DISCUSSION

LEON H. KEYSERLING: I shall draw mainly upon personal experience, which puts me in a position to evaluate the work of others than those discussed here today. This is done, not to redistribute credit, a worthless enterprise *per se*, but rather to show how the inbred insularity of the academicians first divorced them from much influence upon what was done or even knowledge of who was doing it—and later led them to do the wrong things when their influence increased. Reference is especially to the designated followers of Keynes, who in later years I hold to be perverters of his teachings.

I shall list nine outstanding New Deal programs not closely related to those mentioned here today—six of which I was peculiarly able to observe because of my proximity as a major or the principal draftsman, and, in some instances, the originator of the proposal that they enacted.

First, there was the National Industrial Recovery Act. Its provisions for trade association action under government aegis originated primarily with Gerard Swope, trade association lawyers, and the planning ideas of Rexford G. Tugwell. Its wage and hour provisions and Section 7(a) for collective bargaining were first recommended to Senator Wagner by me.

Second, there was the National Labor Relations Act, which history may record as the most influential vehicle of economic, social and political change of any New Deal program. During the long and bitter battle for its enactment, under Senator Wagner's leadership with my help, it was opposed by top officials of Cabinet rank, never really helped by the President, and accorded no interest by top executive branch economists.

Third in my enumeration, the original massive public spending, from which most public spending under the New Deal emanated, was the $3.3 billion public works title of the *NIRA*. This did not come from the executive branch at all. It summed up repeated public works bills introduced by Senators Wagner, Costigan, and LaFollette from 1929 forward, stemming in turn from Senator Wagner's Economic Stabilization Act of 1929, which proposed increased public works spending as private indexes of economic activity fell. The proposal that the government spend more to employ people when unemployment is very high, and thus run a deficit, came well before Keynes was in vogue, and cannot be attributed to any one man or school. Nor were the main "idea men" behind these measures among those stressed here today.

A fourth aspect of enduring New Deal programs was housing legislation, ranging over *FHA* mortgage insurance, home loan bank operations, and public housing. This emerged from the work of the housing reformers of the 1920's and some practical experts in the home financing field. I was crucially involved in almost all of this housing work, and vital parts of it were viewed very unsympathetically by the executive branch.

A fifth example was the Agricultural Adjustment Act. Despite some mistakes, the price support program served a great and useful purpose. The main role of most academic economists in later years has been to undermine the price support legislation by largely unanalytical and unfair attacks.

A sixth aspect covered the whole field of social security. This ran way back to European examples, and many years of work by welfare specialists here. The main influence of the academic economists who helped draw up the original social security legislation was unfortunate. Over my unavailing protests, they started a system of old-age insurance financed by regressive taxation, and a system of unemployment insurance conducted separately in forty-eight states, when we needed a national system supported by progressive taxation.

Seventh, the liberal and so-called "cheap" money policies of the New Deal were demanded by the times, were a trademark of the Democratic Party, and went back at least to the Populist movement of the 1890's.

Eighth, there was the *TVA*, which went back to George Norris and Muscle Shoals.

Ninth, there was the Employment Act of 1946, to which I shall return.

Thus, major elements in the enduring achievements of the New Deal originated in the Congress, and much of these were opposed or damned with faint praise by the President and his administration. Nor, in sheer reality, can the academic economists, inside or outside of government, claim much creative influence in these connections. Even if one looks for comprehensive analysis of the economic circumstances then pertaining, and what needed to be done about them, there was more of this in the Congressional Record, committee reports, and the independent writings of economists working with legislators than elsewhere.

In essence, the New Deal was made feasible by the political and social conditions of the times and the advent of great leadership. But its specific content was in the mainstream of the American experience: the farmer-labor movement and the labor movement, the Populist movement, some aspects of William Jennings Bryan, the reform period of Woodrow Wilson, the distributive teachings of Henry George, the preachments of the Socialist parties for many years, the large numbers of voluntary associations devoted to a variety of social reforms, contemporary Congressional leadership, and economists who divorced themselves from the preoccupations of the academicians and were all too frequently scorned and ignored by them. With all due respect to Keynes, I have been unable to discover much reasonable evidence that the New Deal would have been greatly different if he had never lived, and if a so-called school of economics had not taken on his name.

