—in light of its relatively limited fiscal impact—that these stemmed solely or even largely from the fiscal stimulus that the war represented. Fiscal policy of the era, affected greatly by the demands of the war in Vietnam, was never perfect. Rapid military appropriations in late 1965, for example, made fiscal planning and economic forecasting both difficult and unsettling through much of the following year. Likewise, the approximately $25 billion deficit in FY 1968 was, despite wide-scale predictions for recession in 1967, clearly greater than Johnson or his economic advisers would have preferred. Yet, however daunting these problems may have been, neither revealed anything fundamentally wrong with the administration's economic strategy and neither lasted long enough to impair economic growth or stability. "Clearly, our economic policy in the first year of Vietnam," Walter Heller recalled in 1968, "was not all it might have been....But all told, the U.S. economy has rolled remarkably well with the punch of Vietnam, confounding both those critics who feared ruinous inflation in 1966 and those who foresaw a severe recession in

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[10] Notes of speech, Arthur Okun to the American Ordnance Association, Fort Lesley J. McNair, Washington D.C., October 12, 1966, Robson-Ross Papers, Box 19, LBJ Library.
[11] Heller, "Getting Ready for Peace," 57.

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1967."[12] Forecasting problems lasted only months and certainly proved to be of little consequence by the end of 1966. Inflation in food and services, largely immune to fiscal and monetary policies, accounted for over half of the nation's inflation in 1966.[13] Two tax bills in 1966, plus tightened credit, slowed inflation in 1967 without resort to disruptive mandatory controls. The nation's output of goods and services (just under a 6% advance in 1966) easily kept pace with its rapidly expanding demand, including the added demand associated with the war in Vietnam. And by 1969, the previous year's fiscal deficit had been transformed into a fiscal surplus.

At the same time, the war effort may have well produced the kinds of dislocations, common to most war-time economies, that often breed inflation and instability. Defense industries, after all, use proportionately fewer unskilled workers than the private sector and are less likely to hire from the ranks of the unemployed. The shift of labor—skilled or unskilled—into war industries tends to raise the disposable income of shifted workers without producing additional production or consumer goods likely to be demanded by the wealthier labor force. The monopsonistic character of war contracts also tends to inhibit capital formation in the war industries themselves, particularly if the end of the war is alleged to be near. The riskiness of dependence upon a single buyer, the all too customary predicament of many military contractors, truly can force those dependent industries to avoid expensive capital outlays or worker recruitment and training efforts and to utilize instead the more inflationary options of older machinery and overtime pay.[14]

Despite a swelling military budget in the 1965-1970 period, the war in Vietnam exhibited few of these tendencies to any remarkable extent. Many armaments manufacturers, for example, used Vietnam war contracts to subsidize capital expansion

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[12] Ibid., 58-59.
[13] Ibid., 59.
[14] Lee and Dyckman, "Economic Impacts of the War," 300-307.

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in their more consumer oriented divisions. Even the most aggressive military capitalists realized that while they could certainly fatten up on war contracts, they could not depend upon them indefinitely or with any confidence that they would not exhibit wide variation, even in the short run. McDonnell purchased Douglas Aircraft precisely for this reason, and United Aircraft and Raytheon also diversified their operations to avoid an overdependence upon war contracts. Others, such as General Motors, who produced cannon shells and supply trucks for the war effort, simply used profits from their military contracts to subsidize their already extensive non-military efforts.[15] Companies that often fared less well, such as Lockheed and General Dynamics, simply refused to see that corporations could not function as grizzly bears, gorging themselves during one season and hibernating through another, particularly if rational cost controls had been neglected when profits were expanding.[16] The National Association of Manufacturers even used this quite readily apparent tendency toward diversification to suggest that profits on war contracts were most often insufficient. Why else, they asked, would companies invest more in the production of consumer or producer goods?[17]

What all this implied is quite simply the opposite of the prevailing conventional wisdom, then and now. Guns and butter were not only possible, as President Johnson so often asserted, but were also, if one had to have the guns in any substantial quantity, an economically advantageous combination. High consumer demand and expanding anti-poverty programs, referred to by *US News and World Report* as "a lavish serving of

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[15] In 1969, General Motors received the tenth largest share of Defense dollar contracts, totaling $584.4 million. Yet, from 1961-1967, a period in which their defense contracts compared favorably to the 1969 totals, these contracts comprised only 2% of their total sales. Lockheed received the largest share of Defense dollar contracts in 1969 (slightly over $2 billion worth) and proved to be most dependent on defense contracts in the 1961-1967 period among the top contractors (88% of total sales). Cited by Carroll W. Purcell, Jr., "Military-Industrial Complex," in Glenn Porter, ed., *Encyclopedia of American Economic History: Studies of the Principal Movements and Ideas, Vol. III* (New York: Charles Scribner's Sons, 1980), 932.
[16] Ibid., 306.
[17] "Comments of the NAM on H.R. 14802 and Other Bills to Extend the Renegotiation Act of 1951," submitted to House Ways and Means committee, February 28, 1968, NAM Papers, Series IV, Box 162, Hagley Library.

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butter," insured that defense industries would not curtail production for consumer markets as they tooled up for military production, but would expand such operations instead as a hedge against quieter, less profitable times.[18] As a result of these mostly rational business practices, as well as the unusually high proportion of consumer goods (clothing, construction materials, foodstuffs) in Pentagon purchase orders for Vietnam, the war carried far less inflationary potential than most previous conflicts or high-technology defense spending in general.

What the war exposed, then, was not the economic myopia of a paralyzed administration, the inherent weakness of a full employment economy or the automatic tendency of such an economy to breed inflation, but the very strength of the New Economics and its Keynesian underpinnings. That it also magnified the perverse relationship between prosperity and corporate pricemaking tendencies, only insured that some inflation would result *in spite of* appropriate macroeconomic policy. Parkinson's Second Law, that expenditure rises to meet income, proved especially applicable to the corporate community (as opposed to the governmental milieu to which it was originally directed) during the war in Vietnam.[19] Brought to the attention of the federal government by the prosperity of the Kennedy-Johnson years, which made them both potentially and actually more problematic, and Kennedy and Johnson's challenge to such behavior, which forced companies to confront their self-destructive tendencies, corporate spending practices had more to do with the inflation of the era than either war finance or the fiscal and monetary policies of the Johnson administration. At the same time, war finance and a full employment economic strategy only made these practices more difficult to contain or identify, and also made it easier for business leaders (and their political allies) to scapegoat government policy for problems of their own doing, a challenge readily acknowledged and accepted by President Johnson. "We know that

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[18] "Guns and Butter: Failure of a Policy," *US News and World Report*, February 12, 1968, 27.
[19] See C. Northcote Parkinson, *The Law and the Profits* (Boston: Houghton Mifflin, 1960).

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when most people have good jobs at good wages, we have problems with pricing," Johnson noted in September 1966.[20] "They do give us problems," he declared three months later, when asked about new workers, full employment and inflation. "You have problems in whatever you do, whether you have unemployment or full employment. We like the problems we have now...much more than we do those we would discuss if we had a depression"[21]

Where the war functioned as a stimulus to inflation, and where the Johnson economic strategy fell short was at the level of the firm, a level at which microeconomic price-setting phenomena prevailed. Aggregate demand and the fiscal and monetary policies of the late 1960s, despite the jumbled forecasts in early 1966, the deficit in FY 1968, and the omnipresent gap between policy choices and political reality, remained largely at a level compatible with relative price stability. Expenditures for Vietnam, in the absence of preferred alternatives, clearly helped sustain the full employment or near-full employment of the latter Johnson years, and this environment also helped sustain the corporate behaviors that created much of the period's price inflation. But in most sectors and for most of the period in question (the Johnson presidential years) these expenditures and the federal budget in general did not cause price inflation nor was the inflationary response an automatic or otherwise unavoidable product of this environment. Business managers, especially those directing companies with profitable war contracts, simply played a much larger role in the upward movement of prices than did the aggregate demand bolstered by the New Economics and the war effort. And while the connection between prosperity, advancing profits, and altered price-setting practices made the war effort a significant part of the era's inflationary trend, other businesses, less directly affected by war contracts and war profits, exhibited the same

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[20] Johnson, Transcript of Press Conference, September 21, 1966, *The Johnson Presidential Press Conferences, Volume 2*, 563.
[21] Johnson, Transcript of Press Conference, December 2, 1966, Austin Texas, *The Johnson Presidential Press Conferences, Volume 2*, 681.

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tendency. The profitability of the age in general, not the war in Vietnam or the full employment policies that helped yield such high profitability, produced most of the period's inflation. Through the mechanism of higher, and mostly discretionary, business costs, including the reputedly inescapable cost of unionized labor, businesses resorted to price inflation simply because they could, without suffering either an inordinant amount of customer defection or public disapproval. Consistent demand and high profits insured that few businesses had to raise prices, but it also made it easier for many to do so.

Although their impact on aggregate demand was even less consequential, specific Great Society programs played a similar role in the national economy. Within Johnson's presidency, appropriations to programs such as Aid to Families with Dependent Children (AFDC), the Job Corps, or the Food Stamps Program, despite popular images to the contrary, provided little stimulus to aggregate demand. Where Vietnam expenditures comprised approximately 3% of the nation's GNP, these programs combined for far less than 1%.[22] Outlays for those Great Society programs directed at the more prosperous middle classes, such as Medicare and aid to education, loomed somewhat larger but still carried too little macroeconomic weight to have any significant role in the emergence of a hypothetical excess demand situation. Absent this kind of impact, the microeconomic effects of the Great Society were still quite profound. Here, as it was with military contracts, corporate pricing policies were affected intimately; Medicaid and Medicare checks, grants for public housing and school construction, and various other products of Great Society legislation, had significant impact, indeed, on the depth and duration of corporate profits, on the ability and willingness of corporations to alter their spending patterns, and on the subsequent pricing schemes affected directly by the newly ingrained spending habits.

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[22] See Johnson, "Annual Budget Message to Congress, Fiscal Year 1970," January 15, 1969, *Public Papers, 1968-1969: II*, 1273-1306.

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Regarding the Great Society and its macroeconomic impact, one caveat remains. The real issue, of course, is whether or not direct spending on the poor, either in tandem with or separate from Vietnam expenditures, contributed to aggregate demand in such a way as to create an unavoidable, inflationary spiral, a contention which formed a part of what Robert Kuttner called "The Economic Illlusion."[23] Those who have suggested that the Great Society functioned in this manner generally referred to it only as the "War on Poverty," for this enabled them to accentuate what they believed to be the real source of the ensuing inflationary crisis: spending on the poor, or the "lavish butter" added to an economy at or near full employment. Ironically, President Johnson believed his anti-poverty effort to be even larger and more expensive than that suggested by the specific and clearly stunted anti-poverty programs. He simply did not consider the programs directed exclusively at the nation's poor, or the largely experimental programs of the Office of Economic Opportunity, to be the alpha and beta of the War on Poverty; other more general efforts were equally significant and the whole endeavor was most dependent upon a broad assault that included *all* economic policies. Joe Califano recalled that Johnson "was especially miffed that the press often judged his war on poverty by the size of the OEO [Office of Economic Opportunity] budget instead of the many more billions spent for health, education, housing, and cash benefits for the poor."[24] Johnson himself often expressed the belief that few of these investments made any sense unless coupled with the expanded opportunities inherent to a demand-oriented, full employment economy. "Because poverty itself is a complex problem composed of many interlocking facets," Johnson noted in his presidential memoirs, "our assault on it had to be an integrated attack launched on many fronts."[25] Job training, for example, made little sense if the economy could not generate the jobs for which the

[23] See Robert Kuttner, *The Economic Illusion: False Choices Between Prosperity and Social Justice* (Boston: Houghton Mifflin, 1984).
[24] Califano, *Triumph and Tragedy*, 168.
[25] Johnson, *Vantage Point*, 81.

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disadvantaged were trained. "If combined with general economic policies to create job opportunities, and with equality of job opportunity," CEA member Otto Eckstein remarked in 1965, summing up the administration approach, "the new investments in human resources should yield a handsome and satisfying return to society."[26] Indeed, many overlooked the real gains made by the War on Poverty simply because they failed to recognize the critical role of Johnson's broader economic strategy. At the end of the Johnson presidency *Business Week* attempted to remind its readers of this all too prevalent tendency:

> Though the prosperity has been accompanied by a new sensitivity toward poverty and racial inequality, which sometimes made it seem as if nothing was being done about those problems, the record is replete with evidence of progress. The number of Americans living below the poverty line declined by 18-million between 1961 and 1968. And the unemployment rate for adult Negro males has declined from an appalling 11.4% in the winter of 1961 to 3.9% in late 1968.[27]

Though these critical connections between economic strategy and anti-poverty efforts were severed quickly and somewhat surreptitiously in the administration of his successor, Johnson contended that the Great Society, the War on Poverty, and the New Economics advanced together or little at all.

In light of Johnson's preferred approach, then, the War on Poverty had a more substantial macroeconomic impact than its more conventional definition would imply. But this was ultimately not what most critics referred to when they assailed Johnson's "guns and butter" economic strategy, nor was it relevant to these "excess demand" criticisms anyway, since the total of all demand, including the War on Poverty (in either manifestation), was not great enough to trigger very much of the period's price inflation. Guns *and* butter, in other words, were compatible with economic stability and full employment, at least within the limits set for them by the Johnson administration.

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[26] Notes of Speech, Otto Eckstein, May 7, 1965, West Virginia University Conference on Poverty Amidst Affluence, Morgantown, WV, Robson-Ross Papers, Box 19, LBJ Library.
[27] "New Economists Leave Their Last Testament," *Business Week*, January 18, 1969, 102-103.

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Johnson always hoped to break out of the self-imposed limitations on social spending and lamented the conservative attacks on the minimal appropriations earmarked specifically for the War on Poverty. "Our work was just beginning," he once contended, "but there were those who felt that even this beginning was too much."[28] But he always placed clear macroeconomic limits on both the Great Society and the war in Vietnam; large fiscal deficits were simply not perpetual or even routine components of the Johnson political economy.[29] The major problem with the FY 1968 budget, Budget Director Charles Schultze told Johnson in late 1966, was that "we are not able fund adequately the new Great Society programs."[30] Appropriate fiscal policy and the level of economic growth defined the parameters of Great Society spending, not the actual needs of even the most effective programs. While Johnson hoped to extend the Great Society partly through increased political leverage and expanding program popularity, he believed that only economic growth could truly insure its viability and long term success. "As long as the economy was growing rapidly..." Arthur Okun recalled, "he really did see an opportunity for shifting...the distribution of public services toward the disadvantaged without having anybody feel it very much...it would be sharing the gains rather than asking for belt-tightening."[31] Great Society outlays, in other words, were designed less to be the engine of the nation's prosperity than both a part and product of a much broader assault on poverty, economic inequality, economic under-achievement, and racial discrimination.

Since the war had little intrinsic economic value to the Johnson administration, limited perhaps to its salutary effect upon the conservative reception of liberal domestic concerns, it is tempting to conclude that Johnson did not desire the war at all and that he

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[28] Johnson, *Vantage Point*, 82.

[29] The budget deficits/surpluses for the Johnson years are, 1964: -\$3.3 billion; 1965: +\$0.5 billion; 1966: -\$1.8 billion; 1967: -\$13.2 billion; 1968: -\$6.0; 1969: +\$8.4 billion. Sources: U.S. Department of Commerce

[30] Memo, Schultze to LBJ, November 7, 1966, White House Central Files, WE 9, Box 28, LBJ Library.

[31] Okun, Oral History Interview, in Hargrove and Morley, eds., *The President and the CEA*, 275.

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only became trapped in it by forces beyond his control.[32] At the very beginning of his presidency, for example, the Kennedy assassination and Johnson's own desire to break the prevailing legislative logjam compelled him to accept, without much debate, the largely one-sided counsel of others. The February 1965 Pleiku tragedy happened to coincide with Soviet Premier Kosygin's visit to Hanoi, making it less possible, thereafter, to see the Vietnamese civil war in either a non-threatening or non-cold war perspective. Even George Ball, who counseled withdrawal in 1965, suggested the need for retaliation. "We are all in accord that action must be taken," Ball told Johnson after the attack.[33] Likewise, South Vietnamese and U.S. military intelligence remained of poor quality throughout the war, further limiting policy options.[34] Moving reluctantly at

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[32] Republican Senator Everett Dirksen, for example, often served as the key to Johnson's domestic legislative victories and was persuaded at least partly by Johnson's policy in Vietnam. Dirksen often went to bat for Johnson on domestic policy issues, and rebuffed those in his party who sought a more expanded military effort in Vietnam, but prohibited, as the price of his support, a more diligent peace effort as well. See Neil MacNeil, *Dirksen: Portrait of a Public Man* (New York: World Publishing Co., 1970), 271-273. Johnson was also well aware of the potential divisions that this might cause in his own party. "I am probably more concerned over the corrosive effects politically of Vietnam than most," Charles Roche wrote to Johnson on June 10, 1966. "Both qualitatively and quantitatively, the Republicans have been less critical of Vietnam than elements within the Democratic party." Memo, Charles Roche to LBJ, June 10, 1966, LBJ Handwriting File, Box 11, LBJ Library. Just as the war made it easier for Johnson to sail a liberal domestic agenda past some conservatives, however, it also made that same agenda more vulnerable to the attacks of others. "Once the war began," Johnson told Doris Kearns, "then all those conservatives in Congress would use it as a weapon against the Great Society. You see, they never wanted to help the poor or the Negroes in the first place. But they were having a hard time figuring out how to make their opposition sound noble in a time of great prosperity." Quoted in Kearns, *Lyndon Johnson and the American Dream*, 252.

[33] Quoted in Johnson, *Vantage Point*, 124. See also George W. Ball, *The Past Has Another Pattern: Memoirs* (New York: W. W. Norton, 1982), 389-390. Ball suggested that he tried to block a retaliatory raid, and was accused of as much by Robert McNamara. He limited his protest, however, to the suggestion that retaliatory bombing be postponed until after Kosygin left Hanoi. Apparently, Kosygin and his advisers were prepared to meet the North Vietnamese request for greater assistance, but had also attempted to persuade them to consider a "compromise solution" to the war. Journalist Stanley Karnow reported that these discussions were "stormy" and that one Soviet participant described the North Vietnamese to him as a "bunch of stubborn bastards." See Stanley Karnow, *Vietnam: A History* (New York: Viking Press, 1983), 411. The Pleiku attack, begun at approximately 2 am at Camp Holloway where American advisers and Special Forces troops were stationed, concluded with eight dead Americans, more than one hundred wounded, and ten American aircraft destroyed. After the retaliatory raid, Johnson's public approval rating stood at 70%. See ibid., 411-414.

[34] A point of which Johnson was clearly aware. "Can Westerners, deprived of accurate intelligence, successfully fight Asians in the jungles and rice paddies?" Johnson queried in July 1965. Quoted in Ball, *Memoirs*, 401.

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almost every stage, Johnson gave up drinking in January 1966 so he could better concentrate, and walked to the basement situation room at 4:30 or 5:00 every morning to keep abreast of the smallest changes in the war and in the number of U.S. casualties.[35] "Given all the elements that had been unleashed," William Appleman Williams noted, "the wonder is that he went so slow....The point is that he did not honor, after the first attacks on American units, his own commitment to the existing system."[36] Despite Johnson's caution and reluctance to accept uncorraborated advice, forbidden bombing targets were hit anyway, "friendly" villages were pacified four and five times over, body counts were adopted as the only conceivable scorecard in a war of attrition, and a reporting system was adopted where soldiers were forced to give generals false reports—often for security reasons.[37] The Tet offensive showed, First Lieutenant David Donovan remarked in his Vietnam memoirs, "that bullshit in the reporting system was to be measured in feet, not inches."[38] It is also clear that for most of the war, the press and the public in general remained belligerent toward Vietnamese communists and tended to loathe only the indecisiveness of a limited war in a complex

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[35] In January 1966 Johnson traded his Cutty Sark scotch for diet soft drinks (primarily Tab and Fresca). Cited in Valenti, *A Very Human President*, 172.

[36] William Appleman Williams, "Ol' Lyndon and JFK," 502. (reprinted from "Some Presidents: From Wilson to Nixon," in the *New York Review*, 1972, 83-107.)

[37] Merle Miller suggests that Johnson was not unaware of the body count delusion and all that it entailed. Flying with the crew of the "Heckling Hare" (a B-26 bomber) in the Pacific theater during World War II, Johnson (on an inspection tour) found himself on board when 8 Japanese zeroes attacked. In the course of the flight, tail gunner Harry G. Baren told him, "All we ever knew about MacArthur were his fancy press pictures and his statements about the war....Well, if we ever shot down as many planes as his headquarters used to say, we'd have wiped out the Jap Air Force in two months." Cited in Miller, *Lyndon*, 97.

[38] David Donovan, *Once a Warrior King: Memories of an Officer in Vietnam* (New York: Ballantine Books, 1985), 159. Donovan's memoirs provide a unique glimpse of the tragedy that was the war in Vietnam. As head of a Mobile Advisory Team (MAT) in an isolated Vietnamese village (Tram Chim, Dong Tien District, Kien Phong Province) about 100 miles from the nearest U.S. combat unit, Donovan proved to be the soldier envisioned by the most idealistic policymakers in Washington. He won the respect of the local citizens and he helped them fend off disease, malnutrition, and Viet Cong terrorism (often directed against schools and markets). At the same time he makes it clear, in an almost unintentional fashion, why his situation was not often duplicated or repeated among the rest of the American forces in Vietnam. See pp. 216-217 for his surprising description of U.S. Special Forces' inefficacy.

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social and political milieu.[39] Even intellectuals and academics that Johnson admired often counseled an aggressive posture vis-a-vis the North Vietnamese communists.[40] And, despite all these difficulties and diversions, some American intervention clearly provided what it had promised: enhanced village security and relief from an often

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[39] See Chester J. Pach, Jr., "And That's the Way it Was: The Vietnam War on the Nightly News," in Farber, ed., *The Sixties: From Memory to History*, 93-112. Though Johnson read several newspapers every morning, and had descriptions of evening network newscasts prepared for him by Peter Benchley and Robert Fleming—suggesting that he did not watch all the time—the famous three monitor console was often ablaze in the oval office; television news clearly informed his policy judgements in no small way. See also David Culbert, "Johnson and the Media," in Robert Divine, editor, *Exploring the Johnson Years* (Austin: University of Texas Press, 1981), 214-241, for an analysis of Johnson's perspective toward the television and print media and information on the Benchley-Fleming summaries (found on p. 223). Even the impact of critical reporting during and after the 1968 Tet offensive has been exaggerated—often quite handily. Accuracy in Media (AIM) produced a short film, narrated by Charleton Heston, which purported to show how error-prone reporting of the Tet offensive effectively turned public opinion against the war. In their haste to get the story as it quickly unfolded, reporters at the U.S. embassy in Saigon did make serious interpretive errors; reports on the attack at Khe Sanh U.S. air base were also far from being incisive. The real impact of the reporting here, however, did not come from any erroneous suggestions that Tet was a defeat for the Americans and their South Vietnamese allies—most news summaries in fact suggested that it was clearly not such a defeat—but from the realization that the war had become a quagmire instead where the enemy dictated the terms of battle in spite of hurrendous losses. And as Pach points out, the television reports on Tet were not that different from those of military officials. General Earle Wheeler called Tet "a very near thing," and noted that "the enemy has the will to continue." Walter Cronkite opened his February 14, 1968 newscast by commenting, "First and simplest, the Vietcong suffered a military defeat." See Pach, "And That's the Way it Was," 110. See also Peter Braestrup, *Big Story: How the American Press and Television Reported and Interpreted the Crisis of Tet 1968 in Vietnam and Washington,* abridged edition, (New Haven: Yale University Press, 1983); and David Broder, "Nixon Demands U.S. 'Tell Truth' About VC Strength," and Ward Just, "Romney Hits 'False Optimism' on War," both in the *Washington Post*, February 6, 1968, A2, for the real origins of the "Tet as U.S. failure" analysis (conservatives and Republicans who hoped to skewer the Democratic party with it). "If what we have seen in the past week is a Viet Cong failure," Just quoted Romney, "then I hope they never have a victory."

[40] Journalist Walter Lippmann, New Deal "braintruster" Adolf Berle, novelist John Steinbeck, and historians Allan Nevins, Oscar Handlin, and T. Harry Williams were among those who supported the Johnson administration's struggle against Vietnamese communism. See Barry Riccio, *Walter Lippmann—Odyssey of a Liberal* (New Brunswick: Transaction Publishers, 1994), 154-156, 225; Jordan A. Schwarz, *Liberal: Adolf A. Berle and the Vision of an American Era* (New York: Free Press, 1987), 354-376; Elaine Steinbeck and Robert Wallsten, eds., *Steinbeck: A Life in Letters* (New York: Viking Press, 1975), 820; John Steinbeck to Jack Valenti, with cover from Valenti to LBJ, January 14, 1966, LBJ Handwriting File, Box 15, LBJ Library; and Goldman, *The Tragedy of Lyndon Johnson*, 433. The Steinbeck letter to Valenti is especially remarkable for its almost enthusiastic support of the war effort. In this letter, Steinbeck recommended the use of 10 gauge shotguns ("if you are man enough"), napalm grenades, and irregular bombing patterns in the struggle against the Vietnamese communists. "But, oh boy," Steinbeck wrote, "let me tell you that out at Sag Harbor I have a ten gauge starting cannon....One day just to test it I wadded in a handful of buck shot....At fifty yards it made a pattern that would bring down a squad."

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predatious communist insurgency.[41] This had the effect of making complete and immediate withdrawal, perhaps Johnson's noblest option, a somewhat less palatable one.

If Johnson was served by poor advice and limited options, he, nevertheless, brought much of it upon himself. "He harangued, frightened, and overwhelmed most of his Cabinet as well as his Staff," Leslie Gelb noted. "....If LBJ was a commanding figure as Senate Majority Leader, he was positively overpowering as President."[42] But even more

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[41] Johnson's willingness to countenance any kind of American presence in Vietnam centered on his concern for two groups of people: South Vietnamese non-communists (not necessarily anti-communists) who were subjected to communist terrorism; and American soldiers already in Vietnam fighting against these terrorist activities. Aware that this side of the war was perhaps the least important in the minds of those who saw this only as a larger struggle within the Cold War paradigm, Johnson often became quite frustrated. "Viet Cong atrocities never get published," he often lamented. Quoted in Valenti, *A Very Human President*, 223. This concern over VC atrocities also dominated Johnson and Valenti's thinking when they endorsed John Wayne's request to make a Vietnam film. "My own judgement," Valenti remarked, "is that Wayne's politics are wrong....The principal defect of a documentary [however, as opposed to a fictional John Wayne film] is that we have no film of the Viet Cong and no depiction of their atrocities." Memo, Valenti to LBJ, January 6, 1966, LBJ Handwriting File, Box 11, LBJ Library. See also James West Davidson and Mark Hamilton Lytle, "Where Trouble Comes," esp. 358-366, chapter in *After the Fact: The Art of Historical Detection, Vol. II* (New York: McGraw-Hill, 1992), 356-386, for a brief excerpt from Wayne's letter to LBJ and a critical review of the resulting motion picture: *The Green Berets*.

[42] Leslie Gelb, "The Pentagon Papers and the Vantage Point," *Foreign Policy*, Spring 1972, 39. "The tentative answer I draw from the Pentagon Papers [to the question of Vietnam policy control]," Gelb asserted, "is that LBJ was more instrument than master prior to the summer of 1965 and very much the domineering master of consensus thereafter." See ibid., 33. Yet, it is difficult to imagine, however imposing President Johnson was, persons like John Connally, Walt Rostow, or Dean Acheson being intimidated by him. When Johnson asked longtime political associate John Connally what he would do about the Vietnam dilemma, Connally replied that he would warn Hanoi to get out of South Vietnam, give them 72 hours, and then if they did not respond, he would "destroy Hanoi." Johnson's only response, according to Connally, was, "Good God, I can't do that." Quoted in Connally with Herskowitz, *In History's Shadow*, 205. Rostow counseled a hard line in Vietnam even under the Kennedy administration. "It is somehow wrong," Rostow wrote JFK, "to be developing these [military] capabilities but not applying them in a crucially active theater. In Knute Rockne's old phrase, we are not saving them for the Junior Prom." Quoted in George M. Kahin, *Intervention: How America Became Involved in Vietnam* (New York: Knopf, 1986), 131. And when Johnson convened one of his first Vietnam policy sessions with the foreign policy "wise men" in 1965, an unofficial group of advisers that included Truman's Secretary of State Dean Acheson, General Omar Bradley, and FDR's Assistant Secretary of War John McCloy, he fully expected that most of the group would generally favor a firm policy. To his surprise, "the wise men" were not just *generally* in favor of a firm policy against the Vietnamese communists; they saw no alternative to one. When Johnson expressed doubts about the potential U.S. role and complained about the political quandary he found himself in as a result of Vietnam, Acheson exploded and told him that "he had no choice except to press on," and the others followed by seconding Acheson's comments vigorously and without reservation. Appalled by this response, and certain that it shook President Johnson, George Ball reproached Acheson after the meeting had adjourned. "You goddamned old bastards," Ball retorted, [y]ou remind me of nothing so much as a bunch of buzzards sitting on a fence

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significant than Johnson's impact on his own advisers—which was arguably less profound than Gelb had suggested—was his genuine belief in the war effort. Though he told the press on December 27, 1968 that a truce would "make us all happier than anything else," and that "it would be just paradise if we could end that thing," he continued to believe that the majority of the South Vietnamese wanted and needed American military aid and that Americans ought to avoid what he termed a "dangerously short-sighted" isolationism.[43] "You can sense how these people feel, they want the same things we do," Johnson remarked after a visit to a Vietnamese village in 1961.[44] "I believe that these [South] Vietnamese are trying to fight," he declared in July 1965. "They're like Republicans who try to stay in power but don't stay there long."[45] And even after his presidency had come to an end, Johnson continued to press a similar theme. "Some are angry," he declared in 1971, "because what we have done for the world hasn't made other nations automatically do what we say. Some just don't like foreigners. Some think we should spend everything on ourselves instead of trying to help avoid chaos elsewhere. Others just don't like spending money. Others just don't want to get involved."[46] After the summer of 1965, Johnson clearly desired a limited war and was trapped only by the difficulty and complexity of such an endeavor.[47] "Doubt and debate are enlarged," he noted in San Antonio on September 29, 1967,

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and letting the young men die....Would you have ever put up with this if you had been Secretary of State?" Quoted in VanDeMark, *Into the Quagmire*, 176.

[43] Johnson, Transcript of Press Conference, December 27, 1968, *The Johnson Presidential Press Conferences, Volume 2*, 999,1000.

[44] Quoted in Goldman, *The Tragedy of Lyndon Johnson*, 391.

[45] Quoted in Valenti, *A Very Human President*, 335.

[46] Johnson,"LBJ: Some Warnings About Todays America," U.S. News and World Report, November 29, 1971, 92.

[47] In a secret cable sent to General Maxwell Taylor in December, 1964, Johnson stressed his aversion to a large scale war and bombing but his willingness to fight a small scale guerilla war. "Every time I get a military recommendation," Johnson wrote, "it seems to me that it calls for large scale bombing. I have never felt that this war will be won from the air, and it seems to me that what is much more needed and would be more effective is a larger and stronger use of rangers and special forces and marines....I am ready to look with great favor on that kind of increased American effort, directed at guerrillas and aimed to stiffen the aggressiveness of Vietnamese military units up and down the line." Quoted in Berman, *Planning a Tragedy*, 34-35.

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"because the problems of Vietnam are quite complex. They are a mixture of political turmoil—of poverty—of religious and factional strife—of ancient servitude and modern longing for freedom. Vietnam is all of these things."[48] This clearly seemed to be a President trying to move, rather than being moved by, political exigencies and public opinion.

Reflecting on the war and her husband's presidency, and implicitly suggesting that Lyndon Johnson remained well aware of the war's cost and unpopularity, Lady Bird Johnson acknowledged the public relations problem associated with a limited war. "The temperament of our people," she noted in her diary in January 1967, "seems to be, 'You must get excited, get passionate, fight it, get it over with, or we must pull out.' It is unbearably hard to fight a limited war."[49] A fragmentary doodle found on the President's desk on December 18, 1965 may have more accurately reflected his views than any memorandum or public address. Inscribed alone on the President's note to himself that day were the phrases, "Long bloody war" and "American people."[50] George Ball had even provided Johnson, during the critical July 1965 strategy sessions, with a survey produced during the Korean conflict correlating negative public opinion with rising casualties.[51] And Defense Secretary McNamara had expressed the view that our losses in Vietnam *would be* proportional to the number of our soldiers in the country.[52] Clearly dissuaded from imagining that the war in Vietnam would be a popular endeavor, despite public opinion polls suggesting the opposite, Johnson pressed on anyway and became convinced that he should compel unanimity and perseverance when circumspection and

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[48] Johnson, "Address on Vietnam Before the National Legislative Conference, San Antonio, Texas," September 29, 1967, *Public Papers, 1967: II*, 876.
[49] Lady Bird Johnson, January 5, 1967, *A White House Diary*, 469. This note was a response to a coversation between President Johnson and Budget Director Charles Schultze on limited war. "He and Lyndon were talking about the difficulty of doing that," Lady Bird noted. Ibid.
[50] Note, December 18, 1965, LBJ Handwriting File, Box 11, LBJ Library.
[51] Ball, *Memoirs*, 400.
[52] Ibid. McNamara expressed this view also during the July 1965 strategy sessions. At the same time, however, General Maxwell Taylor suggested the opposite, that American casualties would *decline* as we poured greater numbers of troops into Vietnam.

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restraint may have been more appropriate.[53] And in many ways, the tenacity of Johnson's public declarations belied his own reluctance. Partly hemmed in by the belligerance of the Joint Chiefs of Staff and by the weight of congressional and public opinion, as well as the actual events in Vietnam, Johnson strangely closed his eyes to genuine diplomatic possibilities. "I don't know what to do," Johnson told Douglas Cater early in 1965. "If I send in more men, there will be killin'; if I take out men there will be killin'; anything I do there will be killin'."[54] He told his press secretary, Bill Moyers, that he felt "like a hitchhiker caught in a hailstorm on a Texas highway. I can't run. I can't hide. And I can't make it stop."[55] Walking the presidential beagles "him" and "her" a few months later, with members of the press in tow, Johnson responded to the Vietnam question even more succinctly. "I don't know what the fuck to do about Vietnam. I wish someone would tell me what to do."[56] Johnson's approach to the critical decisions of July 1965, George Ball suggested, provided "some sense of the President's agonizing reluctance to go forward, his desire to explore every possible alternative, and, finally,

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[53] The many polls Johnson consulted regularly revealed a divided but still surprisingly hawkish American public. When he prepared for the critical "get in, or get out" meetings in July 1965, for example, a Harris poll showed that 47% of the public wanted to send in more troops, with 23% "not sure," 19% wanting to keep the present number, and only 11% wanting to take troops out. See memo, Hayes redmon to LBJ, June 17, 1965, White House Central Files, PR 16, Box 80, LBJ Library. Incoming mail elicited an even more confusing picture. See, for example, memo, Paul Popple to LBJ, January 20, 1966, LBJ Handwriting File, Box 11, LBJ Library, which described the mail received for the week of January 20, 1966. More were against Johnson's policy than for it (755 to 369); more favored an increased peace effort than not (684 to 16); but more also favored an increased military effort than not (396 to 121). Even as late as October 1968 another Harris poll showed that only 13% of the American public favored a complete withdrawal. Cited in Stephen Ambrose, *Nixon: The Triumph of a Politician, 1962-1972* (New York: Simon and Schuster, 1989), 199. Robert Kennedy was stunned when he asked for a show of hands at a Catholic women's college in late 1967 and found that a majority favored more, not less bombing. Cited in Deborah Shapley, *Promise and Power: The Life and Times of Robert S. McNamara* (Boston: Little, Brown, 1993), 438. Although a strong anti-war consensus never materialized during Johnson's presidency, the prevailing sentiment remained "why can't we get it over with," rather than "why can't we withdraw." Cited in Gould, "Never a Deep Partisan," 30. TRB in the New Republic issued a similar remark in 1966: "The country loathes the war, but also loathes the idea of not winning it." Quoted in Miller, *Lyndon*, 458.
[54] Quoted by Douglas Cater in ibid., 41.
[55] Quoted in Karnow, *Vietnam*, 396.
[56] Quoted in Rowen, *Self-Inflicted Wounds*, 4.

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his inability to reconcile his vaunted Texas 'can-do' spirit with the shocking reality that America had painted itself into a corner..."[57]

"When we were heading into the harsher days of Vietnam," Ball recalled, "his constant advice was that we should 'hunker down like a jackass in a hailstorm."[58] Indeed, after the decision to step up the war effort, in July 1965, Johnson was only too ready to ignore dissent and to accuse critics of speaking out from cowardice, frustration, racism, or personal animosity.[59] "There will be some Nervous Nellies and some who will become frustrated and bothered and break ranks under the strain," Johnson declared in a May 1966 address that both typified this response and prompted an indignant reaction from critics.[60] Though much of Johnson's response to criticism was incisive and not completely without justification, it was also all together too indiscriminate and too strident and became, as a result, almost completely counterproductive. One of Johnson's weaknesses, John Connally asserted, "was his desire to be loved by everyone. To this end, he often courted his enemies and abused his friends."[61]

Far less enigmatic than the causes of and responsibility for the Vietnam tragedy was the economic policy that accounted for the demands of the war and the introduction of the Great Society. Confident in his own knowledge and intuition, persistent in his pursuit of sound advice and appropriate policy, Johnson managed to maintain a far-sighted, flexible, and productive economic strategy even as the war in Vietnam created

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[57] Ball, *Memoirs*, 399.
[58] Ibid., 319.
[59] Johnson referred to Senator William Fulbright, for example, perhaps the most demonstrative opponent of the Vietnamese war in Congress, as "Senator Half-bright" because of Fulbright's racist views and strident support of big business. Johnson believed that Fulbright turned against the war mostly because the Vietnamese people were not Caucasians, and therefore discounted much of his criticism. When Harrison Salisbury returned from his historic trip to Hanoi in December, 1966 and briefed Fulbright's senate committee he also noted Fulbright's personal animosity toward Johnson. "I thought it was very businesslike," Salisbury noted, "with the single exception of Fulbright himself. He kept asking me very sarcastic questions, in which he wanted to sort of share a sarcastic and sneering view of the present administration." Quoted in Miller, *Lyndon*, 473.
[60] Johnson, "Vietnam and the 'Nervous Nellies," in Marvin E. Gettleman and David Mermelstein, eds., *The Great Society Reader: The Failure of American Liberalism* (New York: Random House, 1967), 417.
[61] Connally, with Herskowitz, *In History's Shadow*, 63.

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great political tension and the need for modest economic policy adjustments. "The true costs of this conflict are death, pain, and grief; interrupted careers and separation from loved ones," Johnson declared early in 1966. "They are incalculable. But the economic cost of Vietnam imposes no unbearable burden on our resources."[62]

Even the errors of omission, most notably the failure to enact a timely tax surcharge in the face of full employment and fiscal deficit in FY 1967, proved less costly than most imagined (including President Johnson) and only temporarily significant.[63] Congress clearly proved resistant to Johnson's call for added taxes and many began to speculate that Keynesian fiscal restraint was incapable of practical application.[64] But the repercussions were slight and the political demands were uncommon. "It is not often," Walter Heller stressed in early 1968, "that Congress will have to be asked to raise taxes, because the federal tax take [at the current level of GNP and continued full employment] automatically rises by about 9 billion dollars a year."[65] Nor was there a significant problem with forecasting, as it has so often been claimed; Johnson did not cover up the costs of the war to delay a tax increase and his advisers were unaware of actual costs only at the very beginning (late 1965) of the expanded war effort.[66] "I would like to try very hard," Gardner Ackley noted when asked about Vietnam forecasting and Johnson's credibility, "to disillusion anybody who believes that. In the

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[62] Johnson, "Annual Message to Congress: The Economic Report of the President," January 27, 1966, *Public Papers, 1966: I*, 97.

[63] See chapter 8 for a more extensive examination of this point.

[64] See James Buchanan and Richard E. Wagner, *Democracy in Deficit—The Political Legacy of Lord Keynes* (New York: Academic Press, 1977); and for a less pessimistic view, Samuel Brittan, "Can Democracy Manage an Economy?" in Robert Skidelsky, ed., *The End of the Keynesian Era: Essays on the Disintegration of the Keynesian Political Economy* (New York: Holmes and Meier, 1977), 41-49.

[65] Quoted in "Where the New Economics Went Wrong," *US News and World Report*, January 15, 1968, 38.

[66] See Schulman, *Lyndon B. Johnson and American Liberalism*, 101, for a recent example of this contention. "Johnson believed he could protect the Great Society," Schulman wrote, "only by downplaying the expense of his two-front war; he covered up the costs of the Asian struggle, economized on every domestic program, and delayed a tax increase as long as possible."

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first place we knew what numbers were being talked about....there was certainly no question about the absence of sufficient information to reach a policy judgement."[67]

At the same time, Johnson was, indeed, less than candid with the American public. Arthur Okun recalled, for example, how he "tried to stay off the podium" in early 1966, so he "wouldn't have to tell lies."[68] But Okun knew the actual spending levels and realized, as well, that these lies were designed not to sustain an otherwise impractical or unwise economic strategy but to restrain public opinion and to avoid the call for a greater war effort.[69] "Everybody would start second-guessing the Budget Bureau's [defense] expenditure estimates," Okun recalled. "But then you'd get a week or so of this effort at the staff level which usually resulted in a single consensus reestimate after some negotiation."[70] According to Defense Secretary McNamara, key economic advisers were *not* informed of Vietnam spending estimates in 1965. "I submitted my spending estimate and proposed tax increase [in late July 1965]," McNamara recalled, "in a highly classified draft memorandum known to only a handful of people. Not even the treasury secretary or the chairman of the Council of Economic Advisers knew about

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[67] Ackley, Oral History Interview, in Hargrove and Morley, editors, *The President and the CEA*, 247-248.

[68] Okun, Oral History Interview, in ibid., 286.

[69] "His great fear on Vietnam," daughter Lynda Bird noted of her father, "was not of the anti-war liberals but of the hawks on the right." Lynda Robb, quoted in Hardesty, ed. *The Johnson Years*, 165. This "fear" was confirmed by others, as well, including columnist Joseph Alsop, General William Westmoreland, and historian Kathleen Turner. It is interesting to note that while Alsop sympathized with Johnson on this point near the end of his administration, he was also among those chiding Johnson for an excessively cautious approach at the beginning. "Vietnam is what the second Cuban crisis was for John F. Kennedy," Alsop wrote on December 30, 1964. "...If Mr. Johnson ducks the challenge, we shall learn by experience about what [it] would have been like if Kennedy had ducked the challenge in October 1962." Quoted in VanDeMark, *Into the Quagmire*, 48. Westmoreland recalled that "both the President and the Congressional leaders were afraid of an open debate. They were unsure of thepolitical repercussions and more concerned about the 'hawks' than the 'doves' on the convenient theory that Red China might be provoked into the war." William C. Westmoreland, "Vietnam in Perspective," *Military Review*, January 1979, 37. Kathleen Turner maintained that Johnson attempted to restrain public opinion—partly by withholding information—to avoid a mounting war fever and a call for a greater war effort. Kathleen J. Turner, *Lyndon Johnson's Dual War: Vietnam and the Press* (Chicago: University of Chicago Press, 1985). Johnson also believed that the "loss of China" had done more to create the McCarthy era than anything else; he did not want a command performance. [69]

[70] Okun, Oral History Interview, Interview I, 8, LBJ Library.

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it."[71] While some forecasting difficulties remained, accurate spending estimates continued to elude Johnson's CEA and Treasury Secretary only for a very short period, and the economy behaved much as they predicted throughout Johnson's presidency. In 1967, for example, perhaps the most difficult year to forecast in all of Johnson's presidential term, a consensus of the nation's professional economic forecasters predicted a year end GNP of $781 billion. The econometricians at the Wharton School followed with a prediction of $785 billion, while Johnson's CEA predicted $787 billion. The only group to forecast a strong upsurge in the second half of the year, the CEA came closest to the actual $793 billion GNP figure registered at the end of 1967.[72] All in all, the only forecast Johnson's Keynesian economists really missed was the forecast for late 1968 and early 1969, after the imposition of the 10% tax surcharge. Underestimating the level of business investment that was encouraged by the low unemployment of the period—which they recognized and considered—but also by the profit-centered, supply side rhetoric of the President-elect—which they did not acknowledge as fully—Johnson's CEA predicted slower growth for that period than actually occurred. "I would still say," Arthur Okun recalled, "that the big error we made at that point was in assessing the underlying state of private [investment] demand rather than in underestimating the stimulus that would be provided by monetary policy. Capital spending didn't keep shooting up more than we expected because money was plentiful and interest rates had come down 50 basis points."[73] As for the assessment of Nixon's political economics, though he had campaigned against both the wage-price guideposts and extension of the surcharge, Nixon was, after all, talked into extending the surcharge, even if it required much prodding and came only after his economic team

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[71] Robert S. McNamara, with Brian VanDeMark, *In Retrospect: The Tragedy and Lessons of Vietnam* (New York: Times Books, Random House, 1995), 205.
[72] Forecasts in "Will Business Surge in the Fall?" *Business Week*, March 18, 1967, 136. Actual GNP figure from CEA, *Annual Report of the Council of Economic Advisers, 1970* (Washington: U.S.G.P.O., 1970).
[73] Okun, Oral History Interview, in Hargrove and Morley, eds., *The President and the CEA*, 307.

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met with Johnson advisers during the transition period.[74] In the belief that Nixon would ultimately have to continue much of the Johnson economic policy, Arthur Okun declared, after the first few weeks of the new administration, that the "country has much to be grateful for...Nixon feels absolutely no commitment to anything that he said during the campaign."[75] Paul Samuelson even suggested that "President-elect Nixon is going to find himself doing pretty much what his two predecessors were doing. This is guaranteed by the closeness of the election if by nothing else."[76] But even in the short run, none of Johnson's advisers really knew where Richard Nixon stood on economic policy. Their last economic forecasts missed the mark, therefore, not because they utilized bankrupt economic models or lacked sufficient and accurate economic data, but because they made excessively optimistic *political* forecasts.[77] Ultimately, and with surprising alacrity, Nixon proved that he would not do what his predecessors had done. The nature of inflation and economic growth, and the trajectory of the nation's political economy, all changed drastically and somewhat surprisingly as a result.

Despite the fiscal flexibility of the Johnson administration and the nation's economic capacity for both guns and butter, Defense spending in Vietnam remained a large economic problem and a source of genuine inflationary trouble. Ironically, much

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[74] Nixon refused to let these advisers and oficials meet at first, fearful that he would be sold out on the surcharge (as he was). Ironically, Nixon later called upon LBJ to help pass a surcharge extension through Congress. Johnson responded by delivering the entire Texas House delegation minus one, even as the rest of the South voted against it.

[75] Okun, Oral History Interview, Interview III, LBJ Library, 12.

[76] Paul Samuelson, "The New Economics," November 1968, selection in *The Samuelson Sampler* (Glen Ridge, NJ: Thomas Horton and Co., 1973), 10.

[77] Since the Fed was easing as the surcharge went into effect, a move that was endorsed by Johnson's CEA, many have cited it as the reason for the ineffectiveness of the surcharge. The enormous and still expanding corporate appetite for investment capital, however, fanned somewhat by various Nixon pledges on the war and the economy, had much more to do with the period's monetary expansion than any moves made by the Fed's Open Market Committee. "I would still say," Arthur Okun noted, "that the big error we made at that point was in assessing the underlying state of private [investment] demand rather than in underestimating the stimulus that would be provided by monetary policy. Capital spending didn't keep shooting up more than we expected because money was plentiful and interest rates had come down 50 basis points." Quoted in Hargrove and Morley, eds., *The President and the CEA*, 307. See also Okun, "Did the Tax Surcharge Really Work? Comment," *American Economic Review 67*, March 1977, 166-169.

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of the economic difficulty inherent to the war effort came less from the magnitude of the conflict than from Johnson's struggle to limit it. That he did not hand the war over to the Joint Chiefs or General Westmoreland, technically kept war expenses to a minimum, helped insure the survival of the Great Society, and presumably helped prevent either a resurgent McCarthyism or a violent showdown with Communist China. The economic problem, however, lay more with the character of these limited, but unusually drawn out expenditures and their impact on corporate profits and pricemaking decisions.

