"Nothing Inevitable About Business Cycles": National Incomes Policies under the Great Society and Silent Majority, 1964-1970, Part I

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On July 20, 1966, Arthur F. Burns, the high priest of Republican Party economic advisers and president of the National Bureau of Economic Research, spoke before a closed session of the House Republican Conference. The nation, he explained, was experiencing a prosperity that had grown into inflation. During the past six months, the Consumer Price Index (CPI) had risen at an annual rate of about 4 percent. The White House, however, had continued the Kennedy administration's policy of asking organized workers to keep their union wage demands within federal guidelines—then a 3.2 percent increase. The difference represented a decline in those workers' real wages. "This condition cannot be expected to continue," Burns explained. "Wages have been slow in adjusting to the higher cost of living, but that only means the adjustment is still ahead of us." The economist prophesied: "I fear we are on the threshold of a wage explosion."[1]

Economists had long discussed the phenomenon Burns described in terms of the "wage-price spiral"—a competitive, self-propelling struggle between workers and businessmen for the income of production. Yet since the 1960s, scholarly attention to the Kennedy and Johnson administrations' historic experiment in managed economic growth has focused almost

[1] Remarks by Arthur F. Burns at the breakfast meeting of the Republican Conference of the House of Representatives Washington, D.C. Wednesday July 20, 1966," W. Page Keeton Papers, Tarlton Law Library, The University of Texas at Austin, Box 97, Folder 7. "Our Nation's Economic Policy—Dr. Arthur F. Burns," *Congressional Record* vol. 112: 17082-5, 1966.

exclusively on fiscal policy. The prevailing view of the Johnson administration's economic record is dominated by the memory of the Congressional debate over financing the Vietnam war—namely, the Johnson administration's delay in asking for a tax increase during 1966 and, after his request in January 1967, Congressional refusal until the summer of 1968.[2] This literature portrays the "Great Inflation" of 1965-1980 as the "lagged" effect of fiscal "overshooting." Influenced by the writing of Herbert Stein and Arthur Burns, existing histories of US macroeconomic management invoke Lyndon Johnson's Great Society as evidence of the spiral's uncontrollable character—that, as Burns implied, once begun it can only be stopped by the deliberate inducement of unemployment.[3] The inflationary process represented by this interpretation—that rising prices are "released" or "set loose" rather than shaped or guided— is not only shared by most economic histories of the US but has come to define professional understanding of inflation in general.[4]

This perspective, however, is an historical and ideological artefact. In actual fact, fiscal and monetary restraint *was* applied during the expansion. But in the face of fiscal-monetary contraction in 1965-6 and in 1968-9, wages and prices continued to rise! As this this paper argues, the inflation that began in 1965 and continued into the Nixon administration was not overdetermined by the miscalculated fiscal expansion of the Vietnam war. Rather, the fate of the administration's program for guiding economic growth rose and fell with the organizational allegiances of workers and businessmen to the administration and the political project it represented. Lyndon Johnson's economic mistake was not merely the timing of fiscal policy, but

[2] Alan S. Blinder, *Economic Policy and the Great Stagflation* (New York: Academic Press, 1979). Robert Collins, *More*, Chapter 2. Irving Bernstein, *Guns or Butter: The Presidency of Lyndon Johnson* (New York: Oxford, 1996). Herbert Stein, *Presidential Economics*, p. 101.

[3] Herbert Stein, *The Fiscal Revolution in America* (Chicago: Chicago, 1969).

[4] "Released," is taken from Burns, *supra*. "Set loose," is the retrospective characterization from Califano, p. 144.

how to achieve wage or price restraint at full employment without eroding the government's electoral popularity—how to mold private interests in a way that strengthened, or at least did not erode, its political power and Congressional majorities.

The ahistorical nature of the prevailing view

The administration's incipient incomes policy has been characterized as an at best misguided and at worst duplicitous program of selective price control—as an excuse for delaying necessary fiscal action. Michael Bernstein's history of the growth of the economics profession in government, for example, does not mention the wage-price guideposts.[5] To historians, the Johnson administration's jawboning has been misinterpreted, where noted at all, as an ephemeral, misguided quest off the main course of fiscal-monetary coordination over an economy characterized by a labor-management accord in favor of free collective bargaining.[6] Many economists have even described the Great Society's incipient wage-and-price-making arrangements as diverting administrative attention away from the priority of fiscal policy, actually prolonging and intensifying inflation.[7]

[5] Michael Bernstein, *A Perilous Progress: Economists and Public Purpose in Twentieth-Century America* (Princeton: Princeton, 2001).

[6] Robert M. Collins, *More*: *The Politics of Economic Growth in Postwar America* (New York: Oxford, 2000). Nelson Lichtenstein, *State of the Union: A Century of American Labor* (Princeton: Princeton, 2002), and "From Corporatism to Collective Bargaining: Organized Labor and the Eclipse of Social Democracy in the Post-War Era," in *The Rise and Fall of the New Deal Order*, eds. Steve Fraser and Gary Gerstle (Princeton: Princeton, 1989). Ben Jackson, "Corporatism and its discontents: pluralism, anti-pluralism and Anglo-American industrial relations, c. 1930-1980," in *Modern Pluralism: Anglo-American Debates Since 1880* ed. Mark Bevir (New York: Cambridge, 2012).

[7] Arthur F. Burns, "Wages and Prices by Formula," Murray Lecture at the State University of Iowa, November 10, 1964; printed in Burns, The Business Cycle in a Changing World (Columbia University Press, 1969), pp. 232-53. Herbert Stein, *Presidential Economics: The Making of Economic Policy from Roosevelt to Reagan and Beyond* (New York: Simon & Schuster, 1984), Chapters 4 and 5, pp. 89-208. Remarks of Allan Sproul in *Managing a Full Employment Economy: A CED Symposium on Problems of Maintaining Prosperity Without Inflation* (New York: CED, 1966), p. 40.