Coming now to World War II, this crisis caused us to rise above the traditional disputes among academic economists, and to embark upon planning on a grand scale. The task at hand was to establish long-range quantitative goals for the whole economy; determine allocations of resources and incomes toward economic equilibrium and full employment; fuse *all* policies toward these ends; and pay due regard to the priorities and social justice, called "equality of sacrifice." The big issues were how extensive the planning should be, how large and imaginative the goals should be, etc. And one's views on these subjects depended upon experience and biases, drive and imagination, having relatively little to do with the quarrels among economists *qua* economists.

This brings me to the Employment Act of 1946, a greatly misunderstood and misapplied statute, which sought, with proper modification, to benefit by the World War II experience. My Pabst prizewinning essay of 1944 did advocate compensatory spending, but that was not its dominant note. It advocated, at the highest levels of the federal government, a long-range performance budget for the American economy in action, setting quantitative goals for resource use and income allocation, toward maintaining equilibrium at full resource use; that *all* of the basically important national economic and related social policies be blended into a *single* policy; that equal emphasis be placed upon distributive justice; and that the effort be undertaken jointly by the President and the Congress, thus seeking to provide some of the bridge for common action which the parliamentary system offers. The actual Employment Act of 1946 was almost an exact fulfillment of my 1944 essay, except that it provided for a Council of Economic Advisers, and separate rather than merged action by representatives of the President and the Congress. The Act opened the way to a far more comprehensive and unified approach than any one school of economics, Keynesian or otherwise.

In late 1944 I persuaded Senator James E. Murray to undertake translation of my Pabst plan into basic legislation, and to employ Bertram Gross, who had worked for me previously, to devote his full time to organizing the details of a campaign to which I could not devote full time as Deputy Administrator and General Counsel of the wartime National Housing Agency. However, I participated in the drafting of the legislation. I was in the best position to obtain the sponsorship and interest not only of Senator Murray but also of the other three Senatorial sponsors, Senators Wagner, O'Mahoney, and Thomas, and also the House sponsor, Congressman Wright Patman. And because of my very close association with Senator Robert A. Taft in housing endeavors, I was able to help much in winning his support, and that of some other Republican Senators, for the kind of Employment Act which seemed to me best. Also, I was selected to make the case for the bill before President Truman's Mobilization and Reconversion Committee headed by Fred Vinson, and this changed a lukewarm attitude toward the bill by the Truman administration to very vigorous support. I resisted that draft of the bill which relied solely on compensatory spending, viewing the equal importance of so many other aspects of economic and social policy. I never believed that the bill was "watered down," and I helped with some of what was mistakenly called "watering down"; and I saw no meaningful difference between "full" and "maximum" employment, as either needs to be defined as the operators see fit. The final legislation met the need for a plenary planning statute.

Then came, at least after the Korean war, the evolving debacle of the Act's administration, with a real planning process not set in motion; with long-range and unified goals not set; and with no one unified program and policy substituted for a congeries of scattered and *ad hoc* short-range efforts. And above all, the distributional aspects of Keynes' teachings were neglected. Fundamentally, he found that the need for increased public investment to compensate for inadequate private investment resulted from the maldistribution of income and saving. Indeed, in his summary chapter in the *General Theory*, he pointed out that compensatory spending could not possibly work without vast concentration upon improved income distribution through taxation and other measures.

Unfortunately, the official proponents of "The New Economics," while purporting to be Keynesian, neither planned nor focused upon distribution. In their analysis, conclusions, and programs, they held that it mattered not much who got the tax reductions or where the increased spending went, and even not much whether tax reductions or increased spending was resorted to, so long as on paper the quantitative addition to the total potential spending stream was adequate to restore full employment.

All of this reminded me of the man who drove his car up to a filling station and said, "fill her up." When the attendant asked, "Shall I pour oil into the tires, or water into the gas tank, or gas into the radiator?" the answer was, "What difference does it make, just fill her up. Haven't you heard of Lord Keynes?"