Before the late 1965-early 1966 escalation, McNamara and Johnson, together, had discovered a multitude of new efficiencies in Defense procurement and they were actively seeking more. "You've done a good job protecting my two girls for years," Johnson told the Joint Chiefs early in his presidency, "but you're the biggest wasters and spenders in the country."[78] To Henry Cabot Lodge, also early in his presidency, and before the escalation of the war, he lamented that, "Generals know only two words—spend and bomb."[79] Indeed, as Joseph Kraft noted in 1966, Johnson "was particularly adept at cutting the space and defense programs, because he had known them (and their weaknesses) from the beginning."[80] When Johnson had chaired the Senate Military Preparedness subcommittee, for example, in the early 1950s, he had uncovered approximately $5 billion in waste and fraudulent spending alone, all on a subcommittee that cost the government $275,000.[81] Unfortunately, as the war became a major part of total defense spending and continually frustrated the Johnson administration estimates for termination and withdrawal, many of these efficiencies became impractical. Emergency contract extensions or add-ons—made necessary by the prolonged war—

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[78] Quoted in Goldman, *The Tragedy of Lyndon Johnson*, 383.
[79] Quoted in Larry Berman, *Planning a Tragedy: The Americanization of the War in Vietnam* (New York: Norton, 1983), 34.
[80] Kraft, *Profiles in Power*, 13.
[81] Cited in Sam Houston Johnson, *My Brother Lyndon*, 82. Sam Johnson noted some of the abuses: supply sergeants issuing golf clubs; a Texan who had purchased $1.2 million in surplus airplane parts for $6.89 and then sold them back to the government for $63,000; and a $1.65 million Air force contract for white gloves (that was cancelled after LBJ reported it).

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coupled with the original desire for smaller military inventories (itself an efficiency minded change), led inevitably to a greater number of hastily drawn, non-competitive, war contracts, all designed for a war effort nearing its culmination. But Vietnam resisted an easy climax, temporary contract provisions became semi-permanent fixtures in the corporate marketplace, costs followed skyrocketing profits, and cost-push inflation became a more prevalent and vexing problem.

As early as 1965, for example, with the first major increase in U.S. involvement just under way, Pentagon contracts soared to a $31 billion annual rate with many of the new obligations coming in the form of "letter contracts." Effected by emergency procurement, where work was begun on the basis of letters of intent rather than final signed contracts, these "letter contracts" remained an integral part of purchasing for Vietnam, even after the completion of the first major buildup.[82] The limited, ratchet-like fashion of the military escalation, combined with McNamara's policy of "buying at the last moment" (to avoid the kind of excess stockpile the DoD had at the end of the Korean war), virtually put contracting for Vietnam on a permanent "emergency" footing. In fiscal years 1965, 1966, and 1967, for example, original budget requests were exceeded by more than 100% in supplemental requests for funds.[83] Offering critical insight into part of what became President Johnson's "credibility gap," and an affirmation of this emergency footing, William Bowen declared in *Fortune* magazine that "the [Vietnam war] budget is not misleading once its rather sophisticated underlying assumptions are understood."[84] As a result, competitive bidding, ethical cost accounting, and reasonable profit margins—all McNamara priorities before the war—came to be partially sacrificed, or delayed, by the attempt to fight a limited, less costly war.

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82 "Business Roundup," *Forbes*, February 1966, 38.
83 Tom Riddell, "The Vietnam War and Inflation Revisited," in Bernard J. Firestone and Robert C. Vogt, eds., *Lyndon Baines Johnson and the Uses of Power*, 228.
84 William Bowen, "The Vietnam War: A Cost Accounting," *Fortune*, April, 1966, 259.

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Even where competitive bidding initially prevailed, the contracting environment often served to confound the most carefully managed contract arrangements. When the Pentagon sought a Light Observation Helicopter for use in Vietnam in 1965, for example, Hughes Helicopter came in with a bid of $19,860 per helicopter (minus avionics and engine). Since Hiller Aircraft bid $29,415 for the same craft, and since Hughes estimated its own cost at approximately $30,000 per helicopter, the Pentagon seemed to be getting a bargain basement price. McNamara's use of the government's monopsonistic buying power, and corporate willingness to "buy in" to defense contracts at low levels combined to achieve this kind of savings.[85] When the Army suddenly decided to order 121 additional LOH helicopters in 1966, however, all on a rush basis, Hughes raised its unit price to $50,000 with obvious and far-reaching impact on the company's bottom line.[86] In a rush, McNamara's oversight proved fruitless, if not impossible; war profits ballooned as a result.

Emergency non-competitive bidding practices and unnegotiated contract extensions prevailed to an even greater extent where industries sold greater numbers of less expensive items to the Pentagon. Indeed, while the war had great expansive effect on the motor vehicle and aircraft industries, its greatest impact came on the production of

[85] Even where the potential for future higher priced contracts was low (evidently not the case with Hughes Helicopter), "buying in" still frequently paid substantial dividends. Defense contracting has typically provided the most generous cost accounting standards among all government agencies and departments. Moving and recruiting expenses, startup costs, and extravagant capital improvement costs have typically been viewed as standard costs in Defense contracts (where commercially oriented companies would figure them instead as long term, often non-recurring expenses). Even without extravagant profit margins, then, companies producing for the Pentagon stand a good chance of acquiring valuable assets much more cheaply and effortlessly than they could otherwise. In its defense in this particular case, for example, Hughes explained that it was able to bid so low, not because it was "buying in" but because it could charge $75,000 for the same helicopters in private markets; getting the military contract would clearly subsidize, then, their startup costs for civilian production. The development of the Boeing 707 out of the government financed program for mid-air refueling of B-52s is a good example of this effect. On the issue of the DoD as monopsonist, even though it is modified by the search for technical perfection, the DoD can operate as a private monopsonist would, squeezing the sellers of the products and services that only it requires. See Ann Markusen, Peter Hall, Scott Campbell, and Sabina Deitrick, *The Rise of the Gunbelt: The Military Remapping of Industrial America* (New York: Oxford University Press, 1991), 34-35.

[86] "Probing Pentagon's Buying Practices," *Business Week*, March 18, 1967, 121-122.

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ordnance, with communications equipment, clothing and foodstuffs not far behind. By January,1966, for example, the Pentagon was using approximately $210 million worth of ammunition per month and by March of the same year, the Defense Supply Agency was ordering $3 billion worth of foodstuffs and consumer goods alone from well over 5000 different manufacturers.[87]

One photograph, inserted in a March,1966 *Fortune* story on procurement for Vietnam, also suggests that inflated contract prices may not have been the only road to excess profits for defense contractors, particularly when it came to the supply of consumer goods and foodstuffs, where thousands of items were involved. The photo depicts a fatigued Vietnamese dockhand resting against a newly arrived palette full of American beer (Falstaff), shipped in to slake the thirst of American soldiers in Vietnam. Though it is a barely noticeable detail, the most interesting aspect of the picture is that it reveals, through markings on the beer cartons, a shipment comprised of beer in *11 ounce* cans (as opposed to the customary 12 ounce containers). While there is no way to tell if Falstaff sold the beer in question at its customary price for 12 ounce cans, had it done so, then the quantity change alone represented a 9% markup.[88]

However corporations managed to do it, emergency procurement, and "buying at the last moment" insured enormous profitability. In 1970, for example, the government's General Accounting Office examined 146 negotiated Defense contracts and found an average 56% profit on equity invested.[89] As diluted as these profits became when mixed with the commercial operations of the same companies—where greater capital investment, expanded numbers of managerial employees, lucrative fringe benefits, and

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[87] Bowen, "The Vietnam War: A Cost Accounting," 121-123; "The Goods of War Pour Out," *Fortune*, March 1966, 115.
[88] "The Goods of War Pour Out," 118.
[89] Cited by Lee Metcalf, "The Vested Oracles: How Industry Regulates Government," in Charles Peters and John Rothchild, *Inside the System* (New York: Praeger, 1973), 242. Metcalf also points out how the Defense Industry Advisory Group, comprised of 23 corporate executives and one subcabinet DoD officer, rewrote the report showing a lower 21% profit margin, even though it was still released as a GAO report.

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often mourned but seldom opposed wage increases served to absorb much of the extra cash flow—their impact on expected rates of return was undeniable.[90]

When the Johnson administration pushed for the extension of the Renegotiation Act of 1951, for example, legislation that would protect the government's ability to revise Defense contracts with excess profits, the National Association of Manufacturers testified against it, and even suggested that Defense industry profits were perhaps a bit too low. Calling the profits of military suppliers "inadequate" the NAM also suggested that the Renegotiation Act was harmful because of its ability to produce "inequity in a competitive environment." Inadvertently tipping their hat in an attempt to bolster their argument, the NAM lobbyists noted how companies involved in the Defense business "have been experiencing a greater expansion of their commercial operations than of their defense business." Since Defense profits were underwriting much of this expansion (see Hughes' rationale for their low-ball helicopter bid), that evidence should have come as no surprise. The threat here, concluded the NAM, "lies in the corruption of the contracting process which substitutes the calculating machine of the auditor for the judgement of the trained military procurement officer."[91] Though they were careful to avoid saying so directly, the NAM had essentially told the nation of corporate complicity in the emerging inflation. "Out with those calculators!" they seemed to be saying. "We'll tell you what our profits are. Trust us. And in the meantime, let us adjust our prices accordingly."

As the war stretched on with little or no end in sight, Pentagon demand became reliable enough to insure a steady flow of emergency war contracts. As a result, profit

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[90] In June, 1965 the Committee on the Economic Impact of Defense and Disarmament (established by President Johnson) reported that, as of 1964, non-production workers in defense industries comprised 43% of all workers, compared to 26% in all manufacturing. See Office Files of Horace Busby, Box 13, LBJ Library. This disparity, of course, stemmed from the growing trend toward military technology that was essentially handmade as much as it did from managerial featherbedding.

[91] "Comments of the NAM on H.R. 14802 and Other Bills to Extend the Renegotiation Act of 1951," submitted to House Ways and Means committee, February 28, 1968, NAM Papers, Series IV, Box 162, Hagley Library.

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margins expanded and remained at a high plateau long enough to elicit profound changes in the investment and wage-setting behavior of literally thousands of firms tied into the procurement of war materiel. The overall level of demand and the full employment economy itself, still largely buoyed by non-Defense related purchasing power, were perhaps the most critical components of the sustained investment demand; the relatively price inelastic margin of demand provided by the war in Vietnam, however, proved to be both an added incentive as well as one of the critical determinants of changed price behavior. By serving to sustain the peak profit levels normally associated with youthful industries or the early stages of an economic advance, just as such an advance was coming to a head, the war in Vietnam transformed what were clearly temporary profit margins into standards for customary performance. Moreover, excess war profits were sustained long enough to undergo erosion, not at the hands of market deterioration or rising competition, but, at the hands of greater capital outlays, expanded inventories, and a continued scramble for increasingly scarce skilled labor and investment funds. "Large amounts of cash," *Business Week* reported in March,1967, "are being tied up in accumulating inventories and in a continued high level of accounts receivable."[92] Corporate net worth and profitability, in other words, were both advancing at remarkable rates, even as reported profits began to exhibit some deterioration. Wage costs were advancing rapidly too, but never enough to create a genuine profit squeeze; company investment decisions along with higher customary profits only made it seem that way.

Price inflation increased, then, not because of the era's high demand, but in spite of it. Although consistent demand and low unemployment truly encourage wage inflation through increased labor scarcity, this tends to occur only in businesses with high output and increasing profits, or in other words, in businesses where it can most readily be

[92] "Dividends Feel the Pressure," *Business Week*, March 18, 1967, 59.

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absorbed. The greater substitution of capital for labor, the broadening of overhead costs through increased capacity utilization, and the incentive to discourage greater competition—also common to high demand economies—should have, at the same time, allowed for stable or even lower prices in many industries.[93] Indeed, since capacity utilization shrunk slowly but steadily from its first quarter 1966 peak of 91%, the aggregate demand of the following period was most likely *below* the level required for optimum economic efficiency.[94] Though it may have been far too subtle in the 1967-1969 period to have any real impact, shrinking demand relative to supply—and the decreased capacity utilization accompanying it—was more likely to be a cause of price inflation than the still rising absolute level of aggregate demand.

Vitiating or otherwise obscuring these phenomena, however, were the increasing level of public investment, on the federal, state, and local levels, and the war in Vietnam, the largest public project of the decade. Corporations mostly raised prices in the late 1960s not because they had to but because they could, and because they were willing to overlook the ultimately self-defeating long term consequences of such price decisions. Because Vietnam was America's longest war, it produced America's longest running experience with wartime excess profits, a phenomenon that had commonly prevailed before only for short periods and without extensive and lasting impact on corporate pricing decisions outside of the market for war materiel. The war in Vietnam

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[93] Robert Eisner has created an economic model that illustrates this effect. In Eisner's model, high levels of unemployment do cut inflation, but low levels of unemployment do so even *more* effectively. The model suggests, Eisner maintained, "that we have no sound basis for deliberately raising unemployment. On the contrary, we ought to be trying to reduce it, not only by supply-side measures, but by ensuring that the economy is not starved for adequate demand or productivity-increasing public investment." See Robert Eisner, "Our NAIRU Limit: The Governing Myth of Economic Policy," *The American Prospect*, Spring 1995, 58-63. Quotation from ibid., 63. (NAIRU refers to the the "non-accelerating-inflation rate of unemployment") See also Sawyer, with Aaronovitch and Samson, *Business Pricing and Inflation*, for an earlier series of economic models which suggest a similar outcome, especially 42-90; and Eisner, *The Misunderstood Economy: What Counts and How to Count It* (Boston: Harvard Busines School Press, 1994), 145-194, for a lengthier discussion of his approach to pricing theory.

[94] Capacity utilization figures from Norton, *The Employment Act and the Council of Economic Advisers*, 203.

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gave such a boost to corporate profit margins, for such an extended period of time, that corporate managers often forgot just how extraordinary these profits were, and pricing decisions in general were affected quite profoundly. Any decline in profitability, due to either managerial investment, salary, or perquisite decisions, the levelling off of defense purchases (which began to occur in 1968), the expanded government response to contracting abuse (which also began to emerge in 1968 with the CCPS), or to the pressure of tightening labor markets (beginning largely in 1967), convinced these managers that *customary*, rather than *extraordinary*, profits were beginning to erode. Since labor costs were clearly rising in tandem with these changes, even if they were mostly offset by rising productivity and capacity utilization, business managers had at their disposal, evidence of that classic combination by which price rises had always been justified: increased costs and declining profitability. By obscuring the difference between the extraordinary profits associated with war contracts and the more customary profits associated with "business as usual," the war in Vietnam clearly helped sustain an inflationary environment. Indeed, Johnson's efforts to prevent the establishment of a total war or a total war footing had much to do with the emergence of this phenomenon. Making war contracts—and the extraordinary profits tied to them—more and more a part of customary business expectations, the war ultimately made business managers more sensitive to profit erosion that should have been anticipated, less sensitive to their own cost-control problems, and more apt to respond with self-defeating and unnecessary price increases. Corporate costs were truly expanding, and they were doing so quite rapidly, but corporations were generally reveling in it, stopping to complain only long enough to blame higher prices on the higher wages that were clearly rising in tandem with the era's price inflation.

While Nixon's economists would chide the Keynesians in the departing Johnson administration for having produced a climate of "business uncertainty," the New Economics had actually produced the opposite; business confidence and economic

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certainty had seldom been higher. Never more certain of sustained demand, and with Vietnam, lucrative government contracts, the business community responded partly by boldly declaring the need for higher prices. Ceteris paribus, price stability would have, indeed, implied diminished profitability. To assume that everything else had to remain the same, or should remain the same, however, was to ignore the only viable path to the price stability everyone had declared essential. Certainty and expanding profitability along with the lopsided market power of many businesses and corporations, rather than uncertainty and diminished profitability, produced much of the era's troublesome inflation. Feigned corporate vulnerability, in the face of the century's most propitious business climate, only obscured this critical phenomenon. "You know," Hewlett-Packard executive David Packard once admitted, "there are more companies that fail from indigestion than fail from starvation."[95] Rising wages, then, even in the worst case scenario, were no direct or irresistible cause for general price rises. For the most part, they had risen only where high profits had encouraged their expansion.[96] Although the war in Vietnam had significant impact on aggregate demand, particularly in an economy already on the verge of full employment, its impact on the nation's price indices was less an outgrowth of this demand than it was the result of cost-push factors related to distinct managerial prerogatives.

The Great Society was plagued by a similar manifestation. While its macroeconomic impact was much smaller and largely inconsequential, it still generated and sustained enormous profit levels—like the war in Vietnam—for thousands of the nation's businesses.[97] As one historian noted, whatever Johnson did for the poor, he had

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[95] Quoted in Reston, Jr., *The Lone Star*, 401.
[96] Almost all of the period's "excess" wage settlements came either in industries like construction where the profit margins were also abnormally large (and very dependent on city, state, and federal contracts), or in the service sector where productivity lagged and there was often a real need for relative wage adjustment.
[97] As a percentage of GNP, federal non-defense spending actually *decreased* from 1965 to 1969. Cited in Riddell, "Vietnam War and Inflation," 227.

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to do with the permission of the affluent, and the affluent often made him pay quite dearly.[98]

For all of their accomplishments, and there were many, certain Great Society programs were captured by the affluent to such an extent that they became, in addition to everything else, conduits for federal dollars that funneled money to the already wealthy, generated tremendous profits for some individuals and many businesses, and wreaked havoc on the price stability of key industries in the process. The construction and health care industries, for example, were both impacted along these lines.

Great Society contracts in the construction industry, however, did little more than add a slightly larger stream of money to an industry already accustomed to price-fixing schemes and a heavy reliance on government outlays.[99] It did so, then, with surprisingly little impact on the price structure of the industry's *private* markets. The nation's health care industry, on the other hand, easily became the most conspicuous example of an enterprise that was transformed thoroughly, profit-wise and price-wise, by the Great Society. Indeed, when the cornerstones of President Johnson's health care strategy—Medicare and Medicaid—became law in 1965, and were implemented the following summer, the health care industry underwent what was perhaps its most significant change ever.[100] In the summer of 1966, health care improved, almost overnight, but the

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[98] Allen J. Matusow, cited in Jordan and Rostow, eds., *The Great Society*, 144. Matusow elaborates on this in *The Unraveling of America*, 226-232. In *Unraveling*, He explains health care inflation much as I do here, except that he uses his analysis only to suggest that Medicare and Medicaid were a flop, citing largely irrelevant hospital admissions rate studies and highly speculative theories on the value of extra health care (authored by Victor R. Fuchs) as his primary evidence. He did not draw a connection, however, between the inflation he cited two chapters earlier, which he blamed on Keynes and the New Economics, and the inflation here, which he did not.

[99] A perusal of the monthly Consumer Price Index reports for the late 1960s shows that most of the price inflation in the construction industry came as a result of increased borrowing expenses, rising local property tax rates, rising property insurance rates, or the inherent inflationary character of positional goods (choice real estate in an expanding economy). Public contracts continued to lead to bloated profits for many builders, but not to radical price changes in the *private* construction market. Factored in over many decades, these profits had become, instead, a part of a relatively stable price structure.

[100] Medicare, originally limited to a health assistance program for senior citizens (the general insurance option having been closed off by American Medical Association lobbying), eventually came to be introduced and passed as a three-tier program. One part resembled previous legislative attempts (Aime

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industry itself also became an unparalleled inflationary dynamo. Outpacing the consumer price index every quarter from 1966 to the end of the Johnson presidency (and beyond); and representing the most significant components in the most significant sector (consumer services), with regard to general price inflation, the health care industry was directly responsible for much of the Johnson era inflation.[101] Most *CPI Detailed Reports*, for the 1966-1968 period, for example, depict health care price rises as comprising between 33% and 66% of all service sector price rises, which, in themselves, were commonly responsible for 50% to 75% of the general inflation rate over this same period.[102] Indeed, the disaggregated nature of the economy and the

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Forand Bill, 1958) that encompassed social security financed hospital insurance for the elderly; a second resembled the Kerr-Mills program enacted in September, 1960 (designed then as an alternative to and a way to avoid current proposals such as Forand's, passing the senate 91-2 with only Goldwater and Thurmond voting "no") that used government funds to subsidize private insurance covering physician's fees; and a third, known as Title 19 under the original bill and as Medicaid today, which provided federal grants to welfare recipients and the "medically indigent"(the blind, the disabled, the aged, or children in single parent families) in participating states. Allen J. Matusow maintains that the second and third parts were added "suddenly" and "casually," all at the behest of Wilbur Mills. See Matusow, *Unraveling*, 226-227. Wilbur Cohen, however, recalled how he sold *President Kennedy* on the idea of going for Kerr-Mills *and* Medicare, and Secretary of Commerce John Connor recalled how Title 19 came into being as a way to soften AMA opposition. According to Connor, the AMA came to the White House and complained about "socialized medicine," but then admitted that the poor needed a government program to pay for their health care. "Would you support legislation like that? Would the John Birchers?" Johnson asked. When they answered yes, Johnson pronounced it a "wonderful idea" and said that he would try to get legislation. "Does that mean," the AMA delegates asked, "that you will no longer support Medicare?"

"Hell no. I'll support that too," Johnson replied. "We need them both." Quoted by John Connor in Hardesty, ed., *The Johnson Years*, 134. Cohen's recollection from Wilbur J. Cohen, Oral History Interview, interviewed by David McComb, December 8, 1968, Tape 1, 35, LBJ Library. Many Republicans and physicians were also criticizing the original Medicare bill for not doing enough, sensing incorrectly that their bluff would not be called by President Johnson. "We have agreed to give a banquet, or a barbecue, for 100,000 people," remarked Dr. Edward Henderson of the AMA, "and we've provided food for only 1000. That's bad planning." Quoted in memo, Cohen to Cater, Papers of LBJ, White House Central Files, IS-1, Box 1, LBJ Library. The three-tiered bill, then, was not adopted "casually" at all, but came instead as a result of careful and necessary political calculation.

[101] And indirectly responsible for even more. See, for example, memo, Ackley to LBJ, January 28, 1967 "Weekly Price Report," Robson-Ross Papers, Box 13, LBJ Library, where Ackley informed Johnson that "Dupont raised the price of X-ray film 7%." Many price increases for equipment and supplies used heavily, but not exclusively, by the health care industry followed the implementation of Medicare. It should be noted that the Dupont X-ray film increase prompted CEA letters to Kodak and General Aniline (other major suppliers). When Kodak agreed, on February 6, not to follow the increase, Dupont rescinded its move (on February 17).

[102] Meant to be estimates with a significant margin for error, these figures do suggest, however, that up to 50% of the nation's inflation rate could be accounted for by health care inflation during this period. See introductory comments, *The Consumer Price Index: U.S. City Average and Selected Areas* (Washington:

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preponderance of movements in relative, as opposed to general, prices suggest that inflation was not the macroeconomic problem it was often purported to be; analyses of industry specific price rises generally remain outside the scope of most conventional analyses of inflation—to the detriment of an even modest comprehension of the overall phenomenon. Johnson's adherence to the wage-price guideposts, despite their alleged arbitrariness and imprecision, and his efforts to rein in health care inflation, stand as testimony to his awareness of this reality and problem. Aware that one firm's price change may eventually become another's cost change, and that ideomorphic price changes may well become part of a general inflationary trend, the Johnson administration considered health care inflation a special case that happened to be contributing greatly to a far more general problem.

The inflationary character of the industry was, of course, never completely a product of the Great Society. Like the construction industry, health care was somewhat predisposed toward unwarranted costs and excess profits even before President Johnson took office. Most company health and welfare plans, for example, won through union struggles in the 1940s and 1950s, were by 1955, administered almost exclusively by employers through private insurance company intermediaries.[103] Overcharges, and related welfare fraud became commonplace, largely because employers were dispensing health care dollars to providers from funds that were essentially a substitute for wages, and through insurance companies that were exempt from most antitrust laws.[104]

U.S. Dept. of Labor, various months, 1966-1968). See also memo, Robert Ball, Commissioner, Social Security Administration to Califano, May 21, 1966, Papers of LBJ, White House Central Files, IS-1, Box 1, LBJ Library, for data on professional medical and hospital services price rise during the months leading up to medicare implementation. Ball notes that, as of the April 1966 CPI, all medical care was assigned a weight of 5.80% in the consumer price index.

[103] 1948 was a watershed year in this development when the National Labor Relations Board ruled that health benefits were subject to collective bargaining.

[104] If the intermediary was a Blue Cross/Blue Shield company, established in California in 1932, it was also exempt from most *insurance company* regulation and was considered a non-profit charity and therefore exempt from federal taxes as well (thanks to heavy lobbying by the American Hospital Association and the American Medical Association). Only the AFL-CIO, and not the NAM, U.S.

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Combined with what John Steele Gordon once termed "the Dog Food effect," where the recipient of a good or service does not pay for it directly, these factors produced a health care industry that came to be dominated by cost-plus billing and little consumer or governmental oversight.[105]

Before Medicare, the health care industry had also established strict guidelines for medical school admission, school certification, and entry into the profession (or local professional society) that served to limit numbers and protect high fees as much as it sought to protect health care consumers from medical malpractice. Johnson's father Sam had fought against the Texas Medical Association on behalf of optometrists previously denied the right to practice.[106] Black physicians had been excluded from all Southern state medical societies and limited in their practices as a result. Local medical societies also barred physicians who attempted to establish new, less expensive forms of health care financing. One Oklahoma physician, for example, who organized a prepaid medical co-op among local farmers in the 1930s found himself removed from the local medical society when they disbanded and reformed without him.[107] The Washington D.C. based Group Health Association—a federal employee Health Maintenance Organization, also formed in the 1930s—found the AMA expelling member doctors and denying them hospital privileges.[108] Dr. Caldwell Esselstyn's Rip Van Winkle clinic in Hudson, New York, with 60 salaried M.D.s and a prepayment plan that was the model of efficiency, was eventually hectored out of business by the AMA when they convinced the clinic's

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Chamber of Commerce, or the AMA, supported the 1959 Welfare and Pension Funds Disclosure bill which was designed to combat some of this fraud. See Hutchinson, *The Imperfect Union*, 151, 303, 359.

[105] John Steele Gordon, "How America's Health Care Fell Ill," *American Heritage*, May/June, 1992, 49-65. And even before the advent of Medicare, federal, state, and local governments were spending approximately $7 billion of the $35.4 billion spent on all health care. Cited in Theodore Marmor, *The Politics of Medicare* (Chicago: Aldine Publishing Co., 1970), 2.

[106] Caro, *Path to Power*, 81.

[107] James A. Morone, *The Democratic Wish: Popular Participation and the Limits of American Government* (New York: Basic Books, 1990), 255.

[108] Howard Wolinsky and Tom Brune, *The Serpent and the Staff: The Unhealthy Politics of the American Medical Association* (New York: Jeremy P. Tarcher, G.P. Putnam's Sons, 1994), 21.

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wealthier clients to join them in their struggle against "socialized" medicine."[109] When the Borden Milk company, through its Milbank Fund, advocated compulsory health insurance in the 1930s, the AMA led a successful boycott against the company. Afterward, Milbank fired its director and muted its advocacy.[110]

Alternative health care not provided by the profession, such as pre-natal and post-natal care in the early part of the century, was also disparaged and marginalized by the profession's local and state societies. When it was left to the government to sponsor—as it was with maternity care, through the 1921 Sheppard-Towner Act and the largely female staffed Children's Bureau—it was first derided as "socialized medicine" and a bureaucratic nightmare, but then coopted by the medical societies themselves when they saw that people actually valued the service being rendered.[111] When the *Journal of the American Medical Association* endorsed the use of Physician Assistants in 1961, to help combat physician shortages, the Association itself quickly repudiated the article and worked to insure that payments to PAs from Blue Cross-Blue Shield plans (and Medicare once it passed) would be well near impossible.[112]

The advent of Medicare, however, transformed this tendency into a full-blown preoccupation, and provided, along with other Great Society programs for medical

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[109] Nelson Cruikshank, Oral History Interview, Interview 5, interviewed by Peter Corning, September 23, 1966, Columbia University Oral History Program, Social Security Administration Project, Part III, No. 151, 255. Dr. Esselstyn was a former all-American halfback at Yale (B.A., 1925) and President of the Group Health Association of America, who also listed Lou Gehrig and Eleanor Roosevelt among his former patients.

[110] Wolinsky and Brune, *The Serpent and the Staff*, 21.

[111] Theda Skocpol, *Protecting Soldiers and Mothers: The Political Origins of Social Policy in the United States* (Cambridge: Belknap Press, Harvard University Press, 1992), 10, 512-521. Having no alternative to offer to the Children's Bureau care, when the care itself soon came to be regarded as valuable, physicians undertook an education/public relations campaign to make it their business to assume these duties. As Skocpol points out, most of the doctors who trained themselves for this task, did so at the government sponsored Sheppard-Towner clinics they had always derided.

[112] James Workman, "Health Care for Less," *Utne Reader*, January/February, 1993, 81. The Congressional Office of Technology Assessment found that physician assistants were fully qualified to perform up to 80% of the procedures commmonly done by physicians, and a RAND corporation study found that physician assistants and nurse practitioners "provided more medical attention, monitored drugs more closely, and signed medical orders more promtly" than physicians or registered nurses.

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education, research and infrastructure, a massive infusion of cash that swelled profit margins and the prices of medical services.[113] Hospital room rates, already climbing at a 6% annual rate from 1960 to 1965, shot up 16.5% in 1966, with an 11.5% increase coming between the implementation of Medicare on July 1 and the end of the calendar year. After rising approximately 3% per year for the 1960 to 1965 period, doctor's fees also witnessed a marked increase in 1966, rising 7.8% for the year—the biggest annual rise since 1927.[114] Similar rises occurred every year thereafter (slightly smaller in 1967 and 1968; slightly larger in 1969 and 1970), and the income of medical professionals increased at an even faster rate than their fee schedules, roughly doubling from the beginning of the decade to the end.[115] And there was marked evidence that physician and hospital exploitation of the new Medicare/Medicaid program lay behind much of the industry's inflaiton. A 1968 Senate Finance Committee study revealed, for example, that in Illinois the most a Blue Shield plan would pay for cataract surgery was $165 while Medicare paid $444. The same study revealed that while Blue Shield paid $117 for a hernia operation in Florida, and $95 for a gall bladder operation in Texas, Medicare paid an average of $255 and $303 respectively.[116] On top of the abnormally high fees, the Finance Committee study also cited overvisiting, gang-visiting, and superfluous lab testing as prevalent problems in the fledgling Medicare program.

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[113] By 1968 the Johnson administration was spending $3 billion annually for the construction of new laboratories, hospitals, and health clinics; $2.5 billion for military health care; $700 million for the prevention of diseases; $160 million for the Partnership for Health (to create health planning agencies); $50 million for the Heart Disease, Cancer, and Stroke Program, and was providing approximately 75% of all funds for biomedical research, all programs funded outside of the Medicare program. See Johnson, "Special Message to Congress: 'Health in America,'"March 4, 1968, *Public Papers, 1968: I*, 322-332.
[114] Though Johnson signed the Medicare bill on July 30, 1965 in Independence, Missouri (in the presence of Harry Truman), the program was not implemented until July 1, 1966. According to Wilbur Cohen, this was done to allow ample time for planning and to avoid opening the program close to the winter flu season. See Cohen, Oral History Interview, Tape 2, December 8, 1968, 12. Inflation statistics from *Consumer Price Index*, January, 1967, and "A Bad Case of Inflation," *Business Week*, March 4, 1967, 35.
[115] Marmor, *The Politics of Medicare*, 123; Gordon, "How America's Health Care Fell Ill," 60.
[116] Wolinsky and Brune, *The Serpent and the Staff*, 49-50.

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Increased demand for medical services, rising wage rates for medical assistants and custodial staff, and increased equipment prices were all cited by physicians, hospital administrators, and business publications as reasons for the sudden price changes; to some extent, these were, indeed, all contributing factors. The most significant factor of all by far, however, was the peculiar economic character of the health care industry itself. Operating exclusively on a historically established cost-plus basis, and suffering no economic consequences for inefficiency as a result, hospitals and physicians found it easy to use Medicare and Medicaid as a springboard to higher costs, higher fees, and in the case of physicians, substantially higher personal income. Among the non-profit institutions that received or administered Medicare funds—primarily hospitals and the Blue Cross-Blue Shield "charities"—higher costs translated into higher salaries, valuable company perquisites, and technically advanced equipment. The Blue Cross-Blue Shield companies in particular, which served as intermediaries in 32 of the first 48 Medicare plans, were fast becoming commercial operations with an increasing number of for-profit spinoff companies, even though they were classified as tax exempt charities. Worse yet, many off these spinoff companies were in high risk fields; if they hit paydirt, the Blue Cross-Blue Shield executives/investors profited mightily, if they went bust, losses were charged to policyholders.[117] Unlike most companies in other sectors of the economy, there was simply no downside to the phenomenon of higher operating expenses.

Profitmaking institutions, of course, such as approximately 85% of the nation's nursing homes, and all of the private insurance companies that served as financial intermediaries for the Medicare program, did have some incentive to control costs. As it

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[117] The other 16 intermediaries were comprised of 15 insurance companies and 1 independent insurer. See Jane Fritsch, "Empire Says Data on Insurance Loss Were Erroneous," *New York Times*, June 17, A1, B5; and Fritsch, "Blue Cross Gave False Report to '92 Legislature," *New York Times*, June 18, 1993, A1, B4, for a brief study of Empire (New York state) Blue Cross-Blue Shield operations and these type of practices.

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was with most of the nation's physicians, however, guaranteed government payments with few or no strings attached made higher fees irresistible, even if costs were relatively stable. Much like businesses in other sectors of the economy, that rode a *perceived* wage-based profit squeeze to higher prices, these physicians and institutions also utilized the general perception of an industry-wide cost explosion (along with *some* real cost increases) to achieve higher prices and higher real income. Most of the elements Arthur Okun found among oligopolistic companies in the general economy, however, that had always contributed to a general price stickiness, were simply not prevalent in the health care industry. This explains, in part, why the AMA fought so hard to win Congressional limits on the number of paying customers new Community Health Centers (sponsored by the Great Society's Community Action program) could accomodate.[118] A shopper's mentality was the last thing the AMA wanted to introduce to the profession's provider-client relationship. Even if they were perceived as a favorable development within the industry, and were largely unassumed by physicians and for-profit institutions, rapidly increased costs became a prevalent part of the health care industry at large after the implementation of Medicare.[119] This made price rises, for the health care providers, anyway, relatively painless and almost inevitable.

If the source of this inflationary momentum, however, was to be found within the open-ended fee structure of the Medicare program, was the inflation, then, not the fault of the Johnson administration? Medicare was, after all, a Johnson priority. It was also made very clear to President Johnson, at the time of passage, that Medicare would serve to propel health care prices skyward. As it was with Community Action and other Great

[118] Morone, *The Democratic Wish*, 265.
[119] Costs also varied widely within the industry, a symptom of substantial inefficiency. Johnson's Health Manpower Commission, for example, reported in 1967 that costs among some of the nation's best hospitals varied by as much as 100%, "without significant differences in quality or scope of services." Cited by Johnson in "Special Message to Congress: 'Health in America,'" 329.

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Society programs, Johnson knew, in advance, what kind of trouble to expect.[120] On April 25, 1966, for example, some two months before Medicare implementation, HEW's John Douglas wrote to Joe Califano:

> The present likelihood that the medical profession will use the advent of Medicare on July 1 as a springboard for raising fees and charges to a level substantially higher than at present. If nothing is done, there is every indication that costs will continue to rise and *at a faster* rate (emphasis in original). The medical profession will probably blame this on Medicare and the administration's policy with respect to it.[121]

On June 29 HEW Undersecretary Wilbur Cohen wrote to Douglas Cater, Johnson's liaison with HEW, reminding him of "the President's concern that physicians may increase their fees over the next few months." Further reminding Cater of insurance company responsibility for "fee reasonableness" in the Medicare system, Cohen urged him to go forth with plans to issue a statement from the administration to these carriers and to stress the applicability of Title 18, section 1842(b) of the Medicare law which decreed that Medicare charges must conform to "prevailing local charges," and that they "cannot exceed fees for comparable service to the carriers' own subscribers."[122] Twenty days later, Cater received another memo from Cohen, informing him that the American Medical Association would like to meet with the President, and that they also requested that the "fee reasonableness" statement not be issued. "The Secretary (Anthony Celebrezze, Cohen's superior at HEW) does not believe," Cohen added, "that the AMA behaved very well at [their convention] the week before Medicare went into

[120] On Community Action, for example, Johnson knew that "maximum feasible participation of the poor" would spark clashes with established political machines, many of them Democratic. In this case he welcomed the problem. When West Virginia's Robert Byrd called to complain about "blacks getting involved" in local politics, Johnson remarked (privately to Joe Califano), "Its about time some of these politicians heard from the poor in their communities." See Califano, *Triumph and Tragedy*, 78.
[121] Memo, Douglas to Califano (approved by Douglas, Dr. Stewart, and Jim Deusenberry), April 25, 1966, Robson-Ross Papers, Box 13, LBJ Library.
[122] Memo, Cohen to Cater, June 29, 1966, Papers of LBJ, White House Central Files, IS-1, Box 1, LBJ Library.

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operation....If the physicians raise fees, as seems likely, the President should not appear to be agreeing to AMA policies."[123]

On one hand, however, the political source of the problem was truly irrelevant; only its economic character mattered. The crucial point was, and still is, that much of the period's price inflation came not from excess demand or from the alleged weaknesses of Keynesian macroeconomic precepts, but, in this case, from the economic weaknesses of America's health care delivery system, weaknesses that would have generated significant price inflation even in a low-demand environment (as they did within a number of recessions in the 1970s and 1980s). On the other hand, Johnson's culpability, here, would also support, somewhat, the claims of his detractors who suggested that the emerging inflation of the period was of little concern to him.

All in all, however, Johnson had few, if any, alternatives when it came to health care reform; Medicare was launched at a time when he and the CEA were still concerned with fiscal drag rather than a tax surcharge; and, while it was considerably unwieldy, Johnson actively sought and always believed in the potential for, a solution to the health care inflation problem. His commissioning of the June 1967 National Conference on Medical Costs and his special message to Congress on March 4,1968, entitled "Health in America" suggests that he did not shrug off this sobering predicament. "It is appropriate," Johnson noted in the 1968 address, "that the Government—which pays more than 20% of the National medical bill—take the lead in stemming soaring medical care costs."[124]

Utterly unwilling, from the start, to settle for no change at all in the way health was provided, President Johnson was hemmed in by the intransigence of conservative Congressmen and industry lobbyists, and the magnitude of the health care problem. "I'm going to make Harry Truman's dream come true," he remarked. "Old folks are not going

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[123] Memo, Cohen to Cater, July 19, 1966, ibid.
[124] Johnson, "Special Message to Congress: 'Health in America,'" 329.

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to be barred from a doctor's office or a hospital because they don't have any money for medical attention. They are never again going to have to be sick and hurt and cry alone. Its a goddamned crime..."[125] Indeed, before Medicare, four out of five persons over 65 had a disability or chronic disease, and one half had no health insurance.[126] "I'm one of the few...old enough to remember the good old days," remarked Republican John Gardner, Johnson's one-time HEW Secretary. "So was Lyndon Johnson. In that time, old age and poverty were firmly linked, and a good many folks went 'over the hill to the poorhouse'....A great many others were mendicants in their own families. Don't talk to me about the good old days."[127] As late as 1968 Johnson remained convinced that much health care reform was still required. "Goddamn it Larry," Johnson remarked to White House counsel Larry Temple in late 1968, "there are a lot of old people in this country who aren't getting the proper care. They keep telling me that everybody is doing as good a job as they can. It's a goddamn lie. They're not. Everybody's not doing it, and those that are doing it are doing it because they can make money out of it."[128]

The pressing health care crisis among the nation's poor also helped frame Johnson's outlook on reform. In his 1968 Special Message to Congress, he recalled part of the problem: "This great, wealthy, resourceful Nation—which should lead the world in saving its young—instead ranked 15th in infant mortality in 1965."[129] The pressure

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[125] Cited by Jack Valenti in Hardesty, ed., *The Johnson Years*, 20. AFL-CIO lobbyist Nelson Cruikshank recalled that Truman became the first President willing to clash with the AMA out of his experience as a county judge with doctors who refused to take care of their poor clients. See Cruikshank, Oral History Interview, Interview 1, November 18, 1965, Columbia University Oral History Program, 6.
[126] Tom Wicker, in Hardesty, ed., The Johnson Years, 4.
[127] Cited in ibid., 24. See also Papers of LBJ, White House Central Files, IS-1, Box 1, LBJ Library, for letters, some critical, most laudatory, written to Johnson from private citizens after the implementation of Medicare. Many tell a similar story, thanking the President for the Medicare bill, and noting that because of the Medicare funds, nursing homes were actually getting nurses for the first time, dining areas with tables, and other such "luxuries." Virtually all of the critical letters are fron physicians railing about socialized medicine and what they imagined as the end of the free enterprise system.
[128] Quoted in Miller, *Lyndon*. 547.
[129] Johnson, "Special Message to Congress: 'Health in America,'" 323. A 32% decline in infant mortality rates, from 1965 to 1974, was one of the most notable accomplishments of the Medicare/Medicaid program. See Karen Davis and Cathy Schoen, *Health and the War on Poverty: A Ten Year Appraisal* (Washington: Brookings Institution, 1978).

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from medical industry lobbyists to do nothing, however, was every bit as great as the nation's compelling need for change. "In health," Joe Califano recalled, "our quest to provide access for the elderly and the poor led us to accede to the demands of hospitals and doctors for open-ended cost-plus and fee for service payments."[130]

Lobbyists for the health care industry were simply too well equipped, and too influential, to be ignored. By 1965, the AMA had 23 full-time lobbyists on their payroll at a total of $5000 per day.[131] With 159,000 dues paying members, the association spent approximately $830,000, in 1965 alone, for TV, radio, and newspaper ads critical of the Johnson Medicare proposals.[132] In 1962 and 1963, the American Medical Political Action Committee, in conjunction with the Conference of State Manufacturers and the National Association of Manufacturers, produced a get-out-the-vote film entitled "The Velvet Curtain"—a thinly disguised attempt to warn citizens of big government in general and socialized medicine in particular. Though it was labeled "bipartisan" and deemed impartial, qualifying it for a tax deduction, it did little but connect upper middle class voter apathy to the otherwise unwarranted success of liberal Democratic schemes for big government. "Don't forget the Kennedy-Nixon election!" it warned soberly.[133] The AMA also produced a sound recording, after President Kennedy endorsed Medicare, that was widely distributed among the spouses of member physicians. Beginning in 1962, they heard the following admonition:

> Write those letters now; call your friends and tell them to write them. If you don't, this program, I promise you, will pass just as surely as the sun will come up tomorrow. And behind it will come other federal programs that will invade every area of freedom as we have known it in this country, until one day...we will awake to find that we have socialism. And if you don't do this, and I don't do it, one of

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[130] Quoted in Hardesty, ed., *The Johnson Years*, 50.
[131] Goldman, *The Tragedy of Lyndon Johnson*, 291.
[132] Marmor, *The Politics of Medicare*, 27; Wolinsky and Brune, *The Serpent and the Staff*, 26.
[133] Script summary and background notes, NAM film presentation, "The Velvet Curtain," Papers of the NAM, Series I, Box 69, Hagley Library. The $49,000 project was financed with $25,000 from AMPAC, $16,000 from COSMA, $2000 from the NAM, and the remaining $6000 from a variety of individual contributions.

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> these days you and I are going to spend our sunset years telling our children what it was like in America when men were free.[134]

Physicians groups, including the AMA, also endorsed any legislation, or amendments to legislation, that might have upset the Johnson strategy for Medicare passage, however illogical their position might have seemed. When Senator Russell Long introduced Medicare amendments, for example, that would remove all coverage restrictions on the length of hospital visits and outpatient treatment, dramatically increasing the potential cost of the program, the AMA supported the Long amendments wholeheartedly with the tacit understanding that they would cripple the legislation. Only through the energetic efforts of senators Paul Douglas and Clinton Anderson, with the latter of the two being coached extensively by President Johnson, were the costly, and potentially lethal, Long amendments defeated.[135] And though the AMA seldom found themselves supporting legislation for higher taxes, they did just that when they supported Republican John Byrnes' attempt to raise Social Security taxes to 10% (from the existing 7.25%) in the hope that any further increase, needed to accomodate the Medicare program, would be precluded. This change was also narrowly averted, collapsing only when doctrinaire Texas Republican Bruce Alger (alumnus of the 1960 Adolphus Hotel incident) decided that he could not support the move in good conscience.[136]

Before the 1964 elections made passage of a Medicare bill almost inevitable, the AMA had applied pressure to the U.S. Congress in other ways. In 1963, key House Ways and Means member John Watts of Kentucky, for example, was prevailed upon not

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[134] Quoted in Morone, *The Democratic Wish*, 262. Voice on recording: Ronald Reagan.

[135] Goldman, The Tragedy of Lyndon Johnson, 291-293; memo, Clinton Anderson to LBJ, July 1, 1965, Papers of LBJ, White House Central Files, IS-1, Box 1, LBJ Library; and Clinton Presba Anderson, Oral History Interview, interviwed by Thomas H. Baker, May 20, 1969, LBJ Library, 15-16. Anderson, a major sponsor of the Medicare legislation, was an NYA director in New Mexico when Johnson served in the same capacity in Texas. See the Goldman pages for a probing, yet nicely balanced analysis of Russell Long's motivation here.

[136] Marmor, *The Politics of Medicare*, 44. The rate was raised to 8.4% in 1966 to insure that Medicare was on a sound actuarial footing.

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to vote for a Medicare bill in exchange for an AMA pledge not to endorse the Surgeon General's report on cigarette smoking.[137] When Republican congressman Walter Moeller said at the same time that he was not sure about Medicare, but that he would not come out against it, physicians in his Ohio congressional district vowed not to treat patients if they voted for him, and spread the word that he was a socialist.[138]

Personal attacks were often part of the anti-Medicare effort as well. Because Johnson's Secretary of Commerce, John Connor, was also a Merck CEO, many physicians, in 1964 and 1965, conducted a boycott against Merck products as a way of punishing Connor for his support of President Johnson.[139] United Mine Workers and AFL-CIO consultant I.S. Falk and HEW Undersecretary Wilbur Cohen, both Jewish and key figures in the struggle for Medicare, became the frequent target of vicious anti-Semitic attacks leveled by a number of physician's groups. The anti-Semitic attacks on Cohen and Falk were reminiscent of the AMA's first foray into a separate political fund—the National Physician's Committee for Medical Service, formed in 1939—a venture that was allowed to expire in 1948 after it produced an "embarassing" series of anti-Semitic letters and a contest for editorial cartoonists seeking to ridicule national health insurance proposals.[140] The AFL-CIO even had to suspend a Women's Auxiliary letter writing campaign when the letters, many of which were sent to personal physicians, drew unusually vitriolic and wholly frightening responses. "You communist bitch, don't show up in my office again," was one of the more loathsome, but not infrequently scrawled replies.[141]

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[137] Cruikshank, Oral History Interview, Interview 2, February 16, 1966, Columbia University Oral History Program, 97. Watts' vote also influenced Ways and Means chairman Mills' stand, for Watts would have been the 13th vote (out of 25).
[138] Goldman, *The Tragedy of Lyndon Johnson*, 286.
[139] Connor, Oral History Interview, 28-29.
[140] Wolinsky and Brune, *The Serpent and the Staff*, 70.
[141] Cruikshank, Oral History Interview, Interview 4, August 16, 1966, Columbia University Oral History Program, 196, 197.

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When the National Council of Churches endorsed Johnson's Medicare proposals, the AMA even attempted to cover the religious front. Launching a campaign to repudiate the National Council of Churches' stand, the AMA encouraged doctors to flood the Presbyterian national convention, and after procuring a list of all delegates, had a strongly worded letter awaiting each one in their hotel rooms.[142] Though they overplayed their hand here, and on numerous other occasions as well, physician's groups were clearly able to affect the tone of the administration's Medicare proposals.[143] Without at least a modicum of physician support, Medicare might still pass, but it would never be implemented successfully or without great, socially debilitating, political rancor.

While Johnson and many of his supporters in the Medicare fight continued to plan for fee schedules and strict cost controls within the Medicare program, right up to the end, a threatened physician boycott effectively dashed these aspirations at the very beginning.[144] Knowing that they would have a difficult enough time trying to force

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[142] Ibid., 246, 252.

[143] The AMA even found themselves overplaying their hand with President Eisenhower, who ran against "socialized medicine" in 1952. When Ike created the HEW and named right-wing Democrat Oveta Culp Hobby to the Secretary's post the AMA wanted one of theirs to sit at her right hand. When she rejected the first AMA candidates as political hacks, the Association leaders paid a visit to the White House and presented Ike with a detailed, slickly produced notebook that described how they had elected him almost singlehandedly. Ike threw a fit and said he never wanted to see an AMA delegation again. See Cruikshank, Oral History Interview, Interview 6, August 29, 1967, Columbia University Oral History Program, 428-429.