These are profound misinterpretations of the ambiguous and imminent tendencies of Great Society liberalism and the New-Deal state from which it emerged. At the macro-historical level, that state oversaw the provision of global liquidity for international trade and finance and, through its influence in the International Monetary Fund (IMF), the Organization for Economic Cooperation and Development (OECD), and the North Atlantic Treaty Organization (NATO), a multinational system of nation's officially committed to maximizing output, expanding productive capacity, and minimizing unemployment. In this context, rising prices in the US reduced the nation's export earnings, exacerbated a growing deficit in its balance of payments, and weakened the confidence of international bankers, especially central bankers, in the future value of the dollar. Combined with foreign expenditures connected to the US military's global procurement requirements, falling export earnings contributed to the accumulation of dollar balances abroad, straining the international fixed-exchange rate system. Between 1957 and 1963, dollar balances held outside the country grew from $14 billion to $21½ billion. The nation's gold stock fell by $7½ billion in the same period. [8]

The global repercussions of US inflation compelled economists to devise anti-inflation strategies that did not create unemployment or slow the growth of capacity. The alternative and orthodox solution to a persistent payments deficit was for a country to deflate its prices, raising interest rates to attract currency inflows, with the effect of depressing investment and production. To slow price rises, the Federal Reserve Board had raised interest rates and reduced credit to choke off business upturns in 1948 and 1957—pushing the unemployment rate above eight and seven percent, respectively, in each recession. The Eisenhower administration in fact pursued this orthodoxy during the late nineteen fifties when the gold outflow first appeared, running

[8] *Economic Report of the President*, 1964 (Washington, GPO, 1964), pp 140-141. Hereafter *Economic Report of the President,* year. *Economic Report of the President*, 1963, p. 91.

annual surpluses in the federal budget in 1956 and 1957 and aiming unsuccessfully for budget balance in 1958-60. When prices had continued to rise throughout the recessions of 1957 and 1960, however, the inadequacy of orthodoxy became obvious to all. "The full burden of avoiding price inflation…cannot be successfully carried by fiscal and monetary restraints alone," Eisenhower told the Congress.[9] "Business and labor leaders must earnestly cooperate—or what Government can do in a free society like this will *not* prevent inflation."[10] As Kennedy confidant Arthur Schlesinger remembered in his memoires of the Kennedy administration, "In essential ways the wage-price spiral was beyond the reach of fiscal and monetary policy." [11]

It was thus as part of an internationally minded strategy to maintain and strengthen the position of the US dollar within the cold war bloc of Western European and East Asian nations that the program for price restraint was devised. As future State Department official Walt Rostow wrote for the Kennedy campaign during the 1960 election, "a distinction in historical phase [was] now mainly responsible for the embarrassment of the American balance of payments." Western Europe, Japan, and the Soviet Union could still reap large catch-up productivity gains, expanding their exports more quickly than the US. Federal spending on research and development might raise the US rate of productivity growth, but Rostow argued that the "heart" of the nation's "inflation problem" was that "as a society, we have no agreed norm for wage and price policy."

This thesis was widely perceived internationally. In a pre-inauguration memo, Paul Samuelson, Kennedy's initial choice for the CEA chairman, explained to the President-elect that "Just as we pioneered in the 1920s in creating potent monetary mechanisms and in the 1930s in

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[9] *Economic Report of the President*, 1957, p. 3.

[10] Stein, *Fiscal Revolution*, p. 314.

[11] Arthur M. Schlesinger, *A Thousand Days: John F. Kennedy in the White House* (First Mariner Books: New York, 2002 [1965]), p. 647.

forging the tools of effective fiscal policy, so may it be necessary in the 1960s to meet head on the problem of a price creep."[12] As Schlesinger remembered, the incoming administration's program required "new institutions assuring a greater public role in wage-price settlements." By 1960, the Organization for European Economic Cooperation (OEEC, soon to be rechristened OECD) recommended nations develop "national wage policies" to apprehend the independent rise of labor costs when managing their prices and trade balances. "To set a norm for the increases of wages," the report concluded, "there must be a center of authority in the public services charged with this function and machinery for appropriate consultation with representatives of the broad parties at interest."[13]

The wage-price guideposts

In the US, an incipient forum for public discussion of wage-price relationships was established after the 1959 steel strike—which, lasting 116 days in the summer and fall, remains the largest single work stoppage in the nation's history—in the labor contract between the steelworkers and the Kaiser Steel Corporation. Following wartime precedent for industrial relations, the agreement provided a standing "tripartite" committee to develop a long-range plan for the company and the industry that included the participation and consent of organized labor—necessary to avoid the impasses over wage-and-price decisions that had fueled acrimony in the industry and shut down steel production in 1952 and 1956.

[12] Walt W. Rostow, "The Problems of Inflation and Productivity in the United States," in Papers of John F. Kennedy. Presidential Papers. President's Office Files. Staff Memoranda. Rostow, Walt W., 1960, https://www.jfklibrary.org/asset-viewer/archives/JFKPOF/064a/JFKPOF-064a-007. "Prospects and Policies for the 1961 American Economy, A Report to President-elect Kennedy," in US Congress, Joint Economic Committee, *January 1961 Economic Report of the President and the Economic Situation and Outlook*, 87th Cong., 1st session, 1961, Committee Print, pp. 703-711.

After the 1960 election, President Kennedy appointed the lead attorney of the steelworkers' union (USW), Arthur Goldberg, as Secretary of Labor. At Goldberg's suggestion, the President generalized the labor-management planning meetings of the steel industry, issuing an executive order to establish the President's Advisory Committee for Labor-Management Policy, comprised of business and labor leaders from across the economy.[14] Within the administration, however, the initiative for a national wages policy emerged not within the Labor-Management Advisory Committee but within a pre-existing advisory agency, the CEA. Established together with the Joint Economic Committee (JEC) of the Congress by the Employment Act of 1946, the CEA had long served as a research arm of the White House with an ambiguous relationship to policymaking. "For an agency with increasingly clout," reported *Newsweek* during the Johnson administration, "the CEA occupies an almost ludicrously small niche in the Washington bureaucracy." By 1965, the agency would operate a 43-person staff occupying a 25-room headquarters on the third floor of the imperial-colonnaded Old Executive Office Building, across the White House's western lawn and just 150 yards from the Oval Office. The "bureaucratic nodule," as *Time* reported, was "one of the nation's most crucial never centers, daily furnishing the President with electrocardiographic readings on the economy and providing its own prescriptions for fiscal and monetary policy."[15] The President appointed the agency's three directors, who, according to the procedures of the 1946 statute, assisted with the preparation of the President's Economic Report delivered to the JEC at the beginning of each year.

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[13] William Fellner et al., *The Problem of Rising Prices* (Paris, Organization for European Economic Cooperation, 1961), quoted in Harry M. Douty, "Some Problems of Wage Policy," *Monthly Labor Review*, July 1962, pp. 736.

[14] David Stebenne. *Arthur Goldberg*, pp. TK. "Labor in 1961," *Monthly Labor Review*.

[15] July 18, 1966, "The Economy: awash in Affluence—but what lies ahead," *Newsweek*, p. 67-74. "Ivied Council," *Time*, January 12, 1968.