In sheer fact, the highly unsatisfactory upward movement from 1961 to 1964 was largely "autonomous" and hardly better than the two upward movements after the first two Eisenhower recessions. The $20 billion annual rate of misdirected tax reductions gave the economy a big boost from 1964 to 1966. But due to aggravation of distortions in resource use and income allocation, a serious shrinkage in the real economic growth rate commenced from 1966 forward, although not noticed by many until the advent of an absolute recession in 1969–1970, which is a commentary in itself. Further, we would have had an absolute recession by 1966 but for vast and unanticipated increased spending for Vietnam. All this set the stage for the evolving combination of inflation and stagnation during 1969–1971, even though the Nixon administration has learned how to double these errors in spades.

The second great error of the "New Economics" was that its policies worked directly counter to the needed shifts from the private to the public sector. Even apart from social values, for technological and other reasons, the three great goals of growth, priorities, and justice interpenetrate, and adequate programs for any one of the three would be about the same as for the other two. Further, the main function of the federal budget is not to help stabilize the economy, although that should be important, but rather to achieve, by allocation to the public sector, that adequate public supply of those goods and services which the nation needs but cannot otherwise obtain. If this had been recognized, we would never have undertaken an orgy of misdirected, regressive, and largely wasteful tax reduction, 1962–1971.

The noisy quarrel between the fiscal and monetary enthusiasts seems to me largely a misplacement of emphasis. The real travesty is that the prevalent monetary policy has fed the fat and starved the lean, restrained the essential and had little effect upon the overexuberant, and since 1952 transferred more than $400 billion in the wrong direction by all economic and social criteria. Even part of these transfers, more sanely allocated, could have completely wiped out poverty and serviced adequately all of the great priorities of our domestic needs, contributed much more to economic growth, and been anti-inflationary rather than highly inflationary, which the excessive cost of money actually is. Yet, almost none of the leading economists has stressed these distributional aspects.

The amount of inflation we have suffered even during the most recent years has not been unbearable by historic or other pertinent tests; what has really been unbearable has been the obsessionary preoccupation with inflation. This has led to policies which have redistributed resources and income in the wrong directions, stifled economic growth, spawned idleness of plant and manpower, and neglected the great priorities. The same amount of inflation, generated by policies serving these three great purposes, would have been a wonderful "tradeoff." Thus, the proper treatment of inflation is really a distributional task, and very few are saying so. Moreover, the empirical evidence since 1952 demonstrates quite clearly that there is an inverse rather than a positive correlation between the performance of the economy and the amount of price inflation. We should at once embark upon vigorously stimulative fiscal and monetary policies, targeted toward full resource use by late 1973. On the record, this would be the surest way to curb inflation, aside from its overwhelming importance on other grounds.

The narrowness of recent and current Keynesians has led operations under the Employment Act to concentrate mainly upon fiscal policy. But what about the equivalent importance of social security, housing, urban renewal, resource development, agriculture, and the war against poverty, treated only in perfunctory fashion? To illustrate: We have witnessed the forced transfer of scores of millions of people from farm to urban areas, accompanied by the general degradation of the farm population and the virtual ruination of the cities. We have permitted the war against poverty to degenerate into a Babel of countless "community action" programs, substituting chaos for genuine participatory democracy, and being responsible for much of the civil and social unrest resulting from promises without performance. An effective war against poverty, distributional in nature, should and could have been limited to a full employment program, universal income supports, adequate minimum wage and social security legislation, and adequate federal aid to housing and education.

As another example of the dearth of planning, most of the Keynesians now support limiting average annual increase in real wages to only 3 percent under the Phase II Guidelines. But even allowing for the additions to wages through reemployment, how in the world can the economy regain reasonably full resource use, which calls for an annual real economic growth rate of about 7.5 percent for two years, if real wage rates grow only 3 percent a year?

Still another indication of these defaults is the prevalent substitution of antirecessionary or counter-cyclical efforts for a long-range, positive, pro-prosperity program under national economic budgeting. "Fine tuning," in its practical application, has usually turned out to be the frequent substitution of one error for another, and usually starting too late. And conditioning all of these derelictions is the failure to distinguish sufficiently between goals and forecasts at the official action level, and to overstress the latter at the expense of the former. Policies in response to morbid forecasts often tend more toward accepting than toward overcoming them.

The time is long overdue for the American Economic Association to start to help overcome the dismal poverty of American economics, for which it and its cherished literature are so largely responsible, and to commence promoting the real purposes of the Employment Act of 1946. Let's get on the track.

I am aware that I may have offended some of your sensibilities, but I hope that I may have also appealed to your saving common sense.

