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MEMORANDUM

August 9, 1949

The developments in connection with the Midyear Report were very interesting and significant, even though wearing to a high degree. They revealed to me a great deal of the tactics of power infiltration--avoid the open battle, but press, press, press through the methods of indirection.

It had become evident during the later spring months that Mr. Keyserling was much disturbed at having himself given so much prominence as a source of conflict in the Council. It was evident that he was determined to have a Report and so far as possible an entire Council program on which we were in explicit public agreement. This I discovered later was particularly for the purpose of claiming that ambitious proposals for extension of government power, such as the new Murray Bill, derived from Council analysis and had Council support. Even before I sensed all this, I had, just as a matter of professional self-respect, stated flatly at one of the first Council meetings in which plans for the Midyear Report were discussed that I positively would not sign a review of the situation at midyear which included policy recommendations or whose analytical findings did not seem to me to be objective, consistent with, and securely based on, our factual data.

As draft of text began moving forward, Mr. Keyserling was very active both in needling the staff and in redrafting the text which came to the Council. On Saturday and Sunday, June 25 and 26, we worked till 10 or 10:30 each night, I trying to get back a draft which I could feel was satisfactory in the important situation presented by this Report--with its modification of the President's former position. Sunday evening I gave Keyserling my draft (Clark having quit in irritation over the delays and gone home). Mr. Keyserling took about fifteen minutes to glance over it and then stormed into my office to say that this changed all sorts of things on which he thought we would agree and had made such additions and deletions that he just couldn't accept it. We had a brief thought turbulent session in which I said it was his privilege to make his personal views known in any way he thought appropriate, but that I would submit material of the general sort embodied in my draft, subject to further discussion with Council and staff. I left a copy of my draft in Clark's desk with a covering note saying that Mr. Keyserling found it wholly unacceptable and assured me that he (Clark) would find it no less so. "Thus", I concluded, "it appears that we have come to the ultimate parting of the ways,"

This apparently was good strategy for dealing with the impasse because the next morning both Clark and Keyserling were ready to proceed with the work of completing our review on the basis of the Nourse-Homan draft rather than the Keyserling draft. Of course many changes were made during the next few days. But we secured a final draft from which I thought the really untenable positions or objectionable kind of exposition had been eliminated, and most of the needed defining of issues and cause-and-effect reasoning had been included. Subsequently, I have found at least two passages in which the highly generalized and apparently innocuous language of the Report is being quoted in support of specific action which we refrained from accepting in the draft. One is the passage calling on the Congress

"to provide for a broad study of potential business investment, expansion and market opportunities under conditions of maximum use of our productive resources in a growing economy—conditions which the Employment Act of 1946 contemplates and which can be achieved if we have the confidence and determination to achieve them. This study should be designed especially to discover inadequacies in capacity in basic industries which may serve as limiting factors to expansion when the upward movement of business is resumed".

Of course I find no difficulty in subscribing to the desirability of having this issue probed deeply and competently. That would be no more than quickening and correlating the studies now being made by various agencies of Government and by outside agencies, the Council participating actively in raising questions, guiding study programs, and making application of findings. But now I find that this is conceived to imply the setting of some new ad hoc body using perhaps as much as 6 million dollars for what seems to be a precommitted study—this possibly attached to the Council.

But beyond this, the passage cited and others of the Report are being represented as being in support of the Murray bill (S. 281). Mr. Keyserling is quoted as saying that the Report was being so drawn as to support the pending Murray bill. The introduction of that bill was held up till after the Midyear Report was in. Then it was given a final redrafting and was offered as an implementation of the Employment Act of 1946 and of the President's Economic Report. Mr. Keyserling claimed not to have participated in the draft of this bill, (on other occasions he has denied any knowledge of matters, although I see the documents on his desk or hear appointments made over our office phones), and I know that Mr. Gross had numerous meetings of the drafters in his office and was having long discussions with Mr. Keyserling. There was a Full Employment Conference called by Americans for Democratic Action at the Shoreham a week after the Midyear Report came out. Senator Humphrey was chairman, and Mr. Keyserling the opening speaker on the topic "The Economic Outlook" followed by Senator Murray on "The Economic Expansion Act of 1949." Chester Bowles then led the discussion and Mr. Sparkman was down for afternoon participation.

