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Macroeconomic Policy and a Living Wage

The Employment Act as Redistributive Economics, 1944-1969

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Donald R. Stabile

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Preface

This book is a study of macroeconomic policy in the USA in the period following World War II. It challenges the idea that this period was an Age of Keynes in macroeconomic policy. To do so, it uses two concepts that I have coined: the political economy of a living wage and the hybrid system of redistributive economics. The first concept describes an effort to use government regulation and taxation to secure a living wage for workers as a method to increase aggregate consumption. The second concept combines the political economy of a living wage with fiscal policy to further augment aggregate consumption through higher wages due to increased aggregate demand. In both concepts, the overarching goal was a more equal distribution of income.

The principal effort in the USA to create the hybrid system of redistributive economics took place during the second half of the 1940s as part of the drive for the Employment Act. In this book, I will investigate what politicians, union leaders, economists and pundits wrote about the hybrid system of redistributive economics. Chapter 1 serves as an introduction to and overview of the two key concepts of the political economy of a living wage and the hybrid system of redistributive economics. In Chap. 2 I will start exploring the political economy of a living wage before and during the New Deal as background for the Employment Act. Chapter 3 will continue that background by reviewing Keynes' ideas

regarding wages as set forth in his book, *The General Theory of Employment, Interest and Money*, and considering what was written about it by economists in the 15 years after it was published. A key finding of the chapter is that Keynesian economics downplayed the role of wages in bringing about a recovery and worried that full employment might bring about wage-induced inflation. In Chap. 4, I will complete the background of the Employment Act and trace its origins to Roosevelt's Second Bill of Rights, introduced in 1944, with a promise of "The right to a useful and remunerative job." Through consideration of the legislation of the Act and the Economic Reports of the President that it required, I will argue in Chap. 5 that in the late 1940s the Truman administration and its followers bundled Keynesian economics with the political economy of a living wage to produce the hybrid system of redistributive economics. Chapter 6 will explore the economics of the Kennedy administration. John F. Kennedy, usually thought of as a Keynesian, used the hybrid system of redistributive economics to revive the economy. When that approach did not get the economy moving fast enough, he switched to a policy of tax cuts that combined Keynesian economics with the free-market approach of supply-side economics. In Chap. 7, I will present Johnson's Great Society as a culmination of the hybrid system of redistributive economics. Keynesian economics in the form of government spending and the Kennedy-Johnson tax cut helped to produce a very prosperous economy that enabled Johnson to pay for his Great Society and its goal of completing the New Deal program for a living wage. The same policies, however, along with spending on the Vietnam War, produced inflation and Johnson was not able to find a policy to keep inflation in check. This left the hybrid system of redistributive economics vulnerable to attack with both the political economy of a living wage and Keynesian economics being blamed for the inflation that persisted through the 1970s.

From the early 1920 to the late 1960s, Progressives were optimistic that their programs would bring about their ideal of a living wage. They initially based their programs on a simple formula: collective bargaining plus social insurance plus a minimum wage yielded a living wage, especially when supplemented by fiscal policy. It did not end the Great Depression. In the 1940s, they added Roosevelt's Second Bill of Rights

and Keynesian fiscal policy, as a way to determine how much the government needed to spend to reach full employment, to the formula. They had ceased using the term "a living wage," by the 1940s, but their objective remained a living wage. It was not until the 1990s, as I will discuss in Chap. 8, that Progressives revived a living wage as a rallying slogan for their movement.

This revival recognized that even with the programs of the Great Society and the use of Keynesian economics, there were still many workers in the USA who did not earn a living wage. The hybrid system of redistributive economics had abetted the development of the mixed economy, but starting in the 1970s, it was increasingly under attack because of its putative failures. Those attacks, however, came not only from conservatives. Rather, as I will describe in Chap. 8, elements of the Progressive movement found shortcomings in the hybrid system of redistributive economics as set forth as a macroeconomic policy.

Throughout the book, I will be reviewing arguments by supporters of the political economy of a living wage and by advocates for Keynesian economics with emphasis on the detailed Economic Reports of the President as required by the Employment Act along with criticisms of those Reports by economists and other intellectuals. I do not profess to have exhaustively selected every person who wrote in favor of either approach, but have tried to offer a sample that ranges from well-known politicians to little-known economists and union officials. Where possible I have tried to give biographical details of each person or at least their year of birth and death; in some cases, even that information was not available.

The reader should take note that this book presents an intellectual history of fiscal policy with a focus on the labor elements of the hybrid model of redistributive economics rather than a broad-based economic or a political history of the reforms of the postwar era. That focus will leave out arguments made against both the political economy of a living wage and Keynesian economics; Eric Crouse has already provided a solid history of free-market criticisms of Keynes.[1] It will also make few references to monetary policy. Herbert Stein offers a history of monetary policy during this period, and, as he argues, the Keynesians and the advocates

for what I call the political economy of a living wage believed that monetary policy was ineffectual.[2]

Even though political leaders employed the hybrid system of redistributive economics, there remained a debate between Keynesian economics and the political economy of a living wage that concentrated on fiscal policy and the extent to which it should include programs to improve the wages of workers. My objective is not to determine which side of the debate had the better argument. Rather, I contend that they wound up as collaborators with each side winning points that persuaded the other side to cooperate with it. Whether their collaboration produced the results they desired is another issue I have skirted. Economists have difficulty in identifying whether their pet policies are efficacious. Economic historians do not agree on what caused the Great Depression, and their explanations for why it lasted so long include that the New Deal did too much or that it did not do enough. To give a more concrete example, Keynes' interpretation (see Chap. 2) that the recession of 1937–1938 was due to reduced government spending overlooks an alternative explanation that it resulted from the tight monetary policy the Federal Reserve was putting in place at the same time by raising the reserve ratio of banks. As a historian of economic thinking, I am more interested in looking at the ideas that political leaders found plausible to use and offer slight insight into which were correct.

St. Mary's City, MD Donald R. Stabile

Notes

1. Crouse, 2018, pp. 462–464, 603–615 and 791–863.
2. Stein, 1994, pp. 46, 50 and 71.

Acknowledgments

The path to the final version of this book has been tortuous. I began with a premise from my earlier work that the era after World War II "became an age of Keynes … and not an age of Roosevelt and [John] Ryan that led to implementation of a living wage."[1] On review of the early Economic Reports of the President as part of this book, I soon learned that President Harry Truman had not abandoned the political economy of a living wage but had combined it with Keynesian fiscal policy. Further research, however, showed me that politicians and economists in the USA had appreciated the role of government spending as a macroeconomic policy before Keynes told them about it. As I will describe in Chap. 1, economist and later senator Paul H. Douglas published a book on solving the problem of the Great Depression by using both a living wage and fiscal policy a year before Keynes' great work appeared.[2] Douglas' goal was to use both approaches to redistribute income to workers as a way to increase aggregate consumption. It is to him I owe the concept of the hybrid system of redistributive economics.

I also owe others for help in not losing my way on the path to this final book. Bruce Kaufman performed a very beneficial service of reminding me that I was on the verge of getting lost on the path and his many suggestions helped me to find my place. Bob Pollin gave me

his wisdom on the issues related to a living wage and helped me track down the origins of the modern living wage movement in Baltimore (see Chap. 8). My background in macroeconomic policy, a key ingredient of this book, dates to my undergraduate days at the University of Florida where I took my first two courses in macroeconomic theory in spring and fall of 1965, when the events described in Chap. 7 were taking place and being discussed by my professors, especially E.L. Jackson. During my time in the PhD program at the University of Massachusetts Amherst, in spring 1975, I learned firsthand from Leonard Rapping the state of disarray into which Keynesian economics had already fallen; from Sol Barkin I learned that there was a political economy of a living wage, even though he did not call it that. This background and a career-long study of the history of political economy all contributed to this book, but none of the above persons bears any responsibility for the way I have used their guidance.

I would also like to thank the many persons who have done the work of digitizing and putting online many of the documents that I have used in researching this book. The degree of their assistance can be seen in the number of online sources contained in the bibliography. In addition, I thank the anonymous reviewer of Palgrave Macmillan for helpful suggestions and an overall understanding of what I am trying to accomplish in this book. Those same thanks extend to the editorial staff of Palgrave Macmillan, Elizabeth Graber and Allison Neuburger, for their support and help on this project. I also express my sincere gratitude to St. Mary's College of Maryland for granting me the sabbatical year that enabled me to work on this book.

Finally, I wish to point out to the reader that this book is a sequel to my last book and builds on the ideas of two earlier books.[3] As a result some of the material in this book, especially in Chap. 2, has been published previously. On starting this project I had thought I would be able to cite that material and refer the reader back to those earlier works. To do so, I finally decided, would be to shortchange the reader and the

material by not giving a complete background for the political economy of a living wage comparable to the background given for Keynesian economics. In using that material I have modified it by rewriting it, condensing it and adding to it. I have indicated through endnotes where that material is located.

Notes

1. Stabile, 2016, p. 245.
2. Douglas, 1935.
3. Stabile, 2016; Stabile and Kozak, 2012; Stabile, 2008.

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Abbreviations

AFL	American Federation of Labor
BLS	Bureau of Labor Statistics
CEA	Council of Economic Advisers
CIO	Congress of Industrial Organizations
FLSA	Fair Labor Standards Act
JEC	Joint Economic Committee
NIRA	National Industrial Recovery Act
NLRA	National Labor Relations Act
NRA	National Recovery Administration
NRPB	National Resources Planning Board
NWLB	National War Labor Board
SSA	Social Security Act
WIB	War Industries Board
WLB	War Labor Board

1

The Hybrid System of Redistributive Economics

The Employment Act of 1946 was a pivotal change in US economic policy. For the first time, the federal government took legal responsibility for maintaining maximum economic growth, high employment and consistent purchasing power through the use of macroeconomic policy. A standard interpretation of the Act is that World War II went a long way toward gaining acceptance in the USA for the ideas of John Maynard Keynes (1883–1946) and the Act originally aimed at a conversion to Keynesian economics by the federal government through the use of fiscal policy. The conversion was not completed, the story goes on, because conservative politicians in Congress changed a full-employment bill into an Act promising high employment. Still, the Act has been considered to have brought about the application of Keynesian ideas as the basis for macroeconomic policy in the USA during the post-World War II period.[1]

The story behind the Employment Act is more complex, however. In this book, I will describe another facet of the Employment Act and its implementation. The idea of a living wage was also part of the background leading up to the Employment Act. Moreover, the Act mandated that the president prepare a detailed annual Economic Report on the state of the economy and what to do to improve it, making the Report,

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in the words of Alvin Hansen (1887–1975), "the most important economic document of our times."[2] Hansen, as will be described in later chapters, was an early advocate of Keynesian economics and based the importance of the Report on its indication of the US government's fiscal policies. Equally important, I will argue, the idea of a living wage was an essential issue in those Economic Reports of the President for over two decades.

The general point I will be making is that the process through which Keynesian economics became a part of macroeconomic policy can best be designated as hybridization. In the USA, before Keynes wrote *The General Theory of Employment, Interest and Money*, macroeconomic policy consisted of a dual approach of using a living wage to increase consumption with higher wages and pre-Keynesian fiscal policy to create jobs and higher levels of consumption through public works projects.[3] The goal of both approaches was to redistribute income to workers in a quest for greater equality.

After Keynes' ideas became known to them, politicians and economists who employed this dual macroeconomic policy took from Keynes the ideas that fit in with their pre-existing framework, especially his approach for judging what the government had to spend to reach full employment, and ignored the rest. This point has parallels with Alan Blinder's recent book where he argues, "Economists offer lots of policy advice, most of which politicians routinely reject" because they have different goals.[4] In my case, this process resulted in what I will call a hybrid system of redistributive economics that ultimately rested on the attainment of a living wage for low-skilled workers from the push of labor reform and the pull of demand management. Before looking at that hybrid system, I will first consider the use of a living wage as a macroeconomic policy.

Macroeconomic Policy and a Living Wage

The incorporation of the idea of a living wage into the background and outcome of the macroeconomic policies engendered by the Employment Act may seem unusual, because a living wage is usually justified on the

grounds of social justice. As I have argued previously, however, a living wage had been an element of the macroeconomic policy of the New Deal.[5] Starting in the early years of the twentieth century, as I will describe in Chap. 2, advocates for a living wage developed a formula for securing their goal: collective bargaining, social insurance and a minimum wage equaled a living wage. I call this formula the political economy of a living wage.[6] Under it, collective bargaining through unions would enable workers to negotiate a living wage; minimum wage legislation would help workers who were not unionized earn a living wage; and government-mandated social insurance would offer unemployment compensation and pensions to provide workers with a living wage when they were unable to work.

This formula for a living wage reinforced the labor and social reforms of the New Deal of Franklin D. Roosevelt (1882–1945), as I will describe more fully in Chap. 2. First, Roosevelt's administration tried a collaborative approach to economic planning through the National Industrial Recovery Act (NIRA) as administered by the National Recovery Administration (NRA). In addition to promoting the formation of business cartels, the NIRA had a goal of a living wage from the use of collective bargaining and a minimum wage as put in place by the codes the NIRA required for each industry. When it was declared unconstitutional in 1935 by the US Supreme Court, Roosevelt shifted gears and sought a living wage through regulatory reform—the National Labor Relations Act (NLRA) for collective bargaining (1935), the Social Security Act (SSA) for unemployment insurance and pensions (1935) and the Fair Labor Standards Act (FLSA) for a minimum wage (1938).[7]

This book continues my previous study of the history of the reforms brought about by the political economy of a living wage[8] by considering their relationship with the Keynesian economic theory usually thought of as the major component of the Employment Act. From a review of the Economic Reports of the President mandated by the Employment Act, I will argue that in the USA, macroeconomic policy from Truman's Fair Deal through Johnson's Great Society bundled the political economy of a living wage with Keynesian economics to produce the hybrid system of redistributive economics. Those Reports used a Keynesian analysis of the economic state of the nation to determine fiscal policy; they also proposed

improvements in collective bargaining, social insurance and the minimum wage as policies to meet the goals of the Employment Act. The result was a hybrid system of redistributive economics where wages could be pushed upward by the reforms of the political economy of a living wage and pulled upward by fiscal policy.

In their historical study of inequality and growth in the USA, Peter H. Lindert and Jeffrey G. Williamson outline six forces that can affect income inequality and politics is one of them. Their research indicates that there was a reduction of income inequality in the USA from 1910 to 1970 with top incomes growing slower than the incomes of the rest of the population and with greater income equality among the rest of the population as wage levels of low-skilled workers increased compared to higher-skilled and white-collar workers. They explain part of this reduced inequality as due to Progressive politics with its social spending on items such as pensions and unemployment insurance and non-spending policies such as collective bargaining.[9] In the same way, Robert J. Gordon credits two of the New Deal programs, the NLRA and the FLSA, for bringing about this reduction in inequality.[10]

Elliot Rosen, on the other hand, argues that the NLRA and the FLSA "were counterproductive from a macroeconomic point of view."[11] Certainly, these two parts of the political economy of a living wage made the distribution of income fairer without ending the depression of the 1930s. That was why they were supplemented with fiscal policy, but at a modest level. It took the large spending program of World War II to engender greater equality in income distribution that was accompanied by growth to validate the hybrid system of redistributive economics. This book is a study of the political economy of a living wage and Keynesian fiscal policy and how their proponents intentionally proposed them under the authority of the Employment Act as tools to attain a more equal distribution of income through the hybrid system of redistributive economics.

My interpretation of the Employment Act is similar to that of John Eatwell and Murray Milgate, who have written regarding economic policy in Europe, "The strength of social democracy after the war derived from the fusion of the collectivist philosophy of the welfare state (a philosophy of redistribution) with Keynesian economic management."[12] The

political economy of a living wage was not quite the same as the European welfare state, but its combination with Keynesian economics in the USA was similar in its intent to create the hybrid system of redistributive economics. Instead of a social democracy with government ownership of key industries, as took place in the UK, the New Deal and its successors in the USA combined Keynesian economics with the regulatory state, which, as Wolfgang Streeck summarizes, included the regulation of business, "strong industrial trade unions, and ambitious social programs."[13] The result was to produce what used to be referred to as a mixed economy where government policies were considered a necessary adjunct to market activities. As Jacob Hacker and Paul Pierson argue in their effort to reinstate the mixed economy, "It takes government—a lot of government—for advanced societies to flourish."[14]

These interpretations of the combination of Keynesian economics with the welfare state make an important point. It has been argued that the welfare state is synonymous with Keynesian economics, giving Keynes too much credit (or blame).[15] As Roger E. Backhouse and Bradley E. Bateman argue, "Keynes may not be a great place to look for defenses of the welfare state, for the welfare state was not one of his passions."[16] In the same way, the political economy of a living wage did not favor the welfare state, as its policies aimed at helping the working poor. To be sure, both approaches when combined into the hybrid system of redistributive economics could be easily extended into the welfare state, but the primary goal among politicians in the USA was to use the hybrid system as a macroeconomic policy as part of the Employment Act. In doing so, they used it as a key ingredient in another goal of the mixed economy, that is, to provide an alternative to socialism or communism.

During the first three decades of the twentieth century, the USA had seen a vibrant Socialist Party of America with Eugene Debs as its leader polling as many as a million votes as a presidential candidate. After the Bolshevik Revolution in Russia in 1917, there arose an interest in communism in the USA to the point where Thorstein Veblen (1857–1929), a leading institutional economist, wrote favorably about the revolution in Russia.[17] The ideas of socialism and communism retained salience among intellectual during the 1920s and 1930s, as many of them visited the Soviet Union and came back impressed. When the Great Depression

reached its depth in the early 1930s, socialism and communism were put forth as alternatives to capitalism.

A leading pundit and advocate for technocracy in the 1920s and 1930s, Stuart Chase (1888–1985), for example, argued in favor of national economic planning as a cure for the depression in a book titled *A New Deal*. His proposal relied on the five-year plans of the Soviet Union. Chase had no qualms about admitting his system was "frankly aimed at the destruction of capitalism." He described the plans of the Soviet Union in glowing terms and praised their formulation by Joseph Stalin (1878–1953). He concluded, "Why should the Russians have all the fun of remaking a world?"[18] A leading socialist in this period, Norman Thomas (1884–1968) was also optimistic about the dictatorship of Stalin under the communist system of the Soviet Union, interpreting it as "a temporary dictatorship for a transitional period."[19]

Supporters of the political economy of a living wage were aware of this promotion of Soviet-style planning for the USA and set out to argue against it. While they might not have been aware of the holocaust Stalin was unveiling through the use of a planned famine, they did appreciate that communism required very specific human qualities to function effectively. Monsignor John A. Ryan (1869–1945), a paramount advocate for a living wage (see Chap. 2), objected to socialism because its "expectation that altruistic sentiments" would replace monetary incentives was "based on the very shallow fallacy that what is true of a few" would become true of everyone under the right circumstances. He observed that even the Christian religion had been unable to inculcate more than a few of its faithful followers in a "life of altruism."[20] Progressives in the New Deal era did not consider the effort to achieve planning by the NIRA and its NRA to equate to socialism.[21]

For example, Alexander Sachs (1893–1973), who had organized and served as head of the Division of Economic Research and Planning at the NRA, argued that the NRA had a primary goal of the securing "a more fair wage return" for workers as part of a system of collaborative planning through the formulation of industry codes by all the members of an industry with the help of the government. This collaborative planning was different from socialism or communism because it required "no change in the economic motivation of business men, only the enlightening

of their self-interest." To Sachs, the top-down collectivism that characterized the planning backed by socialists and communists was ineffectual. He even cited Stalin as appreciating that the disorganization of the Soviet Union's economy was caused by its use of wage equality as a motivation for workers, the heavy-handed rules imposed on managers of state-owned industries and the "uneconomic size of the governmental combines." In contrast, he insisted that in the USA the NRA avoided this inept planning by using a teamwork approach. While Sachs was clearly overstating the effectiveness of the NIRA and NRA, he was presenting the view that the New Deal sought a middle ground between the market economy and socialism and communism. Moreover, he offered a standard of how to assess that middle ground, noting that the test of a policy of a mixed economy was "its success in hindering the hindrance to free and rational economic human action."[22]

As applied to the Employment Act, this standard would appear to have been met, at least its advocates thought it had, as will be described in Chap. 5. The policies engendered by the Act, as I will argue, combined the reforms of the New Deal, the NLRA, SSA and FLSA, with the fiscal policy of Keynesian economics to provide planning in the form of macroeconomic policies that proponents believed would retain the free and rational action prized by the market economy, a point on which Keynes agreed with Roosevelt, as described in Chap. 3. Neither of them supported socialism or communism as a viable alternative to capitalism. Rather, the combination of their favored policies into the hybrid system of redistributive economics aimed to smooth out the rough edges of capitalism while retaining its good qualities.

Before the Employment Act was put in place, the New Deal had already taken responsibility for making the economy flourish through its efforts to end the depression. I must point out, however, that even with the advantage of hindsight, economic historians still debate what caused the Great Depression. Among the explanations that economic historians have given for the Great Depression the following have been given wide scrutiny: a decline in business investment, turmoil in financial markets, poor policy by the Federal Reserve in contracting the money supply, declines in international trade that were worsened by the passage of the Smoot-Hawley Tariff, problems related to the payment of the debt

obligations and the reparations owed from World War I, stickiness of wages, issues related to the gold standard, problems in banking that caused several waves of runs on banks, declines in personal consumption and weakening of the housing market.[23]

To be sure, the New Deal responded to several of these possible causes for the depression. It also pursued a strategy for bringing about a recovery through the labor and social reforms of the NIRA and then the NLRA, the SSA and the FLSA. Economic historians have argued that these reforms were motivated by the theory that the cause of the Great Depression was underconsumption produced by an unequal distribution of income that resulted in the lack of purchasing power among workers.[24] Higher wages from collective bargaining through unions and a minimum wage along with the income provided to workers from social insurance would take care of the lack of purchasing power.

There was another side to this argument, however. A living wage policy also served as a justification for the higher wages that aimed at solving the problem of underconsumption. It was a component of the effort to smooth out the rough edges of the economy by increasing the wages of low-paid workers. Both parts of this argument were made by supporters of the New Deal and they often went hand in hand. To give one example, in his statement on the NIRA, Roosevelt called for a "change from starvation wages and starvation employment to living wages and sustained employment," adding that "decent living, widely spread among our 125,000,000 people, eventually means the opening up to industry of the richest market which the world has known."[25] This argument, I will describe in this book, continued to be made in the Economic Reports of the President from Truman through Johnson as part of their responsibility under the Employment Act.

In looking for examples of this argument, I am mindful from my previous research that the living wage is a multifaceted concept.[26] It is hard to define and even harder to measure. There are issues related to whether it should be paid to a single worker based on individual needs or as a family wage. In addition, the needs to be met by a living wage evolve over time as new items of consumption are introduced into society. This redefinition must take place, because a basic characterization of a living wage is a level of income large enough to allow an individual and his or her

family to have a standard of living that will provide them with the dignity and respect that all humans should have. To be sure, a living wage must meet subsistence needs. It should also provide a social standard of what it means to have a decent life, a standard that is always evolving. Above all, a living wage has to be provided to a worker on a regular basis. It does no good for workers to be given an hourly living wage for part-time work or a weekly living wage when there were periods of unemployment.

Moreover, not everyone used the term "a living wage" when they wrote about the values behind it. Rather, one of my findings is that while the term a living wage was popular in the 1920s and 1930s, it fell out of use among economists and Progressive politicians from about 1940 until its revival in the early 1990s. To be sure, it did not completely disappear. I have found four scholarly economic journal articles on a living wage during this period. The first one from 1941 argued that workers wanted a living wage and were not motivated by monetary incentives until they received it.[27] The second one, published in 1958, provided a history of the concepts used to define whether workers earned an adequate income and dated the living wage as being such a concept during 1900–1935.[28] I will examine the other two articles in Chap. 8. The scarcity of such articles tends to substantiate my contention that the use of the term a living wage declined after 1940, even if it did not completely disappear. In Chap. 5 I describe how it was used as part of the debates in Congress over raising the minimum wage in 1949.

Instead of the term a living wage, in the course of this book I will describe advocates for fair wages, a decent wage, a decent standard of living, an American standard of living, economic security, industrial democracy or economic justice and opponents of substandard wages or a wage below subsistence. There are even cases where advocates depicted what they meant without using a term to describe it. For example, as will be explained in Chap. 4, in 1944 Roosevelt presented a Second Bill of Rights that contained all the elements of a living wage, including "The right to a useful and remunerative job," but never mentioned the term a living wage.[29] I will employ a living wage as a key concept because it offers a clear expression of what Progressives meant to accomplish through their social reforms for labor.

They focused on higher wages through a living wage because they wanted workers to have dignity and personal freedom without the taint of the dole. They also wanted higher wages as a spur to consumption. As I will detail in Chap. 5, the initial version of the bill that eventually became the Employment Act set "The right to a useful and remunerative job" as a basic goal of the bill. The goal of the political economy of a living wage, however, was not the attainment of overall equality. Rather, it sought to reduce inequality by assuring that low-skilled workers shared in the prosperity of economic growth by obtaining a standard of living conducive to dignity. Once those workers had a living wage, Progressive proponents of the political economy of a living wage were less concerned with inequality. In this way they simplified the measure of an equitable distribution of income.

Equally important, the idea of what it would take to secure a living wage for workers developed over time. In an ideal world, employers would behave morally and pay their workers a living wage. While there may have been employers who did behave morally in this way, there were not enough of them to make a living wage widespread. Consequently, unions took up the cause of a living wage with an aim to secure it for their members through collective bargaining. Soon after, Progressive politicians in the USA took up the cause of a living wage and added in government policies such as collective bargaining, minimum wage laws and social insurance to foster a living wage through what I am calling the political economy of a living wage. The objective was to give workers sufficient income to purchase the necessities and amenities required for a life of dignity. This objective was part of the agenda of the New Deal. When the programs of the New Deal version of the political economy of a living wage failed to achieve that objective of a living wage, Progressives substituted more government programs to help low-wage workers ranging from subsidized housing to training programs.

It may seem awkward to use one term, the political economy of a living wage, to describe the objective of policies included in the New Deal, Roosevelt's Second Bill of Rights, Truman's Fair Deal, Kennedy's New Frontier and Johnson's Great Society, yet, I will argue, they all had a goal of a living wage. To attain that goal it was essential that the federal government improve the original elements of the political economy of a

living wage, collective bargaining, social insurance and a minimum wage, by reforming them and by adding other elements such as housing, education and civil rights.

Another reason for reforming the elements of the political economy of a living wage was that the New Deal legislation did not get all that was needed to ensure a living wage to all workers. The NLRA, the SSA and the FLSA as first enacted were neither comprehensive nor inclusive. A majority of workers did not belong to a union, and the social insurance provided by the SSA did not include health or disability insurance. In addition, the social insurance of the SSA and the minimum wage provisions of the FLSA only covered about half of the workforce. As a result, presidents from Truman to Johnson used the Employment Act and the Economic Report of the President to justify the expansion of these programs and the inclusion of additional workers.

A further complication in the political economy of a living wage is that it often conflated elements of microeconomics and macroeconomics. At the microeconomic level, there was a concern that individual workers have the dignity of taking care of themselves through earning a decent wage under the rubric of social justice. Individual firms that paid a living wage would also gain a more productive workforce through efficiency wage theory, which holds that higher wages will make workers more productive.[30] There is also a microeconomic perspective that low wages impose a cost on society, which has to make up for them with government programs and charity.

From a macroeconomic perspective, widespread payment of a living wage would increase overall productivity through a general application of efficiency wage theory in all firms and promote economic growth. In addition, a living wage could alleviate downturns in the business cycle in two ways. First, a living wage would provide a floor for wages and avoid the problem of competitive wage cutting that could reduce consumption spending by workers. Second, providing a living wage to workers who did not have one would enhance their purchasing power and increase consumption spending. In both cases, advocates for a living wage based their arguments on the macroeconomic impact of the distribution of income where, as the distribution of income showed greater inequality, consumption demand would decline and cause a recession. Wage cutting

in the early stages of a recession would aggravate income inequality and make the recession worse; with a living wage as a floor, this problem could be avoided. Using a living wage to increase wages would enhance income equality and help cure the recession.

The issues I have raised in this section about the complexities of a living wage are especially relevant to today's debates over raising the minimum wage to the level of a livable minimum wage. As I will describe in Chap. 2, the ideas I have just set forth about a living wage became part of the debate over a living wage that took place in the 1920s and 1930s.[31] The debate was especially vital in using economic arguments instead on focusing on an ethical case, as is done today.

When Keynesian economics became prominent by the end of World War II, Progressives adopted it as a necessary supplement to their program for a living wage. They had already been primed to do so, however. As I will describe later in this chapter and in Chaps. 2 and 3, in the USA, several economists and politicians during the 1920s and 1930s advocated combining the political economy of a living wage with fiscal policy. They recognized that their living wage program could increase the labor costs for business. To be sure, efficiency wage theory pointed to a potential reduction in costs to offset higher wages. Moreover, increased demand from higher wages would increase sales; profits per unit sold might be reduced but increased sales could increase total profits. Still, the total impact of all these changes might leave consumption at less than production. Policies to increase aggregate demand similar to what Keynes later set forth would enable businesses to increase wages, sell more goods and services and pass some of the costs on to consumers with higher prices. These ideas were fully developed before Keynes wrote the *General Theory*. As an example of a pre-Keynesian version of the hybrid system of redistributive economics, let us consider a book on economics that appeared the year before Keynes' *General Theory*.

Paul H. Douglas and the Hybrid System of Redistributive Economics

One of the issues in my study of the hybrid system of redistributive economics is that it was never developed into a cohesive theory or logical model of the functioning of the economy. Rather, as noted above, it was based on an idea that the combination of the political economy of a living wage with fiscal policy would improve economic performance through the redistribution of income. Because the objectives of the hybrid system were not clearly set forth, its goals were often misunderstood, and especially by Keynesians. For example, in his analysis that the political economy of a living wage was not bringing about a recovery, one of the problems Keynes saw, as I will describe in Chap. 3, was that efforts to increase wages by collective bargaining or a minimum wage would damage the economy if they crowded out investment, brought about unemployment or caused inflation. As Bruce Kaufman points out, however, during the 1930s advocates of the political economy of a living wage recognized that their program could increase the labor costs for business and perhaps bring about the concerns Keynes raised. Policies to increase aggregate demand similar to what Keynes later set forth would make it easier for businesses to pay for those increased labor costs and keep employment steady.[32]

One economist in the USA who followed this path was Paul H. Douglas (1892–1976). Douglas had a long and respectable career at the University of Chicago and served as senator (Democrat) from Illinois from 1949 to 1967. In 1935 he published a book, *Controlling Depressions*, which included a chapter on fiscal policy from a macroeconomic perspective that predated Keynes' *General Theory*.[33] In the book, Douglas presented a theory of depressions whereby some factor started a downturn and then a cumulative process kept the downturn going; both the initial factor and the cumulative process might vary from one depression to another. The key to the cumulative process was the multiplier effect that Keynes made key to his analysis and Douglas utilized it in a way similar to Keynes, as I will describe in Chap. 3.[34]

The multiplier effect will come up several times in this book, so I will describe it here. The point of the multiplier is to show how changes in spending can generate larger changes in income. Let us suppose that business investment spending increases income when a business hires people to build a factory. When the workers who get those jobs spend their earnings on consumption items, their spending generates jobs and income in consumer goods industries. Workers in those industries also spend their income and the process continues, leading to an increase in total income greater than the initial spending. The reverse is also true, with a decrease in spending causing layoffs of workers, reducing their spending and generating further layoffs and so on. This reversal was what Douglas had in mind with his cumulative process.

In terms of the Great Depression, to Douglas the cumulative process started with sticky prices where businesses with market power increased their ability to produce but did not share that increased productivity with consumers through lower prices and with workers by increased wages. Instead, they kept prices and wages constant, which improved their profits in the short run from lower costs. In the long run, Douglas wrote, "It was fatal for industry neither to reduce prices nor increase wages in the face of a rapidly rising output."[35] The result was a reduction of labor's share of national income, a decline in consumption, an eventual disastrous fall in prices and a reduction in investment that led to the depression.[36]

Douglas included a variety of policies for ending the depression and I will focus on the ones pertinent to the theme of this book, starting with the political economy of a living wage. Early in his career, Douglas had indicated that he believed "firmly in the living wage principle."[37] Consistent with that belief, he proposed all three elements of the political economy of a living wage, collective bargaining, a minimum wage and social insurance, as macroeconomic policies. The key to all of them was to make sure "that the *share* of labor during periods of prosperity should not be reduced."[38]

Douglas' concern for the share of labor in the distribution of income was an important feature of his intellectual background. While he was a graduate student at Columbia University, he had studied with John Bates Clark (1847–1938), the innovator of the marginal product theory of

income distribution. Clark had argued that under a theory of pure competition, market forces would produce an outcome where the wage equaled labor's contribution to production and profits equaled capital's contribution to production. The resulting distribution of income between capital and labor could thus be construed as fair as both were paid in accordance to what each contributed to production. In a dynamic world with large corporations and labor unions, the distribution of income depended on bargaining power. When technological change displaced workers, Clark found a productivity-wage gap, because those unemployed workers produced a condition of unequal bargaining power between capital and labor that kept wages below productivity. Wage growth would lag behind changes in productivity and that was acceptable as long as the lag was not too great. Clark argued that unions were needed to keep wages in line with productivity gains if not equal to them.[39]

In 1928, Douglas followed up on Clark's ideas by developing, with mathematician Charles Cobb (1875–1949), the Cobb-Douglas production function that he used in statistical studies of the marginal product theory.[40] Douglas was well versed in the relationship between wages and productivity and thus did not assume that wages automatically adjusted to changes in the marginal product of labor. Rather, he believed that unequal bargaining power often kept wages below labor's productivity.[41] As a result, he argued that unions were "necessary to force wages up to the point of marginal productivity in society as a whole."[42] That was why he supported collective bargaining.

For the same reason, he approved of legislation of the minimum wage. Both the minimum wage and collective bargaining could increase wages and maintain labor's share in the distribution of income at a level that would keep consumption high enough to buy all that was produced. Consequently, he approved of the way the NRA was trying to incorporate a minimum wage and collective bargaining in the industry codes it oversaw (see Chap. 2), as was taking place while he wrote. Still, in a period when prices fell from lack of demand, wages had to be reduced in line with the lower value of the marginal product of labor. Unions would have to agree to pay cuts to keep profits from being squeezed. Douglas agreed with Clark that wages had to be based on the marginal product of labor and increasing them above that level would reduce profits and

crowd out investment. His argument followed Clark's view that wages rarely reached that basis without the push of institutional reform, such as the New Deal was bringing about.

With regard to social insurance, Douglas focused on unemployment insurance. His primary concern was with how unemployment insurance could stabilize the economy. The direct effect it would have would be to give workers who were unemployed income to spend, which would add to consumption spending. There would also be an indirect benefit from workers not cutting back on consumption spending out of fear of losing their jobs and income. Unemployment insurance would have reduced the cumulative process that caused the depression. Douglas recognized that unemployment insurance was what became known as an automatic stabilizer by observing that the unemployment insurance system would build up reserves during prosperous years by taxing employers and employees and spending those reserves during hard times.[43] We now associate the concept of an automatic stabilizer with Keynesian economics, when it really came from the thinking of advocates of the political economy of a living wage.

Although he highlighted the political economy of a living wage, Douglas also considered the use of fiscal policy to end the depression. He focused on public works as an important tool of fiscal policy. It was effective because it put people to work directly on public works projects and indirectly in private businesses through the multiplier, whereby "the total production of goods is stimulated by very much more than the amounts directly expended."[44] Douglas approved of the public works program of the New Deal and its way of financing it through deficit spending. Because the public works spending by the Roosevelt administration had not ended the Great Depression, he urged that it be expanded. He also recommended that the administration put in place a program of public housing. It would not only serve an important social need, it would also create jobs. Given current wage levels, the rent of public housing would have to be subsidized by the government to make it affordable.[45] Spending on public works and housing would result in a budget deficit. To Douglas, there was no need to balance the federal government's budget annually, as long as it was balanced over the business cycle.[46]

From this perspective, Douglas' approach to fiscal policy was what was called compensatory finance, where the government pursued expansionary fiscal policy to counteract a recession, but once the recession was over, high wages would keep the economy on track, and the deficit would be replaced by a surplus. The federal government would balance its budget over the business cycle, instead of balancing it annually as had been the common practice for the previous century and a half.

With his policy recommendations, Douglas represents a pre-Keynesian combination of fiscal policy with the political economy of a living wage. He did not synthesize the two approaches into a formal model of the hybrid system of redistributive economics, but the main thrust of both approaches was on the distribution of income. The political economy of a living wage used institutional reform to push wages up, while an active fiscal policy would pull them up with aggregate demand management. The former would increase labor's share in national income by increasing wages, while the latter would redistribute income through deficit spending on public works and housing that would create jobs and keep employment steady and from taxes for subsidized rent in public housing. In both cases, improvements in labor's income would increase consumption and help to control the business cycle. In his book, Douglas gave precedence to the political economy of a living wage in terms of the amount of pages he allocated to it. In this respect, he was a harbinger of the approach that would result from the Employment Act and was consistent with the way Democrat Party presidents interpreted their responsibility under the Employment Act.

Stephen Marglin refers to this approach as "co-operative capitalism" where "high and growing wages and high and growing government expenditures would guarantee a stable expansion of demand."[47] He attributes this "co-operative capitalism" to Keynesian economics and considers it to have contributed to the prosperity that existed from the end of World War II until the late 1960s. This is another case of giving Keynes too much credit (or blame). As Douglas' writings would indicate what I am calling the hybrid system of redistributive economics was a well-known concept in the USA before Keynes wrote the *General Theory*.

By using this hybrid system of redistributive economics as an overarching concept, I will argue that after World War II, macroeconomic policy

in the USA was a combination of pre-Keynesian fiscal policy, Keynesian economics and the political economy of a living wage that aimed at greater income equality. Thus there was a dual motivation for the Employment Act of 1946. First, a Progressive agenda, based on the political economy of a living wage, sought improved collective bargaining, increased social insurance and a higher minimum wage with a goal of full employment for all workers at high levels of pay to ensure increased productivity and elevated volumes of aggregate consumption by fostering a more equal distribution of income. Second, political leaders supported deficit spending to attain high levels of employment as a way to increase wages and to improve the distribution of income but with a subtle shift. Pre-Keynesian fiscal policy aimed at the government accumulating a budget surplus in prosperous years to spend during recessions. That approach merely altered the timing of government spending. After Keynes became popular, those leaders recognized the need to get spending to the amount needed to create full employment.

In both cases, moreover, a goal of macroeconomic policy was to bring about a more equal distribution of income. The political economy of a living wage argued that high wages and a narrowing of the distribution of income would increase consumption and keep the economy on track. In contrast, Keynesian economics contended that fiscal policy could produce full employment with higher wages as a result and bring about greater equality in the distribution of income. Despite these different viewpoints, political leaders and a few economists combined the two policies together when they promoted macroeconomic policy as part of the government's responsibility under the Employment Act. Just as a hybrid automobile has two engines that work separately and operate differently, but are also coordinated, the hybrid system of redistributive economics had two policies that were seemingly distinct but which worked together to redistribute income to low-wage workers.

Alan Brinkley characterizes the Employment Act as "the last battle for the New Deal."[48] The Act was a battle but it was not the last one. My review of the Economic Reports of the President that were required by the Employment Act will relate how they used the hybrid system of redistributive economics as part of the Act to avoid recessions and to promote long-term growth. The battle for New Deal social reform continued

through the Great Society of the Johnson administration and the Employment Act became an important legitimation instrument for the hybrid system of redistributive economics.

The hybrid system of redistributive economics did not proceed without conflict, however. Keynesians resisted it, as I will describe in Chaps. 2, 3, and 5. They initially argued that Keynesian economics by itself would bring about the higher wages prized by the political economy of a living wage and criticized the idea that a living wage from collective bargaining, social insurance and a minimum wage could bolster consumption and mitigate a recession. By the 1960s, as documented in Chaps. 6 and 7, they became reconciled to two of the elements of the political economy of a living wage, social insurance and a minimum wage, as aids in keeping the economy stable. They remained skeptical about collective bargaining, however.

Although there was little recognition of it, the hybrid system of economic redistribution was tried as a way to combat the Great Recession of 2007–2009. Fiscal policy in the form of a stimulus program of "shovel-ready" projects was put in place and the deficit in the federal government's budget was very large, much as Keynes would have wanted. In addition, unemployment benefits were increased and the social security payroll tax was reduced, in line with the political economy of a living wage. The recovery remained sluggish, however, and proponents of the political economy of a living wage would have pointed to a low level of collective bargaining as a factor in the slow recovery. To them, unions were needed to push wages up as part of a recovery plan, but unions did not have the bargaining power needed to have an impact on the recovery.

In a provocative and insightful book on why individual countries do not get on a path to economic growth, Daron Acemoglu and James Robinson argue that it comes down to institutions and whether they are extractive by benefitting only certain groups, especially elites, or inclusive by benefitting all persons in society.[49] Their approach has parallels to the older institutional economics as set forth by Veblen, who argued that institutions could be either predatory or productive.[50] Since labor issues will play a large role in this book, it is appropriate to ask whether unions

were part of a set of extractive institutions or aided the development of inclusive ones.

Free-market economists typically find unions to be extractive because they seek wages for their members that are above what the market would accord them and come at a cost to other workers through higher prices. In Chap. 3 I will describe how Keynes and his followers agreed with free-market economists on this issue. Veblen found unions to have the potential to be inclusive as long as they took maximizing society's production as a goal but they could be extractive if they only pursued increased wages for their members at the cost to society. Advocates for the political economy of a living wage, from Richard T. Ely (1854–1943) and John R. Commons (1862–1945) to Ryan and Roosevelt, as I will describe in Chap. 2, supported unions and collective bargaining as an inclusive institution because they redressed unequal bargaining and empowered workers to have a greater share in the prosperity they helped to produce, especially if unions included a large number of workers as members. Douglas made an even finer distinction that the type of union also mattered. To him, craft unions of the American Federation of Labor (AFL) kept wages up by restricting their membership and were extractive while "industrial unions are inclusive."[51]

Acemoglu and Robinson discuss the NIRA and the NLRA but do not consider whether they were extractive or inclusive; they do give unions in Brazil credit for fostering inclusive institutions in that country.[52] The issue of the institutional bearing of unions is important in the USA, because the perception of whether they changed from inclusive to extractive in their approach had an impact on their social standing as political supporters of the political economy of a living wage for all workers or as economic predators taking care of only their members, a point to be considered further in Chap. 8.

Conclusion

The two concepts I have introduced in this chapter, the political economy of a living wage and the hybrid system of redistributive economics, have not been an important part of modern economic theory. This neglect of

the importance of wages and the distribution of income has not always been true of prominent economists, as I have argued elsewhere.[53] In the USA it was kept alive by Progressive political leaders and institutional economists and in the case of Douglas, someone who was both. They believed that macroeconomic policies that combined the push on wages from institutional labor reform and the pull on wages from increasing aggregate demand would redistribute income to workers and maintain consumption at levels to keep the economy on track. Because they advocated two approaches, I have called it the hybrid system of redistributive economics.

The effort in the USA to create the hybrid system of redistributive economics took place during the second half of the 1940s as part of the Employment Act. Before I can write of the Employment Act, I must first give the intellectual and political background that led up to it. That will be the function of the next three chapters.

Notes

1. Council of Economic Advisers, 1966, pp. 170–171; Lekachman, 1966, pp. 165–175; Stein, 1994, pp. 76–79; Coan, 2017, p. 419; Culver and Hyde, 2015, p. 8802; Garrison, 2016, p. 102; Crouse, 2018, p. 632. See also Wikipedia, 2017.
2. Hansen, 1964 [1951], p. 529.
3. For a discussion of pre-Keynesian fiscal policy, see Rosen, 2005, pp. 1424–1844.
4. Blinder, 2018, preface with no page numbering. I discovered Binder's book at a point where it was too late to incorporate its perspective into my work.
5. Stabile, 2016.
6. Stabile, 2016, p. 2.
7. For a full description of the use of the political economy of a living wage in justifying the NIRA, NLRA, SSA and FLSA, see Stabile, 2016, Chaps. 3–6.
8. Stabile, 2016.
9. Lindert and Williamson, 2016, pp. 12, 194–195, 207, 218n.
10. Gordon, 2016, pp. 9734–9736 and 10395.

11. Rosen, 2005, p. 208.
12. Eatwell and Milgate, 2011, p. 349.
13. Streeck, 2016, p. 3366.
14. Hacker and Pierson, 2016, p. 29.
15. Crouse, 2018, makes this argument throughout his book.
16. Backhouse and Bateman, 2011, p. 158. See also p. 131.
17. Veblen, 1919, pp. 174–179.
18. Chase, 1932, pp. 240, 243–244 and 252.
19. Thomas, 1970 [1934], pp. 45 and 67.
20. Ryan, 1916, p. 165.
21. For a discussion of the relationship between the NIRA and socialism, see Stabile and Kozak, 2012, pp. 137–165, from which this material was adapted.
22. Sachs, 1934. pp. 128, 130, 181, 185–186 and 189.
23. Rothbard, 2000; Smiley, 2003, pp. 11–70; Parker, 2007, pp. 1–28.
24. Kaufman, 2012; Barber, 1996; Dickman, 1987, p. 14.
25. Roosevelt, 1933.
26. Some of the ideas in this section are derived from Stabile, 2008, pp. 1–12, and Stabile, 2016, pp. 2–8.
27. Barkin, 1941, pp. 554–555.
28. Lamale, 1958, pp. 294–296.
29. Roosevelt, 1944, pp. 40–42.
30. Akerlof and Yellin, 1996. For a history and critique of efficiency wage theory, see Dickman, 1987, pp. 160–162 and 176–179.
31. See also Stabile, 2016, throughout.
32. Kaufman, 2018, pp. 162–163.
33. Douglas, 1935. My reading of the book gave me the impression that Douglas might have read a draft of Keynes' *General Theory*. He cites Kahn's article on the multiplier (Kahn, 1931), just as Keynes did. He also quoted Keynes on the irrationality of trying to balance the government's budget during a depression, without offering a citation. Douglas, 1935, pp. 125 and 135. Keynes had written extensively in the USA promoting his ideas about fiscal policy (Rosen, 2005, pp. 746 and 1610) and Douglas likely read some of them, such as Keynes, 1933. It is also possible that Keynes had read and was influenced by Douglas' book.
34. Douglas, 1935, pp. 9–12.
35. Douglas, 1935, p. 78.
36. Douglas, 1935, pp. 79–83.

37. Douglas and Lewisohn, 1923, p. 141.
38. Douglas, 1935, p. 211.
39. Clark, 1968 [1907], pp. 451–452.
40. Cobb and Douglas, 1928, pp. 139–165.
41. Douglas, 1957 [1934], pp. 67–79.
42. Douglas, 1935, p. 223.
43. Douglas, 1935, pp. 253–255.
44. Douglas, 1935, p. 123.
45. Douglas, 1935, pp. 128–134.
46. Douglas, 1935, p. 135.
47. Marglin, 1990, p. 7.
48. Brinkley, 1996, p. 5639.
49. Acemoglu and Robinson, 2012.
50. Stabile, 1984/2008, p. 188.
51. Douglas, 1935, p. 218.
52. Acemoglu and Robinson, 2012, pp. 325–327 and 455–457.
53. Stabile, 2008, throughout, and Stabile, 2016, pp. 8–24.

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Background of the Employment Act I: A Living Wage

For over a century the USA has seen a movement to provide poorly paid workers with a living wage. During that time labor activists and unions, Progressive politicians, religious groups, public intellectuals and heterodox economists have led this movement to attain economic justice for workers. Before I can give the case for the hybrid system of redistributive economics as part of the legislation of the Employment Act, I will present a background to the Act by outlining the main features of its two components, a living wage and fiscal policy. In this chapter I will describe the social reforms Progressives intended to accomplish with the political economy of a living wage based on my previous research.[1] I will also add background information on US pre-Keynesian fiscal policy.

The first three decades on the twentieth century saw the USA transformed into a mature economy. Manufacturing became the dominant industry of the nation and the western frontier was settled. Large-scale immigration had proceeded for two of those decades. As a result of these changes, the country had a large number of low-skilled workers being employed in factories often run by giant corporations. This combination of low-skilled workers employed in factories that were not easy to monitor created what was known as "the labor problem." To solve the labor

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problem, business leaders, economists and politicians tried a number of methods, from scientific management to welfare programs. In the process they formed organizations where the labor problem and the methods to solve it could be discussed.

To give one example, in 1906 a group of institutional economists including Richard T. Ely (1854–1943), John R. Commons (1862–1945) and Henry R. Seager (1878–1930) formed the American Association for Labor Legislation to push for laws to protect labor such as worker's compensation insurance and a minimum wage.[2] This organization was an offshoot of the National Civic Federation, formed a few years earlier by representatives of big business along with individuals interested in labor issues such as Samuel Gompers (1850–1924) and Ely and Commons. The National Civic Federation and the American Association for Labor Legislation promoted corporate-funded programs to enhance the welfare of workers and government intervention in labor markets as ways to solve the labor problem.[3]

This chapter will investigate the solutions to the labor problem that were brought about by the political economy of a living wage. Proponents of a living wage for workers focused on the improvement of wages as going a long way to solve the labor problem by treating workers fairly. Higher wages and steady work would make workers healthier and happier in their jobs, especially if they were to improve their lot in life by joining unions to engage the giant corporations in collective bargaining. Proponents of the political economy of a living wage hoped their program would be adopted voluntarily but were willing to seek the help of government if they failed to secure volunteers among business leaders.

The Political Economy of a Living Wage

Their proclivity for using the government to get higher wages for workers might have resulted from Progressive academics and intellectuals in the USA studying in Europe, where they learned socialist ideas that were more common on that continent. In Germany they saw firsthand the activist government of Bismarck and the social welfare programs Germany developed to take care of the poor. If they went to England, they would

have encountered the Fabian Socialism of Beatrice Webb (1858–1943) and Sidney Webb (1859–1947), who developed the idea of promoting efficiency and fairness for workers through collective bargaining and social insurance.[4] In England they might also have encountered a living wage movement whose activities produced an article in *The Economic Journal* and several books during the years just before and after the turn of the twentieth century.[5]

Given this European influence on US intellectuals, it is easy to neglect the idea that in the USA there was a version of worker protection that promoted its programs in a framework that fit within US cultural norms. As Lawrence B. Glickman has pointed out, workers and union leaders in the USA began rallying around the idea of a living wage in the last quarter of the nineteenth century and continued well into the twentieth century.[6] In November 1913, for instance, Gompers told the convention of the AFL, of which he was the president, "A fair standard of wages—a living wage, for all employed in an industry, should be the first consideration in production."[7] It is arguable, however, that Gompers would have wanted to see the government legislate a living wage. As Melvyn Dubofsky and Foster Rhea Dulles point out, Gompers always avoided using the government to take care of the problems workers faced.[8]

Progressive reformers were not averse to using government, however. Glickman observes that in the early years of the twentieth century they took over the quest for a living wage and made it part of their agenda for reform.[9] In the process Progressives shifted the living wage movement from a grassroots struggle by workers to a top-down policy for the government. As Murray Rothbard has argued, the Progressive movement brought about an increased use of the government through the combined efforts of business leaders who wanted to be protected from market competition by using the government to make it easier to form cartels or outright monopolies and intellectuals and technocrats who sought influence and jobs as regulators of the economy. Unions, he added, became "a junior partner" in this movement.[10] Perhaps because of this junior status of unions, historians have focused on the business aspects of the Progressive movement, such as Gabriel Kolko's pathbreaking studies of big businesses' efforts to use regulation to protect itself from competition by increasing the barriers to entry to an industry by newcomers.[11] By

focusing on a living wage, I am able to highlight a shift in government policy toward unions as part of this Progressive movement for more governmental control over the economy.

An entry point for this shift can be found in the writings of institutional economics. Institutional economics is often referred to as a school or a distinct way of looking at the economy. It could be more aptly described as a disparate group of heterodox thinkers who objected to the free-market approach to economics for using theories that did not exist in life. Ely and Commons, two well-known institutional economists, who taught at the University of Wisconsin and formed what is often called the "Wisconsin School," did most of the pioneering work on labor issues by institutional economists. To them an institution included the laws, customs and common practices that codified the regulation of transactions as well as the social organizations and political groups that did the codifying.