[144] The Harris County (Houston,TX area) Medical Association's response was typical of many. The Medical society newsletter read, in part: "The program is designated 'The Individual Responsibility Program.' Its sole purpose is to prevent governmental efforts to establish fee schedules which certainly in the future could equate medical care with non-professional services. This would result in overutilization and poorer quality medical care, and by oath and ethics we cannot in good conscience allow this sequence of events to occur." This statement was followed by a list of "basic elements" which included: "The physician should refuse payments from any insurance company or governmental agency," and "All physicians should voluntarily refuse to fill out or sign any governmental or other insurance forms." See memo, Michael DeBakey to Douglass Cater, March 1, 1966, Papers of LBJ, White House Central Files, IS-1, Box 1, LBJ Library (DeBakey was a prominent physician who supported the Johnson Medicare proposals). See also memo John Gardner to LBJ, December 14, 1965, ibid., where Gardner apprised Johnson of a boycott planned by the Association of American Physicians and Surgeons (though at that date, Gardner was chiefly telling Johnson *not* to worry, for the AAPS was only 15,000 strong and was not likely to be joined by the AMA).

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Southern hospitals to take black Medicare patients, Johnson and his advisers had little choice but to take the boycott threat seriously, compromising cost controls in the process.[145] "Reasonable costs" replaced fee schedules, financial intermediaries chosen by the physicians themselves became responsible for these "controls," and the rout was on.[146]

When Lyndon Johnson stepped down from the presidency in January 1969, health care price inflation had clearly garnered the attention of the Cabinet Committee on Price Stability, just then coming into its own. Just as it was with the war in Vietnam and its resulting price dislocations, however, genuine solutions were obscured by, or even sacrificed to, a changing political climate, and much was left undone. As Anthony Campagna noted in his study of the war in Vietnam and its impact on the U.S. economy, "the greater tragedy, however, may not be in what was left undone, but in the belief that we had done all that we could do and failed."[147] While it had begun to emerge slowly and without certain dominion, perhaps as early as 1964 when Johnson signed the landmark Civil Rights Act, this greater tragedy came to draw much of its plausibility

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[145] In the critical first weeks of Medicare implementation, the top three administrators at HEW spent more time dealing with discrimination problems in Southern hospitals than anything else, including the obvious pricing problems. Louisiana, Mississippi, Alabama, and South Carolina were the states with the most non-compliant hospitals. Alabama governor Wallace, in fact, was urging hospitals to refuse black Medicare patients. See Marmor, *The Politics of Medicare*, 88; memo, Farris Bryant, Director, Office of Emergency Planning, to LBJ, May 23. 1966, Papers of LBJ, White House Central Files, IS-1, Box 1, LBJ Library; and memo, James McCrory, HEW Director of Public Information, to Douglass Cater, July 15, 1966, ibid.

[146] Largely at the behest of Russell Long in the Senate Finance Committee, depreciation costs (at replacement value) were included in the definition of "reasonable cost," even though much of the depreciable capital was financed with government grants. (To Long's credit, he informed Social Security commissioner Robert Ball that he opposed the payment of depreciation on assets created with public funds; he was largely concerned with for-profit institutions such as nursing homes. See memo, Ball to Califano, May 21 ,1966, Papers of LBJ, White House Central Files, IS-1, Box 1, LBJ Library). The 1946 Hill-Burton Act, technically a massive government "intrusion" into the nation's health care system, provided construction funds for approximately 35% of the nation's hospitals in the 1946-1974 period. This kind of intrusion, with almost no strings attached, was a smash hit with conservative physicians who opposed socialized medicine. In its first two years of operation under Hill-Burton, the Public Health service funded 347 projects in 42 states. See Morone, *The Democratic Wish*, 259-261. Austin, Texas built four hospitals with Hill-Burton funds. Cited in Sam Houston Johnson, *My Brother Lyndon*, 61.

[147] Campagna, *The Economic Consequences of the Vietnam War*, 143.

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from the administration of Lyndon Johnson's successor. In his history of American populism, Michael Kazin noted:

> But liberalism did not topple from the weight of its own failures. Beginning in the late 1960s, conservative activists and politicians—most of whom were Republicans—re-created themselves as the authentic representatives of average white Americans. They learned to harness the same mass resentments (against federal power, left-wing movements, the counterculture, and the black poor) for which George Wallace had spoken [in the 1968 presidential campaign] but was unable to ride to victory....Without abandoning their core beliefs, activists and politicians on the Right became skilled at courting white Democrats, both North and South, with praise of their labor, their families, their ethnic identities, their moral beliefs.[148]

Woven together by the shared assumption that liberal economics had failed and that liberal politics promised worsening social conditions, this disparate offensive remained intact only as this assumption remained alive. Never embracing or understanding either the economic concerns of the working class, whose resentment he tapped so freely, or the tenets of the New Economics he was so anxious to leave behind, Richard Nixon would have more to say about the fate of the New Economics than either John Kennedy or Lyndon Johnson. Both the clarity and efficacy of the nation's political economy would suffer as a result. Before Nixon could launch his counter-offensive, however, Johnson would find himself defending the New Economics with a page from an old economics text. Though macroeconomic features of the Johnson era political economy had less to do with inflation than many other factors—health care reform included—they were not insignificant and, more importantly, had to be controlled to prove their very limited relationship to the period's emerging inflation. Thus began, largely in 1967, the Johnson administration's battle for an income tax surcharge, a battle widely misapprehended by both the American public and professional historians.

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[148]Michael Kazin, *The Populist Persuasion: An American History* (New York: Basic Books, 1995), 246-248.

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Chapter 8.
New Economics and Old Medicine:
The Tax Surcharge Debate

If it should turn out that additional insurance is needed, then I am convinced that we should levy higher taxes rather than accept inflation—which is the most unjust and capricious form of taxation.

- Lyndon Johnson, 1966 Economic Report of the President

This is not a problem for the next six months or two years but for the decade. The end of the war won't solve it. A tax increase won't solve it (though it could help). It will have to be approached head on. Sometime, somewhere, we will have to find a way to convince the unions they cannot continually push wage costs up, and to convince businesses that profit margins cannot continually rise.

- CEA Chairman Gardner Ackley to President Johnson, July 27, 1966

That guns and butter and everything else in the Johnson budget caused some demand-pull inflation in the 1966-1969 period is undeniable. Near-full employment had been attained and fiscal policy remained stimulative through 1968. Other things being equal, such a combination could not help but produce inflation in some industries and some sectors. Only if genuine market forces were ignored or otherwise evaded, could the prices of some goods and services remain flat. But was this sufficient cause to effect an abrupt change in the nation's fiscal policy and to do what many of Johnson's Keynesian advisers recommended in the winter of 1965-66: ask for a small tax increase? And did the absence of such fiscal restraint guarantee not just some

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inflation in some sectors but a veritable landslide of price increases instead? "There is one major economic question of the day," Paul Samuelson wrote in 1966. "In the board rooms of Wall Street, the common rooms of Cambridge, and the offices of Washington, we are all asking ourselves: should President Johnson recommend an increase in personal and corporate-income tax rates in January [1967]?...All the industrialists I know are against a tax rise. Most of my banker acquaintances are for it."[1] From the vantage point of the post-Keynesian era, the answers to these questions seem obvious and simple: the failure to enact a tax rise in 1966 or 1967, "let the genie out of the bottle" and triggered a widespread inflation that would ultimately compromise the Keynesian revolution and darken the nation's economic prospects for nearly a decade and a half.[2] Although none of Johnson's Keynesian advisers ever suggested that this failure caused that much harm, many believed, in retrospect, that it had, at the same time, been a mistake. "Lyndon Johnson's fateful error," James Tobin wrote in 1987, "was to ignore this advice [for a tax increase]."[3]

But the answers are not so simple, and it was not that clear in 1966 when the debate commenced and the options began to be measured. "Like Oscar Wilde, who spent the morning putting in a comma and the afternoon taking it out," Paul Samuelson noted in 1966, "I find myself oscillating."[4] Indeed, few argued that a tax increase would not help dampen both the genuine demand-pull inflation that had begun to emerge and the inflationary psychology that had risen up with inflation in general, no matter what the origin. Gardner Ackley's memo to Johnson after the airline mechanics settlement in 1966 suggested as much. There was little consensus, however, on the more significant and somewhat less manageable questions regarding side-effects, absolute necessity, or political possibility, and Johnson and his economic advisers were

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[1] Paul Samuelson, *The Samuelson Sampler*, 29.
[2] Matusow, *The Unraveling of America*, 159.
[3] Tobin, "Keynesian Economics and Its Renaissance," 106.
[4] Samuelson, *The Samuelson Sampler*, 29.

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never convinced that excess demand alone caused very much of the period's inflation. Forty percent of New York business economists predicted recession for 1967; if their forecasts were reasonably accurate, a tax increase would certainly be unwise (this was Samuelson's conclusion).[5] Many in Congress, such as Senator William Proxmire, expressed the same concern and drew the same conclusion. Johnson and his economic advisers knew that some fiscal restraint was desirable, but they also knew that much of the country's inflation originated not with excess demand but with the price-making customs and prerogatives of the nation's business community. Target return on investment, a dearth of genuinely competitive markets, and corporate awareness of an increasingly inelastic demand curve (that accompanied the nation's growing prosperity), combined to generate much of the inflation that had begun to trouble policymakers and citizens alike.[6] Much as it would provide a helping hand, Johnson and his advisers concluded, a tax increase would not then be as effective an inflation-fighting tool as either reinvigorated guideposts or government contracting reforms, and it also possessed a greater number of potentially harmful side-effects, particularly since it would have to emerge from an increasingly conservative Congress. Simultaneous attempts to strengthen the guideposts and to use the federal government's tremendous buying power, in the fight against inflation, truly made the tax increase question somewhat less pressing and significant. Moreover, for every administration adviser who remained somewhat skeptical about the suitability of a tax increase, there were thirty politicians who opposed it outright—mostly on ideological grounds—and twice

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[5] Ibid., 30.

[6] See Demetrios S. Giannaros and Bharat R. Kolluri, "Deficit Spending, Money, and Inflation: Some International Empirical Evidence," *Journal of Macroeconomics*, Summer 1985, 401-417, in which it is suggested that a government's budget deficit is not an indirect or direct determinant of money supply growth or inflation in most countries. Giannaros and Kolluri found that the U.S. was the primary exception to the rule, for there was some statistical evidence of both direct and indirect inflationary effects emanating from budget deficits. "In general," they conclude, "differences observed between the U.S. and the rest of the industrial countries on the propositions tested may be a reflection of the different institutional structures and the different policy priorities of these countries." Ibid., 415.

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that number of professional economists who opposed it because of the war in Vietnam. As Paul Samuelson reminded President Johnson, in a March 1967 open letter, there was also "no real agreement" among those economists who urged the passage of a tax increase.

> Dr. Galbraith thinks it the necessary price for maintenance of public expenditure in the public sector and pushing forward with the new programs of the Great Society. Dr. Roosa [former Undersecretary of the Treasury for Monetary Affairs] thinks higher taxes are needed to keep us from going down the road to inflation. Dr. Heller does not think 1967 will be a year of demand-pull inflation: he wants a change in policy mix without contraction—higher taxes only in order to have easier interest rates.[7]

Unequivocal and preponderant support for a tax increase simply did not exist in 1966 or 1967, even among professional economists. Some endorsements were also grounded on a rationale that appeared at least somewhat suspicious or disingenuous to President Johnson. "I am afraid that the reason so many businessmen and bankers are supporting you on the surtax," Harry McPherson wrote to Johnson in late 1967, "is so that they will feel free to increase prices and interest rates after you lose the surtax fight (having fought the good fight with LBJ)."[8] There was little testimony or economic evidence compelling Johnson to push for a tax increase in 1966 or early 1967. When economic data and CEA forecasts provided a clearer impetus, Johnson acted decisively and used his January 10, 1967 State of the Union Message to call for a 6% income tax surcharge.[9] That it took eighteen months to obtain passage of the surcharge, by then a 10% rather than a 6% "tax on a tax," suggests that Johnson shirked his fiscal responsibilities, and that he was ineffective as an economic policy maker. Since the Revenue and Expenditure Control Act (the 10% tax surcharge) was not signed into law until June 28, 1968, the long interval between proposal and passage also gave credence

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[7] Samuelson, *The Samuelson Sampler*, 33.
[8] Quoted in McQuaid, *Big Business and Presidential Power*, 251.
[9] *Public Papers, Lyndon Johnson, 1967: I*, 8. The 6% surcharge eventually came to be (in 1968) a 10% surcharge.

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to the charges that Johnson deceived or failed to listen to his economic advisers. Several of these economists, after all, including CEA chairman Gardner Ackley, had recommended a tax surcharge (initially 6%) as early as December 1965.[10] Did Johnson truly ignore this advice, resolving its implications only with "a combination of wish projection and deceit?"[11] Or did the decision for or against a tax surcharge and the passage of the legislation itself remain both a difficult and uncertain task throughout the period of debate?

"If the budget is $115 billion," wrote Gardner Ackley in a memo to President Johnson on December 17, 1965, "there is little question in my mind that a significant tax increase will be needed."[12] Johnson noted that Budget Director Charles Schultze also warned him at the same time of rising Vietnam expenditures and inflation. "In practical terms," Schultze told Johnson, "this means tax increases" eventually. Johnson

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[10] See Robert Collins, "Growth Liberalism in the Sixties," in David Farber, ed. *The Sixties: From Memory to History* (Chapel Hill: University of North Carolina Press, 1994), 30-34, where he notes that LBJ "refused to push for a major tax hike in 1966, despite pressure from his economists and other advisers;" that "Johnson's long inaction on the tax front allowed the inflationary spiral to take hold;" that Johnson had "stretched the economy close to the breaking point;"and that "The delay [on the tax bill] had been an integral part of Johnson's guns and butter policy." See also Stephen Skowronek, *The Politics Presidents Make: Leadership from John Adams to George Bush* (Cambridge: Belknap Press, Harvard University Press, 1993), 353, where he maintains that "by December 1965 his [LBJ's] economic advisers were already urging a tax increase....Johnson overruled them....Manipulating economic reports to have things break his way, Johnson let the whole bundle of commitments run on automatic pilot." Also Bruce J. Schulman, *Lyndon B. Johnson and American Liberalism,* 157, in which he noted that Johnson decided, fatefully, that he could protect the Great Society only by downplaying the costs of his two-front war and by delaying a tax increase as long as possible;" Donald K. Pickens, "LBJ, the Council of Economic Advisers, and the Burden of New Deal Liberalism," in Bernard J. Firestone and Robert Vogt, eds., *Lyndon Baines Johnson and the Uses of Power*, 197, in which he suggested that Johnson ignored the CEA's advice because he thought the war would end in late 1967; Allen J. Matusow, *The Unraveling of America*, 160-161 in which he claimed that Johnson refused the advice of his economic advisers; that this advice came without qualifications and was essentially unanimous; that Johnson and his CEA did not predict the economic slowdown in late 1966 and early 1967; that a "temporary reinstatement of some excise taxes" was the only fiscal adjustment being made; and that Johnson did not want to "wrap himself in the flag" to get the tax surcharge because he feared that this would "enforce austerity on his Great Society programs." These views represent practically the only perspective of this situation in the Johnson historical literature. Of these contentions, only the latter one made by Matusow has much validity (desire to avoid a bigger war *also* a factor in that decision).

[11] See Matusow, *The Unraveling of America*, 160, for the "wish projection and deceit" charge; and Johnson, *Public Papers, 1968-1969: I*, 754-755, for Johnson's comments after the signing of the 10% tax surcharge.

[12] Memo, Ackley to LBJ, December 17, 1965, LBJ Handwriting File, Box 11, LBJ Library.

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also noted, however, that Schultze "did not think it wise to propose a general tax increase at that time. Neither did Treasury Secretary Fowler."[13] Ackley's memo was also less conclusive than it has often been made out to be. Attached to the memo was a cover letter from Joe Califano suggesting the need to be "discreet" about any tax changes. Johnson's handwritten response to the memo and Califano's attachment suggest, however, that Johnson had no personal opposition to a tax increase and that he would not have wanted to ignore sage economic advice. Indeed, internal debate over the tax increase proposal would follow closely, rather than veer away from, the policy prescriptions and economic forecasts of Johnson's economic advisers. "Caution them [the CEA] not to go into detail with staff and keep away from all reporters," was Johnson's only response.[14] All in all, this infamous memo—along with Califano's attachment and Johnson's handwritten response—revealed little more than Ackley's reasoned economic assessment—subject to other unspoken qualifications and considerations—and an additional, economically sound, reason for understating expenditures in Vietnam. "Government statements can't do much to prevent inflationary psychology, but they can easily fan it," Ackley noted at the end of the memo. "We have to give great deal of thought to how we play whatever we do—on the budget, in Vietnam, etc."[15]

Inflationary psychology was, indeed, one of the Johnson administration's preeminent concerns over the course of the tax increase debate. Ackley, Califano, and Johnson were all aware of how a general inflationary mindset could be triggered and encouraged by the news of larger than expected government outlays. As such, aggregate demand and fiscal stimulus became a larger concern than they may have otherwise been. Rooted less in the level of aggregate demand than in the

[13] Johnson, *The Vantage Point*, 325.
[14] Memo, Ackley to LBJ, December 17, 1965, LBJ Handwriting File, Box 11, LBJ Library.
[15] Ibid.

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microeconomic parameters of corporate pricing strategy—under which companies hoped to secure the unusually high profits of an economic upswing and a war-time economy—inflationary psychology still responded greatly to positive changes in consumer, investment, and government demand. They also knew that this response was all the more likely and far more unsettling if these new outlays came suddenly and with great urgency, for competitive bidding and close government supervision (fast becoming the trend under McNamara and Johnson) would once again become the exception rather than the rule and companies would tend to become even less responsive price-wise to an increasingly inelastic demand curve. This approach, rather than a concerted attempt to evade unwanted, but sound, economic advice, characterized Johnson's behavior in the early stages of the the tax surcharge debate. Once passed, despite its exemptions for the poorest Americans, the surcharge would indeed cool off the prevailing inflationary psychology mostly at the expense, however, of consumer demand that in itself warranted little cooling off. Ackley's initial decision to ask for a surcharge, after all, was triggered not by any forecasts for *consumer* demand but by a surprisingly optimistic government survey of *business investment* plans, issued in early December 1965.[16] The administration's campaign for a surcharge, begun in early 1967 when Johnson became convinced of its desirability, also implied that Johnson and his economic advisers judged the threat of inflationary psychology to be greater and far less reversible than an otherwise economically questionable brake on consumer demand. Intuitively, Johnson felt foolish asking for a tax increase after having so recently touted the success of the 1964 tax cut (and having called for and received excise tax cuts in 1965), but he clearly separated the two issues in his mind: the tax cut was less about psychology than pure economics; the tax surcharge was just the opposite. Johnson, like Keynes, did not want to look upon full employment and

[16] Okun, *The Political Economy of Prosperity* (New York: W. W. Norton, 1970), 66-68.

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exuberant consumer demand as Dante had regarded Beatrice—worshipped and idealized from afar but the source of little more than alienation and distress at close range. To Johnson (and to Keynes), a full employment economy did not imply the end of a struggle but the beginning of one, and the abandonment of even higher employment goals was never really considered. He did regard the beginnings of a potentially resistant inflationary psychology, however, as a serious development; so too were the signs of a business community increasingly isolated from all but the most profound changes in the nation's demand curve. Though consumer demand was not insignificant, economic psychology and business pricing strategies were the principal targets of the tax surcharge proposal and Johnson's overall wage-price strategy.

Even when the surcharge proposal became the object of serious consideration, and ultimately a well publicized goal of the administration, it met with great resistance from many quarters. In 1966 and early 1967 Johnson found that it either lacked the force of unanimous consent among official and unofficial advisers, or that it represented a policy change that was simply a political impossibility. "For God's sake, get agreement!" Johnson told Joe Califano in June 1967.[17] The surcharge proposal, and the inflation it was designed to counteract, were never taken lightly in the Johnson White House. Nor was there much evidence of substantive fiscal trickery, designed to forestall a needed tax increase. Some budget gimmicks were utilized, to be sure, such as the reliance on participation certificate sales and the use of inconvertible soft currencies for overseas government transactions, but these were neither large nor unprecedented.[18] Moreover, supplemental appropriations for Vietnam were broadcast openly, if only in general terms. Only the fear of inflamed public opinion, that would

[17] Cited in Kettl, "The Economic Education of Lyndon Johnson," 67. The lack of agreement referred to here was by that time (June, 1967) centered on the amount and the coverage of the surcharge rather than its applicability.
[18] See Harvey C. Mansfield, Sr., *Illustrations of Presidential Management*, 25-26, for more detail on these techniques.

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call for a larger war effort along with the passage of a "war tax," and not the the reluctance to face economic "facts," stood in the way of an earlier, more vigorous campaign for a surcharge. In his July 28, 1965 televised news conference Johnson noted:

> Secretary McNamara, in addition, will ask the Senate Appropriations Committee to add a limited amount to present legislation to help meet part of this new cost until a supplemental measure is ready and hearings can be held when the Congress assembles in January. In the meantime, we will use the authority contained in the present Defense appropriation bill under consideration to transfer funds in addition to the additional money that we will ask [for].[19]

Many other impediments to the tax surcharge proposal began surfacing quickly. Congressional tax writing committees opposed the tax surcharge vehemently, especially the House Ways and Means committee with its prideful and economically shrewd chairman Wilbur Mills, the committee in which all tax bills would have to originate. Congress was losing confidence in "Heller economics," warned Republican senator John Byrnes, reflecting the Republican party artfulness which warned of economic problems largely in the hope that dire forecasts would become self-fulfilling prophesies.[20] Business leaders either opposed it, or in the case of the Business Council members who were quite close to the administration, proved very reluctant to endorse it.[21] The National Association of Manufacturers even stood opposed to the excise tax

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[19] Johnson, "The President's News Conference of July 28, 1965," *Public Papers, 1965: II*, 796. This conference came immediately after Johnson's deliberations with military advisers, key members of Congress, and the Joint Chiefs of Staff referred to by Jack Valenti as the "get in, or get out" meetings.
[20] Quoted by the *Washington Post*, April 21, 1967, in Personal Organization Papers, Walter Heller, Box 1, LBJ Library.
[21] Johnson cited a Business Council meeting/dinner at the White House on March 30, 1966 where he asked for a show of hands, for or against the tax surcharge, and recalled how "not a single hand went up" in favor of the surcharge proposal. See Johnson, *TheVantage Point*, 444. Otto Eckstein, retired fron the Johnson CEA on February 1, 1966, wrote to Johnson afterward, however, and explained how he had spoken to a number of these business leaders and some had suggested that they *were* in favor of the surcharge, if tentatively so, but were caught "flat-footed with their tongues tied" by the March 30 request for a show of hands. Quoted in Cochrane, "Moral Suasion," 264. When the Business Council staged their annual retreat at Hot Springs, Virginia, Ralph Lazarus, the chairman of the BC domestic economy committee reported that "the surtax was given reluctant support. Cuts in federal spending were regarded as more desirable, but an unlikely alternative. Generally, enactment was regarded as inevitable, but few felt that the final version would be 10% across the board. The consensus was 6-8% on

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increases Johnson had guided through Congress in early 1966 as a partial substitute for a surcharge. The NAM observed that "a new excise tax might be appropriate in a period like the Korean War, when there was a very substantial buildup in military spending, but not if the purpose of a tax increase was to dampen inflationary trends."[22] The U.S. Chamber of Commerce also made it clear that they would prefer spending cuts instead, with only half of their members expressing a willingness to back a tax increase, and then only if it was coupled with spending cuts. Only 4% of the surveyed U.S. Chamber members said they favored a tax increase without any qualifications.[23] None of Johnson's advisers wanted the increase if it had to be paired with large spending cuts. "In scientific economics," Paul Samuelson noted despairingly, "expenditure cuts and tax rises are *substitutes* to fight inflation. Not so in politics....This is upside-down economics with a vengeance."[24] In his November 1967 *Newsweek* column, Samuelson explicitly characterized his own position and implicitly echoed the feelings of most administration advisers:

> I believe it would be tragic if the new campaigns we have been waging against poverty and inequality—both at home and abroad—were to be abandoned or even curtailed because of the myth of economic necessity.
>
> *Newsweek* readers know that I favor a tax increase.* Let me make clear that I do not favor it at any price. If its costs were a legislative deal to cripple important

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consumers, and 10% on corporations—both effective January 1, 1968." Notes of Report in Papers of Henry Fowler, Box 231, LBJ Library.

[22] National Association of Manufacturers, Government Finance Meeting, July 26, 1966, NAM Papers, Series I, Box 97, Hagley Library. This kind of response reminded Walter Heller of the time he testified before Congress in 1950 for a Korean War tax increase. "We won't vote a dollar more in taxes to stop inflation," R.L. 'Muley' Doughton cried out, waving a finger in the economist's face, "but we'll vote for higher taxes to send planes and guns to Korea." Cited by Harold Chucker in the *Minneapolis Star*, Monday, May 13, 1968, in Personal Organization Papers, Walter Heller, Box 1, LBJ Library. Johnson was all too aware of this sentiment, surprisingly on the rise again in the progressive 1960s.

[23] *Washington Post* account of U.S. Chamber survey, November 26, 1967, in Papers of Henry Fowler, Box 231, LBJ Library. Survey results: 78% favored spending cuts; 54% were willing to back tax surcharge with cuts; 41% opposed tax increases under any circumstances; and only 4% favored a tax increase without any qualifications.

[24] Samuelson, *The Samuelson Sampler*, 43. Emphasis in original.

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welfare programs, I would ahve to point out that a degree of open inflation is not the greatest evil.[25]

Economic signals during the early stages of the debate were also somewhat inconclusive. Until the third quarter of 1967 they were mixed at best, with many of the short term indicators pointing downward in 1966 and early 1967. Twenty-three of the thirty leading indicators used by the Commerce department to forecast economic trends were, in fact, pointing downward.[26] Though circumstances would quickly change, in late 1965 and early 1966, actual defense spending was also lagging behind contracted obligations, repeating the spending pattern associated with the Korean War.[27] As the key to congressional approval of any tax bill, Wilbur Mills made ample use of the uncertain economic forecasts, even though his primary rationale lay elsewhere. "We've got fiscal troubles and we've got balance of payment troubles," Mills noted dryly, "but I don't see the answer in the tax bill."[28] Mills contended that much of the inflation was cost-push, that there was no indication of excess demand, and that the surcharge, therefore, would have little impact on inflation. While these assertions were generally correct, his main objection to the surcharge, however, was based on the view that additional taxes would sanction additional social spending, and his version of the cost-push explanation was little more than a rehash of the oversimplified union monopoly/wage-price spiral theory popularized by the National Association of Manufacturers and the U.S. Chamber of Commerce.[29] Mills was also prejudiced by his

[25] Ibid., 41. *Samuelson had only recently (mid-1967) swung over in support of the tax surcharge proposal.

[26] Arguing against the tax surcharge in his testimony before the Joint Economic Committee, on February 20, 1967, Walter Reuther of the UAW pointed out that these Commerce department indicators were currently pointing *downward.* See Reuther, *Policies and Priorities for Progress*, 46. The CEA had reached a consensus by this point predicting correctly that an upturn would begin in the third quarter of 1967, convincing Johnson to ask for a delayed surcharge (ask for it now, implement it only in the year's second half.) See Johnson, "Annual Message to the Congress on the State of the Union," *Public Papers, 1967: I*, 8.

[27] *Federal Reserve Bulletin 54*, September, 1968, 709.

[28] "Mills Bars Surtax; Backs Travel Curbs," *The Washington Post*, February 7, 1968, A1.

[29] Many other congressmen, including Senator William Proxmire, opposed the surcharge on the same grounds, and, like Mills, also called for budget cuts. When Gardner Ackley debated Proxmire in early 1968, and pointed out the contradiction in his call for budget cuts while claiming that the economy was

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well known desire not to report a bill out of committee unless it was assured of passage. Urging Mills to support a surcharge in November 1967, Paul Samuelson reminded him of the need for courageous leadership that seemed to contradict both conventional wisdom and popular opinion. "Since there is no popular ground swell from the people for higher taxes," Samuelson noted, "what is needed is responsible leadership. *By you.* May I quote Disraeli? 'A leader who never loses a legislative battle is like a miser who never spends his money.'"[30] When his opposition proved to be the death of the surcharge proposal, throughout late 1967 and early 1968, Johnson used one occasion to remind Mills' congressional colleagues of the chairman's fundamental position. "That's the risk Wilbur Mills is taking with our country," Johnson noted, "because his momma doesn't like the welfare program."[31]

Many others noted the changed economic climate as well. "The wisdom of the administration's proposed 6% surcharge...now seems highly questionable," the editors of *Business Week* noted in March 1967. "Under the circumstances, any decision on the tax increase should be postponed until there is new evidence of the kind of demand-

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"too weak" for the tax increase, Proxmire responded only by saying that his statement would have been clearer if there had been "more emphasis on timing"(?). See Hobart Rowen, "All Seem Agreed on War Tax Need," *The Washington Post*, February 6, 1968, D6.

[30] Samuelson, *The Samuelson Sampler*, 39. Emphasis in original.

[31] Quoted in Califano, *Triumph and Tragedy*, 286. Gardner Ackley noted that Mills had an economist, Norman Ture, who was "violently opposed" to a tax increase throughout this period. Mills himself had a reputation for never reporting a bill out of his committee unless he was already assured of passage (house members deferred to Mills to avoid interest group pressure and because of the complexity of most tax bills, allowing him to report out bills with closed rules. As a tradeoff, they expected him not to report bills that were controversial or that lacked overwhelming support). He opposed the tax surcharge, however, primarily because of his belief that the current inflation was cost -push and not demand-pull (which he blamed almost exclusively on unreasonable worker's demands), and because he did not want to sanction increased social spending. This came at a time when AFDC payments averaged only $8/month in Mississippi, approximately 2 to 8% of the total Mills was known to drop in a Washington D.C. strip joint in one evening. The *Washington Post* reported that he once spent $1700 cheering on the area's most reknowned ecdysiasts, all in one evening. See Walter Shapiro, "Wilbur Mills: The Ways and Means of Conning the Press," *Washington Monthly*, December, 1974, 4-13. Eventually, after reneging on one agreement to report the surcharge bill if Johnson agreed to $4 billion in budget cuts, Mills reported the bill after the President agreed to $6 billion in cuts (most of which, ironically, Congress found themselves unable to enact).

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pull inflation that a tax increase would be effective in halting."[32] Though Ackley, Okun, and others pleaded with them on an almost daily basis, the editorial staffs of the *New York Times* and the *Washington Post* also opposed the tax increase throughout the 1966-1968 period. In a survey of the nation's economic forecasters taken in early 1967, fully 95% expressed the opinion that it would be a mistake to impose the surtax at mid-year.[33]

While Walter Heller was busy rounding up the support of economists across the nation, eventually convincing 260 of them to sign an endorsement of the tax surcharge, several prominent members of the profession also publicized their opposition. Leon Keyserling, former chairman of the CEA under Truman, suggested that the economy was simply too weak for the surcharge. "The forecast of the Council of Economic Advisers for a sharp upturn in the second half of the year," Keyserling remarked in March 1967, "does not seem to me to be justified at this stage."[34] Paul Samuelson rescinded his support for the tax surcharge early in 1967, though Gardner Ackley suggested that this was a decision he soon came to regret. That same year, in November, Robert Lekachman also registered opposition, noting that factory utilization rates were down 6% from the previous year (85 % versus 91 %), suggesting, as well, that administered prices were responsible for much of the current inflation. On January 4, 1968, 320 economists went on record opposing the tax surcharge, announcing their positions in a prominent *New York Times* article. Kenneth Boulding, president-elect of the American Economic Association and one of the 320, lamented that October, that the "administration is trying to create an impression that the economics profession is united behind the proposed tax increase." His own view, supporting Peter Collier and David Horowitz' theory that "every thought and

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[32] "Policy for a Period of Uneasiness," *Business Week*, March 4, 1967, 190.
[33] "Will Business Surge in the Fall?" *Business Week*, March 18, 1967, 137.
[34] Quoted in ibid.

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perception in those days was filtered through the dark and distorting glass of the Vietnam War," was that a tax increase would be the final abdication of power to an executive "drunk with power, and incapable of wisdom."[35] Indeed, opposition to Johnson's Vietnam policy was the most often cited rationale among the 320 economists who opposed the tax surcharge. "Here we are possibly sacrificing some very real values, those of an articulated well understood full employment policy for symbolic and I am afraid meaningless protest," remarked economist Kenneth Arrow prophetically, in a letter to Robert Eisner on October 17, 1967.[36]

The push for a tax surcharge was also partly foiled by a preemptive interest rate hike effected by the Federal Reserve in late 1965 (while Johnson was in Texas recuperating from emergency gall bladder surgery). On December 3 of that year, by a narrow 4-3 margin, the Federal Reserve Board voted to raise the discount rate from 4% to 4.5%.[37] Fed Chairman William McChesney Martin acted partly on the basis of his belief that he had access to current and forthcoming Department of Defense budget information that administration economists lacked.[38] Credit market conditions and

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[35] Samuelson cited by Gardner Ackley, Oral History Interview, in Hargrove and Morley, eds., *The President and the CEA*, 255; Lekachman, Boulding, and *New York Times* article cited in Personal Organizational Papers, Walter Heller, Box 1, LBJ Library; Collier and Horowitz citation from Peter Collier and David Horowitz, *Deconstructing the Left: From Vietnam to the Persian Gulf* (Lanham, MD: Second Thoughts Books, 1991), 27. While Collier and Horowitz ignore the real revolution of the 1960s (the slowly emerging economic revolution that they mistake for the "normal workings of the system"), as did they and most of their cohorts *in the 1960s*, their perception of their own shortcomings during that period (they are writing as former 1960s radicals who have seen the light and joined the Reagan revolution), are as insightful as they are illuminating.

[36] Arrow to Eisner, October 17, 1967, Personal Organizational Papers of Walter Heller, Box 1, LBJ Library.

[37] Discount rate = the rate at which the Federal Reserve loans money to member banks; not to be confused with the prime rate, which is the rate at which private banks will loan money to its low risk customers. LBJ's two appointees to the Federal Reserve Board, J.L. Robertson (1964), and Sherman Maisel (1965), were 2 of the 3 voting *against* the rate change. Not long after the 1965 run-in with Martin, in February 1966, Johnson would appoint a third Fed member, Andrew Brimmer of Louisiana, then a distinguished sub-cabinet level officer in the Department of Commerce.

[38] There are a number of widely differing accounts as to how Martin was informed of accurate Defense spending numbers. Dewey Daane, Fed Board of Governors member, cited Martin's "pipeline" to David Packard, then serving in the DoD; others cited similar "pipelines" to Senator Dick Russell of the Senate Armed Forces committee, Senator John Stennis of the same, and chairman Wilbur Mills of House Ways and Means. It seems likely that Martin used all of these contacts and more.

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Vietnam expenditures were such, Martin reasoned, that tighter monetary policy was warranted. Since Treasury financing was about to go forward, he concluded, he simply had to act when he did.

This became the source of a sizable controversy, for Martin was scheduled to meet President Johnson, CEA Chairman Ackley, Treasury Secretary Fowler, and Budget Director Schultze, three days later at the LBJ ranch for substantive discussions on the nation's fiscal and monetary policy. While Ackley and Califano had warned Johnson of imminent Fed tightening, and had correctly forecast a 4-3 decision when it came to the raising of the discount rate, Johnson expected no move until after the December 6 meeting at the ranch. After meeting with Arthur Okun of the CEA, Charles Zwick of the Budget office, and Paul Volcker from Treasury in November, and reporting that there would be a "possible" need for restraint in 1966, Federal Reserve staff member Dan Brill exclaimed, "I'll bet we've made monetary policy for the rest of the year."[39]

Apprised of this report, Johnson was dumbfounded then, when the Fed took action on December 3. He was not in fundamental disagreement with the change, but he did have a desire for closer coordination between the Fed and his administration.[40] As

[39] Quoted in Anderson and Hazleton, *Managing Macroeconomic Policy*, 128. Okun, Zwick, Volcker, and Brill made up what was known as the Quadriad research group. After meeting in November and issuing their report on November 6, Ackley told Johnson, "Bill Martin is apparently ready to buy the report." See ibid.

[40] Though Gardner Ackley suggested that Johnson "didn't like and really trust Bill Martin," and called Martin "absolutely zero as an economist" himself, and though Martin felt that Johnson also knew precious little about economics, all evidence suggests that the Federal Reserve system and the White House never were, and never have been, as close as they were during the Johnson administration. See William McChesney Martin, Oral History Interview, interviewed by Michael Gillette, May 8, 1987, LBJ Library, 17-18.; and Ackley, Oral History Interview, in Hargrove and Morley, eds., *The President and the CEA*, 236. In a fascinating study of pressures on American monetary policy, and in one section, administration "signalling" to the Federal Reserve Board, Thomas Havrilesky points out how relations between Martin, the Fed, and the Johnson administration were virtually devoid of significant stresses after the publicized 1965 "shootout," yet were also characterized by "a new precedent in Federal Reserve/executive branch interactions." See Thomas Havrilesky, *The Pressures on American Monetary Policy* (Boston: Kluwer Academic Publishers, 1993), 59-60. See also Havrilesky's charts on pages 76-80, where he graphically analyzes the extent and character of executive branch "signalling" to the Fed (from 1952-1991, based on articles in the *Wall Street Journal* which mentioned the views of administration officials). These figures will help explode the myth that Johnson, Heller, Ackley, and Okun overlooked "the significance of money," for Johnson era signalling is characterized by mild,

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Undersecretary of the Treasury Frederick Deming put it, "I don't think anybody was really arguing substantively that you shouldn't have restraint; the real question was what the mixture [between fiscal and monetary policy] should be."[41] In his presidential memoirs, Johnson tried to clarify his opposition to Fed chairman Martin's abrupt policy change. "My argument with Martin," President Johnson noted, "was not over the rate increase but over its timing and the failure to coordinate the action with key fiscal policy decisions just ahead."[42]

It is clear that Fed chairman Martin had access to fairly accurate projections of federal defense spending, in spite of administration attempts to soften his position with low-ball (privately shared) estimates of their own; what is not quite so clear is whether or not the discount rate change impaired the chances for passage of the tax surcharge. Martin was known to have a good rapport with Wilbur Mills; Ackley suggested that he may have understood, then, well in advance, Mills' steadfast opposition to a tax increase and acted accordingly.[43] In a 1969 interview, however, Arthur Okun contended that it would have been easier to get a tax increase in the January 1966 budget had the Fed not tightened in December.[44] Only a few years later, focusing largely on Mills' intransigence, Okun came to appraise the situation somewhat differently:

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unusually varied signals (9 shifts from tightening to easing signals or vice versa). Nixon era signalling, by contrast, exhibits only one shift up to October 1972, and 3 more from that point to the end of Nixon's presidential term (9 straight tightening signals at beginning, and 21 straight easing signals, thereafter).

[41] Frederick L. Deming, Oral History Interview, Interview I, interviewed by David G. McComb, January 7, 1969, LBJ Library, 29.

[42] Johnson, *Vantage Point*, 445.

[43] Martin's "off the record" speech at the New York State Banker's Meeting, on December 4, 1967 at the Madison Hotel casts some doubt on this assertion. He told the bankers in attendance that he was "miffed because he ran a looser than warranted monetary policy in anticipation of the new tax surcharge bill that never came. Since Mills was the primary impediment to the surcharge then, just as he was in early 1966, Martin's disappointment here is difficult to understand if he truly had close ties to Mills. See memo, Marvin Watson to LBJ, December 6, 1967, LBJ Handwriting File, Box 22, LBJ Library, for a report of the Martin speech.

[44] Okun, Oral History Interview, Interview I, LBJ Library, 25.

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> In December 1965, the President knew it was going to happen....We knew damned well that the economy needed restraint at that point. Our view was that our best chance of trying to sell a tax bill was if we could go to the President saying the Fed hasn't tightened but would have to tighten unless he went for a tax bill, and that he should tell Congress that they had sixty days to show their conviction before the Fed tightened. Well, we were kidding ourselves.[45]

Okun's predecessor as chairman of the CEA, Gardner Ackley, displayed a similar reversal of opinion when he reflected on the situation:

> You know, at the time, I thought that his political judgement was wrong. I thought that reason would succeed if we were allowed to present the case. But when he recommended it in January 1967 and didn't get it until July 1968, and this under circumstances in which the evidence as to what was happening was obvious to everyone, convinces me that his political judgement was absolutely right: he couldn't have gotten a tax increase [in 1966].[46]

It was highly unlikely, indeed, that a surcharge proposal would have passed through congress in 1966, even without the Fed-induced monetary restraint. The discount rate change, however, in conjunction with a restraining open market policy, instituted two months later in February, 1966, did produce a credit crunch in the nation's housing industry, and it did compel many businesses to adjust inventories downward as the competition for available funds intensified.[47] Though the CEA kept telling everyone that this was only a temporary slowdown, as it turned out to be, it made it virtually impossible to even begin pressuring Mills and his congressional

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[45] Okun, Oral History Interview, in Hargrove and Morley, eds., *The President and the CEA*, 295.
[46] Quoted in ibid., 254-255.
[47] Insurance companies and savings and loans were clearly hit the hardest in the 1966 credit crunch; S&Ls could not meet the competition for funds since their moneys were essentially locked away into low rate long term loans for housing. Insurance companies saw their cash positions become strained as they became subject to increased demand for policy loans. The business sector of the economy felt the crunch least of all as bankers strained to find every loanable dollar (selling municipal securities, for example), and the businesses themselves increasingly relied upon commercial paper, widening accounts receivable balances, and the burgeoning Eurodollar market. See Administrative History of the Federal Reserve System, Vol. 1, Box 1, LBJ Library, 32-40. Anthony Campagna highlighted two other significant consequences of Martin's actions in 1965 and early 1966: the contraction in money supply shocked many people out of their expectations for reasonable price stabilty; and the credit crunch spawned by the contraction also served as a destabilizing force since it forced alterations in financial markets and the monetary system that made it harder for the Fed to control M2 or M3 (formation of one bank holding companies that could issue commercial paper above Regulation Q limits, for example). See Campagna, *Economic Consequences of the Vietnam War*, 54, 68.

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colleagues until the credit crunch wound down in early 1967. While it had little bearing, in other words, on the *1966 effort* to pass a tax surcharge, the December 1965 Federal Reserve bank tightening clearly forced the postponement of critical lobbying efforts, and therefore set back the eventual date of passage.[48] To convince Mills, as well as the American people in general, that a small tax increase was a good thing, intensive lobbying was an absolute prerequisite. Despite the significance of the 1968 gold crisis and the pivotal role of Wilbur Mills, administration lobbying efforts ultimately proved to be decisive in the eventual passage of the tax surcharge. Undersecretary of the Treasury Frederick Deming cited the American Banking Conference in Puerto Rico, in May 1968, as a good example of this influence. Treasury Secretary Fowler attended the conference, set up meetings with the participating bankers, region by region, urged them to support the tax surcharge proposal, and encouraged them to put pressure on their representatives in Congress. Almost all of the bankers in attendance complied, with great impact on the congressional outlook and Mills' reluctance to report a bill. Unfortunately, when it was finally reported out of Mills' committee and signed into law in the Spring and Summer of 1968, Johnson had already made his stunning withdrawal from the 1968 presidential campaign, and Richard Nixon was well on his way to the White House. Though Nixon would win by only a small margin, a Republican landslide seemed imminent until the last few weeks of the campaign. As a result, Nixon's supply side rhetoric and obvious tilt toward the business community signalled a change, likely to take place, that served to offset much

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[48] See Deming, Oral History Interview, Interview III, February 17, 1969, LBJ Library, 12. The Fed tightening also led to a protracted "cat and mouse" game between the Johnson administration and the House Ways and Means committee over the tax surcharge. This produced an on again, off again operation, that created dissonnant interest rate movements (and parallel stock market movements as well) that forced later (1967-1968) Federal reserve policy to be too easy, for too long. Its impact, then, on the level of investment demand in the 1967-1968 period was critical. See Deming, Oral History Interview, Interview III, LBJ Library, 16-17, and memo, Joseph Barr to LBJ, "Bond market deterioration as a result of Tax Bill Uncertainty," May 21, 1968, Papers of Ernest Goldstein, Box 9, LBJ Library.

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of the favorable psychological impact of the tax surcharge bill. As Johnson's economists predicted, consumer demand was reduced by the tax surcharge; affected principally by the changing of the guard and the reemergence of a supply side presidency, investment demand was not.[49]

From the standpoint of the Johnson administration, concern for the tax surcharge had mounted in tandem with the interminable conditions in Vietnam. "Slowly but surely," Johnson recalled, "more people began to recognize the necessity for an increase in taxes as it became apparent that the war in Vietnam would continue for some time."[50] While the surcharge was clearly designed to thwart an inflationary spiral—much to the chagrin of conservative congressmen who kept urging Johnson to call it a war tax—it was never designed to be *the* solution to the inflation problem.[51]

Johnson did not, however, rely exclusively upon the surcharge, for he knew it to be a vastly unpopular proposal that stood little chance of passing Congress, and that it remained less critical to price stability than the guideposts or other microeconomic policies in general.[52] As a result, other more palatable options were utilized in its place, even as he continued to push for the surcharge through all of 1967 and much of 1968. He continued to hold tight reins on the federal budget, for example, reducing the overall number of federal employees in non-Defense categories, and he personally

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[49] In his presidential memoirs, Johnson blamed himself partly for the tardiness of the surcharge legislation. "For one thing," he noted, "I failed to explain clearly enough that the surcharge was not a 10 percent increase in the income tax rate but rather a tax on a tax, or ten extra cents on every dollar of taxes." See Johnson, *Vantage Point*, 450. Clearly Johnson's refusal to "wrap himself in the flag" on behalf of the surcharge also made it tough for conservatives in Congress to swallow. Walter Heller, among others, expressed his satisfaction that Johnson refused to do this. He and the President, Heller noted, felt that Americans were mature enough by that time to understand the basic need. See Walter Heller, "President Johnson and the Economy," in James McGregor Burns, ed., *To Heal and to Build: The Programs of Lyndon Johnson* (New York: McGraw-Hill, 1968), 160.
[50] Johnson, *Vantage Point*, 445.
[51] "Why don't you call a spade a spade, and tell us we need a tax for the war," Republican senator Charles Percy complained. "The inflation argument hasn't motivated Congress, and hasn't motivated the nation." Cited by Rowen, "All Seem Agreed on War Tax Need," D6.
[52] As Johnson saw it in 1967 and 1968, the surcharge proposal was unpopular with the American people in general, but, more significantly, was also unpopular with key members of Congress and most business leaders.

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approved every issuance of government paper from September1966 to the middle of 1968.[53] He also sought to limit the number and magnitude of pay raises for Federal employees, and generally attained government employee wage contracts at or under the guidepost target figures. Only Defense and Aerospace foiled his efforts there. Arthur Okun recalled the rationale of Johnson's efforts to restrain federal pay:

> In the sixties, Johnson was in the business of asking for price and wage restraints from business and labor; this was an important element in his willingness to accept some restraints for the Federal government, whether it was on federal pay or even on proposals to raise price floors in agriculture. You could say, 'Look, Mr. President, that's creating inflation, and you're asking all these guys to hold down in order to stop inflation.' You couldn't say, 'This is going to make the difference between a 3 percent and a 5 percent inflation rate,' but basically, 'How credible are you in asking for restraint by the private decisionmakers if you don't show some kind of restraint in the decisions *you* make, even if they're relatively small decisions?'[54]

When he pushed hard for minor fiscal adjustments in early 1966, Congress responded quickly with the Tax Adjustment Act, restoring previously cut excise taxes and speeding up the collection of corporate and Social Security taxes. Social Security taxes were also increased by approximately $6 billion at the same time. "Just as tax reduction was a vital stimulus to an under-employed economy in 1964 and early 1965," Gardner Ackley noted, "tax increases have been called for to restrain an overly buoyant economy this year. The President's program is drawing $10 billion out of private hands..."[55]

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[53] Many of Johnson's political opponents in the Republican party claimed the opposite on the issue of federal employment. Senator John Williams of Delaware, claimed in mid-1967 that 108,910 new federal government employees had been added since September, 1966, attributing them all to Great Society expansion. Budget director Charles Schultze noted in a May 8, 1967 memo to President Johnson: "We have been over these figures with Senator Williams a number of times, when we were before the Senate Finance Committee on various matters. He refuses to listen." Schultze then attached the actual employment figures to his memo: Defense employment up to 1,940,000 from 1,823,000 (+117,000); all other down to 931,000 from 943,000. Schultze to LBJ, May 8, 1967, LBJ Handwriting File, Box 22, LBJ Library.