In its first Economic Report submitted to the Congress in January 1962, the Kennedy CEA included a description of how wages and prices would behave in an ideal non-inflationary expansion—what the Council titled "guideposts for non-inflationary wage and price behavior"—which explained that the new income produced by economic growth would be distributed equally between labor and capital only if the national average rate of wage increases across the entire labor market kept pace with labor productivity, and if prices were determined competitively in the marketplace so that productive firms passed on productivity increases to consumers in lower prices. Where a competitive industry's productivity outran the national productivity average, and where wage increases matched the economy-wide productivity rate, unit labor costs would fall and prices should follow. Adherence to such standards by organized labor and business would hold the wage-price spiral in abeyance, stabilize the labor and capital shares of a growing national income, and hold the price level constant.[16]

To the leaders of the Great Society during their time in power, the refractory nature of the wage-price spiral was far from apparent. The very purpose of the wage-price guideposts was to disable the wage-price spiral and allow fiscal expansion to bring employment higher than it otherwise could without raising the price level. The historiographic and theoretical assumptions that the wage-price spiral reacts only to fiscal and monetary stimulus or deflation thus assumes away the very problem confronting macroeconomic planners in the politically managed, well-

[16] *Economic Report of the President*, 1962, pp. 185-90. The standard measure for "productivity," long used in collective bargaining and famously codified in the UAW's 1948 contract with GM, was the national average rate of increase in the economy-wide output-per-manhour. This would serve as Rostow's "norm for wage and price policy." That norm, however, would guide only collective wage behavior. Particular wage increases might surpass this figure, the Council explained, where workers were scarce or where communities came to consider wage rates for particular job classifications inequitable. These above-productivity increases would be averaged out by slower wage increases in declining industries or where, because of public judgements of equity, narrowing wage-differentials could be achieved with below-productivity wage increases. Likewise, prices might fall more slowly, the Council explained, where industries were in decline and might even rise where small profits prevented growth necessary for the public interest. But price changes should average out so that the general rate of change in profits did not exceed the rate of change in productivity. *Ibid*, pp. 189-90.

organized mixed economy of the middle twentieth century. Gardner Ackley, a member and chairman of Johnson's CEA, had put administration thinking squarely in January 1965 when he told *Business Week* that there's "nothing inevitable about business cycles." As Ackley's CEA colleague Arthur Okun explained, expansions "only die because of imbalances, and it's our job to try and avoid the imbalances." Federal Reserve Board governor Sherman J. Maisel voiced the new perspective when he told a Texas audience that "contractions or depressions don't just occur. They are caused and can be explained…. nothing inherent in the length of this expansion requires either a downturn or an inflation." As *Washington Post* business reporter Hobart Rowen wrote in January 1966, "the basic meaning of the 'new economics'" was "the simple conviction that recessions are man-made or man-permitted."[17]

Enforcing the Guideposts

Balancing wages and prices, however, required direct persuasion or compulsion over business and union decisions. The first and most infamous episode of the career of the guideposts was the occasion of the 1962 bargaining round between US Steel and the USW. That year, the steelworkers forewent wage increases without a strike on the promise that the industry would not raise prices. When US Steel chairman Roger Blough met with the President to personally announce an across-the-board price increase, the administration bitterly moved to coerce the nation's third-largest corporation into rescinding the price increase. The next morning, Secretary of Defense Robert McNamara announced that the Department of Defense would not award

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[17] "How the Style Shifts at CEA," *Business Week*, January 30, 1965, pp. 73-6. Board of Governors of the Federal Reserve System (U.S.), 1935- and Maisel, Sherman J. "Economic Developments." Remarks at the 22nd Annual Meeting of the National League of Insured Savings Associations, Los Angeles, California, October 27, 1965, https://fraser.stlouisfed.org/title/952/item/37035, accessed on May 2, 2020. Hobart Rowen, "Is There in Reality an Automatic Business Cycle," *Washington Post*, October 31, 1965, p. L3. Frank C. Porter, "FED Member

procurement contracts to any steel company that followed US Steel's price increase and that it would make a $5-million purchase of specialty steel to a firm that maintained price stability. Blough's announcement "was one of the most explosive pieces of news which had come to Washington in many years," one of its historians has written. "Its detonation in the President's oval office shook the government as it had not been shaken since the disaster at Cuba's Bay of Pigs."[18]

Following its competitors, US Steel rescinded the price increase. Over the next 18 months, the administration maneuvered to conciliate large corporation executives in an effort to step-up the rate of investment, immediately lobbying the Congress to pass an investment tax credit, liberalizing depreciation allowances, and talking openly about the desirability of a large cut in income taxes—a law which moved through the Congress during 1963 to be signed by President Johnson in early 1964. As the unemployment rate fell from 6.9 to 5.0 percent between 1961 and 1964, the CEA guidelines coincided with a period of unusually low wage increases in agreements negotiated by the nation's largest unions. The steelworkers forewent wage increases again in 1963; the auto workers bargained to expand private unemployment benefits and kept their wage increase to 2.5 percent. According to the Department of Labor, collectively bargained wage increases across the economy were kept to 2.8 percent in 1961, 2.9 percent in 1962, 3.0 percent in 1963, and 3.2 percent in 1964. These rates were well below the 3.9 to 5.4 percent increases unions won during the late 1950s—a period of high unemployment which Philips-Curve assumed would diminish wage demands—and keeping with both the President's general

Dissents From Martin Policies," *Washington Post*, October 28, 1965, p. C9. Hobart Rowen, "You Can't Fool Cash Registers," *Washington Post*, January 9, 1966, p. L1.

[18] Grant McConnell, *Steel and the Presidency* (W.W. Norton, 1963), p. 4.

exhortation for wage restraint and the CEA's specific 3.2 percent productivity guideposts.[19] The CPI did not rise appreciably: year-over-year increases were 1.2 percent in 1962-3, 1.3 percent in 1963-4, and 1.7 percent in 1964-5.

The administration's wage guide remained delicately stitched together by the personal relationships of the leaders of the AFL-CIO and the White House. These tensions had nearly surfaced during labor negotiations in the auto industry in the summer and fall of 1964. Within his first weeks in office, Lyndon Johnson, preparing for his 1964 election campaign, had made a number of overtures to corporate executives, refusing to intervene in corporate pricing decisions during 1964.[20] In January 1964, CEA Chairman Walter Heller had identified the auto industry's above-normal profits as reason for price reduction. But there had been no public exhortation in this direction.

This placed the autoworkers' union (UAW) leadership in an awkward position. In March 1964, the President spoke to the twelve thousand attendees of the UAW's annual delegate convention in Atlantic City exhorting the importance of wage restraint. "We must not choke off our needed and speedy economic expansion by a revival of the price-wage spiral," he told the audience. That same day, Heller explained to the Economic Club of Detroit, the city's business association, that the administration opposed a UAW wage increase beyond the 3.2 percent

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[19] "Current Labor Statistics," *Monthly Labor Review*, issues for 1961 through 1964. "Labor in 1961," "Labor in 1962," "Labor in 1963," and "Labor in a year of expansion," in the January issues of *Monthly Labor Review*.