Ely was a prominent figure in economic circles in the USA as an organizer of the American Economic Association in 1885 and for writing a best-selling textbook. Rothbard has called him "the formidable progressive economist" and Howard Dickman refers to him as the "dean of American progressive economists."[12] Ely argued that ethics had to play an important role in all economic actions. This argument meant that political economy did "not tell us merely how things are, but also how they ought to be."[13] The study of the economy should not merely describe how the economy functioned; it should also find out when things went wrong and what to do when they did. By using this approach to economic thinking, economists would advance social progress toward an ethical goal consistent with "humanity and justice."[14]

A key ingredient of humanity and justice, Ely believed, was that workers should have sufficient pay to enable them to make the most of their human capabilities. In looking at wages, Ely set forth an idea that they were set by the standard of living of workers. He wrote, "Laborers have an habitual standard of life, a certain style of life, and what they receive as wages enables them on average just to keep up this standard, but to do no more." His definition of that standard life was an early version of a living wage. He wrote, "It should include provision for all real needs and provision for accidents; future emergencies, disability on account of old

age, and the like should be included. A deposit in the savings bank and insurance policies ought to be part of the habitual standard of life."[15] Wages did not always meet this standard which to him meant that workers did not always earn a living wage, even though he did not use the term.[16]

Regarding the formation of wages in labor markets, Ely found that they were determined by bargaining power that favored employers.[17] To offset this unequal bargaining power, workers joined unions. When unions were successful in improving wages, Ely insisted that it was incumbent on workers to use their higher income to give each of them the "opportunity for the completest development of all his faculties."[18] Workers should spend increases in their wages on goods and services that added to their human capabilities. Unions and collective bargaining represented an institution that would enable workers to have a share in the prosperity they were helping to produce. Ely's religious leaning, Rothbard observed, also made him deify the government as the best way to accomplish the elevation of labor to union membership and prosperity.[19] As Ely put it, the government was "an educational and ethical agency whose positive aid is an indispensable condition of human progress."[20]

Ely was very influential as a writer for his entire career. One critical influence he had was on Monsignor John A. Ryan, who in 1906 published an essential book in the struggle for labor reform, *A Living Wage: Its Ethical and Economic Aspects*.[21] Ryan acknowledged the influence of Ely's economic thinking on his book; Ely also helped Ryan secure a publisher for the book and agreed to write an introduction to it.[22] In the book, Ryan offered the perspective that "the laborer's claim to a Living Wage is of the nature of a *right*."[23] He defined a living wage as a decent livelihood that included meeting the needs of an existence marked by "the dignity of a human being."[24] In more concrete terms, a living wage meant enough to provide a worker with food, clothing and shelter for him and his family until his offspring were able to work; to allow him to save enough to guard against illness, accidents and the infirmity of age; and to give his family a modest amount of education, entertainment and the ability to perform religious obligations.[25]

Ryan argued that businesses had a moral obligation to pay a living wage. If a business leader did not pay a living wage due to a need for large

profits to live a life in excessive luxury, then he needed to sacrifice that life to pay a living wage. He must also forgo paying dividends to his stockholders or interest on his own capital or on borrowed capital, as all of these expenditures were "subordinate to the laborer's right to a Living Wage."[26]

Free-market economists and businessmen have always used profits as a measure of success. Sumner Slichter (1892–1959), an institutional labor economist with an undergraduate degree from the University of Wisconsin and a long-time professor at Harvard University, once stressed the importance of profits as a crucial macroeconomic variable, because investment decisions by business relied on the outlook for profits and investment decisions determined income and purchases by consumers.[27] Ryan took an opposing viewpoint by measuring success through a firm's ability to pay a living wage. Any firm that was unable to pay a living wage after having had sufficient time to attain the viability necessary for affording a living wage was considered bankrupt under Ryan's standard. In the early days of the New Deal, Roosevelt would repeat this message by insisting, "No business which depends for existence on paying less than living wages to its workers has any right to continue in this country."[28]

Ryan doubted business leaders would voluntarily pay their workers a living wage, and presented a listing of labor legislation for the government to enact a living wage. His list included a minimum wage, protection for peaceful picketing, unemployment insurance and funds to help workers when they became ill, injured or elderly. These policies—collective bargaining, social insurance and the minimum wage—were the program to promote a living wage that I refer as the political economy of a living wage.[29] Moreover, Ryan was not the only religious writer to support this program. In 1912, a Commission of the Federal Council of Churches produced a Social Creed that sought, among other things, collective bargaining for labor, the abolition of poverty and a fair division of national income.[30]

Within the framework of the political economy of a living wage, there were two economic problems related to low wages. First, from a microeconomic perspective, high wages had a positive impact on the productivity of workers who earned them. A better-paid workforce was more productive, which would have the benefit of increasing economic growth

as argued by efficiency wage theory.[31] Second, low wages had a negative impact on the amount workers could consume. At the macroeconomic level, a reduced consumption demand could cause a recession. Unions and advocates for the political economy of a living wage made both arguments. W. Jett Lauck (1879–1949), economist for the United Mineworkers Union, believed that a living wage would result in a new "trinity of high production, high earnings and high consumption."[32] To accomplish this trinity, Rosen characterizes Lauck as proposing an "industrial democracy based on a living wage through collective bargaining as essential to the nation's recovery," a proposal that would carry weight in legislating the NLRA.[33] Lauck's trinity would be revised under the Employment Act to the goals of maintaining maximum economic growth, employment and purchasing power.

Collective Bargaining

During the Progressive Era, the living wage trinity was also set forth by economists, politicians and business leaders. One example is from the research done by Commons, who offered a microeconomic analysis of workers, unions and collective bargaining. To Commons, society was filled with conflicts of interest and it thus had to place limits on those conflicts through laws, customs and habits, that is, institutions. Because those conflicts arose as part of market transaction, Commons advocated for government regulation of market activities. He was especially interested in the conflicts of interest in labor relations and the way unions took collective action to limit them.[34] In negotiations between employers and workers, both parties tried to get the best deal they could in terms of their self-interest. Wages were due to bargaining power based on supply relative to demand, and if a group of workers received low wages, it was because there were too many of them compared to the number of jobs available. This number disparity meant to Commons that workers had unequal power in the bargaining process with employers. Unions were a way for workers to use collective bargaining to gain better wages and working conditions for themselves.[35]

As Dickman points out, the idea that there was unequal bargaining power between employers and employees had a long history. Proponents of the idea had argued that the accumulation of capital in the concentrated form of large corporations meant that workers had to accept a job on the terms employers offered them or else go without work and pay and risk starvation. There were a number of ways to address this imbalance of bargaining power such as socialism where the government owned the capital or syndicalism where unions would come to control an industry. In the USA, the approach used was collective bargaining through unions as a way to equalize bargaining power and give workers an opportunity to have control over their conditions of work. Commons was an important advocate for this approach.[36] He believed that if businesses would use persuasion instead of coercion in bargaining, they would nurture the industrial goodwill of workers toward their employers.[37] The idea of industrial goodwill was that successful collective bargaining would enhance labor's productivity.

To address how this collective capability of industrial goodwill could be achieved, Commons and his colleagues at Wisconsin studied it in a book, *Industrial Government*. The book offered case studies of businesses that were developing a range of programs for industrial governance. Their main principle in wanting a better program of industrial governance was "the sudden or gradual moral conversion of an employer from business to humanity."[38] One case study that exemplified this "moral conversion of an employer" was the Ford Motor Co. In that case study, Commons approved of Henry Ford (1863–1947) and his advanced approach to managing workers. Ford had established a "Sociology Department," a harbinger of what is now called human resource management. Its goal was to see that "efficiency was to be a by-product of the clean and wholesome life." Ford had raised wages of his workers in the famous "$5 a day" campaign and their productivity increased, which meant that the program had paid for itself, much as efficiency wage theory might have predicted. To Commons, this was an example of industrial goodwill at work.[39]

Still, Commons was not optimistic about seeing similar improvements in industrial relations from all employers. Rather, the data gathered in the case studies of his book indicated that less than one-fourth of US

employers paid wages and provided working conditions comparable to what unions gained for their members. The small number of practitioners of the advanced management methods that he championed led Commons to decide that "only the big stick of unionism or legislation" would make them offer comparable conditions for their workers.[40] After all, government-mandated safety regulations and worker compensation laws had forced businesses to reduce the number of accidents they experienced in their plants. He urged that similar government policies in labor market activities would require all businesses to pay the reasonable wages he saw in the commendable firms he and his associates had studied.[41]

Commons and his associates were not the only advocates for the need to achieve industrial goodwill through higher wages and improved working conditions. As Nelson Lichtenstein observes, a "Progressive-era impulse took the large industrial enterprise for granted as the basic building block of the new commonweal and looked for a solution to the problems of authority, equality, motivation, and efficiency through its reorganization and democratization."[42] A key factor in the motivation and efficiency of work was the scientific management movement headed by Frederick W. Taylor (1856–1915). Through experimentation with the way workers performed their tasks, Taylor keyed on efficiency through having the right worker with the right tools trained in the best way to perform a job. His ideal was that workers and managers would both became accustomed to a scientific method for determining the proper wage for working as he prescribed. All sides to the wage bargain would bow to the authority of the efficiency engineer. When his methods were applied to assembly line production, they were criticized as too authoritarian. To retain their influence as efficiency experts, his followers softened his rigid prescriptions with a dose of their own version of industrial goodwill and thereby aligned themselves with the Progressive movement.[43]

Political leaders also became involved in the program of industrial goodwill through collective bargaining as set forth by Progressive economists. A key political figure in this Progressive reform movement was President Woodrow Wilson (1856–1924). Hacker and Pierson credit Wilson as starting the mixed economy with his program of regulation

that included the Federal Reserve Act and the Clayton Act. They write, "Wilson signaled more clearly than any economic tract could that the emerging mixed economy was a necessary addition to modern capitalism."[44]

Wilson also signaled the efficacy of the mixed economy during World War I. To marshal the resources needed to fight the war, business leaders and the government combined their efforts into a War Industries Board (WIB) that was run by committees from each industry that was vital to supplying war material. In organizing the production and sale of war supplies, the committees stressed the need for cooperation among businesses in each industry instead of competition. Prices were fixed at levels that guaranteed reasonable profits, in effect, allowing each industry to act as a cartel. The federal government took over the railroads and used them as a way to bring recalcitrant businesses in line by denying them shipping services. Moral suasion was also an important method for bringing about cooperation and businesses that did not cooperate were stigmatized.[45] The WIB represented a macroeconomic policy of planning to manage the economy and the Progressives who participated in it or watched it from the sidelines never forgot the lessons for peacetime that the war offered in macroeconomic policy. The background of the Employment Act begins with the WIB.

Less noticed by historians was Wilson's advocacy for a living wage as part of an overall program of controlling the economy. Wilson was especially interested in labor reform, since he had been a member and officer of the American Association for Labor Legislation during his academic career.[46] As part of the WIB, he established the National War Labor Board (NWLB) in 1918 as a government agency to coordinate labor policy. The NWLB operated with principles such as the right of workers to organize and bargain collectively, protection for workers from being dismissed for union activities and a minimum wage that would "insure the subsistence of the worker and his family in health and reasonable comfort."[47] By supporting two elements of the political economy of a living wage, Wilson made unions a component of the mixed economy and, as Rothbard observed, developed a model to bring "an often unruly labor force" into the cooperative system of corporatism.[48] If planning by the WIB managed production and prices, it also had to manage the price of labor. The craft unions of the AFL were the only labor organization that could be

brought into planning apparatus of the WIB, and in return they were promised collective bargaining over wages. Workers who were not in unions would have their wages regulated by a living wage floor.

In the period immediately following the war, business leaders, politicians and Progressive intellectuals wanted to see the WIB approach continued. Wilson disagreed and the WIB was eliminated right after the war ended. Most likely he gave priority to the peace plan he was formulating and which consumed him for the next few years and did not want to waste his political capital on a fight with Congress over the continuation of the WIB. With regard to the approach of the NWLB, however, Wilson outlined a reconstruction program for the economy in his annual message to Congress on December 2, 1919, and included his policy for labor: "The workman demands an adequate wage, sufficient to permit him to live in comfort, unhampered by the fear of poverty and want in his old age."[49] This policy, however, was concerned with the well-being of the individual worker and not the functioning of the overall economy.

When the Republicans took over the presidency in 1921, Herbert Hoover (1874–1964) was appointed Secretary of Commerce. Hoover had been in charge of food production as part of the efforts to manage the economy by the WIB and saw his new post as an opportunity to continue the work of efficiency in industry through cooperation by all parties in an industry. His chief approach for cooperation was to encourage trade associations, voluntary organizations of businesses that made up a particular industry, to work together under government sponsorship to coordinate industry production and prices. He also included unions and collective bargaining in his plan for cooperation and met with leaders of the AFL to bring them into his cooperative approach.[50]

The goal of Hoover's program was to avoid the two extreme ideas "that all human ills can be cured by government regulation" and "that all regulation is a sin," which is why he focused on voluntary cooperation.[51] Rosen sums up Hoover's program thusly, "Collective action through self-governing industrial groups would stabilize output and employment and move society toward industrial democracy."[52] The government would provide support services such as data collection and demand estimation to help each industry group plan its production and sales. Planning by industry groups would stabilize their production and add up to stability for the overall economy

Macroeconomic Policy

Equally important, Hoover wanted to use the macroeconomic lessons learned from the WIB to solve the problem of recessions. At his urging, in 1921, the federal government held a Conference on Unemployment that brought together important members of the business community, union leaders and academics; he presented a program for fighting recessions that included government spending on public works financed by a reserve fund built up during prosperous years and the maintenance of wages at a steady level.[53] Herbert Stein once remarked that Hoover "was probably more up-to-date on the thinking of professional economists of his time than any other President of this [twentieth] century." That thinking, Stein added, recognized that the federal government's budget could be used to stabilize the economy.[54] Hoover also worked with Roosevelt to form a trade association, the American Construction Council, to promote the idea of keeping spending on construction projects, public and private, at a steady level by industry planning.[55]

His program thus combined fiscal policy through public works with support for collective bargaining and the maintenance of wages as a way to counter recessions. He did not publicly advocate for a living wage, but his approach ran on a parallel track. Higher wages would increase consumption and ameliorate a recession. It would be hard to determine how high wages would have to be to reach full employment, however. Spending on public works would be an aid to attaining full employment. Here, too, it would not be easy to know how much public works spending would be necessary. When the Great Depression began in 1929, Hoover immediately began to increase spending on public works and to use moral suasion to get business leaders to maintain wages at current levels. He thus represents a pre-Keynesian bundling of the two approaches that became part of the Employment Act, fiscal policy and the political economy of a living wage, combined into the hybrid system of redistributive economics. As Hansen observed, however, the fiscal policy advocated by Hoover and kindred spirits merely shifted government spending "from good

times to bad" without considering how much spending was needed to restore full employment.[56]

Hoover's approach aimed at solving a macroeconomic issue that resonated in the 1920s underconsumption. Would there be sufficient consumer demand to purchase the increased production that efficiency wage theory contended would result from a living wage? Unions provided an answer to the question just before the 1920s began. In February 1919, the *American Federationist*, the chief publication of the AFL, published an article that presented a union philosophy related to the economics of living wage:

> Unemployment is caused by underconsumption. Underconsumption is caused by low or insufficient wages. Just wages will prevent industrial stagnation and lessen periodical unemployment. Give workers a just wage and their consuming capacity is correspondingly increased … Just wages will create a market at home which will surpass any market that may exist elsewhere.[57]

In arguing this way, the AFL was making a case for the idea that a living wage, by increasing the purchasing power of labor, would solve the underconsumption problem, and it applauded Hoover's program for maintaining wages during a recession for accepting its "theory that depressions are caused by low wages."[58]

As Dickman argues, the theory of underconsumption from low wages had a long history, and in the USA unions used it to claim they were accomplishing a good thing for society by avoiding recessions by increasing the wages of their members.[59] The AFL continued to make that case throughout the period from the 1920s through the 1960s. The political economy of a living wage maintained that a combination of efficiency wage theory and enhanced consumption would create an economy with high production and high consumption.

A more popular version of underconsumption in the USA was set forth by William Trufant Foster (1879–1950) and Waddill Catchings (1879–1960) in a series of books in the 1920s that presented the idea that recessions were due to the way savings reduced spending by consumers.[60]

They argued that at some point in "a period of increased productivity" an increase in savings meant a reduction in consumption that produced recessions. To make their case, Foster and Catchings set forth a theoretical apparatus they called the "circuit flow of money," that was similar to Douglas' and Keynes' use of the multiplier (see Chaps. 1 and 3).[61] Foster and Catchings suggested that fiscal policy was one way to make up for the decline in consumption. In this way Foster and Catchings' analysis of consumption decline as triggering a recession was very influential, causing many policymakers in the USA, including Hoover and Roosevelt, to see steady or increased purchasing power by workers, with supplementary fiscal policy, as a solution to the problem of underconsumption.[62] This idea was an early version of the hybrid system of redistributive economics and provides a reason for why it became important as a background to the Employment Act.

A Minimum Wage

Despite this macroeconomic approach, advocates for the political economy of a living wage typically stayed within the realm of microeconomic policy. As Kaufman has pointed out, there was also a component of the business community that took a positive view of the idea of treating workers well.[63] These business leaders wanted a voluntary industrial democracy that would use forward-looking industrial relations to bring about a distribution of income that was more favorable toward labor. As Dickman describes throughout his book on industrial democracy, the history of industrial democracy reveals a complex variety of programs that were covered by the concept.[64] My concern here is with the version that highlighted a living wage.[65]

One business leader with an interest in this version of industrial democracy was Edward Filene (1860–1937). Filene started out with a small store he inherited from his father and developed it into a larger department store. He used advanced management methods that Commons would have liked, as they upgraded the wages and working conditions of his employees. He supported the legislation of a minimum wage, arguing, "A decent wage, then, seems to us the basis of intelligent

work."[66] He explained his argument in an article, "The Minimum Wage and Efficiency," in September 1923, in *The American Economic Review*. To him, the need for a minimum wage law was, "Wages naturally tend to go down toward the standard set by the meanest and most short-sighted employers."[67] The government was the only entity with the legal capacity to stop this competitive wage cutting to the lowest possible amount with a minimum wage law. Filene, however, did not extend his argument to the macroeconomic perspective that wage cutting would not help an economic recovery.

The problem of wage cutting was a condition that markets could not readily solve. Writing in the 1920s, institutional economist John Maurice Clark (1884–1963) set forth the idea that businesses that did not pay a living wage were being subsidized. Clark argued, "There is a minimum of maintenance of the laborer's health and working capacity which must be borne by someone, whether the laborer works or not" or else "the community suffers a loss through the deterioration of its working power."[68] Workers were responsible for their own sustainability. When their wages were not adequate to maintain them and if the community did not make additional provisions for them, members of the labor force might deteriorate. He concluded, "An industry which does not pay a living wage is really imposing part of its costs on other industries."[69]

Clark did not see a market solution to this problem, due to what is now called the prisoners' dilemma. The prisoner's dilemma is a case in game theory where, if individuals cooperate, they all gain. Individual self-interest, however, will lead some of them to defect from voluntary cooperation and produce an outcome that harms their well-being. In the case of labor markets, Clark argued that if employers cooperated and paid workers a living wage, they would be compensated with higher productivity. When some of them refused to cooperate and kept wages low, those who paid higher wages risked having higher costs, which might place them at a competitive disadvantage compared to firms that did not pay higher wages and reduce their profits.[70] Clark identified the problem businesses faced in organizing a sellers' cartel, only he focused on efforts to form a cartel aimed at purchasing the services of workers for a living wage. While he was concerned with a microeconomic problem, the idea of using a buyers' cartel to bring about a living wage would be recognized

as a macroeconomic issue in the early days of the New Deal, as will be described later in this chapter.

At the microeconomic level, Clark argued, even though an enlightened element among business leaders wanted to solve the labor problem through the development of human resource management programs, those programs were proving difficult to implement. Proponents of those programs believed they would reduce the problems of managing labor by treating workers fairly. Slichter, one of those early proponents, argued that the "good will of the workers" was a "capital asset" that had to be protected.[71] As Barry Eichengreen observes, such programs "promised an alternative to federal government administration."[72]

The problem with this private welfare approach by business to treating labor's goodwill as an asset was that it cost money to implement. Those costs, moreover, were tangible, whereas the indirect benefits to the business from higher productivity were intangible and uncertain. In addition, the approach included indirect social benefits that accrued to society such as the better health of the workforce. It would take a very committed business to undertake programs of the political economy of a living wage to attain the goodwill of its workers, raising its costs, when its competitors did not follow suit. The solution to a prisoners' dilemma is to find a way for the individuals involved to cooperate. There needs to be an overarching force such as the government to get firms to follow the path to better working conditions and employee benefits. Filene's espousal of minimum wage legislation was one such approach. Clark offered another approach by arguing that government spending programs that kept aggregate demand high would give businesses the funds to pay for programs of higher wages.[73] In essence, Clark, Slichter and Filene had pinpointed the problem of forming a buyers' cartel for labor services at higher wages and proposed government action as a way to resolve it.

Social Insurance

So far, I have touched on collective bargaining and the minimum wage as two ingredients of the political economy of a living wage. The third element, social insurance, was also widely discussed in the 1920s. For

example, Abraham Epstein (1892–1942) formed the American Association for Old Age Security during that decade and recruited Ryan to be on its board.[74] The discussions about social insurance were all summarized in 1932 in a book written by Barbara Nachtrieb Armstrong (1890–1976) with the title *Insuring the Essentials. Minimum Wage Plus Social Insurance—A Living Wage Program*.[75] Armstrong had a law degree and a Ph.D. in economics and was a member of the economics department and the law school at the University of California at Berkeley; she also chaired a subcommittee of the Committee on Economic Security that did the initial work on the SSA. She began the book with a statement of her overriding philosophy: "the burden of support of persons who cannot maintain themselves is an unquestioned social obligation."[76]

To Armstrong there were two basic parts to living wage program, a minimum wage that was legally binding and set a standard below which wages could not fall—what is now called a livable minimum wage. A livable minimum wage, however, would not take care of workers who were unable to work due to age, illness or job loss. Those problems necessitated social insurance to keep income at the level of a living wage when workers were unable to earn a living. Although the standard to be set for a living wage was relatively easy to calculate, sickness, accidents, unemployment and retirement were random events and had such a wide range of potential costs "that no amount could be estimated that would meet the needs of all workers."[77]

Pensions, for example, were necessary for any living wage plan, because the stage of life when a worker could not long hold a job varied depending on health or a desire to stay employed as a healthy, elderly person. At some point, however, all workers needed to take care of themselves when they could no longer work or did not want to work. The problem they faced was their inability to put money aside for retirement because their wages were very low. There were businesses that provided pensions for their employees, but they only covered less than ten percent of workers. Few workers remained with a business for long enough to be vested with a pension. Unions also offered pensions for their members but few workers received and the benefits were not at a living wage. The USA was the only advanced industrial economy that did not have a national pension system for its elderly citizens.[78]

Another problem workers confronted in advanced industrial economies was unemployment. In those economies, they were tied to the market economy "wherein each individual is responsible for finding his own work."[79] There were times when workers might be unemployed, though no fault of their own, and they needed income to keep themselves and their families functioning. Armstrong reviewed programs in the USA in the private sector that gave their workers unemployment insurance. Unions offered it to their members, and forward-thinking corporations such as General Electric offered it to their employees in a system where both the company and the workers contributed to an unemployment insurance fund.[80] The coverage that could be provided by private programs was small, however, because not many workers were union members or employees of a large firm. On Rosen's account, only 15 private unemployment insurance plans existed in the USA in the early 1930s.[81] It would take the government to set up a system of unemployment insurance that covered all workers and Armstrong promoted the federal government as best equipped to do it.[82] Only the federal government could mandate social insurance at the level of a living wage.

Armstrong did not link her case for social insurance to macroeconomic policy. Within three years of the publication of her book, however, social insurance and the other elements of the political economy of a living wage were linked to macroeconomic policy as part of the reforms of the New Deal.

The New Deal: Reform and Recovery

Many of the ideas that solidified into what I am calling the political economy of a living wage were developed in the 1920s and became a guiding force for reform for the New Deal. For example, in the early days of the New Deal, Roosevelt made the same argument as Clark had in an analysis of the conditions in the cotton manufacturing industry. In that industry, 90 percent of businesses would agree to higher wages and reduced hours for their workers. The problem was that an "unfair ten percent" would not make the same agreement and the "fair ninety percent" would have to go along with them. The government, he went on, "ought to have

the right," through a partnership between business and government, to enlist the help of the fair 90 percent to persuade the "unfair ten percent" to agree to eliminate "the kind of unfair competition that results in long hours, starvation wages and overproduction."[83] If the competition of the market system produced starvation wages, it was up to the federal government to ensure a fairer outcome. To Roosevelt, however, it was a macroeconomic issue. He wanted wages to increase to enhance consumption spending. To do so, he would have to overcome the prisoners' dilemma that operated at the microeconomic level. The question was how to do it.

Many New Deal programs were motivated by the theory that the cause of the Great Depression was underconsumption that resulted from the lack of purchasing power among workers that stemmed from a maldistribution of income. A living wage was one way to increase the purchasing power of workers and make income distribution more equal. Unions had argued throughout the 1920s that a living wage was the solution to the problem of underconsumption.[84] In the 1930s Progressives began to believe that the unions had been right. As noted in Chap. 1, Roosevelt called for the replacement of starvation wages with a living wage to create greater consumer demand to solve the underconsumption problem.[85]

To end starvation wages, the New Deal first used a model established by the WIB of World War I and its NWLB as the best way to bring about a recovery. The result was the NIRA.[86] To be sure, the NIRA had many goals, including the nurturing of sellers' cartels, but Roosevelt and his followers also indicated that it had a goal of instituting a living wage program.[87] The NWLB with backing from Wilson had pushed for a living wage policy and the NIRA had the same intent.[88] Roosevelt made this aspect of the NIRA clear in his presidential statement on signing the law, indicating, "Its goal is the assurance of a reasonable profit to industry and living wages for labor."[89] This goal was geared toward a macroeconomic policy of increased consumption.

To accomplish that goal, he added, "There would need to be an industrial covenant to which all employers shall subscribe." As part of the covenant (i.e., a national cartel), businesses would agree to a reduction of the hours each worker had to work per week while "paying a living wage for the shorter week." To be sure, Roosevelt recognized that in the market economy businesses could not individually raise wages without

losing their competitive edge. If all of business would "act together" and raise wages in concert, "none will be hurt" and labor would be paid a living wage.[90] Through cooperation nurtured by the NIRA, the prisoners' dilemma problem in labor markets would be solved. Historians have focused on the NIRA as aiding the formation of sellers' cartels; the living wage approach also meant that it aimed at a buyers' cartel for labor services with the goal of a living wage. Given its overall goals of economic recovery, high employment and maintenance of purchasing power, the NIRA can be construed as the first attempt by the federal government of legally meeting the goals that were later enacted in the Employment Act.

The NIRA was passed by Congress on June 16, 1933. It was implemented by the NRA with a mandate to devise a set of industry codes for business behavior to eliminate what was thought to be the ruinous effects of excessive price competition. The key to the codes was for businesses, labor and the government to be able to establish an industry standard of fair prices and wages. By working together, business, unions and the NRA could develop a system that included collective bargaining and minimum wages. Unemployment insurance and retirement pensions would be put in place by the private sector through planning and cooperation. It was the Progressive formula for a living wage.

In its initial phase, the NRA in late July 1933 set up a blanket code to have something in place while each industry code was being worked out. The main provision of the blanket code was that businesses who accepted it agreed to pay their workers a minimum wage, as described by the blanket code. This provision to pay a minimum wage meant that under the blanket code businesses had to accept what the federal government set as that minimum wage.[91] In this roundabout way, the federal government "enacted" a minimum wage as a floor to prevent wage cutting and keep the distribution of income from becoming more unequal.

In addition to its goal of minimum wages, the NIRA contained Section 7A that aimed to help workers by strengthening the right of labor to organize unions as a way to increase wages and purchasing power and Section 7B with a goal of eliminating the practice of wage cutting.[92]

In addition to its efforts to boost wages, the NIRA contained Title II, which provided for $3.3 billion in spending on public works programs to use fiscal policy to stimulate the economy and create jobs. Roosevelt insisted that for any public works project under Title II of the NIRA, "No employee on any such project shall be paid less than a just and reasonable wage which shall be compensation sufficient to provide for the hours of labor as limited, a standard of living in decency and comfort."[93] This living wage approach followed the program of the NWLB. In doing so, the NIRA gave legal backing for two elements of the political economy of a living wage, collective bargaining and a minimum wage and it contained Hoover's pre-Keynesian fiscal policy of spending on public works as a way to create jobs at a living wage. At the macroeconomic level, the NIRA approach used institutional reform to push wages up and fiscal policy to pull them up with aggregate demand management, a harbinger of the approach that would result from the Employment Act, that is, the hybrid system of redistributive economics.

As Rosen details the outcome of the NIRA program, it did increase wages at a rate faster than prices, which would have given workers an increased real wage and a fairer share in the distribution of income. That part of the NIRA program should have increased consumption. Rosen adds, however, that it also caused wage-price inflation, which pushed interest rates up and counteracted the potential gains in employment that the program of higher wages leading to higher consumption accomplished.[94] Keynes would cover this issue in the *General Theory*, as I will describe in Chap. 3.

Because he interpreted the NIRA as having brought fairness to the distribution of income, Ryan, the leading advocate of the political economy of a living wage, maintained that the NIRA "represented the most comprehensive and fundamental measure for social justice that has been set up in modern times."[95] Historians have not usually thought of the NIRA as a method for bringing about social justice, a point they have missed from their focus on its creation of sellers' cartels. Still, during the 1930s it was viewed in that way by many New Dealers and, equally important, by Keynes.[96]

Roosevelt and Keynes

Keynes does not have a reputation as an advocate for social justice and I will consider in the next chapter his views on the distribution of income. Nevertheless, he applauded the efforts by the New Deal to attain social justice in "An Open Letter to President Roosevelt" published in *The New York Times* on December 31, 1933. In it, Keynes flattered Roosevelt for seeking to solve the economic problems the world faced "by reasoned experiment within the framework of the existing social system," that is, by finding a middle course between capitalism and socialism. Success in those reasoned experiments, he went on, would nurture a "new economic era."[97]

Success was not guaranteed, however, and Keynes was concerned that Roosevelt might very well fail because he was trying to end the Great Depression and to enact reforms in business and society that were greatly needed. He should instead focus on securing an economic recovery. Once the recovery program succeeded, Roosevelt would stand very high with the electorate, which would enhance the opportunity to bring about true reform. Keynes worried that the New Deal's reforms were damaging business' faith in government and impeding the recovery. The reform Keynes was worried about was the NIRA and he wrote of it, "I cannot detect any material aid to recovery in N.I.R.A., though its social gains have been large."[98] He added, "I do not mean to impugn the social justice and social expediency of the redistribution of incomes aimed at by N.I.R.A." In his view, the NIRA aimed at raising prices by reducing production. A better approach would be to increase prices by stimulating demand and thereby encouraging higher levels production and employment.[99]

When it came to a policy for stimulating demand, Keynes offered a clear approach. As long as it was proving difficult to get consumers to spend more or to get business to invest more, the government should run deficits, spending on programs that provided income to consumers to spend. While this sounds as if Keynes did not know about Title II of the NIRA with its $3.3 billion in spending, he likely thought that $3.3 billion was an inadequate amount of fiscal spending given that investment had declined by over $15 billion in the USA during the depression.[100]

Rosen characterizes Keynes as arguing that Roosevelt had been "too tardy and too timid in his program of public works" and needed a more robust fiscal policy.[101]

Keynes elaborated on this robust fiscal policy and explained it based on the experience of war, when the government borrowed money to spend on the military and created jobs in defense industries. Those jobs added to economic growth. The tradition in free-market thinking was that a war was an appropriate time for the government to borrow and spend heavily. By disregarding this traditional view, Roosevelt, Keynes argued, was "free to engage in the interests of peace and prosperity the technique which hitherto has only been allowed to serve the purposes of war and destruction."[102] In arguing this way, Keynes was using the approach that would be part of the peacetime program of the Employment Act; he was not simply arguing in favor of fiscal policy, such as Roosevelt was already using, but in favor of a fiscal policy that was significantly larger than had been put in place by the New Deal. The deficits of the 1930s paled in comparison to the deficits of wartime such as took place during World War I. Roosevelt and Keynes did not get on very well when they first met, however, and Roosevelt did not accept his early advice.[103]

The difference between them will be a key issue of this book. Keynes took the position that recovery came before reform, while Roosevelt believed that reform that led to social justice was a key ingredient to recovery. A living wage was an important component of increasing aggregate consumption, to use the Keynesian term for purchasing power, and while fiscal policy might help to pull wages up, it was only a supplement to the political economy of a living wage. To Keynes government spending in a very large amount was the best way to increase consumer demand and a living wage had nothing to do with it.

Up to the Great Depression, the consensus view among economists was that there could not be a long period of underconsumption of goods and services resulting in a sustained period of high unemployment. They followed a theory referred to as Say's Law of markets, which held that whatever was produced would generate enough income to purchase it all back. The emphasis was on supply and the idea that supply would create its own demand. Proponents of Say's Law did not argue that there were no recessions. If an industry expanded its output to levels that did not

produce profits, firms in that industry might retrench or move to other industries, causing a recession. Their movement would also produce changes in prices and wages as signals that the industry was in trouble. Once the price changes brought about the movement of capital and labor to industries that were expanding, the recession would end. Changes in supply were the paramount factor in recessions.

Slichter agreed with the proponents of Say's Law and took the argument a step further. He argued that while the underconsumption theory contained logic, it could not explain "the fact that most depressions do not begin in the consumer-goods industries." Rather, it was "the drop in business spending which produces the inadequacy of consumer incomes" and not the other way around.[104] Regardless of this alternate explanation for a depression, Slichter went on, "the man in the streets" adhered to the underconsumption theory and so did political leaders.[105] As Dickman argues, "On the eve of the New Deal, the lack-of-purchasing-power theory of unemployment had become the conventional wisdom."[106] Consequently, it was an important theory that could not be ignored.

Starting in the 1930s, economists began shifting the focus from supply to demand as the more important of the two, a shift that was helped in the 1940s by the popularity of Keynesian economics among economists. Economists refer to this shift as a transition from "supply-side economics" to "demand-side economics." The distinction is more about emphasis than about essentialism, because it remains true that there can be no consumption without production or without the income generated by production. However one distinguishes between the two perspectives, it is clear there was an increased emphasis on demand in government policy after the start of the Great Depression.

That increased emphasis on demand, however, did not mean that supply was neglected, another issue I will explore in this book. The standard view is that the increased emphasis on demand became solidified right after World War II, when Keynesian economics was enshrined in the Employment Act. As I will describe in Chaps. 4 and 5, however, Roosevelt and his successor, Harry Truman (1884–1972), bundled the political economy of a living wage with Keynesian economics to produce the hybrid system of redistributive economics, the latter in his Economic Reports to meet his responsibility under the Employment Act. The

political economy of a living wage had ties to supply-side economics. It had a goal of making workers more productive through their having economic security, fair treatment and a higher standard of living. The higher productivity of workers would generate economic growth, one of the goals of the Employment Act.

Moreover, a living wage would enhance the purchasing power of workers who would gain income from it. But a living wage was based on the costs to sustain a worker and his family; the purchasing power argument meant that wages had to be high enough to purchase all that was produced. Getting wages at the right level to purchase everything that was produced would be tricky. Keynes offered fiscal policy as an easier way to increase aggregate consumption. His accentuation of fiscal policy as a way to increase consumption, however, left a living wage out of the equation. To be sure, Keynes believed the living wage would increase consumption. The problem, he argued, was that it would crowd out investment, as I will describe in Chap. 3.

Roosevelt was not convinced by Keynes' open letter to him and persisted with a program of reform with a modest level of fiscal policy. The Supreme Court declared the NIRA to be unconstitutional in 1935. At the same time, there was a growing sentiment that the NIRA had not been a good idea. It certainly had not brought about a recovery, and its strategy of limiting production as contrary to a recovery was as apparent to economists in the USA as it had been to Keynes.[107] In addition, the planning elements of the NRA were limited, because only business had developed the technical capability for planning. As a result, businessmen captured the NRA and used it effectively to raise prices for business. Labor participation in the NRA had been weak, while its government administrators had proven ineffective.

Critics of the NRA had argued that government participation in it had been too weak. The New Deal turned to policies based on the regulation of business such as the NLRA and the FLSA that compelled business to behave "fairly" with regard to its treatment of unions and the minimum wage it paid workers. Roosevelt was not supportive of these regulations of labor markets and his New York compatriot, Senator Robert F. Wagner (1877–1953) did much of the work in promoting them. With the NLRA, for example, Roosevelt preferred the approach to collective bargaining set

out in the NIRA and only supported the NLRA after the NIRA was declared unconstitutional by the US Supreme Court. Union support for the NLRA and the FLSA also put pressure on Roosevelt to support these regulations.[108]

Union support for government regulation was a break from the past. Leo Wolman (1890–1961), a professor at Columbia University and the Chairman of the Labor Advisory Board of the NRA, indicated an important side effect of the NIRA. Up to the 1930s, union leaders had followed the lead of Gompers, who opposed labor legislation and social reform. From their experiences with the NIRA, Wolman observed, those leaders recognized "that the support of the Government as an ally in the making of labor provision was a powerful force not to be rejected."[109] As a result, unions supported the NLRA, the SSA and the FLSA.

Economic historians have focused on the regulatory aspects of the NLRA and the FLSA to the neglect of the intent of New Dealers to use them to foster a living wage as a way to increase consumption spending. In his book on the history of macroeconomic policy, Stein, for example, refers to them as "the two main regulatory instruments for promoting the interests of workers" without mentioning that they also aimed at increasing consumption.[110] Consequently, they have overlooked the importance that Progressives from Roosevelt to Johnson placed on the political economy of a living wage as a macroeconomic policy.

In addition to these regulations, the New Deal also used the taxation power of the federal government to force businesses to contribute to provide workers with unemployment insurance and old-age pensions under the SSA. The SSA, in combination with the NLRA and FLSA, solved the prisoners' dilemma problem of organizing a buyers' cartel for labor services at a living wage and enabled the New Deal to implement the political economy of a living wage.[111] Here economic historians have interpreted the SSA as part of a "tax-transfer explosion" without acknowledging that its components also aimed at increased consumption through a living wage.[112] An early advocate for pensions for the elderly, Francis Townsend (1867–1960), argued that if pensions were set at a living wage, his plan would add substantially to "the buying power of the people."[113] The Roosevelt administration proposed the SSA with the same intent to

increase consumption from pensions and from unemployment insurance by setting their benefits at a living wage.[114]

The implementation of the NLRA, the SSA and the FLSA was incomplete, however. Large numbers of workers were not union members even after the NLRA was enacted, many workers were not covered by the SSA and the FLSA, and the benefits of the SSA and the minimum wage of the FLSA were not set at a living wage. That was why Democrat Party presidents after Roosevelt used the Employment Act to legitimize strengthening these elements of the political economy of a living wage. Equally important, these social reforms were not ending the Great Depression. Instead, the economy experienced a recession during 1937–1938.

Fiscal Policy Expands Under Roosevelt

As I pointed out in Chap. 1, in 1935 Douglas had argued that fiscal policy during a recession required a budget deficit until a full recovery took place. Instead of a full recovery, during the Great Depression the USA had experienced a very slow and incomplete recovery that ended in a downturn in 1937, a recession within a depression. As a result, Keynes wrote a private letter to Roosevelt on February 1, 1938. Keynes argued that the recovery, however slow, had been the result of the solving of the credit problems the world had faced in 1933, relief programs for the unemployed, public works and other government spending programs, some investment by business, and the momentum given the economy by these factors. As the recovery proceeded, however, relief programs were reduced and public works projects were curtailed. These cutbacks in government spending had cost the economy its momentum and led to cutbacks in business spending and Keynes concluded that unless "the above factors were supplemented by others in due course, the present slump could have been predicted with absolute certainty."[115]

As will be described in Chap. 3, Keynes was not supportive of the New Deal's political economy of a living wage through collective bargaining and minimum wage regulation. His biggest complaint was that none of these programs had brought a recovery to the depression and he worried that "progressive causes in all the democratic countries" would be harmed

because Roosevelt took "too lightly the risk to their prestige which would result from a failure measured in terms of immediate prosperity."[116] As in his earlier letter, Keynes counseled that the political economy of a living wage of the New Deal needed to take second place to the revival of the economy through a higher level of fiscal policy than Roosevelt was pursuing.

Roosevelt took a more favorable view of Keynes' approach after the recession of 1937–1938. He had cut back on government spending and raised taxes to balance the budget before that recession took place. The recession took him and his advisers by surprise, and he ceased to worry about balancing the budget. As Rosen relates, Lauchlin Currie (1902–1993), an economist with the Federal Reserve, did initial work in trying to determine how much government spending was needed to bring about full employment using terms such as "net federal contribution to the economy" and "community expenditure." Currie and Hansen, by then a government consultant, also pushed for the political economy of a living wage as adding to consumption.[117] Their combination of fiscal policy with the political economy of a living wage is another example of the early advocacy for the hybrid system of redistributive economics, which, as Backhouse and Bateman observe, did not rely on Keynes' writings.[118] Roosevelt also kept pushing for the political economy of a living wage with the enactment of the FLSA in 1938. To him, fiscal policy served as a supplement to the political economy of a living wage.

It is now commonplace that World War II ended the Great Depression by producing the large program of deficit spending that Keynes had called for and Roosevelt had resisted before the recession of 1937–1938. Purchases war material by European countries effectively put the economy on a growth path by 1940. Once the USA entered the war, government spending rose dramatically, with the federal budget during the war taking up about 40 percent of total national income for the period of the war. As part of this spending, the government "hired" over 10 million men and women as soldiers, with another 16 million individuals working in defense plants or as civilian employees of the government. The unemployment rate fell to a record low of 1.2 percent in 1944.

But the war effort remained mixed in terms of a social experiment in macroeconomic policy. A large portion of government spending was

done on a contract basis with business, which would make it comparable to a fiscal stimulus program. In addition, the federal government often provided businesses with the funds to build new factories for war production through the Defense Plant Corporation and the Reconstruction Finance Corporation. There was also an effort at planning by a War Production Board and then by the Office of War Mobilization. International purchases were taken care of by a Board of Economic Warfare. The government set up a ration stamp system for consumer goods. In an effort to control inflation, the Office of Price Administration controlled prices and the War Labor Board (WLB) regulated wages, because the Federal Reserve had an agreement with the US Treasury to keep interest rates low and wage and price controls were the only tool available. Regardless, the war certified to economists and politicians that Keynes had been correct and a high level of government deficit spending could counteract a recession. When the Employment Act was passed, it was easy to interpret it as the outcome of the Keynesian experiences of the war. As indicated earlier, the story of the Employment Act is more complex.

Because of the war experiences in bringing about an economic recovery, Roosevelt became more amenable to Keynesian economics, as I will describe in Chap. 4, but he did not give up on the political economy of a living wage. Rather, he absorbed the Keynesian ideas that seemed useful to him into his pre-existing framework of ideas, at least to the extent that he had an economic framework. He most likely thought that the eclectic bundling of these two approaches would lead to a living wage. To be sure, there is some overlap between the two approaches that has masked the bundling of them. For example, Keynesians came to think of unemployment insurance as an automatic stabilizer for the economy, because the payment of benefits under it increases when there is a recession, which helps to maintain consumption spending. The concept of an automatic stabilizer was first mentioned in economics in the nineteenth century. Keynesians began using the concept in the 1950s.[119]

In between, the concept had been part of the political economy of a living wage. Senator Wagner, a mainstay of the programs to promote a living wage during the New Deal, thought unemployment insurance was a critical step, because it would serve "to minimize, if not to abolish, the

likelihood of depressions." The payment of unemployment benefits in the early stages of an economic downturn would "release floods of purchasing power to check the decline and swing the cycle more quickly back to the prosperity level."[120] The Economic Reports of presidents Truman, Kennedy and Johnson all emphasized the need to improve unemployment insurance as part of their adherence to the political economy of a living wage.

Moreover, Robert J. Gordon has pointed out in his recent study of the rise and fall of the standard of living in the USA that the political economy of a living wage did produce the results Roosevelt wanted. He credits two of the New Deal programs Roosevelt secured, the NLRA and the FLSA, for bringing about what Claudia Goldin and Robert Margo have called the great compression in the distribution of income that took place from 1945 to 1975.[121] This finding points to a contradiction between Keynesian economics and the political economy of a living wage regarding wages. The political economy of a living wage did everything possible to increase the wages of labor to bring about a more equal distribution of income as a way to increase production and consumption. Keynes and his followers, as I will describe in Chap. 3, were concerned that wages follow a pattern of not increasing in the short term during a recession and increasing in line with productivity over the long run, with full employment making the distribution of income more equal by pulling wages up. This difference made the hybrid system of redistributive economics difficult to maintain. At full employment, high aggregate demand would put pressure on wages to rise and might shift bargaining power to unions, with the result that wages for union members might outstrip productivity gains.

Conclusion

The Progressive Era that existed in the USA from 1900 to 1930 brought about a number of reforms from the movement for better government at the local and state level to the regulation of business by the federal government. This chapter has highlighted the labor reforms that aimed at gaining a living wage for workers. These reforms were initiated by unions in the

late nineteenth century in the USA and were taken over by the Progressive movement in the early twentieth century. These Progressive reformers, such as Ely, Commons, Ryan, Wilson, Hoover, Filene, J.M. Clark, Armstrong and Roosevelt, developed components of the political economy of a living wage—collective bargaining, social insurance and a minimum wage—and insisted that government should put them in place.

The Great Depression gave them the opportunity to enact the labor and social reforms of the political economy of a living wage in the concrete form of the NLRA, the SSA and the FLSA. They also argued that these reforms would form part of macroeconomic policy and end the recession. Their macroeconomic program also included fiscal spending in the form of what came to be known as compensatory finance where the government would build up reserves during prosperous years and spend those reserves along with borrowed funds from a deficit, to be paid back when prosperity returned, to supplement the spending brought about through the political economy of a living wage.

The only problem was that by the mid-1930s, as Keynes pointed out, the Great Depression had not ended. To him, the problem was that fiscal policy had not been robust enough to end the depression, while the political economy of a living wage may well have been counterproductive in terms of ending the depression. He expressed these ideas in the brief letters to Roosevelt cited in this chapter and in articles in popular magazines.[122] Perhaps exasperated by not gaining widespread acceptance for his ideas about what was to be done to get out of the depression, he wrote his magnum opus, *The General Theory of Employment, Interest and Money*, in the mid-1930s to put his ideas on a sound theoretical basis. The theory he developed to combat the depression will be the topic of the next chapter.

Notes

1. A portion of the material in this chapter is derived from Stabile, 2016, Chap. 2.
2. Moss, 1996, pp. 1–4.
3. Rothbard, 2017, pp. 5198 and 5256.
4. Kaufman and Barry, 2014, p. 1206; Figart, Mutari and Power, 2002, pp. 39–40.

5. Stabile, 2008, pp. 2–3 and 112–113.
6. Glickman, 1997, pp. 3, 62, and 131.
7. Gompers, 2015.
8. Dubofsky and Dulles, 2010, p. 181. See also Dickman, 1987, p. 17
9. Glickman, 1997, p. 131.
10. Rothbard, 2017, pp. 617–684.
11. Kolko, 1963.
12. Rothbard, 2017, p. 5183; Dickman, 1987, p. 155.
13. Ely, 1893, p. 101.
14. Ely, 1893, p. 38.
15. Ely, 1893, p. 222.
16. Ely, 1893, p. 69.
17. Ely, 1893, p. 77.
18. Ely, 1893, p. 85. This material on Ely is adapted from Stabile, 2016, pp. 19–20.
19. Rothbard, 2017, p. 6345.
20. Dickman, 1987, p. 155.
21. Ryan, 1906.
22. For a study of all the influences on Ryan, see Stabile, 2016, pp. 26–27.
23. Ryan, 1906, p. 43.
24. Ryan, 1906, p. 72.
25. Ryan, 1906, pp. 132–136.
26. Ryan, 1906, p. 261.
27. Slichter, 1934, p. iii.
28. Roosevelt, 1933c.
29. Stabile, 2016, pp. 28–30.
30. Rothbard, 2017, pp. 7605–7642.
31. Akerlof and Yellin, 1996.
32. Lauck, 1929, p. 247.
33. Rosen, 2005, p. 1982.
34. Kaufman, 2006, p. 296; Rutherford, 2011, pp. 162–165.
35. Commons, 1934, pp. 758–759. For an earlier version of Commons' ideas, see Stabile, 2008, pp. 82–87.
36. Dickman, 1987, pp. 8–16, 79–126 and 158–159.
37. Commons, 1919, pp. 112–116.
38. Commons et al., 1921, pp. vi.
39. Commons et al., 1921, pp. 13–25.
40. Commons et al., 1921, p. 263.

41. Commons et al., 1921, p. 271.
42. Lichtenstein, 2002, p. 6.
43. Stabile, 1984, pp. 51–56 and 100–107.
44. Hacker and Pierson, 2016, p. 2174.
45. Rothbard, 2017, pp. 6880–7202.
46. Rothbard, 2017, p. 5468.
47. Gregg, 1919, pp. 42–44. See also Dickman, 1987, p. 242.
48. Rothbard, 2017, p. 7214.
49. Wilson, 1919. See also Stabile, 2016, pp. 54–64.
50. Stabile, 1986, pp. 819–827.
51. Hoover, 1922, p. 49.
52. Rosen, 2005, p. 121.
53. Rothbard, 2017, pp. 9926–9930; Rosen, 2005, pp. 1577–1578.
54. Stein, 1994, p. 29; see also pp. 32 and 37.
55. Rothbard, 2017, pp. 9936–9941.
56. Hansen, 1964 [1951], pp. 510 and 520.
57. *American Federationist*, 1919, p. 130
58. Rothbard, 2017, p. 9952.
59. Dickman, 1987, pp. 14 and 84–91.
60. Foster and Catchings, 1924, 1925 and 1928. See also Stabile, 2016, pp. 78–80.
61. Foster and Catchings, 1925, p. 246.
62. Laidler, 1999, p. 207n, also makes this connection.
63. Kaufman, 2012, p. 509.
64. Dickman, 1987.
65. The material in this section is based on Stabile, 2016, pp. 69–75.
66. National Consumers League, 1919, p. 4.
67. Filene, 1923, p. 411.
68. Clark, 1923, p. 16.
69. Clark, 1926, p. 451–453.
70. Clark, 1923, pp. 37 and 42.
71. Kaufman, 2008, p. 216.
72. Eichengreen, 2018, p. 64.
73. Rosen, 2005, p. 178.
74. For a previous discussion of this material, see Stabile, 2016, pp. 90–91, 162–164 and 187.
75. Armstrong, 1932.
76. Armstrong, 1932, p. xiii.

77. Armstrong, 1932, p. xvi.
78. Armstrong, 1932, p. 437.
79. Armstrong, 1932, p. 462.
80. Armstrong, 1932, pp. 465–537.
81. Rosen, 2005, p. 3087.
82. Armstrong, 1932, p. 548.
83. Roosevelt, 1933a, pp. 131–141.
84. Stabile, 2016, pp. 61–64.
85. Roosevelt, 1933b.
86. For a concise history of the NIRA, see Rosen, 2005, pp. 1846–2335. See also Stabile, 2016, pp. 99–139, for a discussion for the living wage aspects on the NIRA.
87. Stabile, 2016, pp. 54–57.
88. Stabile, 2016, pp. 54–64.
89. Roosevelt, 1933c.
90. Roosevelt, 1933b.
91. Mitchell, 1947, pp. 240–241.
92. Nordlund, 1997, p. 8; Dickman, 1987, 259–260.
93. Roosevelt, 1933d.
94. Rosen, 2005, pp. 2096–2098.
95. Ryan, 1945, p. 298.
96. The material in the next section is derived from Stabile and Kozak, 2012, pp. 236–253.
97. Keynes, 1933.
98. Keynes, 1933.
99. Keynes, 1933.
100. Backhouse and Bateman, 2011, p. 28, overlook this fiscal stimulus component of the NIRA.
101. Rosen, 2005, p. 753.
102. Keynes, 1933.
103. Lekachman, 1966, p. 123.
104. Slichter, 1934, p. 33.
105. Slichter, 1934, pp. 29–30.
106. Dickman, 1987, pp. 165–166.
107. Clark, 1934, pp. 20–21; Slichter, 1934, pp. 115–116. For a summary of the problems of the NIRA and NRA, see Rosen, 2005, pp. 2200–2235.
108. Stabile, 2016, pp. 140–144 and 215–221.

109. Wolman [1934] 1970, p. 95.
110. Stein, 1994, p. 60.
111. Stabile, 2016, pp. 139–225.
112. Stein, 1994, pp. 53–55.
113. Townsend, 1933.
114. Stabile, 2016, pp. 172–179.
115. Keynes, 1938.
116. Keynes, 1938.
117. Rosen, 2005, pp. 3355–3385, 3405, and 3511. On the basis of his work, Currie transferred to the White House as an economic adviser to Roosevelt, where his career as an agent of influence for the USSR (West, 2013, pp. 70, 117, 142 and 151–152) eclipsed his early work on fiscal policy.
118. Backhouse and Bateman, 2011, p. 29.
119. For a discussion of the history of the development of the concept of automatic stabilizers, see Keiser, 1956, pp. 422–441.
120. Wagner, 1935, p. 294
121. Gordon, 2016, pp. 9734–9736 and 10395; Goldin and Margo, 1991, pp. 1–2.
122. Lawlor, 2006, p. 83; Rosen, 2005, pp. 746 and 1610.

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3

Background of the Employment Act II: Keynesian Economics

This chapter will consider Keynes' influence on economic thinking in the USA from the publication of *The General Theory of Employment, Interest and Money* in 1936 to the end of the 1940s, with a focus on fiscal policy and wages. My goals are to pinpoint the components of Keynesian economics that formed a background to the Employment Act and to compare Keynesian economics with the political economy of a living wage to examine the feasibility of bundling them together into the hybrid system of redistributive economics, as happened in the USA. To do so, I will first review what Keynes said in that classic book and set forth the initial response his ideas found among economists in the USA during the late 1930s and the 1940s.

Before presenting material on Keynes, I must point out a difficulty with my comparison of Keynes with the political economy of a living wage. First, Keynes and his followers did not write about a living wage. As John Elliot and Barry Clark have argued, along with Michael S. Lawlor, Keynes had a theory of social justice; he just did not write very much about it as Steven Pressman points out. They all agree that a more equal distribution of income was the crux of Keynes' theory of social justice.[1] At the same time, proponents of the political economy of a living wage

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did not produce a general theory of employment, wages and purchasing power. Rather, as indicated in Chap. 2, the political economy of a living wage was a series of ideas developed by economists, businessmen, union leaders and Progressive politicians. Thus I will be comparing their discursive thoughts about a living wage as a macroeconomic policy with Keynes' vague statements on the same topic.

In subsequent chapters, I will be making an argument that Keynes' ideas were integrated into the hybrid system of redistributive economics as part of the Employment Act and the Economic Reports of the President that the Act required. This combination, however, did not result in formal model of the hybrid system of redistributive economics, which has kept the bundling of Keynesian economics with the political economy of a living wage from being apparent to historians of economic thought.

Keynes and the Theory of Employment

Economics, as practiced by economists, would never be the same once the *General Theory* was published in 1936 and established macroeconomics as a separate field of study. Because of my focus on elements of Keynes' approach that were important as background to the Employment Act and that related to the political economy of a living wage, my review of the concepts in the book will leave out many of his ideas. My goal is to pinpoint the ideas the political leaders in the USA took from Keynes as well as the ideas those leaders held to that Keynes criticized. David Laidler, Victoria Chick and Backhouse and Bateman have already produced thorough and discerning perspectives on Keynes' entire work.[2]

It is also helpful that Keynes offered a succinct summary of his main ideas that appealed to Progressive politicians in the USA and contributed to the legislation of the Employment Act. His starting point was with the basic idea that when the economy grew, employment and total income in the economy also went up. The problem he highlighted, however, was that consumption did not increase at the same rate as income. To describe this problem, he set forth a consumption function for the economy as a whole wherein the marginal propensity to consume, that is, the change in consumption resulting from a change in income, was less than one.