[54] Okun, Oral History Interview, in Hargrove and Morley, eds., *The President and the CEA*, 300. Emphasis in original.

[55] CEA Report, "The Record of Johnson Policies to Combat Inflation," April, 1966, Robson-Ross Papers, Box 5, LBJ Library.

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Johnson also ordered the Securities and Exchange Commision, late in 1966, to slow down the approval of new stock issues, and signed a bill in November suspending the Investment Tax Credit and the accelerated depreciation allowance, measures designed to cool off the one part of overall demand (capital investment) that was putting real market pressure on price levels in several business sectors.[56] In a similar vein, the Federal Power Commission, the Departments of Transportation, Housing and Urban Development, Agriculture, and Health, Education and Welfare, along with the Army Corps of Engineers, were all ordered to slow permits and actual spending on construction projects. "Call in the hundred biggest spenders in government," Johnson commanded Joe Califano in March, "and ask them to hold up on their plans a little bit, and call in the top lending people to ask them to temporize a little on approving loans." A few days later he repeated the same order to Califano, but with a different accent. "There are thirty key people in the entire goddamn government—just thirty key people. Spend an hour with each of them. Ask them 'what are you doing [that you can stop] to heap gasoline on the fire?'"[57]

As a companion measure, the Federal Reserve also instructed its member banks in September 1966 to "make adjustments more through restraint on business lending and

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[56] This type of demand obviously creates a greater *supply* of goods and services as well (thereby offsetting much of its potential inflationary impact). The speed with which it advances, then, is in many ways more significant than its absolute level. On the suspensions of the investment tax credit and accelerated depreciation, Commerce department economist Harlow Osborne noted, "It is the incentive to investment, not the cash flow of funds to invest, that has to be the target of the proposed suspension." Essentially what Osborne was saying, anticipating problems that really appeared early in the Nixon administration, was that government attempts to utilize monetary policy alone would ultimately backfire, reducing corporate cash flow, but not the overall level of investment or the availability of credit. The credit would only be more expensive, imparting small inflationary rather than deflationary effects on the economy. Indeed, in 1966, the most rapidly advancing component of overall price inflation was the interest expense on loans. In May, 1966, for example, while the cosumer price index rose by a low 0.1%, mortgage servicing costs rose by 0.6% (annual rates of 1.2% and 7.2% respectively). See Memo, Harlow Osborne to William H. Shaw, Assistant Secretary of Commerce for Economic Affairs, September 22, 1966, Robson-Ross Papers, Box 5; and for May, 1966 inflation statistics see Memo, Ackley to LBJ, June 17, 1966, LBJ Handwriting File, Box 11, LBJ Library.

[57] Quoted in Califano, *Triumph and Tragedy*, 140-141.

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less through sales of securities."[58] This was a clear sign that business profits and cash flow were leading the economy into inflationary territory—not a too rapidly expanding federal deficit or money supply. To help effect this change, Johnson called Texas Congressman Wright Patman, telling him to put pressure on Treasury Secretary Henry Fowler. Suspecting that Fowler was unwilling to pressure the nation's bankers as he wanted him to, Johnson hoped to energize Patman, longtime foe of Wall Street and the nation's banking establishment, to get Fowler moving. When Patman wrote Fowler the next day, Fowler took the bait, called Califano and Johnson immediately, and wondered aloud what to do about the veteran Texas Congressman. Put pressure on the banks, Johnson told him, "or else he'll [Patman] turn your hearing into a Texas barbeque."[59] As Johnson suspected, Fowler had taken the bait perfectly, and with his own personal plea—delivered to 200 business executives at an April 1966, White House dinner—Johnson's pressure on Secretary Fowler (through Wright Patman) did help curtail business lending somewhat in late 1966 and early 1967. "The long uptrend in bank loans to business has been stopped, at least for the time being," said the Commerce department's senior economist on September 22, 1966.[60] Just as it was with his microeconomic wage-price policy, when Johnson found himself unable to use his primary policy weapons (the guideposts for wage-price policy and the tax surcharge for fiscal policy), he quickly seized suitable, less politically abrasive, substitutes. "The fiscal and monetary measures we carried out in 1966 had some effect," Johnson recalled in his presidential memoirs. "As a result of our actions, the [inflation] rate fell

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[58] Report, CEA to OECD, "U.S. Economic Situation and Outlook in Mid-1966," Robson-Ross Papers, Box 5, LBJ Library.
[59] Quoted in Califano, *Triumph and Tragedy*, 142. Johnson always displayed a visceral distaste for high interest rates. "It made him ill to think about those bankers collecting 12% interest [in 1966]," Gardner Ackley recalled. "He had clearly a very populist attitude toward this," Arthur Okun added. Okun, Oral History Interview, in Hargrove and Morley, editors, *The President and the CEA*, 233, 274.
[60] Memo, Harlow Osborne to William H. Shaw, Assistant Secretary of Commerce for Economic Affairs, September 22, 1966, Robson-Ross Papers, Box 5, LBJ Library.

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back to 2.3% between September,1966 and June,1967."[61] In need of some adjustment afterward, macroeconomic policy in the first half of 1966 wound up being, as Walter Heller noted, "just what the doctor would be inclined to order."[62] The national income account federal budget—embracing Social Security and other trust funds—actually wound up with a $3 billion surplus in the first half of 1966.[63]

On two counts then, most historians have misrepresented Lyndon Johnson's stance toward the tax surcharge in particular and toward inflation in general. First of all, contrary to the now standard interpretation, he did pursue the surcharge as vigorously as any of his economic advisers and did not spurn their critical advice or turn away from a fight against inflation only to pursue an unworkable economic strategy based on little more than fiscal stimulus. If anything, like Ackley and Okun, Johnson was dismayed by the self-defeating position held by many fellow liberals, who believed that political attacks on social programs would disappear or diminish in significance if the tax bill failed. "I am also struck by the illusion of some liberals," Okun declared, "that downward pressure on Federal programs will disappear if the tax bill fails. On the contrary, in that event, the atmosphere of financial emergency at home and abroad would give conservatives the upper hand in choking high priority programs."[64] Johnson and his advisers knew, contrary to much of the conventional liberal wisdom, that failure of the tax bill would give conservatives the upper hand as these opponents of the New Economics played up the themes of fiscal irresponsibility and runaway inflation. Unlike Paul Samuelson who noted that he could not remember a single instance in which war had been halted by the refusal to raise taxes, Johnson was less

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[61] Johnson, *TheVantage Point*, 445. From June 1965 to September 1966 the inflation rate was 3.4%.
[62] Walter W. Heller, "A Dash of Bitters—But No Recession Now In Sight, *Life*, September 9, 1966, 30.
[63] Cited in ibid.
[64] See memo, Okun to LBJ, April 27, 1968, Administrative History of the Council of Economic Advisers, Volume II, Box 1, Document Supplement. See also Joseph Kraft, "Republicans Seek to Blame Democrats for Any Inflation," *Washington Post*, October 5, 1967, A25, for an analysis of Republican attempts to thwart the tax surcharge so that they could pin the rising inflationary psychology on Johnson and the Democratic party.

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astonished by the numerous economists who voiced opposition to the tax surcharge as a symbol of anti-war protest.[65] Much of Johnson's initial reluctance to press for the tax rise in 1965 and 1966, after all, came from his reluctance to widen the war any more than he already had. People would pay a war tax, he was convinced, only if they received in return a wider, more decisive, war effort. Despite these misgivings the tax surcharge and the struggle for price stability remained atop Johnson's list of priorities throughout his last two years in office. John Connally even went so far as to suggest that the economy and the fight for the surcharge, rather than the Vietnam stalemate, was the primary reason Johnson chose not to seek reelection in 1968.[66]

Secondly, Johnson and his advisers judged the surcharge to be less significant than their own rhetoric or subsequent historiography would imply, for it was desirable largely for its potential impact upon inflationary expectations; its other effects were of secondary importance and only partly useful. Its impact upon aggregate (mostly consumer) demand, for example, was not completely in the interest of prosperity or economic balance. To the extent that it dampened investment, rather than consumer demand, it might prove helpful. So too would it serve the public interest if it exhibited a noticeable impact upon inflationary expectations and the business perception of demand curve elasticity. If businesses could be made to believe that their profits would not be protected at all costs and that demand for their products could, and would respond with increasing alacrity to frequent price changes, there was hope for relative price stability amid near-full employment and a small part for the tax surcharge to play. There was, accordingly, great hope among Johnson economic advisers that a tax surcharge could be crafted that would focus most of its impact on investment demand and business expectations. Visiting Washington in June 1967, to stump for the

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[65] See Samuelson, *The Samuelson Sampler*, 42, for his comments on opposition to the tax surcharge as a form of anti-war protest. "This is at best a *symbol* of protest," Samuelson remarked. Emphasis in original.
[66] Connally with Herskowitz, *In History's Shadow*, 212.

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surcharge proposal, Walter Heller told Joe Califano that some consideration should be given to a two-tiered surcharge with a higher corporate than individual rate. Heller's analysis, with which Califano and Johnson both concurred, implied that the surcharge was much more than a means to a balanced budget and softened aggregate demand. Indeed, Johnson and his economic advisers saw the value of the surcharge more in its potential to slow the rise of *investment* demand and an ever more troublesome inflationary *psychology* than anything else. Amid great opposition and mixed economic signals, this approach made it that much easier for Johnson to trade the surcharge, in 1966, for the more modest Tax Adjustment Act instituted in March of that year. With roughly half the fiscal impact, the Tax Adjustment Act was deemed sufficient, nevertheless, for a period of diminishing rather than increasing inflationary expectations.[67] When inflationary signs became more prevalent, however—for Johnson and the CEA in early 1967 and for the public at large in late 1967—Heller's suggestion for a two-tiered surcharge proved to be as insightful as it was politically impossible. Just as conservative politicians and a lingering supply side mentality doomed key parts of the 1964 tax cut, forced Johnson to shelve tax reform until the very end of his term, and compelled him to reinstate the suspended Investment Tax Credit with great haste in March 1966, so was Johnson limited to a somewhat regressive, 10% across the board, surcharge proposal in 1967 and 1968. Minority leader Gerald Ford wanted spending cuts without any tax increase at all; a tax increase borne principally by corporations and the wealthy stood almost no chance at all. "No tax without reduction," Johnson scrawled on a note to himself in April 1968.[68] Despite its soundness, Heller's two-tiered surcharge never made it to first base.[69]

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[67] Ackley's estimate of negative fiscal impact of the Tax Adjustment Act of 1966 (from "Annual Budget Message to Congress, Fiscal Year 1967," *Public Papers, 1966: I*, 49): $1.2 billion in FY 1966 and $4.8 billion in FY 1967.

[68] "Doodle," Lyndon Johnson, April 3, 1968, Johnson Handwriting File, Box 29, LBJ Library.

[69] The reinstatement of the I.T.C. was a particularly troublesome development; it was needed to maintain the support of conservatives and business leaders, but it also aggravated what became one of

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The surcharge was passed too late, of course, to exert the kind of influence for which it was designed. But this was not the fault of the Johnson administration, nor was it proof of the inherent inapplicability of the Keynesian system. In his presidential memoirs, Johnson did blame himself partly for the tardiness of the tax surcharge legislation, citing his somewhat less than lucid explanation of the tax itself. "For one thing," Johnson recalled, "I failed to explain clearly enough that the surcharge was not a 10 percent increase in the income tax rate but rather a tax on a tax, or ten extra cents on every dollar of taxes."[70] There is little to suggest, however, that the public would have made a critical difference in the debate had they properly understood the magnitude of the proposal. No increase of any size could have been expected to garner substantial grass roots support. Indeed, although a President must be an outspoken and influential educator if he believes in policies that attract little interest or command little popularity, some proposals, like the 1968 tax surcharge, require equal measures of luck, crisis psychology, and transparent political power. Convinced by many of his advisers, both economic and legislative, that he should not try to implement a tax rise until late 1967, Johnson used every means at his disposal to obtain a tax surcharge bill once his advisers handed down a clear recommendation. Those who blame the Keynesian system, rather than President Johnson, have suggested that the economics of public choice theory indicates that Keynesian countercyclical medicine is simply not very likely to be applied evenly. In the real world, these critics have noted, politicians

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the real sources of inflationary trouble (investment demand). See "A Boost for Business," *Business Week*, March 18, 1967, for a glimpse at the politics of the 7% Investment Tax Credit reinstatement. "If anything," *Business Week* noted, "Congress was more enthusiastic than the White House about the project." (recall Gardner Ackley's NICB Waldorf-Astoria speech where he spoke of reinstatement only after the end of the war) Enthusiastic may have been an understatement, for the bill was a direct reponse to a Commerce Dept./SEC survey issued only *days* before that predicted a slight contraction in capital outlays for the first half of 1967. Mills' Ways and Means committee even approved a bill more liberal than the one Johnson eventually signed (the final bill made the credit retroactive, to the suspension date of October 10, 1966, for machinery and equipment purchases, though not real property).

[70] Johnson, *Vantage Point*, 450.

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are more than willing to heed advice that they tax less or spend more in order to close a demand gap. They are far less willing, however, to tax more or spend less in order to close an inflationary gap. "There is accumulating evidence," James Buchanan and Richard Wagner asserted in 1977, "that an economy subject to attempted Keynesian management will be unstable, and that such management will itself produce unpredictable changes in unemployment."[71] Although the tax surcharge struggle seems to support this assertion, and experience in the 1980s demonstrated that the tendency toward deficit spending and tax cutting can become quite profound and quite destabilizing, anti-Keynesians have too readily assumed that a Keynesian approach suggests little need for fiscal responsibility or institutional change, a nearly blind focus on insufficient demand, and an equally blind faith in the uniform effects of deficit spending, regardless of the nation's spending targets. As Abba Lerner and others have exhibited, saving propensities, spending habits, responsivity to changing prices, and multiplier rates all vary with income.[72] The effects of deficit spending often depend as much on the target of the spending, then, than its absolute level. Ignoring these factors, the perverse Keynesianism that followed Johnson's presidency has demonstrated, indeed, that it can attain the destructive outcomes predicted by the anti-Keynesians and the public choice theorists. Genuine Keynesianism, such as that practiced and sought by the Johnson administration, tried, with a fair measure of success, to avoid the very assumptions that lead to an imbalanced fiscal policy, increased inflationary bias, and zero-sum paralysis. Johnson's last budget alone, $3.1 billion in surplus, stands as formidable testimony to that proposition. To fault the Keynesian system, then, for the tardiness and ineffectiveness of the tax surcharge is to overlook the very political roadblocks and economic customs that the Keynesian system was trying to vanquish. "I

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[71] James M. Buchanan and Richard E. Wagner, *Democracy in Deficit—The Political Legacy of Lord Keynes* (New York: Academic Press, 1977), 183.
[72] See E. Ray Canterbery, "Inflation, Necessities, and Distributive Efficiency," in Gapinski and Rockwood, eds., *Essays in Post Keynesian Inflation*, 79-102, for a brief exposition of these views.

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see no reason for exalting the unconscious failure of other revolutions," Walter Lippmann declared in 1913, "into deliberate models for the next one."[73] Unconscious or not, the failure of the 1968 tax surcharge, was more apparent than real, and, as Anderson and Hazleton pointed out, Johnson's "delay in seeking a general tax increase was a matter of calculation and timing rather than uncertainty and hesitation."[74] Embracing the perverse Keynesianism that his predecessors had rejected, muddling through on wage-price policy, and resurrecting the ghost of the pre-Keynesian fiscal orthodoxy, the incoming Republican President simply made all this exceedingly difficult to discern.

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[73] Walter Lippmann, "LaMonte, Walling, and Pragmatism," *New Review I*, November 1913, 907.
[74] Anderson and Hazleton, *Managing Macroeconomic Policy*, 237.

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Chapter 9
Hugging the (Phillips) Curve: Nixon at the Wheel

Boys, I may not know much, but I know the difference between chicken shit and chicken salad.

- LBJ, when asked why, as majority leader, he had not responded to a speech by Vice-President Richard Nixon

The mind of this country, taught to aim at low objects, eats upon itself.

- Ralph Waldo Emerson, 1837

On November 5, 1968 the United States took a firm step away from the New Economics. On that day, Richard Nixon was elected President—though by the narrowest of margins—and the Republican party was swept back into the White House after an eight year hiatus. As stark as the political differences were between the new and old administrations, the sea change in the management of the nation's economy, implied by this presidential transition, went virtually unnoticed. Many still see 1980, for example, rather than 1968, as the political and economic watershed of the era, and that point at which the nation turned away from the so-called Keynesian revolution. But 1968 represented a much more profound if relatively unrecognized turning point; whatever remained of the New Economics and the Keynesian revolution, from that point on, stood as a pale shadow of its previous form. Worse, this new form represented a political economy reconstituted more for politics than economics, thus insuring that it would be harder to recognize, that it would fail of internal contradictions, and that it

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would subvert the foregoing political economy it pretended to embrace. Posing as a guardian of the Great Society, at least throughout his first term, Richard Nixon praised it, showered it with federal funds, and milked it for thousands of votes. But he also ignored its administrative difficulties and responsibilities, and divorced it from the macroeconomic policies that truly made it both effective and venerable. Separating the Great Society from the New Economics, Nixon destroyed both. Pretending that the two had always remained distinct, and that they had only unraveled as they ignored or evaded the verities of the old "trickle-down" approach, Nixon discredited both. Events in 1980, tumultuous as they were, simply confirmed a much earlier, though somewhat unsubstantiated, economic counter-revolution. The demise of the New Economics came with the election of Richard Nixon in 1968 and was as sudden as it was surreptitious. That many presumed it to have survived—even flourished—throughout the 1970s is testimony to both the political craftiness and economic ambivalence of the Nixon presidency.

Much of this happened as it did, partly by design and partly by accident, because the figurehead of the counter-revolution—Richard Nixon—held views on the economy that were simply too difficult to pin down, even for one of his chief economic advisers. "Probably the key words to describe these views," Nixon adviser Herbert Stein wrote, "are 'mixed' and 'ambivalent.'"[1] Nixon referred disparagingly to the conservative economics of old, for example, as the economics of "three yards and a cloud of dust."[2] He valued high employment, even if he saw it more in terms of the ballot-box than the pocketbook, and he clearly appreciated the sophistication of modern economics, even if he had no real desire to plumb its depths.[3] Chief of Staff H.R. Haldeman's diary entry

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[1] Stein, *Presidential Economics*, 135. Stein was a member of Nixon's Council of Economic Advisers, throughout both terms, and its chairman from 1972-1974.
[2] Ibid. Always wanting to be "one of the boys," Nixon loved sports metaphors, especially those from the world of football (Operations Linebacker I and II, for example).
[3] Nixon's narrow defeat in the 1960 presidential election, haunted him for years. He was convinced that he lost primarily because Eisenhower had placed a higher priority on price stability than employment,

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for February 15, 1970 revealed at least part of this outlook: "Long chat on way home [from Key Biscayne] about recession-minded cabinet members, like those of DDE's in '57 and '58. P more inclined to follow Shultz as the only really knowledgeable economist."[4] At the same time, however, Nixon was also beholden to a new class of "sunbelt millionaires" who attached great significance to their own accomplishments, and he was clearly cynical about government interventions in the economy.[5] His family's struggle to keep their garage and grocery store afloat, his brother Donald's failed venture in the restaurant business, and his own failure as a frozen orange juice entrepreneur during the Great Depression also colored his thinking on the economy.[6] Businesses, as Nixon tended to see it, were fragile undertakings deserving of a relatively free hand and direct assistance. As Michael Kazin noted, while Johnson had a difficult time comprehending the affluence of young adults in the 1960s, and the effect this affluence would have on their political priorities, Nixon had "an equally difficult time understanding the affluence and overriding power of corporations in the same generation."[7] His new appointees to the Council of Economic Advisers were also very much taken by Milton Friedman's *natural rate of unemployment* theory, certainly in itself a harbinger of a less activist political economy (as well as an invitation to a

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creating a recession just in time for the stretch run of the 1960 campaign. As Eisenhower's Vice-President, Nixon was more easily identified, then, with the recession (Ike's third).

[4] H. R. Haldeman, *The Haldeman Diaries: Inside the Nixon White House* (New York: G.P. Putnam's Sons, 1994), 127. William Safire pointed out, however, how Nixon had a difficult time remembering Shultz' first name (or the spelling of his surname). See Safire, *Before the Fall* (Garden City,NY: Doubleday, 1975), 108.

[5] The appraisal of Nixon's most prominent supporters comes from Joseph Heller. See Heller, "Playboy Interview," interviewed by Sam Merrill, June 1975, in Adam Sorkin, editor, *Conversations with Joseph Heller* (Jackson: University Press of Mississippi, 1993), 155.

[6] Roger Morris, *Richard Milhous Nixon: The Rise of an American Politician* (New York: Henry Holt and Co., 1990), 194-197; Gore Vidal, *United States: Essays, 1952-1992* (New York: Random House, 1993), 898; Michael Kazin, *The Populist Persuasion: An American History* (New York: Basic Books, 1995), 249. Donald Nixon's Whittier, California restaurant went bankrupt despite a $200,000 "loan" from Howard Hughes and an epicurean menu that featured "Nixonburgers." See Vidal, *United States*, 898.

[7] Kazin, *The Populist Persuasion*, 249.

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politically advantageous but economically perilous deception).[8] In many ways, Nixon reflected the emerging character of the American voter, of which he was clearly an eager student—more concerned with economics than ever before, yet less and less able to grasp its basic tenets, or to visualize its critical relationship to government policies.[9] Gallup polls showed clearly that the economy had become a much more significant issue in the late 1960s and early 1970s; 10% of the respondents chose it as the "most important problem facing the country today" in 1964 while 82% did so a decade later.[10] Yet, at the same time, sophisticated mathematical models and heightened political polarization had rendered the public increasingly oblivious to the basic principles by which the economy functioned. Commenting on one aspect of this misapprehension in September 1971, Nixon Treasury Secretary John Connally noted: "We sometimes kid ourselves, that it is a free enterprise system, but it is not all that free. Much of it lives under regulation. Much of it lives under subsidy."[11] Few in the Nixon administration, including the President himself, were ever able to admit as much.

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[8] Since Friedman's theory suggested that government intervention to boost demand and overall economic output *could succeed* in the short run, if only by counting on eventually corrected misperceptions, adherence to the theory could also result in a pseudo-activist approach designed to bring only positive *short-term* results (presidential election years?).

[9] Herbert Stein suggested for example, that Nixon's "free-market" prejudices came not from a study of the "elaborate model by which free markets were shown to maximize efficiency," but from an isolated experience as a low-level (P-3) employee of the OPA (Office of Price Administration) during World War II (He served as an OPA lawyer in the tire rationing division, quitting before gasoline rationing came into effect, and resented the experience primarily because he thought himself underpaid and underranked). Stein, *Presidential Economics*, 136. See Morris, *Richard Milhous Nixon*, 235-244; and Jonathon Aitken, *Nixon: A Life* (Washington: Regnery Press, 1993), 95-96 for a more detailed analysis of Nixon's short-lived OPA career. It should be noted, however, that the legislation creating the OPA also prohibited persons from holding policymaking decisions without prior experience in business or industry. The OPA, in other words, was, in part, another example of how a government apparatus was hobbled not by any inherent weakness but by the intrusion of private interests that often did not want the agency to succeed. See Cochrane, "Moral Suasion," 289. Stein also makes the mistake, here, of assuming that all Keynesians liked *mandatory* wage and price controls. See my later comments on the Nixon era controls in this chapter.

[10] Cited in Kim Ezra Schienbaum and Ervin Scheinbaum, "Public Perceptions of Economic Performance: From Johnson to Carter," *Presidential Studies Quarterly*, Summer 1982, 421.

[11] Quoted in James Reston, Jr., *The Lone Star: The Life of John Connally* (New York: Harper and Row, 1989), 400. Connally made this statement as he defended the proposed government bailout of the Lockheed Corporation in September 1971, a company he knew to be failing because of poor management.

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An additional reason that November 1968 saw no one printing an obituary, let alone a proper eulogy, for the New Economics, was because of its association with the Great Society and the War on Poverty. As long as something remained of these two programs, even in name only, the public continued to assume that Johnson's economic strategy had prevailed as well. Interested in capturing the political center, and in having a convenient scapegoat always close at hand, Richard Nixon did little to dissuade this line of thinking, and, in fact, often did a masterful job, himself, professing the endurance of the New Economics.[12]

When Nixon took the oath of office on January 20, 1969, unemployment stood at 3.3%, the current budget (FY 1969, ending June 30) was in surplus, as was the nation's international balance of payments (for the first time since the 1950s), and the most recent inflation figures (for December 1968, the last full month of the Johnson presidency) revealed a dampened 2.4% annual rate.[13] The policies that had produced such results and that had launched a continuous economic expansion that was then into its 95th month—most of them integral parts of the New Economics—were, nonetheless, quickly discarded by the new President.[14] While he waited until the 1972 electoral victory before he instructed domestic policy adviser John Ehrlichman to "flush the

[12] The most conspicuous example of this is, of course, his famous "I am now a Keynesian" pronouncement, spoken at the unveiling of his deficit-laden 1971 budget (TV interview with Howard K. Smith). Startled, Smith told Nixon that was "a little like a Christian crusader saying 'all things considered, I think Mohammed was right.'" Fearing that this kind of rhetoric, hollow or not, would drive the old guard out of the GOP, Nixon speechwriter Pat Buchanan fired off a seven-page, single-spaced, complaint-filled memo to Nixon. "Ehrlichman's shop," Buchanan lamented, "is a small group of pragmatic technicians who can teach it either way." See Ambrose, *Nixon: The Triumph of a Politician*, 404-405. See additional comments on Nixon's budgetary politics later in this chapter.
[13] See the *Consumer Price Index*, December, 1968, and January, 1967.
[14] Though I maintain that Johnson's economic policies can be credited for much of this, it is clearly not the case with the international balance of payments. While he and his advisers were responsible for much of the improvement in that category, the late 1968 and early 1969 successes were made possible largely by the August 20-21, 1968 Soviet invasion of Czechoslovakia. Following the invasion a great deal of money fled Europe for U.S. banks, contributing greatly to the balance of payments surplus.

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Great Society," Nixon spurned the principles that made the Great Society possible—the principles of the New Economics—immediately and without any hesitation.[15]

To be sure, Lyndon Johnson did not bequeath Richard Nixon an ideal economic situation. Hampered by the war in Vietnam, climate-influenced fluctuations in food prices, and the imposition of major health care reform, the economy was, indeed, beset with a number of considerable problems. Pockets of high unemployment, a rising inflationary psychology, an over-valued dollar, and rising foreign competition were among the more significant examples. In his final speech to the Business Council, Johnson highlighted inflation, emphasizing that he "would be less than candid to gloss over it."[16] Even as they left office, however, Johnson and his economic advisers were pursuing these very problems, and were beginning to see some positive results—without diverging from their basic economic strategy. Arthur Okun was calling for, and working on, a reinvigoration of the wage-price guideposts; tax reform had finally become a political possibility (since it no longer stood in the way of other more significant fiscal changes) and was being pursued with much vigor in the executive and legislative branches; the fee schedules and efficiencies excised from the original Medicare legislation were being readied for restoration; and the Department of Justice was dusting off the antitrust statutes and preparing to become a more integral part of the administration's overall economic strategy. "We were still fooling around with ideas on the morning of January twentieth," remarked outgoing HEW Secretary Wilbur Cohen.[17] Borrowing Winston Churchill's famous anecdote repeatedly, President Johnson suggested in his last public addresses that there was indeed, much left to do.[18]

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[15] Only days after the 1972 election Nixon told Ehrlichman, "Flush model cities and the Great Society. It's failed. Do it, don't say it." Cited in Nicholas Lemann, "The Unfinished War, Part Two" *Atlantic Monthly*, January 1989, 68.

[16] Johnson, "Remarks to Members of the Business Council," *Public Papers, 1968: II*, December 4, 1968, 1168.

[17] Quoted in Miller, *Lyndon*, 529.

[18] Johnson usually repeated the story with which Churchill framed the anecdote. When Churchill was accosted by a member of one his nation's temperance groups, and chastised for having drunk enough

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When President Nixon asserted, then, at his first press conference, that he would engage in "some fine-tuning" of the economy, many predicted changes that were subtle rather than large, and to some extent a continuation of the New Economics.[19] The closeness of the 1968 election and the heightened concern for unemployment (on the part of both President-elect Nixon and the American public) also seemed to guarantee that Nixon would be unable to stray very far at all from the economics of the Kennedy-Johnson administrations. "Were the old Nixon to whisper to the New Nixon," Paul Samuelson noted in his *Newsweek* column, 'Keep that budget in balance,' he would be sent packing as an impractical extremist....I am not an economic determinist. But I can predict with confidence that Richard Nixon will be using the New Economics if only for the reason that new times make it inescapable."[20] Incoming CEA chairman Paul McCracken had also invited the Johnson CEA staff to stay on, encouraging this kind of prognostication even further. Johnson's outgoing CEA chairman, Arthur Okun, though quick to point out his distaste for the monetarist economics McCracken seemed to admire, even speculated that there would be a bigger difference between McCracken and the other new CEA members [Herbert Stein and Hendrik Houthakker] than between McCracken and himself.[21]

On economic policy, however, subtle change was not to be; what the country received instead—in spite of Nixon's occasional and genuine streaks of pragmatism—was counter-revolution. Subtlety, it seems, was reserved for the domain of rhetoric and public relations (or presidential offensive, as Nixon termed it) alone, and was not much of a concern when it came to actual economic policy.[22] Though he was soon reckoned a

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liquor to fill half the room in which they stood, he looked at the wall, and then the ceiling, and sighed: "so little have I done, so much I have yet to do."

[19] Lester Sobel, ed., *Inflation and the Nixon Administration, Volume I: 1969-1971* (New York: Facts on File, 1974), 10.

[20] Samuelson, *The Samuelson Sampler*, 11.

[21] Okun, Oral History Interview, Interview III, LBJ Library, 7-8.

[22] "Presidential Offensive" label cited in Haldeman, *The Haldeman Diaries*, 82.

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latter day Disraeli—a conservative unafraid of liberal ideas—and though McCracken termed the administration's economic approach "gradualism," Nixon's management of the economy suggests an outlook not so liberal and not so gradual in character.[23]

The pace of change stemmed, in many ways, from basic differences in personality and philosophy between Johnson and Nixon. In terms of their approach and general philosophy, it would be difficult to find two prominent politicians with more divergent views on the American economy, despite their common affinity for "hardball" politics. For Nixon, inflation represented, as always, a convenient way to impugn or discredit liberal Democratic economic policies, but it also moved him little, inspiring no great fear or trepidation. "We'll take inflation, if necessary, but we can't take unemployment," Nixon remarked early in his presidency.[24] Inflation was, perhaps, in his way of looking at the economy, only a problem with a simple solution; an issue fraught with symbolism but little economic import. "Inflation is not percentage points, it's the price of bacon," read one memo circulated among the Nixon campaign staff.[25] The approach was simple: make people feel inflation by associating it with products rather than dry economic statistics; pin it on the opposition party and their harried interventionism; and solve it with a steady dose of macroeconomic (mostly monetary) contraction. Though McCracken subscribed to Friedman's criticism of the Phillips Curve trade-off between employment and inflation, the early Nixon anti-inflation strategy reflected little more than the simple belief that the nation could indeed ride the Phillips Curve downward to price stability.

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[23] The identification with Disraeli was in part a reflection of Nixon's actual concern for the middle class and the working poor. Much of it, however, was simply a cultivated or contrived image suggested to Nixon by his Democratic adviser (Asst. to the President for Urban Affairs) Daniel Patrick Moynihan.
[24] Quoted in John Ehrlichman, *Witness to Power: The Nixon Years* (New York: Simon and Schuster, 1982), 254.
[25] Harry Treleaven, "Notes re Nixon for President Advertising in the Primary Campaigns," November 21, 1967, in Joe McGinniss, *The Selling of the President 1968* (New York: Pocket Books, Simon and Schuster, 1969), 189.

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Johnson, on the other hand, had judged inflation a far less simple and a far more significant problem. While this was partly a result of his experience as a liberal Democrat, where inflation had always served as a boon for the conservative politicians and the conservative policies that he opposed, it also stemmed from his appreciation of inflation as an insidious and unwieldy affliction, not easily comprehended, nor easily solved. Sensing that it had both microeconomic and psychological origins—in addition to the more customarily implicated macroeconomic sources—Johnson, ironically, approached inflation more seriously than did most of the conservative opposition who accused him of indifference. To think that one could choose between employment and inflation, Johnson realized, would be to ignore both the political and psychological reality of price behavior in a mixed economy.

When it came to fiscal policy, there were also marked differences between the two Presidents. For his part, Nixon did not share the traditional Republican aversion to taxes. Possessing an instinctive supply-side outlook on investment, employment, and the business cycle, he believed taxes to be onerous only when they weighed too heavily upon corporate cash flow. With a fine appreciation of corporate attorneys and accountants (being one of the former himself, and hiring one of the latter, Maurice Stans, to be his fundraiser and Secretary of Commerce), Nixon saw little need to worry about corporate cash flow, even when tax rates were raised. Loopholes and accounting gimmicks were simply too readily available, and too difficult to erase.[26] Never insignificant, tax policy was to Nixon, however, like inflation—more of a symbolic than a serious economic gesture, and within reasonable margins, never much of a threat to the economic fortunes of the corporations he believed to be the economic lifeline of the country.

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[26] Johnson's last Secretary of the Treasury, Joseph Barr, had prepared the first tax expenditure budget (exemptions, credits, deductions, etc.) and found that the total was equal to 25% of the entire FY 1968 budget. Cited by Ronald King, *Money, Time, and Politics*, 329.

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While Johnson did not hold a much more sanguine view of corporate lawyers or accountants, he had become convinced that the smallest, seemingly inconsequential numbers still held great economic significance, poring over every line of the 1964 budget, for example, and exercising great concern, even over a 1 cent rise in the price of gasoline. To him, small, marginal effects were important, and tax policies were weighted with great significance, in spite of the need for loophole-closing and a more truthful brand of corporate accounting. As a result, he always approached proposals for tax increases soberly and with great apprehension. When Medicare wended its way through Congress in 1965, Johnson and his economists instituted a broadening of the Social Security tax base to allow *reduced* Social Security tax rates, even though Medicare implied greater Social Security outlays.[27] When the tax surcharge passed in June 1968, Johnson held no signing ceremony though he fought for the legislation gamely. "I never got a pen for that one," recalled Arthur Okun.[28] And when presidential candidate George McGovern visited the LBJ ranch in the middle of his 1972 campaign—after calling for a tax increase to finance many of his campaign proposals—Johnson lashed out: "In all my years I never heard of anybody elected to office on a platform of raising taxes."[29] Near the end of the campaign Johnson gave McGovern additional advice on how to defeat Nixon: "I would go after him on the Big Rich. The Republicans always sell you out to Wall Street and this is the worst bunch of all."[30]

On the expenditure side of the government's ledger, Johnson and Nixon also differed widely. On social spending in general, for example, and Johnson's Great Society in particular, Nixon focused far less on the costs of specific programs than he

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[27] See Berkowitz, *Mr. Social Security*, 232-233, 235.
[28] Okun, Oral History Interview, in Hargrove and Morley,eds., *The President and the CEA*, 276. Okun called the tax surcharge the only bill he knew of that Johnson supported but did not want to sign publicly.
[29] Cited in Valenti, *A Very Human President*, 386. See also McGovern's letter to LBJ, written as a follow-up to his visit, where he notes that he "came to a new appreciation of both the remarkable force of your personality and your grasp of what is enduring in American life." Ibid., 387-388.
[30] Quoted in Miller, *Lyndon*, 551.

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did on their effectiveness or political popularity. Striking the "welfare dependency" theme throughout the 1968 campaign, but desiring a "leftward balance" once he became President, he approached social policies somewhat schizophrenically.[31] Costs, however, were almost never an important issue, and in fact, Nixon seemed genuinely perplexed by Johnson's preoccupation with cost controls. Speaking to Chief of Staff H.R. Haldeman after a visit with the former President, Nixon termed this preoccupation "peculiar" and speculated that perhaps he [LBJ] was "hypersensitive because of all he's taken down to Texas plus all the criticism about how much money he's made while President."[32] Moynihan ridiculed Johnson's attempt to reduce the White House light bill, referring to it as "undignified" and reflective of a "low estimate of the intelligence and taste of the American people," and Nixon responded approvingly and caustically. "Turn on all lights!" he wrote in return.[33] Never one to underestimate the American people, Nixon promptly decided that he needed a Southern (Key Biscayne,FL) and a Western (San Clemente,CA) White House. $17 million worth of government financed improvements later he had them both.[34] The very first bill Nixon signed, appropriating extra funds for ex-federal employees on February 8, 1969, was, perhaps, an indication of this relative indifference toward budget limitations. "There was no fiscal responsibility in the Nixon years," lamented former Secretary of Commerce and Merck CEO, John Connor.[35]

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[31] See Haldeman, *The Haldeman Diaries*, 69, for note on "leftward balance." On July 7, 1969 Haldeman noted, "P thinking of moving on Family Security Plan [work for welfare program]....Now feels we need the domestic momentum and leftward balance before he leaves for Asian trip."

[32] Quoted in Haldeman, *The Haldeman Diaries*, 83. LBJ and Nixon had met on the occasion of the former's birthday, on August 27, 1969.

[33] Memo, Moynihan to Nixon, January 23, 1969, Special Files, President's Office Files, President's Handwriting, Box 1, Nixon Presidential Materials, National Archives.

[34] As an IRS investigation later proved, a portion of this figure went for improvements to Nixon's private homes that had nothing to do with enhanced security, helicopter landing facilities, etc. Even if one assumes that the two auxiliary White Houses were necessary, Nixon should have been responsible for these expenses ($701,000 for San Clemente home; $575,000 for his Key Biscayne dwelling).

[35] Connor, Oral History Interview, 48. While this remark should not be taken at face value since Connor was a Johnson administration cabinet member, he was also a fiscally conservative Republican CEO who clearly disagreed with many of Johnson's policies as well.

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When bad economic reports reached his desk, however, as was the case in late 1969, Nixon could also revert to the old style conservatism that he normally tried to resist. "He realized [the] economic outlook [was] still bad," noted Haldeman on December 15, "so [he] told Mayo [Budget Director Robert] to *cut all budgets 25%*."[36] While he often committed key economic statistics to memory, particularly if they told a compelling story that reinforced a favored political approach, actual statistics and numbers meant little to President Nixon in the long run. CEA Chairman McCracken's presentations, filled as they were with statistics, truly bored President Nixon.[37] The demand for 25% budget cuts, for example, was indeed a spurious one, not meant to be taken seriously; Nixon knew not, however, what kind of a realistic figure to suggest. "We often had to straighten out Nixon's statistics," speechwriter William Safire recalled.[38]

The specifics of Defense spending also remained less important to Nixon than did an anticipated Vietnam war dividend. The 1968 Republican party platform, from which Nixon showed no sign of departing, even suggested that advanced military research and development "have been inhibited and stagnated by inexpert, *cost-oriented* administrators."[39] Johnson and McNamara had concerned themselves with the cost of

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[36] Haldeman, *The Haldeman Diaries*, 115. Emphasis added. Haldeman added the following, in parentheses, after the note on Nixon's budget request: "He's been saying this for weeks and not really meaning it, but now he feels he's really got to push the cuts as far as possible."

[37] Norton, *The Employment Act and the Council of Economic Advisers*, 229.

[38] Cited in "Nixon: Hillary Strikes Out on Baseball," *USA Today*, May 13, 1994, 2C. Safire was the Nixon speechwriter responsible for most of his economic addresses. Not very adept at economics, Safire was chosen largely for his ability to reduce economic language to a more "people-type" language. See Haldeman, *The Haldeman Diaries*, 101, where Haldeman notes how Safire "got the inflation speech down to a 'high prices' speech." The *USA Today* remark came in response to a story about Nixon ridiculing Hillary Clinton for not remembering baseball hall of famer and Arkansas native Joseph Floyd "Arky" Vaughn. Nixon cited Vaughn's .367 lifetime batting average to reinforce the profundity of Hillary's ignorance, when, in fact, Vaughn's career average was .318. (Safire failed to point out, in addition, that Vaughn retired to *California* in 1948 when Ms. Clinton was just over a year old, and died four years later, in Eagleville, CA, several months before her 5th birthday.)

[39] Cited in I.F. Stone, "On National Defense, Space, and Foreign Policy, the New GOP Platform Reads As if Written by General Dynamics for a New Arms Race," *Polemics and Prophecies, 1967-1970* (Boston: Little, Brown, 1970), 160. Emphasis added.

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the nation's defense, and while they had also glossed over the military-industrial complex to a great extent, for both political and military reasons, they had done so mostly out of confidence in their own abilities to resist it or tame it. Nixon simply pretended that it did not exist. When Daniel Patrick Moynihan wrote to Nixon early in 1969, for example, suggesting a statement on the subject, Arthur Burns, John Ehrlichman, and President Nixon all rejected the idea. "Having spoken to Ike frequently about his address (farewell address where he warned of the military-industrial complex), noted Arthur Burns, "he felt it had been 'widely misinterpreted and misused.'"[40] From that point on, economic efficiency at the Pentagon was dropped as a topic for serious consideration.

While it also became clear, in early 1969, that Nixon would recuse himself from most domestic policy formulation, even asking Ehrlichman to take over for weeks at a time, he encouraged and seconded rapid economic policy changes in general. Attacks on Johnson's economic policy, made during the 1968 campaign, almost made it impossible for him to do otherwise, even though a flurry of discussions between his and Johnson's economic advisers, for example, had forced him to support, rather than terminate, the 10% tax surcharge. Nixon had been particularly aggressive on the issue of inflation, calling the 1960s an era of "false prosperity, founded on a timeless device of deception—inflation." He also suggested that workers were falling behind, that "presidential pay raises" [of 3.2%] would erode their real income, and that it was all created by out of control non-defense expenditures. Repeating fabrications often enough and long enough to make them credible, Nixon, and the Republican party in general, worked the inflation issue as hard as any other. "Inflation was evident...as early as the fall of 1963," read one campaign press release. "Non-defense spending has risen more than defense spending, and constitutes a larger proportion of the whole," read another.

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[40] Memo, Burns to Nixon, April 18, 1969, Special Files, President's Office Files, President's Handwriting, Box 1, Nixon Presidential Materials, National Archives.

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Running mate Spiro Agnew joined the fray as well, targeting Democratic economic policies almost as often as hippie radicalism. "Agnew Says Inflation Is So Bad Savings Bonds Are a Poor Deal," read one *New York Times* headline in September 1968. And in August 1968, the *London Times* summed up the campaign: "Inflation has been a stick of priceless value with which to beat the Johnson-Humphrey administration, and Nixon has missed no chance of banging away."[41]

The first, and perhaps most significant, economic policy change made by the Nixon administration was the categorical rejection of the wage-price guideposts. Six days into his administration, at his first press conference, Nixon announced that there would be no guideposts and no incomes policy.[42] Though Johnson advisers had labored here as well to exert the same influence on the Nixon economic policy team as they had with the surcharge extension, these pleas fell upon deaf ears. In this case McCracken and the CEA remained solidly behind the President, helping him to resist the overtures of the economic ambassadors from the Johnson administration. Reflecting on the complete

[41]Press release of Nixon campaign, July 6, 1968; Press release of Republican Coordinating Committee, July 24, 1967; *New York Times*, September 24, 1968; *London Times*, August 9, 1968; in Robson-Ross Papers, Box 24, LBJ Library. The Republican party, in 1966 and 1968, and Nixon, in 1968, were exploiting white backlash to the civil rights movement as well, but this remained a largely covert operation, at least until 1972, or perhaps even 1980 (when Ronald Reagan started concocting his welfare queen stories). When Kevin Phillips suggested this kind of exploitation in *The Emerging Republican Majority* (New Rochelle: Arlington House, 1969), suggesting that the key to political success was "knowing who hates who," Harry Dent wrote to Nixon on October 13, 1968 and recommended such a plan (go more conservative to take the South, and go after swing states of California, Ohio, Illinois, Pennsylvania, and New Jersey with moderate conservative policy), but also recommended that it be disavowed publicly. "We should disavow Phillips' book as party policy and assert that we are growing in strength nationally because the public is increasingly conscious of the soundness of our philosophy." Memo, Dent to Nixon, October 13, 1968, Special Files, President's Office Files, President's Handwriting, Box 3, Nixon Presidential Materials, National Archives. See Garry Wills, *Nixon Agonistes: The Crisis of the Self-Made Man* (Boston: Houghton-Mifflin, 1969), 265, for an analysis of the "who hates who" strategy. Almost by default, then, inflation became the focal point of Republican attacks in the 1966-1970 period, a change directed by RNC chairman Ray Bliss of Ohio after Johnson's landslide win in 1964. See also Gould, "Never a Deep Partisan," 38, for a brief description of Larry O'Brien's *White Paper*, a report prepared for the Democratic party in 1968 that anticipated much of what Phillips would say, and take credit for discovering, in *The Emerging Republican Majority*.

[42] Cited in Sobel, ed., *Inflation and the Nixon Administration*, 10.

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and immediate abandonment of the guideposts six weeks later in March, McCracken noted: "The administration has properly decided not to follow that course."[43]

Unfortunately, many of the nation's less public-minded corporations were also eager for this kind of a change. Immediately after the January press conference, Pierre Rinfret, New York business consultant and former Nixon adviser, wired his clients and told them to raise their prices, for there would now be no interference.[44] Noting both Nixon's actions and Rinfret's dispatches, John Kenneth Galbraith suggested that it was entirely possible "that in these first weeks the Administration did more to promote inflation than it accomplished in the next year and a half in controlling it."[45] 1968 fourth quarter profit figures were coming in at the same time, and the top 500 corporations showed results that were 7.3% above those for the fourth quarter of 1967. Clearly there was little or no marketplace basis for price rises, but they began to mount just the same. With inflation climbing at an even faster pace than it had in 1968, Nixon still ignored the price setting capabilities of the nation's corporations, and counted on the Invisible Hand instead. "Anybody who bets on continuing inflation," he remarked, "will lose that bet....Labor that asks for exhorbitant wage increases, management that raises prices too high—will be pricing themselves out of the market."[46]

If market forces were to play much of a role, however, someone would have to inform the nation's business managers, for their pricing strategies were becoming more, rather than less, inflationary, and they were borrowing more than ever, increasingly

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[43] Memo, McCracken for Cabinet Committee on Economic Policy, March 5, 1969, "A Truly Private Voluntary Approach to Price Stability," Special Files, President's Office Files, President's Handwriting, Box 1, Nixon Presidential Materials, National Archives.
[44] Rowen, *Self-Inflicted Wounds*, 45.
[45] Galbraith, *Economics Peace and Laughter*, 90.
[46] Quoted in Sobel, ed., *Inflation and the Nixon Administration*, 22-23. While its true that some industries, such as the steel and automobile industries, were fast moving in the direction of price-led market deterioration, it was coming at the hands of foreign, not domestic competition, and it was coming so slowly that it could (and would) preclude any decisive action for several years. Even the most idealistic (or deluded) free market theorist would not have recommended inaction for nearly a decade as the nation waited for competition to affect price rises.

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aware of the dividends created for the debtor by accelerating inflation (and the willingness of the new President to add new streams of lucrative supply-side goodies). At mid-year, Arthur Okun pleaded with the Nixon administration to readopt the guidepost apparatus. "I don't think," Okun remarked after being rebuffed, "you would have gotten the oil price increase and as many of the non-ferrous metal price increases, if not for a feeling that the White House is never going to raise its voice against such business decisions."[47] On oil prices in particular, Haldeman reported that Nixon was "trying to figure out a way to duck the whole thing and shift it [the blame] to Congress."[48] Though he argued for a more conservative approach, and had helped clients exploit the situation, Rinfret still lamented the administration's indifference toward inflation. "Never have so many lied to so few so successfully," he remarked in December 1969.[49]

At the end of the year, with no apparent change in administration policy, Okun continued to press Nixon and his economic advisers. Industries that had responded to guidepost pressure in 1968, he pointed out, had raised prices that year by approximately 1%. In 1969, without the guideposts (and with dwindling, rather than increasing, consumer demand), those same industries had raised their prices instead by an average of 6%.[50] Saul Nelson, who had authored the initial "Weekly Price Reports" for President Johnson in 1966, sent a six-page summary of "important guidepost actions" to Paul McCracken in August, hoping to convince him that universal coverage was not necessary, but that action in key industries often had a significant and positive spillover

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[47] Okun, Oral History Interview, Interview III, 9.