[20] First, following the advice of Eisenhower Treasury Secretary Robert Anderson, House Ways and Means Committee Chairman Wilbur Mills, and Senate Finance Committee Chairman Harry Byrd, the President had reduced spending for the fiscal year 1965 budget—to the chagrin of many liberals who urged greater spending. Second, at the request of Anderson and the leaders of the Business Council, the President made two immediately strategic appointment decisions: he rescinded President Kennedy's appointment of the liberal Keynesian Seymour Harris to the Federal Reserve Board of Governors, and he appointed Tom Mann, an Eisenhower state department official, to direct the administration's foreign affairs in Latin America and the Agency for International Development. Conversation with Robert Anderson, 1964: TK. Transcript, Kermit Gordon Oral History Interview III, March 21, 1969, by David G. McComb, p. 2, LBJ Library. Online < https://www.discoverlbj.org/item/oh-gordonk-19690321-3-81-13>. (February 6, 2020.)

productivity guide as an inflationary demand. At the Atlantic City convention UAW president Walter Reuther delicately sidestepped the President's request. "If high productivity industries did not reduce prices, or reduced them by token amounts," Reuther explained to the March convention, "the only way out of an excessive profit situation…would be through wage increases and fringe benefit improvements greater than the general guide."[21]

Two weeks after the UAW convention, Reuther met with Heller and Willard Wirtz in Washington. The union leader, Heller wrote the President, would "*call for an auto price cut* in his opening presentation to the companies." But he could not center the price demand in the union's bargaining demands for fear of public charges that the union leader was trying to "run the industry"—a struggle to expand the scope of collective bargaining that had brought Reuther fame during a 113-day strike in the winter of 1945-6, but the defeat of which the union leader had never again attempted to openly challenge. In April and May, the CEA staff had worked up an expansive estimation of various productivity rates for the industry to use in judging rates of return on a given variety of auto prices; on the basis of this data CEA recommended the President communicate with the auto-company executives the public interest in lowering car prices.[22]

Lyndon Johnson was unwilling to intervene in either corporation or union decision-making in Detroit. The political coalition the President was building for that year's election campaign between northern labor leaders and a business-friendly, segregationist south, would strain from an assault on corporation autonomy. Just then, the President was already entrenched in an intransigent parliamentary struggle with the party's Southern wing over passage of the

[21] "Johnson, Heller Urge Auto Industry to Hold to Wage-Price 'Guideposts,'" *Wall Street Journal*, March 24, 1964, p. 3. "Heller Sees Peril," *New York Times*, March 24, 1964, p. 19. "Guideposts Debated by Reuther, Heller," *Washington Post*, March 27, 1964, p. B6.

[22] Cochrane, pp. 206-8. Heller quoted on p. TK.

Civil Rights Act. Many of business's closest allies in the Congress were Southern conservatives. In April, this group's amity with the administration was drawn into question when civil rights workers in the state of Mississippi—SNCC, CORE, and the Mississippi NAACP—together with the legal assistance of UAW lawyer Joseph Rauh and the support of the political cadre atop the union's bureaucracy, organized an integrated delegation to the Democratic Party National Convention to sit in place of the segregationist delegation from that state.[23] An open break with the industrialists of Detroit, Johnson surely felt, would torpedo any chance of smoothing over this rift in the Party over the Mississippi Freedom Democratic Party (MFDP) before the November election.

In early June, Heller phoned Johnson to deliver a "unified recommendation on this automobile thing" from a group of advisers working on the auto negotiations—including Defense Secretary Robert McNamarra. Former CEO of the Ford Motor Company, McNamarra was the public face of technocratic expertise in 1960s Washington: slicked-back hair, unimpressed in public discussion, hubristic. Heller had hosted GM chairman Frederic Donner in Washington the day before, and, after discussing the possibility of price cuts, McNamarra suggested a Presidential request for price restraint be made publicly at next week's White House dinner hosting German Chancellor Ludwig Erhard. "It's the central case in the future of the economy's wage-price stability," Heller pleaded with the President. The President forcefully objected to intervention, arguing it would be "very distasteful" to do in public and that it was not the President's place to secure price commitments from particular firms and industries. "If I do," Johnson said, "I'll be doin' it on everything [proposed price increase] that comes along."[24]

[23] Lichtenstein, *Most Dangerous Man in Detroit*, pp. 392.

[24] Conversation with Walter Heller, June 1964: TK.

At the same time, the President could not request wage restraint from the autoworkers. Reuther was helping the President raise funds for liberal congressional races in Texas, where incumbent liberal Democratic Senator Ralph Yarborough was being challenged by the anti-integration candidate from Houston, George H.W. Bush, an oilman, chairman of the Harris County Republican Party, and son of former Connecticut Senator Prescott Bush. Texas Governor John Connally was waiting to hear the President's decision about the party platform—then in dispute over the MFDP— before offering his assistance to Texas liberals associated with the President and his civil rights program.[25] If the President was to court Connally and the conservative wing of the Democratic Party, he could not satisfy the civil rights organizations backed by the UAW. Stiffing Reuther politically over MFDP, Johnson could not ask the union leader for wage restraint in the marketplace.

In this political context, an above-guidepost wage package in Detroit—and the inflationary wage and price increases it could stimulate—was quite literally the price the President felt he had to pay to hold the electoral coalition together for the 1964 campaign season. For Reuther, this transaction with the President secured support for his leadership within the union in the form of a large wage increase despite his continued alliance with a government opposed to their activist reform program. The autoworkers pushed for a wage package in the industry representing a 4.9 percent increase. Chrysler signed a 3-year agreement with the union in early September 1964 without a strike, followed later that month by a 10-day strike and an agreement at GM with plant-level strikes at Ford in November. The Bureau of Labor Statistics estimated the value of the settlements at between 4.7 and 5 percent increase over the 1961 contracts—far above CEA's guideposts.[26] The White House issued no formal against the union.

[25] Conversation with Reuther, TK.
[26] MLR, December 1964, p. 1386-7.

Alluding to the auto industry, CEA observed in January 1965 that "unusually high profits…serve as inviting targets for wage increases that exceed the general, economy-wide trend of productivity gains." The proper response, CEA explained, was to restrict the growth of profit margins.[27] This Johnson proved unwilling to do.

Yet wages and prices did not rise considerably in the year after the auto agreement. Average hourly earnings in manufacturing rose by 3.1 percent in 1965 above their 1964 level—below the guidepost figure—while average compensation per employee-hour in the private, nonfarm economy showed a 3.2 percent increase. While the CPI rose by 2 percent during the twelve months after December 1964, that rise was driven by prices in food—primarily meat—and in private services—most rapidly in the insurance industry. Altogether rising prices in 1965 reflected the catch-up of lower wages among clerical, housekeeping, hospitality, and foodservice workers to the higher wages of the expanding manufacturing sector, rather than the rising prices in the capital-goods industry.[28] In fact, the price index for durable consumer goods actually fell during 1965, pulled by falling household appliances, radios, and televisions. The tremendous productivity growth in these industries is evident in their rates of return for the first half of the decade. Even as durable goods prices fell or stabilized, the after-tax rate of return on equity (RoR) among appliance and equipment manufacturers continued to rise. According to data compiled by the Federal Trade Commission (FTC) and the Securities and Exchange Commission

[27] *Economic Report of the President together with the Annual Report of the Council of Economic Advisers, January 1965* (United States Government Printing Office: Washington, 1965).