This meant that not all of the increase in income was spent on consumption. Some of it went into savings. Because total demand in the economy consisted of consumption by individuals and investment by business, if consumption did not rise as fast as income, investment had to make up the difference. Income not spent on consumption went into savings. The question was whether businesses would borrow those savings to spend on investment in capital goods. To Keynes, however, the question was crucial because the amount of savings did not determine investment. Savers were rarely direct investors. Instead, they made their savings available to be borrowed by others who were in charge of businesses. Business leaders, however, based their investment decisions on "the marginal efficiency of capital," that is, the schedule of what a business expected to gain from its use of investment in capital goods, compared to the interest rate. From the interaction of "the propensity to consume" and "the rate of new investment," there would be "only one level of employment consistent with equilibrium." The level of employment determined by consumption and investment demand, however, could be in equilibrium at a level that did not give a job to every worker who wanted one.[3] The solution, which I will cover below, was for government spending to bring demand up to the level that would equate to full employment.

This view of the economy being in equilibrium at less than full employment, with the implication that government spending was needed as an offset to declines in consumption and investment spending to reach equilibrium at full employment, became generally accepted in the USA. As part of that acceptance, Keynes' aggregate model was reduced to a simple equation (GNP = C + I + G) that became a tool for analyzing the economy. As I will describe in Chaps. 4 and 5, in the debates over the format of the Employment Act, several important politicians posited a Nation's Economic Budget that divided Gross National Product (GNP) into consumption, investment and government spending. Their idea was to use this budget to make an accurate estimate of how much government spending had to increase to compensate for reduced consumption and investment spending and reach full employment. They also wanted to include it in the Employment Act as a required approach.

The idea that consumption would fall below total output is as old as the works of Robert Malthus (1766–1834), Robert Owen (1771–1858)

and Karl Marx (1818–1883) and as recent (compared to Keynes) as the writings of John A. Hobson (1858–1940).[4] In the USA, Veblen and the leaders of the AFL had set it forth. As described in Chap. 2, Foster and Catchings produced the most popular version in the USA.[5] Foster and Catchings suggested that fiscal policy was one way to make up for the decline in consumption, causing many policymakers in the USA, including Hoover and Roosevelt, to see steady or increased purchasing power by workers, with supplementary fiscal policy, as a solution to the problem of underconsumption.[6]

As I will describe below, Keynes rejected the use of purchasing power by workers as a solution to underconsumption. Rather, he focused on investment as the most important ingredient in causing a recession, which made its revival the basis of an economic recovery, especially investment by government. To stress the importance of investment lagging behind savings, a key element of Keynes' new economics was his popularization of the concept of the multiplier, which he attributed to R.F. Kahn (1905–1989).[7]

As described in Chap. 1, the point of the multiplier is to show how changes in spending can generate larger changes in income. Keynes focused on an investment multiplier to show how small changes in investment led to larger changes in total spending, both upward or the reverse. The upward multiplier effect will not go on forever, however, because at each step in the process, due to Keynes' theory of consumption, some individuals will save a portion of their income (I am leaving out taxes for simplicity's sake) and each step in the process will generate a smaller increase in income. Equally important, the savings generated had to be invested to keep the economy growing. If savings were not invested, a decline in investment spending relative to savings would cause a larger decline in income and consumption and bring about a recession. The implication was that businesses' investment spending had to constantly increase for the multiplier to generate a growing economy. When it did not increase, the reduction in total income would reduce savings to the level of investment.

Keynes and Wages

As just noted, Keynes objected to the solution to the problem of underconsumption in the form of increasing wages set forth by the political economy of a living wage. To be sure, Keynes did observe, "The outstanding faults of the economic society in which we live are its failure to provide for full employment and its arbitrary and inequitable distribution of wealth and incomes."[8] His objective was in solving the first fault and his main interest in the distribution of income was how changes in it would influence the propensity to consume in the aggregate.[9] That interest was parallel to the idea among Progressives in the USA that a living wage would increase consumption by redistributing income.

Keynes' exploration of wages in the *General Theory* began with the stance of what he called classical economists. According to Keynes, they had argued that a solution to the Great Depression was to cut money wages, which would enable businesses to cut costs, reduce prices and sell more goods. To them, money wages had to fall in order to reduce real wages in a period of price cuts. In making this argument, they followed Say's Law, which expresses the idea that the supply of goods and services produced in a given period will generate enough income to purchase that supply. As indicated in Chap. 2, classical economists never argued that Say's Law precluded recessions. If too much was produced in some industry that might cause a recession, the recession would last until prices and wages fell. Falling prices would produce lower profits, which would pull resources out of that industry and into industries that could produce and sell more goods. Through this process, market forces would end the recession. With his aggregate approach, Keynes argued that, under Say's Law, because some portion of total income was saved but not invested, all prices, wages and interest rates would have to decline to stimulate demand until everything produced was purchased. He objected to this approach, especially the process of wage cuts, because they would not solve the problem of unemployment.

As noted in Chap. 2, Hoover had persuaded businesses to avoid wage cutting for as long as possible at the beginning of the depression. One argument in favor of wage cuts, as Michel De Vroey points out, is that lower wages might increase the marginal efficiency of capital, spur

investment spending and reduce unemployment. Keynes did not find this outcome to be plausible.[10] He argued that wage cuts would shift income from workers to business owners, which would reduce the aggregate propensity to consume and make it difficult to sell more goods.[11] Wealthy businessmen had a lower marginal propensity to consume than workers. It would seem to follow that a rise in wages would increase the aggregate propensity to consume and help the economy, but Keynes did not take that path. He believed that "wages should be rigidly fixed and deemed incapable of material changes" in a boom as well as in a depression.[12]

The idea that increased money wages would increase consumption was a key feature of what the New Deal was trying to accomplish with the political economy of a living wage. As Slichter observed, "Raising wages is probably the most widely accepted panacea for restoring prosperity" and it was especially "accepted by every politician and every labor leader" in the USA. He doubted the efficacy of increased wages because, as long as businesses reduced the labor force as a result of higher wages, there was the possibility that the total income of labor might decline, depending on the price elasticity of demand for labor.[13] Regardless of Slichter's observation and Keynes' arguments presented below, the idea of increased wages as bringing about a recovery persisted. It was a very influential idea in the original version of the Employment Act, as will be described in Chap. 5. Keynes, however, believed that efforts to legislate a wage level would only add to the instability of the market economy.[14]

Here is another way of framing the conflict between Keynesian economics and the political economy of a living wage—what should happen to wages in the short run and the long run. In the short run for Keynes, cutting wages was bad for the economy and increasing wages was bad for the economy. In the long run, real wages should increase slowly in line with "the progress of technique and equipment," that is, with changes in productivity.[15] In contrast, the political economy of a living wage argued that wages should always be increased until the lowest-paid worker had at least a living wage. For reasons I will explore shortly, they did not have the concern for the relationship between wages and productivity that Keynes did.

To clarify Keynes' attitude toward wages it is important to consider how he had qualified his theory with a brief statement of the assumptions on which he based it:

> We take as given the existing skill and quantity of available labor, the existing quality and quantity of available equipment, the existing technique, the degree of competition, the tastes and habits of the consumer, the disutility of different intensities of labor and of the activities of supervision and organisation, as well as the social structure including the forces, other than our variables set forth below, which determine the distribution of income. This does not mean that we assume these factors to be constant; but merely that, in this place and context, we are not considering or taking into account the effects and consequences of changes in them.[16]

In the short run during a business cycle, these assumptions indicated that the economy was stationary in terms of productivity gains, which meant that wage increases were not possible without further damaging the economy.

Keynes' argument was that increases in money wages, especially in a period when prices were declining, would increase real wages significantly. Business' costs would rise, resulting in higher prices throughout the economy or business' expectation of reduced profits, which led to lower levels of investment. The theory behind this argument is that the wage rate must equal the marginal product of labor, the amount further workers added to production. When capital is fixed, as Keynes assumed, businesses will experience diminishing returns where the amount each additional worker adds to production will decline, because additional workers reduce the capital each worker has to support themselves. With an increased money wage, the value added of the marginal worker will be below the wage, leaving business with reduced profits. To restore profits, they have the option of raising prices to increase the value of the marginal product of labor or of laying off workers to increase the marginal product of the last worker. Efforts to raise wages artificially through the cartels of the NIRA or the programs of the NLRA and FLSA, as the New Deal was trying to do, would lead to unemployment, higher prices or reduced investment.

In arguing this way, Keynes told the political economy of a living wage that its goal of spurring consumption through higher wages would not work. As Marglin summarizes the issue, "To be successful, macroeconomic management must meet two requirements. On the one hand, the level of aggregate demand must be set at a level adequate to utilize fully the available productive resources, both capital and labour. On the other hand, the share of output devoted to capital formation must be sufficient to achieve a high rate of growth of the capital stock."[17] If higher wages led to reduced profits, businesses might not have the resources to invest in new productive capacity and growth would be reduced.

The New Dealers had three ways to respond. First, in support of his living wage program under the NIRA, Roosevelt had stated:

> I am fully aware that wage increases will eventually raise costs, but I ask that managements give first consideration to the improvement of operating figures by greatly increased sales to be expected from the rising purchasing power of the public…. If we now inflate prices as fast and as far as we increase wages, the whole project will be set at naught.[18]

This approach was consistent with the understanding of advocates for the political economy of a living wage that a living wage had priority over business profits, which made it acceptable to ask businesses to sacrifice profits to help the economy recover. Business could wait for the increased sales from a living wage to recoup their profits; they might make lower profits on each unit sold but increase total profits by selling more units. Expanded sales would also increase productivity by the application of unused capacity. With excess capacity, it might be possible to increase production without experiencing diminishing returns, which meant that unit costs would be constant or might even fall.

This debate between Keynes and the political economy of a living wage over the decreasing marginal product of labor became hazier when, in 1939, Keynes wrote an article, "Relative Movements of Real Wages and Output." As described by Jochen Hartwig, in that article Keynes acknowledged that under certain circumstances a condition of excess capacity meant that "marginal cost may be expected to decline with increasing output, or, at the worst, remain constant."[19] Keynes argued that this

concession did not cause him to doubt the validity of his theory or its policy implications, an argument which Hartwig disputes.[20] Hartwig rescues Keynes, however, by discussing the conditions under which marginal costs may not rise with increased production and finding them to be rare.[21]

Rare or not, those were the conditions that advocates for the political economy of a living wage in the New Deal judged to be in place during the Great Depression. Keynes did not have them in mind when he wrote his 1939 article and I have found no evidence that they knew of his concession to their argument. Still, his concession did make their argument more robust. In a stagnant economy, higher wages could add to increased aggregate demand without increasing costs or reducing profits.

A second argument that could be used against Keynes was raised by members of the institutional school, who did not accept the marginal product theory.[22] Members of that school were heavily involved with the Roosevelt administration.[23] Another institutionalist influence on Roosevelt was the chief advocate for a living wage, Ryan, whose writing relied greatly on institutionalists such as Ely. Ryan summarized the institutionalist arguments against the marginal product theory and dismissed the idea that wages had to be tied to the productivity of workers because it was "utterly impossible to measure the relative productivity of different classes of workers."[24] Nor was it possible to determine how to divide the output due to the combined effort of workers, employers and capital. The best way to determine wages was to accept a living wage as a basic right of workers and let businesses make whatever adjustments they needed to pay it.

Ryan's argument, however, had its own problems. As Emil B. Berendt has argued, Ryan adduced four claims for how increased wages would be paid for: efficiency wage theory, increased efficiency from better use of capital and management skills, reduced costs from high cost firms being bankrupted and lower cost firms taking care of the lost production and passing the higher costs to consumers with higher prices.[25] Keynes was concerned with the negative impact these claims would have on employment, that is, would higher wages cause workers to lose their jobs directly or would higher prices lead to reduced demand for the product with the indirect effect of reduced demand for labor and unemployment. Berendt

argues that Ryan skirted the issue by arguing that changes in wages would not have a detrimental impact on production and employment.[26] Even if the marginal product theory was wrong, this belief constituted a very heroic assumption, especially given Ryan's overall assumption that capital, profits and the number of entrepreneurs would all change as costs from higher wages changed. Moreover, the argument that higher-cost firms would go bankrupt and allow lower cost firms to produce more at an even lower cost assumes they had excess capacity. It is equally plausible to argue that they were already operating at full capacity, given that they could sell at a lower price than their higher cost competitors. In addition, when those higher cost competitors left the market, their workers would become unemployed.

There was also a problem with the efficiency wage argument. It might lead to greater production, but increased production could cause a drop in prices that would reduce profits despite the increased consumption both from higher labor income and the lower prices. The demand for specific products might also shift due to changed tastes as a result of the increased affluence of workers with higher wages and the "income effect" of lower prices where the money saved from lower prices on one group of products could be spent on other items. These could lead to unemployment in industries that lost sales. Keynes, moreover, had another argument, namely, an increase in money wages would increase the demand for money, causing interest rates to rise with a negative impact on investment.[27] Keynes' concern over the employment impact of higher wages gained more salience as a result of the unrecognized assumptions of the argument of the political economy of a living wage regarding the positive impact of higher wages on production, consumption and employment.

A third argument available to the New Deal to counter Keynes' views on wages was unequal bargaining power. Throughout the history of political economy, theorists from Adam Smith (1723–1790) and John Stuart Mill (1806–1873) to Alfred Marshall (1842–1924) and John Bates Clark (1847–1938) had argued that bargaining power in labor markets was clearly on the side of business. As a result, they went on, unions were essential to redress this imbalance.[28] In the USA, Progressive politicians and intellectuals accepted this argument. Raising wages to a fair level

should not harm the economy when it was the result of more equal bargaining power.

Keynes could counter that it was better for demand to pull wages upward and there was an improved chance to bring about a living wage when the economy had recovered and total demand was higher. As Lawlor points out, by the 1920s Keynes had decided that labor markets, especially with unions, had become socialized to the point where politics counted for as much as economics in determining wages. To him, the politics of increasing aggregate demand was much more effective in raising wages than the politics of unionism.[29] As Hansen once described the issue, "The important question for cycle policy, however, is: Where do we break into the cycle? Shall we manipulate wage rates, or shall we manipulate aggregate demand?"[30] Keynes believed it was better to manipulate aggregate demand to end unemployment and increase wages.

The classical economists listed above had a way to challenge the use of aggregate demand to increase wages. Mill said it best when he pointed out that market forces of supply and demand did not "thrust a given amount of wages into a labourer's hand." All prices resulted from bargaining in the market, and "poor workers who have to do with rich employers [might] remain long without the amount of wages which the demand for their labour would justify, unless, in vernacular phrase, they stood out for it; and how can they stand out for terms without organized concert?"[31] Even Clark, the creator of the marginal product theory, concluded that his theory worked best "when competing employers make the best bargain with locally organized laborers."[32] Bargaining power imbalances between individual workers and their employers might result in wages below the market rate (the marginal product), and unions were needed to get wages to that rate. That was why Progressive advocates for a living wage and the New Deal supported collective bargaining, much as Douglas had (see Chap. 1). In addition to the pull of aggregate demand from Keynesian policies, wages needed a push from social reforms such as the NLRA and the FLSA to increase. That push would be an important ingredient in the way the Employment Act was implemented as an application of the hybrid system of redistributive economics.

The difference between Keynes and the New Dealers on a living wage also reflected differing political attitudes. Keynes resisted calls for him to

join the British Labour Party because he believed it to be too wedded to unions. He considered himself to be a Liberal and thus in a better position to develop effective policies because he could "work out his policies without having to do lip-service to Trade-Unionist tyrannies, the beauties of the class war, or to doctrinaire State Socialism." The class war would find Keynes "on the side of the educated *bourgeoisie*."[33] His stance allows the inference that he believed that unions in the UK were extractive in the terminology of Acemoglu and Robinson. Keynes, however, overstated the degree to which the educated *bourgeoisie* in the UK joined in his opposition to unionism. After all, leading intellectuals among the Fabian socialists, such as the Webbs, Hobson, R.H. Tawney (1880–1962), G.D.H. Cole (1889–1959) and George Bernard Shaw (1856–1950), supported unions as did such leading economists as Keynes' mentor, Marshall, and A.C. Pigou (1877–1958). More to the point, many of the New Dealers were from the educated *bourgeoisie* in the USA and they joined forces with unions to push for a living wage as a way to increase aggregate consumption. To them, unions in the USA were inclusive. The key issue that put them all in the union camp was their belief that bargaining power in labor markets was heavily in favor of business.

This debate between Keynes and the New Dealers over higher wages as a cure for recessions was never satisfactorily resolved. The New Dealers stuck to their faith in the political economy of a living wage as a macroeconomic policy and were willing to supplement it with Keynesian economics. Keynesians insisted that the political economy of a living wage was ineffective at best and could be counterproductive by reducing the profits available for investment. Neither side would win in the final version of the Employment Act.

It is important to make clear, moreover, that Keynes was sympathetic to the plight of low-paid workers. As Lawrence Klein (1920–2013) reported, in choosing between inflation and unemployment, Keynes argued that in a world with poverty it was better to live with some inflation at the cost of investors than to have workers become unemployed.[34] Keynes in this argument comes teasingly close to Ryan's idea that profits, dividends and interest were of less priority than a living wage for workers.[35] To Keynes, however, it was the gains of the inactive investor in financial securities—dividends, interest and capital gains—along with

that of speculators that should be sacrificed, not the profits of entrepreneurs who needed them to invest and expand their businesses. Keynes offered fiscal policy as a way to boost the profits of entrepreneurs and help the economy.

Keynes and Fiscal Policy

Given his background and his previous writings, it is not surprising that Keynes wanted government to intervene in the economy to do something about economic recessions. He had been an advocate for public works spending during the 1920s and had written about fiscal policy frequently in the USA in the early 1930s.[36] As noted in Chap. 2, Hoover had also supported government spending on public works in the early 1920s and had used it to try to counteract the depression at its inception. What is surprising is that in the *General Theory* Keynes offered little information regarding just what he wanted government to do. As Crouse puts it, in the *General Theory* Keynes "did not push for specific government policy."[37] Economists now identify Keynes with fiscal policy, using a government deficit to stimulate the economy, and consider his approach to fiscal policy as the keystone of the Employment Act. There are hints of this approach in the *General Theory* but we must look for them, because there is no chapter on fiscal policy as a way to end the depression.

For example, in his discussion of the propensity to consume Keynes noted that the government's use of taxes to pay off its debt would reduce that propensity. Thus a change of fiscal policy from borrowing to repaying debt through taxes would cause "a severe contraction" in total demand, while the reverse policy would cause a "marked expansion" of that demand.[38] A few pages later he added the observation that when government "willingly or unwillingly" was caused "to run into a budgetary deficit" or to "provide unemployment relief … out of borrowed money," the level of consumption would not fall at a rate comparable to the decline in income brought about by an economic downturn.[39]

As for government spending, Keynes called it "public investment," he observed that the advantage it had over private investment was that there was a greater need for it, especially with regard to the government

provision of housing.[40] But government spending did not have to be on anything as useful as homes for low-income persons. Keynes insisted that "pyramid-building, earthquakes, even wars may serve to increase wealth." All of these policies would end unemployment even though it would "be more sensible to build houses."[41] The point Keynes is arguing here is that government expenditures, whether useful or wasteful, will generate income for the persons engaged in working on government projects and through the multiplier they would increase total demand and stimulate the economy.

The multiplier applied to public investment by government as well as it did to private investment by business and increases in government spending would create private sector jobs.[42] This was consistent with the development of the multiplier by Kahn as a tool for assessing the way public works projects benefited the economy.[43] In addition, because of the multiplier, the income generated by government spending would be a greater amount than what the government spent. Taxes on that income would offset some of the government spending, with the result that the budget deficit might not be as large as originally planned. The public investment multiplier, however, faced the same dilemma of the business investment multiplier. As the rounds of income created by the multiplier diminished, additional government spending would be needed to keep the economy growing unless the government spending set off an increase in business investment spending that was continual.

Here, too, there were precursors to Keynes in the USA. Writing in 1904, Veblen argued that the productive efficiency of modern technology was so great that it produced beyond the capability of the US society to consume. Government had to be called in to purchase this surplus, and Veblen believed that under the prevailing institutions in the USA military expenditure was the most socially acceptable justification for it to spend. He observed that the government spending to fight the Spanish-American War had ended a recession.[44] One of Veblen's students, Wesley Clair Mitchell (1874–1948), concurred with Veblen's view of government spending in his book *Business Cycles*, published in 1913. In terms of what to do about business cycles, Mitchell included the use of expenditures by the government.[45] A decade later, Mitchell favored "the long-range planning of public works, with intent to get a larger part of such

undertakings executed in periods of depression." The idea of the plan was twofold: It would keep government projects from adding to the boom by postponing construction projects and it would use them to create jobs during a recession.[46] As indicated in Chap. 2, Hoover also supported this approach. None of them wrote a treatise on fiscal policy, however.

The approach to fiscal policy set forth by Mitchell and Hoover would eventually become a variation of Keynesian economics in the USA that was known as compensatory finance. Its strategy was that "priming the pump" of the economy would get it working again by using surplus funds built up by the government to spend when a recession hit. As Hansen pointed out, they were merely shifting government spending and not necessarily increasing it.[47] Keynes' argument implied that it was best to keep a large number of buckets of water available to keep priming the pump. It did not imply, as Backhouse and Bateman observe, "the running of perpetual deficits."[48] The originators of the bill that became the Employment Act anticipated that the federal government would be able to determine how many buckets it would take to prime the pump, that is, they believed that Keynes' model would provide a way to estimate the amount of fiscal policy needed to attain full employment.

Institutional economists such as Veblen and Mitchell and politicians such as Hoover and Roosevelt had advanced the idea of public works spending as an antidote to recessions. Keynes differed from them in arguing that public investments might have to be permanent and would have to extend beyond public works projects. Rather, he postulated the need for "a somewhat comprehensive "socialisation of investment" as the only means of securing an approximation to full employment." This socialization of investment did not include government ownership of the "instruments of production." Rather, it was based on a fiscal policy that included government determining "the aggregate amounts of resources devoted to augmenting the instruments and the basic rate of reward to those who own them." Once this system produced full employment, the market economy could handle the allocation of production in line with what consumers wanted, and any errors in this allocation process due to misjudgments of consumer demand by business could be corrected by market forces and not "by centralising decisions."[49] Still, Keynes did not describe how this market reallocation of goods would take place without

a reallocation of capital. The socialization of investment that Keynes called for would "involve a large extension of the traditional functions of government."[50] By giving control of investment to the government, he expected to make capital more abundant and perhaps obviate the need for it to be reallocated to the right industry as needed. The goal of government investment would be to reduce the uncertainty in the economy caused by unpredictable financial markets and the misguided expectation of business leaders about future profits.

Keynes' idea that government should take charge of investment did not get very far in directly influencing the legislation of the Employment Act, at least not where business investment was concerned. The implementation of the Act by Democratic Party presidents, however, did bring about several forms of the socialization of investment. First, government programs such as public housing were justified under the Act as adding to stock of public capital. Second, and more important, programs to increase wages could be construed as investments in the human capital of labor by improving its productivity in line with the precepts of efficiency wage theory. Third, government programs for training workers could also be justified as investments in human capital. Looking at investment in this broad way made it more feasible to combine Keynesian economics with the political economy of a living wage in the hybrid system of redistributive economics. It also had a favorable impact on the reduction of inequality, because higher educational attainment in the USA contributed to the great leveling that Lindert and Williamson have documented in the USA starting in the post-World War II era.[51]

Keynes' push for the socialization of investment involved him in two dilemmas: how to control the persons in charge of government and will those persons have the requisite knowledge to allocate capital, even human capital spending, where it was needed, much as Ludwig von Mises had argued about socialism in the 1920s.[52] In pushing for his new economics, Keynes wrote, "Madmen in authority, who hear voices in the air, are distilling their frenzy from some academic scribbler of a few years back."[53] But suppose they accepted Keynes' more modern academic scribbling, would that keep them from being any less madmen? An unintended consequence of Keynesian economics was to rationalize support for giving the control over the economy to political leaders who might

use the power that control gave them to serve their own interests or the interest of the groups they represented. Partisan politics might lead to misguided applications of Keynesian economics. Slichter wisely noted this potential thusly, "The very fact that the government is intervening in economic matters stimulates special interests to organize, and the more completely the government embarks on the policy of control the greater will be the efforts of those interests to control the government." The result would be that the government would become "a device to help many groups exploit the rest of the community."[54] Crony capitalism has always existed in the USA. Keynesian economics would extend its scope and scale.

This issue has gained importance in the last four decades, and there is now a debate over the extent to which a neoliberal approach to fiscal policy aims primarily at helping business. Programs aimed at enhancing the welfare of corporation are readily construed by Progressives as crony capitalism and have resulted in altering the distribution of income in favor of business and its upper echelons. The bailouts of firms deemed too big to fail in the recession of 2007–2009 certainly could have been justified on the basis of Keynes' socialization of investment and its details were worked out by government experts with the support of its leaders.

The issue at stake here is the one raised by Acemoglu and Robinson, that is, would Keynesian economics nurture inclusive or extractive institutions? Leaders with an extractive bent could certainly use Keynesian policies to take care of themselves and their friends. Keynes and his followers hoped that leaders would use those policies to reduce unemployment and include more individuals in the active workforce; full employment might increase their wages and include them in prosperity. As I argued in Chap. 1 regarding unions, the issue comes down to perceptions and the extent to which Keynesian policies could be construed as benefitting a particular group or all of society, a question I will return to in Chap. 8.

As Kaufman points out, early institutional labor economists such as Commons, Clark, Slichter and Douglas recognized that the elites in the upper echelons of the economy would use the government to gain greater wealth. He quotes Douglas, for example, as arguing "we have in reality a class state which reflects the interests of the most powerful classes."

To solve this problem, these economists wanted to strengthen labor economically through the growth of unions and politically through the formation of a progressive labor party as a way to give a counterforce to the business influence on government.[55] By the time the Employment Act was passed, both the AFL and the Congress of Industrial Organizations (CIO) were strong supporters of it and of the way it led to the hybrid system of redistributive economics and remained strong supporters for the next 25 years. The decline of unions afterwards eroded that support.

Keynes resolved the problem of political influence with the expectation that the government's control over the economy would be placed in the hands of expert civil servants. Soo Haeng Kim has maintained that Keynes argued this way and was criticized for it by a number of economists such as Paul Sweezy (1910–2004) and Roy Harrod (1900–1978).[56] In his recent book on Keynes' political and philosophical leanings, Geoff Mann highlights Keynes' hopeful expectations about a technocracy of economists being able to serve the social interest through governmental management of the economy, writing that Keynes' "faith in the capacities of scientific management by an enlightened intelligentsia was unshakable."[57] Crouse also indicates that Keynes thought "it was best to entrust intellectual elites with the task of properly managing the economy."[58] Keynes might have believed that his model with only a few aggregate variables made the problems of managing the economy appear to be tractable in the hands of the right experts. As David Simpson argues, however, Keynes' idea that "wise civil servants and prudent politicians" would use spending programs to manage the economy has "proved illusory."[59] The Employment Act would attempt to solve this dilemma through the use of a Council of Economic Advisers (CEA) to the president.

Political leaders always display partisanship. Expert civil servants, it turns out, also display partisanship. In subsequent chapters my review of the Economic Reports of the President will demonstrate how partisan politics swayed macroeconomic policy, including the policies favored by the president's CEA, nearly all expert economists. In Chaps. 6 and 7, I will describe how presidents Kennedy and Johnson along with the CEA supported tax cuts that were tilted toward the wealthy by using what is now called a supply-side argument.

Regardless of this issue of whether or not to trust political leaders and their advisers, Keynes made the right argument at the right time. The New Deal had intervened in the economy to an extent never seen before in the USA during peacetime, and Roosevelt kept winning elections. The idea became accepted that the government had to play a larger role in the US economy. The result of this idea was the Employment Act. The final version of the Act did not specify a specific approach to meeting its goals. This lack of specificity gave presidents and their CEA the flexibility to include a variety of policies in the Economic Report of the President. Truman and his economic advisers thus had the leeway to consider the political economy of a living wage as a proper macroeconomic policy. This resistance to total acceptance of Keynesian economics can be seen in early reviews of the responses to Keynes' ideas by two economists who supported the political economy of a living wage, Slichter and Clark.[60]

Slichter and the Adjustment to Instability

During the Great Depression, Slichter had been an advocate for experiments in economic planning and had supported the NLRA as necessary to equalize the bargaining strength of business and labor. In 1936, he analyzed fiscal policy in a paper, "The Adjustment to Instability." Slichter began his paper with a question about the fundamental issue of the macroeconomic approach that was just emerging: "What possibility is there that production and employment can be kept steadily growing in a world where virtually everything else is highly unstable?"[61] The instabilities in the economy were caused by random innovations, cycles of good and bad years in agriculture, unpredictable changes in consumer tastes, the advent of wars and continually changing politics. Not all of these changes were advantageous to business and the balance of good changes versus bad ones in terms of the outlook for business rarely evened out.

To show how it might be possible to even out all of the changes in the economy, Slichter turned to an approach similar to Keynes' by dividing total spending in the economy into consumer spending, business spending and government spending. Setting aside government spending for the moment, he pointed out that business spending mostly translated into

income for individuals. The recipients of that income spent part of it on consumption items and saved the rest. Business' willingness to use its own profits as well as the savings of consumers for investment and current expenditures was determined by its expectations of profits. If the profit outlook turned unfavorable, business would spend less. That would reduce the income of consumers. If they spent their savings on consumption items, it might offset the decline in business spending, which would restore profits and revive business spending. That was not what typically happened in a downturn, however. Instead, consumers cut back on their spending and made business conditions even worse. Moreover, businessmen operated under conditions of uncertainty. The moment the economy looked bad, they had "to adjust their spending to changed conditions more promptly than the rest of the community."[62] The capitalist economy was unstable because consumer spending fluctuated in the same direction as business spending.

To attain stability in a capitalist economy, the profit outlook had to be kept favorable or some change in spending that countered declines in business spending had to take place. One policy that might restore profits was the reduction of wages, and Slichter argued that it should not be dismissed out of hand. When the prices of consumer goods were falling due to a lack of consumer demand, wages had to fall to keep costs in line with prices. The problem was that reductions in wages would also cause a decline in spending on consumption items. Slichter summarized the case as follows: "The technical problem that confronts us is how to reduce the price of labor in a period of contraction without reducing labor income."[63]

The system of unemployment insurance that had just been introduced in the USA struck Slichter as a good method for keeping the income of workers stable as a way of "limiting the resulting contraction" when business spending declined.[64] The use of unemployment insurance would be especially effective because it came into force the moment business spending declined and layoffs took place, that is, it was an automatic stabilizer. Slichter immediately saw the benefit of this approach by noting that the most favored form of fiscal policy at the time, government spending on public works projects, could not be put in place as rapidly or on as large a scale as spending on unemployment insurance benefits. To be sure, he

did not think that unemployment benefits could totally offset the decline in business spending because the level of compensation would be lower than the wages an unemployed worker previously earned. They also could not offset the decline in wages that employed workers experienced.

As a result, Slichter proposed a "labor income reserve," a supplement to unemployment insurance that "insured" workers from wage reductions. He wrote, "The present unemployment reserve plans could be converted into labor income reserves by the simple device of broadening benefit payments to cover income lost as a result of wage cuts as well as income lost as a result of unemployment."[65] Changing the unemployment benefit system in this manner would not be easy, and Slichter advised that if private negotiations between capital and labor could establish the principle, the government would eventually adopt it. The best remedy for an economic downturn was wage reductions that were compensated for by a combination of unemployment insurance and low-wage benefits.

For nearly two decades before the New Deal, labor and human resources experts had been arguing that the establishment of high wages would make labor more effective as consumers and advocates for the political economy of a living wage had agreed with them. Those advocates had also argued that social insurance was needed to maintain a living wage when a worker's employment was disrupted. Slichter retained this political economy of a living wage even though he used an analysis of the depression that employed Keynesian economics. Unemployment insurance is now thought of as an automatic stabilizer in the arsenal of Keynesian weapons against a recession. Instead, it originated with the political economy of a living wage and was carried over into the hybrid system of redistributive economics.

Clark Appraises Fiscal Policy

As noted in Chap. 2, John Maurice Clark had championed the idea that a living wage was necessary because, if labor was not able to take care of the full costs of its existence, society had to pick up the difference. He believed that national economic planning was needed to allocate the

social spending on workers' relief to individual businesses. During the early years of the Great Depression, he anticipated that the NIRA would initiate that type of planning, and when it failed, he backed off from planning and a living wage.[66] By the late 1930s he became interested in compensatory fiscal policy and presented a paper on it, "An Appraisal of the Workability of Compensatory Devices," that was published in 1939.

The topic of his paper was the extent to which expansionary deficit spending could "produce an industrial expansion, probably larger than itself" and he doubted that it could.[67] Clark was more interested in the idea that unemployment insurance could act as a component of fiscal policy. Government provision of benefits to unemployed workers would work best in a short cycle.[68] The impact of unemployment insurance on consumption demand would be small, however, because the insurance payments would have to be less than the pay unemployed workers had previously earned. At best those payments would keep consumption demand from falling by as much as it would in their absence.

Social insurance in the form of unemployment insurance and retirement pensions had been a mainstay of advocates for the political economy of a living wage. They had insisted that the benefits paid out from social insurance had to be set at the level of a living wage and had endeavored to make their approach a key element in the enactment of the SSA.[69] They had failed. Clark's indication that unemployment insurance would not keep consumption at a high enough level to produce an economic recovery was a tacit admission of this failure. In the chapters that follow, I will describe efforts by politicians, with support from union leaders, to address this failure by pushing for increases in those benefits as a way of meeting their responsibility under the Employment Act, thereby retaining the political economy of a living wage as an essential ingredient in increasing aggregate consumption.

Keynes and World War II

Keynes presented an alluring prospect that government spending could have counteracted the Great Depression. To be sure, Hoover and Roosevelt had used government spending to counteract the depression

without any advice from Keynes, but the deficit spending of the 1930s had not ended the Great Depression in the USA. Keynesians could argue that the deficit spending of the 1930s had not been large enough to end the depression.

It is now commonplace that World War II ended the Great Depression by producing those larger and prolonged deficits and legitimizing Keynesian economics. Klein offers a clear and concise statement of this view that brings out the point I am making about Keynes offering a method for determining how much government spending was needed to reach full employment:

> In the years before the war, the type of policy needed was one to combat deflation. The depressions conditions of the 1930's were never eradicated by government action. Looking back, at this time, on our policy we can easily see why the United States remained in a depressed state for a decade. The size of the deflationary gap was never properly estimated, and the government activity needed to restore full employment was actually much greater than that which was instituted.
>
> The impact of the war on our economy showed clearly that if the government expenditure is sufficiently high, full employment follows automatically.[70]

It is an oft-told tale that was regularly used to describe how the war proved the efficacy of fiscal policy. The key phrase in this quotation is "The size of the deflationary gap was never properly estimated." That was the main contribution Keynes made by policy, a way to estimate the amount of government spending needed to produce full employment, and it was an important element in the Employment Act.

In addition, Gordon tells the same story about the impact of government spending during the war in his recent book on the rise and decline of the standard of living in the USA. Gordon's telling of the story is especially noteworthy because in addition to the demand-side impact of government spending during the war, he describes a supply-side boost to the economy from businesses becoming more efficient in production and management methods to cope with the shortages of labor and capital they faced.[71] Increases in supply and demand helped the economy to

grow, a point that was continually made by the hybrid system of redistributive economics before and after the enactment of the Employment Act. Keynesian economics, however, focused on the demand-side impact of the war on the recovery of the economy and that focus contributed to the conventional story that the Employment Act was all about increasing aggregate demand. This emphasis can be seen through consideration of postwar writings on Keynes.

Hansen Accepts Keynes

Alvin Hansen (1887–1975), professor of economics at Harvard University, was one of the earliest and most important interpreters of Keynes' ideas in the USA. His share of the IS-LM model that synthesized Keynesian theory with the older approach remained a mainstay of macroeconomic teaching and analysis from the 1950s through the 1970s. He was well-known in the USA as a business cycle theorist during the 1920s. His early review of Keynes' *General Theory* had a skeptical tone because Keynes left out technological innovation as having an influence on business cycles.[72] Eventually he became a supporter of Keynes and began writing books on macroeconomics that drew heavily on him.

The book I am concerned with in this section is *Economic Policy and Full Employment*, published in 1947. In the opening chapters, Hansen indicated that inflation was becoming a rising problem that had to be solved, an issue he had been concerned with since the 1920s. From his perspective, inflation was being kept in check in the USA because of high taxes and the willingness of the public to save its money.[73] This approach to inflation was part of an overall policy of compensatory fiscal policy that controlled spending on consumer goods through increased taxes and reduced borrowing by the government. This was the US version of Keynes' theory with the idea that macroeconomic policy should use the tools of taxing and spending to improve the prospects for economic growth when the economy was slowing down and to dampen down inflation when it became a problem. This approach was an essential element of the Employment Act. Although Hansen's approach resembled Keynes's,

his long-standing aversion to inflation caused Hansen to add what Keynes had not made clear, the need for "a rational wage-and-price policy."[74]

The need for a rational wage-and-price policy related to the changes that had taken place in the USA whereby a very high percentage of the population needed a job to survive.[75] High levels of employment would thus remain an agenda item for the national government.[76] To Hansen, the government could pursue this policy of high employment by planning its spending and taxing programs with the intention of keeping the economy on a stable path of growth that produced full employment. By planning its spending along Keynesian lines, the government could manage the economy.

As part of that planning, the government could also take on the issue of the distribution of income. Following Keynes, Hansen pointed out that an unequal distribution of income caused aggregate consumption to be lower than it would be if incomes were more equal. He noted the view of the political economy of a living wage that higher wages could redistribute income. The redistribution of income through higher wages, however, might result in a "high-wage, low-profit economy." To Hansen, this result presented a problem as long as there were business cycles. During a recession, profits turned to losses. In the recovery phase, businesses had to recoup their losses with very high profits. But those very high profits were not consistent with the "high-wage, low-profit economy."[77] The high-wage, low-profit economy would only work if government policies eliminated the business cycle.

Since advocates for a living wage argued for a living wage taking precedence over profits, they promoted the high-wage, low-profit economy and rarely concerned themselves with the impact higher wages would have on profits and investment. To counter their argument, Hansen maintained that a redistribution of income via progressive income taxes was not as disruptive of the economy as higher wages. Higher wages could make things worse for businesses that were not doing well, whereas higher progressive taxes would impact only businesses that were earning high profits. "There are limitations," he observed, "upon the process of redistribution of income through the methods of wage increases and price reductions."[78] As had Keynes, Hansen did not want to sacrifice businesses' profits to a living wage and, as will be described in the Chap. 5,

he criticized Truman's Economic Report of the President for including policies based on the political economy of a living wage.

Moreover, Hansen noted, if government fiscal policies created a long period of full employment, there needed to be a wage policy. To make the need for a wage policy clear, Hansen focused on the ratio of wages to profits. It was important to have the ratio set at just the right level. If increased wages cut into profits, it would not be easy to sustain the investment needed for continual full employment. He proposed two solutions to maintain that ratio at the right level, improve the productivity of labor with better methods of production or increase aggregate demand. With higher demand, a business could sell more of its product. This approach might allow for higher wages in the short run. In the long run, only changes in the methods of production could reduce costs consistently and allow for higher wages.[79]

To Hansen, a responsible wage policy meant that while the expansion of total outlay from government spending was taking place, it was important that wages "not be permitted to rise above the full-employment equilibrium rate" (i.e., above changes in productivity) or else there would be unemployment or inflation. The persons in charge of bargaining collectively for unions thus had a large responsibility for keeping wages from getting too high.[80] Since the New Deal had promoted the NLRA as a way to foster collective bargaining as part of a living wage program, Hansen was telling union leaders to be responsible about how high of a wage they pushed for. Following Ryan, advocates for the political economy of a living wage had argued that a living wage came before profits. Hansen was telling them that profits had to take precedence over a living wage.

Samuelson Synthesizes Keynes

For over a decade after Keynes produced the *General Theory*, economists debated what he meant and Keynes added to the debate by writing articles to amplify his ideas. It was Paul Samuelson (1915–2009), a young and early Keynesian, who got Keynes' ideas accepted through his exposition of them in his classic textbook, *Economics*, first published in 1948. Keynes had offered the expectation that the government could use his

methods to manage the economy, and Samuelson did more than anyone, including Keynes, to make that expectation popular.

For Samuelson, full employment was "the central problem of modern economics." Unemployment was especially damaging "because it falls so heavily on those who already have been most adversely treated in the distribution of income." Only after "the problem of unemployment is solved" could "other problems of wrong … move up to first place on the program."[81] Concerns over the distribution of income, such as are raised by a living wage, were best solved by full employment. If, when full employment was reached, there was still an inequitable distribution of income and many workers without a living wage, then the distribution of income could be made a priority.

Samuelson did consider the distribution of income and used changes in its composition to make his point that full employment would take care of it. He began his discussion of the distribution of income with data on the high degree poverty in the USA in 1935–1936, showing that 40 percent of the population did not have a "bare subsistence" and 60 percent had income less than was needed for "minimum health and decency."[82] The high employment and prosperity brought about by World War II changed this distribution of poverty by cutting the number of households with less than a minimal standard in half and raising median household income by more than double.[83] The war demonstrated the validity of the Keynesian perspective that full employment would take care of helping workers attain a living wage. Government policies were needed to bring it about and the ones used in World War II had done the job.

Samuelson made this point quite forcefully, writing, "As the artificial period of the war period has shown, it is possible for these [low-skilled] jobs to command better than substandard wages."[84] As a result, the sweatshop in its most egregious applications was becoming obsolete. Samuelson then turned to the question of how to formulate policies for attaining full employment. His focus was on government fiscal policy. He began his discussion of fiscal policy by pointing out, "The war years have shown that fiscal policy is a very powerful weapon."[85] The main goals of fiscal policy were to reduce the length and severity of the business cycle in the short run and to promote a long-term program of high employment. Government spending programs would take care of the short-run business

cycle and help with the long-term issue of maintaining employment.[86] In an economy with high levels of employment brought about by fiscal policy, "reasonably efficient workers, willing to work at the currently prevailing ("fair") wage rates, need not find themselves unemployable as a result of too little general demand."[87] The mention of fair wages relates to the problem of a living wage and reflects the Keynesian viewpoint that high employment would make a living wage possible.

Samuelson, moreover, noted the widespread acceptance of the living wage argument and acknowledged that labor had been aided by the New Deal reforms of the NLRA and the FLSA.[88]

Still, he disputed the efficacy of a living wage, writing, "Modern capitalist society seems so imbued with a feeling of guilt over the existing inequality of income that almost everyone believes in the desirability not only of higher wages, but of much higher wages."[89] He disagreed with this sentiment because the result of it was that the public and the federal government supported workers and unions in their quest for higher wages without recognizing that a rapid increase in money wages could damage the economy by causing inflation when business increased prices to pay for higher wages. The better approach was for wages to be increased from higher aggregate demand brought about by government fiscal policy. In this way Samuelson argued that unions and the political economy of a living wage were extractive, while Keynesian economics was inclusive. In a Keynesian world, unions were not as important as full employment was in raising the standard of living for workers.

Keynesian Economics and Collective Bargaining

About the same time Samuelson published his textbook, a contradiction between Keynesian economics and the political economy of a living wage was brought to light in an article that took the issue head on. Written by Orme W. Phelps (1907–2003), a long-time professor at what is now Claremont McKenna College, the article argued that Keynesian economics was incompatible with collective bargaining.

Phelps' primary contention was that the Keynesian revolution consisted of the abandonment of "the self-adjusting mechanism of free markets" and its replacement by "planned state intervention," which applied to labor markets as well as to the market for goods and services.[90] He questioned whether this intervention was compatible with a union strategy of higher wages through collective bargaining. In the short run, Keynes had argued, wages should be stable, while in the long run they should increase with productivity.[91] To accomplish this long-run outcome, there needed to be "a national wage policy with strict controls over the general level of money wages," and Phelps cited a number of prominent Keynesians such as Hansen and Joan Robinson (1903–1983) who had stated the need for such a policy. They all contended that full employment would give unions more bargaining power. Their hope was that the security of that bargaining power would encourage unions to be more socially responsible in their wage demands. If not, then the government would have to regulate wages.[92]

Unions were not likely to take on the responsibilities that Keynesians asked of them. Phelps indicated that Keynesian economics required that unions take a national perspective and pursue a common wage policy for general wages in each industry. He observed, however, that in the USA unions had always been decentralized, with the AFL and the CIO acting as federations of distinct unions, all of which took the well-being of their members as a primary goal. Moreover, unions had strongly objected to the compulsory practices of the US government during the war, especially what it thought of as the edicts of the WLB. If Keynesian policy was stable wages during a recovery and slow increases in wages over the long run, no union leader would tell his members that he was following it.[93]

Phelps found that most Keynesians were content to rely on unions becoming more responsible. Hansen was in this camp.[94] Other Keynesians, such as Robinson, were willing to go so far as to give government regulation as the answer. Whatever the ultimate national wage policy turned out to be, Phelps concluded that "collective bargaining in the managed society of the future will have few points of resemblance to that activity as we know it today."[95]

As confirmation of Phelps' thesis, I turn to William Green (1873–1952), president of the AFL, and an article he wrote in 1946 about the AFL's wage policy. The overall policy of the AFL was a high-wage approach. That policy was thwarted during the war, however. When the war began, the AFL took a pledge of no strikes, but that pledge did not commit it to a "wage freeze" and Green insisted that he had been assured by the government that price controls during the war would not apply to wages. Instead, he argued, "Government control froze wage rates in the upper brackets" while allowing increases for workers with low wages. To Green, that policy "reduced differentials between skilled and unskilled workers, upset wage structures, and created new problems for postwar production."[96] The CIO also objected to the governmental control over wages by the WLB.[97] Unions favored Keynesian policies but not at the cost of their ability to increase the wages of their members.

Phelps has gone to the heart of a conflict between Keynesian economics and the political economy of a living wage. Collective bargaining was a key ingredient of the basic formula of the political economy of a living wage. In Keynesian economics, full employment would equalize the bargaining power between business and unions or even tilt it toward unions. Keynes was not a friend of unions and neither were his followers, as we have seen in this chapter and will see in later chapters. If unions used high aggregate demand to push for wage increases above productivity growth, they could lead to unemployment, inflation or reduced investment. The same argument would apply to efforts to secure a living wage for non-union workers. The role of the WLB in using wage policy to offset inflationary pressure at full employment is a missing part of the oft-told tale about how World War II ended the Great Depression and clinched the argument in favor of Keynesian economics.

Conclusion

Keynes and his followers were not indifferent to the plight of low-wage workers. They just did not think that a living wage was a good way to help them. The best help they could get was from an economy that maintained full employment through government spending programs, which

would pull wages higher in line with increasing productivity. Full employment would also reduce profits due to a declining marginal efficiency of capital from the socialization of investment, which would lead to a decline in the payments of dividends and interest. As a result, the program of Keynesian economics would mitigate the inequality in the distribution of income and there was no need for a specific set of programs to improve wages such as the political economy of a living wage to redistribute income.

Older economist, such as Slichter, Douglas and J.M. Clark, did see merit in Keynesian economics, but only when it was part of the hybrid system of redistributive economics. The programs of the political economy of a living wage, such as unemployment insurance and the unemployment reserve system that Slichter proposed, would sustain workers' income during a recession and do it faster than programs of public works. The programs of the political economy of a living wage implied that workers needed help to keep their incomes from falling in a recession and to get them back to normal during a recovery. Government spending programs based on Keynesian economics might supplement the programs of the political economy of a living wage. This approach, I will argue in the chapters that follow, was part of how Truman, Kennedy and Johnson interpreted their responsibilities under the Employment Act.

Among the Keynesian economists studied in this chapter, Samuelson epitomizes the argument that Keynesian economics conflicted with the political economy of a living wage. To him, once the economy reached full employment, efforts to raise wages in pursuit of a living wage would harm the economy by crowding out investment and causing inflation or unemployment. A wage policy was needed and Keynesians mainly relied on responsible collective bargaining by unions to keep wages in line with productivity gains. In later chapters I will show how this issue became problematic with regard to the hybrid system of redistributive economics.

Despite this conflict over wages at full employment, Keynesian economics and the political economy of a living wage overlapped in an important way. They both wanted to save the market economy from itself through the development of the mixed economy and a more equal distribution of income. They both supported the Employment Act as a way to redistribute income. Their efforts, however, took different paths.

For Keynesian economics, the market economy was prone to periods of high unemployment during recessions resulting from low levels of investment, which led to stagnation. Government management of the economy through fiscal policy would produce full employment. Once full employment was reached, wages would be improved. Keynesians would support the Employment Act as sanctioning fiscal policy as the tool for attaining full employment. Full employment would pull wages up through increased aggregate demand.

To advocates for the political economy of a living wage, the market economy tended to pay workers, especially unskilled one, less than a living wage. Because the prisoners' dilemma problem prevented businesses from voluntarily paying a living wage, government had to provide workers with it through collective bargaining, social insurance and a minimum wage. A living wage would solve the problem of underconsumption, and capitalism would be rescued from its self-defeating predisposition. Their support for the Employment Act would be based on its use to legitimize continued reforms that enhanced collective bargaining, the minimum wage, unemployment insurance and retirement pensions, all of which would push wages up and bring about a more equal distribution of income.

Given this overlapping interest in government intervention to save the market economy and make income more equal, it should not come as a surprise that some Progressive politicians believed that the bundling of the two approaches into the hybrid system of redistributive economics would work effectively as part of the Employment Act. This doubling down of the two different approaches was instrumental in creating the hybrid system of redistributive economics and seeing it grow during the two decades after the Employment Act was passed.

Notes

1. Elliot and Clark, 1987; Lawlor, 2006, p. 80; Pressman, 1991.
2. Chick, 1983; Laidler, 1999; Backhouse and Bateman, 2011.
3. Keynes, 1965 [1936], pp. 27–28. Some of the material on Keynes in this chapter was adapted from Stabile and Kozak, 2012, pp. 214–226.

4. Laidler, 1999, p. 17; Dickman, 1987, pp. 104–108.
5. Foster and Catchings, 1924, 1925 and 1928.
6. Laidler, 1999, p. 207n, also makes this connection.
7. Keynes, 1965 [1936], pp. 113–122, citing Kahn, 1931.
8. Keynes, 1965 [1936], p. 372.
9. Keynes, 1965 [1936], pp. 95 and 262.
10. de Vroey, 2016, p. 22.
11. Keynes, 1965 [1936], pp. 260–262.
12. Keynes, 1965 [1936], pp. 265–266.
13. Slichter, 1934, p. 114.
14. Keynes, 1965 [1936], pp. 269–270.
15. Keynes, 1965 [1936], p. 271.
16. Keynes, 1965 [1936], p. 245.
17. Marglin, 1990, p. 6.
18. Roosevelt, 1933.
19. Quoted in Hartwig, 2017, p. 264.
20. Hartwig, 2017, pp. 259–262.
21. Hartwig, 2017, p. 265.
22. The classic critique of the marginal product theory by an institutional economist is Veblen, 1908, pp. 147–195.
23. Rutherford, 2011.
24. Ryan, 1906, p. 244.
25. Berendt, 2007, p. 462.
26. Berendt, 2007, p. 470.
27. Keynes, 1965 [1936], p. 267. For an explanation of this argument, see Laidler, 1999, pp. 9, 22, 262, 270n, 280, 306–307 and 332.
28. Stabile, 2016, pp. 8–24.
29. Lawlor, 2006, p. 86.
30. Hansen, 1964 [1951], p. 519.
31. Mill, 1969 [1909], p. 937. For a discussion of Mill's theory of collective bargaining, see Dickman, 1987, pp. 142–148.
32. Clark, 1968 [1907], p. 475.
33. Keynes, 1932, pp. 324 and 343.
34. Klein, 1961 [1947], p. 4.
35. Ryan, 1906, p. 261.
36. Lawlor, 2006, p. 83; Rosen, 2005, pp. 746 and 1610.
37. Crouse, 2018, p. 504. See also Backhouse and Bateman, 2011, p. 15.
38. Keynes, 1965 [1936], p. 95.

39. Keynes, 1965 [1936], p. 98.
40. Keynes, 1965 [1936], p. 106.
41. Keynes, 1965 [1936], p. 128.
42. Keynes, 1965 [1936], pp. 125–128.
43. Klein, 1961 [1947], p. 36, citing Kahn, 1931.
44. Veblen, 1935 [1904], p. 198.
45. Mitchell, 1970 [1913], p. 588.
46. Mitchell, 1922, pp. 26–27.
47. Hansen, 1964 [1951], pp. 510 and 520.
48. Backhouse and Bateman, 2011, p. 158.
49. Keynes, 1965 [1936], p. 378.
50. Keynes, 1965 [1936], pp. 378–379.
51. Lindert and Williamson, 2016, pp. 213.
52. Horwitz, 2016, p. 111.
53. Keynes, 1965 [1936], p. 383.
54. Slichter, 1934, p. 187.
55. Kaufman, 2018, pp. 143–145.
56. Kim, 2009, pp. 229–231.
57. Mann, 2017, pp. 331 and 5527. For other examples of Keynes' hopeful expectations for this technocracy, see also pp. 1154, 4114, 4189, 4377, 5479 and 5593.
58. Crouse, 2018, pp. 495–496.
59. Simpson, 2016, p. 201.
60. The material on Slichter and Clark in the next two sections was adapted from Stabile and Kozak, 2012, pp. 223–224 and 225–231.
61. Slichter, 1936, p. 196.
62. Slichter, 1936, pp. 196–198.
63. Slichter, 1936, p. 207.
64. Slichter, 1936, p. 208.
65. Slichter, 1936, p. 208. Slichter had previously (Slichter, 1934, p. 150) argued for an unemployment reserve before the passage of the SSA and adjusted his argument once unemployment insurance had been legislated.
66. Stabile, 2016, pp. 69–73 and 145.
67. Clark, 1939, p. 194.
68. Clark, 1939, p. 196.
69. Stabile, 2016, pp. 173–176 and 181–184.
70. Klein, 1961 [1947], p. 169.