[48] Haldeman, *The Haldeman Diaries*, 116. Haldeman noted that in this case Nixon was concerned about the fate of GOP congressmen in Texas, particularly George Bush. Johnson, if you will recall, had this same concern. Since oil prices were at already artificially high levels, however, Johnson assumed that price *stability* was enough to offer the Texas oilmen who donated to his campaigns. Here, Nixon was pushing for price *increases* instead.

[49] Quoted in Sobel, ed., *Inflation and the Nixon Administration*, 30.

[50] Cited in ibid., 61-62.

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effect.[51] Nelson simply tried to convince the new CEA chairman that some action was clearly preferable to none. McCracken and Nixon remained unmoved , however, with the former suggesting only that the administration consider encouraging a *private* effort to adopt "education and moral suasion." Even this, however, the economic equivalent of Ronald Reagan's "Just Say No" anti-drug initiative, proved too unwieldy and messy for a President who took three days to get his new Irish setter to take a dog biscuit. Nor did McCracken push too hard, suggesting that "the argument against stimulating a private effort of this kind, is that it may look like a retreat from the pure free-market philosophy implicit in the rejection of the guideposts....The ideal development would be the spontaneous emergence of a private voluntary effort."[52] No one in the administration, however, seemed ready to offer an explanation as to how such a spontaneous effort could possibly be triggered. As Galbraith noted, "always the stability would come approximately two quarters in the future."[53] And these promises for stability seemed to embody the entire anti-inflation policy of the Nixon administration. "Not since Herbert Hoover predicted the turning of the immortal corner," Galbraith added, "was prediction therapy so remorselessly pursued as in the first eighteen months of the new administration."[54]

As unemployment continued to move higher in 1969, reaching 4% in September, and inflation showed no signs of responding to the market forces that Nixon and McCracken had depended upon, some members of the administration began to grouse about for change. Arthur Burns, Counsellor to the President (and chairman of the Federal Reserve Board after William McChesney Martin's retirement in January 1970), recommended an incomes policy like the Kennedy-Johnson guideposts. HUD Secretary

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[51] Nelson to McCracken, August 6, 1969, White House Central Files, CEA Staff Subject Files, Box 15, Nixon Presidential Materials, National Archives.
[52] Memo, McCracken for Cabinet Committee on Economic Policy, March 5, 1969, Special Files, President's Office Files, President's Handwriting, Box 1, Nixon Presidential Materials, National Archives.
[53] Galbraith, *Economics Peace and Laughter*, 90.
[54] Ibid., 91.

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George Romney and Interior Secretary Wally Hickel also gave Burns some support on the matter, but it was all to no avail. Nixon ignored Burns and spoke of removing both Romney and Hickel.[55] When Romney continued to pursue the matter, and spoke out at a cabinet meeting in February 1970, McCracken and George Shultz (then Sec. of Labor) brushed him off, and Nixon lashed out. "P finally really whapped him," Haldeman reported, "by saying wage-price-policy had never worked. Romney said it had in England; P laid him low saying, 'Don't talk to me about England..."[56]

Paul Samuelson, Gardner Ackley, Thomas Watson of IBM, former Eisenhower CEA member Henry Wallich, retired Fed chairman William McChesney Martin, and Assistant Treasury Secretary Murray Weidenbaum added their voices to those clamoring for at least a partial return to the Kennedy-Johnson guideposts. Even the Committee for Economic Development (CED), a moderate conservative band of business leaders and economists with which CEA member Herbert Stein was formerly associated, spoke out in favor of a return to a guidepost approach. "Inflation is too serious a problem," the CED declared in 1970, "to permit us the luxury of ignoring potential weapons for curbing it that are at our disposal."[57] Nixon did not budge,

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[55] The Burns-Nixon relationship got off to a rocky start at the beginning of the Nixon presidency and never really improved despite Nixon's obvious respect for Burns's work in the Eisenhower administration. Burns had "an avuncular style that drove Nixon bats," remarked Wyatt C. Wells in his recent biography of Burns. According to Wells, Nixon soon came to dread meetings with Burns, who was likely to lecture the President on a number of topics, and even encouraged Haldeman and Ehrlichman's sarcastic impressions of Burns and their limiting of Burn's access to the oval office. Burns himself made this limiting of access much more feasible by passing up a west wing White House office for a more spacious office in the Executive Office Building. See Wyatt C. Wells, *Economist in an Uncertain World: Arthur F. Burns and the Federal Reserve, 1970-1978* (New York: Columbia University Press, 1994), 29-30. See also footnote # 145, this chapter.

[56] Haldeman, *Haldeman Diaries*, 128. It is odd that Romney cited the English example and not an example from the U.S. auto industry. While he left the presidency of American Motors Co. in 1962, just as the guideposts were being deployed, he then became Governor of Michigan and was undoubtedly aware of Johnson's negotiations with Frederic Donner, James Roche, and other automobile executives. Perhaps he thought Nixon could have been persuaded more readily with an example from a foreign country.

[57] Research and Policy Committee of the Committee for Economic Development, *Further Weapons Against Inflation: Measures to Supplement General Fiscal and Monetary Policies* (New York: Committee for Economic Development, 1970), 14. There were others who also joined the chorus calling for something resembling the Wage-Price guideposts. Donald McNaughton of Prudential Insurance Co.;

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however, acceding only to "CEA Inflation Alerts" in August and December 1970—missives that criticized price actions in several industries (auto, oil, railroads, and construction) but that implied no government action or penalties.[58] "The economic system imposes its own sanctions on costs that are clearly out of line with general trends," read part of the second Inflation Alert.[59] Only in 1971, after two years in office, did Nixon make his first real attempt at using the presidency to influence corporate price decisions. When Bethlehem Steel announced a 12.5% increase on its construction industry steel products in January, Nixon responded by threatening a change in the nation's steel import regulations. With the help of a smaller (6.8%) US Steel increase, this was enough to compel a Bethlehem price rollback. Minimal presidential persuasion had convinced Bethlehem that they could go no higher than the 6.8% price rise announced by US Steel. This set no precedent, however, for two weeks later in the *Economic Report of the President*, Nixon asserted that "free prices and wages are the heart of our economic system," and he urged McCracken to consider their stand on the guideposts unchanged. Industries such as steel and oil were special cases, Nixon maintained, since both were partly regulated by the government.[60] In truth, the Bethlehem increase had precipitated an uncharacteristically strong Nixon response primarily because it happened to coincide with his tentative efforts to suspend the Davis-Bacon Act (requiring union scale wages on government construction contracts), and came on the very day he announced liberalized depreciation allowances for business. Allowing an immense steel price increase at the same time would have been a

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Fortune magazine; Wilfred Lewis, Jr. of the National Planning Association; Gaylord A. Freeman, Jr. of the First National Bank of Chicago; the Lionel D. Edie Co.; Senator Jacob Javits (R-NY); and Congressman Henry Reuss (D-WI) were but a few of these.

[58] Sobel, ed., *Inflation and the Nixon Administration*, 123.

[59] Cited by Crauford D. Goodwin, "A Report of the Conference," in Goodwin, ed., *Exhortations and Controls*, 323.

[60] Ibid., 132, 167. Report issued February 1, 1971. One wonders, here, whether Nixon really meant this and simply did not know the true extent to which the government regulated, subsidized, underwrote, or otherwise contributed to most businesses in the nation, or whether he utilized this qualification only as a convenient, but obviously hollow, excuse.

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disastrous political move and would have too readily exposed Nixon's tilt toward the business community. Though he had previously objected to the guideposts on the grounds that selective enforcement would penalize patriotic corporations (who willingly submitted to the logic of the guideposts), he was now willing to be more selective than ever before.

Nixon's imposition of a 90-day wage-price freeze, then, on August 15, 1971, followed by two separate periods of selective controls and a second freeze, shocked many observers and suggested a revolutionary change in his approach to inflation. Introduced along with a termination of the American pledge to exchange gold for dollars (at $35 per ounce.), a 10 percent import surcharge, and an assortment of mostly supply side tax incentives—known collectively as Nixon's New Economic Policy—it suggested a change that presumably brought him full circle, closer to the anti-inflation policy of the previous administration.[61] Much has been made, for example, of the support lent to the original 90 day price freeze by prominent Democrats in Congress and economists such as Walter Heller, Arthur Okun, and John Kenneth Galbraith. Nixon was presumably giving them exactly what they wanted. When the controls ended, then—officially in April 1974, but unofficially on January 11, 1973—suggesting little in the way of real accomplishment, their failure was judged to be invariably the failure of wage-price policy in general, and an apparent blemish on the New Economics.[62] At a

[61] Out of these changes, the closing of the "gold window"—as it was known—and the 90 day freeze were clearly the most surprising. The import surcharge was dropped within a few months (used primarily to force revaluation of other currencies) at the December 16-18 Smithsonian meeting of the G-10 finance ministers, and the tax proposals were modified somewhat by Congress (making them less regressive). See Rowen, *Self-Inflicted Wounds*, 69-72; and Paul Volcker and Toyoo Gyohten, *Changing Fortunes: The World's Money and the Threat to American Leadership* (New York: Random House, Times Books, 1992), 88-90.

[62] On January 11, 1973, just as he was telling Ehrlichman to flush the Great Society, Nixon scrapped the Phase II price controls. Until the second freeze was imposed in June 1973, triggering George Shultz' resignation, controls were voluntary and remained in effect only for food, health care, and the construction industry.

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Boston University conference on wage-price policy in November 1974, Herbert Stein noted:

> We were racing across the snow in a horse-drawn sled pursued by wolves who occasionally gained on us and when they got close enough to us, we threw out a baby to divert them from the pursuit for a while...and so we threw out the inflation alerts...and then we threw out the construction business [subject of March 1971 executive order erecting an industry controlled wage stabilization system], and finally we had no more babies to throw out, so we threw out the mother-in-law on August 15, 1971.[63]

The 90-day freeze and the controls that followed it, however, differed greatly from the Johnson era incomes policy. As Neil De Marchi noted in his study of Nixon's wage-price policy prior to the freeze, "the organization devised to administer the controls was the very antithesis of what is implied by jawboning and moral suasion."[64] Phases II, III, and IV of the Nixon controls, for example, relied upon fines($5000 per violation), injunctions, and criminal penalties. Big businesses and labor unions also had to obtain prior approval for all wage and price increases.[65] Unlike the Johnson guideposts, there was no element of voluntarism or acceptance of the government's significance in normal pricing decisions, nor was their a recognition of changes in relative, as opposed to general, prices; prices and wages were simply imposed by government fiat, almost invariably without discerning any of the underlying economic factors. And the price controllers were like reluctant disciplinarians who envisioned their role as both contrived and unlikely to effect long term behavioral changes. Worse yet, most of the Nixon price controllers operated on the peculiar assumption that wages, rather than prices, were the most appropriate target of the controls. When asked about future

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[63] Quoted in Goodwin, "A Report of the Conference," 388.

[64] Neil De Marchi, "The First Nixon Administration: Prelude to Controls," in Goodwin, ed., *Exhortations and Controls*, 344.

[65] Intermediate size firms and their non-union employees were subject to periodic reporting requirements instead of prior approval statutes, while smaller firms and non-profit organizations and their employees were largely left to their own devices and audited only by the IRS. See C. Jackson Grayson, with Louis Neeb, *Confessions of a Price Controller* (Homewood,IL: Dow Jones-Irwin, 1974), for details on the various phases, freezes, and administrative rules of the Nixon wage-price controls.

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controls, and the prices and "fantastic profits" of the pharmaceutical industry, for example, Nixon replied that he had no desire to "penalize" any sector of the economy "for being successful."[66] The primary point of the Johnson guideposts, on the other hand, was to influence wage and price decisions in a way that would enable workers and managers to better conform to, and better hear signals associated with, a theoretical free market, showing them tangible long term benefits in the process.

Nor were the Nixon controls like the Johnson era policy in another respect—Nixon's price fighters devoted precious little energy to the study of pricing behaviors in specific industries, or to the preparation of the controls in general. Called to Washington from his post at Southern Methodist University in Dallas to chair the Phase II Price Commission, C. Jackson Grayson, Jr. met with Herbert Stein on October 23, 1971. "Not much in classical economics seems to be working," Stein remarked, "why don't you come up with something on your own rather than be prejudiced by our views." Finding no staff, no background papers, and no office space when he arrived, Grayson was startled. "It seemed incredible—and frightening—that so little had been done in advance," he recalled later.[67]

When the Phase II system was up and running, company officials and labor leaders simply applied to the Nixon administration for price and wage changes. The administration assumed a posture, then, that was largely defensive and reactive, unlike the Johnson administration before them. Phase II controls, for example, operated largely under the influence of the tripartite Pay Board and Price Commission, with business, labor, and consumer interests represented in each. Nixon had agreed in advance that the Cost of Living Council—comprised of administration members with general oversight responsibilities—could not veto Pay Board or Price Commission decisions. If labor and

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[66] Speech to Economic Club of Detroit, September 23, 1971, quoted in Sobel, ed., *Inflation and the Nixon Administration*, 265.
[67] Grayson, with Neeb, *Confessions of a Price Controller*, 7.

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industry members approved wage or price increases above target figures (5.5% for wages, for example), as they often did (outvoting consumer delegates 2 to1), that was the end of it, no matter how much this resembled the very behavior targeted as collusive and counterproductive by the Johnson CEA. While John Connally often added an element of persuasion to the process, bringing it closer to the guidepost philosophy in a superficial way, his was less "moral suasion" than brute force, with little or no accent on critical long term economic goals. Charles Colson sent Connally a memo in February 1972, for example, urging him to "browbeat" the heads of the ten largest supermarkets. "Knowing how you are in handling people," Colson noted, "I suspect they would happily swallow a nickel a pound on hamburger to avoid incurring your wrath."[68] Gone were the genuine economic levers or the educational efforts common to the Kennedy-Johnson guideposts; physical compulsion remained in its stead. "Connally has the ball," Haldeman noted in January 1972, "he doesn't consult, he operates."[69]

Furthermore, those identified with the Johnson administration and the New Economics who applauded the freeze, did so largely out of their inclination to take the new President at face value, for he had recommended the freeze as a temporary arrangement and only as a bridge to a new policy. Galbraith, Heller, Arthur Okun, and many others simply held out the hope that the subsequent policy would indeed bring the Nixon administration around to something more closely approximating the wage-price guideposts. On NBC's *Meet the Press* in October 1971, for example (at roughly the midpoint of the first 90 day freeze), Heller warned that the "natural reaction of Mr. Nixon...in anger and frustration might be to clamp on direct controls. I would urge him to hold his fire."[70] Asked how he would have the Cost of Living Council operate, Heller continued:

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[68] Quoted in Reston, Jr., *The Lone Star*, 435.
[69] Quoted in Haldeman, *The Haldeman Diaries*, 399.
[70] Transcript, *NBC's Meet the Press*, October 17, 1971, LBJ Post-Presidential File, Economy-National, Inflation, Box 13, LBJ Library, 4.

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> I think that the President had better be ready....It does worry me that I see some conflicts still going on within the administration, with the Herbert Steins and George Shultzes saying, 'Let's do it by case law' and with the John Connally's and Arthur Burns saying, 'No, indeed, we need a firm hand and a firm guide, and guideline, or yardstick. Judging by John Connally's performance to date, I am laying my bets on him.[71]

Unfortunately, for Heller (and for the economy), the freeze did not give way to a genuine guidepost approach, primarily because Nixon never sought one. Nor did it operate under firm guidelines, for Stein's case law approach eventually prevailed.[72] It had been concocted, after all, not to tame inflationary momentum, but to convince international bankers that our closing of the gold window and dollar devaluation was not a signal for greater inflation; to help recession bound businesses quash increasing wage demands; and to hold back inflation while monetary ease and fiscal expansion paved the way for the 1972 reelection campaign.[73] Paul Volcker, then Undersecretary of the Treasury, went streaking off to Europe to assure its central bankers that we still meant business on the inflation front in spite of the August 15 announcement; business leaders and Wall Street applauded the freeze, ushering in a record day for the Dow Jones averages on August 16 (DJIA up 32.9); and Nixon leveled his sights on the Federal Reserve and a series of regressive tax benefits for corporate America.[74] Controls

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[71] Ibid., 6.

[72] This was partly due to Connally's desire to remove himself from the day-to-day operations of the system, it also resulted, however, partly from Stein's elevation to CEA chairman, replacing McCracken in January 1972.

[73] The Construction Users' Anti-Inflation Roundtable, for example, called openly for controls throughout 1971 as did many Business Council members such as J. Irwin Miller of the Cummins Engine corporation. See De Marchi, "Prelude to Controls," 339-340.

[74] The question of the Nixon-Fed chairman Burns relationship in 1971 and 1972 is a critical one, however, it is also one characterized by an intensity of debate that belies its significance. The customary assumption has Nixon ordering Burns to crank up the nation's money supply so as to engineer rapid growth and a spurt in employment (while controls kept inflation in check) in time for the stretch run of the 1972 reelection campaign. Nixon did attempt to coerce Burns, even unleashing Charles Colson and his bag of "dirty tricks." Colson leaked a false rumor that Burns, the inflation fighter, was seeking a $20,000 pay raise when in actuality he had proposed a 10% paycut for all administration employees only to have it rejected by Nixon. See Tom Wicker, *One of Us: Richard Nixon and the American Dream*, 563-564; and Stephen Ambrose, *Nixon: The Triumph of a Politician*, 455-456. In the end, however, Burns simply engineered a monetary policy that he deemed appropriate with 6% unemployment, providing the

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also appealed to Nixon because they would presumably help him deprive critics of a particularly useful issue. The congressional passage of legislation granting presidential price control powers, in 1970, was mostly a bluff intended to embarass Nixon for negligence on the wage-price front. Full-blown mandatory controls, Nixon reasoned, would, at the very least, help him silence these critics as well as a public that generally disapproved of his economic policy.[75] As John Connally advised, "if the legislature wants to give you a new power—you take it. Put it in the corner like an old shotgun."[76]

Ultimately the mandatory controls proved to be a failure and little more than a stopgap measure. Some wage rate increases were slowed considerably while most were not, but almost all prices continued to rise quickly. While the price rise target for the controls period was 2.5%, from mid 1971 to mid 1974, prices rose at a 6.6% annual rate instead.[77] Consumer prices even rose at a 2.4% annual rate during the first full month of the 90 day freeze. Worse, after the cessation of controls in January and February 1973 (before the second freeze in June of that year), prices rose at an even more rapid pace (8.8%) giving lie to the claim that the controls had stemmed inflationary momentum. Food prices in particular witnessed spectacular rises (28% annual rate) in the early post-Controls period.[78]

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economy with "a good set of wheels." The growth and rise in employment in 1971 and 1972 came more from an increase in the income tax personal exemption and a 20% increase in Social Security benefits.

[75] An August 9 Harris poll gave Nixon a 73% negative rating on economic policy, a rating he was also anxious to change. Cited in Sobel, ed., *Inflation and the Nixon Administration*, 208.

[76] Cited in Reston, *The Lone Star*, 396.

[77] An example of some of the various exemptions that led to this kind of price inflation: 7% to Bethlehem and National Steel on their tinplate products (suggesting that it would not set a precedent); 7.7% increase for US Steel's tin mill, sheet, and strip products (because US Steel couched it in terms of a smaller 3.6% *aggregate* price increase); an American Motors Co. increase (during the 1971 *freeze* period--because they made certain optional equipment standard); and a 22% rate increase to Blue Cross-Blue Shield for their coverage of federal workers. Cited in Sobel, ed., *Inflation and the Nixon Administration*, 268, 292, 295, 299.

[78] While rising food prices stemmed more from worldwide agricultural problems, particularly in 1972 (Russian wheat crop failure, Argentinian and Australian drought, decline in the world fish harvest, and an inadequate monsoon season in India), the Nixon administration had ample evidence of Asian famine, low Soviet output, and the decreased fish harvest well in advance of the crises. To his credit, George Shultz, recommended putting more land into production, but was overruled by Nixon and Secretary of Agriculture Earl Butz who "didn't want to be known as a cheap food man in an election year." 62 million

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While the Johnson administration understood the inherent weakness of mandatory controls, and even resisted discussing them as an viable option (for fear of preemptive price rises), the Nixon era controls had transformed what was an ineffective policy option—loaded with a plethora of potential economic distortions—into a virulent and insidious economic force.[79] Nixon and his economic advisers simply had a difficult time escaping their own economic prejudices; their simplistic view of the profit squeeze and rising wages compelled them to treat symptoms of the inflation rather than its most basic causes. Accordingly, they targeted, almost exclusively, rising wages. "We've come to three conclusions" Nixon told Haldeman in November 1971, "we can't make peace with labor unions...the Pay Board must be tough and not back down to them, and...it'll be very hard to make the Hoffa move right now, under these circumstances."[80] On the

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acres were withheld from production as a result and payments to farmers (not to grow crops) doubled to approximately $4 billion (most of which went to large conglomerates with agricultural interests—and $164,048 to conservative Mississippi democrat James Eastland). See Roger Morris and Hal Sheets, "Why Leave it to Earl?" *Washington Monthly*, November 1974, 12-19; and Sobel, ed., *Inflation and the Nixon Administration*, 192. Treasury Secretary John Connally also helped Nixon rationalize high food prices, setting him up for the ensuing crisis. "Just remember," Connally lectured Nixon, "when you talk about food prices, and you bleed for the consumer—food prices in the United States are cheaper than they've ever been in the history of this nation." Nixon simply cooed in response: "He's my favorite secretary." Quoted in Ambrose, *Nixon*, 435; and Reston, Jr., *The Lone Star*, 491. By contrast, when Johnson Secretary of Agriculture Orville Freeman proposed raising the support price of soybeans, LBJ called Freeman to protest, quashing the proposal. "Orville," Johnson remarked, "Joe Barr [Undersecretary of the Treasury] is over here and he tells me you're farting under the bedsheets." Quoted in Connally with Herskowitz, *In History's Shadow*, 199. By late 1971, *falling* farm prices, due to surpluses, were considered a problem for the Nixon administration. See "A Corn Crop So Big It's a Real Headache," *U. S. News and World Report*, November 29, 1971, 42.

[79] "Nobody wants controls," remarked Joe Califano in late 1965. See "Governing by Guideline," *Time*, November 26, 1965, 89. See also Kermit Gordon's memo on "why economists...tend to flinch when mandatory price control is mentioned," in Cochrane, "Moral Suasion," 269-270; Arthur Okun's "screaming memo" warning Johnson and Califano not to even imply that they were thinking of mandatory controls, in Okun, Oral History Interview, Interview III, LBJ Library, 16; Gardner Ackley on the damage caused by mandatory controls in Rowen, "All Seem Agreed on War Tax Need," *Washington Post*, February 6, 1968, D6; and President Johnson's "Annual Message to Congress: The Economic Report of the President," January 16, 1969, *Public Papers, 1968-1969: II*, 1316 where he refers to mandatory controls as "a dead-end for economic freedom and progress."

[80] Quoted in Haldeman, *The Haldeman Diaries*, 377. The "Hoffa move" was to offer the supply side labor leader an early exit from prison via executive clemency. Nixon commuted Hoffa's sentence on December 23, 1971, but was convinced by Charles Colson and Teamster president (installed July 1971) Frank Fitzsimmons to bar him from union activity, and keep him under surveillance. Hoffa had indicated that he would challenge the current Teamsters leadership when released and would work to sever the Teamsters-organized crime connection; Colson, Fitzsimmons, and Nixon hoped to prevent this.

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other hand, huddling with Safire just a few weeks earlier in preparation for his Phase II speech, Nixon termed the handling of profits a "ticklish" situation.[81] Reassuring as it was misleading, their view was simple: most wage increases were bad for the economy; almost all increases in profit were good. Accompanied by a growing assortment of supply side "inducements" the Nixon controls did little more than encourage the sanctification of administered profits, worsening inflation and rigidifying inflationary expectations.

The second critical economic policy change executed by the Nixon administration was a rapid shift to a tight monetary policy. Fully aware that Fed chairman Martin shared many of their economic prejudices, and was therefore amenable to a regimen of tight money, the Nixon administration effected this change every bit as abruptly as the shift away from the Kennedy-Johnson guideposts. Arguing naively and incorrectly that they were the first administration to concern themselves with monetary and fiscal policy *in tandem*, and that the previous administration had mistaken high interest rates for tight money, the Nixon administration essentially placed the entire anti-inflation struggle into the hands of the man Nixon blamed for his defeat in the 1960 presidential election: Fed chairman William McChesney Martin.[82]

Convinced that they were the heirs to a classic demand-pull inflation, and that the nation's money supply had created the excess demand predicament (and the eventual return to a higher natural rate of unemployment), Nixon and his economic advisers were also convinced that contraction of the nation's money supply (M1 then, M2 later in the decade) was, alone, a sufficient response to the inflation problem.[83] This enabled them,

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[81] Quoted in ibid., 362. Many products (fertilizer, copper, steel, etc.) could also, and did, seek foreign markets during the controls period; Labor could not do so as readily, skewing the impact of the controls even further.
[82] See William Greider, *Secrets of the Temple*, 329, for an account of Nixon's call on Fed chairman Martin after the 1960 election.
[83] Keynes pointed out that the obverse of Friedman's natural rate of unemployment theory was more pertinent and valid. Friedman argued that money-induced wage increases would eventually be matched by money-induced price increases, leading to a natural unemployment sticking point at a higher rate of

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of course, to forsake the guideposts as they presumed to ride the Phillips Curve to lower inflation, but it also forced, in combination with their basic conservative outlook, an approach to monetary policy that even confounded their hopes for lower money supply. If money mattered, as it most assuredly did, then greater, rather than less, government intervention was required. Money supply had soared in the late 1960s not because the monetary authorities willed it singlehandedly to a certain plateau, but largely because much of it was needed to accomodate growth, and because financial markets, responding to high consumer demand, had created it largely of their own devices. It had, indeed, become a significant part of the late 1960s inflation problem, but it was a critical factor primarily in the business investment sector, where the Federal Reserve had the *least* amount of control. While the Johnson administration had acknowledged this, and had been moving toward logical changes in the Federal Reserve system, Nixon, McCracken, Stein, and most of the other Nixon advisers remained wedded to a simple, but misleading and dangerous rule: Fed control of monetary aggregates was the only required tool.[84]

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inflation. Keynes pointed out, however, how unemployment induced wage decline—thought by orthodox economists to trigger hiring of the unemployed—tended to come only in industries that were also forced to drop prices, thereby producing a situation of constant real wages, no added incentive to hire, and a stagnant economy. Those who updated Keynes' work in the last half of the twentieth century also pointed out how increases in the money supply could rise with demand (as a precursor to increased investment and production) just as easily as it could affect increases in demand, and could occur, therefore, with relatively stable rather than rising prices.

[84] See Papers of LBJ, Special Files, Task Force Reports, 1968 Interagency Task Force on Reorganizing the Federal Reserve System, Box 29; and Johnson, "Annual Message to Congress: The Economic Report of the President," *Public Papers, 1968: II*, 1316-1318; for an outline of the proposed monetary policy changes (many of which, such as the recommendation to shift open market operations to the Federal Reserve Board from the district banks, implied an extension of government control). Though McCracken told the press that he was "Friedmanesque, if not a Friedmanite" on the issue of monetary policy (suggesting a moderate form of monetary contraction), this tempered the overall change only a little. "Gradual" tightening was ordered over an extreme form (as Friedman himself would have it), but the Fed still responded perversely when they had little short-run affect on monies loaned to businesses, and gradual tightening soon gave way to a harsher variety. The cues from the administration to target money supply irrespective of interest rates, created a credit crunch for the average citizen, and higher borrowing costs for businesses and the government, whether they wanted that or not. Overall money supply was the least affected by this change. "Friedmanesque, if not a Friedmanite" comment cited in Rowen, *Self-Inflicted Wounds*, 45.

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Greater government intervention in the nation's credit markets was the logical prescription for a monetary problem that was still—when it came to inflation—more of an added influence than a direct cause. Conservative prejudices among the Nixon economic advisers that precluded this kind of intervention, however, made this approach, and the small contribution to price stability that it implied, virtually imponderable. Raising reserve requirements and withdrawing additional money through its open market operations, the Fed moved quickly to tighten the nation's money supply. M1 advanced at a 3.8% annual pace from January through May 1969, but M2 actually fell by 0.3% over the same period.[85] Credit was, indeed, becoming a much scarcer commodity for many of the nation's small businesses and consumers, who drew down their time deposits, but it remained much less of a problem for bigger businesses who closed the credit gap by tapping the Eurodollar, domestically based foreign bank, and commercial paper markets. Sales of corporate securities rose by 22% in 1969, and when Nixon relaxed the Kennedy-Johnson controls on foreign investment and lending on April 4, 1969, the number of Eurodollar loans accelerated at an even sharper pace, driving interest rates on three month (Eurodollar) loans as high as 13%.[86] Only the cost of credit, rather than its supply, changed for most of the nation's largest corporations, giving them an added incentive to raise prices even more than they already had.

When M1 slowed to a 1.5% annual increase in 1969 in the May to September period, and M2 fell even more precipitously, by a -3.1% annual rate, George Shultz warned Nixon in October of a too restrictive monetary policy. Passing Shultz' memo and Ehrlichman's cover letter to Arthur Burns, soon to be named Fed chairman, Nixon

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[85] Figures drawn from memo, George Shultz to Nixon, October 7, 1969, Special Files, President's Office Files, President's Handwriting, Box 3, Nixon Presidential Materials, National Archives.
[86] Cited in Sobel, ed., *Inflation and the Nixon Administration*, 41,42, 47, 58. The interest equalization tax (designed to prevent excessive capital outflows to Europe) was lowered from 1.25% to 0.75%, and the minimum amount subject to regulation was raised from $200,000 to $1,000,000.

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wrote: "Arthur—I agree—will it be too late when you take over?"[87] Misreading the evidence all together, however, Nixon assumed that a reversal of Fed policy was perhaps all that the economy needed, and at any rate, was not yet prepared to alter his administration's course. When Ehrlichman provided a cover letter to a McCracken memo, several weeks later on November 26, noting how the CEA chairman had also come out for monetary ease, Nixon wrote in response: "Don't let the unemployment figures stop action."[88] Even Burns disagreed with the assumption that a monetary shift would solve all the problems, sardonically dismissing McCracken's gradualism in his first press conference (as Fed chairman), openly calling for a return to the guideposts, and suggesting in no uncertain terms that money was, indeed, not all that mattered. Near the end of his first year as Fed chairman, amidst even greater presidential clamor for monetary expansion, Burns reminded Nixon that "the banks are full and looking for customers."[89] Rising unemployment, created by sudden policy shifts that increased inflation and lessened buying power at the same time that it shook down consumers, small businesses, and government agencies for greater borrowing expenses, only compelled Nixon and his advisers to ignore inflation even more completely than before.

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[87] Memo, Shultz to Nixon, October 7, 1969, Special Files, President's Office Files, President's Handwriting, Box 3, Nixon Presidential Materials, National Archives. When Burns did take over as Fed chairman in February 1970 Nixon responded to the applause at his swearing in by saying, "there's a strong vote for lower interest rates." Resenting any implication that he could be influenced, Burns was, according to Hobart Rowen who spoke to him a few days later, "deeply offended that Nixon had been that careless." See Rowen, *Self-Inflicted Wounds*, 49-50.

[88] Memo, John D. Ehrlichman to Nixon, November 26, 1969, Special Files, President's Office Files, President's Handwriting, Box 3, Nixon Presidential Materials, National Archives.

[89] Quoted in Sobel, ed., *Inflation and the Nixon Administration*, 172. The banks would remain full for some time. Federal Reserve Board member Andrew Brimmer, who was an LBJ appointee but who also voted to tighten considerably in 1969 (unlike Johnson's other two appointees—Maisel and Mitchell), noted in March 1971 that "the sharp decline in interest rates and the generally increased availability of credit certainly do suggest that the economy is not suffering from a shortage of money." Cited in ibid., 178. As Burns also noted, M2 had risen at an annual rate of 12% in December 1970 and January 1971, largely as a result of Fed attempts at bolstering liquidity. M1, however, reflecting the obverse of the situation that had prevailed one year earlier, had only advanced at a meager 1.1% annual clip. Judging from these figures, the Fed truly seemed to be "pushing on a string." See later comments by Walter Heller on Nixon tax policy for an explanation of the subtle economic improvement that did occur in 1972.

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"I'll tell you one thing," Lyndon Johnson remarked in early 1971, "this country can't survive long half slave, half free, and with 14% interest."[90]

Rising to 4.3% by the end of the first quarter 1970, and to 5.8% by the end of that year, unemployment, rather than inflation, suddenly became *the* economic problem for the Nixon administration. From this point on, the government's struggle against inflation languished in an ideological and administrative funk. Not until the shocking imposition of mandatory wage-price controls in August 1971, spurred largely by the approaching reelection campaign, would Nixon seek a new approach to the inflation problem. Summing up the Nixon economic policy for the Women's National Democratic Club in September 1970, Arthur Okun remarked: "They've had seven interceptions, are forty points behind, its the fourth quarter, and they're sticking to the same game plan."[91]

Rising inflation, however, could still combine with other economic problems to worsen the employment picture. Nixon imagined a scenario, however, where inflation could be ignored or pinned on the opposition, and where employment could be stimulated by expansive monetary policy combined with a series of supply-side spending and tax relief provisions. At one point in early 1971, Nixon even relied upon an econometric model, supplied by Shultz assistant Art Laffer, that asserted instantaneous GNP effects from money supply changes, as well as an embarassingly high prediction for a 9% advance in GNP.[92] As both unemployment and inflation

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[90] Quoted in Hugh Sidey, "Down Home with LBJ," *Life*, May 21, 1971, 48. In 1969 alone, short-term interest rates on business loans rose from 6.68% to 8.21%. See Nixon, "Annual Message to Congress: The Economic Report of the President," January 27, 1972, *Public Papers, 1972: I*, 112.

[91] Quoted in Rowen, *Self-Inflicted Wounds*, 56.

[92] Cited in Sobel, ed., *Inflation and the Nixon Administration*, 172. The actual change in real GNP that year (1971) was +3.4%. Source: Campbell R. McConnell, *Economics: Principles, Problems, and Policies*, 9th edition (New York: McGraw-Hill, 1984), back cover. Laffer taught economics at the University of Chicago with George Shultz, though he possessed an MBA rather than an economics PhD, and joined Shultz when the latter moved from the Dept. of Labor to the newly established Office of Management and Budget (OMB) in 1970. Laffer was also responsible for the infamous Laffer Curve, sketched on a cocktail napkin at the Two Continents restaurant in 1974, that became the illogical philosophical underpinning for Ronald Reagan's tax policies in the early 1980s.

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(stagflation) proved resistant to, and even worsened by, Nixon's economic strategy, he responded with a public relations blitz, rather than with a fundamental reordering of his economic priorities.

To achieve public relations success in the face of a deteriorating economy, Nixon clearly relied, more and more, upon perceived foreign policy breakthroughs and—in the domestic arena—outright denial.[93] William Safire began cranking out a series of speeches designed to aid this cause, blaming increased joblessness on everything from returning Vietnam veterans to a longer *duration* of unemployment for the nation's jobless individuals (as opposed to greater *numbers* of unemployed).[94] As early as June 1969, Safire had encouraged Nixon to concoct an "identifiable" economic philosophy that focused on "climate creation" instead of a thankless struggle against inflation. On June 19, urging an abandonment of the inflation fight, Safire wrote:

> We can keep on insisting that we inherited this mess...but in the public mind it is our inflation now....The beauty of inflation as a political charge is this: if you stop it cold and cause a downturn, you lose; if you let it run on for fear of harming the employment, you lose; and if you skillfully cool it from 6% to 3%--who cares? You are still vulnerable to charges of dramatic price rises.[95]

Nixon's handwritten response to this memo suggests that it was an instant hit with the new President. "Excellent idea (one of the best I've seen in administration. We need

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[93] See Haldeman, *The Haldeman Diaries*, 168, for a candid appraisal by Nixon of his own political fortunes. Noting on May 21, 1970 that the President's ratings were up, Haldeman wrote, "[The President is] Really pleased by our poll and says its remarkable with the economy the way it is." With Vietnamization proceeding apace, Nixon's handling of the American economy was almost irrelevant to the average voter. His overall ratings climbed in 1970, even while his negative rating on economic policy remained consistently in the 70-75% range.

[94] See Nixon's March 21, 1970 press conference in particular. Cited in Sobel, ed., *Inflation and the Nixon Administration*, 75-76. As it is with most recessions, there was some truth to this statement, for the frequency and duration of unemployment often exhibit changes equal to or greater than additions to the actual ranks of the unemployed. It should still not be construed as a positive sign, particularly since empirical evidence suggests that the poor are disproportionately affected by these changes when they occur.

[95] Memo, William Safire to Nixon, June 19, 1969, Special Files, President's Office Files, President's Handwriting, Box 2, Nixon Presidential Materials, National Archives.

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more like this.) I believe we should follow through, don't let it get submerged in 'study.'"[96]

Several months later, however, "climate creation" meant little more than higher inflation, higher unemployment, a more charitable reliance upon supply side incentives, and a continued effort to blame all problems on the political opposition. "At the present time," remarked Jeb Stuart Magruder, on January 7, 1970, "all efforts are being made for administration speakers to place the blame for inflation on the Congress and the Senate."[97] When John Brown wrote to President Nixon on January 12, 1970, regarding "Presidential Action Requests Not Yet Completed," out of the twenty-six items, there was one that suggested maintaining "the offensive on the crime and inflation issues, placing the blame on Congress;" another urging a plan to "better recognize auto racing as a sport," but absolutely nothing related to an actual initiative against inflation.[98] That same day, after a long meeting with Haldeman and Ehrlichman, Nixon concluded that "we really can't stop inflation this year...so you just make the best of it. In this case form is more important than substance."[99]

When it became clear that 1970 was a recession year, with real GNP declining for the first time in nearly a decade, Nixon took "climate creation" a step further, directing the Labor Department to suspend its twenty year tradition of holding press conferences to report monthly CPI and unemployment figures.[100] Unemployment was still lower,

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[96] Ibid.
[97] Memo, Magruder to John R. Brown III, January 7, 1970, Special Files, President's Office Files, President's Handwriting, Box 4, Nixon Presidential Materials, National Archives. Magruder was an aide to H.R. Haldeman, Deputy Director of White House Communications, and eventual Deputy Campaign Director, Committee to Reelect the President (1972 campaign).
[98] Memo, John R. Brown III to Nixon, ibid.
[99] Quoted in Haldeman, *The Haldeman Diaries*, 120. Haldeman also recalled how on December 31, 1969, only days before this statement was made, Nixon pronounced "building a mythology" as the primary goal for the upcoming year. Ibid., 116.
[100] Cited in Sobel, ed., *Inflation and the Nixon Administration*, 179. This policy change was effected in March 1971.

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Nixon hastened to point out, "than any peacetime year in the 1960s."[101] When joblessness figures showed some improvement in 1972, mostly because of Democratic tax changes implemented by the 92nd Congress, Nixon had Press Secretary Ron Ziegler pose with an unemployment chart devised to make a small drop (from 5.9 to 5.7%) look like an enormous decline. "It's a dishonest chart, and I won't do it," remarked George Shultz when Ziegler asked him to pose with the chart.[102] Termed "benign neglect" by administration supporters and sympathetic historians, Nixon's approach to inflation and unemployment were truly neglectful, but almost certainly less and less benign.[103]

If Nixon's unwinding of the Johnson wage-price and monetary policies were responsible for the worsening economy and the emergence of stagflation, then the deescalation of the war in Vietnam may very well have been the only clear Nixon contribution to price stability and economic balance. Troop withdrawals, after all, became a reality only under the Nixon administration, and defense expenditures, clearly a part of the 1960s inflation, did exhibit a small decline beginning in 1970. Even here, however, especially in the context of overall defense spending, Nixon's policies made prosperity and price stability more elusive than ever.

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[101] Quoted in ibid., 126. Assuming that "peacetime" implied a year in which U.S. ground troops were not actively engaged in battle, then Nixon was referring to the 1960-1963 period two years of which (1960 and 1961) comprised part of the last Eisenhower recession. The other two (1962 and 1963) saw unemployment rates lower than the first two but stuck at the 5.5 or 5.6 level for most quarters. Though held up somewhat by conservative resistance in the business community and in Congress, these rates were still in *decline* at that point. The unemployment rate, however, was *increasing* in December 1970 when Nixon made this comparison. It was also 5.8%, for November 1970, and would register 6.0% when the December figures were tallied in January 1970. (Maybe he was referring only to 1960 and 1961?)

[102] Quoted in Rowen, *Self-Inflicted Wounds*, 382n. See also additional comments in this chapter on these tax and other fiscal policy changes.

[103] Daniel Patrick Moynihan was largely responsible for this characterization, for he first urged it upon the Nixon administration in its efforts to cool heated race relations. It soon came to characterize much of Nixon's domestic policy in general. While Nixon liked it, Moynihan came to regret its political implications (his memo suggesting it was leaked to the *New York Times* and published on March 1, 1970). Moynihan saw Haldeman on March 31 about the leak problem and noted that he was "ruined in Democratic party because of the 'benign neglect' memo." See Haldeman, *The Haldeman Diaries*, 133, 144. See also Robert Collins, "Growth Liberalism in the Sixties," 36. "At home," Collins noted, "Nixon proposed some notable initiatives, such as the Family Assistance Plan, continued many of the Great Society programs underway, and brought to domestic policy a note of 'benign neglect' that contrasted sharply with the passionate, chaotic, activism of his predecessor."

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While the emerging plans were kept from most citizens at the time, American military disengagement from Vietnam clearly began in the latter stages of the Johnson administration. If the Tet Offensive of 1968 did nothing else, it led President Johnson to reassess the U.S. role in Vietnam, particularly after General Westmoreland, through General Wheeler at the JCS, requested an additional 206,000 troops on February 28. By late March 1968 Johnson had concluded that he must withdraw from the 1968 presidential race and that the American military must withdraw from Vietnam. "Can no longer do the job we set out to do," Johnson wrote as he listened to his advisers' recommendations. "Adjust our course...move to disengage."[104]

When Richard Nixon entered the White House in 1969, then, he clearly inherited a policy of disengagement from the war in Vietnam. Responding to public opinion that was growing less and less tolerant of the protracted war effort, Nixon embraced the rhetoric of withdrawal, as well as a commitment to remove increasing numbers of American troops. Chief of Staff Haldeman even recalled how Nixon hoped to initiate troop withdrawals quickly and without hesitation so that he could beat (LBJ Secretary of Defense) Clark Clifford's timetable (all out by the end of 1970).[105] Though U.S. troop

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[104] Quoted in Schulman, *Lyndon B. Johnson and American Liberalism*, 149. Abe Fortas, W.W. Rostow, and General Earle Wheeler wanted to stay the course; almost all of the other key advisers suggested deescalation and withdrawal including Dean Acheson, Clark Clifford, McGeorge Bundy, Henry Cabot Lodge, George Ball, Douglas Dillon, and Matthew Ridgway. "With all due respect, Mr. President," Dean Acheson told Johnson on the day Wheeler submitted the troop request, "the Joint Chiefs of Staff don't know what they're talking about." Out of these, only Dillon and Lodge had not expressed the same views to Johnson earlier that month in a variety of meetings, and only Ridgway counseled a slow (2 year), rather than a fairly rapid, withdrawal. Acheson cited in David M. Barrett, *Uncertain Warriors: Lyndon Johnson and His Vietnam Advisers* (Lawrence: University Press of Kansas, 1993), 129. See also Neil Sheehan, *A Bright Shining Lie: John Paul Vann and America in Vietnam* (New York: Random House, 1988), 720-722; David DiLeo, *George Ball, Vietnam, and the Rethinking of Containment* (Chapel Hill: University of North Carolina Press, 1991), 118-119; Stanley Karnow, *Vietnam: A History* (New York: Viking Press, 1983), 545-566; and especially Barrett, *Uncertain Warriors*, 111-157 on Johnson's thoughts regarding deescalation and on the depth and variety of advice he was seeking and receiving. Johnson was clearly against the Westmoreland request for 206,000 additional troops, and was most likely convinced that further escalation would not work well before his March 26 meeting with the Wise Men and his March 31 address to the nation.

[105] Haldeman, *The Haldeman Diaries*, 65. Haldeman also noted how this came as something of a surprise to Nixon's Vietnam advisers, especially Henry Kissinger. "All this shook K pretty badly....I feel that he just wanted to hit back at Clifford and overplayed his hand," Haldeman wrote.

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strength in Vietnam reached its peak in April 1969, three months after Nixon's inauguration, by December 31, 1969 there were approximately 51,000 less troops in Vietnam than there were when Johnson left office on January 20 (536,100 to 475,200).[106] As it turned out, however, Nixon's "Vietnamization" was less of an attempt to turn the entire war effort over to the South Vietnamese, than it was an effort to buy time for a new American strategy. Unlike Johnson, Nixon continued to believe that an American victory was possible, and did not change this outlook, according to Chief of Staff Haldeman, until May 1, 1972.[107] Troop withdrawals clearly increased the Vietnamese responsibility for ground combat, but they also kept the doves at bay back home; made casual, poorly managed domestic initiatives less of a political consequence; and helped buy time for a renewed war effort based more heavily upon bombing, interdiction of supplies, and "secret" negotiations. "Kept doves at bay this long," Haldeman noted in October 1969, "now have to take them on....Problem is that this does make it his war."[108]

More importantly, with respect to the U.S. economy, Nixon's changes in Vietnam and at the Pentagon also implied a military strategy and budget that would be more, rather than less, inflationary. In 1969, for example, a year that should have witnessed the first appearance of a "peace dividend" and a small decline in the inflation triggered by war contracts and excess profits, actual spending on the war in Vietnam registered a slight increase. While appropriations were down for the year, Treasury cash disbursals were up. Vietnam expenditures for the first seven months of FY1970 (July 1, 1969 to

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[106] Cited in Herbert Y. Schandler, *Lyndon Johnson and Vietnam: The Unmaking of a President* (Princeton: Princeton University Press, 1977), 352. Source: U.S. Department of Defense, OASD (Comptroller), Directorate for Information Operations, March 19, 1974.
[107] Haldeman, *The Haldeman Diaries*, 450. On this day, Henry Kissinger read General Abrams report from Vietnam that suggested that the South Vietnamese were about to fold. Strangely enough, one of Nixon's first responses to the report was to laugh.
[108] Ibid., 96.

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January 30, 1970), based on these disbursals, were actually $800 million higher than they were for the same period in FY1969.[109]

When spending for the war in Vietnam actually registered its first real declines, in 1970, savings were substantially offset by other non-Vietnam defense spending increases, and were, therefore, reduced to levels that were almost negligible. In the budget for FY 1971, for example, Vietnam spending had decreased by approximately $13 billion. The same budget, however, also included $5.3 billion in added non-Vietnam defense expenditures, $1.5 billion of which was targeted for preliminary work on an anti-ballistic missile system (ABM) that was never even fully approved, and that Johnson and McNamara had fought against.[110] Since the cuts turned out to be smaller than estimated—based partly on the belief that the war would end that year—and the new defense spending, conversely, turned out to be somewhat larger than anticipated, even the projected $7.7 billion savings proved to be illusory. $8.5 billion worth of military spending was not even reflected in the FY 1971 military budget, for veterans' benefits were shifted to the social spending column for the first time. While Johnson and his economic advisers had anticipated a "peace dividend," had predicted the need for further tax cuts as the dividend became available, and had isolated inflationary tendencies within Vietnam war contracts, Nixon and his advisers considered the peace dividend "a rather oddball concept" and insisted that neither Vietnam, nor the Pentagon

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[109] Cited by I.F. Stone, "Nixon, Inflation, and the War," in *Polemics and Prophecies*, 390.
[110] Ibid., 397. The ABM was a system designed to offer a defensive shield against incoming nuclear warheads. Ronald Reagan's "Star Wars" Strategic Defense Initiative was little more than a revival of the earlier ABM program initiated under Nixon. Johnson hoped to stem strong Congressional support for ABM, by launching arms control talks with the Soviets. Genuine progress was made here until the Czechoslovakian invasion forced a tragic retrenchment. Nixon campaign assistants, Harry Treleaven and Frank Shakespeare were responded ecstatically to the Czech invasion and unraveling of arms control talks. "makes it kind of hard to be a dove," Treleaven noted, smiling. "What a break!" Shakespeare exclaimed moments later. "This Czech thing is just perfect. It puts the soft-liners in a hell of a box!" Quoted in McGinniss, *The Selling of the President*, 44-45. See also Tom Wicker, *One of Us*, 447-460, for a detailed overview of the Johnson-Nixon transition on arms control and the deployment of strategic weapons.