[28] *Postwar Trends in Labor Compensation*, Department of Labor, p. 23. In January 1964 the BLS restructured the component indexes of the CPI with different weights to reflect changing buying patterns of wage earners and clerical employees. Comparisons of changes in the CPI and its component indexes in issues of *Monthly Labor Review* before and after this date are not possible. The figures in this paragraph are taken from Harry M. Douty's article "Living Costs, Wages, and Wage Policy: Rising Prices, Income Lags, and the Problem of National Wage Policy," *Monthly Labor Review*, Vol. 90, No. 6 (June 1967), which are reproduced in *Postwar Trends in Labor Compensation*, and from tables prepared by the staff of the Department of Commerce, Department of Labor,

(SEC), industries in the "electrical machinery and equipment" category earned 12.9 percent returns during 1965, compared to 11 percent in 1964; in "instruments and related products" earnings were 16.9 percent in 1965 compared to 13.8 percent in 1964. The auto industry was the most dramatic. Under intense scrutiny after the autoworkers 1964 contract, General Motors relented to administration pressure and actually reduced auto prices for 1966 models during autumn 1965. But even after the price cut, the industry earned 19 percent returns on equity in 1965, up from 16.8 percent the previous year.[29]

The Balance of Payments

During the spring and early summer of 1965, in the glow of electoral triumph, the administration's relationship with business was widely advertised as one of sanguine consensus. "The era of good feeling that now exists," the *Times* Murray Rossant reported in April, "represents a complete reversal of the bitter hostility that broke out just three years ago, when President Kennedy had his celebrated confrontation with the steel industry."[30] Presidential attention lay elsewhere. In January, the Southern Christian Leadership Council, invigorated by Martin Luther King, Jr.'s award of the Nobel Prize in December, began to organize a voter registration drive in Selma, Alabama to press the administration to propose legislation to protect voting rights. In February, the President authorized continuous retaliatory bombing of North Vietnam. Neither of these trends yet appeared to bear on the nation's economic management.

Between the inauguration and the fall of 1965, political management of the mixed economy depended on reducing the nation's balance of payments deficit. Mutual concern for the

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and the Council of Economic Advisers for the President's Advisory Committee on Labor Management Policy found in Keeton papers, Box 96, Folder 8.

[29] Keeton papers, *ibid*.

value of the dollar fostered not enmity but cooperation between the White House and the board rooms of the largest corporations. Before the election, US Chamber of Commerce President Walter F. Carey had written to Johnson to warn of the nation's "shrunken gold stock," advising the President to tighten credit. Higher interest rates would both attract foreign savings into the nation's banking system and, by slowing domestic investment, soften the labor market. "In my judgement," he wrote, "the cloudy balance of payments outlook adds weight to the need for wage-price discipline." [31]

The two cabinet officials President Johnson put in charge of managing the balance of payments, Commerce Secretary John T. Connor and Treasury Secretary Henry J. Fowler, both represented the government-business partnership so essential to the White House's electoral strategy in 1964. Fowler entered the Kennedy administration as assistant treasury secretary to Douglas Dillon after climbing his way up through the Democratic Party since the 1930s as a late-New Deal factotum—counsel for the Tennessee Valley Authority, the Federal Power Commission, and Robert La Follete's Senate investigating committee on civil rights. The *Washington Post* described him as "loyal" and a "traditionalist." *Business Week* called him a "conservative" noted for his "fealty." "He is short, roundish, with carefully slicked-down white hair, and black glasses that contrast against a ruddy complexion…. Among the political professionals, he has a reputation for complete integrity in political dealings and comprehension of rules of the game."

Replacing Dillon within Johnson administrations, Fowler assumed responsibility for maintaining the value of the nation's currency both at home and abroad, arbitrating the debates

[30] David Garrow, *Bearing the Cross*, pp. 357-372. Harry Y. Schandler, *The Unmaking of the Presidency*, pp. 11-14. Murray Rossant, "Partner on the Potomac," *New York Times*, April 14, 1965, p. 55.

[31] Walter F. Carey to the President, September 9, 1964, BE5, WHCF, LBJ Library. "Such [rising consumer] prices reflect wage costs more than wholesale prices," Carey wrote.

between the leaders of the Department of Commerce, the Bureau of the Budget, and the Department of Defense over the nation's anti-inflation program. "When the President gathers his chief economic advisers around him," the *Post*'s business editor Hobart Rowen reported in June 1965, "the man usually seen at his elbow is the Secretary of the Treasury, Henry H. Fowler." It was a familiar role: as war mobilization began in 1939, the Office of War Mobilization, the precursor production and price control agency of World War II, had recruited him to be one of the public "'shepherds' of the dollar-a-year men" who had come to Washington to distribute military contracts and organize the war economy. In 1951, Fowler reprised this role as director of President Truman's equivalent war agency during the Korean War.[32]

Assisting Fowler during 1964 was John T. Connor, the President of the Merck pharmaceuticals company. His predecessor, Luther Hodges, had sided with Kennedy against the steel industry during 1962 and provoked the Business Advisory Council to severe itself from the government and reconstitute itself as an entirely private organization, the Business Council. A fifty-year old business lawyer who had succeeded in a career at the nexus of federal contracting and large-scale corporate enterprise, Connor was an ideal candidate for restoring the relationship between the White House and the businessmen Hodges had alienated. The gray-haired executive was, in the words of *Business Week*, a "representative of a new generation of business leaders," those who lived through the Depression and came to accept as a positive good the new role the federal government had come to play in the nation's political economy. During World War II, Connor served as general counsel, under Vannevar Bush, of the government's Office of

[32] "Fowler's Role at LBJ's Elbow," *Washington Post*, June 21, 1965, p. D9. "Treasury Gets its Man," *Business Week*, March 27, 1965, p. 152-154. Shepherd" is Fowler's own description. Oral history interview, Henry H. Fowler, June 20, 1989, p. 13. On Fowler during the 1962 steel controversy, see William J. Barber, "The Kennedy Years: Purposeful Pedagogy," in *Exhortation and Controls*, ed Craufurd Goodwin (Washington: Brookings Institution, 1975), p. 173. On Fowler and the Business Advisory Council, see Kim McQuaid, *Big Business and Presidential Power: From FDR to Reagan* (New York: Harper Collins, 1982). "Fowler's Role at LBJ's Elbow,"