71. Gordon, 2016, pp. 10257–10851.
72. Hansen, 1936. At this time, Hansen was greatly influenced by Joseph Schumpeter. See Laidler, 1999, p. 20.
73. Hansen, 1947, pp. 4–5.
74. Hansen, 1947, p. 13.
75. Hansen, 1947, p. 14.
76. Hansen, 1947, p. 16.
77. Hansen, 1947, pp. 46–48.
78. Hansen, 1947, p. 50.
79. Hansen, 1947, p. 154.
80. Hansen, 1947, pp. 157–158.
81. Samuelson, 1948, p. 15.
82. Samuelson, 1948, p. 64.
83. Samuelson, 1948, p. 70.
84. Samuelson, 1948, p. 87.
85. Samuelson, 1948, pp. 409–410.
86. Samuelson, 1948, pp. 410–434.
87. Samuelson, 1948, p. 435.
88. Samuelson, 1948, p. 88.
89. Samuelson, 1948, p. 531.
90. Phelps, 1948, p. 584.
91. Phelps, 1948, p. 585.
92. Phelps, 1948, pp. 585–590.
93. Phelps, 1948, pp. 590–592.
94. Phelps, 1948, pp. 592–593
95. Phelps, 1948, p. 595.
96. Green, 1946, p. 3.
97. *CIO News*, 1945, p. 3.

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4

Background of the Employment Act III: An Economic Bill of Rights

On September 11, 1940, Roosevelt spoke at the Teamsters Union convention in Philadelphia. In his speech he told the Teamsters what his New Deal had achieved for workers and especially for union members. He told them, "The last seven years have seen a series of laws enacted to give to labor a fairer share of the good life to which free men and women in a free nation are entitled as a matter of right." Those laws included the NLRA and the FLSA as a way to attain decent wages for workers. He added, "Over them all has been created a shelter of social security, a foundation upon which we are trying to build protection from the hazards of old age and unemployment."[1] The New Deal had brought about collective bargaining, social insurance and a minimum wage as a way of helping labor.[2]

Roosevelt added, "We are still, however, quite distant from the objective we seek—the security and the high standard of living for every man, woman and child that the resources and man power of America make possible."[3] Even if he did not use the term a living wage, the goal of "a fairer share of the good life" as "a matter of right" through collective bargaining, social insurance and the minimum wage was consistent with the political economy of a living wage that existed in Progressive thinking before Roosevelt became president.[4]

D. R. Stabile, *Macroeconomic Policy and a Living Wage*,
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The program was incomplete, which was why Roosevelt told the Teamsters there was more to be done. First, not every worker earned a living wage. Second, not every worker had a job; the policies of the New Deal that used the political economy of a living wage to boost consumption had not ended the Great Depression. Third, the key components of the political economy of a living wage were far from universal in the USA; a majority of workers did not belong to a union, and the social insurance provided by the SSA and the minimum wage provisions of the FLSA only covered about half of the workforce. To Roosevelt and his followers, moreover, the issues were linked. They still believed that the political economy of a living wage would end the Great Depression by enhancing the purchasing power of workers.

The war came and reform along the lines of the political economy of a living wage was set aside. As the war neared its end, Roosevelt put reform back on the agenda. In his State of the Union Message on January 11, 1944, he outlined his overall program as leading to a Second Bill of Rights to provide economic rights that would produce a living wage (it was often referred to as an economic bill of rights). In this chapter, I will consider how Roosevelt's Second Bill of Rights was part of the background of the Employment Act of 1946 as well as the part Keynesian economics played in the debates over the Act. The institutional economics that had been so important in the programs of the New Deal declined in the postwar period, as Arturo Herman has described, and the public debates over macroeconomic policy in the USA centered on deficit spending and left out the rest of Keynes' ideas.[5] Because economists who had supported the hybrid system of redistributive economics became rare, my focus in this chapter will be on leading politicians such as Roosevelt and Henry Wallace (1888–1965), as well as a program for a guaranteed wages as a macroeconomic policy that was set forth by the CIO. They were the main participants in the public debates over macroeconomic policy.

I will argue that they all supported the hybrid system of redistributive economics and in doing so continued what Hoover and Roosevelt had done in their pre-Keynesian program of steady or increasing wages combined with spending on public works projects and what Douglas had proposed in 1935 (see Chap. 1). It is arguable whether Keynes' advocacy

of fiscal policy was more influential among political leaders than the pre-Keynesian program of fiscal policy started by Hoover and added to by Roosevelt. As Stein argues, "Roosevelt did not have to learn about government spending from Keynes" and neither did his followers.[6]

It is clear that Keynes was more influential among economists. Economists such as Hansen recognized that Hoover and Roosevelt had simply shifted government spending to coincide with the state of the business cycle, while Keynes argued that it was important to determine the level of spending needed to restore full employment.[7] To be sure, Keynes had not provided a method of how to determine the amount of government spending needed for full employment in the *General Theory*. As noted in Chap. 2, Currie and Hansen had pioneered in developing a method to make that determination in the late 1930s.[8] They could not have done so, however, without Keynes' aggregate approach and I will thus refer to it as a Keynesian program. As for the hybrid system of redistributive economics, Stein remarked that if Keynesian economics could be used to accomplish aggregate demand management, "the tax transfer system and regulation" could be utilized "to redistribute income in favor of low-income groups."[9] As noted in Chap. 1, Stein characterized the SSA as a tax transfer system and the NLRA and FLSA as regulation without acknowledging that they aimed to be a macroeconomic policy to revive the economy through increased wages to enhance consumption spending.

Roosevelt's Second Bill of Rights

As indicated above, Roosevelt, in his State of the Union Address on January 11, 1944, outlined his overall program as leading to a Second Bill of Rights to provide economic security through a living wage. The history of the Second Bill of Rights began with efforts by the government to take care of economic problems that might arise with the end of the war. The key agency in that effort was the National Resources Planning Board (NRPB), established in 1939 by Congress as an executive branch office to replace several previous planning offices.[10] The NRPB produced a variety of reports and one of those reports, published in 1943, set forth a plan for

the postwar economy. The goal of the plan was a clear policy from the federal government to "maintain a high level of national production and consumption." The government should also provide full employment "with fair pay."[11] The NRPB Report then laid out "A New Bill of Rights" that would serve as a model for Roosevelt's Second Bill of Rights:

1. The right to work, usefully and creatively through the productive years;
2. The right to fair play, adequate to command the necessities and amenities of life in exchange for work, ideas, thrift, and other socially valuable service;
3. The right to adequate food, clothing, shelter, and medical care;
4. The right to security, with freedom from fear of old age, want, dependency, sickness, unemployment, and accident;
5. The right to live in a system of free enterprise, free from compulsory labor, irresponsible private power, arbitrary public authority, and unregulated monopolies;
6. The right to come and go, to speak or to be silent, free from the spyings of secret political police;
7. The right to equality before the law, with equal access to justice in fact;
8. The right to education, for work, for citizenship, and for personal growth and happiness; and
9. The right to rest, recreation, and adventure, the opportunity to enjoy life and take part in an advancing civilization.[12]

To help achieve these rights, the economy must grow, and the NRPB stated how that would happen, "One of the most important economic facts we have learned in the past decade is that fiscal and monetary policy can be and should be used to foster an expanding economy."[13]

Here the NRPB argued for the use of Keynesian economics to bring about a recovery. With the proper use of fiscal and monetary policy, it would be possible to have the "power not only to produce in plenty but to distribute that plenty."[14] These policies also needed to be coordinated by a single agency in the government. This coordinated approach would ensure that public works, social security and similar programs would "give reality to the maintenance of adequate purchasing power."[15] This

combination of public works spending and social security as part of maintaining adequate purchasing power was an example of the hybrid system of redistributive economics. The NRPB especially emphasized the political economy of a living wage. It recommended that social security be improved by adding disability insurance, expanding the coverage of the pension program and unemployment insurance to all workers and increasing the benefits of both.[16]

The NRPB proposal created a stir in Progressive circles and the *New Republic* published a 22-page special section about it under the title "Charter for America," written by three of its important contributors, Bruce Bliven (1889–1977), Max Lerner (1902–1992) and George Soule (1897–1979). They characterized the proposal as "the culmination of a considerable history of economic thinking, research and investigation" that produced a basic idea of "achieving full employment and security." The idea was a popular demand from "ordinary people" who wanted "a chance to have a job … be secure against want and destitution, and to make a life as well as a living."[17]

The NRPB proposal represented a new vision for the USA and the article listed the NRPB's new bill of rights as evidence of that vision. Bliven, Lerner and Soule highlighted the programs contained in the proposal and saw its overarching principle as the recognition "that unemployment is not a sudden temporary crisis to be handled as an emergency measure, but something for which we should plan in advance on a basis of continuing policy."[18] That continuing policy included expanded social security with better unemployment and pension benefits for all workers, expanded opportunities for college or apprentice programs for youth, disability and health insurance and aid to families that needed it. Public works projects were also featured in the NRPB's growth policies, as were other policies. Many of the policies were vague and only gave broad directives on where the country should go. But Bliven, Lerner and Soule argued that the NRPB proposal had enough substance to be debated and to secure a popular mandate in the 1944 elections.

The NRPB had also called for one government organization to have the authority over the public works program, with technical experts developing advanced plans for the program and deciding what projects to use to stimulate the economy and when to use them. It put itself forward

as that organization and mirrored the technocrat approach to fiscal policy that Keynes' views on fiscal policy implied, as discussed in Chap. 3. This approach should not come as a surprise, as Currie and Hansen were key members of the NRPB. This early experiment in technocracy ran afoul of politics, however, when conservative politicians in Congress, a bipartisan coalition of southern Democrats and Republicans, cut off funding for the NRPB in 1943.[19]

The NRPB approach was kept alive by Roosevelt's Second Bill of Rights, which echoed the Bill of Rights set forth by the NRPB. Samuel Rosenman (1896–1972), Roosevelt's friend, adviser and speechwriter, attributed the idea of a Second Bill of Rights as part of the State of the Union Address to Chester Bowles (1901–1986), an advertising executive who served in the Roosevelt administration during the war. Rosenman added, however, that the language those rights took in the speech was Roosevelt's.[20] Here is a listing of Roosevelt's Second Bill of Rights:

The right to a useful and remunerative job in the industries or shops or farms or mines of the nation;
The right to earn enough to provide adequate food and clothing and recreation;
The right of every farmer to raise and sell his products at a return which will give him and his family a decent living;
The right of every businessman, large and small, to trade in an atmosphere of freedom from unfair competition and domination by monopolies at home or abroad;
The right of every family to a decent home;
The right to adequate medical care and the opportunity to achieve and enjoy good health;
The right to adequate protection from the economic fears of old age, sickness, accident, and unemployment;
The right to a good education.[21]

Cass Sunstein considers Roosevelt's 1944 State of the Union Address to have been a speech that was "the greatest of the twentieth century" for its vision of the possible future of the US economy.[22] It was a vision that became part of the inception and implementation of the Employment

Act. Ruth Ellen Wasem makes the Second Bill of Rights a key element in the movement for the Employment Act, a point also made by Hansen.[23]

That vision was based on the political economy of a living wage that Roosevelt had hoped to bring about through the New Deal.[24] He had, however, altered the definition of a living wage by adding housing and education to the original formula of collective bargaining, social insurance and a minimum wage and extended the living wage idea beyond low-income workers to include farmers and small business owners whose incomes were low. As I argued in Chap. 1, the political economy of a living wage was a flexible concept that continued to evolve through the addition of more variables to its basic formula. Roosevelt's Second Bill of Rights was the initial step in that evolution. His addition of education to the definition of a living wage was especially important. As Lindert and Williamson have documented, higher educational attainment in the USA after World War II contributed to the great leveling in national income they have highlighted.[25]

Despite the alteration of the definition, the idea behind this new bill of rights remained a living wage. Roosevelt had a relationship of nearly two decades with Monsignor John Ryan, described in Chap. 2 as a prime mover in the political economy of a living wage.[26] On May 30, 1944, Roosevelt wrote to Ryan to congratulate him on his 75th birthday, indicating that Ryan should be satisfied for "all you have done to enforce recognition of the fundamental right of all to a useful and remunerative job; a decent home; a good education; [and] adequate protection from economic fears in old age."[27] In writing this way, Roosevelt was congratulating Ryan for his advocacy of four specific rights in his Second Bill of Rights, which indicated that he believed he was in tune with Ryan on what he wanted to accomplish.

Ryan was also in tune with Roosevelt. Writing in 1945, just before his own death, Ryan used the words of Pope Leo XIII to explain that social justice was mainly concerned with "the weaker economic and social classes."[28] To Ryan, Roosevelt had made it a goal to help the members of US society most in need of social justice. Not only had he supported the political economy of a living wage through backing of the NLRA, SSA and the FLSA, Roosevelt's use of fiscal stimulus to bring about full

employment was also "in accord with social justice."[29] Ryan approved the hybrid system of redistributive economics as strongly as Roosevelt did.

The CIO was another strong supporter of the Second Bill of Rights. Formed during the 1930s as an offshoot of the AFL to organize industrial workers who did not fit into the craft union framework of the AFL, the CIO eventually split from the AFL. It started publishing its own newspaper, the *CIO News*, in 1937. The *CIO News* contained numerous references to the Second Bill of Rights by itself or in relationship to a particular policy the CIO supported. For example, on September 11, 1944, the *CIO News* pointed out that Roosevelt had "blazed a new trail to freedom and security" with his Second Bill of Rights, which the article listed in full.[30] On August 9, 1946, the *CIO News* in a special supplemental section ran a two-page display with a picture of Roosevelt and a large-font listing of the Second Bill of Rights.[31] An editorial, "Labor Day Goals," on September 2, 1946, made one of those goals the need to make progress on the "Economic Bill of Rights."[32] The *CIO News* told the Democrat Party in 1948 it wanted the "FDR Platform."[33] It continued to voice support for the Second Bill of Rights up to 1955.[34]

The AFL did not mention the Second Bill of Rights in the *American Federationist* in the 1940s. A review of the *American Federationist* for the period showed calls for fair wages, improved wages and an American standard of living, but the term a living wage does not appear. Still, the AFL had not completely forgotten the idea. In its October 1945 issue, the *American Federationist* ran a one-third page announcement of the death of Ryan, calling him labor's friend. The announcement added that Ryan was notable "as an advocate of the rights of the working man" and for speaking up for workers and their unions in an era "when labor's friends were few." While the announcement did not herald Ryan's advocacy of a living wage, it did indicate that *A Living Wage* was his most famous book.[35] This recognition of Ryan's support for unions is an important sign that the AFL remained interested in the political economy of a living wage, but perhaps not in the revised version Roosevelt had given it.

Roosevelt's commitment to his revised version of the political economy of a living wage showed in the last year of his life. He repeated his Second Bill of Rights in a radio speech about the State of the Union Address, supported it in a speech to an International Labor Conference

and praised it in a campaign speech in Chicago, where he promised to deliver an economy with 60 million jobs.[36] He made it a theme of his reelection campaign, which he kicked off by telling the Democrat National Convention he was seeking a fourth term to create an economy "which will provide employment and provide decent standards of living."[37] Roosevelt had stopped using the term "a living wage," but his rhetoric indicated that he still supported it. That support showed when he indicated the need, after the war was over, to bring about "an American standard of living higher than ever before known." A higher standard of living was not enough, however, "if some fraction of our people … is ill-fed, ill-housed, and insecure."[38]

A better idea of how Roosevelt would implement his Second Bill of Rights can be seen in his Annual Budget Message of January 10, 1944 (the day before the Second Bill of Rights Speech). In it, he indicated it was time to begin planning for the reconversion of industry to peacetime. In that planning, he added, "Our objective must be a permanently high level of national income and a correspondingly high standard of living." Although he recognized the need for "the stimulation of private investment and employment," Roosevelt indicated that there was a backlog of public works projects that had been neglected during the war. It was important for those projects to be planned carefully in terms of doing the ones that were most useful but also "to assure that their construction will be timed in accordance with employment requirements." Here he was repeating what he and Hoover had done during the 1930s by proposing publics works projects to create jobs with better wages. The program was also consistent with Keynesian economics.

The reconversion plan also entailed the further development of social security as "a framework within which many of the problems of demobilization can be met." To be effective, however, the two main ingredients of the SSA, unemployment insurance and retirement benefits, had to be improved. Roosevelt had not gotten all he had wanted from the SSA in terms of benefits close to a living wage.[39] He was using the demobilization effort as a way to make up for what he thought the SSA lacked. Thus he proposed expanding the pension benefits "to many groups now denied protection" and adding to "the scope of the system to include disability benefits." He also recommended "that the present unemployment

insurance system be strengthened" through "an extension of coverage and liberalization of unemployment benefits."[40] Clearly, at this point Roosevelt had not given up his approach that sought recovery through reform and his call for an expansion of the SSA was in keeping with his support of the political economy of a living wage.

The problem of the transition from war to peace was a paramount concern of unionists. In April 1944, the AFL held a forum in New York City to work out its agenda for the postwar period.[41] Its program mirrored Roosevelt's call for increased unemployment insurance, expansion of SSA pensions and a public works program. The AFL program also included Keynesian economics, calling for fiscal policy to produce a larger amount of national income and increased employment.[42]

To indicate its support for Keynesian aspects of this approach, in July 1944, the *American Federationist* published an article by Hansen. Hansen indicated that there might be a small postwar expansion of the economy due to businesses stocking up their inventories, consumer spending increasing from pent-up demand and business investment increasing. These factors would not last. To avoid a depression in the postwar period government and business spending must be sufficient to borrow all that was saved. The federal government, however, had not made any plans for such spending on its part and Hansen complained about "Our utter lack of a well-developed public investment program."[43] Still, the AFL retained its view that increased wages were the best way to sustain high levels of consumption.[44]

The CIO also provided Hansen a venue for his ideas on January 24, 1944, in the *CIO News*. He argued that the postwar period would be volatile as the economy would experience alternating periods of inflation and deflation. To offset that volatility, the federal government needed to immediately start planning for public works projects after the war ended.[45] Hansen was sticking with his version of Keynesian economics by looking for increases in government spending through public works projects to offset the decline in government spending on the war. The CIO was not willing to rely on Keynesian economics, however. Rather, it indicated, "The foundation, upon which the American people desire to build their future, was laid down by President Roosevelt in his historic Economic Bill of Rights."[46]

Roosevelt Accepts Keynes: The Nation's Budget

Roosevelt remained committed to his Second Bill of Rights and added a stanch support for Keynesian economics. In his Annual Budget Message for 1945, Roosevelt posed the postwar problem thusly, "Huge war expenditures have brought full employment, more than full employment." When defense spending fell, new spending programs would be needed. To explain the size of those new spending programs, he presented The Nation's Budget, a statement of gross national product divided into Keynesian components of consumption, investment and government spending for 1939 and 1944 to show how government spending had brought about a recovery. It helped that the government had begun producing statistical estimates of the data used in The Nation's Budget in the early 1940s. In this way, as Hansen pointed out, Roosevelt employed a Keynesian framework to legitimize what he had done throughout the 1930s with spending on public works, only in this case it was war spending that had helped the economy.[47] Alongside this Keynesian approach, he included elements of a living wage program by indicating, "We must develop the human standards and material resources of the Nation, which in turn will tend to increase our productivity." The program he had in mind was "extending social security."[48] Although he led off with Keynesian demand-side policies for stimulating employment, Roosevelt retained his commitment to the supply-side program of improving the well-being of workers.

Roosevelt's use of The Nation's Budget was an important addition to his economic thinking and represented a significant contribution Keynesian economics made to macroeconomic policy in the 1940s. Its origins remain obscure, with the most likely candidates for developing it being Currie and Hansen. They both worked with the NRPB in developing a method to estimate how much fiscal policy was needed to reach full employment and Currie had elaborated a framework for calculating the net government contribution to consumption and investment. Currie also worked in the White House as Roosevelt's economic adviser and contributed to Roosevelt's annual budget messages.[49] Regardless of who

originated The Nation's Budget, it was thought to be so important that efforts were made to have its use required by the Employment Act with a different name, the National Production and Employment Budget. It eventually appeared in early Economic Reports as the Nation's Economic Budget, and to avoid confusion, I will call it the Nation's Economic Budget throughout this book.

The idea behind the Nation's Economic Budget was to divide GNP into the three main aggregate categories of consumption spending, investment spending and government spending. This approach followed the fundamental equation of GNP = C + I + G that is familiar to anyone who has taken an undergraduate course in macroeconomics. The next step was to produce estimates of consumption and investment and the total of GNP needed for full employment, and rewrite the equation as G = GNP − (C + I). If the planned level of government spending for the coming year was below the amount required to produce the GNP necessary for full employment, the government needed to increase its spending. Hoover and Roosevelt had used fiscal policy as part of their recovery program by shifting public works projects to periods of unemployment but with no idea if it was an efficacious amount. The Keynesian approach provided a methodology to conceive of the way to use fiscal policy as a balance to deficiencies in the other components of aggregate demand, consumption and investment, and offered a technique to estimate how much spending was needed. By adding the Nation's Economic Budget to his Annual Budget Message, Roosevelt had accepted an important element of Keynesian thinking.

Nevertheless, he continued to use the hybrid system of redistributive economics a few days later in his State of the Union Address on January 6, 1945. He pointed out that a year ago he had set forth "what I considered to be an American economic bill of rights." The most important of those rights, because all the others derived from it, was the "right to a useful and remunerative job." Roosevelt then repeated the oft-told tale of Keynesian economics and the war, "We have had full employment during the war. We have had it because the Government has been ready to buy all the materials of war which the country could produce." With the end of the war, to sustain full employment with the federal government operating at its peacetime levels, "purchasing power by private consumers"

would have to make up for reduced government spending. If private sector consumption failed to produce the 60 million jobs Roosevelt had called for, the populace of the USA would not tolerate it. In addition, to him "Full employment means not only jobs—but productive jobs. Americans do not regard jobs that pay substandard wages as productive jobs."

To help private enterprise create those well-paid, productive jobs, Roosevelt proposed that the government continue to develop "useful public works." It was also necessary to expand social security and add in health insurance and education programs as part of a policy "designed to support individual productivity and mass purchasing power."[50] It was his 1930s strategy of public works and increased wages but now he had Keynesian tools to estimate how much spending on public works was needed. He also added housing and education to the spending program. Since Keynes had mentioned public housing as an approved fiscal policy in the *General Theory*, it is another case where Keynesian economics and the political economy of a living wage were compatible.[51] As noted earlier, one place where they were not compatible was over wages, as can be seen in a dispute over a guaranteed wage.

The CIO Proposes a Guaranteed Wage

At the same time that Roosevelt was extending the political economy of a living wage and adopting the Nation's Economic Budget, unions were making an effort to embellish macroeconomic policy with the idea of a guaranteed annual wage. Guaranteed wage programs gave workers the assurance of a fixed amount of income for an established period, typically a year. Since the worker would be guaranteed his pay whether he worked or not, proponents of the programs argued that they would give employers an incentive to avoid layoffs during a recession.

John Maurice Clark had set forth a theory of a guaranteed wage in the 1920s when he suggested that unions should use their bargaining power to win a wage system that gave workers "a substantial minimum retainer plus a moderate charge proportioned to work actually done." If all firms in the economy followed this approach, there would be steadier

production and consumption and a recession might be avoided. The result would be a "general stabilization" of wages, prices and total demand.[52] By keeping workers employed during a recession, business would be able to maintain total demand in the economy by sustaining steady consumption. A guaranteed annual wage would also solve a problem with the political economy of a living wage that I described in Chap. 1. For a living wage to have efficacy, it needed to be paid regularly and without interruption by unemployment. That was the goal of the guaranteed wage and advocacy for it by unions indicated that they were not ready to rely solely on Keynesian economics to assure continual full employment. Keynesians did not support the guaranteed annual wage, as I will describe shortly.

Interest in guaranteed wage programs was heightened in 1944 when the United Steelworkers Union went to the WLB requesting a decision for a guaranteed annual wage. The Board said it would not mandate such a request but it would approve a plan reached by collective bargaining. It also suggested that President Roosevelt should have a study made of guaranteed wage plans.[53] There were many guaranteed wage plans in place in business in the USA during and after the war (196 in 1946) and the Bureau of Labor Statistics (BLS) was keeping track of them. As Ellen Mutari and Deborah Figart observe, guaranteed wage programs were "a strategic attempt to ensure living standards by focusing on income rather than wage rates."[54] The CIO made that clear by describing a guaranteed wage as "at least a minimum living wage the year around."[55]

In 1945, the CIO presented the case for a guaranteed annual wage before a variety of audiences.[56] Its writers argued that a guaranteed annual wage would help the economy in two ways. First, "If wages must be paid every week management will find a way to provide regular work."[57] Second, "It is axiomatic that where workers are assured full employment and economic security they can more than furnish the need for mass purchasing power."[58] This combination of regular pay and increased purchasing power would create a mass consumption society that would eliminate want.[59] In 1944, CIO President Phillip Murray (1882–1952) urged Congress to pass a policy statement endorsing the guaranteed annual wage.[60]

The CIO also produced a 24-page pamphlet, *Guaranteed Wages the Year Round*, in 1945. The pamphlet argued that a guaranteed annual wage was a way of "increasing purchases, business activity, and the number of jobs." Under it, a worker would be ensured of regular work for the year, at a set pay, as negotiated by the worker's union. The details of such a plan would vary depending on the employer and the union and how they bargained. The United Steelworkers of America, for example, sought "pay for at least 40 hours each week" and "pay for 50 weeks each year, including vacations." The plan would be applicable to workers after three months on the job. Once in operation over a wide area, everyone in the area would be better off. Farmers would sell more food, producers could sell an increased amount, and stores would have steady customers. Producing firms would also have lower costs by reducing their turnover and having better motivated workers. These changes would increase productivity and "the employer can afford to pay the workers for their increased output."[61] The CIO had other parts of its program "to keep up buying power," including increasing the minimum wage to 65 cents an hour, passing the full-employment bill to produce 60 million jobs through presidential action if necessary, spending on public works, expanding unemployment insurance and pensions for retired workers and adding health insurance. Although the CIO program was clearly on the side of the political economy of a living wage, it also included an element of Keynesian economics with a call for public works spending.[62]

The AFL also supported a guaranteed wage in an April 1945 article by its president, William Green. Workers might have a high hourly rate, he argued, but if they were unemployed for a significant part of the year, their annual pay would be low. He added, "We have seen that the peacetime wage income of workers in most of our basic industries was extremely low, in the best year." That was due to uneven employment during the year. Green argued that businesses often made year-long commitments for the purchase of materials and parts and kept managerial employees on the job during recessions. He "urged that the same principle be applied to jobs" through a "yearly guarantee of the annual wage."[63]

The end of the war provided "a great opportunity for stabilization of wage income through an annual wage guarantee." Green followed the long-held union position that higher, stable wages were needed to pro-

vide a steady level of purchasing power, which in turn would stabilize production and make the guaranteed annual wage feasible. This approach by itself, however, could not accomplish full employment. There was also a need for government action with "an integrated program of economic and fiscal policies for the entire nation."[64] In arguing this way, Green was bundling the political economy of a living wage with Keynesian economics. Keynesians did not reciprocate his support for their programs.

Keynesians Criticize the Guaranteed Annual Wage

In 1945, Roosevelt tasked the Advisory Board of the Office of War Mobilization and Reconversion to produce a report on a guaranteed wage. His interest in the guaranteed wage was consistent with his intent in setting forth the Second Bill of Rights. After all, the CIO's definition of a guaranteed wage as "at least a minimum living wage the year around" was comparable to the first two rights of the Second Bill of Rights, "The right to a useful and remunerative job" and "The right to earn enough to provide adequate food and clothing and recreation." Equally important, Roosevelt had often argued that a living wage would be an important component in a policy to maintain aggregate consumption.

Roosevelt did not live to see the study of guaranteed wages completed. Rather, its completion took several years to accomplish, during which time the Employment Act had been enacted. I will take it up here, because its intent to provide workers a living wage the year around was likely being discussed in the debates over the Act, as proponents of a full-employment act (see Chap. 5) were sympathetic to the intentions the CIO had in promoting a guaranteed wage. In addition, it shows the discord between Keynesians and unions that I described in Chap. 3.

Under the direction of Murray W. Latimer (1901–1984), a student of Ely and Commons, one of the designers of the SSA and a long-time member of the American Association for Labor Legislation, the report was completed in January 1947.[65] It stated, "The guaranteed wage is a significant, but not an all-sufficient, tool which may be employed in

building national economic security and stability."[66] The report also concluded that guaranteed wage plans should not be legislated into existence and proposed that they be put in place through collective bargaining. Not surprisingly, the CIO commented favorably on this support for a guaranteed annual wage by the report.[67]

From the perspective of this book, the most interesting part of the report was an Appendix authored by Hansen and Samuelson titled "Economic Analysis of Guaranteed Wages."[68] Hansen and Samuelson were well-known Keynesians and their analysis relied heavily on Keynesian economics. They pointed out, "The guaranteed wage is not a cure-all for the problem of business cycle unemployment—nor could it ever approach near to being one." It would be impossible for businesses to live up to their guarantee of a set wage.[69] Hansen and Samuelson wrote of "the importance of a full employment program within the pattern of which the guaranteed wage can play a significant role."[70]

Their main criticism of the proposal was that if businesses built up reserves to cover a guaranteed wage in boom years and paid them out during recessions, the effect would be similar to a compensatory finance program of government fiscal policy. The amount of reserves that would have to be built up, however, would have to be large enough to "cause a serious distortion in the economy" by reducing investment spending.[71] In addition, the economic impact of guaranteed wages on aggregate demand by way of more consumption and potentially less investment spending was hard to gauge and probably negative.[72] Hansen and Samuelson then argued for Keynesian policies to foster "a favorable market in which [a worker] may seek a job."[73] Hansen and Samuelson gave primacy to Keynesian full-employment policies over a guaranteed wage.

An alternate policy they considered was the use of government-funded supplements to a guaranteed wage when the economy declined by an agreed upon amount. In essence, because businesses could not afford the full guarantee of a wage, the government would step in to make up the difference. This approach would be consistent with the political economy of a living wage, but given the percentage decline in national income they used as an example (15 percent), Hansen and Samuelson were surely confident that Keynesian economics would restore employment long before the supplement to a guaranteed wage was triggered. The guaranteed wage

supplemental program would give the government an incentive to take measures to ensure that the economy did not suffer a decline large enough to trigger the guaranteed wage supplement.[74] This approach was similar to the one proposed by Slichter as a labor income reserve to supplement unemployment insurance that protected workers from wage reductions (see Chap. 3). Only Slichter gave his proposal primacy over government spending programs as a way to end recessions, whereas Hansen and Samuelson reversed the ordering. This episode is another example of Keynesian economics being given preference over the political economy of a living wage by two prominent Keynesian economists.

The *New Republic* was a supporter of a guaranteed annual wage. An article by John Perry, a business consultant who had worked for the government on agricultural issues, maintained that unions supported the guaranteed annual wage for the security it gave workers, but the CIO also thought that by making employers responsible for covering all the costs of living a worker faced, they would also be in favor of governmental policies to secure full employment.[75] Willard Shelton made the same point with a brief review of the Latimer Report, writing, "a widespread system of guaranteed wages, sustaining mass purchasing power at the beginning of an economic slump, would itself tend to prevent a "recession" from turning into a "depression"."[76] The guaranteed wage would compel business to favor the combination of the political economy of a living wage with Keynesian economics into the hybrid system of redistributive economics according to Perry and Shelton.

As Mutari and Figart point out, the movement for a guaranteed annual wage declined once postwar prosperity took off.[77] The CIO in the mid-1950s was able to bargain for a guaranteed annual wage in a few cases, but it never became an important factor in economic stabilization.[78] Still, the guaranteed wage movement offers another example where Keynesians questioned the political economy of a living wage as in conflict with their recommended policies.

It is also an issue that resonates in today's debates efforts to secure a living wage through employer of last resort programs and a guaranteed basic income. In employer of last resort programs, the federal government guarantees to provide every person who wants to work a job at a living wage. It would amount to Roosevelt's first right, "The right to a

useful and remunerative job," only he added that it would be a job "in the industries or shops or farms or mines of the nation." To him, made-up government jobs such as he had created in the Civilian Conservation Corps were temporary and it was important for the individual to have a job in the private sector as a way to secure his or her dignity. A basic income would provide sufficient income to enable individuals and families to have enough money to purchase their essential subsistence needs without any form of means testing. In both cases, the federal government would be guaranteeing a job or income to individuals unable to secure them on their own in the labor market. Political leaders and economists of Roosevelt's era were concerned that jobs and income not be part of a dole to ensure the dignity of the workers who earned them, a point that is often missed in today's debates.

Wallace Promises 60 Million Jobs

Despite the conflict between Keynesians and the political economy of a living wage, politicians persisted in combing them into the hybrid system of redistributive economics, as can be seen in a book written by Henry Wallace. Wallace had served the New Deal as Secretary of Agriculture (1933–1940), Vice-President (1941–1945) and Secretary of Commerce (1945–1946) before running for president in 1948 as candidate of the Progressive Party. Previous to his government service, he worked as editor of a family-owned newspaper that targeted farmers and promoted scientific agriculture.

Among senior officials in the Roosevelt-Truman administrations, Wallace was by far the most qualified to write a book on economic policy. As his biographers, John C. Culver and John Hyde, describe him, Wallace had a sound understanding of economics and the use of econometric techniques. His promotion of scientific agriculture led him to use statistical analysis to display the benefits of improved farming methods. When the economy entered a recession in 1937, for example, Wallace supported increased deficit spending and used regression analysis to calculate the relationship between government spending and national income, that is, the multiplier effect, which he estimated to be four. He

met Keynes during his term as vice-president and discussed economics with him. Wallace also talked of "the spiritual New Deal which places that which is fine in humanity above that which is low and sordid and mean and hateful and grabbing." This spiritual approach led him to support the development of standards for what humans needed to survive and guaranteeing that everyone met those standards. He included the capability for reading and thinking in those standards, which put him in the camp of the political economy of a living wage, as did his support for the guaranteed annual wage.[79]

In 1945 Wallace wrote a book, *60 Million Jobs*, as a way of showing what was needed and could be accomplished in attaining "the peacetime requirements of full employment."[80] He took the number 60 million from a speech President Roosevelt had given as a postwar goal and believed that it could be accomplished by 1950.[81] Roosevelt had also given the foundation for the accomplishment of this goal with his formulation of the Second Bill of Rights, and Wallace reprinted them, indicating that "they show us the scope of our job." It would take 60 million productive workers to attain the national income necessary to achieve Roosevelt's Second Bill of Rights by doubling "the standard of living of those whose standard of living has been the lowest." That achievement would also increase the income of all other workers.[82] This goal was important because at current wage rates, there were at least eight million urban households earning low wages.[83] Although he did not use the term, Wallace was indicating that they earned less than a living wage. His reference to Roosevelt's Second Bill of Rights signifies that it was an important factor in the campaign for the Employment Act.

Government had a role in achieving the 60 million jobs. The tool Wallace recommended for accomplishing this role was a national expenditure budget.[84] The national expenditure budget was simply a renaming of The Nation's Budget that Roosevelt had used in his Annual Budget Message for 1945, as described above, and what I am calling the Nation's Economic Budget. Wallace clearly understood how it could be used. "To provide for prompt action for situations where this national expenditure budget showed that the national market was not going to be big enough to keep people fully employed," he wrote, "the government should be directed to prepare a program … to produce the necessary total national

production." Increases in government spending would take care of a recession, and when there was a risk of inflation, the national expenditure budget would indicate a reduction in government spending.[85] Wallace was advocating for a US variation of Keynesian economics called "compensatory finance," much as Mitchell had advocated in the early 1920s and Douglas had argued for in the 1930s (see Chaps. 1 and 3). Wallace provided sample Nation's Economic Budgets for 1939 and 1944 to show what he meant. It is clear from reviewing them that Wallace was making a case that compensatory spending worked.[86] Not surprisingly, Hansen referred to Wallace's book as "an education in applied economics."[87]

Wallace, however, also set forth several policies consistent with the political economy of a living wage such as "*maintaining wages* to protect the take-home pay, and raising minimum wages to provide a minimum standard [of] living" along with the expansion of social security with coverage for all workers in unemployment insurance, pensions and health insurance.[88] To Keynes these were social reforms that had nothing to do with economic recovery. To US Progressives such as Wallace, they were what recovery was all about as well as a help in bringing recovery to fruition.

In September 1945, the *New Republic* expressed its support of the Nation's Economic Budget in an article "The National Budget." The article praised the Nation's Economic Budget in Roosevelt's 1945 Budget Message and called it "a landmark in planning for full employment."[89] The article explained the process for using the Nation's Economic Budget in detail and concluded that it was "a standard from which performance or lack of performance can be judged."[90] The same sentiment was expressed in the *New Republic* in a review of Wallace's book, *60 Million Jobs*, by Hansen, who praised Wallace's presentation of the Nation's Economic Budget as a straightforward exposition of a complex topic.[91]

Wallace, the *New Republic* and Hansen had confidence that the Nation's Economic Budget gave them a way to determine how much government spending was needed for an economic recovery. As indicated previously, in the 1920s economists along with Hoover had proposed a program of public works spending as a counter-cyclical policy, and in the 1930s Hoover and Roosevelt had initiated public works spending to help end the Great Depression. The policy had not worked and there was criti-

cism that the spending program had not been large enough. That was what the war had proved to those critics. The Keynesian aggregate framework in the Nation's Economic Budget gave a way to calculate how much government spending was needed. Political leaders in the USA had appreciated how fiscal policy could aid in a recovery; Keynes' contribution was to give them a way to estimate the size of the fiscal policy needed to produce full employment. At least that is what Roosevelt, Wallace and Hansen believed about it.

Conclusion

In his approach to macroeconomic policy, Roosevelt employed the hybrid system of redistributive economics as a mixture of the pre-Keynesian strategy of spending on public works, the new Keynesian economics of estimating how much to spend and the revised political economy of a living wage; it was a combination of recovery and reform that aimed at reviving and completing the New Deal. We can see this approach in his speeches on policy and in the Second Bill of Rights he set forth in 1944. The first right, "The right to a useful and remunerative job in the industries or shops or farms or mines of the nation," by itself would seem indicate a living wage. And if there was any doubt about it, the second right, "The right to earn enough to provide adequate food and clothing and recreation," clinched that indication. With respect to government spending on public works, such as Keynesians would have proposed, "The right of every family to a decent home" implied government spending on public housing, much as Keynes had wanted, and "The right to a good education" involved government spending on schools. Equally important, Keynes offered a theory that made it possible to estimate how much government spending was needed to bring about full employment and Roosevelt used it with his presentation of The Nation's Economic Budget.

After a flourish of successful reform that aimed at a living wage in its early years, with enactment of the NLRA and the SSA in 1935, the New Deal had abated. Despite winning a landslide victory in 1936, Roosevelt had a hard time getting the FLSA passed, and when it was passed, it had

been diluted of its living wage potential. As the leader who had won World War II, Roosevelt anticipated that his popularity would enable him to persuade Congress to come up with an employment bill that included the important components of his Second Bill of Rights. Sunstein argues that "Roosevelt believed that by 1944 the United States "had come to accept" the Second Bill of Rights."[92] The CIO program for a guaranteed wage was consistent with the Second Bill of Rights, which is why Roosevelt supported it. Whether he could have overcome the arguments of Keynesians who opposed it is arguable. We will never know, because Roosevelt died just as the war in Europe was ending and Truman took his place. The next chapter will assess the extent to which Truman continued the bundling of Keynesian economics with the political economy of a living wage to produce the hybrid system of redistributive economics.

Notes

1. Roosevelt, 1940.
2. For a discussion of the speech as indicating the legacy of the New Deal, see Stabile, 2016, pp. 229–238.
3. Roosevelt, 1940.
4. Stabile, 2016, pp. 1–92.
5. Hermann, 2018, p. 68.
6. Stein, 1994, pp. 38–39 and 52.
7. Hansen, 1964 [1951], pp. 510 and 520.
8. Rosen, 2005, pp. 3355–3385, 3405, and 3511.
9. Stein, 1994, p. 63.
10. The earlier ones were the National Planning Board, the National Resources Board and the National Resources Committee, Stein, 1994, p. 36. For a detailed history of the NRPB, see Rosen, 2005, pp. 3718–4217.
11. National Resources Planning Board, 1943, pp. 2–3.
12. National Resources Planning Board, 1943, p. 3.
13. National Resources Planning Board, 1943, p. 4.
14. National Resources Planning Board, 1943, p. 4.
15. National Resources Planning Board, 1943, p. 13.
16. National Resources Planning Board, 1943, pp. 17–18.

17. Bliven, Lerner and Soule, 1943, p. 523.
18. Bliven, Lerner and Soule, 1943, p. 525.
19. Rosen, 2005, pp. 189, 3751 and 4049.
20. Rosenman, 1952, pp. 425–426.
21. Roosevelt, 1944b, pp. 40–42.
22. Sunstein, 2004, p. 101.
23. Wasem, 2013, pp. 24–26; Hansen, 1947, p. 106.
24. For a discussion of the Second Bill of Rights and Roosevelt's view of social justice, see Stabile, 2016, pp. 38–42.
25. Lindert and Williamson, 2016, pp. 213.
26. Stabile, 2016, pp. 34–35.
27. Roosevelt, 1944e.
28. Ryan, 1945, p. 297.
29. Ryan, 1945, p. 302.
30. *CIO News*, 1944h, p. 2.
31. *CIO News*, 1946a, pp. 6–7.
32. *CIO News*, 1946b, p. 4.
33. *CIO News*, 1948, p. 6.
34. *CIO News*, 1955b, pp. 6–7.
35. *American Federationist*, 1945, p. 19.
36. Roosevelt, 1944c, 1944d and 1944g.
37. Roosevelt, 1944f.
38. Roosevelt, 1944b, pp. 40–42.
39. Stabile, 2016, pp. 173–177.
40. Quotations in the previous paragraphs are from Roosevelt, 1944a.
41. *American Federationist*, 1944, p. 3.
42. *American Federationist*, 1944, p. 32.
43. Hansen, 1944, pp. 10–12.
44. Woll, 1944, pp. 4–5 and 31.
45. *CIO News*, 1944b, no page numbering.
46. *CIO News*, 1945, p. 1.
47. Hansen, 1964 [1951], p. 106.
48. Quotations in the previous paragraphs are from Roosevelt, 1945a.
49. My tentative attribution of The Nation's Budget approach to Currie and Hicks is derived from Rosen, 2005, pp. 3751–3752 and 4261.
50. Quotations in the previous paragraphs are from Roosevelt, 1945b. Roosevelt's health was failing at this time and this message may have been written by someone else, perhaps Currie.

51. Keynes, 1965 [1936], p. 106.
52. Clark, 1923, p. 58–59.
53. Kaplan, 1947, p. 9.
54. Mutari and Figart, 2004, p. 37.
55. *CIO News*, 1944a, p. 4.
56. *CIO News*, 1944c, p. 6.
57. *CIO News*, 1944d, p. 9.
58. *CIO News*, 1944e, p. 8.
59. *CIO News*, 1944f. p. 2.
60. *CIO News*, 1944g, p. 3.
61. CIO Department of Research, 1945, pp. 4–5.
62. CIO Department of Research, 1945, pp. 17–19.
63. Green, 1945, pp. 3–5.
64. Green, 1945, p. 32.
65. Advisory Board of the Office of War Mobilization and Reconversion, 1947.
66. Advisory Board of the Office of War Mobilization and Reconversion, 1947, p. XVIII.
67. *CIO News*, 1947a, p. 8; 1947b, p. 4; and 1947c, p. 6.
68. Hansen and Samuelson, 1947.
69. Hansen and Samuelson, 1947 p. 11.
70. Hansen and Samuelson, 1947 p. 5.
71. Hansen and Samuelson, 1947 p. 34.
72. Hansen and Samuelson, 1947 p. 13.
73. Hansen and Samuelson, 1947 p. 20.
74. Hansen and Samuelson, 1947 pp. 42 and 46–51.
75. Perry, 1945, p. 669.
76. Shelton, 1947, p. 30.
77. Mutari and Figart, 2004, pp. 36–37.
78. Love, 1953, p. 3; *CIO News*, 1954, p. 2; 1955a, p. 8; 1955b, pp. 6–7; 1955c, p. 3; Love, 1955, p. 3; Kelly, 1955, p. 3; *AFL-CIO News*, 1956a, p. 5; 1958a, p. 10; 1958b, p. 3; 1959a, p. 10; 1959b, p. 6; 1959c, p. 2; 1956b, p. 5.
79. Culver and Hyde, 2015, pp. 1101, 2015, 3882–3890, 5647, 5822–5824 (the source of the quotation), 6071–6072, and 8500.
80. Wallace, 1945, p. 1.
81. Wallace, 1945, p. 3.
82. Wallace, 1945, pp. 6–7.

83. Wallace, 1945, p. 24.
84. Wallace, 1945, pp. 34–35.
85. Wallace, 1945, pp. 58–59.
86. Wallace, 1945, p. 67.
87. Hamby, 1973, p. 123.
88. Wallace, 1945, pp. 82–83.
89. *New Republic*, 1945, p. 398.
90. *New Republic*, 1945, p. 400. Hansen was writing articles for the *New Republic* at this time and may have contributed to this article.
91. Hansen, 1945, p. 353.
92. Sunstein, 2004, p. 2.

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5

The Political Economy of the Employment Act of 1946

When Harry S. Truman (1884–1972) replaced Wallace as the Democrat vice-presidential nominee in 1944, the goal was to balance the ticket with a candidate who was not as much of a Progressive as Wallace had been. The vice-presidential nomination had been hotly contested, because it was acknowledged that there was a likelihood that the nominee would be taking over as president as a result of Roosevelt's failing health. Truman had won by appealing to all segments of the party at the convention, including many stalwarts who opposed Wallace. Progressives were surely disappointed and later rallied around Wallace's third-party run for president as candidate of the Progressive Party in 1948. Truman may have been more conservative than Wallace in international relations, especially with regard to the Soviet Union. His macroeconomic policies, however, were up to par with what Roosevelt and Wallace had wanted.

In this chapter, I will describe Truman's economic policies before and after the legislation of the Employment Act. In his early speeches, he made it clear that he wanted to put in place the programs called for by Roosevelt's Second Bill of Rights. From a review of his Economic Reports of the President that were required by the Act, I will describe how Truman bundled Keynesian economics as a way of stabilizing the economy with

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the political economy of a living wage as redefined by Roosevelt's Second Bill of Rights to establish the hybrid system of redistributive economics. Before doing that, I will give an overview of how the economy performed in the immediate postwar period.

The Postwar Economy, 1945–1950

When the end of the war with a victory by the USA and its allies began to seem inevitable, there was widespread concern over how the economy would handle peacetime. As Brinkley describes, there was great interest within the federal government in what to do to maintain full employment after the war, including efforts to promote planning, an anti-monopoly campaign, a continuation of the wartime agencies that had been in charge of defense production and the use of Keynesian spending programs.[1] My focus will remain with the hybrid system of redistributive economics.

From the new perspective of Keynesian economics, the problem was straightforward. As government spending declined, the economy would enter a recession, perhaps a severe one, unless business and consumer spending made up the difference. To give one example of this concern, Samuelson wrote, "I myself am somewhat apprehensive over the period after reconversion and demobilization. But even if I am wrong, or especially if I am wrong, it is demonstrable that the immediate demobilization period presents a grave challenge to our economy."[2] Rosen observes that Hansen and John Kenneth Galbraith (1908–2006), two prominent Keynesians, made similar predictions.[3]

As Robert A. Gordon pointed out, those glum predictions turned out to be erroneous.[4] To be sure, government spending fell to about one-third of its wartime amount. The economy did experience a slight decline in GNP (from February 1945 to October 1945), but it was less than the decline in government spending. Instead, business and consumer spending increased by enough to offset the reduced spending by the government. Consumer spending expanded due to income staying level during the reconversion period and consumers having large savings accounts from which to spend. Business also expanded its investment spending to

take advantage of this consumer demand. The increases in consumer and business spending were helped by tax cuts. Between 1945 and 1948, the personal income tax was reduced from 94 percent to 82 percent for the top bracket (above $200,000) and from 23 percent to 20 percent in the lowest bracket (below $2000); the excess profits tax of 95 percent was eliminated and the corporate income tax was reduced by a modest amount at each income level (40 percent to 38 percent at the highest level of income). By mid-1946 a full recovery was in place.

The fullness of the recovery caused a problem that had not been forecast, inflation. Prices rose by a rate that had not been seen since the early 1920s and with unions having stronger bargaining power, thanks to the NLRA, wages moved upward as well. The removal of wartime price controls and wage restrictions contributed to the inflation, as those who had lost out from those policies tried to regain what they had lost and inflation reached 14.7 percent in 1947. By 1949, however, these forces had worked their way through the economy and a more "normal" set of economic conditions held. Business was able to ramp up production to the point where it could meet the higher than normal demand that consumers had been exhibiting, while consumers became satisfied with what they had been able to purchase and cut their spending back to more typical amounts. The economy began slowing down in 1948 and a mild recession took place in October 1948. The economy recovered quickly with the low point taking place in November 1949. By then, the USA was becoming engaged in a war in Korea, and government spending, which had remained low in the postwar period, although not as low as in the prewar New Deal era, began to pick up.

Truman Takes Over

When Truman became president, he held the line in support of the Second Bill of Rights, as can be seen in his messages to Congress. As a starting point, I will consider his "Special Message to the Congress Presenting a 21-Point Program for the Reconversion Period," set forth on September 6, 1945. The program covered many ingredients of a reconversion plan, including a relaxing of wartime controls over the economy,

a restoration of collective bargaining for unions, housing, veterans' benefits and the sale of surplus war material. Here I am concerned with labor issues of full employment and a living wage.

In the opening words of the message, Truman stated the importance of the reconversion of the economy with a simple goal, "To achieve as full peacetime production and employment as possible in the most efficient and speedy manner." The executive branch had started the process of reconversion by demobilizing the military as soon as specific units were no longer needed, cancelling war contracts and letting war plants be converted to consumer goods production, retaining wage and price controls until aggregate demand leveled off and keeping wages and aggregate demand from falling too quickly. Unfortunately, Truman pointed out, "during this process there will be a great deal of inevitable unemployment." Congress needed to act to prevent this unemployment from becoming permanent and to protect workers while it existed.

The first task for Congress was to reform the system of unemployment insurance.

The sudden ending of the war created a group of workers who would be temporarily unemployed and unable to spend on consumption. Congress and the administration had to take quick action. Part of the problem was that unemployment insurance coverage was not available to over 15,000,000 workers and the benefits of covered persons were not adequate. Since the unemployment system had been set up to be run by the individual states, Truman had already asked Congress to enact a federal supplement to those unemployment insurance benefits, because "weekly benefit payments under many of the State laws are now far too low to provide subsistence and purchasing power for the workers and their families." He asked that coverage be extended to the workers, especially agriculture workers, who had been excluded from the SSA, and that the period of coverage be lengthened.

In addition to many workers who were becoming unemployed, there were many others whose income would fall or was already "much below what is necessary for a decent standard of living." Truman observed, "The foundations of a healthy national economy cannot be secure so long as any large section of our working people receives substandard wages. The existence of substandard wage levels sharply curtails the national

purchasing power and narrows the market for the products of our farms and factories." In the FLSA, Congress had tried to address this problem by setting a minimum wage structure of 25 to 40 cents. Truman "believed that the goal of a 40 cent minimum was inadequate when established. It has now become obsolete." Congress needed to set the FLSA aright with an increase to "a level which will eliminate substandards of living, and assure the maintenance of the health, efficiency, and general well-being of workers." In addition, the workers who had been excluded from coverage by the FLSA should be brought under its protection.

At this point, Truman had outlined many of the objectives that Progressives sought from a living wage, which the minimum wage under the FLSA was not providing. The term he used, "substandards of living," was a proxy for a living wage. Failure to pay sufficient wages was impairing the efficiency of labor much as efficiency wage theory would argue. That failure also hampered the "health" and "general well-being of workers," which touched on Clark's argument that low wages caused deterioration in the capabilities of the work force unless society somehow made up the difference. Finally, low wages reduced the consumption of workers and could threaten a recession from a reduction in aggregate demand, much as unions had claimed in the 1920s. These were elements of the political economy of a living wage as described in Chap. 2.

In addition to getting workers' pay to sufficient levels, the government needed to assure full employment. This objective for the economy had been established by "Roosevelt over a year and a half ago in the form of an economic bill of rights." Truman not only applauded those rights, he quoted them in full, adding that "most of them, in the last analysis, depend upon full production and full employment at decent wages." Not only should workers earn a living wage, its payment should not be interrupted by unemployment. The private sector would have to provide the bulk of the jobs for full employment, but the government needed to help by having consistent policies "to promote maximum production and employment in private enterprise" and a "national reassertion of the right to work for every American citizen able and willing to work—a declaration of the ultimate duty of Government to use its own resources if all other methods should fail to prevent prolonged unemployment." Truman then requested that Congress enact legislation that would give these

assurances and "provide machinery for a continuous full-employment policy."[5] His overall program was well in line with what Roosevelt had been proposing previously, the hybrid system of redistributive economics. Truman repeated this living wage and Keynesian program in his State of the Union Address for 1946 and called for "Enactment of a satisfactory full employment bill … as recommended by me on September 6, 1945."[6] His use of the political economy of a living wage as revised by Roosevelt's Second Bill of Rights indicates that he wanted it included in the full-employment bill he was recommending.

In August 1946, the *New Republic* criticized Congress for not acting on Truman's legislative program to provide many US citizens "with decent homes, adequate medical care, social security protection, or a minimum living wage."[7] These were elements of Roosevelt's Second Bill of Rights, and the use of the term living wage placed the *New Republic* squarely in the political economy of a living wage. Not surprisingly, it supported key elements of that approach by pushing for the extension of social security for the many individuals who had not been covered by its pensions and for increasing the minimum wage to 65 cents an hour and adding extending its coverage to more workers.[8]

The Legislation of the Employment Act

The Employment Act of 1946 has long been considered a momentous piece of legislation in the USA because it was the first time the federal government formally accepted responsibility for taking charge of the economy. That responsibility has become so ingrained in US policymaking that passage of the Act seems to have been inevitable. As Stephen Kemp Bailey and Ruth Ellen Wasem describe the history of the Act, however, its enactment was a complex event with differences between the Senate and the House over what the Act would accomplish.[9] The Senate passed a bill consistent with what the president wanted, while the House changed the form of the final law.