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in general, had anything at all to do with rising inflation.[111] Never a priority, then, for the new administration, real defense spending cuts were not about to materialize by accident.

Since the inflationary impact of the war came more from the character of the war's military contracts than from their total dollar value, these figures were, to some extent anyway, irrelevent. What was relevent—even critical—in the struggle against price inflation, was the presence of emergency contracts, cost-plus arrangements, and non-competitive bidding practices. Troublesome and ineradicable as these were during the Johnson administration, the Johnson administration had made a strenuous effort to minimize them. But they flourished during the Nixon administration, precisely when they should have become even less prevalent. As the deployment of troops tapered off, so should have emergency appropriations. Escalating troop deployments were, after all, the primary source of these arrangements during the 1960s. Under Nixon, however, cost-plus, non-competitive contracts even came to be something of an economic priority.

While Nixon's recessionary policies did more to squeeze profits than anything else, he remained wedded to the belief that excess wages and rising prices were the culprit—dominating, rather than dominated by, corporate managers. Never having recognized the negative impact that his own policies were having on corporate profitability, then, or that corporate managers themselves were responsible for many of the inflationary forces now coming back to haunt them, Nixon saw additional cost-plus contracts as a

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[111] Nixon Budget Director Robert Mayo quoted in Stone, "Nixon, Inflation, and the War," 396. Surprisingly enough, Nixon seems to have shared LBJ's disdain for the military mind. On January 17, 1972, for example, Nixon dusted off an H.G. Wells' book and showed Kissinger a quote, nodding in approval, about the mediocrity of the military mind. "Of course," Nixon remarked, "Wells has the feeling that the solution to all problems is education for everyone, and that's a terrible idea, especially for women." Quoted in Haldeman, *The Haldeman Diaries*, 397. What he did not share with Johnson, however, was an equally abiding disdain for military spending practices or their effect on contractor profits (and American price stability).

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legitimate way to shore up sagging profit margins.[112] A calculated transition from a military budget dominated by expenditures for personnel and related costs (food, clothing, ammo), to one geared increasingly toward the production of strategic weapons, made this search for increased profitability that much easier. Returning largely to the Massive Retaliation strategy of his Vice-Presidential years, with its accent on strategic weapons and covert action, Nixon saddled the economy with a new breed of expensive, virtually handmade, weapons, a rapidly advancing "Black Budget" (for covert action) that would grow to an estimated $15 to 20 billion by 1972, and an ever widening array of cost-plus contracts tied to the new weaponry and to the covert action programs.[113] While Nixon took the oath of office in 1968 promising symbolically to beat swords into plowshares (the inaugural Bible was opened to Isaiah 2:4), he wound up beating swords into strategic hardware instead. The conversion of Polaris and Minuteman missiles into Multiple Independently Targeted Reentry Vehicles (MIRVs), a $2.6 billion modernization of the naval fleet, the ABM, and the development of the SAGE and AWACS anti-bomber systems all helped soak up the peace dividend during the first two years of the Nixon administration and provided defense industries with a more than suitable substitute for the cannon shell and army boot contracts that were beginning to taper off.

While the cost of the new strategic weapons were almost always inflated and wholly unmanaged, and represented, therefore, an unnecessary drain on the public treasury, their inflationary impact came almost exclusively from the rich stream of profits they guaranteed. When company profits soared, so did their wages, salaries, and

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[112] Recall that much of this profit squeeze came as a result of accounting gimmicks and vast increases in corporate assets, not poor performance alone. In the third quarter of 1970, for example, Bethlehem Steel reported profits of 33 cents per share, yet they still paid their customary 45 cents per share dividend. See Sobel, editor, *Inflation and the Nixon Administration*, 114. While Nixon's Commerce Dept. reported a rise in all corporate profits for that same quarter, the *Wall Street Journal* had reported a small decline.
[113] See Annette E. Meyer, *The Evolution of United States Budgeting: Changing Fiscal and Financial Concepts* (New York: Greenwood Press, 1989), 84, for an estimate of covert funds and the Black Budget.

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executive perquisites, almost always more than they would have otherwise. Even if they conducted almost all of their business with the Pentagon, then, as was the case with no small number of defense contractors, many of the affected corporations could still impart great pressure on the general price level through their less direct impact on general trends in the area of executive salaries, wages, and company perquisites. As defense dollars flowed increasingly away from contracts for consumer goods and toward small-batch, custom made strategic weapons, they also generated far fewer economies of scale and far less spin-off potential, making price stabilizing productivity advances far less likely. As one analyst put it, "when companies become wedded to the Pentagon [through classified strategic weapons], industrial efficiency and competitive economic strategies are sacrificed in the name of one over-arching goal—technological superiority over the Soviet Union."[114]

Nixon's encouragement of these contracting arrangements also never remained limited to the Pentagon alone; Pentagon style contracting with non-competitive, cost-plus arrangements soon prevailed in many other government departments. In 1972, for example, Marriot Corporation's Frederic Malek was appointed head of Nixon's "responsiveness program," designed to deliver non-competitive, cost-plus contracts for political support and campaign contributions. Litton Corporation's Roy Ash was named as the Director of the Office of Management and Budget (OMB) in 1973, and instructed to lead a contracting-out revolution that also relied heavily upon non-competitive, cost-plus contracts.[115] Pentagon contracts remained the most profitable, by far, but others were reaching similar proportions.While Johnson had availed himself of similar arrangements with Brown and Root, a construction firm with labor intensive operations, never—before Nixon—had it been done in such a widespread or systematic fashion. All liberal or Keynesian pretensions aside, Nixon was, perhaps almost by default, a believer

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[114] Jay Stowsky, "Competing With the Pentagon," *World Policy Journal*, Fall 1986, 717.
[115] John Hanrahan, *Government By Contract* (New York: Norton, 1983), 263, 89-90.

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in the "old-time religion" who quite simply reasoned that these supply side arrangements were good for the American economy.

President Nixon was so thoroughly convinced that increased profits led automatically to a healthier economy, that he tended, even more perversely, to gauge economic health by trends in the stock market. His concern for employment and price stability, though certainly never completely lacking, paled next to his concern for rising stock market indices. By late 1971 he had even convinced himself that unemployment and inflation statistics were false, skewed by a "Jewish cabal" at the Bureau of Labor Statistics who wanted to make his administration look bad. White House aide Frederic Malek was dispatched to the Department of Labor and asked to root them out.[116]

While Johnson and his economic advisers had struggled to convince the nation that profitability would ensue when full employment provided steady demand for risk-taking investors, Nixon was turning this principle—basic to the New Economics—on its head. Poverty must go on, he seemed to be saying instead, so that profit can thrive.[117] With far fewer guarantees on the supply side of the economy, however, profits themselves never could insure full employment, or even reasonable economic stability, a principle that President Nixon clearly failed to appreciate. When the Dow Jones Industrial Average fell 21 points on May 25, 1970 Nixon was alarmed. "Called all shook up about stock market drop," Haldeman noted in his diary. "Problem is, no one shows any sign of undue concern except him."[118] Rushing to steady the stock market, Nixon arranged a stag dinner with business executives for the 27th, where he assured them of his concern for their dwindling profit margins. "Guess it worked before it even happened," Haldeman noted, "because market gained 31 points....*Really* neurotic."[119]

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[116] Ambrose, *Nixon*, 457; Walter Isaacson, *Kissinger: A Biography* (New York: Simon and Schuster, 1992), 561.
[117] See I.F. Stone, "The Rebirth of Freedom--or Fascism?" December 29, 1969, *Polemics and Prophecies*, 461, for the original rendering of this appraisal.
[118] Haldeman, *The Haldeman Diaries*, 169.
[119] Ibid.

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Though real growth would remain negative for the duration of the year, and though unemployment would continue to rise every quarter until 1972, the Dow Jones Industrial Average continued on a steady incline until early 1973. When the recession persisted, and talk of it filled newspaper columns across the country, Nixon responded as if the Dow Jones Index was all that mattered and as if reporters actually liked the recession. "Unfortunately for them," Nixon told Haldeman in July, referring to the journalists who were then criticizing his economic policies, "the market went up a big chunk today."[120] In an attempt to convince the public that the ongoing recession was just not what it seemed to be, White House communications director Herbert Klein even broadcast, with much fanfare, a list of ten stocks up sharply for the year. "This inexcusable flackery had no precedent," remarked *Washington Post* economics writer Hobart Rowen.[121]

Nixon's wage-price, monetary, and defense procurement policies had devastating effects on the nation's price stability and overall prosperity, especially for those at the bottom who had made their first tentative gains under the Kennedy and Johnson administrations. While the overall unemployment rate, for example, had risen from 3.3% to approximately 6% over Nixon's first two years in office, unemployment among blacks had risen from 6.4% to nearly 10% over the same period, and among black teens the increase was even more profound, increasing from 25% to 35%. Even when joblessness showed its first real decline under the Nixon administration, in late 1971, black unemployment continued to rise. While overall unemployment fell from 6% to

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[120] Ibid., 184. For all of his concern, Nixon was the only U.S. President since the Great Depression to suffer more than one stock market decline—represented by the DJIA—in excess of 35%. From Dec. 3, 1968 to May 26, 1970 the DJIA fell 35.9% and from January 11, 1973 to December 6, 1974 it fell 45.1%. In the 20th century there have been 9 DJIA bear markets of this magnitude, all but 3 coming before or during the Great Depression.

[121] Rowen, *Self-Inflicted Wounds*, 61. For comments such as this, Rowen was labeled by CEA member Herbert Stein as an "implacable and unscrupulous enemy of the administration." Charles Colson, in a memo to Frederic Malek suggested that the "Army take over the Washington Post [and] have Hobart Rowen beheaded." Cited in ibid., 78-79.

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5.8% in October 1971, black unemployment rose to 10.7%.[122] While much of this stemmed from these critical policy changes—changes that helped joblessness and inflation rise in tandem—other, somewhat less noticeable, Nixon policies also had a similar impact.

In the area of health care inflation for example, Nixon ignored the issue of cost containment all together, one of the chief priorities of the departing administration. Egged on by his own political instincts and by Moynihan's encouragement of policies that would defuse left-wing opposition, Nixon focused, instead, on enlarging benefits and socializing the cost of even the most questionable or least cost-effective procedures. HEW Secretary Robert Finch often had to function, for example, as a brake on the President's plans to expand Medicare coverage. When Nixon requested that chiropractic fees be covered by Medicare in June 1969, Finch reminded him of the cost factor. "Everybody who wants a rubdown will be sending us a bill," he remarked. Unmoved, Nixon wrote in response: "No. If a state approves chiropractors—the Federal government will follow that rule."[123] At the behest of Louisiana congressman F. Edward Hebert, Nixon even pushed for the establishment of a military medical school to which the Pentagon had objected.[124] Though most of his coverage proposals eventually collapsed from liberal Democratic opposition (who generally pushed for national health

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122 Source: U.S. Department of Labor, *Employment and Training Report of the President, 1982*, and Sobel, ed., *Inflation and the Nixon Administration*, 90, 96, 112, 180, 279. Inflation often displayed similar variation. Johnson's CEA found, for example, that much of the food price inflation in the 1965-1968 period came from ghetto merchants gouging their local customers.

123 Memo, Stephen Bull to Nixon, June 12, 1969, Special Files, President's Office Files, President's Handwriting, Box 2, Nixon Presidential Materials, National Archives. When Finch hoped to nominate liberal Boston physician, John H. Knowles, to the Assistant Secretary post, John Tower, Everett Dirksen, and the AMA convinced Nixon to pull the plug on the Knowles nomination sent to him in June 1969. "There's no reason to alienate a large group of contributors," Tower advised Nixon. Cited in Wolinsky and Brune, *The Serpent and the Staff*, 73-74. Quotation in ibid., 74.

124 Daniel Rapaport, "F. Edward Hebert—A Credit to His Race," *Washington Monthly*, June 1974, 25-30. Hebert was interested in the project, in part, because he hoped to appoint a physician friend to the school's Board of Regents—Dr. Ashton Thomas of New Orleans. "Can he read and write?" Nixon asked Hebert. "I don't know," replied Hebert, "he went to Whittier." In defense of Nixon, here, Hebert, as chairman of the House Armed Services Committee, threatened to withhold the annual military appropriations bill if the school was not given approval.

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insurance schemes instead) and diversions such as the creation of "the plumbers" unit and the ensuing dirty tricks campaign, cost containment was abandoned completely and never retrieved.

Railing against socialized medicine at the same time that he proposed to socialize more of the industry's costs, and counting on free market mechanisms to control industry prices when none really existed, Nixon allowed health care costs to continue rising unimpeded. Blind to the already extensive socialization of the industry's costs, much of which predated Medicare (Hill-Burton hospital construction funding, Medicare/Medicaid depreciation allowances, and investment tax credits, for example), Nixon pressed the "socialized medicine" theme persistently. "When I go to a hospital, or when I call a doctor, I want that doctor to be working for the patient, and not for the federal government, and that is what this is all about." When a Miami reporter inquired about Nixon's personal physician, his publicists had to admit, sheepishly, however, that the President's doctor was Walter Tkach, a major general in the Air Force who worked at Bethesda Naval Medical Center.[125] Though many economists predicted a slowly diminishing rate of increase for health care costs as Nixon took office, including many of those who disagreed with Nixon's basic economic strategy, the gap between health care inflation and the consumer price index remained steady throughout the Nixon presidency, even widening somewhat in 1969.[126]

Moreover, while Medicare administrative costs had actually decreased from FY 1967 to FY 1968, from $223 million to $221 million, these same expenses balooned to

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125 Quoted in "Tidbits and Outrages," *Washington Monthly*, May 1974, 53. This is the same physician who, in 1969, once recommended to Nixon that sleep was not a real necessity. See Haldeman, *The Haldeman Diaries*, 28. See also ibid., 164, where Haldeman notes how Ehrlichman told Nixon "he was tired and not very effective. This made him mad, and it came up several times later in the day. Real trouble is, he's just toally pooped....Rogers called me very concerned about P....Feels we've got to keep him on a short leash until he gets rested up." Also ibid., 166, where Haldeman reports that Nixon was "driving himself too hard on unnecessary things and because of this is not getting enough sleep."
126 Doctors fees were advancing about one and a half times as fast as the general price index; hospital charges were rising about twice as fast. See *Consumer Price Index, Detailed Reports*, various monthly issues, 1969-1974.

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$299 million in FY 1969, with much of the increase coming in the first few months of the Nixon administration. Over the next two fiscal years these costs would rise even further, to $369 million in FY 1970 and $397 million in FY 1971.[127] Nixon continued to rely upon the discipline of the marketplace, however, even as these costs and health care prices in general continued to mount. In 1973 he introduced a program that promoted Health Maintenance Organizations (HMOs), touting them as mechanisms by which competition would soon prevail in the nation's health care delivery system. The National Health Planning and Resources Act, signed by Nixon in 1974, also proposed to bring about marketplace efficiencies. HMOs, unfortunately, never caught on until they were transformed into little more than traditional insurance plans, and the Health Systems Agencies created by the 1974 legislation did little more than create competition for federal funds, rather than competition among health care providers.[128] Responsible for "scientific planning" and the issuance of certificates of need (for new hospitals or nursing homes), these HSAs were soon besieged by lawsuits over agency boundary lines and the issuance of certificates, were dominated by health care providers, and reduced the governing power of physicians only at the expense of insurance executives and Blue Cross officials. Like the NRA of the New Deal era, this system actually proposed to reduce, rather than increase, marketplace competition, in the name of cooperative planning that included consumers. Also like the NRA, however, it only succeeded in bringing providers into closer, increasingly collusive arrangements with one another (and with the insurance industry and Blue Cross intermediaries as well) without demonstrably increasing the voice or power of the industry's consumers.[129]

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[127] See table in Marmor, *The Politics of Medicare*, 91.
[128] Having expired in 1974 (first passed in 1946) the Hill-Burton Act, providing federal grants for hospital construction, merged with the National Health Planning and Resources Development Act.
[129] See Morone, *The Democratic Wish*, 270-289, for the original version of this analysis. The NRA/HSA comparison is Morone's as well.

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The rise in Medicare administrative expenses under the Nixon administration presaged similar increases in almost all Great Society programs. On the average, these costs went from approximately 7% of all costs under the Johnson administration to approximately 22% under the Nixon administration. It is easily forgotten that programs like the Office of Economic Opportunity began under Johnson with thousands of unpaid volunteers and makeshift office arrangements, and developed into overstaffed, over-regulated bureaucratic nightmares (that, fortunately, still managed to provide some badly needed services) only under Nixon in the 1970s. President Nixon also introduced "reforms" that further lessened the efficiency of these so-called "poverty programs." A school voucher system was proposed and studied by the Nixon OEO as was the integration of commercial electronic teaching aids into public schools. The Community Development Block Grant Program paved access roads to country clubs and constructed tennis courts in affluent neighborhoods.[130] The programs seemed inherently bad and horribly inefficient for they were truly directing less and less of their efforts toward the poverty stricken citizens they were designed to help. This inefficiency and poor performance, however, had less to do with the actual programs than it did the priorities of the new administration. Programs were extended and funded to defuse the Left or to outdo specific politicians, not to accomplish their stated goals. Those that were effective, anyway, were, ironically, the subject of incessant behind-the-scenes attacks. Nixon dismissed support for the Peace Corps, Head Start, Legal Aid, and VISTA for this very reason.[131]

Even as Nixon assailed the Great Society for its "bureaucratic welfare dependency," stigmatized its mission as one designed exclusively for blacks (though 66% served by AFDC and the OEO were white), and ignored virtually all administrative shortcomings,

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[130] Fred M. Hechinger, "Education," *Collier's 1971Yearbook*, 219; Donald Kettl, *Government By Proxy: (Mis?)Managing Federal Programs* (Washington: Congressional Quarterly Press, 1988), 49.
[131] See Haldeman, *The Haldeman Diaries*, 114-115, 181.

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he allowed their costs to balloon.[132] It was simply too easy to blame all the cost overruns or inefficiencies on the programs themselves—or the Democratic opposition that supported them—and to receive political credit just by extending a vague pronouncement of support and an open sack of federal revenue. When someone suggested that he rename the Office of Economic Opportunity early in his administration, Nixon begged off, heeding the advice of Arthur Burns. "It is not clear to me that it is desirable to change the name of OEO," Burns wrote. "With its present name, the Democrats will at least share the blame. With a new name, your administration will be charged with the full responsibility..."[133] Few suggestions convinced Nixon as readily.

When the House passed Nixon's plan for welfare reform in April 1970, the famous Family Assistance Plan (FAP) devised largely by Daniel Patrick Moynihan, the President moved to insure that this symbolic effort not pass through the Senate. In June he suggested moving Moynihan to the UN (a post eventually given to George Bush after his defeat in November's congressional election) to "keep him out of HEW" and to keep the Family Assistance Plan from becoming too popular.[134] In July, Nixon went even further telling his assistants to make sure "its killed by Democrats and that we make [a] big play for it, but don't let it pass, [we] can't afford it."[135] While Nixon believed that it

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[132] On April 28, 1969 Haldeman recorded Nixon's discussion of welfare: "P emphasized that you have to face the fact that the whole problem is really the blacks. The key is to devise a systemthat recognizes this while not appearing to....Pointed out that there has never in history been an adequate black nation, and they are the only race of which this is true." See Haldeman, *The Haldeman Diaries*, 53.
[133] Memo, Burns to Nixon, March 21, 1969, Special Files, President's Office Files, President's Handwriting, Box 1, Nixon Presidential Materials, National Archives.
[134] Quoted in Haldeman, *The Haldeman Diaries*, 173. There is some question as to whether or not Moynihan, himself, might have been a willing participant in the Nixon charade. No one doubted for a minute that the FAP would add significantly to the budget, with most estimates falling around $4.5 billion for its first full year of operation. Yet Moynihan had advised Nixon on several occasions that he "can't have a domestic policy" for lack of sufficient funds. See ibid., 39. The FAP called for a direct cash payment to poor families in lieu of some federally provided services. As proposed, the minimum payment for a family of four, subject to additional state contributions, was $1600, rising to $2000 by 1973 and $2400 by 1975. Out of his opposition to Moynihan's FAP, Arthur Burns began referring to Moynihan pejoratively as "the spender." Cited in Wells, *Economist in an Uncertain World*, 31.
[135] Quoted in Haldeman, *The Haldeman Diaries*, 181.

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would never pass through Russell Long's Senate Finance Committee unscathed, he refused to take any chances.[136] Passing environmental legislation with relatively few teeth, supporting school desegregation without funds for implementation, and voicing support for integrated housing and anti-discrimination statutes without adequate enforcement were other significant parts of a domestic policy designed primarily for political, rather than social, consumption. When HUD Secretary George Romney moved a little too aggressively on the open housing front (and urged an incomes policy a little too stridently), Nixon even exploited his own administration's intentionally weak efforts to relieve Secretary Romney of his duties. "George won't leave quickly," Haldeman noted, "will have to be fired. So we have to set him up on the integrated housing issue and fire him on that basis to be sure we get the credit."[137] This was an administration, after all, that could actually countenance the idea of leaving riot-torn areas in shambles—"for shock effect."[138]

By late 1970, however, Nixon tired of playing the game. "P has changed his mind," Haldeman noted on August 9; [has] reached a new conclusion. Is convinced policy of sucking after Left won't work, not only can't win them, can't even defuse them."[139] Complaints from conservatives—that Nixon referred to as that "constant right wing bitching"—had taken their toll, but most of all the president himself was chagrined and confused by the abject failure of policies he genuinely believed in.[140] He confided in

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136 It was killed in the Finance Committee after Long added a one year residency requirement and a "man in the house" provision (to deny benefits to families with an able-bodied male head-of-household). Long called the defeat one of his "proudest moments." Quoted in Mann, *Legacy to Power*, 299,300. Compare to Johnson administration efforts to avoid this kind of a program. See memo, Okun to LBJ, July 22, 1968, Papers of LBJ, White House Central Files, LA 8, Box 33, LBJ Library, where Okun sought a remedy to the problem whereby there is an incentive for men to leave their families so the children can qualify for welfare.
137 Haldeman, *The Haldeman Diaries*, 210-211.
138 Notes, authors unidentified, Urban Affairs Council Meeting, April 7, 1969, Special Files, President's Office Files, President's Handwriting, Box 1, Nixon Presidential Materials, National Archives.
139 Haldeman, *The Haldeman Diaries*, 187.
140 See ibid., 348-349 for example of the "constant right-wing bitching" and how it annoyed Nixon (very much the way criticism from the left annoyed LBJ). "Mitchell reported on his dinner with the Reagans, at which there was a great deal of carping about a lot of trivia, mainly from Nancy Reagan....P got upset

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McCracken's gradualism, for example, and trusted that it would slow inflation and keep unemployment below 5%. It did neither, however, scrambling Nixon's vision of his own administration. "Told E [John Ehrlichman] he was seriously considering complete change in advisers," Haldeman reported, "since they failed in the one prime objective he set, to keep unemployment under 5% in October."[141] Ultimately, howevei, Nixon's economic advisers remained and were even bolstered somewhat by the recruitment of John Connally as David Kennedy's replacement at Treasury and by a ringing endorsement from Milton Friedman. Connally possessed only a superficial knowledge of economics, but admired the conservative instincts of Nixon and his economic advisers. "I should have spent more time with that boy," lamented Lyndon Johnson when he learned of Connally's new assignment. "His problem is he likes those oak-paneled rooms too much."[142] Friedman visited the White House in November 1970 and urged the President to stay the course. "Says we're in good shape if we stay with it," Haldeman noted.[143]

Assured that his economic plans were on target, Nixon was left to reason that his phony liberalism had compromised his efforts; he would now be more willing to attack. Convinced that the New Economics was something akin to the social spending he embarked upon so recklessly, or the deficits he created almost by accident, Nixon anchored the policies of his predecessor to his own inept governance (as did the American people). While the inflationary effect of these inefficiencies was small, they helped breed a growing and wholly unnecessary distrust of government intervention in

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about that, said the conservatives are aiming at the wrong target, they should be hitting the Congess, not the P..."

[141] Ibid., 211.

[142] Quoted in James Reston, Jr, *The Lone Star,* 434. Nixon economic adviser Peter Peterson described the Nixon-Connally relationship as symbiotic neuroses defined by the axiom "the rocks in my head fit the holes in yours." Connally, aware of his own lack of knowledge, did enroll in a brief, informal tutorial with William McChesney Martin before taking over at the Treasury Department. See footnote # 39, Chapter 8, for Gardner Ackley's appraisal of Martin's economics knowledge.

[143] Quoted in Haldeman, *The Haldeman Diaries*, 212. Nixon's response to Friedman's visit was to say that "it was nice to have someone say we're doing things right."

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the economy. This would clearly undermine the effectiveness of future wage-price interventions, for these worked best when adopted voluntarily. It would also shortchange those at the bottom of the economy whose lack of skills, and unfettered access to both training and critical business networks, hampered productivity and labor mobility at the same time that it produced greater income inequalities that lent themselves to price inflation in the various markets for positional goods.

Tax policy changes lent further momentum to both the inflationary and recessionary trends of the first Nixon administration. While Nixon adopted the 10% surcharge with some reluctance, he also showed little compulsion to stick with it very long (halving it in April, 1969), and he created numerous exemptions precisely where the tax was needed most—for corporate income. When former Nixon adviser Pierre Rinfret suggested a ban on consumer credit cards, a 15% tax surcharge (with implied business exemptions), and a renewed investment tax credit, as a way to dampen inflation, Arthur Burns fired off a memo attesting to the wrongheadedness of Rinfret's proposal and to the investment demand problem in general. "I cannot support the suggestion of the President's friend," Burns wrote. "In the first place, it is not the consumer who is adding heavily to aggregate monetary demand at the present time. Heavy pressure is coming from business spending and government spending."[144] Haldeman's diary entries for 1969, however, suggest that Burns had been shunted aside.[145] Whatever the reason, Nixon did not heed Burn's advice, and by 1971, with the 1970 recession made official, he moved increasingly toward supply side tax incentives.

On January 11, 1971 Nixon unveiled liberalized depreciation allowances similar to the kind adopted by President Kennedy in 1962. Retroactive to January 1, 1970 they

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[144] Memo, Burns to Staff Secretary, December 19, 1969, Special Files, President's Office Files, President's Handwriting, Box 4, Nixon Presidential Materials, National Archives.
[145] See Haldeman, *The Haldeman Diaries*, 41, 54, for example. On March 17, 1969 Haldeman noted "Poor E has to untangle all this and Arthur Burns is now driving him nuts, as he did me (and still does)." And on May 7, 1969: "Huge Burns flap because he didn't get in to see P about two sentences in hunger message....Feels if he can't get in when he wants to he'll have to quit. No more need for him."

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represented, like the Kennedy administration changes, a substantial (approximately $2.6 billion) tax reduction for business. Unlike the Kennedy depreciation allowances, however, they came at the end of a seven year investment boom, and at a time when factory utilization rates were exceptionally low (73%). The chances were simply much greater in 1971, as opposed to 1962, that the liberalized depreciation allowance would amount to little more than a giveaway with almost no impact on job creation. With one fourth of the nation's industrial capacity laying idle, and with the federal government picking up a larger portion of any potential investment outlay, the chances were great, indeed, that any new investment would serve primarily to *replace* members of the workforce, workers made relatively more expensive by the accelerated depreciation.

When Nixon closed the gold window and introduced mandatory wage-price controls on August 15, 1971, few noticed that significant tax changes were proposed then as well. At the Camp David meetings two days prior to Nixon's shocking announcements (Friday the Thirteenth), Treasury Secretary John Connally explained the logic behind the new round of supply-side tax incentives. "If we close the gold window," Connally said, "we'll need an import tax of 10-15%. This will keep foreign products out and be inflationary [as would the closing of the gold window], so we'll need a further stimulant: we will reinstate the investment tax credit at something greater than 7% [the rate of the last ITC removed in early 1969]."[146] Echoing the perverse logic of the National Association of Manufacturers and the Allied Products Institute, who saw this "stimulant" (the ITC) as an *anti-inflationary* device designed to spur efficient production, Connally laid bare much of the rationale for his predecessor's hasty departure in late 1970. After all, David Kennedy, replaced by Connally in December,

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[146] Quoted in ibid., 341. See 341-344 for Haldeman's record of the critical August 13, 1971 meetings at Camp David. Johnson and several Democratic congressman had pushed for a repeal of the ITC in 1968. It was largely held up, however, by Senate Finance Committee chairman Russell Long's concurrent struggle for check-off box financing of presidential campaigns. Mike Mansfield criticized Long vociferously for this unnecessary roadblock. See Mann, *Legacy to Power*, 251.

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had gone on record *against* the reimposition of the ITC. In testimony before the House Ways and Means Committee in 1969, Kennedy sounded much like Heller, Ackley, or Okun: "I would have been reluctant to recommend the removal of any measure that assists in keeping U.S. business competitive. But it now appears that the consumer demand to be generated by our economy in the foreseeable future will provide sufficient impetus for industrial modernization without the investment tax credit."[147]

Along with the new investment tax credit—on the books at 10%—came approximately $9 billion in additional income tax reductions weighted heavily in favor of corporations, the removal of the existing 7% excise tax on automobiles, and an increase in the level of the personal income tax exemption. Weighted slightly less favorably toward corporations than Nixon and Connally had originally planned, due to the handiwork of congressional Democrats, these moves still constituted a significant step away from the New Economics and toward the "trickle-down" economics of old.[148] Moreover, the increased personal exemption and the slightly lowered personal income tax rates, favorable as they were at the time, eventually failed to offset the imposition of higher payroll (Social Security) taxes, particularly after January 1973, when rates had to be adjusted to pay for the 20% increase in benefits introduced the previous October.[149] Corporations would pay much less under the new plan; most consumers at the bottom of

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[147] Quoted in King, *Money, Time, and Politics*, 332. "P...wants to wait until after elections [1970] and clean out Cabinet, especially Hickel, Romney, and Kennedy." Quoted in Haldeman, *The Haldeman Diaries*, 168.

[148] Interviewed on NBC's *Meet the Press*, on October 17, 1971, Walter Heller referred to the President's August 15 proposals as "raw meat for business and a soup bone for consumers," but also noted that "the interesting thing is that a democratic Congress may save him from himself by putting more thrust into that tax program and more balance between business and consumers. It would be an irony if the success of his fiscal program attributable to a Democratic congress would put him back in office." Transcript, *NBC's Meet the Press*, October 17, 1971, LBJ Post-Presidential File, Economy-National, Inflation, Box 13, LBJ Library, 9.

[149] As it was with many of Nixon's economic decisions, particularly those with obvious short term effects, the Social Security benefits-to-taxes ratio was manipulated carefully to provide a fiscal boost before the 1972 election and to effect an inevitable fiscal drag (to remain on a sound actuarial footing) only after the November 1972 votes had been counted. The benefits increase, implemented in October 1972, accounted for much of the year's 3.3% rise in real disposable income, one of the clearest measures of voters' economic confidence and well-being. Cited in Wicker, *One of Us*, 562.

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the economy would, by 1973, actually pay more.[150] Aggregate demand and the economy in general would suffer as a result.

Where Johnson had tried to show American businesses how fortunate they were, and how they prospered most when they acted on behalf of those who worked for them and purchased their products, Nixon encouraged the less savory side of the business personality, teaching them to scapegoat an ever-changing variety of hobgoblins, from "monopolistic" labor unions, and "outrageously expensive" social programs to the "distortions" of the war in Vietnam. Ironically, the more Nixon and corporate America indulged in this behavior, the more they came to believe in profits that were less and less a function of corporate market performance, and the more they altered—for the worse—the fundamental nature of their customary scapegoats. As they came to depend more and more upon supply side favors and less and less upon viable markets, corporations tended to encourage both "business unionism"—which simplified corporate management as it inflated wage packages—and winner-take-all contests with the rest of the labor force, making it more difficult to remember the welfare of the nation's consumers and more necessary for these workers and consumers to act solely in their own interest. If government contracts were an accepted part of the supply side repertoire, as they most certainly were under Nixon, then military spending in general, even after Vietnam, became even more of a distortion. And if businesses had to prosper

[150] Though it is often asserted that Social Security increases are unavoidable because of their actuarial basis, a phenomenon Nixon never understood anyway, this ignores the vast potential for controlling the costs (such as Medicare) that impel the actuarial revisions. See Wilbur Cohen, Oral History Interview, Interview II, 7-8, where he discusses Wilbur Mills understanding of the actuarial basis of the Social Security system, and Nixon's ignorance of the same. Nixon, for example, pushed for the removal of the retirement test—a critical part of the system's financial soundness, a move thwarted, for the most part, by Wilbur Mills. Mills did adopt uncharacteristically harmful benefits increases during his 1972 run for the presidency, changes that were largely triggered by his descent into alcoholism, one of the most out-of-control presidential campaigns ever, and his Emil Jannings-like affair with Washington D.C. stripper Fanne Foxe. Unfortunately, Nixon encouraged the change, thankful that the first checks under the new benefits schedule found their way to voters' mailboxes in early October, approximately one month prior to the 1972 election. He even went so far as to enclose a letter with the checks explaining how the increase had come from a bill "signed by President Richard Nixon."

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first, before consumers and workers could benefit, social programs would only become more necessary and more isolated from the general economy, becoming, as a result, much more expensive and ineffective than they should have been. Taught to settle for "crumbs from the groaning board," along with diminished opportunities in the general economy, America's underclass could not help but seek bigger and bigger crumbs, and the nixon administration found itself fulfilling another one of its more prominent self-fulfilling prophecies.[151]

Disguised only weakly by the rubric attached to the whole package (the New Economic Policy) but greatly by the shock of the accompanying international monetary changes and wage-price freeze, Nixon's economic counter-revolution proceeded haltingly, at times even without affirmation from its creator and sponsor, but with great destructive force. His policies were an economic watershed, almost invisible at the time, that augmented inflationary tendencies once cornered by the previous administration; that made it increasingly difficult for corporations to hear what the market said to them, and that returned the nation to a zero-sum political economy where "sharing the gains" quickly became a quaint notion destined for oblivion. Moreover, as one commentator recently suggested, Nixon's mistakes were gifts that kept on giving.[152] His sudden abandonment of the Bretton Woods international monetary system on August 15, 1971, for example, led partly to the 1973 and 1978 oil crises that made the Nixon inflation—and the Nixon economy (with 9% unemployment by 1975)—that much more ineradicable.

Indeed, oil price increases of approximately 400% in October and December 1973, that sent the price of oil from $3.01 per barrel to $11.65 per barrel, came largely because

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[151] This phenomenon also made it easier for conservatives to win economic policy debates, albeit for the wrong reason. Many social welfare programs have become costly (though not nearly as expensive as most people imagine them to be) and convenient targets for economic conservatives. This has transpired, however, largely because conservative, rather than liberal, ideology—since the Nixon administration—has reasserted its dominance.

[152] Jonathan Rauch, "What Nixon Wrought," *The New Republic*, May 16, 1994, 31.

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Nixon chose deflation of the dollar as an easy way out of the gold crisis looming before him.[153] Moreover, the key player in the OPEC price rise—the Shah of Iran—had also embarked upon a spending spree for American military hardware largely at the behest of President Nixon, who received, for his part, a seemingly powerful cold war proxy and an additional source of profit for American corporations.[154] Unfortunately, this made the value of Iranian oil dollars that much more significant. Since all oil sales in the non-communist world were denominated in U.S. dollars, the Shah found himself pinched by staggering arms purchases on one hand and by a cheaper dollar on the other—both direct results of Nixon administration policy changes. Having already rejected a barter proposition in 1969, where the Shah proposed to fill the U.S. Strategic Reserve (at the rate of $1 per barrel) in exchange for an equivalent supply of arms, Nixon continued to ignore the obvious financial implications of his August 15 decision.[155] By June 1973, the U.S. dollar had undergone three successive devaluations, beginning with the

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[153] Nixon had ample warning that this might be the case, for the Shah of Iran had complained as early as the Caracas OPEC (Organization of Petroleum Exporting Countries) meeting in December 1970 that dollar devaluation was making his oil less valuable. After the August 15, 1971 announcement he spoke up again, requesting an adjustment in taxes paid to OPEC nations (by oil companies) based on monetary changes (dollar devaluation).

[154] From 1972-1977, Iran, under the Shah's leadership, would spend approximately $16 billion for American military hardware, an outlay that would increase the Iranian military budget by 700%. Cited in Walter Isaacson, *Kissinger,* 564. Compare to the Kennedy-Johnson relationship to the Shah, where in May, 1961 the Kennedy administration compelled the Shah to name reform-minded economist Ali Amini to the prime ministerial post, and where in August, 1962 Vice-President Johnson returned from Teheran after convincing the Shah to emphasize socioeconomic spending over military spending. See Amin Saikal, *The Rise and Fall of the Shah* (Princeton: Princeton University Press, 1980), 76-77.

[155] In Nixon's defense this proposal was clearly a tough call in 1969. The Johnson administration had studied the feasibility of underground storage after the 1967 Arab embargo and pronounced it impractical for the following reasons: 1) Have to use expensive pumping equipment; 2) Unfavorable economics--using $2/barrel for Mideast oil and a figure of 1$/barrel storage cost, then the storage of 500 million barrels represents a $1.5 billion investment. For comparison, the oil industry in 1965 spent in the U.S. $675 million to obtain 583 million barrels of new reserves plus 6.5 trillion cubic feet of natural gas; 3) The productive capacity of U.S. wells which was roughly equal to our total consumption and slightly greater than our refinery capacity; 4) During 1967 crisis, production increased 8% within a month, and approximately 12% after two. See letter, Cordell Moore, Assistant Secretary of the Interior, to Senator Fred Harris, July 20, 1967, Papers of J. Cordell Moore, Box 4, LBJ Library. Nixon, of course, had $1/barrel oil to work with, making the proposition somewhat more attractive. To effect the same arms sales profits, however, under the barter plan, he would have had to expand the U.S. military budget precisely when everyone was clamoring for a Vietnam peace dividend.

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Smithsonian agreement in December 1971. U.S exports soared initially, in predictable fashion, but Nixon continued, blindly, to count on the eventual strengthening of the American dollar. "Poor old Nixon was not a deep thinker in these matters," Paul Volcker recalled. "He had no intellectual conviction about floating [currency rates]."[156]

To make matters worse, Nixon also failed to respond to the brewing oil crisis with the great number of tools and weapons he had at his disposal. He ignored the implications of the Alaska pipeline, for example, and the estimated 1.5 million barrels of oil it would carry each day, even though U.S. demand was now outpacing the discovery of new domestic reserves for the first time ever (beginning in 1968). Originally scheduled for completion in 1972, the pipeline alone would have given the U.S enough leverage to circumvent the 1973 oil price rise. Choosing benign neglect, however, Nixon did nothing to expedite the pipeline project, but threw a variety of obstacles in its path instead.[157] "The United States is not in the oil business," declared Nixon's Undersecretary of State John Irwin in 1971, "and does not intend to become involved in the details of the producing companies negotiations with the oil

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[156] Quoted in Wicker, *One of Us*, 555. Herbert Stein noted that business leaders "did much to convince the conventional conservatives [and Nixon] of the virtue of free exchange rates." (These business leaders were clearly constrained—as they should have been—by the Kennedy-Johnson system of international economic controls, such as the Interest Equalization Tax, and they desired some short term compensation for their trouble.) Quoted in ibid., 547. These controls were part of a much more rational approach to a two-part problem—a balance of payments deficit, and a separate gold crisis—both of which had been exacerbated by a huge flow of dollars to foreign countries (especially European nations). While the unilateral devaluation, set in motion by the August 15, 1971 decisions, was purported to be a response to both problems, it was in actuality only a response to the gold crisis, a crisis that was as much a psychological problem as it was a real economic dilemma.

[157] These range from the careless framing of litigious environmental legislation designed less to protect the environment than to appease environmentalists; the hiring and firing of an Interior Secretary (Wally Hickel of Alaska) who was at first too combative—announcing immediately that he would disregard Johnson Secretary Udall's pledge concerning Native land claims, and then too much of an irritant to Nixon—helping to keep Nixon aloof from the whole pipeline embroglio; an apathetic approach to the Native Land Claims issue—allowing the Alaskan business community and Bar Association to lambaste Arthur Goldberg's efforts at resolution (the Bar Association was peeved because Goldberg offered his services free of charge); and an effort to cut in the Teamsters, who promptly built a useless road throught the arctic tundra that did little more than raise the ire of environmental groups, dragging out construction negotiations even further. See Jack Anderson, with James Boyd, *Fiasco* (New York: Times Books, 1983), 59-78, 113-159.

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companies."[158] The same could have been said about the details of domestic oil production. While the U.S. was in the oil business, as they were in many others, Nixon saw things only from the supply side; to him the enormous subsidies, price supports, tax breaks, and tax incentives that the industry thrived upon were somehow analagous to the free market. Intervention on the supply side, as Nixon sized things up, no matter how extensive, never really counted. In that light, Nixon saw no cause for alarm in the early 1970s for he was largely indifferent to the demand side, where the real trouble lay. OPEC had clearly effected substantial price rises, even before October 1973, and oil companies had begun to notice a decline in their *share* of foreign oil revenues. The companies had, nonetheless, also witnessed a substantial rise in their profit margins.[159] This was incontrovertible good news to Nixon, for he was sold on the idea that these kind of profits made the American economy rattle and hum. Even as late as 1972, then, he was still "relaxing and enjoying the inevitable," as he put it, and brushing concerns over pipeline construction and domestic oil supply under the rug. On March 27, 1972 Haldeman noted:

> He [Nixon] had a meeting with [Secretary of the Interior] Morton today about the Alaska pipeline and was concerned that the idea of running it through Canada was not good because we're losing jobs in Alaska, and even though Alaska's unimportant, its going to sound bad here. The thing of it being good internationally is useless to us and the environmental pluses are questionable at the least. Jobs are more important than either one of those. So the question is whether its worth breaking it off in Alaska now or should we just screw around with it until after the election.[160]

Nixon also missed the opportunity to reform the infamous Oil Depletion Allowance, and therefore the opportunity to increase domestic exploration, by refusing to budge on his 1968 campaign promise to stand by the legendary handout. As much as he wanted to jump on the tax reform bandwagon, largely to avoid being run over by it,

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[158] Quoted in ibid., 266.
[159] While their share of the profit split had gone from 80% to 60% from 1970 to mid 1973, company profits had risen from 30 cents per barrel to 90 cents per barrel. Ibid., 287.
[160] Haldeman, *The Haldeman Diaries*, 432.

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and as much as he prided himself on successfully gauging public opinion, Nixon failed to heed signs, here, that revealed even the industry's willingness to compromise on the Depletion Allowance. A so-called "plowback" provision, that would have required investing tax reduction money into new exploration, was the chief reform proposal. The primary defect of the Depletion Alowance, its detractors claimed, was that it coexisted with a industry controlled regulatory system that sought to dampen supply (to keep prices high) while the whole rationale for the subsidy in the first place was to offer an incentive to discover or develop new gas and oil deposits. A plowback provision, or something akin to one, was even acceptable to oil state legislators such as Hale Boggs and Russell Long of Louisiana who proposed shifting the benefits of the Depletion Allowance to the exploration minded independents and away from the big oil companies.[161] In the end, however, Nixon showed nothing but apprehension one way or the other, and the Oil Depletion Allowance emerged at 22% instead of 27.5%, but with no real incentive for exploration. Since lower production had always implied higher profits for the oil industry, and higher profits remained Nixon's primary economic goal, he saw no reason to change what had always been a phony rationale into a genuine goal. Reversing the trend of the Johnson years, domestic exploration and production declined throughout Nixon's first term in the White House (12% over the first three years), just as he wanted it.

Even after oil prices rose to $11.65 per barrel in December 1973, Nixon and his economic advisers still saw little need for concern. What they saw instead were oil companies flush with cash, presumably ready to play their part in spurring the U.S. economy to a higher plateau.[162] When Energy Czar William Simon recommended rolling back prices with domestic control changes, CEA chairman Herbert Stein, reflecting Nixon's laissez-faire orientation, warned that doing so would only increase the

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[161] Anderson with Boyd, *Fiasco*, 92.
[162] Exxon's 1973 profits were 59% higher than their 1972 profits. Cited in Daniel Yergin, *The Prize*, 658.

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length of the now customary gas lines. Cut the demand instead, Stein suggested, by letting gasoline prices go up another 10 cents.[163] Likewise, when James Akins at the State Department released a study in early 1974 suggesting conservation, increased domestic production, and the importation of oil from "secure" foreign sources (already up from 2.2 million barrels per day in 1968 to 4 million barrels per day in 1973), chief domestic policy adviser John Ehrlichman brushed him aside, informing Akins that "conservation is not the Republican ethic."[164] Saudi Arabian representatives even urged Nixon to exploit OPEC's dependency upon American technical advice, transportation, and distribution networks—all to no avail.[165] An economic cataclysm in almost every way except for its impact on short term oil company profits, the 1973 oil crisis was as much a product of the New Economic Policy and the Nixon approach to political economics as it was an OPEC invention. The U.S. and much of the developing world, would pay dearly for this monumental policy blunder.[166]

Richard Nixon, H.R. Haldeman noted in early 1969, "was most anxious to avoid any appearance of being like LBJ."[167] On fiscal, monetary, and wage-price policy alike, it seems that he should not have had much of a struggle, for he was clearly not Lyndon Johnson. Stark economic policy differences, however, had become blurred, precisely

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[163] Cited in Rowen, *Self-Inflicted Wounds*, 91.
[164] Quoted in Yergin, *The Prize*, 591. Import statistics (regarding Latin America, Canada, Asia, and Oceania) from Anderson with Boyd, *Fiasco*, 86-87.
[165] There were five similar crises with the Shah of Iran during the Johnson administration. In all five cases Johnson applied economic leverage mindful of the obvious OPEC dependency upon the American oil companies and their technological and marketing assets.
[166] One of the least obvious results of the embargo and the higher oil prices was its impact on indebtedness in the developing world. Petrodollars went from U.S. banks to developing countries so they were able to make payments on their more expensive oil imports. Indebtedness rose with oil prices, austerity programs were introduced in the debtor nations, those nations' demand for imports other than oil (often American products) declined, and an important source of American export trade remained bottled up or in decline. As Robert Kuttner has pointed out, this also led the Nixon administration to urge Latin America to produce more agricultural products, with which to service its growing mountain of debt, driving down commodity prices by the end of the decade to the point where the illegal drug trade became a much more profitable alternative. See Robert Kuttner, *The End of Laissez-Faire: National Purpose and the Global Economy After the Cold War* (New York: Knopf, 1991), 248.
[167] Haldeman, *The Haldeman Diaries*, 26. In this particular case Haldeman referred to LBJ's poll-watching tendencies; the appraisal still commends itself to a more general application.

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because Nixon wanted it that way. Had he clarified the sharp break in outlook and policy that actually occurred, all problems would have been identified with his own administration, a risk he was utterly unwilling to take. "He had done a magnificent job on the politics of his problems," suggested Stephen Ambrose.[168] Indeed, economic problems of his own making were somehow charged to others; Lyndon Johnson, Democrats in Congress, and Keynesian economists were all implicated for the shortcomings of gradualism, monetarism, and blind faith in a profit-centered economy. Economic adviser Herbert Stein maintained, however, that "Mr. Nixon did not come into office to make a conservative revolution in economic policy."[169] This is true enough, for there was no conservative revolution to make in the first place. The New Economics was revolutionary; the New Economic Policy was not. Change was the hallmark of the Nixon economic strategy, but it was change marked by a return to an older, still widely cherished way of explaining the economic world, an outlook that Nixon's predecessor had hoped to consign to oblivion. Nixon truly was "one of us," as Tom Wicker has suggested. His strengths and shortcomings were often vivid reminders of the nation's most common, and sometimes compelling attributes.[170] Tragically, in the political economy, this implied little more than a steadfast unwillingness to see things as they were, the restoration of a creed devoted to profit, and an outlook where poverty stemmed more from the pathology of the poor than from limited opportunity. Though all bets were off at the beginning, the Nixon administration ultimately chose Herbert Spencer and Adam Smith over John Maynard Keynes, consigned the nation once again to a "stop-go" adhocracy, and buried the promise and challenge of the New Economics beneath the rubble of heightened partisanship, zero-sum politics, and stagflationary

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[168] Ambrose, *Nixon*, 662.
[169] Stein, *Presidential Economics*, 206.
[170] Wicker, *One of Us*, 687.

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economics. A political and economic course had been set on a divisive and disabling trajectory. The Keynesian revolution remained the revolution that never was.