Scientific Research & Development, a major underwriter of large-scale military contracts. Later he was promoted to special assistant to Secretary of the Navy James Forrestal. His "reserved manner" resembled that of a "trust manager of a large bank." As he told a magazine reporter: "I'm a New Dealer."[33]

When Connor entered the cabinet in January 1965, Treasury officials were discussing mandatory controls on all foreign investment spending. French President Charles De Gaulle had declared that all his country's foreign transactions would be conducted in gold, rather than dollars, and the French central bank had begun to exchange its dollar reserves for bullion. The US interest equalization tax imposed during the summer of 1963 had eliminated the higher yields domestic savers received on newly issued securities of foreign firms and reduced the flow of funds abroad expended on these securities. But foreign firms quickly found alternative conduits for to access this investment. Instead of issuing securities in the US, foreign firms turned to US banks for dollar loans. Subsidiaries of US corporations turned to their parent companies for direct dollar transfers. President Johnson responded by extending the foreign-interest tax to include loans. "The word is getting around that the Administration…will accept promises to step up exports in place of performance in cutting down the outflow of investment dollars," former CEA chairman Walter Heller wrote Johnson in February 1965. "It's vital to spike this business-as-usual psychology…" Within the Treasury Fowler's staff was pushing for mandatory quotas to tighten the tourniquet.[34]

"It rather horrified me," Assistant Secretary of Commerce Lawrence McQuaid later remembered about the opening months of the new administration. "They were going to limit the

Washington Post, June 21, 1965, p. D9. "Treasury Gets its Man," *Business Week*, March 27, 1965, p. 152-154.

[33] "Voice for US Business in US Policy," *Business Week*, March 13, 1965, p. 96.

American businessmen's freedom to invest overseas." To head off the pressure for investment controls, Connor immediately began to organize the nation's 500 leading multinational corporations into voluntarily investment restraint program. In February, Connor invited the executives of these companies to the White House; the afternoon of the meeting there were 57 private planes at Washington National. The program, which required participating firms to file quarterly reports with the department on their "balance-of-payments ledger," met some resistance. "The idea of divulging this information is new to some companies," Connor explained.[35] Worse, after achieving a balance of payments surplus during second quarter of 1965, the dollar outflow continued during fall and winter. Touring the commerce-department sponsored regional Export Expansion Councils—local businessman's committees organized to channel credit to exporting firms—Connor wrote to the President: "Business generally is so good, especially in places like Chicago, Milwaukee and Denver, that business leaders have to punch themselves to realize it's true." This was accompanied, however, by "widespread concern…about the possibility of mandatory [capital] controls" to protect the balance of payments.[36]

Metals and Vietnam

Between the fall 1965 and fall 1966, a series of events dramatically thrust the guideposts into the center of national life and recast the debate over the administration's gradual insinuation into the private affairs of business. During the fall and winter of 1965, Pentagon orders began pulling

[34] Heller to LBJ, February 16, 1965, FG 155, "12/1/64 – 2/28/65," WHCF, LBJ Library. "US Weighs Tax on Loans Abroad," *New York Times*, January 31, 1965, p. F1. "President Urges Business to Cut Spending Abroad," *New York Times*, February 19, 1965, p. 1.

[35] Survey of Current Business. "Voice for US Business in US Policy," *Business Week*, March 13, 1965, p. 96. Transcript, Lawrence McQuade Oral History Interview I, January 15, 1969, by Paige Mulhollan, p. 15, LBJ Library. Online: https://discoverlbj.org/item/oh-mcquadel-19690115-1-74-156 (January 13, 2020).

prices up in primary materials. Both the steel and aluminum industry had raised prices in 1964 in response to the autoworkers wage increase and in preparation for their own wage bargaining. In May 1965, the United Steel Workers (USW)—whose president had been replaced in a highly publicized reform election by a caucus in the union opposed to wage restraint—entered bargaining in the aluminum industry with a large wage demand and settled without a strike. The CEA calculated the settlement at 4.1 percent.[37] Labor negotiations in the steel industry followed in August, where workers had gone without wage increases for five years. President Johnson pulled out all the stops for a settlement that remained within the guidelines, flying the union negotiating team from Pittsburgh and ferrying both the steelmen and the union leaders by marine helicopter escort from Washington National to Old Executive Office building. The President charged Labor Secretary Willard Wirtz and Commerce Secretary Connor with securing the agreement, appointed Oregon Senator Wayne Morse and commerce department official LeRoy Collins to mediate, and ordered Califano to open a back-channel to the parties through Arthur Goldberg and Clark Clifford. Negotiations lasted five days and four nights, and when agreement was finally reached on Friday, September 3, the CEA calculated the package at a 3.2 percent increase in labor costs.[38]

Would the steel companies raise prices? The guideline settlement had deprived executives of their traditional justification for raising rates. In late October, however, the steel industry found its rationale when Ormet, a small aluminum producer owned by Olin Mathieson, announced a price increase on aluminum ingots. Among US aluminum producers, three

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[36] Connor to LBJ, October 4, 1965, FG150-7, WHCF, LBJ Library.

[37] James L. Cochrane, "The Johnson Administration: Moral Suasion Goes to War," in *Exhortation and Controls: The Search for a Wage-Price Policy, 1945-1947*, ed. Craufurd Goodwin (Washington: Brookings, 1975), pp. 216-20.

[38] Cochrane, "The Johnson Administration," pp. 220-5. Califano, *Triumph & Tragedy*, pp. 86-94. John Sheahan, *The Wage-Price Guideposts* (Washington: Brookings, 1967), pp. 50-1.

companies—Kaiser, Reynolds Metals, and the Aluminum Corporation of America (Alcoa)—owned eighty percent of the nation's aluminum production capacity, and Ormet's price increase depended on the actions of these larger firms. Over the next week, both Kaiser and Reynold's announced new price schedules that matched the rise.[39] Immediately the administration looked to Alcoa awaiting the industry's decision. As Ackley wrote to the President, "steel has been ready to go with the price increase announcement all week, awaiting the Alcoa move."[40] As the largest of the big three, Aloca was the "price leader" in its industry—like US Steel, it had the capacity to expand production and undersell its competitors, giving it the power to both set the industry's de facto price floor and veto and other firms' price increases.