The Full Employment Act of 1945 was introduced in the Senate on January 22, 1945, as S380. Because it had been introduced by Senator James E. Murray (1876–1961), Democrat from Montana, who enlisted

several other senators as co-sponsors, the bill was commonly referred to as the Murray full-employment bill. The bill proposed two important ways to reach its stated purpose of full employment. First, in its initial form the bill indicated that there was a "right to a useful and remunerative job," a statement of the first right of Roosevelt's Second Bill of Rights. The subcommittee writing the bill changed that language to "all Americans able to work and desiring to work are entitled an opportunity for useful, remunerative, regular and full-time employment."[10] It was not the language of Roosevelt's Second Bill of Rights, but it made a key point that a living wage needed to be paid continuously without interruption to assure workers had a sufficient annual income.

Second, the bill made it clear that the federal government should "provide such volume of Federal investment and expenditure … to assure continuing full employment."[11] To accomplish full employment, the bill required that each year the president would provide Congress with a National Production and Employment Budget, the same tool that Roosevelt and Wallace had used and what I am calling the Nation's Economic Budget. Its purpose was to mandate a forecast of the amount of national income it would take to employ all workers and set forth how much the government would have to spend to reach that level of national income.[12] If the economy was already at full employment, the Budget would indicate how much of a surplus the government should run.[13] This part of the bill would have enacted the Keynesian method for setting the proper level of fiscal policy.

As Bailey has pointed out, Keynes was not the only source of inspiration for the Act. S380 included reference to all of the policies that had been tried during the New Deal in the 1930s.[14] He added that the NRPB Report that formed the basis of Roosevelt's Second Bill of Rights "was a powerful impetus to those forces which two years later combined to make possible the introduction of the Full Employment Bill."[15] In writing this way, Bailey presented in brief the argument I am making in this chapter, the political economy of a living wage and Keynesian economics both were important in the background to the Employment Act.

The debates over the Murray bill in the Senate were very cordial. Witnesses were called to testify with regard to Section 2(b) of S380 which stated, "All Americans able to work and desiring to work have the right to an

opportunity for useful, remunerative, regular, and full-time employment." This "right to a job," it was argued, had to be established as a fundamental policy of the federal government because it was as important as free speech, a free press and freedom of religion.[16] This perspective was in keeping with Roosevelt's Second Bill of Rights. To show there was widespread support for this perspective, the Senate Banking and Currency Committee solicited testimony from business, labor and government who supported the "right to a job," including Walter Reuther (1907–1970) of the CIO.[17] As described in Chap. 4, the CIO was pushing for a guaranteed annual wage for workers and its goal paralleled the call in the Murray bill for "remunerative, regular, and full-time employment." Bailey indicates that CIO support for the Employment Act was very strong with the AFL being less supportive.[18] Another important witness was Wallace, who favored the bill as "a most essential step in making a living reality of the economic bill of rights so clearly set forth by Franklin Delano Roosevelt." By approving the Murray bill, the Senate recognized that the federal government had a responsibility to ensure that the basic economic right to a remunerative job was met.[19] After debate and a few amendments, the bill passed the Senate by a 71-10 vote.[20]

On February 15, 1945, a similar bill was introduced into the House of Representatives by Wright Patman (1893–1976), a Democrat from Texas, as HR2202, but the outcome was markedly different. HR2202 and a second bill, HR4181, were sent to the House Committee on Expenditures, which Bailey characterizes as "heavily weighted on the conservative side."[21] The Committee did not hold hearings until September and November 1945 and by then had three bills to consider. The chief objection to HR2202 was the guarantee of employment. House members opposed to it worried that government jobs would crowd out the labor market in competition with business and that a guaranteed job would also damage the incentive structure of the economy.

The debates on the Employment Act in the House were certainly less cordial than the ones in the Senate. Patman, the chief sponsor of the bill in the house, tried to clarify what the bill intended by reminding the House members that it had been a follow-up to a 1944 election year promise made by Roosevelt.[22] Matthew Neely (1874–1958), a Democrat from West Virginia, made that promise clear by referring to the way

HR2202 "was designed to make the immortal Franklin Roosevelt's dream of 60,000,000 jobs for the toilers of America come true." He then cited how "Wallace, by means of his famous book entitled "Sixty Million Jobs," made this memorable expression as familiar as a next-door neighbor to every household in the land." A bill had been introduced by Patman to ensure that 60 million jobs became a reality. Now the House was dashing that goal with its more conservative bill.[23]

The Truman administration sent Wallace to testify in favor of HR2202, especially because his book, *60 Million Jobs*, had "received considerable attention in the House hearings."[24] Wallace had also told a CIO convention that he wanted to see an increase in job availability and a $2500-a-year minimum wage as part of the idea behind the Employment Act.[25] Truman transmitted a statement to Congress pushing the importance of a "national reassertion of the right to work for every American citizen" as a way to keep up assurances that the economy would be strong.[26] He made several speeches on the radio in favor of the Senate bill. Murray expressed the need for his version of the bill in an article in the *New Republic*, arguing that a redistribution of income that would result from his bill would keep aggregate consumption in line with total production.[27] In an article in the *American Federationist*, Murray described the Nation's Economic Budget and indicated that its function was to give "a scientific way of appraising" whether or not the economy was operating at full employment and what to do if it was not.[28] Here Murray was indicating my point that Keynes' major contribution to macroeconomic policy in the USA was a framework for appraising what was needed in terms of fiscal policy.

The administration's efforts proved futile. The House Committee voted overwhelmingly against HR2202, and Truman pushed the Committee to come up with a bill that it could approve. A substitute bill was proposed that watered down the plan of compensatory spending, transformed the Nation's Economic Budget into the Economic Report of the President and created a CEA. The substitute bill passed the House by a large majority on December 14, 1945.[29]

A House-Senate conference committee considered the two different bills that had emerged from each chamber starting on January 12, 1946. The House got its way because its version of the Act was the only one that

it would approve. Those who had wanted the Act to do more, such as George Bender (1896–1964), a Republican from Ohio, argued that the Act was a fraud because it did "not clearly recognize even the fundamental right of every American to earn a decent, good living."[30] Adolph Sabath (1866–1952), a Democrat from Illinois, hoped that under the Act leaders of businesses in the private sector would reach the conclusion that "they should deal fairly with labor and pay a wage on which wage earners can exist in decency and pride." If they did, it would not be necessary "for organized labor to strike for a living wage; and it will insure a vast mass market for the products of industry."[31]

By bringing up the words "a living wage," Sabath has brought us back to a theme of this book—could Keynesian economics be bundled with the political economy of a living wage of the New Deal. As we have seen in Chap. 4, the political economy of a living wage had been translated into the Second Bill of Rights and its guarantee of a remunerative job. Keynesian economics hoped to provide full employment with the expectation that full employment would lead to higher real wages, if not a living wage. With the Employment Act, both economic ideas were sought as a part of a law. As had been the case with other elements of the New Deal living wage agenda, the administration had proposed or supported a version of the law that contained living wage language. Congress, and especially the House, had removed that language from the law and would not have passed it if they had not. A compromise was reached that was easily passed by both bodies as the Employment Act of 1946. The final bill eliminated the language from the Senate bill that had contained Roosevelt's guarantee of a well-paid job. Another change was in the wording of its title. The goal was changed from full employment to maximum employment, and the word "full" was removed from the title of the Act. President Truman signed it into law on February 20, 1946.

From Truman's statement on signing the Employment Act of 1946, it is clear that he was not happy with it. The Act had been a response to popular outcry from the US citizenry for a solution to "the ever-recurring problems of mass unemployment and ruinous depression." A democratic government must take charge of the economic well-being of its citizens by using policies to create the conditions where "there is an abundance of

employment opportunity for those who are able, willing, and seeking to work." To develop those policies, the Act created a Joint Economic Committee (JEC) of Congress and the CEA as staff to work out a program in line with the Act. Truman then protested, "The result is not all I had hoped for." Still, he remained hopeful. To him, the Employment Act was "not the end of the road, but rather the beginning."[32] It could be expanded to include any number of measures to meet it.

When the Employment Act was passed, the *New Republic* reviewed the final law to see how it differed from the Murray bill. It found that the Truman administration had lost a strategic battle. But the Act did call for an economic report from the president, which the *New Republic* interpreted as a different way of calling for a Nation's Economic Budget such as Roosevelt, Wallace and the *New Republic* had presented. The next step was for Truman to appoint Progressive economists to the CEA.[33]

The first members of the CEA came as a disappointment to supporters of the political economy of a living wage and to supporters of Keynesian economics—only one of them was an economist and he was not a Keynesian. The chair of the CEA was Edwin G. Nourse (1883–1974), an agricultural economist who spent most of his career at the Brookings Institution, by then a well-established Washington think tank. Nourse believed that Senator Murray had pushed him to get the position as chair of the CEA because of the testimony he had previously given before Senate Committees.[34] Leon Keyserling (1908–1987), a member of the CEA, was an attorney who had worked for the New Deal on labor legislation, such as the NLRA, and had the support of Senator Wagner, on whose staff he had served. John D. Clark (1884–1961) was an attorney with a Ph.D. in political economy and a specialization in anti-trust law; he was a dean of the business school at the University of Nebraska and a member of the Democratic National Committee. Given their ages and educations, it is doubtful any of the three members of the CEA had a strong commitment to Keynesian economics. Advocates for Keynesian economics probably had a low expectation for what Truman and the CEA might accomplish.[35] Truman and his CEA, however, exceeded what the Act required of them, as can be seen in the first Economic Report of the President.

Truman's First Economic Report

As required by the Employment Act of 1946, on January 8, 1947, Truman released his first Economic Report along with a Message to Congress about the report. I will consider the Message here, as it is what most people heard about the Economic Report; for several years the Message and the Report were similar. The president began by stating that 1947 was starting out to be one of the most prosperous years ever. Still, there were many in the USA with "a fear of another depression." To assuage that fear, he continued, would take the courage to develop a program for a strong economy where "each citizen can count upon opportunity and security for himself and his family."

The outlook for a strong economy was good, Truman continued, because in 1946 employment reached the highest level in the country's history. Unemployment remained low during the year and was probably as low as it could be, given that some workers were always changing jobs. Total output also reached historic peacetime levels, although it was still below the highest levels of the war. One problem that cropped up in 1946 was inflation. To some extent, Truman argued, the inflation had been made worse by the ending of wartime wage and price controls. Congress had wanted to end those controls as rapidly as possible, but once they ended, prices rose dramatically. Wages also rose during the year, but not by enough to keep up with inflation.

The Report then presented the Nation's Economic Budget, using an approach similar to Roosevelt's and Wallace's. The Employment Act in its earliest form had mandated the use of this approach, but it had been left out of the final law. Truman used it anyway. By comparing the Nation's Economic Budget for the years 1939, 1944 and 1946, the Report indicated that there had been a large increase in GNP over the period being reviewed along with a marked change in the composition of that GNP as government spending climbed to record levels during the war. By 1946, however, consumer and business spending grew to new levels and offset the declines in government spending that took place when the war ended.

The Employment Act obligated the Report to estimate the aggregate spending in the economy that would create the conditions for maximum

employment. Truman believed that the objective of the Act would be met if employment for 1947 sustained the levels of 1946. A great deal of investment spending in 1946 had been on the improvement of business's productive capacity. Most of that work had been completed, which meant that total production of consumer goods would surge. Would consumers be able to purchase all the consumer goods that would be produced? Truman was doubtful that they could. In the same vein, the Report found that business investment had been taking place at a very high rate that was not sustainable. Continued investment would depend on demand for consumer goods, and Truman indicated that there would be reduced investment due to "the fear that a drop in general consumer demand may be in the offing." That left government spending to be considered.

Up to this point, Truman had argued along Keynesian lines, using the basic tool of GNP = C + I + G. When he turned to recommendations for what to do to increase government spending, he pushed for tax reform to stimulate investment and consumption, expansion and extension of coverage of unemployment insurance and pension benefits, addition of coverage for healthcare and disabilities, an increase and extension of the minimum wage coverage and spending on public works. These programs were divided into short- and long-range plans.[36] Short-term compensatory spending from tax changes and public works would smooth out the business cycle, and long-term improvements in a living wage would provide growth over time. Truman, like Roosevelt, wanted to foster the hybrid system of redistributive economics.

Hansen Criticizes the Economic Report

There was little published by economists on how the Act functioned, but Hansen offered one such analysis. Of interest to this book, Hansen showed his advocacy for Keynesian economics by complimenting Truman for addressing the concern that another depression was possible and reminded his readers that the language of the Employment Act made it the "responsibility of the Federal Government" to see to it that another depression did not happen. That would be a tall order to fill, however,

and Hansen specifically indicated the difficulties caused by the "gaps in our knowledge and in our planning."[37]

He then reviewed the recommendations contained in the Report. He found that they did not constitute a policy that would be able to combat a recession. Rather, they were merely "the President's recommendations about social security, minimum wages, etc., etc." and they had been recommended "to Congress again and again." They had nothing to do with squelching a downturn and did "not perform the function intended in the Employment Act of 1946."[38] Hansen's criticism was a bit misleading, however. He had earned his doctorate under the supervision of Ely and Commons, described in Chap. 1 as advocates for the political economy of a living wage, and retained what he learned from them by adhering to the need for workers to have economic security.[39] I will describe in Chap. 6 how in the 1960s he supported the social insurance programs of the political economy of a living wage as automatic stabilizers.

In 1947, however, Hansen likely felt it important to stress that the Employment Act had accepted Keynesian economics. Programs of social reform such as social security and a minimum wage might be important for bringing about a living wage, but they had nothing to do with maintaining employment. To him, the Employment Act had a Keynesian outlook and the political economy of a living wage would distract attention from the importance he gave to fiscal policy. His view became the conventional wisdom among economists at the time, which may explain why economic historians have neglected the political economy of a living wage as a macroeconomic policy.

Truman's Second Economic Report

Truman was not deterred by criticisms such as Hansen's, and his next Economic Report followed the same pattern of the first one. It began with an overall account of how the economy was doing along with statements of what might go wrong. The message then analyzed the components of the Nation's Economic Budget to give the nation an idea of where the economy was headed in the coming year, starting

with a brief description of the favorable and unfavorable trends with each item in the Nation's Economic Budget, consumer spending, business spending, government spending and international trade (a new addition).

To maintain high employment, Truman again proposed changing taxes and public works spending. He also added long-range national economic plans for "enabling our human resources to become fully productive." The projection was that in 10 years, maximum employment would be 64 million workers. With all those workers, it was important to make each worker as productive as possible and to help the rising number of workers who were being displaced by technology. All of these workers would require help from the services provided in education, health and social security, and those services needed improvement.

From the theme of this book, with its interest in the political economy of a living wage, the improvement of education, healthcare and social security was a vital component of that approach. Government aid to education was a new step added to the political economy of a living wage by Roosevelt for giving workers the knowledge and training they needed. Previously, Progressives such as Ryan had argued that a living wage should give a worker enough income to pay for the education of her children. Now the government would pay for that education. To the extent that government support for education improved the skill levels of low-wage workers, there is evidence that it led to greater equality and economic growth.[40] The other items on the list were components of the original political economy of a living wage and were included under the term social insurance. The big need, as Truman described it, was with "Social security, both in its unemployment insurance and its old-age insurance aspects." Both programs should be increased and their coverage should be made more general. The issue of retirement benefits was important for economic as well as social reasons. Regular pension checks that were quickly spent added a stable element to aggregate consumption. But the coverage of social security pensions was not adequate. Seventeen million workers were in occupations that were not covered by the SSA. They should be covered by an expansion of the program and with increased benefits.[41]

The First JEC Report

As mandated by the Employment Act, Congress set up the JEC to prepare a response to the Economic Report of the President. The first Report of the JEC, written when Republicans had a majority, contained a majority report and a minority report, and this practice was followed for several years. In that first Report in 1948, the Republican majority members took the Economic Report to task for taking an overly broad approach. They felt "that the operations under the act have fully justified its passage and have given us a good start on the national economic policy guided by more information and study than we have ever had before." Nevertheless, they were concerned "about the scope of the President's report, covering as it does nearly every domestic policy. … While the language used in the Employment Act of 1946 is very broad, we conceive that its principal purpose is to maintain full employment in the United States and to avoid the recurrent economic depressions." This was a challenging undertaking by itself, and a focus on it should not be distracted by "the study of all the important and complicated problems of social welfare, health, and education."[42] In short, the Republicans did not accept the political economy of a living wage as part of what the Employment Act intended.

The Democrat minority, not surprisingly, supported the approach of the Economic Reports. They argued that the first two reports had made recommendations for short-term problems (with Keynesian economics) and for long-term problems (with the political economy of a living wage as expanded by Roosevelt's Second Bill of Rights). They added, "Both types of recommendation were intended by the President to utilize the plans and functions of the Government in accordance with the policy of the Employment Act." The Republican-led Congress "preferred to hold Government authority to a minimum."[43] The Congress did not stay in the hands of the Republicans for very long, however. Instead, Truman won a surprise victory in 1948, and Congress shifted back to Democrat control. These events enabled Truman to set forth his own vision of where the country should be headed.

Truman Promises a Fair Deal

When Truman won re-election in 1948, he pledged to continue the Roosevelt policies I am calling the political economy of a living wage, including the Second Bill of Rights. In describing that program, he gave it a new name, "the Fair Deal." Truman stated his approach thusly, "Every segment of our population and every individual has a right to expect from our Government a fair deal." What he meant by a Fair Deal was highlighted in his State of the Union Message of January 5, 1949.

Truman began the Message with an upbeat statement, "Our Nation is better able than ever before to meet the needs of the American people, and to give them their fair chance in the pursuit of happiness." Under the leadership of both Roosevelt's and his administrations, the USA had been "creating a society which offers new opportunities for every man to enjoy his share of the good things of life." That society was based on the idea "that wealth should be created for the benefit of all." He continued, "The Government must see that every American has a chance to obtain his fair share of our increasing abundance." The federal government was meeting those responsibilities. It had put social security in place and produced laws that protected the rights and the well-being of workers. The result of the policies was a very prosperous country with high levels of production and consumption.

Despite all of this advancement in economic well-being, there were still difficulties that needed to be addressed. Truman set forth a long list that included the usual items that formed the goals of the political economy of a living wage as reformulated by Roosevelt's Second Bill of Rights. The best way to take care of these problems was to take control over the business cycle. The Employment Act had been put in place to take care of the business cycle and Truman listed the policies that were in his Economic Reports as recommendations for what Congress could do to make the Act effective. The government's fiscal policy was essential to keeping the economy prosperous. At the same time, it was necessary to give workers an incentive to be more productive. That could be accomplished by increasing the minimum wage and improving the effectiveness of "social security, health, education, housing, and civil rights."[44]

In this way, Truman's Fair Deal took Roosevelt's Second Bill of Rights and added to them the need for improvements in civil rights, an issue Roosevelt had not taken on. In enacting the SSA and the FLSA, Roosevelt had accepted many exemptions to both laws, some of which had excluded blacks in the South. He had done so, because neither law would have passed without the support of Southern Democrats. Truman wanted to make it clear that a living wage should be accorded to all citizens of the USA, which was why he added civil rights as a further evolution and redefinition of the political economy of a living wage. From an economic perspective, the addition of civil rights to the political economy of a living wage proved to be important. Lindert and Williamson find that civil rights gains reduced the regional inequality of income between the South and the rest of the USA.[45]

Truman did not get many of these proposals through Congress. In trying, he was up against very stubborn opposition. Conservatives in Congress—Republicans and Southern Democrats—were not supportive of his policies and had been able to override his veto of the Taft-Hartley Act of 1947, which modified the NLRA, marking it as one time where New Deal legislation was negatively changed by amendment. The change was significant, as far as unions were concerned. They fought it vigorously, from their belief that it abridged many rights that workers had gained under the NLRA. Both the AFL and the CIO continually sought the repeal of Section 14(b) of the Act, which allowed states to enact right-to-work laws that enabled them to become sanctuaries for the open shop. Truman was able to keep the SSA from being changed in a negative way, and he was able to get the minimum wage increased (see below).

Truman's Subsequent Economic Reports

Despite his call for a "Fair Deal," Truman continued his Economic Reports as before. The Special Message on the Economic Report for 1949 repeated that the looming macroeconomic problem was inflation. To fight that inflation, the federal government needed a budget surplus, which it did. To add to that surplus, Truman recommended four billion dollars of tax increases on corporate profits. The estate tax should also be

increased, and consideration should be given to income tax increases for individuals in the upper and middle brackets, as well as in increase in the payroll tax. Here we have the principle of compensatory finance in operation, with a budget surplus being generated through tax increases as a way to control inflation.

Truman also insisted that because inflation was causing hardships for persons whose incomes had not kept up with price increases, social security benefits needed to be expanded, including unemployment insurance, and the minimum wage should be increased. Health insurance should be added to the SSA to bring about a more productive workforce. Truman reviewed these reforms under a heading, "Policies to Promote Balanced Economic Growth."

Keynesians might wonder why Truman kept bringing into his Economic Report recommendations for increasing benefits for unemployment insurance and pensions under the SSA and for raising the minimum wage under the FLSA. From the perspective being examined by this book, however, they were all part of the political economy of a living wage. Many of its advocates argued that higher wages would make labor more productive, as is argued by efficiency wage theory. So would better healthcare, pensions and unemployment insurance. They would also stimulate consumption spending. Truman, as had Roosevelt before him, saw a double-edged policy of Keynesian economics to help maintain employment and the political economy of a living wage to make workers more productive and better consumers, a combination of programs that amounted to the hybrid system of redistributive economics. In recommending changes in social insurance and the minimum wage in his Economic Report, Truman felt it proper to respond to his Keynesian critics and indicate, "I have included in this Economic Report only those legislative recommendations which have large significance for maintaining maximum employment, production, and purchasing power."[46]

After 1949, Truman's Message to Congress on the Economic Report of the President became briefer and more concise. The Messages highlighted the economic situation of the previous year and gave an outlook for the following year. Truman consistently recommended legislation for two elements of a living wage agenda, enhanced social security and increased minimum wages.[47] The Economic Report was similar to the Message, but

added the Report of the CEA for a presentation of the Nation's Economic Budget and other economic analysis that had previously been part of the Message. This new pattern continued through the end of Truman's term in office. Much of the Report for the next few years focused on how the government would handle the Korean War, which started on June 25, 1950.

JEC Reports by Democrats

When control over Congress shifted back to the Democrats, the role reversal was palpable. In the 1949 Report of the JEC, the Democrat majority returned to the political economy of a living wage in relation to the increased cost of living that had taken place for several years. It was estimated that around 25 to 30 percent of families suffered because of low income. The solutions were to improve the pension benefits of the SSA and increase the minimum wage and extend its coverage.[48] The same refrain was offered in the 1950 report.[49]

The Republicans argued in return that Report should only take up fundamental economic governmental policies instead of going into social issues. Failure to do so made it doubtful that the federal government could banish the business cycle.[50] In between all the partisan bickering, there was economic thought and data in the JEC Reports that was comparable to what was contained in the Economic Report of the President. It was just that there were two sides to it. Democrats continued the hybrid system of redistributive economics, much as this chapter has described. Meanwhile, the Korean War brought defense spending as the main focus of the JEC Reports, much as it had with the Economic Report of the President.

The *New Republic* Comments on the Economic Reports

In 1949, the *New Republic* presented two studies of how well the Employment Act and the CEA were working. The first was a review of the initial Economic Reports, written by Alfred Sherrard, an economics professor at American University. Sherrard noted the relationship between

the Reports and Keynesian economics and confessed that he was "impressed by the pervasive influence of Lord Keynes that [the Reports] betray." He used the word "betray" purposely, because the Reports' authors wrote as though they were unaware of Keynes' inspiration for the Act and the Reports and "even deny it, by implication." The Nation's Economic Budget was straight out of Keynesian economics, but the Reports indicated that they were not based on a specific economic approach. At the same time, the Reports argued that there had to be balance among wages, prices and profits, following what I call the political economy of a living wage. According to Sherrard, adherence to such ideas managed "to dilute the Keynesian tone of the report." Instead, Sherrard hoped that "ideas of the just price, of the fair wage, of reasonable profit" could be made practical by not interpreting them too strictly.[51]

Sherrard raised important points with regard to Keynes' influence on macroeconomic policy in the 1940s. As I am arguing in this book, the political economy of a living wage was a significant element to macroeconomic policy and Sherrard agreed, even though he did not like it. The absence of Keynes' name from the early Economic Reports of the President reflected the background of the members of the CEA. Still, the Nation's Economic Budget contained in the Economic Reports was derived from Keynes' theory, and none of them mentioned him. Neither Roosevelt nor Wallace had mentioned him either in their use of his ideas.

A second look at the impact of the Employment Act was presented in the *New Republic* in October 1949 by Keyserling, member and about to be chair of the CEA. Keyserling started his article by arguing that the Employment Act had turned out to work better than the original Murray bill. The Murray bill had relied on the approach of compensatory finance as the policy to promote full employment, while the final Employment Act did not prescribe any policy. He preferred the flexibility this approach gave to policy because compensatory spending could interfere with the needs of the country for social spending. In times of inflation, for example, compensatory fiscal policy called for a cut back of government spending, whereas the development of "educational and health activities, social security, etc." should be based on what the economy could sustain. Finally, Keyserling reminded his readers that "the end objective of our economy is to improve standards of living and spread those improvements

more widely over the whole population."[52] A goal of the Employment Act, in keeping with the hybrid system of redistributive economics, was to achieve a better distribution of income.

The Union Response to the Economic Reports

Union leaders saw the same goal in the Employment Act. In February 1947 the *American Federationist* published a review of the first Economic Report of the President. Written by George T. Brown, a union economist, the review focused on how the Report demonstrated the validity of the AFL's previous arguments that strikes were merely a way to maintain real wages. The Report made it clear that wages were lagging behind price increases and that purchasing power was being eroded as a result.[53] Brown felt strongly that the evidence the AFL had set forth to secure "an equitable treatment of wage-earners" had been substantiated "by a disinterested body of men, the President and his advisers."[54] Brown provided further analysis of the Economic Report of the President in 1949 and 1950.[55] The *American Federationist* also reported on a speech by Keyserling, where he indicated that it was necessary to keep purchasing power high to maintain the economy at a level of full employment. To do so, he wanted unions to keep pushing for "higher pay and a better standard of living."[56]

The articles in the *New Republic* and the *American Federationist* are a sign of the contemporary recognition of the hybrid system of redistributive economics. Sherrard objected to it, while Keyserling and Brown approved of it. Of more importance, in 1949 Congress considered a change in a key element of the political economy of a living wage, the minimum wage, and voted to increase it.

Congress Raises the Minimum Wage

When it was enacted in 1938, the FLSA set a minimum wage range of between 30 and 40 cents after the first year, with industry committees recommending to the Department of Labor where in the range the

minimum would be. It also exempted several occupations such as agriculture and household labor. The range was eliminated by 1943 at which time a national minimum wage of 40 cents an hour was in place.[57] In August 1949, Congress amended the FLSA to raise the minimum wage to 75 cents an hour. The number of individuals whose occupation came under the law was reduced, however. The administration and its supporters had wanted an increase in the minimum wage and an extension of its coverage to more workers, but only got half of what they wanted. As was the case with the enactment of the original FLSA, it was not easy to get an increase.[58] For much of the postwar era, Truman requested an increase in the minimum wage. The Senate would pass a bill, but the House did nothing. Finally both houses agreed to a bill in the summer of 1949.[59] Truman signed it into law on October 26, 1949.

In both chambers the political economy of a living wage was used to support the amendment to the FLSA. In the Senate, the bill's floor manager, Claude Pepper (1900–1989), a Democrat from Florida, indicated that the purpose of the FLSA was "to promote economic justice and security for the lowest paid of our wage earners, to create conditions of employment stability, and to eliminate unfair competitive labor practices in industry."[60] Moreover, Pepper thought wages were still too low for many workers without collective bargaining. As a result, he said, "If collective bargaining were applicable to all the workers of the country, it might not be necessary to have any legislation of this character at all."[61]

A similar statement in support of the bill that used collective bargaining was made by Robert Taft (1889–1953), Republican from Ohio. Taft was a leader in the Republican Party with a reputation for being very conservative. He made a standard argument against the increase that it would cause unemployment because it asked business to pay more than the value of what workers produced. He added, however, "Where there is no organization of labor, I believe very strongly that wages come to exist which are below the actual economic value of the work."[62] Unequal bargaining power between business and labor as a cause of low wages had long been a tenet of the political economy of a living wage, and Taft used it to vote in favor of increasing the minimum wage.[63]

The next senator to use the political economy of a living wage in support of the bill was Murray, who indicated that the minimum wage

originally set by the FLSA had been inadequate in 1938 and was even more inadequate in 1949, due to inflation. As a result, Murray added, the proposed increase was still "nowhere near high enough to provide the minimum standards of living necessary for health, efficiency, and general well-being of workers." Although Murray did not use the term, he meant that even an increase in the minimum wage to 75 cents would not give workers a living wage. A business that paid low wages was "being subsidized at the expense of the lowest paid, neediest workers, those least able to bear it. An employer who can stay in business only by paying subminimum wages is a hazard to our whole economy."[64] Murray's statements were consistent with the social cost argument for a living wage made by Clark.

A more direct use of a living wage came from Hubert Humphrey (1911–1978), Democrat from Minnesota, who argued that the purpose of the FLSA was "to safeguard to the lowest paid workingmen at least a minimum income for health and decency, to protect fair-minded employers who wished to pay their workers living wages against unfair competition from less scrupulous employers, to raise living standards and improve the general prosperity and welfare in the country."[65] Humphrey was one of the rare persons who used the phrase "living wages." Another example of the direct use of the words a living wage came from Warren Magnuson (1905–1989), Democrat from Washington. He used the words thusly, "When most of the employers in the industry are paying their workers a living wage, those who are paying their workers subminimum wages are thus obtaining an unfair advantage over their competitors."[66] Here is an example of the prisoners' dilemma that Clark and Roosevelt had raised.

In the House of Representatives, the chief manager of bill to increase the minimum wage, John Lesinski (1885–1950), Democrat from Michigan, told the House members, "It must be understood that in enacting a minimum wage we are not enacting an American standard wage." The minimum wage, whatever level was decided, was not "a living wage."[67] Other members of the House supported Lesinski. Thomas J. Lane (1898–1994), Democrat from Massachusetts, noted that union wages were increasing. In non-union areas, however, low wages were used "to lure industry to sweatshop areas, dislocating our economy and opening the way for disastrous wage-cuts which would shrivel purchasing

power and lead inevitably to depression." That process would continue unless Congress increased the minimum wage to a level that would "give some sort of substance to that necessity known as a living wage."[68] Other Congressmen referred to a living wage as part of their debating points, including Carl D. Perkins (1912–1984), Democratic from Kentucky, who wanted "to require industries in Interstate commerce to pay a living wage to their workers"; Andrew Biemiller (1906–1982), Democrat from Wisconsin; and Jacob Javits (1904–1981), Republican from New York.[69]

Thurman Crook (1891–1981), Republican from Indiana, gave a succinct summation of the political economy of a living wage. He observed:

> Every person who toils, regardless of his arena of activities, is entitled to a reasonable living wage so that he may provide food, clothing, shelter, fuel, a few luxuries of life, education, and medical attention for his family. In addition, he is entitled to a fair remuneration for the wear and tear on his physical body while employed. Furthermore, he is entitled the privilege of reasonable security for the twilight years of his life. When any of these factors fail of consummation, the laborer has met with exploitation.[70]

In addition, labor needed high enough wages to ensure that aggregate consumption was high.

These uses of the term a living wage were uncommon at the time. Certainly top level politicians in the Democrat Party such as Roosevelt, Truman and Wallace had stopped using it. Moreover, it is difficult to gauge how crucial the political economy of a living wage was in securing the increase in the minimum wage. What can be said is that it represented a perspective to use as a counter to the free-market view that a minimum wage would cause unemployment by forcing employers to pay wages that exceeded the productivity of their employees. The proponents of the political economy of a living wage believed that unequal bargaining power needed to be reduced. If unions could not organize all workers in the USA, it was up to the federal government to help out low-wage, unorganized workers.

The 1949 debates over increasing the minimum wage remain relevant today. During the last several decades, the main issue in an increase in the minimum wage has been fairness versus the prospect of low-wage workers

losing their job. Neither side in the current debate seems interested in bringing up the issue of unequal bargaining power that consumed Progressive economists and politicians from the turn of the century through the 1940s, to the point that there was bipartisan support for this argument as evinced by Taft using it.

Truman, the Employment Act and Economic Justice

Truman's last Message and Economic Report are of special interest, because in both of them he broached at the topic seemingly out of place in an Economic Report of the President, economic justice. First, he presented a review of the economy for the previous 25 years. Thanks to the policies of the New Deal and the Fair Deal, he insisted, by the end of that period, "We achieved in great measure the kind of economic society of which the [Employment] Act is a symbol-a prosperous and growing economy of free men, with increasing opportunity for all." Since the late 1920s, real GNP had doubled and 61 million private sector jobs existed. The result, Truman observed, was "a very high standard of living, with income more evenly distributed. This improved distribution is not only a mark of social progress and increasing human contentment; it is also a vital underpinning of sustained and advancing general prosperity for all sectors of the economy." Here we have an outcome Keynes would have admired—a growing economy with an "improved distribution of income." It was an outcome Roosevelt and Ryan would have admired as well.

Truman then introduced the topic "Economic justice and the higher values." He reported that many of the markers of economic justice—education, healthcare, reduced employment discrimination and economic security—had shown improvement over the last quarter century. Of particular interest from the perspective of this book, Truman especially admired the gains in the political economy of a living wage as being brought about because "progress in social security has been significant," "workers have been guaranteed the right to organize and bargain collectively," and

the FLSA has "established the principle of minimum wages." Not only were workers getting closer to a goal of a living wage, their economic gains were adding to the stability of the economy. There was less risk for the economy to enter a depression because of a "broader and fairer distribution of income among individuals and economic groups" as well as changes in the tax structure and higher levels of government spending. In terms of the theme of this book, Truman's tribute to the enhancement of economic justice indicated to him that the hybrid system of redistributive economics was working well.

There was still more to be done, however, and Truman noted that whatever was done would be through the framework of the Employment Act. Under the Act, the federal government was committed to a policy of economic growth. Truman described the social dimensions of economic growth as facilitating "the spread of economic justice." In short, the Employment Act had fostered a growing economy that would allow all members of society in the USA to live the life of dignity that was prized by the political economy of a living wage. Nevertheless, Truman found that there were "new frontiers of economic justice" that had to be crossed, because of unemployment among families who suffered from deficiencies in skills, poor social backgrounds and harmful discrimination. With the proper policies, it would be possible to raise the incomes of those families to a higher standard within a decade. Although Truman did not use the term a living wage to define what income these families would need, he did return to the political economy of a living wage as part of his solution to the problems they faced. He wrote that the pensions and unemployment insurance of the SSA and the minimum wage of the FLSA had to grow.[71] The level of income to be given through the SSA and the FLSA was important to its recipients, but it was also important for the economy in terms of increasing the consumption spending of workers and the elderly. Truman has returned to the point where this chapter began, by restating Roosevelt's message to the Teamsters of accomplishment and more to be done. We are back to the political economy of a living wage where higher income to those receiving less than a living wage would be good for the economy.

Conclusion

Because the idea that the Employment Act enshrined Keynesian economics as the principal policy in the USA has become conventional, Truman's inclusion of economic justice as part of his final Economic Report and as a purpose of the Act seems out of place. It did not seem so at the time he wrote, however. In a 1947 article discussing the Employment Act as it functioned in its initial year, the noted economist Jacob Viner (1892–1970) observed that the Act did not exclude any economic doctrine just because it was not included in the Act.[72]

Although Viner did not specify a particular economic doctrine, it is clear from the speeches and writings of Roosevelt and Truman that they had two economic doctrines in mind, the political economy of a living wage and Keynesian economics. Both presidents supported the Second Bill of Rights as a program that was not only equitable but was also sound economics. The guarantee of a good paying job would sustain consumption, and by improving the well-being of workers would enhance their productivity. Keynesian fiscal policy could help the government to keep that guarantee by giving it a tool to avoid severe recessions. Consequently, Truman kept the Second Bill of Rights alive in his messages on the Economic Report of the President, along with a Keynesian Nation's Economic Budget. The result, as Rosen summarizes, was that the downfall of "the full-employment bill did not stem the growth of federal expenditure, the expansion of national programs, and the regulatory state."[73]

With the hybrid system of redistributive economics in mind, there were three economic doctrines that came to play in the Employment Act of 1946. First, from the administration, members of Congress, union leaders and Progressives came an agenda based on the political economy of a living wage—increased social insurance, a higher minimum wage and achievement of full employment for all workers at remunerative pay; they also used Keynesian methods to gauge how much deficit spending was needed to attain full employment. They were among "those who viewed the Full Employment Act as a fundamental plank in the Rooseveltian "economic bill of rights"."[74] Second, from economists such as Hansen and Samuelson came the Keynesian approach to managing the economy with compensatory finance to attain high levels of employment;

they had confidence that by using the Nation's Economic Budget they could tap the app of government spending to the proper setting and manage the economy without any help from the political economy of a living wage. Indeed, the political economy of a living wage could be counterproductive if it raised businesses' costs and crowded out investment. Third, from the Congress and especially the House, as well as from market-oriented economists, there was a conservative perspective that private enterprise was the best approach to creating jobs. Partisan politics thus made the Employment Act a disputed territory in the battle over the hybrid system of redistributive economics. The conservative approach won in the language of the Act; under Truman and his Economic Reports, the Progressive approach persisted.

During his presidency, Truman repeatedly sent word to Congress through his State of the Union Messages, Special Messages and Economic Reports of the President that he wanted a Fair Deal in the USA that included enhanced collective bargaining, improved social insurance, increased minimum wages, education programs, public housing and civil rights for minorities. In doing so his Fair Deal extended the programs that centered on what I call the political economy of a living wage as encapsulated in Roosevelt's Second Bill of Rights by adding in civil rights as a part of the political economy of a living wage. As a result, the political economy of a living wage now went beyond the point where Ryan had started, with only collective bargaining, social insurance and a minimum wage.

Notes

1. Brinkley, 1996, pp. 4956–5174.
2. Samuelson, 1944, p. 334.
3. Rosen, 2005, p. 4049.
4. Gordon, 1961, p. 464.
5. Quotations in the previous paragraphs are from Truman, 1945.
6. Truman, 1946a.
7. *New Republic*, 1946b, p. 155.
8. *New Republic*, 1946b, pp. 155–156.
9. Bailey, 1950, pp. 99–128, 150–178 and 220–235; Wasem, 2013, pp. 69–143.

10. Bailey, 1950, p. 57.
11. Santoni, 1986, pp. 8–9.
12. Bailey, 1950, p. 25, attributes the development of this "National Expenditure Budget" to fiscal experts in the federal government and to a non-governmental organization, the National Planning Association.
13. Wasem, 2013, p. 73; Santoni, 1986, p. 9.
14. Bailey, 1950, p. 15.
15. Bailey, 1950, p. 27.
16. Congressional Record—House, 1945, pp. 11990–11991.
17. Congressional Record—House, 1945, p. 11991.
18. Bailey, 1950, p. 93.
19. Congressional Record—House, 1945, p. 11991.
20. Bailey, 1950, p. 113.
21. Bailey, 1950, p. 151.
22. Congressional Record—House, 1945, pp. 11986–11998 and 12086.
23. Congressional Record—House, 1945, p. 12086.
24. Bailey, 1950, p. 160n.
25. *CIO News*, 1944, p. 4.
26. Bailey, 1950, p. 161.
27. Murray, 1946, p. 76.
28. Murray, 1945, p. 13.
29. Wasem, 2013, pp. 69–120.
30. Congressional Record—House, 1946, p. 977.
31. Congressional Record—House, 1946, p. 982.
32. Quotations in the previous paragraphs are from Truman, 1946b.
33. *New Republic*, 1946a, p. 240.
34. Nourse, n.d.
35. Hamby, 1973, p. 81.
36. Material in this section is from Truman, 1947.
37. Hansen, 1947, p. 70.
38. Hansen, 1947, p. 73.
39. Rosen, 2005, pp. 4285–4287.
40. Lindert and Williamson, 2016, p. 262.
41. Quotations in the previous paragraphs are from Truman, 1948.
42. Joint Economic Committee, 1948, pp. 1 and 3.
43. Joint Economic Committee, 1948, pp. 43–44.
44. Material in this section is from Truman, 1949a.
45. Lindert and Williamson, 2016, p. 224.
46. Quotations in the previous paragraphs are from Truman, 1949b.

47. Truman, 1950.
48. Joint Economic Committee, 1949, p. 28.
49. Joint Economic Committee, 1950, pp. 4 and 16.
50. Joint Economic Committee, 1950, pp. 23–24.
51. Sherrard, 1949, pp. 14 and 16.
52. Keyserling, 1949, pp. 14–15.
53. Brown, 1947, pp. 12–13.
54. Brown, 1947, p. 33.
55. Brown, 1949, pp. 9–10.
56. *American Federationist*, 1949, p. 23.
57. Green, 1945, pp. 4–5.
58. Stabile, 2016, pp. 213–221.
59. Nordlund, 1997, pp. 71–76, provides a good overview of the process of amending the FLSA.
60. Congressional Report—Senate, 1949, p. 124333.
61. Congressional Report—Senate, 1949, p. 12440.
62. Congressional Report—Senate, 1949, p. 12466.
63. Congressional Report—Senate, 1949, p. 12467.
64. Congressional Report—Senate, 1949, pp. 12476–12478.
65. Congressional Report—Senate, 1949, p. 12487.
66. Congressional Report—Senate, 1949, p. 12850.
67. Congressional Record—House, 1949, p. 11000.
68. Congressional Record—House, 1949, p. 11016.
69. Congressional Record—House, 1949, pp. 11108, 11122–11123, 11204 and 11207.
70. Congressional Record—House, 1949, p. 11207.
71. Material in this section is from Truman, 1953.
72. Viner, 1947, p. 77.
73. Rosen, 2005, p. 4517.
74. Corson, 1946, p. 151.

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6

Kennedy's New Frontier: Tax Cuts and Wage Policy

John F. Kennedy (1917–1963) was, as he put it in his inaugural address of January 20, 1961, the representative of "a new generation of Americans—born in this century."[1] What that meant in terms of economics is not clear. The focus of his studies at Harvard University, where he graduated in 1940, was on history and international relations. If he had studied economics, he might have encountered Keynesian economics, which was spreading among young professors at Harvard. By the time he began running for president in 1960, however, he had established advisory relationships with leading Keynesians, Samuelson and Galbraith.[2] Kennedy's support for tax cuts as a way to stimulate the economy has given him a reputation as the first president to adhere to Keynesian economics. In line with this interest in Keynesian economics, one of his favorite expressions was "a rising tide lifts all boats," and it could be taken to mean that a growing economy helped everyone when he used it in his 1960 campaign for the presidency. He added, in words that Keynes would have approved, public investments were "necessary to develop the economy of the United States in the 1960's."[3]

Through review of several other speeches Kennedy made, it is clear that he also adhered to the political economy of a living wage. In his speech

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accepting the nomination for president from the Democrat Party on July 15, 1960, he stated with enthusiasm that he was happy to run on a platform that included the "economic rights essential to the human dignity of all men."[4] Those economic rights, the platform indicated, would "reaffirm the Economic Bill of Rights which Franklin Roosevelt wrote into our national conscience sixteen years ago."[5] The same outlook came through in a speech he made in the Senate on August 10, 1960, in support of an increase of the minimum wage and extension of the coverage of the FLSA.[6] The goal of the changes was "a fairer opportunity to share our high standard of living." He added, "The increases in purchasing power resulting from a higher minimum wage will help to restore consumer demand required to put our idle industrial capacity back to work."[7] From this perspective, Kennedy can be interpreted as supporting the political economy of a living wage. As a result, he was similar to Roosevelt and Truman in following the hybrid system of redistributive economics.

This chapter will investigate Kennedy's approach to economics through a review of speeches he made and his Economic Reports. In his first Economic Report, I will argue, he used the hybrid system of redistributive economics to formulate policies to end the recession that he inherited as president. When those policies did not cause the economy to grow fast enough, Kennedy evolved his policies to a tax cut that was a combination of Keynesian economics and conservative supply-side thinking. Before telling that story, however, I need to put them in the context of what had happened to the economy under the previous administration.

The 1950s, Eisenhower and a Conservative Approach to Keynesian Economics

The economy in the 1950s was a period of steady economic growth with three mild business cycles. There were also several periods of inflation to contend with. Both patterns were apparent from the onset of the decade when the economy began growing with low inflation. The Korean War, however, quickly changed the picture. Government spending for the war increased, starting in 1950, with the bulk of it coming in 1951. This

increased government spending stimulated the economy to the extent that inflation went from a 1.3 percent annual rate in 1950 to 7 percent in 1951, despite the institution of wage and price controls in February.[8] A mild recession began in July 1953. Inflation abated and the wage and price controls were terminated. The recession lasted until May 1954, when a recovery began.

The recovery that began in May 1954 was very robust. This led to an uptick in inflation to the range of a 3 percent annual increase in prices. The expansion leveled off in 1956–1957, with the result that unemployment did not fall below 4 percent. The Federal Reserve tightened credit from a fear of inflation, which slowed down the rate of recovery. By August 1957, the leveling off of the recovery led to another recession. It only lasted until April 1958, making it one of the shortest recessions on record. It was bit harsher compared to the previous recession. The recovery extended until April 1960, when another recession of about ten months took place.

When Dwight D. Eisenhower (1890–1969) became president in 1953, he held a social philosophy of taking a middle path in terms of how much the government should intervene in the economy. In doing so, he achieved, as Raymond J. Saulnier (1908–2009), chair of the CEA from 1956 to 1961, put it, "a combination of fiscal soundness and social liberalism."[9] As a result, Eisenhower continued the hybrid system of redistributive economics that Roosevelt and Truman had started. In terms of macroeconomic policy, as Richard Damm argues, Eisenhower was a conservative adherent of Keynesian economics who espoused a form of compensatory finance that called for balancing the federal government budget over the course of the business cycle.[10] On April 5, 1954, for example, he suggested that the federal government was prepared to take action when a recession occurred with policies such as public works projects and tax cuts to stimulate consumption spending.[11] He also took a tolerant view of the programs of the political economy of a living wage, such as the NLRA, the SSA and the FLSA, because they had been accepted by the country.[12]

Eisenhower's choice to be chair of the CEA, Arthur F. Burns (1904–1987), had similar ideas about the economy and especially about Keynesian economics. He praised Keynes for making unemployment the main concern for the era.[13] But he criticized the way Keynes analyzed unemployment by taking an aggregate approach to understanding the

economy.[14] The result was a different philosophy as can be seen in Burns' statement of the problem government faced, "The road of reasonably full employment without price inflation is narrow. There is always the danger that our economy, by moving a little too far to one side of the road, will enter the zone of inflation, or by moving too far to the other side, will slip into the zone of contraction."[15] The policy of balancing the budget over the business cycle was a way to work within such narrow limits. With regard to the political economy of a living wage, Burns also followed Eisenhower by accepting its outlook. He wrote, "The worker is likely to be fully productive only if he feels reasonably safe against want from unemployment, old-age, or misfortune."[16] Roosevelt or Truman could have made this statement.

One area where the Eisenhower administration departed from the policies of the previous 20 years was with taxes. The 1954 CEA Report broached the topic by arguing that the federal tax system "contains many features that are unnecessarily restricting economic progress." These restrictions had not been obvious while inflation reigned, but with its end, the tax system needed reform. The Report added that tax reform should offer "greater equity to consumers." As a result, individual income taxes had been cut by about 10 percent, which "provided a timely stimulus to the economy." This stimulus was in line with Keynesian demand-side effects.

Tax cuts also had important supply-side effects of "providing more powerful incentives" for investment. The taxation of business left "too little incentive for the assumption of risk" by allowing "too meager a reward to enterprisers who assume high risks." To encourage business expansion in productive capacity, the Report called for the extension of the period when businesses could use losses to offset profits, a reduction on the taxation of dividends, elimination of the double taxation of dividends and the liberalization of depreciation rules. The Report asserted, "These measures, which involve some immediate sacrifices of revenue, contain the seeds of important future revenue gains to be reaped from the economic growth they will stimulate."[17] This assertion, which combined Keynes with conservative thinking, would be repeated with the Kennedy tax cut program that was enacted a decade later.

In terms of social insurance, Eisenhower and Burns proposed much the same as offered by the past two presidents: increase the benefits of unemployment insurance and pensions under the SSA and extend their coverage to more persons. With regard to the minimum wage, their support was more measured from a concern with the timing of changes in the minimum wage. To them, changes in the minimum wage should only be made "when economic activity can take them in stride, thereby minimizing the risk of unemployment of the less productive workers whose welfare the minimum wage seeks to aid."[18] There is no mention in the Economic Report of the President that an increase in the minimum wage would help the economy by increasing the purchasing power of workers. These attitudes toward the minimum wage, however, were consistent with Keynes' views that increases in wages were not the right way to increase consumption.

Despite Eisenhower's willingness to sustain the political economy of a living wage and Keynesian economics, his conservative approach to them earned him criticisms from Progressives and Keynesians. Wilfred Lumer (1916–2011), a staff economist for the Public Affairs Institute, criticized Eisenhower because his Economic Report "substantially waters down the government's responsibility under the Employment Act."[19] Hansen seconded this sentiment by noting the absence in the Report of an analysis of "the levels of employment, production, and purchasing power needed to carry out the policy of the Act."[20]

Unions were also critical of Eisenhower's policies. George Meany (1894–1980), who had become president of the AFL in 1952, stuck to the view that "to have prosperity, the purchasing power of American wage earners must be high."[21] As a result, AFL leaders believed "The Council of Economic Advisers has not discharged its full responsibility required by this act" and referred to the administration's tax cuts to business as a "trickle down" approach.[22] The CIO agreed and asked its readers to recall that the Employment Act had been "watered down from the original wording" in support of Roosevelt's Second Bill of Rights.[23] To remind Eisenhower of the political economy of a living wage, the *CIO News* featured a series of articles on the need to increase wages as the best way to produce more consumption spending. That approach was better than the trickle-down theory of tax cuts.[24] One way to increase wages was tax cuts

for "low income families who spend all their incomes."[25] To leave no doubt where its heart was, the *CIO News* made a "Call for an Economic Bill of Rights" and listed the ones Roosevelt had proposed.[26]

When the AFL and the CIO officially merged into the AFL-CIO on December 5, 1955, it continued to espouse the hybrid system of redistributive economics. Meany made this clear in his Labor Day Message for 1956, writing, "We want, first of all, a fair share of the rewards for what we help to produce. That means more than a mere living wage. It means sufficient income to live in decency and comfort."[27] The AFL-CIO also kept up with Keynesian economics by approving of public works projects such as the interstate highway system.[28]

The AFL-CIO also took on the issue that had concerned US Keynesians and influenced the Eisenhower administration: Did unions cause inflation? Unions were being blamed for inflation, and Meany argued that the fight against inflation being waged by the administration was really aimed at the way unions were using their bargaining power.[29] As noted in Chap. 3, Keynes' followers had argued that once the economy reached full employment, there would be pressure for increases in wages, which could lead to inflation. The cautious Keynesian economics of the Eisenhower was taking this stance seriously by substituting tight monetary and fiscal policy for the wage policy that Hansen and Phelps had pointed out as being necessary during a long period of full employment.

Eisenhower did not do as poorly as his critics insisted at the time. Regarding the elements of the political economy of a living wage, the FLSA was amended to increase the minimum wage from 75 cents to $1 an hour and Eisenhower strongly supported extending the coverage of the FLSA; coverage for pensions under the SSA was extended to over ten million persons, benefits were increased and disability coverage was added. Changes in unemployment insurance proved more difficult, because the program worked jointly between the federal government and state governments. With regard to the third element of the political economy of a living wage, collective bargaining, Eisenhower, with overwhelming approval by Congress, signed the Landrum-Griffin Act in 1959.

As for Keynesian economics, Eisenhower's cautious approach did not bring about the robust economy that Keynesians thought their approach would accomplish. As a fiscal conservative, Eisenhower was not going to

be bold with a steady stream of government spending but he signaled that he would use every method possible to make sure another Great Depression did not take place. Until conditions reached that point, however, Eisenhower felt it was just as important to fight inflation as it was to worry about a depression.

Hansen Looks Backward and Forward

Before examining Kennedy's policies, I will offer an interlude in policy to consider changes in the perspective of Keynesian economics as set forth by Hansen. In 1960, Hansen published a book, *Economic Issues of the 1960s*, to review the previous decade and to consider what policy changes were needed during the next decade. One ingredient to the policy changes he offered represented a significant shift in his outlook, because he became more supportive of the political economy of a living wage.

As noted in Chap. 5, in 1947 Hansen had reviewed the recommendations based on the political economy of a living wage contained in Truman's first Economic Report and found that they did not constitute a policy that would be able to combat a recession.[30] By 1960, however, he contended that to deliver economic growth, the federal government needed to return to "public investment in … human resources, social security, unemployment insurance … [and] minimum wage legislation."[31] These wage programs had mitigated the business cycle through the process of the automatic stabilizers, a view that Hansen had espoused as early as 1951.[32] As described in Chaps. 1, 2, and 3, advocates for the political economy of a living wage, such as Wagner, Clark, Slichter and Douglas, had highlighted unemployment insurance as an automatic stabilizer that would assure that aggregate consumption did not decline precipitously at the beginning of a downturn. Hansen now recognized that the business cycle had been moderated by "the New Deal reforms and the Keynesian revolution," that is, the hybrid system of redistributive economics.[33]

Hansen also took on two other issues that would become important in the 1960s, inflation and taxation policy. With regard to inflation, he maintained that its impact on the economy was overestimated. The USA

had never seen a period of stable prices and it was doubtful that it ever would. The issue was to keep inflation at a reasonable rate. To Hansen, there were two ways to sustain a reasonable rate of inflation, taxation and government intrusion into collective bargaining.