ROBERT R. NATHAN: I agree with the excellent paper by Alan Sweezy, especially with respect to the inhibitions that made it exceedingly difficult to apply Keynesian policies in full measure in the 1930's. There was deep concern about being tagged with the title of "spender." Harry Hopkins wrote a book entitled *Spending to Save* but he was attacked over and over as one who was interested only in spending. Then, of course, there was the concern about deficit financing and the rising national debt. It was almost impossible to soothe the nerves and the frantic objections of those who were distressed by the horrible image of a rapidly rising debt.

Even though there appeared to be no danger of inflation whatsoever, the specter of inflation was brought up from time to time by the non-Keynesians and those who felt that traditional contractionist policies were the only true ways to overcome the ravages of the depression and to restore prosperity. It was a time when national economic policies found few supporters in the business community or even in the press.

I find Dr. Jones' paper to be excellent. It is a remarkable digest of a huge number of events and forces at work. It has not been possible for him to do justice to all of the issues and all of the applications of Keynesian policies which took place during that period, but within the time limit available he has carried out his task most competently.

I would suggest that there are three gaps in Dr. Jones' paper. One concerns the expansion in basic capacity in 1940; the second involves the preparation of the "Victory Program" in 1941; and the third concerns fiscal policy once full employment was approached and reached.

Insofar as the 1940 expansion was concerned, it was the Keynesians who really took the lead in trying to get increased capacity in the steel, aluminum, machine tool, copper, and some other bottleneck industries. By and large, the industrialists were against expansion, fearful that after a mobilization effort we would return to the depressed conditions of the 1930's. Seeing idle capacity and fearing excess capacity after the war, they felt that increases of war production should come out of existing idle capacity, and if defense or war did require more production than could be supplied by the capacity then unused—which they thought unlikely—they wanted additional requirements to be met by diverting capacity from civilian production rather than by expansion. In any case, a major battle was mounted by the Keynesians to obtain expansion of capacity, with the result that President Roosevelt adopted the policies they advocated and threatened the steel industry with Government's undertaking to expand capacity if the industry did not do so. As a result of these pressures and policies a sizable expansion did occur in the steel industry and much larger capacity expansion was undertaken in the aluminum, machine tool, and copper industries as well. This was a major effort well worth careful analysis.

In the middle of 1941, when France fell, one of the truly great strategists and operators of this century came to the United States. He was Jean Monnet, who came as Deputy Director of the British Ministry of Supply, even though he was a French national. He had already established an excellent reputation in Europe.

Never have I worked with anyone who had a greater sense of management and maneuver than Monnet. He used to sell ideas to President Roosevelt through his close advisers and draft the President's messages to Winston Churchill; and then he would sell the ideas to Churchill through his close associates and would draft the answers to Roosevelt. It was strange but everyone knew what he was doing and they were all thrilled with his effort and his results.

In the middle of 1940, Jean Monnet knew

that the key to winning the war was American production and he tried to figure out how to get American production increased. It was very hard to find out what military requirements were so he finally sold Roosevelt and Churchill on the idea of getting the military committed to what they would need to win the war if there were an all-out war. The military did not take the exercise too seriously, but they did put forward many figures on critical items.

A few of us worked on this project very closely with Monnet and we translated requirements into steel, which was a key material in the total effort, because it included merchant shipping and tanks and heavy artillery. We also translated the requirements into aluminum because this reflected the airplane program. Then the requirements were translated into copper because this was the bottleneck for ammunition. Then, finally, the needs were translated into dollars and we came up with what we thought the ultimate gross national product potential would be and the proportion that might be devoted to the war.

Out of all these efforts, which extended over some months in the early fall of 1941, we finally submitted to Roosevelt a set of goals for 1942 and 1943. Lord Beaverbrook was visiting at the White House when this memorandum went to Roosevelt and he urged Roosevelt to push the figures up a little more. Then came Pearl Harbor and soon thereafter the President announced the huge targets for 1942 and 1943, which many criticized as unattainable. This was the Victory Program and it was fortunate that the job had been done and finished not long before Pearl Harbor.

It was really the Victory Program which led to the excessive expansion in budgets and orders and goals by the Army that brought on the feasibility dispute which is discussed in Dr. Jones' paper.