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Chapter 10
You Say You Want a Revolution:
LBJ and the Economy Reconsidered

> You say you want a revolution—well you know, we all want to change the world....You say you got a real solution—well you know, we'd all love to see the plan.
>
> - John Lennon/Paul McCartney, 1969

> The slogan of the yippies is: 'Rise up and abandon the creeping meatball!' The straight press thought that the 'creeping meatball' meant Lyndon Baines Johnson and that we wanted to throw him out of office. We just laughed because we love LBJ. LBJ was our leader, founder, guru. Where would we be without LBJ?
>
> - Jerry Rubin, 1970

History will never tell us what a Johnson presidency would have meant in the 1969-1973 period. It does make it apparent, however, that Nixon's management of the economy differed fundamentally from that of his immediate predecessor. Reviving old, not yet interred, stereotypes and myths about the economy—partly to win political favor, and partly because he believed in them—Nixon brought about changes in the nation's political economy that were as immediate as they were profound. He recklessly and without hesitation abandoned the Johnson anti-inflation policy, built around the wage-price guideposts and increasingly balanced fiscal and monetary policies. He unleashed inflationary forces that he chose not to contain and was eventually compelled to introduce mandatory price and wage controls that exacerbated both inflation and

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economic inequality just as they removed the political possibility for a more limited, equitable, and effective type of intervention.[1] He reintroduced and extended a series of supply side tax benefits, subsidies, and preferred contractual arrangements, convincing gullible citizens—and himself—that these were not a drain on the public treasury, a way to dilute already marginal market forces, or a serious misallocation of resources in an economy with shrinking capacity utilization and increasingly unstable consumer demand. Unlike his predecessor, he chose not to see supply side measures as tools of limited usefulness but tended to view them collectively as an economic panacea. All together, Nixon restored to American politics not so much laissez-faire economics—which never existed in the first place—but the politics of scarcity and a zero-sum economic strategy.[2] Gains for one group now often meant, once again, losses for another, and economic strategy mirrored and intensified the zero-sum phenomenon of inflation itself, a process by which producers, debtors, and small groups of favored workers benefitted at the expense of everyone else. As a consequence, inflationary tendencies became more rather than less embedded in conventional economic practices of the private sector.

Requiring more growth to reproduce employment and GNP effects comparable to that of the Johnson political economy, Nixon's supply side approach also placed the

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[1] According to Robert E. Smith, senior staff member of Johnson's Cabinet Committee on Price Stability, had Hubert Humphrey been elected in 1968, it is likely that plans to reinvigorate the guideposts and to establish "industry desks" in approximately fifteen of the most inflation prone industries would have been implemented (modeled partly after the seminars with business leaders in chemicals, machinery manufacturers, and household appliance manufacturers held by Stanford Ross in August 1967). See Cochrane, "Moral Suasion," 288n, 275. When a number of Jimmy Carter's economic advisers suggested the readoption of the Kennedy-Johnson wage-price guideposts, for example, neither President Carter nor organized labor was very keen on the idea. George Meany of the AFL-CIO (who had walked off of Nixon's Pay Board in 1972) ridiculed the notion of a return to wage-price jawboning as "wishboning." Though Charles Schultze, Johnson Budget Director, was Carter's CEA Chairman, he was not part of Carter's inner circle; throughout the 1970s and 1980s the power and significance of the CEA diminished significantly. See Burton I. Kaufman, *The Presidency of James Earl Carter, Jr.* (Lawrence: University Press of Kansas, 1993), 71, 80.

[2] See Lester C. Thurow, *The Zero-Sum Society* (New York; Basic Books, 1980), for a more extensive examination of the zero-sum idea. Thurow, an M.I.T. economist, served briefly on the Johnson CEA staff in 1965-1966 as a manpower specialist.

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nation more squarely on a collision course with both foreign competition and environmental limitations. Inflated costs that were painless, even profitable, to many corporations, and production levels less and less tied to marketplace demand insured that this would be the case. Anxious to be environmentally active, to head off Edmund Muskie's candidacy in 1972 and to placate a burgeoning environmentalist movement, Nixon soon realized, however, that his economic policies were incompatible with environmental limitations, and that something had to give. "We have gone overboard on the environment," Nixon complained to John Ehrlichman in 1971, "and are going to reap the whirlwind for our excesses—get me a plan for cooling off the excesses."[3]

The return to a supply side approach and greater income inequality, ushered in by the Nixon administration, meant greater environmental degradation even as it implied slower growth and higher unemployment.[4] Although Johnson and his economic advisers had demonstrated the economic value of stable markets, Nixon revived the debate, thought by many to have been settled in the 1960s, over how one could best insure this stability. Under Johnson, and for the first time in U.S. history, Keynesian

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[3] Quoted in John Morton Blum, *Years of Discord*, 402.

[4] The Savings and Loan crisis of the 1980s and 1990s may best symbolize this tendency. The outgrowth of a supply side approach to banking success, this crisis created a vast supply of unusable real estate (representing unnecessary environmental degradation) just as it soaked up vast sums of the taxpayers' money. It also speaks for the real economic *benefit* of regulation since the savings and loan crisis--as a product of deregulation--will probably wind up costing the taxpayers approximately four times as much as *all* regulations cost all businesses ($300 billion to $76 billion). See Murray L. Weidenbaum, *The Costs of Government Regulation of Business* (Washington, U.S.G.P.O., 1978); Weidenbaum, *The Future of Government Regulation* (New York: Abacom, 1979); and Schwarz, *America's Hidden Success*, 98-107 for an appraisal of the costs of regulation circa 1976-1980, just before the savings and loan crisis began to take shape. Weidenbaum's work was used to justify deregulation; Schwarz showed how Weidenbaum contradicted his own research in assessing the total cost of all regulation (Weidenbaum based his final figure of $100 billion on a 20 to 1 multiplier that reflected the ratio of administrative costs to overall costs; Schwarz revealed how Weidenbaum's own research showed this multiplier to vary from one regulatory area to another). Even when the crisis was acknowledged, its supply side roots were still overlooked. Consequently, supply side inefficiencies, largely responsible for the problem, were also evident during the cleanup. As Jonathan Silvers noted, "private sector efficiencies were imposed on what had been conceived as an orthodox [public] bureacracy. Redecorated offices, bonus pay and other amenities led to a $50 million restructuring at the RTC [Resolution Trust Corporation]--defended on the grounds that the RTC had 'more assets than Citibank.'" See Jonathan Silvers, "Motivated Seller: The Great S&L Giveaway," *The New Republic*, January 25, 1993, 12.

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macroeconomic and microeconomic tools achieved it by helping to adjust demand to supply and by teaching producers to follow and to buttress demand once it reached satisfactory levels. Under Nixon, in a return to the more traditional approach, large corporations were once again encouraged to serve as the primary safeguard against market instability, largely by adjusting *supply to demand* when the latter exhibited weakening tendencies. Since Nixon's supply side approach also implied a willingness to rescue producers from their own forecasting or production errors—with subsidies, tax breaks, tariffs, etc.—supply and demand often had to reach levels of extreme imbalance before producers made the necessary downward adjustments. What this implied was an economic strategy, therefore, where supply—and environmental degradation—consistently outpaced the levels required for full employment and prosperity under the alternative Keynesian approach, sacrificing some employment and prosperity at the same time. Moreover, this was the case even if one assumed a stable level of *successful* business ventures. Beset by adjustments that achieved market stability only in the most halting and uneven fashion, and characterized by diminished marketplace clarity, the return to supply side economics also led, ironically, to an increase in the number of small business failures—failures that represented, in at least some respects, exploitation of the environment without which the nation would have been no less prosperous.[5]

Though the New Economics, itself, seemed to place an untoward amount of emphasis on growth, suggesting a casual ignorance of environmental limitations, it was, paradoxically, an economic strategy better suited to these limitations.[6] With full

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[5] See Ann Mari May, "Economic Myth and Economic Reality," 656-657, for statistics on percentage change in small business failures in the Eisenhower through Reagan presidencies. When Reagan unleashed a full blown version of the supply side strategy reintroduced by Nixon, small business failures showed their first percentage increase since 1955. This was the natural outgrowth of a system which heaped some special favors upon all businesses and many upon a select few, and which also encouraged the irrelevance of demand—the very lifeblood of most small business ventures. Delayed by the lag time associated with the disparate accretion of supply side favors and the accompanying diminution of marketplace clarity, the business failure bubble did take nearly a decade to burst.

[6] See Robert Collins, "Growth Liberalism in the Sixties," 19-28, for a recent analysis of Johnson's economic strategy and its relationship to environmental limitations. Collins asserted, incorrectly, that

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employment and steady demand, supply would not outpace demand as readily and rising economic equality would better enable the nation to adjust its economic appetite, for it would not then entail as much of a sacrifice in terms of jobs and subsistence on the part of the most often penalized underclass. Still convinced, early in the Nixon administration, that economic equality was on the rise and that the new President could go only so far in destroying the prosperity generated by his administration, Johnson recommended just such an adjustment, implying as well that the wealthiest Americans could easily afford to trim their sails. "We're the wealthiest nation in the world," he remarked, "we need to appeal to everyone to restrain their appetite. We're greedy but not short on the wherewithal to meet our problems."[7] Just as it was with inflation, however, the reversion to a more conservative economics warranted *greater* sacrifices—in terms of employment and overall prosperity—just to insure a *constant* level of amelioration.

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supply side measures were Johnson and Heller's primary means to growth and that they operated "freed for the moment from the discipline of stringency." He did attest to the complexity of Johnson's growth liberalism, however, by citing Johnson's concern for the environment as well as his desire to transcend growth with an emphasis on quality. He also noted how Johnson signed into law over three hundred conservation and beautification measures entailing outlays of over $12 billion. Collins ultimately ignored, however, the extent to which the New Economics was a step in this direction (perhaps because he considered it a supply side variation and not the demand side revolution that it was) and also suggested that sincere as Johnson was about "quality," he really did not know how to achieve it.

[7] Quoted in "The Time Machine," *American Heritage*, February 1990, 42. Statistical evidence suggests that the Johnson years exhibited the most equitable distribution of wealth in the post World War II period. In terms of the percentage of income garnered by each group, the top quintile reached its lowest point then (35.5%), while the second lowest quintile also reached its peak during the Johnson years (12.2%). The lowest quintile reached its peak during the Nixon administration (5.5%), reflecting both the residual effects of the Great Society and the New Economics as well as the beginnings of Nixonomics when the second and third lowest quintiles were taxed more (Social Security increases) and offered less in the way of employment (recessionary macroeconomic policy) partly to keep the lowest quintile afloat. Source: *Statistical Abstracts of the United States* (Washington: U.S.G.P.O., various years). See also Morgan Reynolds and Eugene Smolensky, *Public Expenditures, Taxes, and the Distribution of Income, 1950, 1961, 1970* (New York: Academic Press, 1977) for an examination of changes in income inequality using Gini coefficients (which measures how far a Lorenz curve of income distribution varies from a diagonal representing a line of equal distribution). Reynolds and Smolensky suggested that after taxes and government transfers--assuming the usual tax breaks for the wealthy and the "leaky bucket" appraisal of aid to the poor--income inequality lessened somewhat in the 1960-1970 period (represented by lower Gini coefficients). What was striking, but also suggestive of the ability of corporate America to withstand both marketplace (tightening labor markets) and government (tax and wage-price policy) forces, were the *increased* Gini coefficients over the same period when Reynolds and Smolensky considered income *before* taxes and government transfers.

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This would make an appeal for restraint, critical and necessary as it was, much less attractive or even sensible.[8]

Left-wing opponents of the Johnson administration also played a significant role in this transformation by helping to undermine the political economy best able to withstand the onslaught originating with their more powerful conservative counterparts. "Leaders of the New Left demanding 'Power to the People'," Richard Nathan noted, "flailed away at national bureaucracies in the same way that conservative governors Wallace of Alabama and Ronald Reagan of California won applause by criticising governmental 'paternalism."[9] Partly out of their opposition to Johnsonian liberalism, the counterculture of the 1960s unwittingly surrendered economic strategy to economic conservatives, and subordinated their vision of environmental limitation to a greater, and much more conservative, consumer culture that was only seemingly more democratic; a culture that drew much of its appeal from rising inequality and which also encouraged rootlessness ("new and improved!") and cynicism ("buyer beware!") even as

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[8] Liberals who claimed to be economic conservatives but social liberals often ended up, because of this phenomenon, sacrificing the feasibility of the few liberal policies (like environmental protection) they clung to. For a closer look at Johnson's outlook on environmental issues see Johnson, "Remarks at the University of Michigan," May 22, 1964 (The Great Society speech), *Public Papers, 1963-1964: I*, 704-706; Johnson, "Remarks to the Delegates to the White House Conference on Natural Beauty," *Public Papers, 1965: I*, 576-580; Johnson, *Vantage Point*, 336-340; Lewis L. Gould, *Lady Bird Johnson and the Environment* (Lawrence: University Press of Kansas, 1988); Elizabeth Brenner Drew, "Lady Bird's Beauty Bill," *Atlantic Monthly*, December 1965, 68-72; and Califano, *Triumph and Tragedy*, 81-85 (on Highway Beautification). It should also be noted that Walter Heller, Johnson's CEA chairman until late 1964 and informal adviser thereafter, was a friend and admirer of E.F. Schumacher, author of *Small is Beautiful: Economics as if People Mattered*, and champion of the idea that natural resources are *capital* rather than *income* items and that modern economics should take full account of that. Nicholas Lemann suggested that Johnson rejected Heller's vision here presumably because he "was uncomfortable with abstract concepts," and because he liked bigness. Lemann also suggested that Heller and Kermit Gordon went to the LBJ ranch during the Christmas holidays in 1963 to "talk LBJ into Community Action" and smallness (at least with respect to the War on Poverty's assistance programs). Johnson expanded Community Action, however, not because he liked bigness or thought it to be an abstract notion, but because it would not survive politically otherwise, and *he* invited Heller and Gordon to the ranch and urged them to be creative; the two economists did not have to talk Johnson into it. "Give me the ideas," Johnson often said. "I can handle the politics." Johnson, quoted by John Gardner in Hardesty, ed., *The Johnson Years*, 60. See Lemann, "The Unfinished War," *Atlantic Monthly*, December 1988, 45-48.

[9] Richard P. Nathan, *The Plot That Failed: Nixon and the Administrative Presidency* (New York: John Wiley and Sons, 1975), 15.

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it blamed these very problems on the amorphous counterculture it had so successfully exploited.[10]

Nixon also committed the nation, by limiting the War on Poverty to microeconomic, politically charged, assistance programs, to the strange belief that economic problems could somehow be solved in isolation from the broader economy. As a result, the poor, whose numbers began rising at the end of the Nixon administration, were not deemed the products of a poorly managed economy but were increasingly thought to be either victims of a welfare state that encouraged their worst behaviors, or wards of the state who were simply offered assistance too meager to produce satisfactory results. Few noticed Nixon's quiet separation of economic strategy from the War on Poverty, largely because most assumed, incorrectly, that the War on Poverty had been designed and implemented that way. Nor were many even aware of a fundamental change in economic strategy, for Nixon originally professed a desire to continue the War on Poverty, even as he launched a supply side insurgency that effectively insisted upon the survival, and gradual enlargement, of poverty so that profit could thrive. Neither the culture of poverty thesis, then, nor the welfare rights movement, both of which emerged in the late 1960s, focused on the emerging and very real predicament for most of the nation's poor: shrinking economic opportunity and an increasingly limited connection to the conservative strategies by which the general economy was beginning to be managed. Completely lost in the shuffle were the vicissitudes and advantages of a demand-oriented mixed economy, identified now not as

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[10] I concur largely with Lawrence Grossberg who argued in *We Gotta Get Out of this Place: Popular Conservatism and Postmodern Culture* (New York: Routledge, 1992), that the new anti-ideological and apolitical America has been consciously produced by the "new conservatism" working to sever connections between popular culture and politics and to construct a "mood politics" based on passion and commitment rather than facts, ideology, or institutions. Observing the first Earth Day (May 1, 1970) I.F. Stone called it a "gigantic snow job," and noted that "just as the Caesars used bread and circuses so ours were at last learning to use rock-and-roll, idealism, and non-inflammatory social issues to turn the youth off from more urgent concerns which might really threaten the power structure." See Stone, "How Earth Day Was Polluted," May 4, 1970, in *Polemics and Prophecies*, 237.

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it truly was under Lyndon Johnson and the New Economics but erroneously with a system of forced redistribution focused exclusively toward the poor. Though many of the prejudices and stereotypes that enabled this awkward transformation clearly preceded the presidency of Richard Nixon, and therefore had little to do with the nation's 37th President, it was Nixon who exploited them to the point of insuring their predominance and increasing hold cn the American electorate.

Last of all, because this transformation came largely without apprehension, it also undermined the growing credibility of economics in general and, out of the resulting confusion and frustration, unleashed a renewed racism—though of a much less overt and much more carefully coded variety than previous incarnations. In 1969 economists seemed to be the envy of social scientists everywhere; the New Economics had presumably ended the business cycle and the first Nobel Prize in economics had been awarded.[11] Two decades later, however, with the economy still suffering from the contortions and deceptions of the Nixon era, pundits began to suggest that Presidents could do very little at all to change important economic trends. The expectation that the President can manage the economy, argued Charles R. Morris in 1993, "is punishingly at variance with anything any President can credibly deliver."[12] The incoherence of the U.S. economy, however, that lent itself to this kind of an appraisal, stemmed more from confusion in the political economy than it did from its own unpredictability or unwieldiness. Obscured, due largely to the machinations and deceptions of the Nixon administration, was the salience of the Keynesian revolution—a movement that stressed, almost above all else, the unreliability and unpredictability (as well as the

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[11] The 1969 Nobel Prize in Economics went to the Norwegian economist Ragnar Frisch and the Dutch economist Jan Tinbergen for their work in econometrics and their use of mathematical models to analyze economic data. Their work seemed to indicate the potential for even greater management of the traditional business cycle. Kennedy and Johnson economic adviser Paul Samuelson won the second Nobel Prize in Economics, awarded in 1970.

[12] Charles R. Morris, "It's (Not) the Economy Stupid," *Atlantic Monthly*, July 1993, 49-62. Morris concluded his analysis by suggesting that the "background noise" is so great in any economy that all one can do to encourage prosperity is to restore confidence and integrity.

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preeminent value) of an economy *based on* a free market. Nixon *was* enamored of modern economics and urged his advisers to use it both in their public relations and their policymaking efforts. Convincing the nation that he was a Keynesian, however, as he destroyed the very fiber of the nascent Keynesian revolution, and a politician with liberal pretensions, as he undermined Johnsonian liberalism, Nixon taught the nation to discount the prescriptions of most liberal economists, then still in the vanguard of their profession.[13] With the silent majority and the suburb as its penultimate symbols, a revived racism emerged on the heels of this economic confusion and the new zero-sum political economy such disorientation had partly engendered. What was very active but diminishing in significance in the mid-1960s, became much more significant by the end of the decade. What originated as filter through which *specific* Great Society programs were misperceived, came to be a much more blinding obstruction that provoked a misunderstanding of the whole economy.[14] Helping to transform security into a function of selfishness and architectural isolation, rather than community prosperity, the rising

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[13] Outside of his interview with Howard K. Smith, when he announced himself as a Keynesian, Nixon's embrace of the Keynesian label was perhaps most apparent when he borrowed the New Economics principle of the "balanced budget at full employment," not because he believed it to be a valid principle, but because it was a convenient excuse for greater deficit spending and because it helped him align his ill-fated policies with the ideology and strategy of his Democratic predecessors. Nixon adopted this principle in an April 1970 speech: "At times the economic situation calls for...a budget deficit. There is one basic guideline which we should never violate....Expenditures should never be allowed to outrun the revenues that the tax system would produce at reasonably full employment." Quoted in John Morton Blum, *Years of Discord*, 404.

[14] See Jill Quadagno, *The Color of Welfare: How Racism Undermined the War on Poverty* (New York: Oxford University Press, 1994), for a cogent analysis of how racism has limited public anti-poverty programs and convinced many that these programs are much larger and more debilitating than they really are. See also Zarefsky, *President Johnson's War on Poverty*, 89-91, for an analysis of Johnson's attempt to broaden the definition of the War on Poverty and the ensuing consequences of that effort. Zarefsky noted that the War on Poverty, despite Johnson's attempts to broaden the definition, had become "identified in the public mind with a component even *smaller* than the Office of Economic Opportunity [to which Johnson thought the public had limited it]: local community action." Emphasis in original. Though Zarefsky confused presidential rhetoric impelled by anxious and often angry constituents (Johnson's attempts to highlight only initiatives through which federal funds were spent directly on poor relief) with the real War on Poverty (which included the administration's fiscal, monetary, and wage-price policies as well), he did uncover the almost absurd dimensions of the misguided public response. If anything, the definition of the War on Poverty that encompassed fiscal, monetary, and wage-price policies makes Zarefsky's thesis all the more profound.

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enmity between the races also made it that much easier for Nixon and his successors to loose the economy from its fragile demand-based moorings without drawing significant recognition or protest.[15] Suggesting, like many politicians after him, that the poor (blacks) were victimized and shortchanged by those who sought to help them, only made the new racism as palatable as it was disingenuous. This also paved the way for a defeatist and paternalistic approach that helped create, for example, an affirmative action policy characterized by quotas, set-asides, and dual standards, couched in an economic system where one gained only at the expense of another. Where Johnson had encouraged an economic strategy that produced a scarcity of skilled labor, Nixon encouraged one that produced a scarcity of good jobs. Where Johnson had encouraged an effort to find qualified minorities for both public and private employment—where there was real demand, Nixon wanted nothing so messy or incontrovertible and sought rigid targets instead. With them, he simply had the best of both worlds (in his own mind, anyway), for he could take credit for civil rights "progress" just as he helped discredit affirmative action or "welfare" in general, creating, as Jonathon Rauch put it, veritable "factories of resentment" that would clearly target his Democratic opponents.[16]

If the Nixon administration truly derailed the New Economics, and with it the American economy, how did the United States travel from one system which created prosperity to another which made it increasingly more elusive? Was Nixon unwise enough and cunning enough to do this by himself? Did Americans simply fail to notice domestic policy in an era of foreign policy turbulence? Like Johnson, Nixon was only responsible for part of any major policy change; Congress, the private sector, and the public at large all impinged upon the potential for a restructured economic strategy. Nor did most Americans exhibit a predilection for overlooking domestic policy. The 1970s,

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[15] For a brilliant evocation of this dystopic and desperate approach to security see Mike Davis, *City of Quartz: Excavating the Future in Los Angeles* (London: Verso, New Left Books, 1990), especially 223-263.

[16] Jonathan Rauch, "What Nixon Wrought," 30.

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rather than the 1960s, were, after all, the decade in which government regulatory activity and bureaucracy truly mushroomed. It is unlikely that waning interest could have combined in any way with such frenetic legislative activity and bureaucratic change. Nixon was able to create a fundamental change in the nation's political economy, instead, because the war in Vietnam, combined with the enigmatic personality of Lyndon Johnson, had created a considerable political vacuum, and because the profit-centered supply side paradigm remained compelling to most Americans even as Kennedy and Johnson suggested its obsolescence. Even "Operation Breadbasket," for example, a program designed by the clearly liberal-minded Southern Christian Leadership Conference, did more to help black entrepreneurs than it did to help the unemployed, even though it was designed to help the latter most of all.[17]

A beneficent economic strategy was discarded largely because most Americans came to identify it as something it was not, and because a substantial political vacuum had made such a misrepresentation possible. Left-wing radicals believed that Johnsonian liberalism sought "growth at all costs," and saw it, therefore, as an approach that made the Cold War (and Vietnam) little more than an extension of a flawed domestic policy. Johnson's fellow liberals often sympathized with the radical-Left appraisal, but also had a difficult time distinguishing, and therefore defending, Johnsonian liberalism and the New Economics from the corporate liberalism against which it so often struggled. To many of them, Johnson was little more than a corporate liberal firmly ensconced in the big government, New Deal tradition, and Keynes was simply an advocate of the fiscalism that made such a political enterprise possible. Less surprisingly, conservatives also lent little support to the New Economics, despite their tentative support of some of its key initiatives. In so far as their conservatism stemmed from an allegiance to the American business community, however, those on the right

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[17] See James MacGregor Burns and Stewart Burns, *A People's Charter* (New York: Knopf, 1991), 329.

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were often in a position to see somewhat less darkly and to defend the prosperity of the Kennedy-Johnson political economy. The New Economics had, after all, coincided with a period of unparallelled business profitability. Notwithstanding Johnson's efforts at bipartisanship and consensus, it was, nevertheless, still too easy to regard the success of an ostensibly Democratic strategy as a threat to the political fortunes of the party to which many in the business community still belonged. For his part, Johnson truly failed to appreciate—in the wake of his unprecedented drive for consensus—the extreme partisanship of the Republican party and its members' resistance to a genuine consensus.[18] Likewise, it was also too easy to spark the fear that business profitability remained threatened by, rather than dependent upon, Johnsonian liberalism and steady consumer demand. Most conservatives were, instead, anxious to credit technological change and managerial ingenuity for the rising prosperity and rising profits of the 1960s and to blame excess demand for the era's most intractable economic problems. As most of Johnson's Keynesian advisers would attest, technology and corporate ingenuity were not, after all, insignificant factors. Nor were they, however, suitable substitutes for steady demand; standing alone they would clearly begin to diminish in both power and prevalence. Say's law, it seems, was alive and well, despite the successes of the Keynesian revolution and the efforts of these same advisers to qualify their appreciation of both technology and managerial expertise.[19]

The incremental pattern of Johnson's political strategy, dictated as much by economic as it was political considerations, also made a successful conservative assault

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[18] See Lewis Gould, "Never a Deep Partisan," 23, for an extended appraisal of this problem.

[19] Attributed to the French businessman and economist, Jean Baptiste Say (1767-1832), Say's law suggested that supply created its own demand. The overturning of Say's law was one the primary objectives undertaken by Keynes in *The General Theory*. See James Tobins' comments in Tobin, "Keynesian Economics and its Renaissance," 106, for an example of this kind of "qualified" endorsement. "Fiscal and monetary management of aggregate demand," Tobin declared, "imoprtant and essential as they are in the advanced democratic capitalist countries, will not bring Bangladesh or Tanzania out of poverty. They will not even speed up significantly the growth of productivity in the advanced economies themselves." Tobin added, however, that the "long run growth of potential output" would clearly be hampered by high rates of unemployment and excess capacity.

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all the more likely. When the public asked what was working and what was failing, it was still too easy for conservative pundits to provide deceptively simple and thoroughly misleading responses. Consequently, many Americans had great difficulty identifying a clean break between the old and new policies. Orthodoxy received acclaim that was largely unwarranted and the New Economics became identified with principles and practices that it had tended to scorn. Conservative criticism of a particular variety, originating in the 1930s with the New Deal, had in fact spawned the mistaken belief that there had been no break at all—that the Keynesian demand model, characterized by deficit spending, had prevailed all along and had remained intact through the 1970s. Nothing could be more misleading or false, but it became, nevertheless, the most commonly accepted appraisal. Yet, this trap could hardly be avoided. The New Economics had set out, after all, not to force a sudden redistribution of the nation's income, but to alter, in a much more subtle and incremental fashion, the way the country's businesses, workers, and consumers listened to and reacted to the marketplace—acknowledging at the same time that the government had a significant role in the sharpening of both marketplace clarity and consistency.

If Johnson failed in any large way here, it was because he was weak in understanding, as journalist William S. White described it, "that many others are not as perceptive as he is....persisting in the assumption that sensible men will understand his purposes without being told, just as he would, in fact, understand theirs."[20] Education, by the President and his economic advisers, was, indeed, an inescapable part of the New Economics and its requirement for subtle, incremental change. Although Johnson proved successful at persuading business leaders and conservative opponents to try the New Economics, he often felt less of a need to explain exactly what it meant. "When I do something, I figure I am dealing with grown-up people," Johnson once said.[21]

[20] White, *The Professional*, 65.
[21] Quoted in White, *The Professional*, 69.

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Indeed, Johnson was dealing with grown-up people, and his relationship with many business leaders and conservative politicians, those he most fervently hoped to sway, remained strong even as his popularity plummeted. Many members of the business community were also coming to understand the soundness of the Johnson anti-inflation program and were, as a result, beginning to endorse its difficult logic. The origins of the inflation, in fact, made the struggle for price stability and the crusade to win business support inseparable. There remained a political vacuum, however, for much of the American public and many small business owners were as yet unconvinced by the obvious success of the New Economics, and the war in Vietnam added a dimension of loathing and visceral hatred that isolated Johnson from his otherwise natural constituency. Johnson's successor was also a politician whose party stood poised to pick up the pieces of a shattered consensus. Fellow liberals, who should have been among the staunchest supporters of the New Economics, had become bitter opponents instead, equating Johnson with Vietnam and domestic with foreign policy. That Richard Nixon would exploit this division, to the detriment of the nation's economy, should have come as no surprise. Ultimately, like Jacksonian Democrats who voted for the Tariff of Abominations in 1828 so their leader could then run against it, Nixon chose to ignore inflation and to encourage anti-war protest even as he remonstrated against high prices and draft-dodging beatniks (or sent Spiro Agnew and Pat Buchanan out after them). "He is one of the ablest, shrewdest, most disingenuous and slipperiest politicians ever to show up on the American scene," John Birch Society founder Robert Welch once said of Nixon. "I think Nixon could become a very patriotic anti-communist," he added, "if we could create circumstances in which it would be smart politics to be one."[22] President Kennedy was even more succinct. To him, Nixon was simply "a filthy, lying son-of-a-bitch, and a very dangerous man."[23]

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[22] Quoted in Donald Janson and Bernard Eismann, *The Far Right* (New York: McGraw-Hill, 1963), 37.
[23] Quoted in Reeves, *A Question of Character*, 190.

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As shrewd and disingenuous as Nixon was, however, it was the scorn and incomprehension of liberals and the New Left that really swallowed Johnson and the New Economics. As Michael Riccards put it, "the liberals never understood or cared to appreciate the extent to which the poverty program especially, and the Great Society in general were dependent on Lyndon Johnson."[24] Johnson was the glue that held the 1960s liberal coalition together, but few ever realized just what comprised this coalition, let alone that it was fragile enough to require such a leader. Crucial to the success of the conservative counterrevolution in the 1970s and 1980s, John Schwarz noted, was that it "evolved at a time when there existed few other ideas, a virtual vacuum of thought, with liberal views in almost complete disarray." As Schwarz saw it, liberals "could neither explain nor provide a solution to the problem of stagflation," forcing Americans to search for a new direction and to consider any plan "other than the policies and the programs that had dominated the past."[25] Christopher Lasch was even more emphatic. "Liberalism," Lasch noted, "the political theory of the ascendent bourgeoisie, long ago lost the capacity to explain events in the world of the welfare state and the multinational corporation; nothing has taken its place. Politically bankrupt, liberalism is intellectually bankrupt as well."[26]

The disarray and political bankruptcy described by Schwarz and Lasch were real enough; New Left historians and liberal Democrats alike adopted new gurus, from Milton Friedman to Friedrich von Hayek, who told them that active management of the economy was destined to backfire and disappoint. Lost was a clear appraisal of the New Economics and the ability to distinguish Johnsonian liberalism from either its historical forerunners or its vulgarized successors. Even Lasch's critique, observant and insightful

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[24] Michael Riccards, "Failure of Nerve: How the Liberals Killed Liberalism," in Firestone and Vogt, eds., *Lyndon Baines Johnson and the Uses of Power,* 83-85.
[25] Schwarz, *America's Hidden Success*, 122.
[26] Christopher Lasch, *The Culture of Narcissism: American Life in an Age of Diminishing Expectations* (New York: W.W. Norton, 1979), 18.

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as it was in regard to liberalism in the 1970s, missed the essence of Lyndon Johnson and the New Economics. Lasch termed corporate bureaucracies "the real centers of power in our contemporary society," and suggested that "Naderite and cooperative movements" had begun to lead us away from "consumerism and the thrall of corporate political power," but there was no recognition that Johnsonian liberalism was indeed a challenge to these very "centers of power." In a work that purported to deconstruct the failings of Johnsonian liberalism, Lyndon Johnson is mentioned only once.[27]

Although Schwarz provided a compelling defense of an activist approach to economic management, he too reflected a casual acceptance of the anti-Keynesian economic framework and a relative blindness to the challenge of the New Economics. To Schwarz, the "crowded generation," and government's unwillingness to acknowledge it, rather than a fundamental shift in economic priorities, lay at the root of the post-Johnson economic breakdown. The War on Poverty, Schwarz suggested, was a success; its relative abandonment a critical mistake. But to Schwarz, government assistance programs comprised virtually the whole of this noble effort; there was, as he saw it, no New Economics to which one could attribute the economic success of the 1960s. Overlooked is the aggregate character of the post-war baby boom: while it swelled the size of the potential workforce in the 1960s and 1970s and served as a potential economic obstacle of no small significance, it also helped create jobs just as it demanded their creation.[28] Largely ignoring the evolution of the New Economics—

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[27] Ibid., 116-117, 21, 377. While Lasch focused much attention on the weakness and bankruptcy of liberal economics, and suggests that this determined much of the culture he finds wanting, he simply assumed, unlike his approach to other somewhat subordinate inquiries, that his primary contention was valid. Nowhere in the entire work did he offer an explicit example of 1960s liberal economics at work. Mentioned only on page 119, Johnson was cited here only as an illustration of someone scorned by the country's preoccupation with image over reality. He was not even the primary subject of this one selection.

[28] Schwarz, *America's Hidden Success*, 124-144. On the Kennedy-Johnson acknowledgement of population boom, see Kennedy's speech to a Tampa, Florida steelworkers' local a few days before his death. "We have to move tremendously fast," Kennedy noted, reminiscent of Lewis Carroll's Red Queen, "just to stand still." Cited in Rowen, *The Free Enterprisers*, 271.

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where job creation came just ahead of market-oriented redistribution—as well as the *tight* labor markets that prevailed at the end of the Johnson presidency, Schwarz overlooked both the general efficiency of the New Economics and the extent to which it had begun to make the War on Poverty both a fiscal possibility and a manageable crusade. Providing millions of jobs for the non-poor (and thousands for the poor) and the kind of growth that made new income transfers a possibility, the New Economics had, indeed, helped tighten labor markets to the point where redistribution of wealth was not only a more distinct possibility but also a step in the direction of economic efficiency.

Fundamental to the liberal inability to understand the New Economics was the complex political personality of Lyndon Johnson. An enigma throughout his career, Johnson was simply not an easy politician to figure out, even if his political personality stemmed in large measure from his overwhelmingly simple and unvarnished approach to political communication. "You study different pictures of Lyndon Johnson," John Connally recalled. "You try to put them together. It is like trying to lift an untied bale of hay."[29] Johnson Press Secretary George Reedy recalled how Johnson perplexed even his closest associates. "He was a son of a bitch," Reedy noted, "but he was a colossal son of a bitch."[30] Most liberals, and almost all of those who described themselves as the New Left, though, believed only the first part of Reedy's characterization. To many of them Johnson was coarse and profane and largely one-dimensional. He whooped for tourists in the Taj Mahal, chauffered journalists at the LBJ ranch at speeds approaching 100 m.p.h., slowing only to refill his Cutty and soda or to seize a piglet for an admiring journalist. When he won the 1964 presidential election a small Texas town gave him its used fire truck; he took it for a drive, clanging the bell and driving like he was rushing to the scene of a great conflagration. He showed the world his surgical scar after a 1965

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29 Connally, with Herskowitz, *In History's Shadow*, 63.
30 George Reedy, *Lyndon Johnson: A Memoir*, (New York: Andrews and McMeel, 1982), 158.

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gall bladder operation—a gesture caricatured brilliantly by David Levine in the *New York Review of Books* (redrawing the scar to resemble a map of Vietnam). He swam naked in the White House pool, and conducted business from the White House bathroom—often exaggerating his openness to normal biological functions or nudity to shock those he deemed too pretentious.[31] He reprimanded associates often without regard for curious and somewhat unfamiliar onlookers and he would often eat off of his friends' plates. His speech was filled with country rhythms and country similes, and he cursed with the ease of a man accustomed to a free-flowing barnyard vocabulary. Getting your "pecker cut off," for example, was Johnson's way of describing a resounding political defeat.[32] "Mr. President, You're Fun," read one *Time* magazine caption in April 1964. "Let him get a whiff of a spring-fresh Texas range dotted with cattle and Angora goats," remarked the *Time* writer, "and he comes on like a cross between a teen-age Grand Prix driver and a back-to-nature Thoreau in cowboy boots."[33]

As Bill Moyers once noted, however, "Lyndon Johnson was also a man of extraordinarily high intelligence. His ponderous physical presence and his country style diverted attention from other qualities that were crucial to his effectiveness and the capacity for swift and sure judgement."[34] Few who worked closely with Johnson left unimpressed by the force of his active intellect. "After years of meeting first-rate minds in and out of universities," Princeton historian Eric Goldman added, "I am sure I have

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[31] Joe Phipps, a Johnson assistant during the 1948 senatorial campaign, recalled how Johnson would dictate memos to his female secretaries as he emerged naked from a shower and how he would often dart back into the bathroom in the middle of a conversation and continue with business as usual, bathroom door ajar. "I was still not hardened to his openness with normal biological functions," Phipps noted. "he didn't bother to close the door." See Phipps, *Summer Stock*, 192.

[32] When Richard Goodwin failed to influence negotiations over the Highway Beautification bill as LBJ had hoped and expected, Johnson told the White House staff (including Goodwin) that "...the ugliest sound I heard this week, was the swish, swish, swish when Pat NcNamara [Chairman of the Senate Public Works Committee] cut off Goodwin's pecker." Quoted in Califano, *Triumph and Tragedy*, 83.

[33] "The Presidency: 'Mr. President, You're Fun'" *Time*, April 10, 1964, 22a-23a. The caption title came from a remark attributed to Hearst reporter Marianne Means, a passenger in Johnson's Continental as the President "zigzagged around dung mounds and clusters of white-faced cattle."

[34] Quoted in Hardesty, ed., *The Johnson Years*, 26.

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never met a more intelligent person than Lyndon Johnson."[35] Press Secretary George Reedy recalled that "the Johnson IQ took a back seat to very few others—perhaps even to none. His mind was magnificent—fast, penetrating, resourceful."[36] His coarse mannerisms, Hubert Humphrey recalled, "were the black keys of the piano he played....the only time he ever became a phony was when he tried to become too pure."[37] Kennedy and Johnson assistant, and former Harvard dean, McGeorge Bundy, once snapped at fellow Kennedy assistants who ridiculed Johnson's mannerisms. "You people are snobs," Bundy declared. "You don't understand Texans and you don't understand this man. He can become one of the greatest forces for good. He has a gut power which gets things done."[38] Harry McPherson referred to Johnson as Boccaccio, Machiavelli, and Keats rolled into one.[39] Many refused, however, to see Johnson as anything but a slightly more refined version of George Wallace, himself once a New Deal populist politician. Many of his most prominent liberal or left-wing critics believed Johnson to be always on the verge of a Wallace-like metamorphosis, reverting to racism and reactionary social policies at a moment's notice and resigning himself to a career as a "redneck poultergeist."[40] Though conservatives also encouraged this outlook—from the 1964 *National Review* lampooning of Johnson as "Uncle Cornpone" onward, fellow liberals and those on the left in general tended to offer the most disapproving caricatures.[41]

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[35] Goldman, *The Tragedy of Lyndon Johnson*, 525.
[36] Quoted in Dallek, *Lone Star Rising*, 356.
[37] Quoted in Miller, *Lyndon*, 541. Humphrey and others often contrasted Johnson with Nixon in this regard, suggesting that when the latter cursed it was contrived and unnatural and a transparent attempt to be "one of the boys."
[38] Quoted in Sam Houston Johnson, *My Brother Lyndon*, 199.
[39] Cited in Connally, with Herskowitz, *In History's Shadow*, 195.
[40] The "redneck poultergeist" characterization comes from Dan Thomas Carter, "Race, Politics, and the Second Reconstruction," Walter Lynwood Fleming Lecture in Southern History, Louisiana State University, April 8, 1992.
[41] See "Uncle Cornpone Greets the Press," *National Review*, October 6, 1964. Johnson's brother Sam maintained that the "Uncle Cornpone" sobriquet originated with Kennedy staffers. Sam Houston Johnson, *My Brother Lyndon*, 108.

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John Connally blamed himself for part of this problem for he always encouraged Johnson to be himself and to avoid masquerading as a cultural sophisticate. "You're terrible on television," he once told Johnson, "because you want to be Roosevelt or Kennedy. Why did Harry Truman finally win over the people? Because they came to see him as someone who was real, whose emotions were his own."[42] Indeed, television and the print media, added to Johnson's reputation for coarseness and lack of sophistication or intelligence. He was "syrupy," Joe McGinniss recalled. "He stuck to the lens."[43] Johnson realized it too, agreeing once to a TV handling session with Stuart Rosenberg, director of the 1967 film "Cool Hand Luke," only to call it off when it was leaked to the press. Johnson's syrupiness, however, stemmed more from his efforts at reining in his personality, than from his inability to smooth out its rough edges. "Watching him on television from my hospital bed," Johnson's brother Sam noted in 1964, "I saw once more how poorly that medium works for him. He looked stiff and unnatural and you could tell that he was reading some one else's words."[44] After conducting a number of interviews with President Johnson, Doris Kearns suggested a convincing explanation of this predicament:

> The power of his tales lay always in the telling—in the gestures, tone, and timing....But, for reasons connected perhaps with the relationship between his parents, he never accepted the validity of this mode of talk. It could only be used, he thought, in private; it was inappropriate for public meetings...Before a more formal gathering, or in front of the television screen, he feared that his audience would scorn his wild gesticulations and crude language. And in the Presidency these feelings were reinforced by the view that the office was a stately institution demanding decorous appearances at all times."[45]

Late in the presidency during one press conference, in a more measured approach to public relations and coaching by concerned assistants, Johnson agreed to move out from behind the rostrum and to utilize a lavalier (lapel) microphone. It made him look more

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[42] Connally, with Herskowitz, *In History's Shadow*, 195.
[43] McGinniss, *The Selling of the President*, 28.
[44] Sam Houston Johnson, *My Brother Lyndon*, 171.
[45] Kearns, *Lyndon Johnson and the American Dream*, 354-355.

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natural and more trustworthy but Johnson thought it too informal for public appearances by the nation's chief executive. It was not repeated.[46]

While Nixon often leapt at the opportunity for skillfully contrived appearances and almost wholly encouraged the elevation of style over substance, Johnson tried instead, to the chagrin of some of his closest advisers, to resist the choreography and artifice implied by this clearly emerging trend.[47] "Hard for P [President Nixon] to stay on the big issues," H. R. Haldeman complained to his diary in March 1969, "he keeps hacking away at PR concern, especially in the domestic program area."[48] On the other hand, when CBS' Dan Rather requested an opportunity to film White House assistants at work on Vietnam policy in 1965, Johnson denied the request and wrote to Press Secretary George Reedy: "[I] have much more work that you can handle and these men are workers on routine, not actors. This man and CBS out to get us anyway."[49] Johnson simply hated being hemmed in by choreographed public relations or press leaks, something many in the press corps and much of the American public failed to understand. "That striding Texas president," Liz Carpenter recalled, "never relented from scooping up the whole press and walking them around the South lawn, or suddenly flying to the grass roots to sign legislation. They weren't used to a man who spilled over like that."[50] Many of Johnson's defenders would argue that he failed to project a more likeable image simply because he tried to place substance ahead of style. It is more likely, however, that his style, never in short supply, could simply not play well in an electronic age. "If you read the dictionary about style," *Washington Post* editor Ben Bradlee remarked, "the fact is that Johnson had more style than Kennedy. If style is

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[46] Valenti, *A Very Human President*, 274-276.
[47] See John Anthony Maltese, *Spin Control: The White House Office of Communications and the Management of Presidential News* (Chapel Hill: University of North Carolina Press, 1994), for an illuminating analysis of this trend and the role of the White House Office of Communications, created in 1969 by Richard Nixon.
[48] Haldeman, *The Haldeman Diaries*, 39.
[49] Memo, George Reedy to LBJ, not dated, LBJ Handwriting File, Box 9, LBJ Library.
[50] Quoted in Hardesty, ed., *The Johnson Years*, 29.

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individuality—that individuality by which one distinguishes a person—he was just a goddamn bank vault of style."[51] Although Johnson applauded the democratization of politics implied by greater and more pervasive media coverage, and immersed himself constantly in the pulse of the nation's print and electronic media, he always lamented the eclipse of messy but practical political maneuvers for a more polite, less effective brand of politics fit for a more image-conscious mass media. "You guys, all you guys in the media," Johnson complained prophetically in the late 1950s. "All of politics has changed because of you. You've broken all the machines and the ties between us in Congress and the city machines."[52]

However it was effected, liberal and left-radical disdain for Johnson was, and largely remains, replete with contradiction and perilous oversimplification. Novelist Joseph Heller suggested in a 1975 interview that the ideal politician must possess the willingness and ability to compromise. "I don't like the way reformers react to our political process," Heller noted. "They have a difficult time realizing they must compromise or remain outsiders." In a separate interview four years later he also lamented that "no one is trying to deal with unemployment and inflation at the same time." Though Johnson was perhaps the one twentieth century President who best conformed to Heller's political ideal, Heller expressed little but contempt for the thirty-sixth President, particularly during his presidency.[53] In a 1968 interview, Heller declared:

> I have a spiteful animosity for Johnson and Humphrey, because we're not dealing with something insignificant like the Teapot Dome scandal. We are dealing with organized mass murder....Everything else is dwarfed by the monumental atrocity of Vietnam....Where are Johnson's accomplishments? He may have done

[51] Quoted in Miller, *Lyndon*, 343.
[52] Quoted in Culbert, "Johnson and the Media," 214.
[53] Joseph Heller, "Playboy Interview," interviewed by Sam Merrill, June 1975; and Heller, interviewed by the editor, *U.S. News and World Report*, April 9, 1979 in Adam Sorkin, ed., *Conversations with Joseph Heller* (Jackson: University Press of Mississippi, 1993), 156, .

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> something in terms of statutes, but the state of the country is infinitely worse today than when he came in.[54]

Seven years later Heller's position had softened somewhat. "At least Johnson had a sense of humor," he remarked. "His jokes were apparently very cruel, but they *were* jokes. And Johnson was shrewd. He had a quality of strength missing in both Nixon and Agnew." His appraisal was, nevertheless, still dominated by the war in Vietnam and his belief that Johnson had waged the war single-handedly: "Johnson and Nixon were frightening because they demonstrated that an American President—even in a democracy, without government censorship—is capable of waging a one man war. That would not be possible in Russia, which is a dictatorship run by committee, or in China, where there are several powerful men."[55] The same popular culture that ridiculed ineffectual liberalism (President Merkin Muffley in *Dr. Strangelove*, for example) as well as crass materialism—buoyed by the New Left and by Hollywood liberals—rejected without reservation the one President who most closely conformed to its ideals.[56]

Professional historians with liberal inclinations also exhibited similar contradictions. When the Organization of American Historians reported the results of a survey on the practice and purpose of American history, in the December 1994, *Journal of American History*, 178 respondents chose either the Civil Rights Movement (135), the 1960s (20), the 1964 Civil Rights bill and the Voting Rights Act (19), or the Great Society/War on Poverty (4) as "a bright spot in American history"—all events with which Lyndon Johnson was intimately associated or even for which he was primarily responsible (the latter two). When the same survey asked, "What person in American

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[54] Heller, *New York Times* interview, interviewed by Israel Shenker, December 29, 1968, in ibid., 53.
[55] Heller, "Playboy Interview," 157.
[56] See Charles Maland, "Dr. Strangelove: Nightmare Comedy and the Ideology of the Liberal Consensus," in Steven Mintz and Randy Roberts, eds., *Hollywood's America: United States History Through Its Films* (St. James, NY: Brandywine Press, 1993), 252-264; and Michael Ryan and Douglas Kellner, "From Counterculture to Counterrevolution, 1967-1971," in ibid., 265-274, for insightful analyses of Hollywood as a reflection of the 1960s counterculture.