Hansen considered taxation policy to be "the main bulwark against inflation." Increased taxes could reduce consumption demand during a boom and thus reduce inflationary pressures. As a social liberal, he also maintained that higher taxes were needed to pay for spending on "public needs," such as education. Both of these concerns indicated a policy of increased taxes. At the same time, tax cuts might be used as a way to curtail a recession. To Hansen, macroeconomic policy should "place far less reliance upon a flexible interest-rate policy and more reliance on a flexible tax policy."[34] The government should use fiscal policy to manage the economy, instead of letting the Federal Reserve do it with changes in interest rates, as had taken place in the 1950s.

With regard to collective bargaining and its role in inflation, he believed, "The public should be represented at every important collective bargaining table." In Chap. 3, I pointed out that in 1947 Hansen had relied on responsible behavior in collective bargaining to fight inflation. Since then, he had determined that business and unions had showed an "arrogant disdain of the public interest," that is, they had not evinced responsible behavior. In the language of Acemoglu and Robinson, they were extractive instead of inclusive. Because both sides of collective bargaining had accepted "the protective canopy of full-employment policies," he went on, they should be obligated to allow the federal government to have a say in their wage and price decisions.[35] As also described in Chap. 3, Phelps had argued "a national wage policy with strict controls over the general level of money wages" would be needed under Keynesian policies that produced full employment and Hansen now came closer to agreeing with him than he had previously.[36]

Hansen also took on the issue of changes in tax policy as a way to stimulate the economy by increasing the incentives for investment and work. He had "no doubt that the income tax could be pushed up to levels at which incentives would be seriously weakened" but income taxes in the USA had "not reached that point." Still, tax policy should be "mindful of the incentive effect."[37] More important, it was necessary for tax

policy to be flexible enough to stimulate the economy during a recession and to offset inflationary pressure during a recovery. For this reason, Hansen recommended programmed tax rate adjustments in the upper brackets to turn tax policy into an automatic stabilizer.[38] Tax rates would increase routinely during a boom, and decline during a recession as part of the overall strategy of compensatory finance. As I will describe in this chapter and the next one, Hansen's recommendations were taken seriously when Democrats retook the presidency with the election of Kennedy in 1961.

Kennedy and Economics

The clearest statement Kennedy made about his economic approach when he was a presidential candidate was a speech in Philadelphia on October 31, 1960.[39] He began the speech by stating that what he wanted was a USA "where every man, or woman, who wants to work can find work—a full week's work for a full week's pay." In that USA, "a growing economy provides new jobs and new markets for a growing nation, without inflating the consumer's prices beyond the reach of their budgets and their families."[40] The first quotation resembles the first right of Roosevelt's Second Bill of Rights, "The right to a useful and remunerative job," while the second quotation is straight from Keynesian economics.

In another case during his election campaign, Kennedy used both approaches to economics. In November 1960, the *American Federationist* published a dialogue between Meany and Kennedy on a range of issues. Pertinent to the theme of this book, Kennedy said everything about the political economy of a living wage that AFL-CIO leaders had been saying for two decades. For example, Kennedy maintained the view that Democrats had followed since the New Deal by telling Meany that he planned to achieve economic growth "by increasing the purchasing power of the people through things like an increase in the minimum wage."[41] He expressed strong support for improving the pension benefits and unemployment insurance of the SSA too.[42]

Kennedy discussed the role of Keynesian economics with Meany. He favored government spending programs for stimulating the economy.

Those policies would be designed to meet social needs such as housing, schools and highways. They would produce jobs and generate income for individuals who were currently unemployed. Kennedy added, "When we increase the well-being of American citizens, we increase their ability to pay taxes."[43] He was referring to the idea of Keynesian economics that fiscal policies could pay for themselves, at least in part, by adding to tax revenues.

In line with this Keynesian element of Kennedy's thinking, his pick as chair of the CEA was Walter Heller (1915–1987). Heller earned a PhD in economics from the University of Wisconsin and was an early Keynesian. His expertise in economics was with taxation policies and he had once published an article on how the West German government in the 1950s had used taxation policies to help its economy grow.[44] Tax cuts would play a big role in the macroeconomic policies of the Kennedy administration.

As a final statement of Kennedy's economic approach, I will turn to one of the earliest messages of his presidency. On February 2, 1961, he sent a special message to Congress outlining his "Program for Economic Recovery and Growth." In it, he stated his approach to Keynesian economics:

> The Federal Budget can and should be made an instrument of prosperity and stability, not a deterrent to recovery. This Administration is pledged to a Federal revenue system that balances the budget over the years of the economic cycle—yielding surpluses for debt retirement in times of high employment that more than offset the deficits which accompany—and indeed help overcome—low levels of economic activity in poor years.

This approach is the familiar variant of Keynesian economics called compensatory finance and had as much in common with Eisenhower as with Truman.

Like Truman, however, Kennedy was also concerned "to fulfill our responsibility to alleviate distress." He would fulfill this responsibility with policies that would "sustain consumer spending and increase aggregate demand now when the economy is slack." On the fiscal policy side, Kennedy proposed an expansion of the government's housing programs,

a standard public works project that had the backing of Keynes and Roosevelt's Second Bill of Rights. He also proposed improved unemployment insurance benefits to spur consumption along with improvements of the pension benefits of the SSA and an increase in the minimum wage. To this point, Kennedy had proposed nothing new. Rather, he continued the hybrid system of redistributive economics, much as Roosevelt and Truman had. He did add two new items to their agendas, however.

First, he raised the issue of tax cuts. Economic growth required investment in capital goods and new technology to improve productivity. To spur that investment, Kennedy indicated he would propose "a modification of the income tax laws to provide additional incentives for investment in plant and equipment." Kennedy wanted a reduction in taxation that targeted business and made an investment tax credit, the program he eventually set forth to spur business investment, a priority.

Second, Kennedy raised the issue of inflation. His first step was to "issue an executive order establishing the President's Advisory Committee on Labor Management Policy" to advise him on policies to "promote free and responsible collective bargaining, industrial peace, sound wage policies, [and] sound price policies." Sound "labor-management relations" were key for price stability because the "price level depends in substantial measure on wage and price decisions of labor and management. This dependence grows in importance as the economy moves toward full employment." Here we have Kennedy's recognition of the problem Hansen and Phelps had pointed out. There needed to be a wage policy at full employment. At this stage he looked for responsibility from unions and business to hold wage and prices increases in check.[45]

From the perspective of the material reviewed in this section, Kennedy represented a combination of all three elements that entered into debates over the Employment Act, the political economy of a living wage to raise wages as a way to spur production and consumption, Keynesian economics and the use of fiscal policy to attain economic recovery, and the conservative perspective that helping business was the key to a growing economy. He was also concerned over the impact these three elements would have on inflation, especially the interaction of full employment and the push for higher wages.

Kennedy's First Economic Report

Kennedy's first Economic Report in 1962 contained a message from the president followed by a report from the CEA. It is also noteworthy because Heller, the chair of the CEA, was a Keynesian. Its two other members were James Tobin (1918–2002), another Keynesian, and Kermit Gordon (1921–2010). Heller and Tobin were the first adherents of Keynesian economics to serve on the CEA.

Kennedy's message heralded the economy's recovery during his first year in office. He characterized that success as meeting the obligation of the Employment Act by affording employment opportunities "for those able, willing, and seeking to work."[46] The nation was more prosperous since that Act had passed. Still, there had been four recessions since the Act had been put in place and the government needed to do a better job of avoiding recessions. He proposed three policies to maintain prosperity, "(1) provide stand-by power, subject to congressional veto, for temporary income tax reductions, (2) set up a stand-by program of public capital improvements, and (3) strengthen the unemployment insurance system."[47] These policies would give the government the ability to act quickly when a downturn took place. They also reflected the bundling of Keynesian economics (1 and 2) with the political economy of a living wage (2 and 3). Kennedy would elaborate on the details of these policies later in his message.

Kennedy then reviewed his first year. When he took office, the economy was in a mild recession. It had since recovered and was gaining momentum. Kennedy took credit for the recovery through his "Program To Restore Momentum to the American Economy." He had proposed the program to Congress on February 2, 1961, and Congress had acted with legislation to "extend unemployment insurance benefits on a temporary basis," "liberalize social security benefits," "promote homebuilding under the Housing Act of 1961," "raise the minimum wage and extend it to more workers" and "revitalize the economies of areas with large and persistent unemployment."[48] Here, too, we have the hybrid system of redistributive economics.

Kennedy made this hybrid system clear. He first indicated that fiscal policy had served "as a powerful instrument for promoting economic recovery" through increased spending. Traditionally, the spending increases would have been based on higher taxes, but taxes had not been increased "because they would have cut into private purchasing power and retarded recovery." The government was deliberately running a budget deficit to boost the economy. In addition, policies such as the increase in the minimum wage had "expanded purchasing power early in the year."[49] Moreover, Kennedy had not forgotten the risk of inflation. It was important that the recovery maintain the stable prices that had taken place during the previous four years. He insisted, "With cooperation from labor and management, I am confident that we can go on to write a record of full employment without inflation."[50] There was a risk of inflation, especially "where both companies and unions possess substantial market power." Kennedy, however, believed that "there is growing recognition that the road to higher real profits and higher real wages is the road of increased productivity." Wage and price increases would be in line with productivity gains, just as Keynes argued they should be.[51]

Kennedy also remembered the political economy of a living wage. The economy had grown dramatically, but "prosperity has not wiped out poverty." For that reason the minimum wage had been increased in 1961 and there were other policies to follow, such as health insurance for the elderly and improvement of unemployment insurance.[52] Improvement of unemployment insurance was one of Kennedy's three major policies and he argued that it would "help society discharge its obligation to individual unemployed workers" and maintain "their incomes and purchasing power."[53] The result would be to enhance the automatic stabilizer effect.

But he quickly returned to Keynesian economics by pointing out that economic growth would reduce any deficits the government was experiencing. As a result, his next budget would be balanced by the end of the fiscal year and would show a surplus for the following year. The surplus would not take place unless business took advantage of the expanding economy by investing. The federal government would nudge businesses to invest more with an investment tax credit and changes in depreciation rules.[54] He ended his message by promising additional tax reform that would add to the "incentives for individual effort and for productive

investment."[55] Here is an example of the Keynesian narrative in Kennedy's message in his Economic Report being mixed with a hint of supply-side economics.

The CEA's Annual Report was also part of the Economic Report. The CEA went over the same details of Kennedy's Message but with depth and analysis. It highlighted Keynesian economics, writing, "Since inadequate demand has in recent years been a major cause of unemployment and excess capacity, expansion of demand has been and remains a principal task of government policy." That policy should endeavor to keep aggregate demand at "levels sufficient to buy the goods and services the economy is capable of producing."[56] During the previous year, Keynesian policies had made the recovery stronger. Still, the recovery had not yet reached the state where the CEA felt the Employment Act mandated it be, that is, where individuals "able, willing, and seeking to work" could find "useful employment opportunities."[57]

Having established the problems of unemployment and the need to address them, the CEA acknowledged that "a serious attempt to push unemployment close to zero would produce a high rate of price inflation." Fortunately, it was possible to reach a balance between employment and inflation by eliminating "the unemployment which results from inadequate aggregate demand without creating a demand-induced inflation." That balance point would be a way of defining full employment, and the CEA estimated that it was currently at 4 percent unemployment.[58] To review where the economy was, the CEA provided a table of changes in output, income and unemployment during the recession that had just ended. The table was not quite the Nation's Economic Budget that Truman's Economic Reports had used, but the CEA did estimate consumption, investment and government spending during the period they were reviewing and offered a forecast of how these components of aggregate demand would increase in the coming year.[59]

Equally important, the CEA included a new concept, the full-employment budget, to gauge the impact of fiscal policy. Stein attributes the idea of a full-employment budget to the conservative Committee on Economic Development and argues that the CEA Keynesians used it as a cover for their strategy to have a deficit in a recovering economy.[60] The idea behind the full-employment budget was to look at the federal gov-

ernment's budget at the current rate of unemployment and then estimate where the budget would be at full employment. From this process it could be seen that "the same budget program may yield a high surplus at full employment and a low surplus or a deficit at low levels of economic activity." The next step was to use this information to determine how expansionary fiscal policy would be. The CEA expressed the relationship as follows: "one budget program is more expansionary than another if it has a smaller full employment surplus."[61] In this way, the CEA adopted refined tools of Keynesian economics as a way to indicate the necessary fiscal policy for a recovery.

To keep the momentum of the recovery going, the CEA offered a "program for economic recovery and growth." It included a number of items such as spending on housing and highways, an investment tax credit, helping stagnant areas with an area redevelopment act and assisting workers displaced by technology with training programs. It also included the familiar standbys of the political economy of a living wage: increased unemployment compensation and extension of its coverage, increased benefits and extended coverage of pensions under the SSA and an increased minimum wage and extension of its coverage. Congress had approved most of these policies during the year, and the CEA reported that 3.6 million workers who had previously not been covered by the FLSA would now receive the new minimum wage of $1.25 an hour.[62]

Because these policies were pushing the economy toward full employment, the CEA took on the issue of what would happen to wages and prices when full employment was reached. They pointed out that it would take productivity increases to make "rising wages … fully compatible with stability in the price level." If labor costs outpaced productivity, prices would increase. Increased aggregate demand would also pull prices up and, as businesses tried to hire more workers, they would bid up wages at a rate faster than productivity growth. "Thus," the CEA went on, "wage increases will tend to outstrip productivity increases both when the inflationary pressures arise from cost and when they arise from demand." They determined that during the postwar period, wage increases that added to inflation were the result of "excess demand."[63] Here was the problem Phelps and Hansen had brought up, what to do about a wage policy during periods of full employment?

It was also a problem built in to the hybrid system of redistributive economics. As noted in Chap. 1, a chief advocate for the hybrid system, Paul Douglas, wanted the economy to have the push on wages that came from labor reform combined with the pull on wages from aggregate demand management. A change in the minimum wage, for example, would push wages upward. Businesses would be better able to handle those higher wages if aggregate demand was also increasing due to expansionary fiscal policy. Once full employment was reached, however, the hybrid system could result in what the economists in the 1960s labeled cost-push and demand-pull inflation. Unions could use collective bargaining to push for higher wages with the help of expansion of aggregate demand; that aggregate demand would also pull up the wages of non-union workers.

The approach to the government having a say in wage and prices decisions that the Kennedy administration proposed was to have the CEA set a policy of "guideposts for noninflationary wage and price behavior." The philosophy of the guideposts was that "mandatory controls in peacetime over the outcomes of wage negotiations and over individual price decisions are neither desirable in the American tradition nor practical in a diffuse and decentralized continental economy." It was also important, however, "that discretionary decisions on wages and prices recognize the national interest in the results."[64] The strategic objective of the guideposts was for wages to keep pace with productivity gains. The essential word was guideposts, because productivity was difficult to measure, with variations in it in different industries, and there was no standard for how changes in productivity should be shared between management and labor. The use of productivity as a standard for wages could serve only as a guide and not as a rule. Still, the CEA hoped, "General acceptance of this guide would maintain stability of labor cost per unit of output for the economy as a whole," as long as there were modifications in the guideposts for individual industries. The CEA elaborated on those modifications in detail and the main ingredient was to find ways to increase productivity.[65]

The Annual Report of the CEA expressed a multifaceted approach to business cycles and economic growth. It continued the demand-side approach of increased government spending and temporary tax cuts as

aiding an economic recovery much as previous CEAs had done. It also kept the supply-side elements of the political economy of a living wage as the Truman CEA had. The Annual Report expressed a concern over inflation that was up to the mark set by Eisenhower's CEA, but it highlighted voluntary responsibility by unions and management as a way to avoid inflation, rather than have the Federal Reserve use tight monetary policy. This use of a "wage policy" put the Kennedy CEA clearly in the camp of Keynesian economics. Still, the CEA continued to use the hybrid system of redistributive economics by seeking to enhance the provisions of the SSA and the FLSA. It was a complex blend of policies that gained a respectful hearing in Congress, as shown by the JEC Report for 1962.

The JEC agreed with the Economic Report that the economy was recovering and would continue to do so. There were factors that were constraining the economy from reaching full employment. One of them was that federal government spending was tapering off. To make the case for this position, the JEC also employed the full-employment budget and agreed with the CEA that the full-employment budget was in a surplus, which meant that fiscal policy might be considered as less expansionary than it could have been. To add to the recovery, the federal government needed to take steps to increase private sector spending.[66]

The JEC considered several of Kennedy's proposals for increasing private sector spending. Regarding his proposals for enhanced unemployment insurance, it felt strongly that "unemployment compensation can provide a powerful countercyclical influence" by supporting "consumption demands in downturns."[67] This recognition of unemployment insurance as an automatic stabilizer was likely the result of Douglas, now a senator from Illinois (Democrat), serving as a member of the JEC. With respect to the investment tax credit Kennedy was proposing, the JEC was not as favorable. Investment tended to be high during a recovery and further stimulation of it would add to inflationary pressures and encourage overinvestment. However, the CEA had shown that investment had been sluggish during the 1950s, even during recoveries, and the JEC believed that the "procyclical feature of the proposed investment tax credit should have serious consideration."[68]

The JEC also looked at the wage and price guideposts that the CEA had presented in its report. It argued that in a market economy, there

were large parts of the economy where market forces were hampered by large companies and unions. The problem was especially acute, the JEC went on, where "price leadership combines with union strength to pass on inflationary wage increases as higher prices."[69] The CEA's plan of using guideposts to determine whether wage increases would be inflationary by relating them to growth in productivity was a step in the right direction. To be sure, productivity was difficult to measure and the JEC presented testimony of economists to the extent of that difficulty. Nevertheless, the JEC concluded, "If guidelines can be developed to the point where they can be used to identify and measure the inflationary component of wages and prices, they will help considerably to foster stable and, in some instances, lower prices."[70]

The JEC recognized the need for a wage policy at full employment, much as Keynesians had. In addition, it went further and saw a contradiction between Keynesian economics and the political economy of a living wage with regard to a wage policy. Its report stated:

> One technique for stimulating more effective consumer demand would be to encourage-or permit-general wage and salary increases. However, wages and salaries represent costs as well as sources of income. These costs, in turn, are related to relative productivities in the economy. A simple invitation to the labor sector of the economy to push for wage and salary increases is no answer to the general problem of stimulating economic growth.[71]

A better approach would be tax cuts for consumers.[72]

Kennedy's Second Economic Report: The Case for Tax Cuts

Kennedy's Economic Report for 1963 is now considered as a sign that he was fully committed to Keynesian economics, because the Report made a strong case for tax cuts. Lawrence Kudlow and Brian Domitrovic, however, argue, "A concerted effort has been made to present Kennedy as a Keynesian, when the opposite is in fact true."[73] They argue that the tax cuts aimed at increasing supply and were not intended to improve aggre-

gate demand as would be consistent with Keynesian economics, a view that is shared by Stephen Kates.[74]

The Secretary of the Treasury in the Kennedy Administration, Douglas Dillon (1908–2003), was a Republican and an investment banker, who supported supply-side economics. He had argued for permanent tax reductions in the 1950s, while Keynesians, such as Samuelson, wanted temporary tax cuts. Keynes had supported tax cuts in the *General Theory* as a way to stimulate consumption. In the 1962 Economic Report, Kennedy and the CEA had pushed for temporary income tax cuts as part of the compensatory finance approach. Dillon wanted permanent tax reduction at all levels to spur investment as a way to improve productivity, a program that had been proposed by the banker and Secretary of the Treasury during the 1920s, Andrew Mellon.[75] As Thomas Sowell argues, Mellon and Dillon were on solid ground based on evidence from the 1920s.[76] When the economy continued to remain sluggish in 1962, Kennedy shifted emphasis from the Keynesian economics of the CEA to the Dillon view of tax cuts.[77]

Kennedy's transition to permanent tax reduction can be seen in two speeches he made in 1962. In the first one on August 13, he argued, in Keynesian fashion, "our present tax system is a drag on economic recovery and economic growth, biting heavily into the purchasing power of every taxpayer and every consumer." He added, however, a supply-side line of reasoning that tax rates in the USA "are so high as to weaken … the incentive for additional return for additional effort."[78] At this point Kennedy was proposing both Keynesian fiscal policies for stimulating demand by tax cuts and a supply-side approach to produce incentives for investment. In a second speech on December 14, he repeated his earlier statements on how the recovery was ongoing but sluggish. The government had helped with its spending programs. It could be doing more, Kennedy remarked, by reducing "the burden on private income and the deterrents to private initiative which are imposed by our present tax system." He was not considering a "temporary tax cut, which would be more appropriate if a recession were imminent." Rather, he was arguing that the tax system continually "siphons out of the private economy too large a share of personal and business purchasing power; that it reduces the financial incentives for personal effort, investment, and risk-taking."[79]

This dual nature of the tax reduction plan raises an issue of how to determine whether they aimed to increase demand or supply. The key was that the tax cuts would be an across-the-board reduction in marginal rates. Previously, tax cuts were aimed at the lower brackets, because the taxpayers in those brackets would spend most of their tax savings on consumption; their propensity to consume, to use Keynes' term, was very high and tax cuts aimed at them would increase aggregate demand. With wealthy individuals in the upper brackets, the propensity to consume was lower and, while they might spend some of their tax cut on consumption, they would be more likely to save it for others to invest it or invest it themselves. Those investment purchases would add to aggregate demand but their real impact would be to enhance productivity, which would spur economic growth. The political economy of a living wage as used by Roosevelt and Truman viewed improvements in the quality of labor as a spur to economic growth. Kennedy's movement away from Keynesian economics and the political economy of a living wage to favor tax reduction that was permanent and across-the-board was a break with the past.

This break can be seen in the Economic Report of the President for 1963, which reflected Kennedy's two speeches just cited. The Report presented an economy that was advancing but still not at its potential. While the unemployment rate had dropped from 6.7 percent in 1961 to 5.6 percent in 1962, that was still not full employment. Wages, salaries and profits were increasing without inflation but they could have been even higher.[80] The outlook for 1963 was good. Business investment would continue to grow, thanks to the investment tax credit and reform of depreciation methods enacted in 1962. Government purchases were continuing an upward trend. Consumption would expand on a par with the previous year's growth. All three trends, however, would leave the economy below full employment. Kennedy summed up the situation as follows: "The main block to full employment is an unrealistically heavy burden of taxation. The time has come to remove it."[81] Kennedy then proposed the economic policy for which he is best remembered, tax reduction and reform. In the Economic Report he outlined the benefits a tax cut would bring to the nation. Consumers could use their greater after-tax income to create "stronger markets for the producer," that is,

demand would increase. With lower taxes, businesses would hire more workers, which would also generate jobs, increasing supply.[82]

The problem, Kennedy went on, was that many individuals in the USA wanted to forgo these benefits to the economy because "they question the financial soundness of reducing taxes when the Federal budget is already in deficit." He argued against them by indicating that even if the tax cut initially created a larger deficit, it was "the best way open to us to increase revenues." The federal budget typically experienced a deficit during a recession. A failure to enact a tax cut might cause a recession and make the deficit even larger.[83] Economic growth would balance the budget. Keynes had argued that increased aggregate demand from tax cuts would stimulate the economy and help balance the budget. Kennedy added the Mellon-Dillon perspective that supply-side tax cuts would work the same way.

Kennedy proposed cutting the marginal rates under the federal income tax for individuals in three steps with a result that the existing range of rates, 20 percent to 91 percent, would be reduced to a range of 14 percent to 65 percent. His goal was, "If we cut about $8 billion from the consumer tax load, we can reasonably expect a direct addition to consumer goods markets of well over $7 billion," thanks to a stable propensity to consume, to use Keynes' terminology. In addition, tax cuts to individuals in the higher brackets would make funds available for business to borrow for capital spending. Those individuals would also have the funds to underwrite the deficit spending the government would initially need to undertake, enabling it to handle any increases in the public debt that might take place. If the business followed the wage and price guideposts that had been set forth in the previous year, there would be no inflation.[84]

The rest of the Economic Report touched on policies that were more standard such as highway construction, manpower programs, support for basic research and standby power for the president to act quickly on tax cuts and public works increases when a recession appeared. These programs were also rooted in Keynesian economics. Still, Kennedy had not forgotten the political economy of a living wage. He indicated that he would propose improvements in the unemployment insurance program. In addition, he noted that despite recent changes in the coverage of the

FLSA to more workers, many workers were still not covered by the FLSA and he would propose extension of its coverage to them.[85]

Kennedy's Economic Report for 1963 was a marked departure from the Economic Reports of Truman in placing greater emphasis on supply-side tax cuts for the wealthy. The political economy of a living wage was not completely abandoned, but it was marginalized. Would the same pattern show in the Annual Report of the CEA?

The CEA's Annual Report remained a part of the Economic Report for 1963 and repeated what Kennedy had said in his part of the Report with detail. For example, the CEA agreed that the economic recovery in 1961–1962 had been slower than it had anticipated. Using Keynesian categories of consumption, investment and government spending, the error in their forecast for 1962 had been with investment. Investment had actually declined, because of a drop in investment in inventories. Another problem was that after five years of sluggish growth in the economy, businesses had excess capacity, which kept investment in plant and equipment from being as robust as was needed to get the economy to full employment.[86] As had Kennedy, they were laying the groundwork for the tax reduction plan. They argued, "Through tax reductions and reforms, the Federal Government can relax its restraints on the expansionary power of the private economy."[87] The CEA Report then followed Kennedy's statements in the Economic Report by describing how the proposed tax cuts would have a cumulative effect on the economy, adding to growth and reducing the initial deficit.

The CEA then took on inflation as a risk in an expanding economy. Because the economy was below full employment, there was room for expansion without upward pressure on wages and the concomitant pressure on prices. Unions, management and the public were all aware of the potential for inflation. As long as business and unions stuck with the wage and price guideposts presented in the CEA Report for 1962, inflation would not be a problem.[88]

The rest of the Report focused on global trade, which is not a concern for this book. My concern is with the political economy of a living wage and Keynesian economics. As noted above, Kennedy had paid scant attention to the variables of the political economy of a living wage in his

second Economic Report. The CEA Report did him one better; it did not mention the political economy of a living wage at all.

The 1963 report of the JEC had a heavy emphasis on taxes and their impact on the economy. The report began by seconding the Economic Report's view that while the economy was recovering, its growth was sluggish. There were several possible explanations for this anemic recovery. The JEC reported, "A growing consensus, however, has developed that one of the most important factors has been the tendency of Federal, State, and local tax structures to exert too powerful a braking effect on the economy when demand is rising."[89] Not surprisingly, the JEC favored Kennedy's tax proposal.[90] That approval is an indication that the JEC liked the Keynesian elements of the Economic Report as well as its supply-side features. It remained in the Keynesian camp by having one of its staff economists study the multiplier effect to gauge how it increased consumption and stimulated investment—a key element of Keynesian economics.[91] This Keynesian perspective indicates that the majority Democrats of the JEC, including its chair, economist Paul Douglas, had been converted, not surprising since Douglas had been a pre-Keynesian advocate for fiscal policy in the 1930s, as described in Chap. 1. There was dissent by the minority and by some Democrats to the Keynesian policies. None of those dissents upheld the political economy of a living wage, however.

Kennedy had a difficult time getting his tax program enacted. The House passed the plan on September 25 by 271–155. In the Senate, however, the Finance Committee impeded the progress of the tax plan and kept it from getting to a floor vote.[92] The inability of Kennedy to get his tax cut plan enacted was the result of conservatives not accepting his arguments regarding the impact the plan would have on the government's budget. There was little opposition from the political economy of a living wage, at least not in government circles. Former President Truman, a supporter of the political economy of a living wage as embodied in Roosevelt's Second Bill of Rights, opposed Kennedy's tax cuts in 1963.[93] Did any other supporters of that approach oppose the tax cuts? In the rest of this chapter I will consider evaluations of Kennedy's policies from outside the government by Keynesians and by supporters of the political economy of a living wage, starting with another update on Hansen's evolving approach to Keynesian economics.

Hansen Supports the Tax Cuts

In 1964, Hansen issued an expanded edition of his book *Business Cycles and National Income*, first published in 1951, with the addition of new chapters to bring his analysis up to date. In his preface, dated November 1963, he described the Kennedy tax cut and called it, "The first time, as far as I know, that the U.S. government has carried through a program *in advance*, designed to *prevent* the next recession."[94] He believed that the tax cut would stave off a recession for the next two years, and he looked forward to watching how it worked, but it would take more programs than a tax cut to end "the age-long recurring periodic recession."[95]

To explain his reasons for supporting the tax cut, given his earlier lukewarm support of tax cuts (see above), Hansen referred his readers to the use by the CEA of the analysis of the full-employment surplus in its 1962 Economic Report. He praised the "great educational value" of the full-employment surplus for achieving "a better public understanding of the role of fiscal policy."[96] In an economy with a constant level of government spending and a fixed tax structure, as the economy grew tax collections would siphon consumption and investment spending out of the economy and slow the growth down. To keep growth going, the government would need to increase its spending or cut taxes. The goal of fiscal policy would become a budget that was balanced at full employment.

It was arguable that a full-employment balanced budget would ensure that the economy reached full employment. To find out, Hansen used a Keynesian analysis that highlighted the problem that some of the tax cut would be saved, making its overall impact on the economy difficult to ascertain from theory. The key to him was that the increase in consumption spending had to induce, through what was known as the accelerator effect, an increase in business investment large enough to borrow all that was saved. To the extent that the tax cut was saved, however, the full impact of consumption spending from the cut would be reduced and its impact on investment would be less than anticipated.[97] Still, Hansen concluded, "There is no question our tax structure is repressive and a tax cut is desirable."[98]

To be sure, this was strictly a Keynesian analysis and did not take into account any supply-side effects that would motivate businesses to invest. Neither Keynes nor Hansen considered it plausible that a tax cut would cause business to invest; only the anticipation of increased consumer demand would heighten the inducement to invest. Because his analysis indicated that not all of the tax cut would be spent on consumption and investment, Hansen was skeptical that the tax cuts would pay for themselves fully from increased tax collections at a higher level of GNP. It was not impossible, but it would be difficult unless business had a backlog of innovative technology in which they would have invested if they had the funds to do so. If the tax cut gave them the funds to invest in new technology and they did so, it would add to the impact of the tax cuts on the economy to the point that GNP would increase by enough to make tax collections balance the tax cut. Hansen referred to this possibility as "latent autonomous forces," however, and not as a supply-side boost, which had no place in Keynesian economics.[99] In this way, as Sowell argues about opponents of supply-side tax cuts, "There was no serious engagement with the arguments actually advanced."[100]

The supply-side argument did have a place in the political economy of a living wage. Under the trinity of high wages, high production and high consumption (see Chap. 2), businesses were always seeking new methods of production to offset the higher wages they had to pay. With additional funds from a tax cut, they would invest in those new methods of production. It is doubtful, however, that advocates for this approach would have supported a tax cut such as Kennedy proposed, with the biggest gains to be among the upper brackets. For the remainder of this chapter I will describe how advocates for the political economy of a living wage, particularly Progressives and union leaders, viewed the tax cuts. In the next chapter I will investigate how the tax cuts were further justified by President Johnson's Economic Reports. One point is certain. After the tax cuts were passed, the USA experienced a period of economic growth that was unprecedented up to that time, although Stein is skeptical that the tax cuts contributed a great deal toward that growth.[101] Still, Hansen's concern over the ability of the tax cuts to pay for themselves was well placed. The unprecedented growth did not produce a series of federal budget surpluses. From 1965 to 1968, tax collections did increase as the

economy grew, but spending increased by even more, which produced budget deficits. Only in 1969, with the addition of a tax surcharge, did tax collections increase by enough to create a federal budget surplus.

These results were favorable toward the supply-side aspect of the tax cut, but that was not enough gain favor for similar tax cuts during the administrations of Presidents Ronald Reagan (1911–2004) and Donald Trump (1946–). In both cases the public debates over the tax cuts degenerated into opponents calling them a "trickle down" approach that would not work, which did little more to analyze the tax cuts than to call them a name. As this paragraph is being written, the internet is being laced with stories of how businesses are not directly sharing the tax cuts with their workers in a complete misunderstanding of the economics of the tax cuts. This view misses the point that the tax cuts were intended to impact workers indirectly through the stimulation of investment demand that would result in increased capital formation, both of which would augment production and create jobs. These arguments made against the tax cuts ignored the type of analysis that Hansen had made, for example (see above). Did writers and thinkers in the 1960 do a better job in analyzing the tax cut than took place in 2017?

Progressive Responses to Kennedy's Economic Policies

Kennedy's economic policies, with their focus on tax cuts, were controversial. In this section I will present the response to those policies from advocates for the political economy of a living wage by considering what two long-term proponents of a living wage, Progressives and union leaders, thought about Kennedy's policies and especially his proposed tax cuts. I will start with the quintessential Progressive magazine, the *New Republic*.

The *New Republic* was an early supporter of tax cuts as a way to stimulate the economy. The tax cuts it had in mind, however, were geared toward the lower brackets as a way to increase consumption.[102] Tax cuts were also featured in an article by Joseph Kraft (1924–1986) on October 20, 1962, "Economics of the New Frontier." Kraft characterized the

Kennedy administration as neo-Keynesian. It was Keynesian from its stress on aggregate demand as the primary factor in keeping the economy stable through fiscal policy and from its program of tax cuts to stimulate a slow-growing economy. The "neo" part was from its focus on growing the economy through improvements in using tax cuts to improve the capital base and labor force through tax cuts. The problem was that the stimulus part of the policy did not help workers who could not find jobs, with the result that the "weak and unskilled" and especially "unorganized workers" tended "to become worse off."[103]

The *New Republic* continued its criticism of the economic policies of the Kennedy administration by denigrating the tax reduction package for not adding to aggregate demand. If Kennedy wanted to boost the economy with a tax cut, most of the cuts should have been given to workers and others whose income was low.[104] The following editorial "Growth for What?" faulted the president for leaving out social spending to improve the standard of living for all members of the USA.[105] In an editorial on January 26, 1963, right after Kennedy announced his tax reduction plan in the State of the Union Message, the *New Republic* criticized the program for giving too much in the way of tax cuts for the upper brackets, for reducing the corporate income tax and for not spending on social programs. Its overall criticism was that the tax reduction plan was very conservative. The economy would be better off if the federal government spent the same amount as the tax cut on social programs.[106] In arguing this way, the *New Republic* was following the political economy of a living wage in wanting government programs that improved the quality of the workforce. The *New Republic* continued its criticism with an editorial on March 2, 1963, "Cut-Up Tax Cut," which indicated that many individuals and organizations in the economy had reviewed Kennedy's tax reduction program and did not like it because of its adverse impact on the distribution of income.[107]

The *Nation* supported tax cuts consistent with Keynesian economics in two articles in 1963. The first, published on February 26, was written by George T. Altman, a prominent tax attorney, and titled "The Tax-Cut Mirage." Altman argued that Kennedy's tax reduction plan aimed to give a boost to the amount a small number of persons had to spend at a cost to a large majority of the population. It had often been argued that the

way the affluent spent their tax cuts would benefit those in the lower brackets, and there was some validity to this argument. But those benefits would be small and it was better to give the lower brackets an even higher take-home pay by giving them the bulk of the tax cuts.[108]

The *Nation* presented another article on the tax reduction program by Peter Dorner, a professor in the Department of Agricultural Economics at the University of Wisconsin, who argued that the tax reduction program did not deal with the technological displacement of unskilled workers. The only way to put them to work was on public works programs. It would be better to tax the wealthy and use the money to fund such projects than it would be to give them a tax cut.[109]

The *New Republic* and the *Nation* focused more on Keynesian economics than on the political economy of a living wage. Kennedy had espoused both as part of his goals, but left the political economy of a living wage out of his tax reduction plan. He had promised to keep this combination in his talk with Meany of the AFL-CIO. I will now consider whether the AFL-CIO criticized him for breaking his promise.

The AFL-CIO started 1961 on very good terms with Kennedy.[110] It followed, however, with an important question: What did the AFL-CIO want the new Kennedy administration to do to increase growth? The *American Federationist* answered with the publication of the AFL-CIO Executive Committee's proposals for economic growth. The proposals included three standard growth proposals related to the political economy of a living wage. The first was to increase the minimum wage and extend its coverage to enhance consumption spending that was necessary for growing the economy. The second was increases in the benefits and coverage of unemployment insurance for the same reason. The third was a plan to reduce withholding tax collections for a period whenever unemployment went above 7 percent.[111] This tax cut proposal was a new wrinkle to an old idea, because the AFL-CIO had long endorsed tax cuts in the lower brackets to spur consumption. They now wanted a tax policy that included taxes as an automatic stabilizer, much as Hansen did.

The use of taxes to spur the economy got another look in the *American Federationist* in an article that reviewed statements from the CEA on growth prospects from tax policies to redistribute income to businesses and the wealthy as a way to generate investment spending and increase

growth and called this argument "the old trickle-down theory." A better approach would be to find ways to expand consumption spending.[112] It made the same argument in a second article, by objecting the Kennedy's proposal for a business tax credit.[113] With the exception of tax cuts for the wealthy, the AFL-CIO supported Kennedy's fiscal policies in 1962.[114] In the area of taxes, however, it did favor his proposal for standby authority to cut income taxes as a way to boost the economy.[115] In short, the AFL-CIO favored policies of the political economy of a living wage and Keynesian fiscal policy, as long as the policies did not extend tax cuts to business or the wealthy.[116]

In March 1962, *American Federationist* reviewed the Economic Report of the President for 1962. It had concerns over the CEA's wage and price guideposts for tying wages to productivity, arguing, "The national economy's rising productivity is only one among several factors in any particular negotiation between a union and employer." The CEA left out the need for wage increases to keep up with increases in the cost of living. Following the political economy of a living wage, unions aspired "to eliminate substandard wages" regardless of productivity, another point the CEA had missed.[117]

In February 1963, the AFL-CIO had gotten a look at Kennedy's tax reduction proposal and did not like it. The *American Federationist* reviewed the proposal in an article "Fair Taxes and Full Employment" that favored an across-the-board tax reduction only if the lower brackets got the biggest cut. The article argued that the wealthy did not need the large tax reduction Kennedy proposed. Their share of after-tax income had risen over the period since World War II, and it was better to reduce this rise by ending tax breaks for the wealthy instead of giving them an additional tax reduction.[118] The *American Federationist* repeated its criticism of the Kennedy tax plan in articles in July and December 1963.[119] There was unity among union leaders and the *New Republic* and the *Nation* that Kennedy's tax reduction program was out of bounds for Progressives.

Even though it opposed his tax cuts, the AFL-CIO continued to back Kennedy. Meany wrote of Kennedy, "He has urged enactment of most of the measures we in the AFL-CIO support."[120] The *American Federationist* published his last speech at the AFL-CIO convention, given just a week before his death. In that speech Kennedy insisted that economic security

and job creation were his priorities, a statement the convention surely applauded. The convention was also no doubt pleased when he expressed his thanks to the AFL-CIO for "supporting a program for progress for this country of ours."[121] Kennedy's recognition of the AFL-CIO's Progressive background brings us back to the political economy of a living wage. Unions had supported the New Deal programs for a living wage in the 1930s, and they continued to support them in the 1960s. They just stopped referring to the term a living wage. The same was likely true of the other Progressives referred to in this section. The use of the term a living wage had declined in the 1940s and disappeared by the 1960s. Roosevelt's Second Bill of Rights replaced it through the 1950s, but in the early 1960s, there was no consistent phrasing for the programs of the political economy of a living wage.

Conclusion

The Kennedy tax cuts have long been considered another decisive moment in the ascendancy of Keynesian economics, perhaps as important as the Employment Act of 1946. The Kennedy tax program, like the Employment Act, however, was not simply about Keynesian economics. While the Kennedy tax reduction plan had a Keynesian flavor with its demand-side objective of stimulating spending on consumption and investment, it also had a supply-side essence of enhancing productivity as a result of investment spending derived from the savings the tax cut would generate among the wealthy. This supply-side approach derived from conservative economics. Although Keynesians such as Hansen gave support to the tax cuts, including the ones for the wealthy, Progressives wanted the tax cuts to target lower-income workers because they would spend them on consumption.

The overall Kennedy approach to macroeconomic policy also included two of the core elements of the political economy of a living wage, social insurance and the minimum wage. Kennedy had campaigned on a platform that included Roosevelt's Second Bill of Rights, and he lived up to it by pushing for an increase in the minimum wage and an extension of its coverage along with improvements in the pensions and unemployment

insurance of the SSA and an extension of their coverage. These measures improved the chances for low-paid workers to earn a living wage, even though no one used the term a living wage by this time. The macroeconomic goal of this program was to increase consumption spending among workers.

Kennedy was not able to get any of his legislation regarding the tax cuts enacted before his death, although he was successful in improving the core elements of the political economy of a living wage. It remained for his successor, Lyndon Johnson, to get the proposed tax cut bill passed by Congress. He reframed the political economy of a living wage as the Great Society, and that will be the subject of the next chapter.

Notes

1. Kennedy, 1961b.
2. Dillon, 1985, p. 128; Heller, 1985, pp. 146 and 148.
3. Kennedy, 1960c.
4. Kennedy, 1960a.
5. Democratic Party Platforms, 1960.
6. Nordlund, 1997, p. 99.
7. Kennedy, 1960b.
8. Nordlund, 1997, p. 80.
9. Saulnier, 1991, p. 162.
10. Damms, 2016, pp. 7–12. See also McClenahanm and Beder, 2011, p. xi.
11. Eisenhower, 1954b.
12. Eisenhower, 1954c.
13. Burns, 1946, p. 4.
14. Burns, 1946, p. 10.
15. Eisenhower, 1954a, p. 51.
16. Eisenhower, 1954a, p. 96.
17. Eisenhower, 1954a, pp. 77–79.
18. Eisenhower, 1954a, p. 102.
19. Lumer, 1954, p. 198.
20. Hansen, 1954, pp. 258–259.
21. O'Reilly, 1954, p. 8.
22. *American Federationist*, 1954a, pp. 5–6; Brown, 1954, pp. 10–11. See also Shishkin, 1954a, p. 4; 1954b, pp. 3–4; Meany, 1954, p. 14.

23. *CIO News*, 1953a, p. 3.
24. *CIO News*, 1953b, p. 3; 1953c, p. 5; 1954a, p. 2.
25. *CIO News*, 1954b, p. 3. See also *CIO News*, 1954c, p. 3; 1953b, p. 3; 1953c, p. 5; 1954a, p. 2.
26. *CIO News*, 1955, pp. 6–7.
27. *American Federationist*, 1954b, p. 3.
28. Meany, 1956a, pp. 4–5; 1956b, pp. 16–17; Cruikshank, 1956a, pp. 7–9; 1956b, pp. 20–21; Gray, 1956, p. 11.
29. *American Federationist*, 1959, p. 7.
30. Hansen, 1947, p. 73.
31. Hansen, 1960, pp. 44–45.
32. Hansen, 1964 [1951], p. 545.
33. Hansen, 1960, pp. 140 and 148.
34. Hansen, 1960, p. 33.
35. Hansen, 1960, pp. 37–38.
36. Phelps, 1948, pp. 585–590.
37. Hansen, 1960, pp. 105–106.
38. Hansen, 1960, pp. 33–34.
39. Kennedy, 1960d. Kennedy's Secretary of the Treasury, Douglas Dillon, doubted that the speech, which was published in *The New York Times*, was ever delivered. Dillon, 1985, p. 128.
40. Kennedy, 1960d.
41. *American Federationist*, 1960, p. 15.
42. *American Federationist*, 1960, pp. 19–20.
43. *American Federationist*, 1960, pp. 14–15.
44. Heller, 1950, pp. 532–533.
45. Kennedy, 1961c, is the source of the above material.
46. Kennedy, 1962a, p. 3.
47. Kennedy, 1962a, p. 4.
48. Kennedy, 1962a, pp. 4–5.
49. Kennedy, 1962a, p. 6.
50. Kennedy, 1962a, p. 8.
51. Kennedy, 1962a, pp. 16–17.
52. Kennedy, 1962a, pp. 9–10.
53. Kennedy, 1962a, pp. 20–21.
54. Kennedy, 1962a, pp. 11–12.
55. Kennedy, 1962a, p. 27.
56. CEA, 1962, p. 37.
57. CEA, 1962, p. 39.

58. CEA, 1962, pp. 44–47. The estimate of four percent unemployment as kept inflation in check was consistent with an estimate derived from a Phillips curve for the USA by Samuelson and Solow, 1960, pp. 191–192.
59. CEA, 1962, pp. 57 and 63–66.
60. Stein, 1994, pp. 80–81.
61. CEA, 1962, p. 89.
62. CEA, 1962, pp. 101–103.
63. CEA, 1962, p. 174.
64. CEA, 1962, pp. 185–186.
65. CEA, 1962, pp. 189–190.
66. JEC, 1962, pp. 8–9.
67. JEC, 1962, p. 43.
68. JEC, 1962, p. 43.
69. JEC, 1962, p. 59.
70. JEC, 1962, p. 64.
71. JEC, 1962, p. 71.
72. JEC, 1962, p. 72.
73. Kudlow and Domitrovic, 2016, pp. 145–146.
74. Kates, 2016, p. 129.
75. Mellon, 1924.
76. Sowell, 2012, pp. 71–137.
77. Kudlow and Domitrovic, 2016, pp. 750–878.
78. Kennedy, 1962b.
79. Kennedy, 1962c.
80. Kennedy, 1963a, pp. ix–x.
81. Kennedy, 1963a, pp. xii–xiii.
82. Kennedy, 1963a, pp. xiii–xiv.
83. Kennedy, 1963a, p. xiv.
84. Kennedy, 1963a, pp. xviii–xix.
85. Kennedy, 1963a, p. xxiii.
86. CEA, 1963, pp. 15–17.
87. CEA, 1963, p. 32.
88. CEA, 1963, pp. 84–86.
89. JEC, 1963, p. 2.
90. JEC, 1963, p. 11.
91. JEC, 1963, pp. 45–55.
92. Kudlow and Domitrovic, 2016, pp. 1610–1985.
93. Kudlow and Domitrovic, 2016, p. 500.

94. Hansen, 1964 [1951], p. viii, italics in the original.
95. Hansen, 1964 [1951], p. viii.
96. Hansen, 1964 [1951], pp. 646–647.
97. Hansen, 1964 [1951], p. 654.
98. Hansen, 1964 [1951], p. 658.
99. Hansen, 1964 [1951], p. 655.
100. Sowell, 2012, p, 136.
101. Stein, 1994, pp. 108–110.
102. *New Republic*, 1962a, pp. 1 and 3.
103. Kraft, 1962, pp. 12–13.
104. *New Republic*, 1962b, pp. 3–4.
105. *New Republic*, 1962b, p. 4.
106. *New Republic*, 1963a, p. 5.
107. *New Republic*, 1963b, p. 3.
108. Altman, 1963, pp. 137–138.
109. Dorner, 1963, pp. 171–173.
110. Kennedy, 1961a, pp. 12–13.
111. *American Federationist*, 1961a, pp. 17–19.
112. *American Federationist*, 1961b, pp. 17–18.
113. *American Federationist*, 1961c, p. 26.
114. *American Federationist*, 1962a, p. 11.
115. *American Federationist*, 1962b, pp. 12–13.
116. *American Federationist*, 1962c, p. 17.
117. *American Federationist*, 1962d, pp. 17–19.
118. *American Federationist*, 1963a, pp. 14–17.
119. *American Federationist*, 1963b, pp. 18–20 and 1963c, p. 13.
120. Meany, 1962, inside front cover.
121. Kennedy, 1963b, pp. 8–9.

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7

The Age of Keynes in the Great Society

Lyndon Baines Johnson (1908–1973) was a consummate politician. His goal was the accumulation of power, partly for reasons of self-aggrandizement and partly for helping others, especially the poor. Johnson could manage the political process of reform. The question is whether he could manage the economics of reform. Doris Kearns Goodwin argues that Johnson understood the economics of reform and anticipated they would remain manageable as the economy grew.[1] Randall B. Woods observes that Johnson's economic advisers told him that the economy would grow fast enough to pay for everything he wanted to do.[2]

The reforms Johnson sought were packaged as "the Great Society." They were, however, a continuation of the program of the political economy of a living wage begun by the New Deal such as the pensions and unemployment insurance of the SSA and the minimum wage of the FLSA. Johnson would extend and increase them, much as Roosevelt and Truman wanted to do. His revisions included a War on Poverty with training programs, better education, urban renewal and area redevelopment; most of these programs had their origins in the New Deal and Fair Deal. In addition to those previous programs, Johnson's Great Society, as Sean Wilentz points out, "transcended the New Deal by joining the fight for economic equality to the one for racial justice" through civil rights

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legislation to create economic opportunity, which would be enhanced by the other programs in the War on Poverty.[3]

As important as these programs were, my focus in this chapter is on the economic arguments in support of them.[4] My finding is that, as had presidents since Roosevelt, Johnson adhered to the hybrid system of redistributive economics. In doing so, he was partly right and partly wrong. He was right in following Keynes' stricture that recovery came before reform. Starting with the tax cut of 1964 and an expansionary fiscal policy, Johnson and his advisers oversaw a period of prosperity unrivaled in history. The USA became so prosperous that they believed it could easily afford to pay for the Great Society; they also believed that it could afford to wage a war in Vietnam. Where they went wrong was in not following Keynesian economics on the need for a wage and price policy when the economy became so prosperous that full employment seemed permanent. Rather, they stuck with the hybrid system of redistributive economics as extended by Johnson's program for the Great Society, which put upward pressure on wages and prices.

In this chapter I will review Johnson's economic policies by focusing on his Economic Reports of the President. The programs of the Great Society were featured in Johnson's Economic Reports in the same way the Second Bill of Rights was displayed in Truman's early Economic Reports. They were justified as enhancing the productive capacity of the USA, such as the aid to education and the training programs Johnson initiated. They were as close as the USA came to Keynes' "socialization of investment," in this case a large investment in the human capital of low-wage workers and the unemployable. Johnson believed such an investment was essential to making sure that prosperity continued and was shared among all members of society, much as Roosevelt wanted in his Second Bill of Rights. Before reviewing Johnson's Economic Reports, I will consider the prosperity that made reform possible.

The Economy in the 1960s

The story of the economy in the 1960s is easy to tell. The decade began with a recession in April 1960. It was a short and mild recession that reached a bottom in February 1961. Then came the longest expansion

the economy had seen up to that time, with solid and often spectacular growth continuing until December 1969. To let Johnson have his say, here is his summary of the performance of the economy during his years in office:

> In the past 5 years, the Nation's total output of goods and services—our gross national product—has increased by more than $190 billion, after correcting for price changes. This is as large as the gain of the previous 11 years. The prosperity of the last 5 years has been accompanied by benefits that extend into every corner of our national life
>
> —more than 8½ million additional workers found jobs,
>
> —over-all unemployment declined from 5.7 percent of our labor force to 3.3 percent,
>
> —unemployment of nonwhite adult males dropped particularly dramatically, from 9.7 percent to 3.4 percent,
>
> —the number of persons in poverty declined by about 12½ million—progress greater than in the entire preceding 13 years,
>
> —the average income of Americans (after taxes and after correction for price rises) increased by $535—more than one-fifth and again more than in the previous 13 years combined,
>
> —corporate profits rose by about 50 percent,
>
> —wages and salaries also went up by 50 percent,
>
> —net income per farm advanced 36 percent,
>
> —the net financial assets of American families increased $460 billion—more than 50 percent, and
>
> —Federal revenues grew by $70 billion, helping to finance key social advances.[5]

It appeared at the time that the USA had reached permanent prosperity, an era of full employment where it was easy to find a job, much as the Employment Act had promised. One troubled area in the economy was inflation. Prices rose at about 1–1.5 percent in the first half of the decade. Then they began to ratchet up from nearly 3 percent in 1966 to 5.5 percent in 1969. Still, it was not a bad performance during a war. Johnson and the CEA were aware of inflation, as can been seen in their economic reports.

A second problematic area was Johnson's departure from the variation of Keynesian economics referred to as compensatory finance, where the

government would borrow for fiscal spending during a recession and repay that debt by having a budget surplus during a recovery. Keynes had not advocated for such a policy but in the USA it had been a mainstay of pre-Keynesian fiscal policy that continued as part of macroeconomic policy. During the Johnson years of prosperity and full employment, the federal government did not experience budget surpluses; tax collections increased but spending increased faster. From a Keynesian perspective, there was a full-employment budget deficit, which meant that macroeconomic policy contained a high level of stimulus. It was not until Johnson's last year in office that concerted effort was made to successfully achieve a budget surplus.

The Tax Cuts

Johnson's first Economic Report in 1964 was produced at a time when he had been president for only two months. It helped that Walter Heller remained as chair of the CEA. The two other members were Gardner Ackley (1915–1998), a macroeconomist, and John P. Lewis (1921–2010), an expert in economic development.

Johnson's message began by describing how well the economy had recovered during the past three years. There had been solid growth in national income, which he attributed to government spending and the investment tax credit. Still, the unemployment rate was too high. The economy needed the tax cuts that Kennedy had proposed. Johnson wrote, "Far too long, our economy has labored under the handicap of Federal income tax rates born of war and inflation." They had been intended to reduce demand to fight inflation, but demand was currently too low and business had weak incentives to invest. Taxes needed to be cut "quickly to put billions of dollars of new consuming and investing funds into the hands of the private economy." The result of his policy, Johnson assured his readers, would be the longest economic expansion ever. As for inflation, he indicated it was low and would remain low as long as business and labor stayed within the wage and price guideposts the CEA had developed.[6]

Among other policies to help the economy, Johnson included elements of the political economy of a living wage such as increasing the benefits and coverage of unemployment insurance and raising the minimum wage. He gave those elements scant attention, however. His big policy statement, outside of tax cuts, was "the War on Poverty" that he had previously announced in his State of the Union Message. The USA had the highest standard of living ever, yet 20 percent of its population lived "below minimum standards of decency." High employment pulled many individuals out of these deplorable conditions, but not all of them. For them, Johnson proposed a two-part approach. First, his program would enhance their earning capability with better basic education, specific training programs, improved healthcare, economic development plans and equal opportunity under civil rights. Second, if the randomness of life kept some of those in poverty from working, they would be given assistance.[7]

It was an ambitious program and a departure from the New Deal and the political economy of a living wage in several ways. Johnson placed more importance on the non-working poor than the political economy of a living wage had, despite his claim that the Great Society aimed at reducing welfare by finding jobs for those who did not work.[8] He also had much broader programs for the working poor, such as training programs.