The third gap in Dr. Jones' paper concerns fiscal policies after it was clear that the idle resources would be and were fully utilized. Dr. Jones spends quite a bit of time telling about the views of the Keynesians in trying to resist higher taxes as long as there was substantial unused capacity. That was a good policy and appropriate for the time. But once the capacity utilization was nearly full then efforts were made to increase taxation. But they did not fully succeed. The conflicts and the problems on this aspect of policy should be developed.

There are many other phases of the war program, especially relating to conversion and to other matters, but I do think that the highlights have been dealt with. If the gaps I have mentioned can be filled, then we do have an interesting and significant history of wartime economic development which reveals the importance of the Keynesian contribution.

Lauchlin B. Currie: I am, of course, most appreciative of the kind things said about my work of thirty-five and forty years ago. Alan Sweezy's paper evoked memories of a very exciting period of my life, when I was a member of a dedicated group working for ends that we thought tremendously important. The New Dealers numbered probably no more than 200 or 300 people, mostly young and mostly lawyers and economists, with a scattering from other fields, and mostly in the second and third ranks of the governmental hierarchy. That we were able to make such an impact was not only, as the old saying has it, because our cause was just, but also because we worked prodigiously at it.

What must be kept in mind in assessing our work in retrospect is that we were pragmatists, and extremely policy conscious. In my own case, my theoretical approach had been influenced by Keynes since my London School of Economics days in 1922–25, and at Harvard throughout the Depression I had bootlegged his heretical views on fiscal policy, so that in Washington a large part of my time was spent in learning and practicing the arts of persuasion and of getting views, already mostly formed, accepted and implemented. My formal output in theory was small and was mostly buried in memoranda and occasional speeches. We had, I am afraid, not too much respect for our academic colleagues, who were still mostly budget balancers, and the people we were trying to influence were nonacademics, which explains our preoccupation with matters of semantics and presentation.

I am a little concerned that a listener or reader of Alan Sweezy's excellent paper may fail to keep in mind our concern with persuasion and reassurance of the layman, and may impute to us the rather naive ideas that the analogy of "pump priming" suggests. An early draft of his paper sent me back to yellowed files I had not looked at for many years and I was delighted to come across a memorandum of early 1935 explicitly entitled "Pump Priming"—delighted because the theory therein appears, even after thirty-five years, fairly sophisticated. For example, it contained an attempt to set guidelines for spending by using Kuznets' recent investment figures for 1928 as a benchmark for full employment investment or savings, with modification for changes in prices and in productive capacity since then; it distinguished between the income impact of different types of government spending; it recognized the multiplier (or secondary spending) but was cautious in its use; it analyzed investment spending in terms of durable goods, inventories and construction, with causal interrelationships, and the current impasse in housing; it listed nine factors militating against a "natural recovery"; and it advocated a relatively high monthly deficit of $400–$500 million, not to fall below $300 million "as long as it does not appear that recovery has gathered momentum on its own account." These high figures were doubtless the reason its circulation was restricted, as one could not at that time advocate publicly such magnitudes as $5 or $6 billion a year and remain respectable. I would add to the obstacles Sweezy mentioned the sheer difficulty of finding acceptable ways to spend. One must remember that total federal expenditure had fallen to little more than $2 billion by 1932, and to spend even $1 billion was extraordinarily difficult.

Something which unmistakably dates the memo and, I trust, attests to its authenticity, and brings back a flavor of the times, is that it devoted two pages to demonstrating that the national debt of the United States was low in relation to that of the United Kingdom and Australia and in relation to the national income, so that there was no danger in its increase. The necessity of doing this would never have occurred to one after the war.

As Alan Sweezy remarked, adherence to a strict pump-pumping analogy might lead to a belief that an initial burst of spending was all that was required to set in motion forces leading to full recovery, which would then continue. My 1935 memorandum, however, postulated that spending should continue as long as necessary, which I thought would be when there was "a real spurt in privately financed construction." The line between permanently larger spending and spending for as long as necessary is rather a fine one. The memo was silent on the question of balancing the budget over the cycle. On the permanence of the recovery it merely said that "there is more assurance of income-producing expenditure continuing for a considerable period in the future . . . if the recovery is based on construction," which has a fairly modern ring.