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history do you most admire?" 482 respondents chose twelve different U.S. presidents, but not a one chose Lyndon B. Johnson.[57]

Historian Garry Wills, in an essay entitled "What Makes a Good Leader?" described the great leader as one who issues a call that followers are prepared to hear. Lincoln forged a combination of voters, Wills contended, who joined him "in at least a minimal disapproval of slavery;" and he "trimmed and hedged on slavery in order to make people take small steps toward facing the problem." Franklin Roosevelt made "deals with the devil" (his conservative opposition) to maintain a hold on those who "might respond to his call." Both were great leaders, as Wills saw it, because they were able to find "common ground with those they sought to lead."[58] On economic strategy, comprised of principles infinitely more difficult to comprehend than the inhumanity of slavery or the need for optimism and a stiff upper lip during an economic depression (FDR's major accomplishment according to Wills), Johnson did the same, but few acknowledged the requisite leadership. Most historians have drawn, instead, a picture of Lyndon Johnson as a leader without a genuine strategy, and for whom the passing of legislation "became and end in itself."[59] "I've got his pecker in my pocket" was the Johnsonian declaration that defined the 36th President for much of the nation's intelligentsia and liberal establishment.[60] Among the liberal vanguard of the 1960s and 1970s, only black civil rights leaders continued to hold Johnson in high regard, despite their own deep misgivings and protest over the war in Vietnam. Sharpening their focus on economic issues as many fellow liberals were losing their own, leaders of the civil rights movement generally remained strongly opposed to but not blinded by events in

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[57] "A Statistical Summary of Survey Results," *Journal of American History*, December 1994, Tables 3.6, 3.5, 1210-1211.

[58] Garry Wills, "What Makes a Good Leader?" *Atlantic Monthly*, April 1994, 67, 68, 69, 79, 80.

[59] Matusow, *The Unraveling of America*, 153.

[60] Joseph Heller used this quotation on the epigraph page of his 1979 novel *Good As Gold.*

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Southeast Asia. In 1968, as the Johnson presidency approached its end, Ralph Ellison wrote:

> It is possible that much of the intellectual's distrust of President Johnson springs from a false knowledge drawn from the shabby myths purveyed by Western movies. Perhaps they feel that a Texan intoning the values of humanism in an unreconstructed Texas accent is to be regarded as suspiciously as a Greek bearing gifts; thus they can listen to what he says with provincial ears and ignore the President's concrete achievements here at home while staring blindly at the fires of a distant war.
>
> Well, I too am concerned with the war in Vietnam and would like to see it ended, but the fact remains that I am also familiar with other costly wars of much longer duration right here at home...and therefore I cannot so easily ignore the changes that the President has made in the condition of my people and still consider myself a responsible intellectual....No one has initiated more legislation for education, for health, for racial justice, for the arts, for urban reform than Lyndon Johnson. Presently it is the fashion of many intellectuals to ignore these accomplishments...but if those of other backgrounds and interests can afford to be blind to their existence, my own interests and background compel me to bear witness....When all of the returns are in, perhaps President Johnson will have to settle for being the greatest American President for the poor and for the Negroes, but that, as I see it, is a very great honor indeed.[61]

Ellison also suggested that Johnson's most successful measures "have produced impatience and released forces and energies which obscure the full extent of his accomplishments."[62] Touched by this impatience and by the crosscurrents of revolutionary politics, many black Americans saw Johnson differently, as a far less honorable politician, and often compared him unfavorably with his martyred predecessor. "Daddy always had been a conspiracy buff," noted Henry Louis Gates, Jr. "He hated 'Lynchin' Johnson, as he called him, and was convinced in November 1963, that he had killed JFK."[63] Robert Divine suggested that ignorance of Johnson's complexity even led some biographers, who should have known better, to overlook much of what made Johnson successful throughout his career. If his "path to power"

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[61] Ralph Ellison, "The Myth of the Flawed White Southerner," in *To Heal and to Build: The Programs of Lyndon Johnson*, ed. James McGregor Burns, 212, 216.
[62] Ibid., 216.
[63] Henry Louis Gates, Jr., *Colored People: A Memoir* (New York: Knopf, 1994), 187.

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was paved with nothing but duped colleagues, Divine noted, then it certainly would have been far less successful and productive than it was.[64] "If he was such a Satanic figure, as some depicted him," John Connally added, "why were so many so loyal to him?"[65] As Bill Moyers recalled, "I was always surprised, how Lyndon Johnson could always make me want to act above my age and ability. That's a peculiarity that I don't understand to this day."[66]

Many of Johnson's critics on the left also misapprehended Johnson's ideological commitment and his economic strategy, simply because they failed to understand, or even acknowledge, the thrust of his drive for consensus. To them, particularly after the escalation in Vietnam, Johnson's overwhelming and obvious desire for consensus indicated little but a willingness to surrender to predatious but still obsequious and utterly dependent conservative forces. "To accomplish social reform," Allen Matusow asserted, "they [Johnsonian liberals] had to buy off vested interests and call it consensus."[67] Suspicious of Johnson from the time John Kennedy had picked him as his running mate in the 1960 presidential campaign, liberals and left-wing radicals alike had extended little more than grudging respect for Johnson before Vietnam became a source of increasing dissension. With Vietnam, suspicion turned to outright animosity. "This bumbling man...holds a hot LBJ brand in his aging fist," wrote Sidney Bernard in 1968, "and wants to initial us all with the infamy of his six-shooter ego. Who talks of courage and austerity while golden eggs are being hatched in the henhouse of the rich."[68] From the June 1965, White House Festival of the Arts—where talk of boycott and protest was

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[64] Robert Divine, "The Johnson Revival: A Bibliographic Appraisal," in Robert Divine, ed., *The Johnson Years, Vol. 2: Vietnam, the Environment, and Science* (Lawrence: University Press of Kansas, 1987), 5. Divine was referring primarily to the two volumes written by Robert A. Caro: *The Years of Lyndon Johnson: The Path to Power* and *The Years of Lyndon Johnson: Means of Ascent.*
[65] Connally, with Herskowitz, *In History's Shadow,* 209.
[66] Quoted in Hardesty, ed., *The Johnson Years*, 35.
[67] Matusow, *The Unraveling of America*, 270.
[68] Sidney Bernard, *This Way to the Apocalypse: The 60s* (New York: The Smith, Horizon Press, 1969), 75.

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in the air—to the end of his term in 1969, Johnson became the recipient of left-liberal scorn and revulsion, and a visceral hatred that seldom depended upon rational analysis. "It used to be," John Steinbeck noted, "that we worried about protecting the intellectuals and artists from the government. Now it looks like we have to protect the government from the intellectuals and artists."[69] Performing at the close of the 1965 Arts festival one member of Duke Ellington's orchestra summed up the confusion, consternation, and the anti-LBJ furor: "Man, the trouble with these cats is that they wanna be here, and they don't wanna be here."[70]

Johnson's entire career, though, had been one during which populist or liberal ideas and policies had always faced almost insurmountable odds, and where he had struggled earnestly and consistently to reduce such a handicap. As Robert Dallek pointed out, even when Johnson seemed to be capitulating to conservative trends or legislative initiatives he typically worked quietly behind the scenes to sustain fundamental liberal prerogatives.[71] "Every leader expresses high ideals," John Gardner once noted. "The task is to figure out the degree of hypocrisy, and Washington makes the calculation swiftly and precisely. It took the town no time at all to figure out that with respect to health, education, poverty, and the like, President Johnson meant exactly what he said, and the impact was great."[72] Johnson knew, perhaps better than any politician in U.S. history, just how deeply the nation's conservative instincts ran, and he had amassed an impressive and colorful arsenal of political weapons designed to confront and challenge both prejudice and reaction. The opportunity to use these weapons often required "dirty politics" or capitulation to the nation's conservative leadership on some of their short-term imperatives. As Dallek put it, however, Johnson did not come to his appreciation for dirty politics out of some "character flaw," but did so having "learned it from the

69 Quoted in Goldman, *The Tragedy of Lyndon Johnson*, 452.
70 Quoted in ibid., 471.
71 See Dallek's chapters, "The Liberal as Conservative," and "Bipartisan Politics," in *Lone Star Rising*.
72 Quoted in Hardesty, ed., *The Johnson Years*, 23.

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rough and tumble that characterized Texas politics in the first half of the twentieth century."[73] Bill Moyers was even more emphatic:

> He rose to the top in a game where you do not get there on the wings of truth, candor, or conscience. I never felt he wanted to use his power for himself. He questioned, in conversations with me, the very institutions he had ridden to the top. He was obligated to Brown and Root, but he wasn't owned by them. He came out of a racist culture, but was not a servant of it. He adopted the Southern wing of his party, but he was never its instrument.[74]

Johnson had listened to his father tell of the vicious reaction to populist reform on the part of the oil, lumber, and railroad interests. He remembered how the liberal-minded President of his college had to disavow his own brother in the 1920s—a KKK Imperial Grand Wizard. And he recalled all too readily President Hoover's callous yet popular response to the onset of Depression, the defeat of fellow Texas liberal Maury Maverick in 1938, his own narrow victory (87 votes) over reactionary Texas politician Coke Stevenson in the 1948 U.S. Senate race, the whirlwind that was Joe McCarthy in the early 1950s, and the torrent of physical and verbal abuse heaped on him and Lady Bird when they confronted right-wing demonstrators in Dallas four days before the 1960 election. When Johnson settled in at his new Washington office after the 1948 victory he told Bobby Baker, "My state is much more conservative than the national Democratic party. I got elected by just eighty-seven votes and I ran against a caveman.... I cannot always vote with President Truman if I'm going to *stay* a Senator."[75] When Joe McCarthy's anti-communist crusade swept the nation and threatened Democrats with significant losses in the early 1950s, Johnson, sensing how difficult it would be to oppose McCarthy's appeal, declared as Senate Minority leader, that he had no relish "for a high school debate on the subject: 'Resolved, that communism is good for the United

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[73] Dallek, *Lone Star Rising*, 9.
[74] Quoted in Connally, with Herskowitz, *In History's Shadow*, 196.
[75] Ibid., 372. Emphasis in original.

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States,' with my party taking the affirmative."[76] Likewise, when Johnson fought House Ways and Means chairman Wilbur Mills over welfare (AFDC) payments during a 1967 White House meeting he turned to Joe Califano and noted, "You hear that good, now. That's what we're dealing with. That's the way most members [of Congress] feel. They're just not willing to say it publicly unless they come from redneck districts."[77]

In the McCarthy case, Johnson knew that McCarthy was an alcoholic, was not articulate or thoughtful, and that he was despised by some members of his own party, including President Eisenhower. He told Bobby Baker that McCarthy was "the sorriest Senator up here. Can't tie his goddam shoes," but he also knew that the Wisconsin Senator was sounding a popular message, and was, as John Dos Passos once put it, making "the Eagle scream."[78] Johnson learned, in other words, particularly in the 1940s and 1950s, that bold liberalism was often dead liberalism. On the other hand, when McCarthy finally opened himself up for criticism and censure, it was largely due to the diligent behind the scenes efforts of Lyndon Johnson at getting him in front of the TV cameras.[79]

Johnson had also discovered that moralistic speeches and strident intellectual debates would often carry a politician to certain defeat and he tended to avoid such pronouncements in the public arena. The only exception to this rule came when these speeches or arguments captured a vague sense of unease or guilt that the American public possessed but could not yet define or understand. Unfortunately, for those advocates of civil rights and greater economic opportunity little but a sabre-rattling conservativism presented this type of opportunity to most American politicians at the height of the Cold War in the 1950s. As a result, Johnson also learned how to establish a

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[76] Richard Fried, *Nightmare in Red: The McCarthy Era in Perspective* (New York: Oxford University Press, 1990), 133.
[77] Califano, *Triumph and Tragedy*, 246.
[78] Dallek, *Lone Star Rising*, 453.
[79] Ibid., 454.

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practical consensus and to further liberal legislative goals by impersonating reactionary politicians. Struggling to get fellow Southerners to support a civil rights bill in 1957, for example, Johnson prodded his Southern colleagues with the vernacular of white supremacy and Southern paternalism but never resorted to an outright plea for the welfare of American blacks denied fundamental civil rights.[80] Johnson's prodding, indeed, helped this civil rights bill become law, and though liberal Senator Paul Douglas said that it was like "soup made from the shadow of a crow that had starved to death," Johnson understood the significance of political inertia and of getting one's foot in the door, quietly promising liberal colleagues a new civil rights bill every two years until they got something of substance.[81]

Harry McPherson noted how Johnson was often forced to play the part of the bigoted Southern senator on many other occasions. Johnson was, McPherson recalled, "your typical Southern liberal who would have done a lot more in the field of civil rights early in his career had it been possible; but the very naked reality was that if you did take a position...it was almost certain that you would be defeated...by a bigot."[82] In the observable public arena where it mattered most, and privately, away from political opponents, however, there was little if any trace of this rhetorical charade. "...Think how you would like to be treated," Johnson told six hundred business executives in 1965, "if you lived in a land where you could not go to school with your fellow Americans, where you could not work along the side of them, where you could travel from Texas to Washington, across many states and not be able to go to the bathroom without hiding in a thicket or dodging behind a culvert. Ask yourself how you would feel."[83] His Memorial Day address at Gettysburg on May 30, 1963 and his commencement address at Howard University on June 4, 1965 still stand as two of the most eloquent and

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[80] Robert Dallek, "My Search for Lyndon Johnson," *American Heritage*, September 1991, 87.
[81] Dallek, *Lone Star Rising*, 526.
[82] Dallek, "My Search," 87.
[83] Quoted in Goldman, *The Tragedy of Lyndon Johnson*, 519.

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powerful messages of the entire civil rights movement.[84] When Johnson intoned the words "we shall overcome," winding up his speech on behalf of the 1965 Voting Rights Act, Louisiana senator Allen J. Ellender slumped gloomily in his seat, J. Edgar Hoover stared off blindly into space, but Mike Mansfield, Emmanuel Celler, Roy Wilkins, and countless others found themselves overcome with emotion. "I cried said Wilkins, "and from then on I loved Lyndon Johnson."[85] In a much more private setting, when Secretary of State Dean Rusk offered to resign after his daughter's marriage to a black man, Johnson upbraided his strangely disconsolate cabinet secretary: "This is the most progressive administration in the civil rights field in history, and you're gonna quit over that? You better start thinking right. I want the Johnson administration to practice what it preaches."[86]

Just as he learned to speak honestly and forthrightly on issues of race and red-baiting while disarming conservative opponents, Johnson also learned how to sell the New Economics while appealing to the anti-government, anti-spending instincts of conservatives in both parties. By all accounts, he was a frugal man to begin with, and sought the elimination of wasteful government spending and superfluous government bureaucracy throughout his presidential term. But he also knew how to portray increased government intervention and increased government spending, where it was warranted, as the means to greater productivity and economic efficiency. As Hobart

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[84] "Memorial Day Address," Gettysburg, Pennsylvania, May 30, 1963 in Lyndon B. Johnson, *A Time for Action* (New York: Atheneum, 1964), 124-127; "Commencement Address at Howard University: 'To Fulfill These Rights,'" June 4, 1965 in Johnson, *Public Papers, 1965: II*, 635-640. "One hundred years ago the slave was freed," Johnson declared at Gettysburg, "One hundred years later the Negro remains in bondage to the color of his skin. The Negro today asks, 'Justice.' We do not answer him—we do not answer those who lie beneath this soil—when we reply to the Negro by asking, 'Patience'....To ask for patience from the Negro is to ask him to give more of what he has already given enough." Stokely Carmichael called the Howard address, a speech "that could make a rattlesnake cry." Paul Conkin called the Gettysburg speech "perhaps the most beloved speech of his whole career." Conkin, *Big Daddy From the Pedernales*, 295.

[85] The description of reaction to Johnson's Voting Rights speech, before a joint session of Congress on March 15, 1965, comes from Eric Goldman, *The Tragedy of Lyndon Johnson*, 319-322. Wilkins' remark is quoted in Jordan and Rostow, eds., *The Great Society*, 175.

[86] Cited in Baker, "Wheeling and Dealing," 264.

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Rowen pointed out in 1964, Johnson was one who knew the "difference between economizing that eliminates waste, and budget slashing that is offered as a tribute to the anti-intellectual bloc of Southern Democrats and hidebound Republicans."[87] He also recognized that business leaders, however reactionary, had legitimate concerns, in spite of his belief in their general cupidity and reluctance to act in the interest of the common good. U.S. Steel Chairman Roger Blough, though a critic of Johnson's overall economic strategy, highlighted Johnson's ability to understand these very concerns, a trait that clearly helped him win over much of the conservative business community. "My impression of Lyndon Johnson," Blough recalled, "is that out of all the presidents I've known since Hoover, he understood business problems better than any one of the other presidents."[88] Sidney Weinberg, the Goldman Sachs executive known as Mr. Wall Street, expressed a similar sentiment. After the first Business Council meeting with President Johnson, Weinberg said he never heard "any President be more impressive with businessmen," and added that he had been listening to them for thirty years or so.[89]

Convinced that success was by far the best educational tool, Johnson also hoped to gain the favor of the business community by sprinkling his pep talks with as many positive numbers as cliches and corporate buzzwords. Relating capacity utilization, productivity, purchasing power, and profits to high demand and to full employment, Johnson sought nothing less than a complete reorientation of the nation's economy toward a demand management strategy. "I am going to use some of those figures here," Johnson declared to the Business Council in 1968; "not because I am enamored of figures, or because I want to celebrate the virtues of this administration, but because the figures tell a story of what Americans have achieved by using their intelligence and listening to their conscience in these years."[90] He hoped to prove to these reluctant

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[87] Rowen, *The Free Enterprisers*, 282.
[88] Roger Blough, Oral History Interview, LBJ Library, interviewed by Joe B. Frantz, July 29, 1971, 3.
[89] Quoted by Horace Busby in *Miller, Lyndon,* 341.
[90] Johnson, *Public Papers, 1968-1969: II*, 1165.

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corporate executives how government could indeed guarantee the essential promise of Keynesian economics: low and diminishing unemployment without inflation. And once this became an article of faith—something that these businessmen could see and feel—they would also realize and begin to believe, like Johnson, that the surest way to steady and growing opportunity for profit came through Keynesian demand management. Telling them that they all had "a martyr complex," that they never had it so good, and yet, at the same time, promising that he would never substitute "persuasion for...hard-nosed monetary and fiscal policy," Johnson cajoled and admonished his way into acceptance and esteem among the nation's business leaders.[91] "I am not sure I like everything he does," one Business Council member remarked in 1964, "but he understands my problems, and he is smart as the devil, and I think I'll go along with him."[92]

Although there were many business leaders who expressed similar sentiments, most were not yet won over by Johnson's new economic strategy, if they even recognized it as such. Many still doubted that inflation could be checked in a full employment economy and tended to respond to what Keynes termed points of "semi-inflation," those points at which tight labor markets made it possible for workers to seek a larger share of income, by raising prices, clinging to customary levels of profit in the short-run, and therefore avoiding the struggle over income shares all together. By doing so these business leaders also fulfilled their own pessimistic prophecies, pricing themselves out of the marketplace, or out of the global comparative advantages that allowed them to operate as semi-monopolists in the first place. Moreover, this self-defeating response often made it even more likely that businesses would then feel compelled to seek special supply side favors (tariffs, subsidies, investment tax credits) as a way out of their sales

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[91] Rowen, *The Free Enterprisers*, 228.
[92] Valenti, *A Very Human President*, 200.

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slump or profit "squeeze," favors which only helped further the evasion of a creditable policy for continued prosperity.

Confident that the New Economics provided an answer, Johnson and his economic advisers sought an end to this profit-price quandary. As Gardner Ackley had warned in 1966, somehow business had to be persuaded that profits could not always rise, and that if profits were exceptionally high, as they had been in the late 1960s, these same businesses had to learn that everyone would benefit if workers received a slightly larger share of the growing national income. Johnson was convinced that most business managers understood the importance of secure markets and consistent demand, and that most of them had always based critical investment decisions upon forecasts for the same. He also knew that high short term profits, whatever the level of consumer demand, might present a similar incentive, particularly for new businesses unaware of real market conditions. Only consistent demand and secure markets, however, Johnson hoped to demonstrate, could sustain this behavior for any considerable length of time. Even deficit spending, in and of itself, could not accomplish as much, simply because supply side leakages and the growing burden of debt would soon obviate much of the stimulus associated with deficit spending.[93] Johnson's role as economic manager and disciple of the New Economics may best be summed up as an ongoing attempt to wean conservatives from their prejudices and insecurities, to project an understanding of their most decent objectives, and to draw them accordingly toward his own vision of Keynesian full employment and sustainable profitability. Johnson's relationship with the National Alliance of Businessmen, an organization launched by his administration in January 1968 in an attempt to hire the nation's hard-core unemployed, exemplified this approach. Announcing the NAB program at a luncheon in the White House living quarters on January 27, 1968, where he served the fifteen corporate participants juicy

[93] See Gene Koritz, "Why Uncle Sam's Rising Deficit Isn't Igniting the Economy," *Business Week*, October 28, 1991, 24, for an updated version of this outlook.

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New York strip steaks, fine red wines, and rich ice cream, Johnson opened quickly with his most forthright sales pitch. "This is no bullshit meeting," he announced with the confident swagger so often prized by his corporate guests. "We're going to have assignments and commitments for you to deliver on." He finished by reminding his guests of their own good fortune. "This economy has been so good to you that you can afford to give a little back," he declared, adding that he wanted from all of them a commitment "to make taxpayers out of taxeaters." Responding enthusiastically, James McDonnell, chairman of McDonnell-Douglas, blurted out "I commit! Mr. President, I commit!" The president turned, glared at McDonnell and said, clinching the commitment of the entire group in the process, "Mr. McDonnell, you committed when you ate the first bite of my steak."[94] Johnson's combination of macho posturing, genuine commitment, and economic common sense was precisely the kind of political persuasion to which these business leaders responded. With the commitment of James McDonnell and others, the NAB program became an unconditional success, substantiating what Henry J. Aaron once called "the one basic unproven assumption" of the demand management school: that employers will recruit and train the hard-core unemployed, or fit jobs to their skill levels in a high demand labor market.[95] By December 1, 1968, with constant pressure from the White House, 100,000 of the hard-core unemployed had received jobs through the NAB program, with a retention rate of approximately 75%.[96]

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[94] Califano, *Triumph and Tragedy*, 225-226. Johnson exhibited a similar hold on conservative business leaders on many other occasions. One of the most notable was during the 1964 railway negotiations. When one railroad management began a presentation with "I'm just an old country boy..." Johnson broke in and exclaimed, "Hold it, stop right there. When I hear that around this town, I put my hand on my billfold. Don't start that with me." All the negotiators roared with laughter, the deadlock was broken, and Johnson helped the nation avoid a costly rail strike in the process. See "Man of the Year: The Prudent Progressive," *Time*, January 1, 1965, 25.

[95] Henry J. Aaron, *Politics and the Professors*, 130.

[96] Califano, *Triumph and Tragedy*, 226. This followed Johnson's successful recruitment of the National Association of Manufacturers to the poverty program. In late 1967, he had convinced the NAM to participate in two of three "demonstration grants" designed to help employ the hard core unemployed (North Carolina, Baltimore, and Harlem were the areas targeted by the three grants). The NAM role was

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While conservatives were often smitten by Johnson's common sense approach to economics, his personal frugality, and his boardroom swagger—in addition to the astronomical profit margins of the 1960s—they were by 1969, sure of Johnson and of economic prosperity, but as yet, unsure of the reason for it all. Johnson had won them over with symbol and cliche and they loved to hear him say things like "let's make taxpayers out of taxeaters," but, as Hobart Rowen pointed out, the American businessman seemed to be "as much interested in symbol as reality," and it was ultimately reality that Johnson was trying to sell.[97] Just as Johnson hoped they would in all sectors of the economy, and in all types of businesses, for example, tight labor markets had indeed made it easier to secure victories in the War on Poverty. But these markets also tended to unsettle and alarm business managers at the same time, many of whom clung to a short term outlook that blinded them to all but an impending profit squeeze and potential economic disaster.[98] With their overriding emphasis on short-term profits and an "exit and change" mentality, most corporate managers, as Paul Weaver noted in *The Suicidal Corporation*, "have few incentives to stand and fight" economic strategies that damage the entire economy, "provided they can attach riders or create

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to test a computer job matching system and an experimental adult basic education program, both devised by NAM task forces. See Telegram, Guy S. Peppiat, Chairman of the Board-NAM, to LBJ, October 3, 1967, Papers of the National Association of Manufacturers, Series I, Box 215, Hagley Library; and Morton Mintz, "NAM to Participate in Poverty Program," *Washington Star*, June 15, 1967, K11.

[97] Rowen, *The Free Enterprisers*, 18.

[98] Paul H. Weaver in *The Suicidal Corporation* pointed out how the rapid post World War II shift from U-form corporations (those engaged in a single line of business) to M-form corporations (those with a multi-divisional framework) created a managerial psychology that encouraged a more passive and reactive managerial style. Accordingly, this made it more difficult to encourage these managers to consider long-term objectives since it was so much easier to exit and switch, to simply deemphasize divisions that were marketplace laggards and to emphasize divisions (or obtain new ones) that were not. In 1959 36% of the Fortune 500 were U-form corporations and 51% were M-form. Ten years later, at the end of the Johnson administration, 11% were U-form and 79% were M-form. See Weaver, *The Suicidal Corporation*, 139-142. Rising interest rates, encouraged in an unprecedented fashion in the Nixon administration, also helped increase the attractiveness and business reliance upon increasingly short-term financing which in turn furthered the growing short-term mentality of the business community. (average maturity of money market loans to business went from approximately four months in the early seventies to about thirty days by the end of the decade. See Gregg Easterbrook, "The Meaning of Money Markets: How 8 Million People Learned to Stop Worrying and Love High Interest Rates," *Washington Monthly*, November 1981, 30-37.

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loopholes that make individual lines of business relatively lucrative amid the general economic chaos."[99] Johnson wanted to expose and to disparage this often self-defeating, if wholly rational behavior. To him, the growing scarcity of labor was a positive development, and he knew full well, for example, that the NAB program to hire the hard-core unemployed would have been a much harder sell had it not been for the prevailing labor scarcity. Amid tight labor markets, participating companies wanted to hire and train the hard-core unemployed, for it was then a cheaper alternative to the recruitment of skilled workers already in the labor force.

While Johnson never tried to popularize the notion of a short run profit loss, he took great pains to point out that few companies were suffering from a wage-induced profit squeeze to begin with, and that by choosing to support long term price and market stability they were also opting for greater capacity utilization and enhanced *future* profitability. Much to Johnson's disappointment, however, many businesses continued to evade what he believed to be their genuine responsibility. Wall Street brokerage firms, commercial lenders, and corporate executive officers alike continued to predicate their behavior, first and foremost, on the level of corporate short term profit and continued to pass on, where they were able, all cost increases in the form of increased product prices. CEA Chairman, Arthur Okun, would label this phenomenon "the invisible handshake," but to Johnson, no matter what it was called, it was myopic and selfish behavior that hurt all parties in the long run.[100] Equating the "free market" not with genuine market clearing mechanisms (which could just as easily work against corporate profit margins as they could for them), but only with laissez-faire based opportunities for exploitation, corporations were, as Johnson saw it, forsaking opportunities for a stable, secure, and profitable business environment in the name of

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[99] Ibid., 142.
[100] Arthur Okun, *The Invisible Handshake.* Okun noted that this "handshake" also implied, in its most typical manifestation, *rigid* prices when markets warranted price cuts.

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short term profits alone. Henry Wallich, a Council of Economic Advisers member under Eisenhower, echoed the position of the Johnson administration in a 1966 *Newsweek* editorial. "Business cannot consistently have it both ways: to use market power in recessions, and act like barefooted little competitors in booms," Wallich declared to his readers. "If price maintenance is justifiable in recessions, in violation of the laws of supply and demand, then price restraint is called for in booms."[101]

It took little to convince Johnson that this "problem for the decade," as Gardner Ackley termed it in 1966, demanded his attention. He continued, as a result, to work on George Meany and Walter Reuther and the rest of his labor friends, but he also knew that their struggle for wage increases, over and above the level of productivity advance, had some merit. Profits had indeed outpaced wages over the last decade, and to some extent, then, their unions were playing "catch-up." This was particularly true in the airline industry where the "fatal" 5% wage increase in 1966 was easily absorbed by the airlines.[102] Since most American unions were also among what he considered to be his natural constituency, and therefore counted on in the crunch, Johnson had, by the second half of his presidency, already asked them for great sacrifice. By late 1967 sacrifice had to be shared more evenly and had to be welcomed by the business community or it would fall completely, and far too heavily, upon the shoulders of the American consumer. Applauding Johnson's focus on high demand and full employment over short-term profitability, Leon Keyserling reminded skeptics that this was a lesson that should have been learned a generation earlier, though it was no less difficult to discern in 1969:

> When I hear all these analyses of the nature of the unemployed people today--they're too old, they're too young, or too sick, or too female, or too black, or too untrained—there's a kernel of truth in it, but not much. Because if you look back

[101] Henry Wallich, "Desert Guideposts," *Newsweek*, August 23, 1966, 82.
[102] According to Civil Aeronautics Board figures, for example, Northwest Airlines took in $939,000/day in revenues and paid out $98,000/day in wages before the strike. Comparable figures for other airlines: National, $528,000/$70,000; TWA, $2,573,000/$406,000; United, $2,906,000/$518,000.

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> at the eight million unemployed in 1939, they had every single one of these characteristics in more virulent form.[103]

The lesson had not been learned in 1939, however, for Roosevelt had been unable to displace the orthodox political economy he had inherited six years earlier. By 1938 he wanted to follow the lead of those in his administration who counseled both Keynesian demand management and a more vigorous anti-trust policy. Economist Lauchlin Currie, Solicitor General Robert Jackson and Interior Secretary Harold Ickes, were among those urging him to do so. He told Jackson that he was "sick of sitting here kissing people's asses to get them to do what they ought to be volunteering for the Republic."[104] Neither a full-fledged demand management strategy nor a substantial anti-trust effort ever came to pass under FDR, however, for the diplomatic pressure of the impending world war mounted, forcing Roosevelt to court the producers of war materiel and to shirk all designs for a new economic strategy; his acceptance of the Keynesian revolution, late or not, became a moot point.[105] While the war allowed him to stimulate the economy with massive deficit spending, girding the nation for war also necessitated adherence to a supply side economic strategy. Special tax breaks designed for the Duponts and the GMs, price fixing schemes evolved partly from his own National Recovery Administration, and lucrative cost-plus defense contracts would remain as the most integral parts of his administration's economic strategy even as his budgets signalled a partial turn away from the prevailing conservative orthodoxy.[106] New

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[103] Leon Keyserling, Oral History Interview, LBJ Library, interviewed by Stephen Goodell, January 9, 1969, 39-40.
[104] Joseph P. Lash, *Dealers and Dreamers: A New Look at the New Deal* (New York: Doubleday, 1988), 324.
[105] Andrew Shonfield, writing in 1965, noted that while American economists were the intellectual leaders in the 1930s and 1940s, American politicians tended to be "institutional laggards."Andrew Shonfield, *Modern Capitalism,* 333. Even in academia, however, as John Kenneth Galbraith noted, the overturning of Say's Law (which argued that there could be no shortage of demand) and the exalting of Keynes' *General Theory* were not completed until about 1940. John Kenneth Galbraith, "The Second Death of Laissez Faire," Essay presented at a symposium celebrating the 25th anniversary of the Great Society, "LBJ: The Difference He Made," Austin, TX, May 4, 1990.
[106] When the U.S. aviation industry, for example, already implicated for building up Hitler's Luftwaffe, refused to help mobilize for war unless granted special favors, FDR threw in the towel. The Vinson-Trammell Act limiting profits on defense contracts to 8% was thrown out, the government continued to

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spending could be applied to the creation of jobs and to the augmentation of demand, as it was, but only *after* being applied to the augmentation of corporate profit. Even in the labor intensive war industries of the 1940s, full employment did not come cheap and Keynesianism did not come undiluted.

Nor was it possible to overcome corporate intransigence or transcend economic conservatism in the first two decades following Roosevelt's death. Even in 1945 and 1946, when military demobilization troubled all but the most hidebound conservatives, the first Full Employment Bill, proposed by James Murray of Montana in 1945, emerged heavily laden with qualifying clauses as the relatively punchless Employment Act of 1946.[107] A public commitment to full employment was deemed to be an admirable goal but not yet safe enough to be established as the first order of the nation's economy.[108] As for demand management, most of what passed for it since the New Deal came either as an afterthought during war or a military buildup, or as a biproduct of supply side programs where the policy tool of choice was the government contract. Obscured by the Korean conflict during the Truman administration, utilized only to promote (unsuccessfully) upper income and corporate tax cuts during the Eisenhower years, and adopted cautiously and somewhat surreptitiously by the narrowly elected Kennedy administration, Keynesian demand side economics was not fully embraced by the U.S. government until Lyndon Johnson moved into the White House in late 1963.

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foot the bill for new plant construction, and it was agreed that industry could amortize new plants in five years for tax benefits. See I.F. Stone, "Aviation's Sit-Down Strike," in *The War Years, 1939-1945* (Boston: Little, Brown & Co., 1988), 18-20.

[107] The complete declaration: "The Congress declares that it is the continuing policy and responsibility of the federal government to use all practicable means consistent with its needs and obligations and other essential considerations of national policy, with the assistance and cooperation of industry, agriculture, labor, and state and local governments, to coordinate and utilize all its plans, functions, and resources for the purpose of creating and maintaining, in a manner calculated to foster and promote free competitive enterprise and the general welfare, conditions under which there will be afforded useful employment opportunities, including self-employment, for those able, willing, and seeking to work, and to promote maximum employment, production, and purchasing power."

[108] Gary Mucciaroni, *The Political Failure of Employment Policy, 1954-1982* (Pittsburgh: University of Pittsburgh Press, 1990).

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Unlike his predecessors, however, Johnson had both the wherewithal and the desire to supplant the prevailing "trickle-down" political economy with a compelling Keynesian demand side strategy. The New Economics had presumably come of age.

Johnson understood how the prevailing political economy, built largely on a profit-centered, supply side framework, relied heavily on an assortment of economic myths to remain convincing and popular. Kennedy had attacked some of these myths, most notably in his 1962 commencement address at Yale University, and Johnson had applauded him for it, but Johnson had been laying siege to orthodox, supply side economic views almost from the moment he entered politics. When an economic recession occurred in 1954, and the Republican party began its usual chatter about the need for upper bracket tax cuts, Johnson noted that the GOP, "like the Bourbons of France...have learned nothing—and forgotten nothing—since the days of McKinley and high-button shoes."[109] In 1968, in what was by then a well rehearsed speech, he took aim at the "trickle-down" theory. "It worked just like it sounded," Johnson recalled, "by the time the money got down to the poor people it was nothing more than a trickle—a drip, and that was when things were prosperous. If we had a recession, the money stopped all together."[110]

This crusade, however, which Johnson saw as perhaps the single most important endeavor of his political career—including policy for the war in Vietnam—proved to be only partly successful and almost completely friendless. Sensing that business interests were acting only out of isolated self-interest, and that labor was quickly losing whatever social democratic potential it once possessed, Johnson sought, among other things, to merge the Departments of Labor and Commerce. "Come let us reason together," a biblical exhortation his father had often used at family meetings, became the hallmark of his approach. He received little support though from either camp and was

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[109] Dallek, *Lone Star Rising*, 442.
[110] Johnson, *Public Papers, 1968-1969: II*, 1166.

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increasingly hemmed in by the reluctance of labor to assume a more social democratic posture, to always make the first sacrifice, and to bargain with the interests of their employers and the interests of consumers in mind.[111] When liberals abandoned Johnson over the war in Vietnam, they abandoned him to conservatives that he had won over but whose conversion depended ultimately upon a more universal understanding of the New Economics than the one they possessed. Like Samuel Gompers who avoided Social Democracy because he knew how capricious government policymakers could be, the nation's business community had little trouble deserting the New Economics when Johnson left office amid great repudiation and dishonor and his successor offered a divergent economic strategy. Though he believed that Johnson could have afforded a much bolder strategy, Leon Keyserling, CEA chairman under President Truman, understood what Johnson was up against and how liberal disdain had compromised his nascent economic revolution. He was "the most unfairly treated," Keyserling recalled, "the most unfairly demeaned, the most underrated President in my lifetime and longer."[112]

This is where Lyndon Johnson bogged down in his attempt to develop a more democratic and prosperous economic strategy. As long as corporations were willing to create inflation so as to avoid a struggle over income shares with their workers, he found himself unable to prove one critical part of the Keynesian promise. And though

[111] Joined at their inception in 1903, separate departments of Commerce and Labor were established in 1913 at the behest of President Woodrow Wilson, a man Johnson once described as an "insufferable prig." William E. Forbath suggested in *Law and the Shaping of the American Labor Movement* (Cambridge: Harvard University Press, 1989), 28, that the federal structure of the U.S. government had much to do with this reluctance. Because workplace reform had to be contested on several levels at once (local, state, and national) the cost of the struggle was raised dramatically, strengthening the case for voluntarism in the process. The New York State Organized Crime Task Force, in *Corruption and Racketeering in the New York City Construction Industry* (New York: New York University Press, 1990), 180, also noted how reform minded statutes have been altered to fix rather than remedy union corruption. Landrum-Griffin Title II, for example, designed to help national unions discipline corrupt local unions has been used instead (with the encouragement of conservative politicians) to curb dissident, reform-minded locals.
[112] Leon Keyserling, Oral History Interview, 41.

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his efforts to control the proliferation of these administered profits and inflated prices was just hitting stride as he left the White House, Liberal desertion left few if any behind to carry on this struggle.[113] Corporate intransigence and Liberal disdain combined to limit economic management to an awkward combination of supply side profit enhancements and demand side reinforcements, with many of the latter falling into the "safety net" category where their macroeconomic potential would be politically and psychologically circumscribed.[114] Even in this truncated and attenuated form, however, demand side emphasis would prove its merit. Recalling the War on Poverty and the conservative onslaught of the early 1980s, for example, Joe Califano noted how remnants of the Great Society saved the country from itself in the 1980s. One reason Reagan was able to "drive down inflation with a sledgehammer [without producing a full-blown depression]," Califano noted, was because of the "safety net" provided by Great Society programs. Califano failed to mention that this "sledgehammer" also forced these Great Society programs to serve more people, making tax-eaters out of tax-payers as it were, increasing their overall cost, and opening them up to a less easily dissuaded censure. The proof was in the pudding but few would see it as Joe Califano had. What struck him as notable and ironic, however, was simply that Reagan, a man who had campaigned his entire political life against these types of programs, relied on them—if only by default—as an integral part of his economic "revolution."[115]

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[113] The efforts of Arthur Okun represent the one obvious exception to this rule. From the confines of the Brookings Institution, Okun railed against Nixon-Ford economics and tried somewhat vainly to impose his views upon the Carter administration (where Johnson BoB Director and Brookings colleague Charles Schultze presided over the Council of Economic Advisers). While Okun attended the infamous July 1979 Camp David retreat there is little evidence to suggest that his advice was taken, then or thereafter. Moreover, while Schultze shared many of Okun's concerns and views, the CEA had diminished in importance through the Nixon, Ford, and Carter administrations; conservatives Bert Lance (Budget Director), Charles Kirbo (attorney and informal adviser), and Michael Blumenthal (Treasury Secretary) all had as much if not more influence over economic policy than Schultze in the Carter administration.
[114] Some neo-conservatives have even come to this realization. See, for example, Glen Loury, "Black Dignity and the Common Good," chapter in *One by One From the Inside Out: Essays and Reviews on Race and Responsibility in America* (New York: Free Press, 1994).
[115] Quoted in Jordan and Rostow, eds., The Great Society, 127. Martin Anderson,chief domestic policy adviser to Reagan, admitted that while Reagan clearly counted on a domestic policy "safety net," his

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Eric Goldman, historian and one-time Johnson adviser, called Lyndon Johnson a "Machiavelli with a Stetson."[116] Indeed, part of Johnson's quest to direct the U.S. economy under a Keynesian demand side framework involved a quiet, often manipulative cultivation of bipartisanship and consensus that was thoroughly Machiavellian. Despite his reputation for "the Johnson treatment" and "wheeler-dealer" political machinations, the Machiavellian practices of Lyndon Johnson emphasized consent and ideological hegemony over deceit and outright domination. Despite the charges of "fine tuning" and the reliance upon complex economic forecasting models, the New Economics truly sought to bridge the gulf between experts and laymen and to break down the distinction between those who rule and the ruled. Johnson always believed that success was the best teacher; the more the nation learned to support high demand and full employment, the more prosperous and stable the nation would become; the more prosperous and stable the nation became, the easier it would become to gauge and to remedy marketplace aberrations. Having reckoned his support, even after the 1964 landslide, "like a Western river, broad but not deep," Johnson had to begin by adopting an unwieldy and often contradictory amalgam of economic management tools to move the economy onto a higher plane and to condition the behavior of key economic participants. The ultimate object, however, was a demand side strategy that was far less abstruse and contradictory.[117]

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administration never attempted to define it. Cited by Michael Weiler, "The Reagan Attack on Welfare," in Michael Weiler and W. Barnett Pearce, eds., *Reagan and Public Discourse in America* (Tuscaloosa: University of Alabama Press, 1992), 246. Nancy Reagan even said that Foster Grandparents (a great Society program introduced in 1965 under the Office of Economic Opportunity) was her favorite government program until someone told her that it was created during a Democratic administration. See also Robert Mogull, "Determinants of Federal Welfare Spending," *Presidential Studies Quarterly*, Spring 1990, 368, for an overview of linear and curvilinear regression models that suggest a *decline* in the delivery of welfare payments in proportion to GNP as the Democratic party's influence in the House of Representatives increased.

[116] Eric Goldman, *The Tragedy of Lyndon Johnson*, 523.

[117] Quoted in Goldman, *The Tragedy of Lyndon Johnson*, 336. LBJ told Doris Kearns that he saw the 1964 landslide, the greatest popular vote landslide in the history of the U.S. presidency, as a "loophole," not a "mandate." Kearns also noted that public opinion polls taken in 1964 showed that "the consensus behind the Great Society merely signified an acceptance of the individual programs Johnson had

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The danger here, of course, was that the continued reliance on some orthodox, supply side solutions, though relied upon to a diminishing extent as demand strengthened, the economy improved, and the business cycle all but vanished, would maintain enough noise and confusion in the economy (mainly in the form of administered price inflation) so as to impair the public's ability to understand the ongoing policy transformation or the actual stakes involved in the process. On the other hand, Johnson's rhetoric and action also made it easy for the public to define his economic strategy as something it *hoped to be* but was not. Examining Johnson's rhetoric associated principally with the War on Poverty, David Zarefsky came the closest, perhaps, to capturing and defining the nature of the political vacuum exploited by opponents of the New Economics. "The gap between absolutist rhetoric," Zarefsky noted, "and an incrementalist policy nurtured a conservative ideology, which was further stimulated by the public misperception that legislative programs are really of the same magnitude as their symbolic dimension would suggest."[118] Johnson clearly had to struggle against the muddled conception of recent economic history that conflated presidential rhetoric with actual economic strategy, and that convinced active citizens that the nation had already undergone a Keynesian revolution and that direct aid to the poor was, in and of itself, *the* Johnson economic strategy. The rhetoric of the Roosevelt, Truman, and Kennedy administrations in particular, made it difficult to see the Keynesian revolution as it was. The rhetoric of the Johnson administration made it equally diifficult for the public to properly assess the War on Poverty and the Keynesian economic strategy of his administration. As a consequence, deficit spending and

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sponsored...it did not represent a shift in underlying philosophy." See Kearns, *Lyndon Johnson and the American Dream*, 291. This conception of Macchiavellian intent is borrowed from Benedetto Fontana, *Hegemony and Power: On the Relation Between Gramsci and Macchiavelli* (Minneapolis: University of Minnesota Press, 1993). I see Johnson as someone, like Gramsci, who believed that the masses are capable of moving from the particular to the universal, and from the realm of private interest to the realm of universal interest.

[118] Zarefsky, *President Johnson's War on Poverty*, 205.

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aggressive government intervention—no matter the spending targets or the locus of intervention—somehow became equated with Keynesian economics in general, and small experimental programs, such as Community Action, became equated with the Keynesian economics of the Johnson administration. Externalities and instabilities, such as inflation, the products of an *evolving* Keynesian strategy, were also likely to be mistaken instead for the products of an already consummated Keynesian revolution. Reporting on the 1968 Republican convention, I.F. Stone marveled at the incongruence of this otherwise inconceivable outlook:

> We remember with special pleasure that passage in Ivy Baker Priest's nominating speech for Ronald Reagan in which she said, 'We cannot afford the status quo.' The only real sense we could get out of that remark in that upper bracket assemblage was that maybe some delegates were falling behind in the payments on their yachts. We had always assumed that the status quo was something Republicans could never have too much of.[119]

Johnson had the unenviable task, then, of undertaking and directing a revolution in economic management that many believed had already taken place. To that end, he courted the business community and much of his conservative opposition with great relish and much success, only to find, however, that in many cases the messenger often turned out to be more compelling than the message. Indeed, Johnson had little difficulty winning over business groups and business leaders throughout the country, though Hobart Rowen suggested that Kennedy "would have choked on" some of the lines he employed.[120] When Johnson stumped for the Economic Opportunity Act, for example, one Republican congressman was "startled" to receive a lobbying group, pushing for the passage of the EOA, composed of the Chairman of the Board of the Pennsylvania Railroad, the President of the Wabash Railroad, and directors from the Buckeye Pipeline Co., Chase National Bank, the Equitable Life Insurance Co., and the U.S. Steel

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[119] I.F. Stone, "The GOP Convention Was Not Without Its Cheering Aspects," August 19, 1968, in *Polemics and Prophecies,* 44.
[120] Ibid., 19.

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Co.[121] Unfortunately, many of these business leaders became more attached to Lyndon Johnson than Johnsonian economics. When Nixon proposed sweeping changes in 1969, and when he asked John Ehrlichman to "flush the Great Society" in 1973, few of these once enthralled business leaders stood in opposition. Johnson's personal pleas were so overwhelming, and so compelling, "like being under a waterfall," according to George Reedy, that much of the business community was likely to credit him for the economic success of the late 1960s, and not the "New Economics" that he was preaching.[122]

"The accomplishments of this era," *Business Week* felt compelled to note in January 1969, "should not be underrated. Eight years ago, when John F. Kennedy took the oath of office, it was almost universally believed that recessions were an inevitable fact of life; there had been three in the previous decade. It is a proper tribute to the new economics that it is no longer considered noteworthy that the economy is in its 95th straight month of expansion."[123] It was as if many believed, right to the end, that there was no New Economics, only a dressed up and more universally palatable version of the "old time religion." While Kennedy and Johnson had once exploited this confusion to sell the 1964 demand side tax cut—disguising it partly as a supply side maneuver to attract business support—by 1969 the capriciousness and confusion of the business community was no longer much of an asset. Johnson was by then in dire need of a less equivocal message and a less divided liberal constituency. Liberals took the Johnson era prosperity so much for granted, however, and became so blinded by their belief that Johnson had singlehandedly created the atrocity of Vietnam, that they either forgot, or failed to realize all together, just how much control their conservative opponents retained over the management of the nation's economy. "You mean well, but you are

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[121] Goldman, *The Tragedy of Lyndon Johnson*, 186.
[122] Quoted by Geoffrey C. Ward, "The Full Johnson," *American Heritage*, September 1991, 16.
[123] "President Johnson's Economic Legacy," *Business Week*, January 18, 1969, 132.

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foolish," said a Hopi Indian spokesman to Allen Ginsberg. You are a tribe of strangers to yourselves."[124]

Only a few predicted doom in the wake of liberal dissolution. "To play with revolutionary talk and tactics," I.F. Stone prophesied in 1968, "when there is no revolutionary situation, is to act as provocateurs for an American fascism."[125] Ultimately, however, the genuine choices were increasingly difficult to discern and the war in Vietnam was more than a simple distraction. "To meet the crises of race and war," Stone declared, "time and patience, faith in persuasion, are required. But how preach these virtues to a youth who may be called up any day for the Army?"[126] Johnsonian liberalism and the New Economics required an equal—if not greater—measure of time, patience, and persuasion. In the face of a powerful yet surprisingly malleable conservative opposition, and with support from a perceptive, democratically inclined constituency, the New Economics was still precarious and uncertain, but it also held much promise. Absent this support it was destined, instead, for dissolution and an irresistable conservative onslaught.

"I hope it may be said, a hundred years from now," Johnson declared in his last State of the Union address, "that by working together we helped make our country more just, more just for all of its people, as well as to insure and guarantee the blessings of liberty for all of our posterity. That is what I hope. But I believe at least that it will be said that we tried."[127] Like the Great Society described by President Johnson in 1964, The New Economics was not a "safe harbor, a resting place, a final objective, a finished work," but it was "a challenge constantly renewed" and an unparalleled success. It

[124] Quoted in Matusow, *The Unraveling of America*, 298.
[125] I.F. Stone, "When a Two-Party System Becomes a One-Party Rubber Stamp," September 9, 1968, in *Polemics and Prophecies*, 49.
[126] Ibid., 48.
[127] Johnson, "Annual Message to Congress on the State of the Union," January 14, 1969, *Public Papers, 1968-1969: II*, 1270.

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worked and it promised even greater rewards, but it did not outlast the Johnson presidency. In the end, trying was simply not enough.

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