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I mentioned over the 'phone to Mr. Steelman that I wondered, since the President had said that for Keyserling to participate in an ADA rally for the Murray Bill in New York earlier "would be regarded as a very unfriendly act," what the President would think this appearance was. I did not attend the meeting and have not talked with anyone who was there. The papers reported that Mr. Keyserling announced that he was speaking merely "as an individual." I have some doubt that anyone in his official position (printed in full in the program) could speak merely as an individual in such a setting. It seemed to me it might have been quite interesting if some of the clever boys of the press had asked Mr. Keyserling in the discussion if he believed that the economic outlook was such as to call for a "bold action" program of the Murray Bill type. He would undoubtedly come back with a verbal tour de force in which he would try to establish himself as a scientific neutral, whereupon some other equally sophisticated reporter might well ask why he had been chosen to make the presentation if it did not furnish a foundation on which to rest the proposed measure.

Two other developments deserve brief mention. Mr. Clark (of course without any consultation with me) appeared before the Cellar Committee of the House considering antitrust legislation. His statement (attached) seems to me a well-balanced and scholarly putting of the issues in perspective without oversimplification or dogmatism about possible remedies. It is notable for its frank inclusion of labor organization and practices as a major segment of the monopoly question. I told him I thought the Committee must have found the scope and character of his presentation something new and challenging and commended his inclusion of the labor issue. He said: "Well, Mr. Cellar said afterward he was sorry I had brought it up."

The other development is sharp disagreement among the Council as to how we shall respond to the President's request for comment on the impact of a '51 budget of \$41.8 billion. Mr. Colm, after consultation with Budget and a little in our staff (also considerable with Mr. Keyserling), left us a draft report before he left for Europe. It seems to me to give an unduly complacent picture of the budget coming into balance in 1952 and thereafter rolling up large surpluses. It assumes full employment (less than 2.5 million unemployment), present prices, and present taxes. On that basis, the mechanics may be all right--though on investigation it appears that the revenue estimates on which Colm relies are not regarded by the Budget Bureau as carefully substantiated estimates. But I doubt that we would be given the President (and Pace) proper staff help if we give him only this kind of analysis.

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In discussion, it appears that Keyserling is not really concerned about size of deficits and growth of national debt. He says the basic question is whether a given expenditure is desirable per se, that is, calculated to conserve or expand productivity. If so, we need not be concerned about possible disturbing impacts on the economy. He and certainly Clark contemplate inflation as a way of life under the Employment Act. I don't get anywhere in trying to talk economics to Keyserling, but next week I want to see what Clark really sees as a workable course under the Employment Act. He has

said more than once that an economy never stays on an even keel. It's either going up into more or less inflation or down into depression. This of course puts him in support of a free spending policy at all times. In fact last year when he was still arguing the continuance of inflation he urged the President not to abate his spending program. "In times of active prosperity is just the time when we can afford these outlays." He is not much for controls as an offset to inflation. Keyserling seems to think that no matter how wide you open the throttle "selective controls" will prevent unfavorable consequences.

The events of recent weeks have confirmed my belief that it is useless to try to go on in my post under present conditions. The physical and nervous strain is so great that several times I have seen my breaking point just around the corner. Further, the President's handling of the Midyear Report shows how little real opportunity there is for having our work adequately considered in actual policy making. Although the President said when we submitted our draft materials, "I want to study these very carefully and discuss them fully when I get back" [from a week-end on the Williamsburg), he never consulted with us thereafter, nor did he sit in with the Cabinet-Council group as he did last December. It was a couple of young assistants of Steelman's who had the chance to talk to him—not the Council. Then, as soon as the Report had got matters on a reasonably objective basis, he couldn't let that stand but had to go on the air with a speech that was widely commented on as putting the whole economic issue into politics. An almost ludicrous illustration of this political exploitation and the brushing aside of professional staffing is shown in the attached correspondence concerning a statistical error in his speech.

I had intended to write a note to the President before I left Washington a week ago, urging that he hasten the selection of my successor as requested in my letter of December 14, 1949. Now I shall do this on Tuesday, August 9, the third anniversary of the swearing in of the Council. It may seem that I would not be justified in refusing to continue in case the President should ask me to do so. But I think such a compromise would be completely futile. It would make necessary another garbled and compromised report in January, which will probably be a pretty critical time, and would lead to a still more difficult situation a year or so later, when I would certainly have to be relieved. The issue must be faced now—either make possible a truly professional and non-political Council or let it be known for the political clap-trap it so largely is.