In retrospect, I was not as alarmed at the time over the decline in the net contribution in late 1936– early '37 as I should have been, but I can only plead that it is always dangerous to give great importance to one series when one does not know what is happening to other series, and we had little current data at that time.

My unpublished memorandum on *The Causes of the Recession of 1937* had wide circulation and, I think, considerable influence. It stressed the abrupt decline in the net contribution in conjunction with bottlenecks, sharp wage rises, and an inventory boom as leading factors in the subsequent recession. Eighteen years later our chairman, Walter Salant, made an excellent analysis of this episode, in the *American Economic Review*, March 1955, which, I am happy to say, tended to confirm my earlier analysis.

The investment analysis became more firmly based after 1937 when I could make use of George Terborgh's data on capital goods expenditures, and V. L. Bassie's on consumption and inventories, both of which I had initiated at the Federal Reserve, but the analysis prior to 1937 was hardly as simple as the pump-priming analogy suggests.

Perhaps I may be permitted a few words on my activity after 1937 and up to the war. Through 1938 and 1939 I was very active in promoting public spending in various ways on a continuing basis outside the budget, and in agitating to convert the social security system to a greatly enlarged pay-as-you-go basis, which represented longer term interests of both Marriner Eccles and myself. I tried out the predictive value of Keynes's multiplier with disappointing results, and placed more faith in the analysis of "leading" and "following" sectors of investment which I presented in the *TNEC* hearings in 1939, particularly emphasizing the exogenous role of housing, and the unresponsiveness of business capital expenditures to changes in the rate of interest.

My first coup at the White House in 1939 consisted in having a substantial volume of excess capital funds of government corporations recalled, which reduced the legal or accounting deficit, while leaving the net contribution unaffected, which pleased Roosevelt.

Although I considered myself a Keynesian from way back, I felt (and still feel) that we had little to learn for *policy purposes* from the *General Theory*. We did not, I fear, appreciate fully its novelty or importance for theory. In any case, sometime in 1938 I believe it was, we welcomed Alvin Hansen with open arms as our most important recruit. I recall very well arranging for him to be our star witness in the *TNEC* hearings, rehearsing together our testimony and going over a long list of "good" and "bad" words prepared for the use of the government witnesses by Stuart Chase. Unfortunately, somebody slipped the list to the press, which had great fun with it. It was ironic that despite our efforts, a semantic tag invented by the opposition, "The Lend-Spend Bill," helped defeat our bill with its accurate but uninspired title, "The Works Financing Act of 1939," which was to have been our main reorientation in fiscal policy. The fact that this occurred as late as 1939 may indicate to you the strength of the opposition to spending in the early years of the New Deal.

Sweezy raised an interesting question. What would have happened if the war had not intervened and changed the problem? It might have taken longer, but I think we were winning the fiscal policy-employment battle.

By 1939 I had become the first economist in the White House and we were becoming a formidable group. I had recruited Dick Gilbert and his group—V. L. Bassie, Rod Riley, and the rest—for Harry Hopkins at Commerce, which gave support to Bob Nathan, long a lone outpost in hostile territory. I had turned my post at the Federal Reserve over to Emile Despres. I was, I am happy to say, responsible for bringing Ken Galbraith to Washington and for getting Gerhard Colm placed in the Bureau of the Budget, now moved to the Executive Office of the President. Walter and Bill Salant, Griff Johnson, Alan Sweezy, Arthur Gayer, Malcolm Bryan, George Eddy, Albert Hart and Martin Krost were my former students or associates and were occupying key posts. Our position in the Treasury was getting stronger as Harry White gained influence, and we had close working relationships with Gardner Means and Tom Blaisdell in the *NRPB* and the members of the Board, and with Ezekiel and Louis Bean in Agriculture, with Isador Lubin in Labor and, of course, with Leon Henderson and Jerome Frank in the SEC. Hansen was winning converts outside. We didn't sleep much, but when we did, the *General Theory* kept working. With the Works Financing Act of 1939 and our long discussions on a major revision of the Social Security System, Roosevelt finally acquired a firm grasp of the theory.

I think, therefore, that even if the war had not intervened, victory was assured. The 1936–37 experience suggests, however, the difficulty of securing full employment with stability when there were so many emerging bottlenecks to break. So today's problems would have become acute much earlier.