The CEA's Annual Report gave the same message as Johnson. The parts of it related to fiscal policy read like a textbook in Keynesian economics. As one example, here is what the CEA had to say about fiscal policy in a growing economy, "At present tax rates, the revenues that the Federal Government would collect at full employment increase by more than $6 billion a year. If program needs do not require expenditures to grow at the same rate, tax rates must be reduced, or a growing full-employment surplus will result, with increasingly restrictive effects on the economy."[9] This analysis was based on the full-employment budget, as described in Chap. 6, and it was effective in support of the tax reduction plan.

The CEA also supported the War on Poverty and dedicated 29 pages of its Annual Report to the problem of poverty in the USA. The CEA indicated that the Johnson administration was adding new programs to the political economy of a living wage, writing, "The social insurance programs established in the 1930's were designed principally to alleviate

poverty in old age and to shield families from the loss of all income during periods of unemployment. The tasks for our generation are to focus and coordinate our older programs and some new ones into a comprehensive long-range attack on the poverty that remains."[10] The SSA could be improved and added to by newer programs to alleviate poverty. At this point, the CEA did not mention that these programs also aimed to increase consumption, in keeping with its Keynesian narrative.

Another important topic the CEA covered was inflation. The economy had expanded for three years with very stable prices. The economy was in good shape "to avoid inflationary price and wage decisions" and a "major factor has been the responsible action of most union and business leaders in making noninflationary wage and price decisions."[11] Inflation was not a looming problem as long as business and labor stuck to the wage and price guideposts the CEA set out two years earlier.[12] The CEA annual report for 1964 had a clear emphasis on Keynesian economics, including the use of spending programs and the tax reduction program, as justified with the full-employment budget. Another Keynesian feature was the use of wage and price guideposts to hold inflation in check as the economy approached full employment.

The JEC Report for 1964 was supportive of the tax reduction plan and the War on Poverty, as would be expected in a JEC headed by Democrats.[13] The members of the majority expressed a concern that inflation could counteract those programs. From their perspective, if business used "the increased purchasing power released by the tax cut as an excuse to raise prices," it would counteract the intent of the tax cuts, redistribute the benefits of the tax cut to the wealthy and turn the War on Poverty into "an empty slogan." They anticipated, however, as had Johnson, that business and labor would behave responsibly by considering the "broad national interests."[14]

The Republican minority, on the other hand, was against everything Johnson was proposing. The economy was already growing at a reasonable rate, and the more likely outcome of the tax cut would be a short spurt of growth with a recession following it. In the meantime, the extra stimulus would add to "the persistent, creeping inflation of recent years."[15] With regard to the program for fighting inflation, the Republicans did not like the CEA's wage and price guideposts. They were the proverbial

slippery slope that led to wage and price controls, because business and labor were not responsible enough to comply with them. The minority reported that the AFL-CIO was stating that it would ignore the wage-price guideposts and would seek significant increases in wages.[16] In addition, the guideposts were ill-advised because they blamed business and labor for inflation. The real cause of inflation, as Milton Friedman (1912–2006) had pointed out, was changes in the money supply, which made government responsible for it.[17] Here the Republican minority was in the vanguard of the monetarist economics that countered Keynesian economics.

Johnson made the tax cut a priority and used his legislative skills to push it through Congress. As part of his building a consensus on the tax plan, he promised fiscal conservatives that he would cut his budget requests for the coming year. Once he made good on that promise, the Revenue Act of 1964 (the tax cut bill) passed on February 26, 1964.[18] It was an across-the-board tax cut for all levels of income. The top brackets were reduced from 91 percent of income above $200,000 and 89.9 percent of income between $100,000 and $200,000 to 70 percent of income above $100,000; the lowest bracket was reduced from 20 percent of income below $4000 to several brackets of 14 to 17 percent of income below $4000. To lower- and middle-income taxpayers, it was a Keynesian tax cut geared to increase consumption spending. For upper-income taxpayers, it would stimulate spending on investment, which blended demand-side effects with a supply-side approach. The other big bills that Johnson got through Congress were the Civil Rights Act of 1964 and the Equal Opportunity Act. The programs to fight the War on Poverty followed soon after, with help from Johnson's election landslide. That victory gave him a mandate and a large number of liberal members in both houses of Congress to approve his legislative program for 1965. Johnson packaged that program as the Great Society in numerous speeches and, importantly, in his next Economic Report.

It was a momentous year for reform. Overlooked in that reform, I would argue, was a movement away from the hybrid system of redistributive economics. First, the tax cuts in the upper brackets were significant. By my calculation, an individual taxpayer earning $300,000 would have saved over $40,000 in taxes. Second, if, as proponents of the supply-side

impact of high taxes argued, high taxes had been a negative incentive for work, the higher tax rates may have put a de facto ceiling on top incomes. What was the point of an individual in the highest bracket seeking more income when the taxes would only leave him $9 for every $100 earned? With lower rates, he might push for more work and fight for bigger raises that gave him $30 for every $100 earned. To the extent that this argument was correct, the Kennedy-Johnson tax cut made the distribution of pre-tax income and post-tax income less equal.

The Great Society

Johnson began his Economic Report for 1965 by stating that thanks to the tax cut in 1964 the country was entering its fifth year of economic growth. Specific achievements included an unemployment rate of 5 percent at year's end, 6 percent growth in GNP, a 3 percent increase in manufacturing wages and a fourth straight year rising profits. Moreover it was growth with low inflation, with the consumer price index rising by only 1.2 percent. He especially praised his number one policy, "I believe that 1964 will go down in our economic and political history as the 'year of the tax cut'."[19] This success showed that Kennedy had been right that not worrying about balancing the federal budget was a sound policy.[20]

Even though the USA had a high level of prosperity, many of its citizens did not share in the prosperity. They were hindered by a variety of problems from discrimination and disability to low productivity, poor education and a lack of bargaining power. The goal of the War on Poverty was to take the USA from being merely affluent to attaining a higher quality of life. Johnson concluded, "The unfinished task of prosperous Americans is to build a Great Society."[21] As part of that Great Society, it was important to maintain the incomes of the individual who earned low wages or no wages. To help them, Johnson proposed a 7 percent increase in social security pensions, increases in payments for public assistance, hospital insurance for the elderly, improvements in unemployment insurance and the addition of two million workers to coverage of the minimum wage.[22]

Johnson's calls for a War on Poverty as leading to a Great Society raise an important point. Most of the programs he proposed were consistent with the political economy of a living wage as first sought by Roosevelt and the New Deal. To be sure, there were new programs at the margin, such as Head Start and the Job Corps. But the heart of the programs remained collective bargaining (responsible enough to avoid inflation), improvements in unemployment insurance and pensions under the SSA (paid for by increased payroll taxes) and continued increases in the minimum wage and extension of its coverage. The words "a living wage" had been forgotten but the idea behind them remained. To Johnson as to Roosevelt and Truman before him, every individual was entitled to sufficient income to live a life of dignity. What changed was the name of the idea, from a New Deal with a living wage to a Second Bill of Rights with a right to a remunerative job to a Fair Deal with economic justice to a Great Society with a War on Poverty. Johnson, as had Truman, used the Employment Act as a venue for legitimizing his programs.

The CEA's annual report led off with consideration of Johnson's Great Society, quoting him at length. It added that his goals for the Great Society "require a growing abundance, widely shared."[23] In this regard, the tax cut of 1964 was a landmark event.[24] Here we have a full-blown statement of the benefits of Keynesian economics (that downplayed the supply-side aspect of the tax cuts). Keynes and his followers had insisted that government spending programs and a wage and price policy would sustain growth without inflation and support the reforms that Progressives desired. They now had what they wanted, recovery and then reform. In this case, a robust economic recovery in the 1960s brought about by Keynesian economics would provide the resources for the political economy of a living wage under its new name of the Great Society. Still, the idea that the political economy of a living wage could also support economic growth remained part of the program.

Regarding pensions under the SSA, the CEA noted, "Social insurance liberalization will stimulate consumer spending in the second half of this year."[25] Unemployment insurance was also important as an automatic stabilizer.[26] Here the Keynesians were using an idea espoused by the political economy of a living wage. As noted in Chaps. 1, 2, and 3, Douglas, Wagner, J.M. Clark and Slichter had argued that the payment of

unemployment benefits in the early stages of an economic downturn moderates it. The Keynesians on the CEA had accepted the argument that the coverage of unemployment insurance needed to be extended to all workers and the benefits needed to be raised as a way to increase consumption.[27] They had come a long way from Hansen's complaint that "the President's recommendations about social security, minimum wages, etc., etc." had nothing to do with squelching a downturn.[28] As indicated in Chap. 6, however, Hansen had adopted unemployment insurance as a valuable automatic stabilizer as early as 1951. The point to be made is that the CEA had incorporated elements of the political economy of a living wage into Keynesian economics. In addition, many of the programs of the Great Society, such as urban renewal and area redevelopment, were public works projects that Keynes had supported. The real shift that took place with the Great Society was with programs to nurture equal opportunity for minorities.

The 1965 JEC Democrat majority report had praise for the way the administration was handling the economy, writing, "The record of the past 4 years demonstrates clearly that Federal fiscal policy can be employed vigorously and judiciously in support of steady noninflationary economic expansion." The tax cuts had been effective, which showed the "benefits to be derived from, an active fiscal policy."[29] The only concerns about fiscal policy were that other tax increases, such as a rise in the social security payroll tax, might offset the stimulus the tax cuts had given the economy. The Democrats in charge of the JEC even stopped worrying about inflation.[30]

The Republican minority of the JEC continued to criticize the Economic Report for being too upbeat about the economy and for not doing more to reduce unemployment. It did not mention inflation. Of interest to the theme of this book, the minority indicated, "We support the minimum wage laws." Still, there needed to be acknowledgment that changes in the FLSA had a negative impact "on employment opportunities for less skilled individuals." When they lost their jobs, the minimum wage hurt them by reducing their wage to zero. A better plan would be to allow them to earn less than a minimum wage and supplement their wages with government funds, which would "subsidize employment rather than unemployment."[31] As described in Chap. 3, Slichter had

proposed a similar plan to allow lower wages to reduce unemployment during the Great Depression, by adding low-wage insurance to the unemployment insurance program.

During the Congressional session of 1965, a range of programs to support the Great Society was enacted, including the Voting Rights Act, Medicare and Medicaid, federal aid to education, the Job Corps, the Housing and Urban Development Act and the Model Cities Program. The political economy of a living wage was being implemented, thanks to a booming economy and an overwhelming majority of Democrats in Congress. Perhaps the only drawback was that Medicare was funded by a flat tax on all income, which had a disproportionate effect on individuals in the lower brackets.

Signs of Inflation

Johnson's Economic Report for 1966 was exuberant in telling the progress the economy had made. "The greatest upsurge of economic well-being in the history of any nation" was entering its sixth year without any sign of a downturn. Johnson was aware that the economy was at full employment with a risk of inflation. Consequently, he proposed a fiscal policy in 1966 with a goal of "full employment without inflation." The demand for consumption and investment was very strong, and with the addition of defense spending for the Vietnam War, there might be excess demand in the economy. Since the beginning of the Kennedy administration, fiscal policy had aimed at "the stimulation of demand." Johnson recognized, "Now a stimulus is no longer appropriate." He was trying to cut spending by reducing low-priority programs, but was "unwilling to declare a moratorium on our progress toward the Great Society" and would add $3.2 billion to the budget to attain it. To counteract that spending as well as spending on the war, he would cut other areas and ask Congress to delay some tax cuts and speed up the collection of taxes. These measures would reduce aggregate demand and produce "price stability with continued growth."[32]

He also argued that cutting back fiscal policy was not enough to stem inflation. He saw the need for "responsibility to the public interest by

labor and business in setting wages and prices." The robust economy being forecast for 1966 might cause unions to seek wage hikes that made costs rise and businesses to increase prices when they were already earning reasonable profits. The CEA had already established guideposts for wages and prices, and it was "vitally important that labor and industry follow these guideposts."[33] Although he stressed the voluntary nature of the guideposts, Johnson, as Woods and Stein describe, was willing to intrude into collective bargaining negotiations. In summer 1965, he went to great lengths to ensure that a wage agreement between the United Steelworkers Union and the steel industry stayed within the guidelines and that the steel companies did not increase prices.[34] As noted in Chap. 3, Phelps concluded that collective bargaining would change when full employment put upward pressure on wages.[35] The wage policy that Keynesians had seen as needed might remain voluntary in theory, but Johnson's practice was to add governmental pressure into the mix.

Along with this Keynesian approach, Johnson brought in elements from the political economy of a living wage. He asked Congress to repeal Section 14(b) of the Taft-Hartley Act, but did not push very hard for it and it was stalled by a senate filibuster.[36] He continued to push for improvements in unemployment insurance with higher benefits and broader coverage. Just as important, he asked for increased coverage of the FLSA and an increase of the minimum wage.[37] He was successful in both respects. In September 1966 Congress amended the FLSA to extend its coverage to government workers and to gradually increase the minimum wage to $1.60 an hour by 1971.[38] Johnson had not forgotten the formula of the political economy of a living wage where collective bargaining, social insurance and a minimum wage yielded a living wage. The CEA annual report gave an in-depth analysis of the issues Johnson raised about future growth and inflation but did not discuss Johnson's recommendations for improving collective bargaining, unemployment insurance and the minimum wage as elements of an expansionary program.

The 1966 JEC majority report continued its praise for how well the economy was growing. It did pinpoint two areas of concern. The first one was the war in Vietnam. The Democrats on the JEC believed that the USA could afford the war and the Great Society.[39] If the war did not end

soon, they added, it might be necessary to raise taxes.[40] A tax increase to pay for the war would also help with the majority's second concern, inflation. After not worrying about it in the previous year, the JEC majority report raised the problem again. It considered the wage and price guidelines as a help to ensure that private decisions did not make inflation worse, but added that the right fiscal and monetary policies were needed.

The Democrats on the JEC had not forgotten the political economy of a living wage and supported an increase in the minimum wage by citing the problem of unscrupulous businesses that profited "from exploiting workers by paying them wages far below that necessary to support individuals and families at a minimum standard of health and decency," that is, a living wage. The minimum wage with extension of its coverage would address this problem and would not be "inflationary so long as the increases are not too abrupt or extravagant-and this hardly seems likely."[41] The majority on the JEC did not want to blame the minimum wage for causing inflation.

They also tied the Great Society programs to the political economy of a living wage. The way to build a Great Society was to enhance the capability of the human resources of the USA to "vastly increase our productivity." The report added that programs such as social security, public housing and urban renewal had been around for years.[42] Indeed, they had. They had been included in Roosevelt's Second Bill of Rights and had been promoted as supply-side aids to growth in Truman's Economic Reports. While the federal government had not followed Keynes' advice on the socialization of business investment, it was socializing investments in human capital.

The Republican minority did not respond to the Great Society and its promotion of the political economy of a living wage in 1966. Instead, it focused on inflation and saw an inflation mentality growing in the USA. To them, 1965 had seen an increase in inflation. It would have been worse, only "the administration suppressed some price rises by the coercive use of the wage-price guideposts." They even expressed concern the guideposts were "downgrading collective bargaining." Despite the guideposts, the pressure for inflation would remain dangerous "unless fiscal and monetary restraint is pursued."[43] The Republicans favored a fiscal policy of reduced spending and increased taxes.

A Tax Surcharge

The 1967 Economic Report began by trumpeting another year of economic growth in a very long expansion. Unemployment was under 4 percent and personal income was rising. The rate of poverty in the USA showed a dramatic decline. Despite the upbeat news, Johnson was concerned about inflation and the problem that low-skilled workers with large families "earned incomes insufficient to support a minimum standard of decent subsistence," that is, they did not earn a living wage.[44] These two problems highlighted a contradiction within the hybrid system of redistributive economics. Johnson hinted at this contradiction in his discussion of inflation. He indicated high aggregate demand meant, "Wages had to be raised sharply in underpaid occupations, which previously held their labor only because the alternative was no job at all." Aggregate demand at full employment was pulling subpar wages up, but without a wage policy to constrain other wages, such as existed in World War II, inflation was the result. Johnson recognized that these conditions had the capability of setting off an inflation spiral. To avoid this spiral would "require responsible action on the part of all."[45]

Johnson did not volunteer himself for this responsible action. He outlined all the new spending programs he had implemented in his War on Poverty and indicated he would implement new programs in 1967. He also wanted improvements in SSA pensions and unemployment insurance. Government spending in 1966 had seen a large expansion because of the War on Poverty and the war in Vietnam. To remove some of that fiscal stimulus and ease inflationary pressure, Johnson proposed a 6 percent surcharge on taxes owed by individuals and corporation, with an exemption for individuals in the lowest brackets.[46] He was counting on economic growth to provide additional revenue for the government to fund the programs he wanted to keep without adding to inflationary pressure; he also appealed for business and unions to behave themselves and not push too much for wage and price hikes.[47]

Johnson had a great deal of confidence in his ability to walk the line between growth at full employment and inflationary pressures, including an ability to increase the pay of low-wage workers. Adherents of the polit-

ical economy of a living wage had always argued that business had to sacrifice its profits to pay a living wage. Keynesian economics believed that when many workers were in unions they would have to keep wages within the bounds of productivity so that profits would be available to fund the future investment needed for the economy and productivity to grow. During World War II and the Korean War, the federal government resorted to wage and price controls to keep inflation in check, because it could not curtail its spending and because it needed the Federal Reserve to keep interest rates low to help it finance the wars. Eisenhower used cuts in government spending and the help of higher interest rates from the Federal Reserve to substitute for a wage policy as a control over inflation. Johnson did not want to cut government spending or to see interest rates rise; nor did he support wage and price controls. His approach was to raise taxes and ask for voluntary restraint from business and unions.

The CEA annual report was as enthusiastic as the Economic Report. The expansion had now lasted for six years, with growth for the last three years above 5¼ percent. As a result, real incomes were rising and the unemployment rate had fallen to 3.9 percent. In fact, the CEA went on, "1966 was in some respects too big a year." Aggregate demand increased rapidly, which added pressure on prices to rise. As a result, they continued, "After years of stimulating demand, policy was called upon to restrain the economy." The government had identified the need for restraint when the year began and set forth a policy for "a net restrictive fiscal impact in the first half of 1966." As the year went on, the policies of restraint were adjusted and began to slow down the inflationary pressures without using wage and price controls. As 1967 began, inflationary pressures still existed, but, the CEA forecast, "Their strength is waning."[48]

In a review of what was causing the inflationary pressures, the CEA made high aggregate demand the main source. One result of high demand was an equally high demand for labor, which "enhanced the bargaining power of organized workers and reduced that of employers." Here was the problem Keynesian economics warned about, high aggregate demand giving unions an expectation that they should get higher wage increases. Business did not oppose those expectations because they could pay for higher wages through higher prices. Under these conditions it was not a surprise that contracts negotiated by unions during 1966 gave workers

higher wage increases than in previous years.[49] To further address the issue of inflation, the CEA then raised the question of a trade-off between employment and inflation.[50] The idea that there was a trade-off between unemployment and inflation had been an issue of interest among Keynesians ever since A.W. Phillips published his now classic article on the topic.[51] The CEA did not see the trade-off happening until unemployment fell below 4 percent.

A reduction of expansionary fiscal policy would help keep inflation in check. The CEA believed, however, that its wage and price guideposts would also be useful, if they were adhered to. The CEA reviewed what it had written in previous reports about the guideposts and then analyzed how well they had worked. In the industries where the guideposts had been applied, they had worked until mid-1966.[52] After that time, unions had negotiated wage increases in excess of the guideposts. To restore compliance with the guideposts, the CEA wanted the government to step up its education of unions, business and the public on the need to follow the guideposts in making wage adjustments as a way of maintaining low levels of inflation.[53]

That education included answers to questions such as, should the guideposts allow exceptions and should business be asked to sacrifice profits by absorbing their increased costs? Regarding exceptions to the guideposts, they had always been allowed for workers earning low wages. The minimum wage, for example, was slated for an 11 percent increase in the coming year, a rate above the guideposts. In support of this exception, the CEA argued, "the productivity arithmetic suggests that, if an exception for low-wage workers is to be meaningful in permitting low-wage workers to receive increases in real wages, high-wage workers who have profited in the past from exceptionally strong bargaining power must respect the counterpart exception that their wage increases should be less than the average."[54] The slower growth of wages of unionized workers would pay for a living wage for low-income workers. This approach was hardly consistent with the hybrid system of redistributive economics.

The CEA addressed the issue of profits by indicating high profits had been given as a reason "for an exception to the wage guideposts." As a way of repudiating this reason, the CEA reverted to an argument that Hansen had previously made (see Chap. 3). Profits varied over the business cycle.

They fell in a recession and rose during the recovery. It was easy to ask for higher wages when profits were rising, but would wages be cut when profits fell. On the other hand, if macroeconomic policy was effective in keeping the economy growing, the CEA went on, businesses operating under conditions of permanent full employment would need lower profits, especially "because operations in such an environment carry lesser risk."[55] By using Keynesian economics to maintain an economy with high employment, the federal government could create the conditions for steady profits and prices for business and rising wages for workers. The result would be a change in the distribution of income toward workers with wages increasing in line with productivity and profits falling, just as Keynes had argued.

The JEC Report for 1967 continued to express concern over inflation. The majority Democrats supported Johnson' proposed tax surcharge and also wanted to see government spending cut. This approach followed the idea of Keynesian compensatory finance by raising taxes and cutting spending when the economic recovery reached full employment. The majority did not agree with the CEA's forecast of 4 percent unemployment, arguing that the economy could do better to them, "the requirements of the Employment Act" called for an "interim goal of 3½ percent unemployment and the longer range goal of 3 percent." The workforce could still expand and high levels of investment in the previous two years should heighten productivity.

Rising inflation could offset these factors for enabling growth, however. As a policy to control inflation, the majority returned to the guideposts. The problem was how to get decision makers in business, unions and the government to comply with them. "Any retreat from the basic philosophy of the guideposts," the majority argued, "would be a retreat from the objectives of the Employment Act."[56] The majority had learned the Keynesian lesson Hansen had taught in the 1940s: stable economic growth required compensatory finance plus a wage and price policy.

The minority took a different view of how to take care of inflation. They pushed for more spending cuts, but opposed the tax surcharge. They moderated their opposition to the wage and price guideposts as a tool for fighting inflation because they believed the administration had toned down the heavy-handed interference it had exercised with business

and unions. The guideposts were acceptable to them as an educational tool, but not as a regulatory weapon. The CEA had acknowledged that in 1966 it had been "involved in price decisions in 50 different industries." Firms were beginning to check with the CEA before initiating any increases in price. The minority felt that these interventions could "impair the Council's primary function as an advisory body to the President," that is, undermine its effectiveness as the impartial technocrats that Keynes had implied were needed to implement macroeconomic policy. They concluded that to reduce inflation the government needed "to follow sound fiscal and monetary policies" as a substitute for a wage and price policy, much as Eisenhower had done.[57]

The minority report included a section aimed at Johnson's Great Society. The section began with a discussion of the "idea of guaranteeing a minimum annual income to all Americans" that had become popular. The minority was not ready to take sides on a guaranteed annual income, but felt that it would perpetuate poverty among its recipients, at least those who did not use it to improve their employability. A better approach would be to guarantee opportunity for all individuals in the USA through more effective spending on health, education and welfare, recognizing that the minimum wage might increase unemployment among low-skilled workers, improving unemployment insurance and social security retirement payments, eliminating employment discrimination and utilizing sound policies to maximize economic growth and avoid inflation.[58]

This discussion by the minority of the idea of a guaranteed income touches on many themes in this book. The political economy of a living wage aimed at helping those who worked earn enough from their work to live a life of dignity. Charity and government relief were demeaning with regard to that life of dignity and were to be avoided. Through the concept of efficiency wage theory, a living wage would lead to increased production and a growing economy. For Keynesian economics, government spending would lead to higher wages, increased consumption and production and a growing economy, and it did not matter what the money was spent on, even poverty programs would work. As I have described in this book, the Democrats combined the two approaches into the hybrid system of redistributive economics. The Republican minority on the JEC began moving closer to the political economy of a living wage

by accepting its basic programs of collective bargaining, social insurance and the minimum wage.

Johnson's two strategies for fighting inflation proved difficult to bring about. The 1966 by-election had seen a resurgence of conservatives in Congress, and they were only willing to grant a tax surcharge if Johnson would cut spending, which he would not do with the Great Society programs and could not do with the war in Vietnam. Regarding a wage policy, Johnson did not favor wage and price controls and neither did members of Congress. Wage and price controls would only add to the unpopularity of the war in Vietnam.[59] Macroeconomic policy was stuck with voluntary wage and price guidelines as a way to fight inflation.

Inflation remained the number one concern in the 1968 Economic Report. The president reported that the economy had slowed down a bit in the first half of 1967 and then had surged to the point where the unemployment rate fell to 3.7 percent at the end of the year. The rate of inflation, however, had begun to exceed 3 percent. Johnson continued his two policies to combat it, the wage and price guideposts and the tax surcharge, now pegged at 10 percent with taxpayers in the lower brackets exempted from it.[60]

When Kennedy had advocated an across-the-board tax reduction, Progressives and union leaders had contended that most of the reductions should go to persons in the lower brackets. The tax cuts had not followed this approach, but Johnson returned to it by not proposing an across-the-board tax increase. By negating a portion of Kennedy's tax cut and making his tax increase temporary, he also followed the approach of compensatory finance, which argued that the government could manage the economy with short-term changes in fiscal policy during recessions and expansions. He also repeated his call for responsible wage and price behavior by unions and business. He could follow the Eisenhower approach of fiscal restraint and tight monetary policy to cause a recession as a way to fight inflation, but the cost of doing so would be high. Instead, he urged that "wage gains had "to move back toward parity with our gains in productivity."[61]

The CEA Report for 1968 followed Johnson in naming inflation as a policy priority and supporting the tax surcharge as an important tool for fighting it. The CEA noted that there was an "inflationary bias in a

high-employment economy" and it was important to learn to take care of it.[62] The CEA documented a wage and price spiral as starting to take place in the USA in the late 1960s. It eschewed mandatory controls on prices and wages as heavy-handed and tight monetary policy that increased the risk of a recession.[63] Not surprisingly, the CEA favored its program of guideposts.[64] The problem remained, however, of getting business and labor to use the guidelines voluntarily.

The 1968 JEC Report replicated the debate over ways to fight inflation that had taken place between the majority and the minority in previous reports. The debate over income maintenance programs also continued. The Democrats observed that "payments for income maintenance" were rising in the USA but a large number of persons "still have incomes below what is considered a poverty level."[65] They planned to study the problem and propose a solution soon. The Republicans had already studied the problem and proposed an Employment Incentive Act. The idea of the Act was to give employers an incentive to hire low-skilled workers by giving them a subsidy "approximating the difference between the productive value of the worker and the minimum wage." To get the subsidy, employers would have to offer training programs for those workers and provide them with a job opportunity at the minimum wage or higher after they completed the training. The Republicans based this program on the Employment Act.[66] Economic thinking had certainly come a long way when Republicans wanted to use the Employment Act to move low-skilled workers toward a living wage.

The effort to fight inflation came first, however, and the battle between Johnson and Congress over tax surcharges and spending cuts continued. Johnson hoped to win over Wilbur Mills (1909–1992), Democrat from Arkansas and chair of the House Ways and Means Committee, which was responsible for initiating changes in taxes, to his plan to increase taxes without a spending cut. The standoff between them lasted over a year until the Revenue and Expenditure Control Act of 1968 was passed on June 20, 1968, with the tax surcharge and some immediate budget cuts and more planned over the next two years.[67] This Act restored the compensatory finance variation of Keynesian economics by increasing taxes and attaining a budget surplus during the next fiscal year.

The Hybrid System of Redistributive Economics

In 1969, Johnson presented his last Economic Report. As had Truman almost two decades earlier, he took a long view of what his administration had accomplished, now that it was leaving office and being replaced by a Republican. Since I have provided Johnson's macroeconomic accomplishments at the beginning of this chapter, here I will only say that the trend of the late 1960s continued with steady growth, low unemployment (3.3 percent in December 1968) and higher inflation (above 4 percent a year). In this section I will focus on what Johnson and his CEA wrote about the economy that pertains to the hybrid system of redistributive economics. In his Report, Johnson proposed a very significant change to social security benefits, a key component of the political economy of a living wage. He noted that social security was "one of the oldest and best social programs" with about one-eighth of the population getting a monthly payment. As a result, a large number of its beneficiaries had escaped poverty. To make sure all of the beneficiaries escaped poverty, Johnson proposed "an average increase in benefits of 13 percent."[68] When social security pensions were first proposed in the 1930s, the Committee on Economic Security that drafted the SSA wanted to see pensions set at the level of a living wage. The SSA, however, was based on a payroll tax where each individual would contribute to his future benefits, which made it difficult to set pensions at a living wage for workers with low wages. Johnson was proposing a large increase, without indicating how to pay for it, although an increase in the payroll tax was the likely source. It was not approved although Congress did approve of annual cost-of-living adjustments in SSA pension benefits in 1972.

During the 1960s, the SSA payroll tax for pensions increased from 3 percent in 1960 to 4.2 percent in 1969 payable by employers and employees separately, or a combined total from 6 percent to 8.4 percent. Add in the Medicare tax and the combined total of the payroll tax went from 6 percent to 9.6 percent during the decade, a 60 percent increase that hit lower-income workers disproportionately (it was larger than the tax cut they had received). If Johnson's proposed increase in SSA benefits

had been approved and paid for by another increase in the payroll tax, it would still have hit the poor heavily. This change was hardly in line with the hybrid system of redistributive economics.

Keynesian economics, the other side of the hybrid system of redistributive economics, showed with respect to inflation from the effort to keep wages in line with productivity. The CEA Report for 1969 indicated that wage increases over the past year were about double the productivity increase of 3.4 percent.[69] To begin a process to slow inflation down, the CEA pushed for its previous program of self-control in pricing decisions by business and unions. Both sides would have to compromise on their goals. Labor needed higher wages to make up for the increases in the cost of living, which meant wage increases might exceed productivity for a while. Still, the CEA argued, "wage agreements would move halfway back to the ultimate productivity standard next year if labor accepted wage settlements that would bring the average increase in money wage rates a little below 5 percent." Business could afford those increases "if it intensified its efforts to offset rising costs through greater efficiency and if it absorbed a share of unavoidable increases in costs through acceptance of lower profit margins." The CEA offered "a general rule that business agree to absorb increases of up to 1 percent in unit costs and accept as a guide in price decisions a profit target no higher than the average achieved in the years 1967–1968."[70] Monsignor Ryan had indicated that a living wage took precedence over profits and the CEA was following him.

The CEA also discussed a cornerstone of the political economy of a living wage, the FLSA. "Minimum wage laws," the CEA observed, "protect the worker against the imperfections of the labor market which lead to substandard wages [and] may also encourage the more efficient use of labor." It acknowledged that higher prices might come about when the minimum wage was increased, but added that "society should be willing to pay the cost if this is the best way to help low-wage workers." The CEA went further by considering "alternative ways of helping low-wage workers."[71] One alternate approach to help low-income workers was the negative income tax to "provide a minimum-income guarantee to all individuals." The program was still under study to fine tune the methods for keeping work incentives in place.[72]

This proposal for a negative income tax has brought us back to the ultimate debate between Keynesian economics and the political economy of a living wage. The political economy of a living wage wanted all wage earners to be paid a living wage as a basic right. Keynesians such as Hansen had argued that a redistribution of income via progressive income taxes was not as disruptive of the economy as higher wages.[73] The negative income tax was a way to redistribute income through the tax system. Continued growth at full employment would enable the USA to be able to afford the taxes necessary to fund the negative income tax.

With this proposal, the CEA extended the original aim of the Employment Act. The Act had been proposed as a way to realize the first right of Roosevelt's Second Bill of Rights, "The right to a useful and remunerative job."[74] That right had been altered and then deleted from the final Act as passed by Congress and signed by Truman. Still, Truman had continued to use the Act to justify proposals for increased benefits and coverage of pensions and unemployment insurance under the SSA and increases in the amount and coverage of the minimum wage under the FLSA. Kennedy and Johnson had used the same approach. The CEA did them one better with its proposal for the negative income tax. The goal was not just a living wage for those who worked, but also a living income for all persons regardless of whether they worked. And the CEA did so under the legitimacy of the Employment Act of 1946!

The CEA proposal for a negative income tax also went beyond what Roosevelt and Truman wanted in terms of the political economy of a living wage. The point of the political economy of a living wage as extended by Roosevelt's Second Bill of Rights and Truman's Fair Deal was to allow workers to earn a living wage by their own productive effort without the indignity of the dole. The negative income tax was a dole that was not conducive to human dignity. At least that is how the early advocates for a living wage would have seen it.

The debate over income maintenance continued in the 1969 JEC Report. The Democrats titled their approach "Toward a Productive and Equitable Society." The productive part of the approach consisted of expanded manpower programs such as training and help in finding a job. The equity part would be provided by "an improved nationwide income maintenance program which provides equal treatment to every needy

citizen." The broad array of programs to help the poor at the national, state and local level had to be streamlined into a unified system. Oddly enough, the Democrats did not refer to the negative income tax that the CEA had proposed and settled for more study and improvements in unemployment insurance.[75]

The Republicans did respond to the negative income tax. A number of approaches to providing income maintenance had been proposed in recent years, and the negative income tax was another one. Its goal was "to alleviate poverty by providing the poor with direct money income." There was broad opposition to a guaranteed income from the general public. A more popular approach was "to guarantee everyone the opportunity to earn an adequate income." The Republicans accounted for this popularity as coming from a social value of a job, which gave "the poor worker income and the opportunity to productively participate in the economy, but provides him with pride and self-respect as well."[76] The Republicans, however, did not say that the job would guarantee a living wage that Progressives felt was needed to give workers dignity.

Economists, Keynesians and the Great Society

As might be expected, there was an explosion of academic work on Keynesian economics and the Great Society during the 1960s, both theoretical and policy oriented. In this section I will present a narrow slice of the writings of economists related to the overall theme of this book, the relationships among the political economy of a living wage, Keynesian economics and macroeconomic policy as reflected in the hybrid system of redistributive economics.

The first article I will look at was written for the *Nation* on May 10, 1965, by Stephen W. Rousseas (1921–2012), at the time a professor of economics at New York University. Rousseas' aim in the article was to place the Great Society in the context of the New Deal and its other successors, what I have been endeavoring to do in this chapter. To Rousseas, the USA in 1964 was "the good society already in operation," which meant that Johnson aimed at solving problems that did not exist. As a result, Johnson was merely filling in the gaps that the New Deal had left, "which

is all there is to the President's vision of the Great Society."[77] Rousseas concluded that the programs of the Great Society were gestures that made superficial changes but did not go to the heart of the need to alter the distribution of income. From this view, Johnson was not expanding on the hybrid system of redistributive economics, despite all his rhetoric.

Rousseas' argument was given a slightly different slant in the *New Republic* of June 12, 1965, in an article by Keyserling, member and then chair of the CEA under Truman. Keyserling pointed out that while the economy was growing, there was still high unemployment. It would take higher growth to cure that unemployment. He added that solving unemployment with growth would take a program that maintained consumption spending at the level where it kept up with the rapidly growing productive powers of the USA. To do so would mean reducing the income differences between persons living in poverty and those who were affluent. The Johnson approach fragmented the program for growth into a War on Poverty, a cure for unemployment and continued economic expansion, and all of them were failing. Too much emphasis was being made to solve the individual shortcomings of the poor when it was clear that it was a high level of total demand in the economy and not training programs that solved the problem of unemployment.[78]

Both Rousseas and Keyserling represent a perspective that the programs of the Great Society were not essential to sound economic policy. They might help a bit about the edges but the main priority of macroeconomic policy was to maintain high aggregate demand and redistribute income as a way to grow the economy toward full employment. That approach, however, brought about the conflict between Keynesian economics and its need for a wage policy at full employment and the political economy of a living wage which has a demand for wages to always increase, especially for low-wage workers. Two economists, Tobin and Martin Bronfenbrenner (1914–1997), recognized this conflict and wanted macroeconomic policy to do a better job of taking care of it.[79]

A more telling criticism of the Great Society came from a Progressive economist and poverty expert, Ben Seligman (1913–1970), a member of the institutional school of economics.[80] In 1968, he published a highly regarded book, *Permanent Poverty: An American Syndrome*, that aimed at providing a dose of realism to advocates of the hybrid system of redistributive economics as supposedly extended by Johnson.

Two solutions the Johnson administration offered to solve the problem of poverty at the time Seligman was writing were the programs of the Great Society and expansionary fiscal policy. Seligman was very critical of the programs of the Great Society for being too many, too varied and too haphazard to be effective. The training programs did not give their trainees the skills useful for attaining permanent jobs, and the other programs did little more than raise the expectations of the poor. Seligman forecast their future thusly, "The War on Poverty is grinding to a halt. … After several years of agitation, the Great Society seems to be no different from the Ordinary Society. … It appears that poverty, even in an affluent society, has congealed and hardened into a kind of subculture that represents a social syndrome, an ineradicable condition."[81] Seligman titled his last chapter "The End of Anti-Poverty" as a way of indicating that the failure of the Great Society and the War on Poverty would make it harder for the Congress to enact additional anti-poverty programs.

As for the other approach to reducing poverty, the expansion of the economy through the policies of Keynesian economics, Seligman was equally glum. He characterized efforts to increase aggregate demand "by such means as a tax cut" as "simplistic thinking." Increased demand would not help workers "whose skills suddenly become unnecessary and unwanted." Nor would increases in GNP help "to create jobs for those who need them most bitterly—the displaced, the young, the unskilled."[82] Seligman remained "dubious that growth and full employment can do the job."[83] Moreover, he characterized the argument for tax cuts as "reactionary" for not caring "*who* benefits from tax cuts." From this perspective, the Kennedy and Johnson administrations were conservative, because they settled "on a fiscal policy that helped corporations and the rich, relying on income to trickle down somehow to those who need it the most."[84] Seligman was not the only Progressive to argue this way and the next section will describe how unions felt the same way.

Unions and the Great Society

The AFL-CIO was a staunch supporter of Johnson, especially for his programs such as Medicare, tax reduction, civil rights, equal pay for women, aid to education and the War on Poverty.[85] Of special interest to my

theme, the AFL-CIO now supported the Kennedy-Johnson tax reduction plan. Its director of the Department of Legislation, Andrew J. Biemiller (1906–1982), argued that the reduction in individual and corporation taxes would "increase sharply consumer purchasing power and thus the demand for goods and services. This, in turn, would create jobs." He glossed over the AFL-CIO's previous strong objection to the reduction in the personal income taxes in the upper brackets by ignoring their supply-side goals, but did retain the stance that significant tax cuts for individuals in the lower brackets were vital.[86]

In addition, the *American Federationist* continued its backing for the political economy of a living wage. In July 1964, it featured an article on the need for higher wages as a way to create jobs. The article made two points. First, workers needed higher wages to maintain aggregate consumption in the economy. Second, workers were entitled to higher wages as their fair share of the productivity gains that were taking place in industry. The two points were tied together because wages were lagging behind productivity, which meant that profits were rising. This unequal distribution of income would cause a recession when all that was produced could not be sold. Businesses could afford to raise wages without increasing its prices, which meant that wage hikes need not add to inflationary pressures.[87] This argument had been made consistently by union leaders since the 1920s as part of the political economy of a living wage and its narrative of a high-production, high-wage and high-consumption economy.

The AFL-CIO also retained its support for a central element of the political economy of a living wage, the minimum wage law. In August 1964, it updated that support by showing how an increase in the minimum wage could eliminate poverty among the working poor. A large number of workers remained in poverty and many of them were not covered by the FLSA. Many of the jobs that were exempt from the FLSA were held by non-white males and females, which also made their inclusion a civil rights issue.[88] The AFL-CIO was aware of that aspect of the FLSA exemptions and indicated that those workers needed to be included under the FLSA and the minimum wage needed to be increased. To show how important these changes would be, the *American Federationist* indicated that full-time work at the current minimum wage of $1.25 per hour left an individual below the poverty line and many workers not covered by the FLSA earned even less. An increase of the minimum wage

to $2 an hour and extension of coverage to all workers would lift the working poor out of poverty.[89]

The AFL-CIO had not forgotten collective bargaining, another aim of the political economy of a living wage. Its focus was on changing the Taft-Hartley Act, and Meany kept up the AFL-CIO's objections to the Act, especially Section 14(b), which allowed states to enact right-to-work laws.[90] The AFL-CIO had consistently challenged the Taft-Hartley Act since it had become law. Its leaders now had hope that in the coming election they would get a president and a Congress that would finally repeal it.[91]

The *American Federationist* for 1965 continued its theme of support for all of Johnson's programs. The January issue led off with an article, "A Giant Step Toward a Great Society." It took the position that voters in the presidential election had expressed "their confidence in the economic and social structure that has been built, step by step, over the last 32 years." Those structures were the programs of the hybrid system of redistributive economics that had started during the New Deal and would continue into the Great Society. The *American Federationist* made this clear by listing the components of the Great Society. The first three were collective bargaining, social insurance and the minimum wage, the original package of the political economy of a living wage. Under collective bargaining, the *American Federationist* made repeal of Section 14(b) of the Taft-Hartley Act the priority. With social insurance, it wanted healthcare for the elderly. For the minimum wage, an increase to $2 an hour was the goal, along with increasing the coverage to exempt workers. The other programs on the list included elements of Roosevelt's Second Bill of Rights such as housing and education and added urban renewal, regional development and healthcare. The AFL-CIO believed in the possibility of a Great Society not "just for union members or just for wage earners, but for all."[92] During 1965, the *American Federationist* gave detailed articles on the primary elements of the political economy of a living wage, with a special issue on Section 14(b) of the Taft-Hartley Act calling its repeal "an essential step in the construction of the Great Society."[93]

There was one part of Johnson's program that the AFL-CIO did not go along with, the wage and price guideposts.[94] It took them on in an article on income policy in Europe. Whatever benefits the Europeans found for an income policy, the AFL-CIO was sure it would not work in the USA. The

CEA's guideposts were aimed at creating an income policy for the USA. Unions in the USA did not favor the guideposts. The problem was that most income policies in Europe had done a better job of controlling wages than prices and the guideposts in the USA would produce a similar result. Consequently, the *American Federationist* concluded, it was unlikely that an income policy could "ever be made compatible with social justice."[95] The AFL-CIO would be a reluctant volunteer for the guideposts.

In December 1965, Biemiller looked at what Congress and the president had accomplished during the legislative session for the year. He went down the list of all the programs the AFL-CIO had supported and detailed what Congress had done to enact them. The failure to repeal Section 14(b), due to a Senate filibuster, was a blow to organized labor. As a result, it was at the top of the list for the AFL-CIO's lobbying effort for the coming year. Other items on the list included increasing the minimum wage and extending its coverage and reforming unemployment insurance. It is not surprising that these three items were on a list for major work for the next Congressional session, as they were the three core elements of the political economy of a living wage. Biemiller accounted them as "absolute essentials."[96]

For the rest of the Johnson years, the *American Federationist* continued its support of the Great Society. Still, the principal programs of the AFL-CIO remained the core three of the political economy of a living wage: collective bargaining as represented by reversing Section 14(b) of the Taft-Hartley Act, increasing the minimum wage and extending its coverage and updating the unemployment insurance to make it compatible with the changing economy.[97] And it continued its support for changes in the FLSA as a way "To Rescue the Working Poor" in an editorial by Meany calling for an increase in the minimum wage as "the most important battlefront of the war on poverty—the drive to assure every worker at least a subsistence wage."[98] Among those top items, the *American Federationist* reported that the minimum wage had been increased and extended to 9.1 million workers. It would take more work to reach the AFL-CIO's goal of a minimum wage of a $2 an hour as a way to eliminate poverty among low-wage workers.[99] That major objective, however, was never reached and the minimum wage of 1968 was a peak when adjustment for inflation is taken into account.

Conclusion

Kennedy often used his favorite expression "a rising tide lifts all boats" to accentuate the importance of a growing economy for eliminating poverty. Stein, however, indicated that there were "categories of poverty that would not be lifted by the general rising tide of the economy."[100] Johnson took Stein's side of this issue.[101] The prosperity of the 1960s might have owed its enduring quality to Keynesian economics, but it would not help those who did not have the skills to obtain a job or who were discriminated against when they looked for one. The Great Society aimed to address such problems through the political economy of a living wage as extended by Roosevelt, Truman and Johnson to include improved education and training programs. Whether they solved the problems they were addressing, as Seligman argued they did not, was another matter.

Nevertheless, the Great Society was an Age of Keynes in several senses. Johnson followed Keynes' advice that it was much easier to promote social change in a prosperous economy. He also employed Keynesian economics to a greater degree than before or since as a way to achieve that prosperity by using tax cuts and government spending to stimulate the economy. His biggest problem was not being able to follow the Keynesians' advice and find a policy to combat the inflation that resulted from a period of sustained full employment. Only in Johnson's last year were taxes increased and spending cut to reduce inflationary pressure.

The relationship between economic theory and public policy is always problematic, because of the interplay between economic ideas and political partisanship. In the Johnson years, the CEA was guided by Keynesian theory, but political concerns caused its members to support the hybrid system of redistributive economics with a goal of making workers more productive and better consumers; in doing so they adopted two elements of the political economy of a living wage, social insurance and the minimum wage, but not the third element, collective bargaining. In addition, they added in a conservative program of tax cuts to stimulate investment in productive technology. These policies of increased social insurance and a minimum wage along with tax cuts for the wealthy aimed at increased

production to enable the economy to grow. Their net effect on the distribution of income was not easy to uncover, however.

It was also the beginning of the end for Keynesian economics and the political economy of a living wage as combined into the hybrid system of redistributive economics. Within three presidential terms, the main macroeconomic policy would be supply-side tax cuts as enacted by President Ronald Reagan (1911–2004), with barely a mention of Keynes or the elements of the political economy of a living wage. The next chapter will explore some reasons why this change took place.

Notes

1. Kearns, 1976, pp. 296–297.
2. Woods, 2016, p. 240.
3. Wilentz, 2016, p. 79.
4. For a very capable review of these programs, see Woods, 2016.
5. Johnson, 1969, p. 5.
6. Johnson, 1964, pp. 8–10.
7. Johnson, 1964, pp. 14–18.
8. Woods, 2016, p. 10.
9. CEA, 1964, p. 42.
10. CEA, 1964, p. 73.
11. CEA, 1964, p. 112.
12. CEA, 1964, p. 118.
13. JEC, 1964, pp. 3 and 10.
14. JEC, 1964, pp. 8–9.
15. JEC, 1964, pp. 26–27.
16. JEC, 1964, p. 28.
17. JEC, 1964, p. 37.
18. Zelizer, 2015, pp. 76–80; Crouse, 2018, pp. 1245–1260.
19. Johnson, 1965, pp. 1, 2 and 5.
20. Johnson, 1965, p. 6.
21. Johnson, 1965, p. 8.
22. Johnson, 1965, pp. 16–17.
23. CEA, 1965, p. 31.
24. CEA, 1965, pp. 32–33.

25. CEA, 1965, p. 100.
26. CEA, 1965, p. 102.
27. CEA, 1965, p. 102.
28. Hansen, 1947b, p. 73.
29. JEC, 1965, pp. 7–8.
30. JEC, 1965, p. 18.
31. JEC, 1965, pp. 80–81.
32. Johnson, 1966, pp. 10–11.
33. Johnson, 1966, p. 12.
34. Woods, 2016, pp. 210–212; Stein, 1994, p. 121.
35. Phelps, 1948, p. 595.
36. Johnson, 1966, p. 17; Zelizer, 2015, pp. 167–168; Woods, 2016, pp. 132–133; Kearns, 1976, p. 105.
37. Johnson, 1966, p. 17.
38. Woods, 2016, p. 252.
39. JEC, 1966, p. 5.
40. JEC, 1966, p. 8.
41. JEC, 1966, p. 11.
42. JEC, 1966, p. 14.
43. JEC, 1966, pp. 35 and 45.
44. Johnson, 1967, p. 5.
45. Johnson, 1967, p. 6.
46. Johnson, 1967, p. 9.
47. Johnson, 1967, p. 13.
48. CEA, 1967, pp. 37–38.
49. CEA, 1967, pp. 81–82.
50. CEA, 1967, p. 99.
51. Phillips, 1958, pp. 283–289. For an early use of Phillips' work by Keynesians, see Samuelson and Solow, 1960, pp. 177–194. Crouse offers a succinct discussion of the Phillips curve, Crouse, 2018, pp. 690–695.
52. CEA, 1967, pp. 123–124.
53. CEA, 1967, pp. 124–127.
54. CEA, 1967, p. 131.
55. CEA, 1967, p. 133.
56. JEC, 1967, pp. 17–22.
57. JEC, 1967, p. 65.
58. JEC, 1967, pp. 78–79.

59. Zelizer, 2015, p. 252.
60. Johnson, 1968, p. 4.
61. Johnson, 1968, pp. 19–20.
62. CEA, 1968, p. 97.
63. CEA, 1968, p. 119.
64. CEA, 1968, p. 121.
65. JEC, 1968, pp. 33–34.
66. JEC, 1968, p. 91.
67. Zelizer, 2015, pp. 279–301.
68. Johnson, 1969, p. 21.
69. CEA, 1969, p. 46.
70. CEA, 1969, p. 59.
71. CEA, 1969, pp. 102–103.
72. CEA, 1969, pp. 171–172.
73. Hansen, 1947a, p. 50.
74. Roosevelt, 1944, pp. 40–42.
75. JEC, 1969, p. 45.
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8

The Decline and Revival of a Living Wage

Advocates for programs to help the working poor in the USA began using the term a living wage to specify what they meant in the late nineteenth century. Union leaders, businessmen, academics and politicians in the USA continued to use it through the early years of the New Deal and gave it meaning with enactment of the programs of the political economy of a living wage—collective bargaining, social insurance and a minimum wage. As Nelson Lichtenstein writes, "In the lexicon of their day, unionists and their progressive allies wanted 'a living wage'."[1] The day he refers to is the 1920s, and his point is that the term a living wage became obsolete.

Although the use of the term waned in the USA, the idea behind the political economy of a living wage, that workers had a right to a wage that enabled them to live in comfort and dignity and that the federal government could bring it about through the legislation of collective bargaining, social insurance and a minimum wage, did not diminish. Instead, the idea was reframed several times as a Second Bill of Rights, a Fair Deal, the New Frontier or the Great Society, each of which added new elements to the political economy of a living wage. After 1946, that reframing was justified by the Employment Act and its goals to maintain high levels of

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growth, employment and purchasing power. The Employment Act did not specify an economic approach to meeting its goal, and presidents used this flexibility to implement the hybrid system of redistributive economics to meet their responsibility under the Act.

The process by which Keynesian economics became a part of macroeconomic policy can thus be described as hybridization. In the USA before Keynes wrote, there were two forms of macroeconomic policy, the political economy of a living wage, which sought to increase consumption by redistributing income to workers through higher wages, and pre-Keynesian fiscal policy, which sought to create jobs and consumption through public works projects using the notion of compensatory finance. When Keynes' ideas were introduced, politicians and economists from the older institutional school who adhered to the political economy of a living wage and pre-Keynesian fiscal policy took from Keynes the ideas that they could incorporate into their preexistent framework, namely, his approach for judging how much the government had to spend to reach full employment; they did not use many other of his ideas, such as the socialization of investment. Keynes' "madmen in authority" blended his ideas with those of older "academic scribblers," just not the ones he inveighed against. The older ideas were used to push wages up, while Keynes' theories were employed to pull them up. Keynes' ideas were also promoted as part of the Employment Act, but as a subsidiary to the political economy of a living wage.

Younger economists not encumbered with an established framework readily accepted more of Keynes' ideas and thereby created a revolution among economists by developing macroeconomics as an important discipline. By the time those younger economists reached a position of authority as members of the CEA, they agreed to the hybrid system of redistributive economics. Whether they did so to be compatible with the politicians for whom they worked or from their own appraisal of the merits of the political economy of a living wage is not clear. One example of this process is the way they took the concept of automatic stabilizers from the political economy of a living wage and made it their own by acknowledging unemployment insurance, social security pensions and the minimum wage as methods for maintaining high levels of consumption. They did not, however, support collective bargaining as strongly as the political economy of a living wage had. By incorporating these

programs into their macroeconomic policies, they achieved an Age of Keynes as a component of the Great Society that promoted the political economy of a living wage in the 1960s.

In the process, they were able to soften Ryan's view that businesses which could not pay a living wage should be allowed to perish. They succeed in this softening because they, as well as the supporters of the political economy of a living wage, recognized that the quest for equality had limits. The chief limit was that it should not undermine the economy that had brought a high level of prosperity to the USA. Once every worker had a living wage, there was less concern about income equality; a living wage would be easier to calculate and pay that a system of equality would be. Even though the language of the Employment Act reflected a conservative tone, its implementation by means of the Economic Reports of the President created a consensus that accepted the hybrid system of redistributive economics as a macroeconomic policy in which even conservatives found things to support, such as the tax cuts proposed by Kennedy and put in place by Johnson. It was a consensus policy suitable for a mixed economy that came to exist in the USA and worked well from 1944 to 1969 from the perspective of the goals of the political economy of a living wage and Keynesian economics. Then it did not work at all.

My purpose in this chapter is to consider the decline in the elements of the political economy of a living wage, collective bargaining, social insurance and the minimum wage, along with the decline in Keynesian economics that took place after the 1960s and ended the hybrid system of redistributive economics. These declines carried with them a reduction in the living wage, not just as a term but as a level of income. This reduction of income brought back the use of the term a living wage as part of the lexicon of our day, with union leaders, politicians, academic economists and community organizers using the term widely and reviving its popularity. The new advocates for a living wage recognized the decline of the hybrid system of redistributive economics as part of the federal government's responsibility under the Employment Act and began a grassroots movement to promote a living wage at the local level, starting in Baltimore in the early 1990s. Before considering their revival of a living wage, I will look at the decline of the hybrid system of redistributive economics. First, I will give some background for those declines by describing changes in the economy that took place in the 1970s.