The announcement came Friday, November 5. Immediately a press flurry followed. The administration knew the Alcoa decision would serve as a benchmark for the rest of the corporate executive class, and earlier in the week the President had been reported as "sputtering mad" about the price hike. In central Texas, where the President was convalescing for gallbladder surgery, reporters, anticipating a repeat of Kennedy's righteous, headline-making denunciations, asked press aid Bill Moyers that evening for the administration's response. Johnson had Moyers deny any administration opposition. Saturday morning, however, Ackley, Fowler, and McNamara gave a press conference at the White House in which they announced the administration's intention to release 200,000 tons of aluminum from the defense department's national security resources stockpile. Established during the Korean War under the Defense Production Act, the stockpile had accumulated 2.1 million tons of aluminum during the Eisenhower and Kennedy administrations. Having revised emergency defense procurement requirements for aluminum downward to 700,000 tons, the administration had already been

[39] Sheahan, pp. 62-6. Cochrane, pp. 228-37. This and the next three paragraphs draw on these accounts.
[40] Quoted in Cochrane, p. 226.

engaged with the industry over how to liquidate 1.4 million tons of surplus aluminum. The big producers wanted a gradual liquidation over fourteen years; they would purchase from the government in small annual installments, preventing a large build-up of private inventories and enabling them to adjust their prices in an orderly manner. The small aluminum companies had no interest in taking on new inventories of surplus government aluminum. For eight months these discussions had ground to halt. Now the producers were raising prices, and the administration resolved to double its current rate of sales out of the stockpile and to drive prices down itself.[41]

The balance of payments was the overriding concern at the press conference. Aluminum imports had more than doubled over the past four years, McNamara explained. At the current rate, the nation would import 600,000 tons of aluminum in 1966—double the 1964 amount. Fowler said that this represented a dollar outflow of more than $100 million. With rising defense requirements, rising aluminum prices would further raise the industry's share of the trade deficit. Liquidating the stockpile, the treasury secretary continued, "will be an important factor in protecting the position of the dollar in the world." Ackley concurred. Stability in wholesale prices had been "the basis for the restoration of America's competitive position in world markets." The CEA chairman recited figures for the first three quarters of 1965: profits at Alcoa were up 26 percent, at Kaiser 29 percent, and at Reynolds 52 percent. The price rise had been the industry's fifth in twenty-five months. "These increases have no justification under the wage-price guideposts and are therefore inflationary." Califano, representing the President in Washington, charged the industry with "profiteering" and described the discussions with its leaders as "completely uncooperative." The department of defense would use 115,000 tons of the

[41] "US Doubles Sales Rate of Surplus Aluminum," *Atlanta Constitution*, November 7, 1965, p. 1. "Aluminum Rise Held Inflationary," *Los Angeles Times*, November 7, 1965, p. C1. "Government Claims Industry Disregards Economic Guideposts," *The Sun*, November 7, 1965, p. 1. "US Frees Stockpiles As Advisers Criticize Aluminum Price Rise," *Washington Post*, November 7, 1965, p. A1.

stockpile immediately, McNamara declared, delivering it to producers of powered aluminum—used in explosives—and to manufacturers of aluminum matting used in the new airstrips being constructed in South Vietnam. The remaining 85,000 tons would be sold at prices, he continued, determined by "buyers and sellers in the market dealing at arm's length."[42]

To the aluminum industry, however, the press conference was scandalizing. Over the weekend, Alcoa released a press statement explaining the administration's decision to "disrupt a key industry" would cause "damage to the economy" and was "incomprehensible."[43] Reynolds complained that its earnings were inadequate to cover expansion—the CEA had calculated them at 9 to 10 percent, below the manufacturing average. The company issued a statement that its stock price has not kept pace with the Dow-Jones average, and it thought itself entitled to greater profits. On Monday afternoon, Alcoa chairman John D. Harper and vice-President Leon E. Hickman met with McNamara and defense department general counsel Cyrus Vance. The administration agreed to withhold the stockpile sales in exchange for a price rollback. Wednesday, just before the Alcoa executives held a press conference in Pittsburgh, McNamara announced the price decision from Washington.[44]

Liberals divided. "We have thus gained the important and significant knowledge that Mr. Johnson doesn't consider the much-publicized consensus with business as an end itself," Rowen wrote the day of McNamara's announcement. "Against the backdrop of the Vietnam war, it was accorded a secondary priority… the President decided that the issues involved were much more

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[42] "US Doubles Sales Rate of Surplus Aluminum," *Atlanta Constitution*, November 7, 1965, p. 1. "Aluminum Rise Held Inflationary," *Los Angeles Times*, November 7, 1965, p. C1. "Government Claims Industry Disregards Economic Guideposts," *The Sun*, November 7, 1965, p. 1. "US Frees Stockpiles As Advisers Criticize Aluminum Price Rise," *Washington Post*, November 7, 1965, p. A1. "200,000 Tons in '66," *New York Times*, November 7, 1965, p. 1.

[43] "U.S. Raps Price Hike in Aluminum," *Boston Globe*, November 7, 1965, p. 1.

[44] Cochrane, p. 335.

important than maintaining an unbroken record of harmony."[45] The Saturday after the aluminum price rollback, Ackley recommended the President establish a Cabinet Committee on Price-Cost Stability, and the next Thursday Johnson asked Fowler to chair a standing group, comprised of McNamara, Connor, Labor Secretary Willard Wirtz, Budget Director Charles Schultze, Ackley and Califano. Over the next several months the group met for weekly lunches to discuss the CEA's price surveillance reports and possible administration responses. Connor was deeply uncomfortable. "We [were] thought to be not cooperative, and to be narrow minded and fighting just for the business interests and so forth," Assistant Commerce Secretary McQuade said in 1969. "Connor was not about to, you know, apply the screws and threaten to use—or my phrase would be misuse—the federal government power to force people to abide by what was essentially price control."[46]

On December 15, as the pressure to clarify the administration's anti-inflation strategy mounted, Willard Wirtz circulated a memorandum recommending the President reconvene the labor-management advisory committee to prepare the nation's business and union leaders for greater cooperation in wage and price restraint. On December 17, Ackley recommended the President ask the Congress for a tax increase in 1966. The next day, Califano wrote to Wirtz and Connor that "The President has approved that you proceed with an informal meeting of the Advisory Committee on Labor-Management Policy…to help work out long range price stabilization problems." Wirtz's thinking can be gleaned from a letter he wrote to the President on December 21 recommending the tax increase be coupled with "a new wage and price approach" centered on the labor-management committee. Under the guideposts, he explained, the

[45] Hobart Rowen, "Aluminum and the Consensus," *Washington Post*, November 10, 1965, p. L8.

[46] Ackley to LBJ, November 13, 1965. Califano to Fowler, November 18, 1965. FG150-7, WHCF, LBJ Library. Lawrence McQuade Oral History.