The Economy of the 1970s

The economy of the 1970s can be summarized with a single term, stagflation, that is, a stagnant economy with inflation.[2] After the prosperous 1960s, with growth and low inflation, the stagflation of the 1970s called in to question the efficacy of the policies not only of the Kennedy-Johnson years but also the hybrid system of redistributive economics that had existed as a macroeconomic policy for nearly four decades.[3] To be sure, the inflation under Johnson was mild compared with what took place after his presidency ended. Prices rose at 4.19 percent in 1968, Johnson's last year in office. During 1969, the first year of office for the next president, Richard M. Nixon (1913–1994), inflation continued to rise at a rate of 5.46 percent, and it stayed at that level the next year, 1970, at 5.72 percent.

There is some fairness in ascribing the inflation of those years to Johnson's policies. After that, Nixon should get responsibility for the inflation for the rest of the 1970s, although it did not help that there were two rounds of oil price hikes brought about by the Organization of the Petroleum Exporting Countries (OPEC) cartel. Nixon brought inflation down to 3.72 percent for 1972. That was the result of a shift in policy in August 1971, when he established wage and price controls. As Crouse describes, Nixon believed in free-market economics but mixed in Keynesian thinking as a way to ensure that a recession did not spoil his re-election chances.[4] As I described in Chap. 3, wage and price controls were consistent with Keynesian economics, which meant that Nixon was more of a Keynesian than he knew. A Democrat Congress had given him the power to impose the controls in 1970, and he reluctantly used that power a year later. The controls were supposed to be for 90 days but they lasted until 1974. During that time the Federal Reserve stimulated the economy with low interest rates and Nixon pursued an expansionary fiscal policy. Due to this stimulation of the economy, when the wage and price controls ended, inflation reached 11.04 percent in 1974 and remained high for the rest of the decade. During this period, macroeconomic policy was informed by the idea of a natural rate of unemployment that was defined as the rate that kept inflation expectations aligned

with actual inflation. This natural rate proved difficult to estimate, however, and its use as a guide for policy served to exacerbate inflation.[5] Along with the inflation, there were two recessions during the 1970s, a mild one in 1970 and a severe one in 1975. The second one led to a "misery index" that combined the inflation rate with the unemployment rate. Stagflation persisted throughout the 1970s and undermined the wide support Keynesian economics had among economists and politicians. It ultimately took a policy in the early 1980s that revived the approach of the Eisenhower years of high interest rates to cause a recession and end the inflationary spiral.

Along with his legacy of inflation, Nixon continued other features of the Johnson program. His Economic Reports maintained the Keynesian perspective of using fiscal policy as a tool to manage the economy. The Reports also mentioned the mainstays of the political economy of a living wage, collective bargaining, social insurance in the form of pensions and unemployment insurance, and the minimum wage, but they did not have the same focus on them as had be given by Johnson.[6] Still, as Crouse describes, the New Deal programs remained vital during the Nixon years.[7] Nixon also retained Johnson's tax surcharge and added the alternative minimum tax. He continued Johnson's domestic policy and augmented it by approving automatic cost-of-living adjustments for retirees on social security pensions, which were enacted by Congress in 1972, to begin in 1975. Nixon also tried to enact a form of the negative income tax proposed by Johnson's CEA but that reform was not passed by Congress until 1975 during the administration of President Gerald Ford (1913–2006) as the Earned Income Tax Credit; it was later expanded and had a Child Tax Credit added in during the presidency of Ronald Reagan (1911–2004).

All presidents in period after World War II through the 1970s used elements of the political economy of a living wage, even if they did not call it that, as supplemented by Keynesian economics to produce the hybrid system of redistributive economics. The hybrid system worked well during Johnson's great push for the Great Society. Perhaps it worked too well. As Marglin has pointed out, during 1964 to 1968 wages kept up with increases in productivity; from 1968 to 1973, however, wages increased by more than increases in productivity. The result was a profit squeeze, which inhibited business' ability to add to its capital base.[8]

While there are many explanations for this outcome, it could readily be attributed to the superior bargaining power of unions, especially in an era of full employment brought about by Keynesian economics. Increased social insurance benefits and rises in the minimum wage also contributed to the profit squeeze. The hybrid system of redistributive economics was not living up to the promise of meeting the needs of both business and workers. Keynesian economics and the social insurance programs of the political economy of a living wage began receiving criticisms from free-market thinkers and supply-side activists during the mid-1970s. To be sure, President Jimmy Carter (1924–) remained committed to the hybrid system but with deep reservations.

More importantly, his policies did not resolve the problems of stagflation and he lost the presidency to Reagan. Under Reagan, the hybrid system was supplanted by a neoliberal approach that brought back conservative free-market economics as a tool to restore the profitability of business. The key element of Reagan's conservative macroeconomic policy was supply-side tax cuts. Republicans wanted to reduce taxes but had to respond to criticisms that tax reduction would stimulate the economy, add to inflationary pressure and create a large federal budget deficit. In response, they pirated a portion of the argument that had been made in support of the Kennedy-Johnson tax cuts. As noted in Chaps. 6 and 7, Kennedy and Johnson had argued that the tax cut would stimulate demand for investment and consumption as well as the supply of capital and work effort. The Reaganites left out the demand-side argument to negate charges of stimulating the economy and stressed the supply-side argument that reduced taxes would stimulate production and reduce inflation. The plan decreased the highest bracket of 70 percent of income above $107,000 to 50 percent of income above $42,800; my calculation is that a person earning $200,000 a year saved over $60,000 in taxes. The lowest bracket on incomes between $3400 and $5500 was cut from 14 to 12 percent. Reagan also reprised the Kennedy-Johnson argument that economic growth would increase tax collections and put the federal budget on a path to balance. As Stein describes, the argument required many heroic assumption to prove true, and most of them did not work out as planned.[9] Tax collections did increase, but government spending went up by more. Regardless, Reagan created a conservative

attitude toward government programs for redistributing income that lasted a generation. As Lindert and Williamson state the case, Reagan's triumph of conservativism halted the "long twentieth century trend toward regulation, union power, the welfare state and the New Deal."[10]

The result, according to Sean Wilentz, was that "beginning in the 1970s, economic inequality, however sorely felt by ordinary Americans, passed virtually unnoticed in our national politics."[11] Lindert and Williamson concur by finding that their great leveling was stopped in the 1970s in the USA and has reversed ever since.[12] In the same vein, Peter Temin indicates that the real wage of workers stopped increasing in 1970, even though, as Kaufman describes, productivity continued to grow.[13] As one example, the minimum wage, adjusted for inflation, reached a peak in 1968 and has been declining in real terms ever since, even though its nominal value was increased almost every year between 1974 and 1980 and showed an 81 percent increase during the 1970s.[14] A potential explanation for the decline in wages, however, is that union membership declined to the point that it is now less than 10 percent of the private workforce. As Eichengreen concludes, "It follows that declining unionization has been a factor in rising inequality."[15] Collective bargaining, the main element of the political economy of a living wage and its efforts to integrate workers into society, was no longer effective.

The Decline of Unions

The AFL and the CIO, along with all their member unions, entered the 1950s in very good shape. They had seen tremendous growth in their membership during the 1940s, despite the problems the CIO had experienced in organizing workers in the South through a program called "Operation Dixie." There had also been a shift in labor law in 1947 with the Taft-Hartley Act, which outlawed a set of unfair labor practices by unions and gave states the ability to enact right-to-work laws. Union insisted that the Act had abridged many rights that workers had gained under the NLRA. Both the AFL and the CIO continually sought the repeal of Section 14(b) of the Act, which allowed states to enact right-to-work laws. Still, union membership totaled 17 million in 1954, 28.3 percent of

the workforce. The merger of the AFL and the CIO in 1955 seemed to point to improved prospects for continued union growth. In 1959, union members constituted 75.9 percent of blue-collar workers. The 1954 percentage of the workforce and the 1959 percentage of blue-collar workers, however, were all-time highs for their respective measures.

When unions began the 1960s, AFL-CIO leaders began to recognize that difficulties lay ahead. In December 1961, the *American Federationist* published an article "Employment Changes and Union Growth" with an analysis that the changing structure of the US economy had caused difficulties in recruiting new union members lately and the outlook was not promising as long as the changes in the economy continued. The most salient indicator of potential decline was that union membership was not keeping pace with employment growth. From 1945 to 1960, the number of employed workers had risen by 12.9 million, while union membership increased by only 2.9 million. The article attributed much of the shortfall to the change in the occupational composition of the US workforce from a reduction in the percentage of workers in blue-collar jobs and an increase in the percentage of workers in white-collar jobs.[16]

There were other threats to growth in membership that the article did not mention but which the *American Federationist* had also described. The rise of importance of international trade was a subtle threat to unions because opponents of unionism argued that the USA had an unfavorable balance of trade because high wages had "priced us out of the market."[17] Chronic unemployment, an issue in the early 1960s, could also hinder growth in union membership.[18] Union researchers also believed that automation, always a problem for workers in manufacturing, was looming as an issue due to the impact of computer technology that would change the composition of the workforce by eliminating blue-collar jobs.[19] Other members of the union movement accredited its slowdown in growth to management resistance, problems within unions and their inability to organize non-union workers and minorities, the loss of the idealism that had motivated union members in the 1930s, and businesses taking better care of workers through improved methods of human resource management.[20] There was also the resurgence of conservative opposition to unions and the rise of a new-left analysis "that damns labor's existence in order to save its soul."[21] As long as these issues were

not solved, workers would see their economic and political influence through their unions diminish.

These issues were compounded by the uneasy alliance unions had with Keynesian economics. Keynesians had accepted social insurance and the minimum wage as part of macroeconomic policy. They did not, however, accept collective bargaining as part of their framework, consistently finding it to be an extractive institution and a source of inflation. As indicated in Chap. 6, Hansen had determined that unions had showed an "arrogant disdain of the public interest."[22] Keynesians contributed to a pattern whereby unions could be construed as a special interest group. In addition, the programs of the Great Society were taking care of problems that workers had previously resolved through the efforts of their unions. The AFL-CIO supported the programs of the Great Society, especially in regard to civil rights, much as they had supported the programs of the New Deal and the Fair Deal, without getting a great deal in return.[23]

From the perspective of Progressive politicians, the other side of the alliance, unions were not doing a good job of organizing many low-wage workers and especially not the ones who suffered from discrimination. The AFL-CIO was a federation, and while its leaders could push for the political economy of a living wage as revised to include civil rights, the industrial and local unions that made up its members might not go along with those programs. As a result, politicians such as Johnson could decide that the failure of unions to take in new members meant that the government had to protect those low-wage non-union workers. No advances in labor legislation that helped unions took place after the passage of the NLRA. Rather, the Taft-Hartley Act was enacted, including Section 14(b), which allowed states to enact right-to-work laws.[24] It is not clear why Johnson did not do more to repeal Section 14(b) of the Taft-Hartley Act.

Democrats paid a high price for his weak support. In a study released in January 2018, James Feigenbaum, Alexander Hertel-Fernandez and Vanessa Williamson find the ability for a number of states to maintain the legal status of a right to work in an open shop cut the share of the votes received by Democrat nominees for president by 3.5 percent.[25] There could then be a cycle where firms moved to right-to-work states, which further reduced support of Democrat presidential candidates,

causing them to lose elections, which then eroded support for unions and caused further declines in their membership. Union membership continued to grow and reached 19 million workers in 1970, but that growth did not keep up with the increase in the workforce and union membership declined to 24.6 percent of the workforce in 1970.

Since the 1970s, union decline has continued and analysts of the union movement have attributed this decline to deindustrialization, "a widespread, systematic disinvestment in the nation's basic productive capacity," to a lessening of unions' social activism, which meant they lost "social legitimacy" and acted more like a "special interest" group, and to a shift in ideology from the regulated capitalism started by the New Deal to the neoliberalism of free markets that began in the USA during the 1970s.[26] As Lichtenstein observes, "Explaining labor's decline has become something of a cottage industry over the last quarter century, with a full line of custom-made products."[27] From the perspective of my interest in the intellectual history of the political economy of a living wage, my focus for the rest of this section will be on criticisms of unions that were made by economists with a Progressive or radical bent, who should have been on the side of labor unions.

The first person I will consider, John Kenneth Galbraith (1908–2006), was an icon of liberalism in the USA and an early advocate of Keynesian economics. In 1967 he published a book on the role of the mature corporation in the US economy, *The New Industrial State*. In it he described how large industrial firms were run by and for the technostructure, the trained experts who made the decisions regarding production and pricing that were essential for the profitability of the firm. Unlike earlier business leaders, who opposed government intervention in the economy, the technostructure welcomed the government's maintenance of aggregate demand at high levels. Consistent demand made it easier for them to plan high levels of production at appropriate prices.[28]

Another group that supported government management of aggregate demand was the leadership of the AFL-CIO. Galbraith found this support to be ironic, because a high aggregate demand could threaten the survival of unions. He wrote, "Both high employment resulting from the regulation of aggregate demand and comparative affluence reduce the dependence of the individual worker on the union." The high employment

and high income from Keynesian policies, Galbraith argued, "are substitutes for the union."[29]

The political economy of a living wage had held that unions were necessary to equalize bargaining power between workers and firms. According to Galbraith, the technostructure did not have the exploitive attitude toward workers that the older entrepreneur had. Instead, it was willing to share its profits with them in the form of higher pay and better benefits as a way to keep production functioning smoothly to take advantage of high aggregate demand. Consequently, he concluded, "things for which the unions fought vigorously—the regulation of aggregate demand to insure full employment and higher income for members—have contributed to their decline."[30] Galbraith in this way presented a revised view of the conflict between Keynesian economics and unions. Keynesian economists such as Hansen and Samuelson had previously argued that unions might be irresponsible in pushing for wage increases that were too large, especially during a period of high employment. Galbraith maintained that unions were no longer needed to push for higher wages.[31]

Galbraith raised a crucial issue for the survival of unions. To what extent were government programs a substitute for union bargaining power? The issue applied not only to Keynesian economics but also to the political economy of a living wage. Under the latter, the New Deal had supported collective bargaining as a way to help workers gain a living wage. It also mandated a minimum wage with the idea that not all workers in all industries were or would ever be organized by unions and the minimum wage would put them on the road to a living wage. The pensions and unemployment benefits of the SSA were available to workers whose unions could not gain them through collective bargaining and for workers who were not organized. Gompers had always argued that higher wages, better employment and fringe benefits should be "established by the solidarity of the working men themselves through the economic forces of their trade unions" instead of by the government.[32] Starting in the 1930s, unions of the AFL and especially the CIO broke with Gompers' stricture and accepted help from the government, because they thought they had no choice. Business in the USA had proven to be stronger than unions were. Now, to the extent that Galbraith's contention was correct,

their reliance on the government for high demand and a living wage was abetting their decline.

That decline, however, would eliminate an important support for the Keynesian programs Galbraith championed. The AFL-CIO had been strong supporters of Progressive Democrats, because those Democrats took positions favorable to unions such as Keynesian spending programs and the political economy of a living wage. Hacker and Pierson argue that despite all the flaws unions had, such as misuse of union funds, they "did more than any other organized force in American politics to address the concerns of less affluent citizens."[33] Without the support of unions, politicians who approved of the hybrid system of redistributive economics would have a harder time being elected. Galbraith found it ironic that unions were being weakened by the policies they supported. He did not see it as a problem that those policies might be weakened by the loss of their strongest supporter.

Another problem with Galbraith's argument was that the large corporation and its technostructure did not apply to every industry. Instead, the USA was becoming a dual economy with a core of large corporations and unions with high wages and a periphery of small businesses and unorganized workers where incomes were less prosperous. Temin credits the development economist W. Arthur Lewis (1915–1991) for crafting the theory of the dual economy.[34] In the theory of the dual economy, economists argued that in the core, corporations with monopoly power combined with monopolistic unions to bring about higher wages paid for by higher prices, to the detriment of businesses and workers in the periphery. To use the terminology of Acemoglu and Robinson, they were extractive rather than inclusive.

To see the implications of the dual economy for unions, I will consider a 1973 article on dual labor markets and market segmentation by radical economists Michael Reich (1945–), David M. Gordon (1944–1996) and Richard C. Edwards (1944–). They found that recent research on the dual economy had uncovered "persistent divisions among American workers" to a degree that they functioned in separate labor markets "with different working conditions, different promotional opportunities, different wages and different market institutions."[35] This evidence supported

what Reich, Gordon and Edwards called a new theory of segmented labor markets that had developed in the USA during the past century.

During the rise of mass production industry by large corporations in the USA between 1890 and the 1920s, the leaders of those corporations recognized a labor problem, as described in Chap. 2. To Reich, Gordon and Edwards, however, the labor problem was brought about by the "homogenization and proletarianization of the work force" with a "potentially revolutionary character." To counter this possible fervor for revolution among workers, corporate leaders "actively and consciously fostered labor segmentation" as a method that would "divide and conquer" workers.[36] This strategy was supplemented by programs of corporate-funded welfare programs for workers and the use of ethnic and gender rivalries to sustain the potential to divide and conquer the workforce. The result was a labor system that vitiated "potential movements uniting all workers against employers."[37]

Reich, Gordon and Edwards present a counter argument to the political economy of a living wage by arguing, in essence, that its programs thwarted the development of working class consciousness and solidarity. In Chap. 2, I pointed out that Progressive business leaders and politicians had promoted industrial democracy as an approach to solve the labor problem through better treatment of workers, including higher wages through collective bargaining in cooperation with unions where they existed and through company representation plans where they did not. This approach became part of the political economy of a living wage and was a component of New Deal legislation of the NLRA. The results of the approach, however, did not extend to all members of the labor force and unions were part of the problem according to Reich, Gordon and Edwards. They focused on the immediate needs of their members and did not take a social outlook needed to give all workers a higher wage. Reich, Gordon and Edwards saw the union complicity in segmenting labor markets as way to combine Marx's insights about unions as being non-revolutionary with the awareness of racism and sexism that had been developed by the New Left in the 1960s.

Reich, Gordon and Edwards raised an essential question regarding the theory of Acemoglu and Robinson that the market economy represents inclusive institutions. Writing from a Marxian perspective, they argued

that capitalism is inherently exploitive and that market institutions, including the political institutions that support them, are extractive. From this perspective it followed that the political economy of a living wage and the unions that supported it were all extractive. Only a working class united by class consciousness could be inclusive. Consequently, radical intellectuals did not support unions.

As a result, intellectual support in academia for unions diminished for the next several decades. To be sure, there were programs for labor studies that trained graduate students to be effective members of the union bureaucracy. Professors in other programs, such as in Progressive departments of economics, political science or sociology, did not support unions in their writings or by working with them, as had the generation of intellectuals that had been attracted to unions through their mutual support of the labor agenda of the New Deal, that is, the political economy of a living wage. Supporters of the political economy of a living wage became complacent that the gains made by collective bargaining were irreversible.

Thomas Frank, in a book that focuses on the changing philosophy of the Democrat Party, attributes the decline of interest in unions to more than complacency by Progressives. Rather, he argues that it was an intentional paradigm shift that started in the early 1970s when party leaders decided, "Democrats could no longer be the party of Franklin Roosevelt's New Deal coalition, with its heave reliance upon organized labor."[38] Union leaders who had been strong supporters of the hybrid system of redistributive economics were supplanted from the Democrat Party and replaced by college-trained professionals, that is, Galbraith's technostructure, who had less interest in income equality. To them, Frank argues, income was determined by the skills these technocrats had attained from their college educations, and for workers to gain higher incomes, they needed more training.[39] From this perspective, unions had become extractive and education could be made inclusive. The mantra of college for everyone would replace unions and the hybrid system of redistributive economics.

This survey of the reasons for the decline of unions shows that it has been attributed to many causes but a primary one was that the bargaining power of workers and their unions never equaled the bargaining power of business, neither at the bargaining table nor in lobbying government.

The decline of unions reduced the scope of the political economy of a living wage in two ways. First, collective bargaining was the key element of the pursuit of a living wage as a way to equalize bargaining power between employers and labor; as unions declined, income inequality has grown. Second, unions were important supporters of the other elements of the political economy of a living wage, social insurance and a minimum wage. With regard to social insurance, the topic of the next section, it has been able to avoid decline, at least with respect to the pension program of the SSA, due to organized efforts of the elderly. The section after that will examine the deterioration of the minimum wage.

Social Insurance Stays Firm, For Now

The history of both the old-age pension plan and the unemployment insurance program since the passage of the SSA in 1935 has been one of increased coverage, increased benefits and the resulting increased costs. With regard to the pension plan, even before it was to begin its payments, Congress amended the SSA in 1939 to keep the phasing in of a 3 percent payroll tax at its initial level of 1 percent for two years longer and extend the period for the gradual increase of the tax. The old-age pension benefits were increased and the beginning of the payment of benefits was changed from 1942 to 1940. Since then, the program has been expanded in terms of more persons being covered and new benefits added, such as disability coverage starting in 1956. Automatic cost-of-living adjustments for retirees on social security pensions began in 1975.

These added benefits have increased the costs of the pensions, as have demographic changes. The retirement of the baby boom generation will put pressure on the pension system as will the greater life expectancy of individuals who reach retirement age. These issues were apparent in the early 1980s. As a result, the payroll tax for SSA pensions has gradually increased to 6.2 percent payable by both workers and employers and the ceiling on the amount of income subject to the tax has also increased. Because the payroll tax is highly regressive, its increase has been detrimental to the take-home income of low-wage workers. Still, the use of the payroll tax was part of the goal of the political economy of a living

wage, whose advocates wanted social insurance to be funded by its recipients to give them the dignity of paying their own way.

To be sure, their funding approach was illusory. Social security pensions are actually funded on a pay-as-you-go plan where pensions are funded by current payments of the payroll tax. That plan means that current taxpayers are footing the bill for current retirees. Even the share of the tax paid by employers is shifted to workers through lower wages, a point on which there is agreement by economists. Given that plan, the sustainability of the pension system depends on the ratio of active workers to retirees. With the retirement of the baby boom generation, that ratio will decline, which may require increased payroll taxes. In addition to higher payroll taxes, the retirement age at which full benefits can be received has been gradually increased from 65 to 67. Additional reform in terms of a higher retirement age or increased payroll taxes will become necessary.[40]

Another method often proposed to rescue the SSA pension program is to eliminate the cap on the amount of wages and salaries that are subject to the SSA pension payroll tax. The cap was part of the original SSA and its purpose was to prevent more affluent individuals from becoming eligible for high pensions under the SSA. Under the SSA pension program, benefits are based on an individual's highest 35 years of earnings, up to the cap each year. If the cap were removed, the benefits would be based on the highest 35 years of earnings. The actual formula for calculating the benefits from those earnings is complicated but the higher the earnings, the higher the benefits. For removal of the cap to help rescue the pension program, the benefit formula would have to be changed such that the benefits were capped but the earnings were not. To do so, however, would eliminate the idea that all individuals earned their benefits and make it clear that social security is a welfare entitlement. It would also make it clear that the SSA was part of the hybrid system of redistributive economics.

At the time the SSA was passed, it included a plan to put money collected but not disbursed as benefits into a reserve fund. The reserve fund would "invest" its holdings in special interest US government bonds to be used to defray future benefit payments. At the end of 2016, the reserve fund, now divided into two separate Social Security trust funds, the

Old-Age and Survivors Insurance Trust Fund for retirement benefits and the Disability Insurance Trust Fund for disability benefits, held $2.8 trillion in bonds. As the baby boom generation retires, some, if not all, of the bonds in these trust funds will have to be turned into cash. This monetization of the Trust Funds will not be easy. The federal government will have to run a budget surplus to pay off its debt held by the Trust Funds, either from spending cuts or by increased taxes, or else refinance that debt with borrowing. Alternatively, it might persuade the Federal Reserve to purchase the bonds in the Trust Funds by printing money. None of these alternatives or a combination of them will be easy to accomplish without there being a negative impact on the economy. And even if they work, the Trust Funds will all be spent by sometime in the 2030s.

The unemployment insurance program of the SSA presents a similar story to the pension plan. Over time, the coverage has increased by eliminating the exemptions of the original law, by increasing the benefits paid out, and expanding the amount of time an unemployed person may collect benefits. Because the unemployment insurance is a joint program of the federal government and individual state governments, it is difficult to summarize its changes. For example, the program is funded by a mix of federal and state taxes, with the rates varying by locality. The payment of benefits also varies by locality. During the 2007–2009 recession, however, the time limit on when benefits could be paid out was greatly increased. In addition to "normal" unemployment benefits paid by state governments, the federal government added an extended benefits program that could last for up to 76 additional weeks, although the extension was later reduced to 47 weeks. In early 2013 Congress and President Barack Obama (1961–) agreed to maintain the extended benefits.

Healthcare first became a federal program with the enactment of Medicare, health coverage for persons over age 65, in 1965. Medicare was funded by a payroll tax on all income, similar to the social security pension program; in 2018 the tax was set at 1.45 percent of income for both employers and employees. Medicaid was also passed in 1965 as an amendment to the SSA; it set up a joint program of the federal government and the individual states to provide medical coverage to persons with low income. In 2018, both programs covered 36.2 percent of the US population (16.6 percent in Medicare and 19.6 percent in Medicaid). In 1986,

Congress effectively expanded health coverage through the Emergency Medical Treatment and Active Labor Act, which requires hospitals to provide care to anyone needing emergency treatment. The Act did not contain any provision for paying those hospitals, however.

To establish a more specific national healthcare plan, the Patient Protection and Affordable Care Act, commonly called Obamacare, was passed by Congress and signed by President Obama on March 23, 2010. The Act is a very complex program of taxes, mandates and required health insurance coverage for every citizen of the USA. With the election of 2016, Republicans and President Donald Trump (1946–) took political control of the federal government, and it will be a challenge to ensure that healthcare coverage provisions are sustainable. As is the case with SSA pensions, the long-term sustainability of national healthcare is questionable. With the large cohort of baby boomers tapping in to Medicare over the next 30 years and the continued increases in healthcare costs, the viability of all healthcare programs will suffer without reforms that include some systematic form of benefit cuts.[41]

The Minimum Wage Falls

In 1938, the FLSA set a minimum flat rate of 25 cents an hour in the first year and 30 cents in the second with flexibility for mandated wages to be higher, as long as they did not exceed 40 cents per hour. This approach was used to allow for differences in the minimum wage between the South and the rest of the USA. The regional differences were eliminated during World War II. The original law exempted many occupations from coverage by the law; they have been reduced and the minimum wage has been increased multiple times by Congress starting in 1949. In 2009, the most recent increase brought it to $7.25 per hour. Adjusted for inflation, the 40 cent per hour minimum wage ceiling of 1938 would be equivalent to $7.03 per hour in January 2018. This meant that there had been a slight gain in the purchasing power of the minimum wage, but the gain will likely be eroded by inflation until the minimum is raised again. The minimum wage adjusted for inflation reached a peak in 1968, with the $1.60 mandated by the FLSA being equivalent to $11.30 in January

2018. Few proponents of the minimum wage would consider this to be a living wage.

Although the debate over the economic impact of the minimum wage continues with no conclusion, the minimum wage is another example of a New Deal regulation that has been broadly accepted. Still, it has never been indexed to inflation the way social security pensions were nor has the USA developed a formula for a minimum living wage that takes into account age and makes annual adjustments as takes place in the UK. And it surely has not reached a level that would put full-time workers above the poverty line, even with the Earned Income Credit. If Johnson had followed the advice of the AFL-CIO that the minimum wage could be used to end poverty by raising it to $2 an hour in 1964 and if it had been indexed to inflation, it would have been $15.94 in January 2018, roughly equal to the $15 an hour being presented as a livable minimum wage by current advocates for the political economy of a living wage.

Another issue regarding the minimum wage is that it does not help the jobless or those who lose their jobs. The economic theory of the minimum wage, as with all theory in economics, depends an awful lot on what is assumed about supply and demand curves in a basically static model. With the demand for labor, for example, the demand curve is fixed and increases in the minimum wage will cause unemployment; when the price of something goes up, less will be purchased, holding everything else constant. The amount of workers who lose their jobs will depend on the price elasticity of demand, that is, the sensitivity of demand to price changes. If the demand for labor in a particular industry is highly inelastic, few workers will lose their jobs initially. Given time, however, firms can choose to replace workers with machines. Also given time, the government can use fiscal policy to increase aggregate demand, making it easier for businesses to pay a higher minimum wage and pass the cost to consumers.

Whether increased aggregate demand will be robust enough to create jobs for the non-working poor is arguable at best. As Jason Riley summarizes the studies of the effect of increasing the minimum wage, it does lead to unemployment or to a reduced chance of employment for blacks and especially teenagers. Riley argues that unions promoted the minimum wage as a way to sustain the high wages of their members by

increasing the wages of firms with which their employers competed.[42] Here is another way unions were branded as extractive institutions. In 1965, as described in Chap. 7, Republicans on the JEC had addressed the negative impact of the minimum wage on the employment chances of the poor and black teenagers and argued that a better plan would be to allow them to earn less than a minimum wage and supplement their wages with government funds, which would "subsidize employment rather than unemployment."[43] This proposal was never tried, however. Democrats more likely thought that the demand policies of Keynesian economics would create jobs for those who did not have one as well as to make it easier to pay for the increased minimum wage of those who did have a job. Their thinking that way would be consistent with the bundling of the political economy of a living wage with Keynesian economics to create the hybrid system of redistributive economics.

The Decline of Keynesian Economics

The decline of Keynesian economics was the result of a double-barreled confrontation with theory and practice. With regard to theory, Keynes had detractors at the start, from the individuals he had characterized as "classicals" as well as from the Austrian school. Institutionalist business cycle theorists such as Arthur Burns did not like the way Keynes aggregated his variables. By the 1950s, Milton Friedman had restored monetary economics as a cause and possible cure for business cycles and had challenged the validity of Keynes' consumption function. The success of macroeconomic policy in the 1960s made such theoretical critiques ineffective. Then the 1970s came with the combination of unusually high inflation with high unemployment, a combination that was not supposed to take place in the world of Keynesian economics, and the Keynesian success of the 1960s became ephemeral. New theories of macroeconomics such as rational expectations, crowding out theory and real business cycles were created and the older theories that opposed Keynes reached new levels of popularity. Austrian economics found its business cycle theory treated favorably. A school of post-Keynesian economics focused on financial instability as a cause of recessions. There was also a shift in

the focus of policy from stimulating demand to stimulating supply, which led to the supply-side revolution under Reagan.

For a critique of Keynesian macroeconomic policy related to the relationship between employment and wages, I will consider a heterodox approach that mixed Keynes with Marx. In 1975, Raford Boddy (1936–) and James Crotty (1940–) published a paper on what they called the political business cycle. The paper brought class conflict to the forefront of macroeconomic policy by arguing, as Marx might have, that "the maximization of corporate profits is the objective of government fiscal and monetary policy."[44] Their overall finding was that during the period of Keynesian economic policy, wages had gone up and profits had fallen in the second half of recoveries. High employment led to "the reduction of the reserve army of the unemployed," which enhanced "the bargaining position of the working class." The goal of government policy, then, was to bring about "the termination of the expansionary phase of the cycle and the rebuilding of the reserve army."[45] Once unemployment increased, profits would be restored.

In arguing this way, Boddy and Crotty denigrated the Keynesian approach. To be sure, Keynes and his followers, as we saw in Chap. 3, recognized that full employment would put upward pressure on wages and alter the distribution of income. They approved of this process as long as wages did not outpace productivity and as long as it was passive investors, the rentier class, who lost out. Profits that went to entrepreneurs were essential for the economy to grow from investments in capital. In a world of class conflict, however, the profits of entrepreneurs might decline, and it was necessary for a government that sided with those entrepreneurs to restore those profits by reducing the pressure on wages. From this perspective, the macroeconomic policies of Keynesian economics were extractive rather than inclusive to use the terminology of Acemoglu and Robinson.

Wage and price controls had been the approach to keep wages in check during World War II and the Korean War and Nixon employed the same approach in the early 1970s. Unions had objected to wage and price controls because wage controls had been more vigorous than price controls and real wages had fallen. In place of wage and price controls, first Eisenhower and then Reagan had used tight monetary policy to keep

wages in check. Keynes was not a strong supporter of these policies, arguing that some inflation was all right as long as it only harmed passive investors in financial assets. When it eroded the profits of business and reduced its investment in productive capital, then something had to be done to curtail it. The real issue is that the upward pull on wages from Keynesian economics became known as demand-pull inflation.

To the extent that the arguments advanced by Boddy and Crotty became popular, they called Keynesian economics into question and raised a problem among Progressives in terms of the hybrid system of redistributive economics. Starting with Roosevelt, that hybrid system made the securing of a living wage a responsibility of the federal government, through its promotion of collective bargaining, social insurance, a minimum wage and high employment. Roosevelt's Second Bill of Rights, pre-Keynesian fiscal policy and Keynesian economics all agreed that government investment in public works projects was an important addendum to a living wage as a way to create jobs and maintain higher wages. To the extent that the federal government also had a goal of maintaining profits, especially for the core firms of the dual economy, it would pursue policies that were inimical to the hybrid system of redistributive economics. Temin argues that after 1970, the wealthy began using an "investment theory of politics" by putting their political contributions behind candidates who would pay off for support with policies the wealthy favored, such as wanting "to undo the New Deal" and to not "provide social insurance for all."[46] Hacker and Pierson make the same argument.[47] In addition, government spending on infrastructure in the form of public works projects and defense spending (once referred to as military Keynesianism) have all declined as a percentage of GDP.[48]

As the previous four sections have argued, all the components of the hybrid system of redistributive economics have been in decline (collective bargaining, the minimum wage and Keynesian economics) or threatened with decline (social insurance) starting in the 1970s. The linchpin of all of them was collective bargaining. Proponents of the political economy of a living wage made it the key element of their program and gave it priority with the NLRA being the earliest of labor reforms (followed shortly by the SSA and somewhat later by the FLSA). Not only were unions important for negotiating higher wages, they also supported social

insurance, the minimum wage and fiscal policy spending on public works, as early advocates for the hybrid system of redistributive economics such as Douglas argued. The decline of unions implied the demise of the hybrid system. Perhaps that is why, in the 1970s, when the hybrid system was beginning its decline, there was a brief spurt of interest in reviving a living wage from Progressive economists.

Economists Return to the Living Wage

As I have argued throughout this book, Progressive thinkers avoided the term "a living wage" to define the objective of their social reforms, starting in the 1940s. It was a practice that would continue through the 1990s. As indicated in Chap. 1, my search of databases in the social sciences and history using the search term "living wage" produced four articles in the period from 1940 to 1990. In this section, I will consider two of them, which were written by economists.

The first one was an article "A Living Wage" by Daniel R. Fusfeld (1922–2007), a long-time professor of economics at the University of Michigan and a member of the institutional school of economics. He stated the point of his article in the very first sentence, "The only effective way to eliminate poverty in the United States is to pay all workers a living wage."[49] Fusfeld's proposal was not a new one. The idea of paying all workers a living wage as a way to abolish poverty had become commonplace in the 1920s and 1930s among Progressive economists, business leaders, union activists and reformers.[50] Perhaps because he was aware of that previous history, Fusfeld chose to return to using "a living wage" as his catchphrase. His main proposal was that the minimum wage be raised to $3.50 an hour, which would generate an annual income that was above the poverty line (adjusted for inflation it would be $19.19 an hour in January 2018). Progressives had wanted the original minimum wage of the FLSA to be a living wage and kept pushing to increase it, as I have described in previous chapters. The AFL-CIO, as noted in the last chapter, had also argued that a higher minimum wage could end poverty among low-wage workers in the USA.

Fusfeld's return to the livable minimum wage, to use a more recent term, was based on his recognition that all other methods of eliminating poverty had come to nothing. He wrote:

> Amelioration through provision of public services, such as health services, education and welfare may have stabilized the situation. … But these services represent indirect subsidies, from the rest of the economy, to both the employers of low wage labor and the users of products and services produced in the low wage industries. As for the hope that economic growth will trickle down to the poor, the last quarter century has shown that such a policy has severe limitations.[51]

Neither the programs of the Great Society nor the policies of Keynesian economics could solve the problem of poverty. Instead, Fusfeld wanted a livable minimum wage as the most effective and pervasive solution to poverty. In doing so, he used the argument developed by John Maurice Clark, set forth in Chap. 2, that businesses that did not pay a living wage were being subsidized by society. Workers had to be sustained, and if their wages were insufficient for them to subsist, society had to make up the difference. The result of a living wage, he concluded, would be the elimination of poverty and the healthier economy that would come with it, greater equality in the distribution of income and an incentive for businesses in the service industries to find ways to improve the productivity of its workforce. The result "would not be utopia" but it would result in a movement to "a humane economy."[52]

The second article on the living wage I found was from 1975 and titled "Full Employment at Living Wages." It was written by Thomas Vietorisz (1926–), Robert Mier (1942–1995) and Bennett Harrison (1942–1999). The theme of the article was that "true full employment" meant "the opportunity for all to work for living wages."[53] Vietorisz, Mier and Harrison looked back to the Employment Act of 1946 and how the original version of the Act "made clear the rejection of employment on substandard jobs as satisfying national goals."[54]

The Employment Act had not included this rejection in its final form, and Vietorisz, Mier and Harrison argued that since then the government's macroeconomic policy focused on reducing unemployment "devoid of any wage standard."[55] They calculated that to attain full employment at living

wages, 9 million jobs were needed to eliminate unemployment and 28 million jobs had to be upgraded in terms of the low wages that went with them.[56] To create those jobs with a living wage, Vietorisz, Mier and Harrison proposed large-scale public employment to provide public goods and services. If their program were large enough, it could lead to the government making a guarantee of a job for everyone. Those guaranteed jobs would also carry a living wage. The government would also have to "engage in far more expansionary macro-policies than were practiced before." Because the greater expansion of monetary and fiscal policy might lead to inflation, it would create "the necessity for permanent profit and wage controls." Permanent controls and other aspects of their program meant to Vietorisz, Mier and Harrison "that the operation of market forces must be complemented by broad planning measures" by the federal government.[57]

Vietorisz, Mier and Harrison acknowledged that their approach would drastically change the nature of the US economy but such change was needed to reach their goal of full employment at living wages. By implication, they argued, as had Fusfeld, that Keynesian economics and the variant of the political economy of a living wage set forth by the Great Society had not worked in reaching their goal. In their case, an increase in the intensity of Keynesian policies was needed as long as they were coupled with a guaranteed job with at least a living wage. If that combination led to inflation, as Keynesian said it might, then government planning was needed.

While interesting in their efforts to revive the use of the term a living wage, the articles by Fusfeld and by Vietorisz, Mier and Harrison were not influential. The former has 4 citations on Google Scholar and the latter has 11, including 2 self-referential ones. More than academic articles was needed to revive the use of the term a living wage. There needed to be a social movement with a degree of success to revive and popularize the term.

The Revival of a Living Wage Movement

There is broad agreement among members of the contemporary living wage movement that their campaign began with the fight for a living wage in Baltimore, MD, in 1994.[58] In that city, clergymen who provided food for the poor discovered that many of the recipients of their programs

worked at wages that were inadequate to purchase enough food to live. They formed an organization, Baltimoreans United in Leadership Development (BUILD), and joined forces with the Industrial Areas Foundation (IAF) and the American Federation of State, County and Municipal Employees (AFSCME) to lobby the Baltimore City government to find a way to help low-wage workers.[59] Jonathan Lange, a community organizer with IAF, describes their approach as follows: "We developed the living-wage strategy because, in the early 1990s, more traditional unionization campaigns became almost impossible in an environment of outsourced work, weak labor laws, and outmoded and sometimes undemocratic union representation elections."[60] The overall strategy of the coalition was pushing the Baltimore City Council to enact a law mandating that all private businesses that did contract work with the city be required to pay a wage that would provide a full-time worker with a family an income above the poverty. Specifically, workers for those businesses who earned the minimum wage of $4.35 an hour in 1994 would see their wages go up to $7.70 an hour over the next four years. The success of the campaign in Baltimore set off a series of similar struggles in other cities across the USA and a living wage movement got under way.

From the perspective of the history of economic thought being used in this book, the Baltimore campaign did not advance any new ideas. E.R.A. Seligman, the first prominent US economist to raise the issue of a living wage, in 1898, argued "that while there were insuperable difficulties in achieving a living wage through government wage-fixing in every trade, still a beginning could be made if all units of government—national, state, and municipal—would insist that in all work done for them the contractors pay a living wage."[61] This approach was made national when the federal government tried to secure a living wage through collective bargaining, social insurance and a minimum wage. Over the years, however, the national program weakened. First, the Progressive reformers wishing to enact the program stopped referring to it as a living wage program; they preferred to name it in ways that put their own stamp on it, such as the Fair Deal or the Great Society. Second, the efficacy of the programs of the political economy of a living wage deteriorated; unions and collective bargaining lost their social authority as well as their numbers and the minimum wage lagged behind inflation—only the social

insurance programs of the SSA showed any improvements, such as Supplemental Security Income, and those improvements did not help the working poor.

To counter this slowdown in national reform, the activists in Baltimore began a revival of a living wage movement comprised of a few unions, religious groups and community organizations that focused on helping low-wage workers in local areas get higher wages through the use of political action and moral persuasion.[62] The members of the new living wage movement, as Lange's statement above indicates, recognized the ineffectiveness of the national program of the political economy of a living wage. Unions were obviously in decline, and there had been no Progressive reform in the USA for a quarter of a century. It was also getting harder to increase the federal minimum wage. As part of their new program, the activists in Baltimore, as Stephanie Luce writes, "succeeded in highlighting the limits of the minimum wage and reviving the term 'living wage'."[63] C. Melissa Snarr makes the same point, writing, "Baltimore activists articulated the failures of the minimum wage program and reintroduced the term 'living wage'."[64] The term caught on, much as it had in the 1920s and early 1930s, and grassroots movements used it to frame their mission.

These movements have made small gains in attaining its goal of a living wage, with success in about 100 municipal governments by 2003 and victories at some major universities.[65] In 2007, for example, the state of Maryland implemented a living wage law that required contractors doing business with it to pay their workers a living wage of $11.30 an hour in high cost areas and $8.50 an hour in rural areas; in 2014, the respective rates were raised to $13.39 an hour and $10.06 an hour. San Francisco and Oakland, California, also passed laws in 2014 mandating a living wage in the $14–$15 an hour range. Still, the movement has had an impact on a very small number of workers in comparison to the 40 percent of the workforce estimated to need a living wage.[66]

As a result, the living wage movement has augmented its approach from a local grassroots campaign to a national program. A lead role in this national program was taken by Obama, who tried to invigorate the hybrid system of redistributive economics in his book, *The Audacity of Hope: Thoughts on Reclaiming the American Dream*. He called for the hybrid system in the Prologue to the book, writing of his anger "about

policies that consistently favor the wealthy and powerful over average Americans."[67] Looking backward, Obama found that the New Deal coalition was held together by "a vision of fair wages and benefits, patronage and public works, and an ever-rising standard of living."[68] Unfortunately, advocates of the hybrid system were not effective in promoting this agenda and making it clear that they were engaged in helping all members of society. This neglect came to a head during the economically slow period of the 1970s, when Progressives did not express the importance of their programs for income redistribution and allowed for an opening by the advocates of the market economy, as personified by Reagan, to supplant the New Deal vision by attacking government programs.

In response, Obama argued that the New Deal needed to be updated with the extension of the safety net to include healthcare, to help displaced workers get retrained for new careers, to strengthen unions through changes in the NLRA and to expand unemployment insurance to include wage insurance, "which provides 50 percent of the difference between a worker's old wage and his new wage for anywhere from one to two years."[69] This last idea replicates the recommendation of Slichter for insurance against pay cuts, as described in Chap. 3. While Obama's approach may have seemed audacious to a new generation, it merely repeated what had been proposed by the political economy of a living wage from the New Deal to the Great Society. In this way, Obama was trying to return the Democrat Party to its New Deal roots, which had been abandoned in the 1970s, as Frank describes, although Frank considers Obama's efforts to be more rhetoric that concealed his revealed preference for the agenda of the professional managerial class (Galbraith's technostructure).[70]

Regardless of the lack of new ideas in the revived political economy of a living wage, for the last six years, there has been an effort to create a national livable minimum wage by raising the federal minimum wage to a range of $15 to $22 an hour.[71] In the 2016 Democrat primary campaign, Senator Bernie Sanders publically supported a livable minimum wage of $15 an hour and continued to do so after the election was over.[72] In addition, there are efforts to reunite Keynesian economics and the political economy of a living wage through employer of last resort pro-

grams where the federal government guarantees "a job opportunity for anyone ready, willing, and able to work at a living wage."[73] The guaranteed job approach has roots in the CIO's efforts in the 1940s to guarantee "at least a minimum living wage the year around."[74]

While these efforts are ongoing, it is questionable that they will add up to a national program for a living wage as existed during the New Deal through the NLRA, SSA and FLSA. Present-day advocates for a living wage have tried to build on these programs through working to expand collective bargaining with reforms such as "card check," finding alternatives to unions as a way of organizing and motivating workers such as pushing for a livable minimum wage, and expanding social security retirement benefits. These efforts are very much in line with what Roosevelt, Ryan and the other early advocates for a living wage believed was the right program for a living wage.

A variation on the political economy of a living wage that has been receiving attention is the concept of a basic income. The idea, as expressed by Robert Jameson, is "a regular, tax-free, fixed amount of money paid to every citizen of a country."[75] The goal of a basic income would be to provide sufficient income to enable individuals and families to have enough money to purchase their essential subsistence needs without any form of means testing; it would not be a living wage but might aid in bringing about a living wage. Once workers were guaranteed a subsistence level of income, they could be more selective in searching for work, because they would not be obligated to take any job in order to survive. They would have more bargaining power, and employers would have to offer better pay and working conditions to attract them to work. By being a simple system where all the government needs to do is mail everyone a weekly check, the government could use a streamlined tax system to redistribute income from the wealthy to the poor.[76] In 2017, the state legislature of Hawaii began investigating the implementation of a guaranteed basic income where individuals would be given cash to spend as they please.[77]

The proposal for a basic income, like the negative income tax, goes beyond what Roosevelt and Truman wanted in terms of the political economy of a living wage. The point of the political economy of a living wage as extended by Roosevelt's Second Bill of Rights and Truman's Fair Deal was to allow workers to earn a living wage by their own productive

effort. In that way, workers would have the dignity of not being dependent on the dole. The basic income can be seen as a dole, with its recipients thereby lacking dignity. At least that is how the early advocates for a living wage saw it. Advocates for a basic income, on the other hand, could argue that giving the privilege of a basic income on everyone would make the issue of dignity moot. In a postmodern, deconstructed world, however, it is arguable whether supporters of a basic income will make the compromises that make consensus possible, such as supporters of the political economy of a living wage did with Keynesian economics.

Conclusion

For over 150 years, a movement for a living wage has existed in the USA. It started with labor unions, which saw collective bargaining as the way to attain a living wage. At the beginning of twentieth century, Progressive intellectuals and politicians took up the cause of the living wage and argued for government programs to bring it about. Both groups joined forces and ideas and developed what I have called the political economy of a living wage—collective bargaining, social insurance and a minimum wage. In making their case for a living wage, in addition to moral reasons both groups employed economic arguments. The most influential ones were that a living wage would improve workers' productivity and sustain aggregate consumption. A more subtle argument was that businesses that paid less than a living wage were being subsidized by society, which had to make up for the poverty of low-wage workers through charity or government relief programs. The New Deal, with help from unions, advocates for a living wage and many other groups in its coalition, attained the basic elements of the political economy of a living wage through the NLRA, the SSA and the FLSA.

The New Deal reforms ended with the enactment of the FLSA in 1938. For politicians at least, it was also the end of their attachment to the term a living wage. Roosevelt kept the idea alive with his Second Bill or Rights. For the next 25 years, the only reform the Democrats pushed through was the Employment Act of 1946, and it was not really a reform. Rather, in terms of economic policy, the Act simply codified what the

federal government had been doing for nearly 20 years, using fiscal policy to make it easier for business to handle the increased labor costs that might result from the programs of the political economy of a living wage. More to the point of this book, the Employment Act also gave a justification for the expansion and extension of two elements of the political economy of a living wage, social insurance and the minimum wage, beyond the meager start the New Deal had given them.

Because the Great Society did not complete the work done by the New Deal in enacting the political economy of a living wage, at least with regard to the minimum wage and collective bargaining, it created the conditions that led to the revival of a living wage movement. Those conditions also included the failure of Keynesian economics to attain a living wage through increased aggregate demand. As had the one before it, the current living wage movement relies on economic and moral arguments. In this way, as Snarr describes, it has connected "the pragmatic benefits of government intervention and demand-side economics with the moral obligations of government to care for the poor."[78] Whether it will succeed is not easily predictable. After a wait of 40 years since the Great Society, Progressives were able to add healthcare to the social insurance component of the political economy of a living wage and complete one unfinished item from the New Deal. Then the opening for reform closed before completion of the New Deal agenda of a livable minimum wage.

This unfinished business of the political economy of a living wage raises an important issue regarding the effect of the living wage on workers and their capabilities. Workers have thus far been ineffective in securing a living wage for themselves. Most of the work has been done by unions, community organizers or Progressive politicians. This method of securing a living wage elicits a question of the extent to which workers sacrifice their dignity by needing the help of others to attain their goals. As noted in Chap. 2, the earliest proponent of the political economy in the USA, Richard T. Ely, believed that a living wage should give the worker "opportunity for the completest development of all his faculties."[79] To be effective in raising the capabilities of workers to the level needed for them to sustain a living wage on their own, they must spend their increased wages in ways that improve their "human capital" and their "social capital," which will enable them to form unions or other organizations that will empower

them to gain higher wages on their own. To have the dignity that a living wage will confer on them, they must win it for themselves. They must have, to use Carol Graham's term "agency," an indication of the opportunity to lead the life they most desire.[80] That opportunity represents an unspoken challenge to the political economy of a living wage in an era where it cannot be bundled with Keynesian economics to recreate the hybrid system of redistributive economics. Rather, it has to make its peace with a cultural construct that places the building of a consensus around alternate ways of helping others out of bounds.

Notes

1. Lichtenstein, 2002, p. 5.
2. For a more complete discussion of the economic and political issues of the 1970s as related to the hybrid system of redistributive economics, see Crouse, 2018, Chaps. 3–10, especially Chap. 9 on Keynesian economics versus supply-side economics.
3. Stein, 1994, pp. 16 and 221.
4. Crouse, 2018, pp. 1358–1375.
5. Stein, 1994, pp. 141–142.
6. See Nixon, 1971, for an example.
7. Crouse, 2018, pp. 1521–1523.
8. Marglin, 1990, pp. 17–18.
9. Stein, 1994, pp. 241–294.
10. Lindert and Williamson, 2016, p. 240.
11. Wilentz, 2016, p. 582.
12. Lindert and Williamson, 2016, p. 219.
13. Temin, 2017, p. 267; Kaufman, 2018, pp. 134–137.
14. Nordlund, 1997, p. 123.
15. Eichengreen, 2018, p. 111.
16. *American Federationist*, 1961, p. 21.
17. Meany, 1961, p. 2.
18. Goldfinger, 1961, p. 2.
19. Killingsworth, 1961, p. 28.
20. Barkin, 1961, p. 5.
21. Tyler, 1963, pp. 1–5.
22. Hansen, 1960, pp. 37–38.

23. Dubofsky and Dulles, 2010, p. 361.
24. Zelizer, 2015, pp. 70 and 167–168.
25. Feigenbaum et al., 2018, p. 1.
26. Bluestone and Harrison, 1982, p. 6; Friedman, 2008, p. 12; Kotz, 2015, p. 6.
27. Lichtenstein, 2002, p. 215.
28. Galbraith, 1967, pp. 219–220.
29. Galbraith, 1967, p. 269.
30. Galbraith, 1967, p. 274.
31. Galbraith, 1967, p. 280.
32. Gompers, 2015.
33. Hacker and Pierson, 2016, pp. 2267–2268.
34. Temin, 2017, p. 142.
35. Reich et al., 1973, p. 359.
36. Reich et al., 1973, p. 361.
37. Reich et al., 1973, pp. 361 and 364.
38. Frank, 2016, p. 44.
39. Frank, 2016, p. 68.
40. For a concise discussion of the issues with SSA pensions, see Gibney, 2017, pp. 215–235.
41. For a concise discussion of the issues with healthcare, see Gibney, 2017, pp. 215–235.
42. Riley, 2016, pp. 87–111.
43. JEC, 1965, pp. 80–81.
44. Boddy and Crotty, 1975, p. 1.
45. Boddy and Crotty, 1975, p. 2.
46. Temin, 2017, pp. 1866–1890, 1914 and 2091–2092.
47. Hacker and Pierson, 2016, pp. 3663–3664.
48. Gibney, 2017, pp. 176–193.
49. Fusfeld, 1973, p. 35.
50. Stabile, 2016.
51. Fusfeld, 1973, p. 36.
52. Fusfeld, 1973, pp. 40–41.
53. Vietorisz et al., 1975, p. 94.
54. Vietorisz et al., 1975, p. 98.
55. Vietorisz et al., 1975, p. 98.
56. Vietorisz et al., 1975, pp. 101–104.
57. Vietorisz et al., 1975, pp. 105–106.
58. Luce, 2002, p. 402; Lange, 2014; Snarr, 2011, pp. 2–3.

59. Luce, 2002, p. 403.
60. Lange, 2014.
61. Dorfman, 1949, p. 254.
62. Pollin and Luce, 2000, p. 1; Freeman, 2005, pp. 14–15.
63. Luce, 2002, p. 403.
64. Snarr, 2011, p. 19.
65. Luce, 2004, pp. 33–35.
66. Bernstein, 2005, p. 136.
67. Obama, 2006, p. 10.
68. Obama, 2006, p. 26.
69. Obama, 2006, p. 181.
70. Frank, 2016, pp. 44–61 and 139–158.
71. Pollin and Wicks-Lim, 2015; Dube, 2013.
72. Sanders, 2017.
73. Harvey, 2013, p. 39. See also Kaboub, 2013, p. 59.
74. *CIO News*, 1944, p. 4.
75. Jameson, 2016, p. 12.
76. Jameson, 2016, pp. 66–159, 269–379 and 721.
77. Weller, 2017.
78. Snarr, 2011, p. 63.
79. Ely, 1893, p. 85.
80. Graham, 2017, p. 31.

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