Vietnam spending had contributed to rising profits and prices that "affect[ed] organized labor…adversely." This debate over how to stabilize the economy consumed the Fowler group over the Christmas holiday. Between Connor's distaste for price control, Wirtz insistence on cooperation with organized labor, and the CEA's knuckle-raping about the guideposts, however, the group found little agreement. Califano wrote to the President December 28 that "the group is not an effective apparatus for handling specific price situations at this time."[47]

On New Year's Eve, Bethlehem steel announced the industry's long-awaited price increase in the form of a $5-per-ton hike on structural steel. The CEA was taken by surprise—first word of the hike within the administration came from reporters asking for comment. Within hours Ackley released a denunciatory statement. The President invited company executives to meet with the CEA the next day and wired the executives of the seven other major producers with a formal request against matching the Bethlehem price increase. On January 2, after meeting with Bethlehem executives, Ackley held a press conference in which he laid out the company's profits—28 percent above 1964, 83 percent above 1963—and the industry's rate of return—10 percent on equity. "Bethlehem executives presented no new information that altered the initial judgement of the President's Council of Economic Advisers that the price increase is unjustified and inflationary," he explained. "Bethlehem people open themselves to charges of profiteering," Califano added. Ackley's statement contrasted the industry's profits with the 200,000 US soldiers "risking and giving their lives for freedom in Vietnam." In his invitation to the Bethlehem executives, the President himself had asked the steelmen "to weigh the impact of

[47] Wirtz to Cabinet, alluded to in Califano to Wirtz and Connor, December 18, 1965, FG150-7, WHCF, LBJ Library. Ackley to LBJ, December 17, 1965, quoted in Cochrane, p. 242. Wirtz to LBJ, December 21, 1965, quoted in Cochrane, p. 244, fn. 109. Califano to LBJ, December 28, 1965, FG150-7, WHCF, LBJ Library.

unnecessary price action against the sacrifices of our men in Vietnam."[48] The war, which few in the administration had wanted to escalate, had itself become the symbol of the public interest in continuing the expansion.

On the morning of January 3, McNamara announced that all defense department orders for structural steel would be rerouted from Bethlehem. That same day, Inland Steel and Colorado Fuel and Iron announced they would match the Bethlehem rise. In the afternoon, the administration expanded its purchasing guidance for structural steel to include the Department of Commerce, which oversaw the Federal Highway Administration, and the General Services Administration, responsible for all federal buildings, clarifying that all orders should be awarded "at the lowest possible price." Federal purchases accounted for a quarter of total steel purchases in the US, and these three departments accounted for the majority of federal purchases. The administration's opposition to rising steel prices, Ackley made clear at that day's press conference, was not only on behalf of those "constructing new factories stores and office buildings" or "the servicemen in Vietnam" concerned about "the upward push on the prices their families at home have to pay." The steel companies themselves would suffer from the price decision. Structural steel imports had more than doubled between 1961 and 1964, rising to 620,000 tons, growing to 771,000 tons during 1965 as auto companies and other large steel users stockpiled in anticipation of a steel strike. The price rise would only accelerate this trend, Ackley explained. "Foreign steel producers are the only people who will take much pleasure in this announcement."[49]

[48] "Steel Firm Unyeilding On Price Rise," *Washington Post*, January 2, 1966, p. A1. "US May Pressure Steel Price Offender," *Washington Post*, January 3, 1966, p. 1.

[49] "US Curbs Buying of Steel to Fight Price Increases," *New York Times*, January 4, 1966, p. 1. "Steel Backlash? Structural Price Boost Could Open Door Wider to Metal From Abroad" and "Government Considers Cut in Structural-Steel Buying As Part of Effort to Push Back Bethlehem Price Rise," *Wall Street Journal*, January 3, 1966, pp. 1 and 3. "US May Pressure Steel Price Offender," *Washington Post*, January 3, 1966, p. 1.

The administration turned to US Steel, the industry price leader. The price restraint program, however, was being overtaken by events. Illinois Senator and JEC Chairman Paul Douglas had traveled to the President's ranch that weekend to discuss the nation's economic plan. When the President had told Douglas of that federal deficit spending would run to $6 to $7 billion for both fiscal year 1966 and 1967, Douglas explained that the Democrats in the JEC were going to push for an excess profits tax. Albert Gore of Tennessee and Russell Long, who had just succeeded Harry Byrd as the Chairman of the Senate Finance Committee, were supporting the idea. Pennsylvania Senator Joseph Clark was proposing legislation to formalize the guideposts, allowing the JEC to investigate price increases and to develop its own wage-price standards, relieving the CEA of this growing responsibility. In the House, Wisconsin Representative Henry Reuss had already announced a counter-part bill to Clark's in response to the Federal Reserve decision to raise interest rates at the beginning of the month.[50]

That evening the President returned to Washington. Johnson, preparing his budget and legislative program for the year, was eager to avoid these measures. Comity with the business community remained his overriding concern. The Monday after his conversation with Douglas's in Texas, however, Colorado Coal and Fuel and Iron and Inland Steel both made their price announcements. The President called Edwin Weisl, the chairman of the New York State Democratic Party, and an ally with Johnson from the forties when Weisl had served President Roosevelt on the War Production Board. Weisl served on the board of Paramount Pictures and

[50] Conversation with George Brown, January 4, 1966, Lyndon B. Johnson tapes, Miller Center, Citation number: 9418, <https://millercenter.org/the-presidency/secret-white-house-tapes/research-the-tapes>, accessed May 20, 2020. Hereafter, Conversation with NAME, DATE: CITATION NUMBER. President's Daily Diary, January 2, 1966, Lyndon Johnson's Daily Diary Collection, <http://www.lbjlibrary.net/collections/daily-diary.html>, accessed May 20, 2020. Hereafter as President's Daily Diary, DATE. "Asks New Law to Put Brake on Inflation," *Chicago Tribune*, December 13, 1965, p. C5. Hobart Rowen, "Wage-Price Puzzle: What Next?," *Washington Post*, January 7, 1966.

was familiar with the Colorado Fuel and Iron leaders; he succeeded, at the President's request, in convening an emergency meeting of the company board to rescind the price increase.[51]

The next day, Tuesday, Robert McNamara spoke with US Steel chairman Roger Blough over the telephone. "It's like dealing with a Neanderthal man, Mr. President," McNamara complained. "It's the screwiest thing I've ever dealt with." The administration had expressed its willingness to open an anti-dumping complaint to the Tariff Commission to give US producers some import protection. It offered to release molybdenum—an expensive steel input—from the defense department stockpile at reduced rates. McNamara had asked, in exchange for this relief, that Blough postpone any US Steel price announcement until after coming to Washington to meet with the President later that week. Blough explained that he could not wait to make his announcement. "Business thinks government is moving to destroy the market economy and he just couldn't act in a way that led his business colleagues and associates to feel he supported the government in moving to establish wages and prices other than through the private economy," McNamara recounted the conversation. Blough "had never undercut a competitor in his life," and was unwilling to do so now. The steel executive insisted, McNamara recounted, that to obey the President's request would further alienate "business," and that Blough felt he would have to disobey the President in order to maintain his political alliance with him. Blough would not postpone the price announcement; "he's not enough interested to go back to his country club and be called a slave of the government."[52]

The President again called Weisl, who served with US Steel chairman Roger Blough on the board of Columbia University, to send the same message to Blough. Weisl, however, was caught in traffic—the New York City public transportation system was shut down in a strike of

[51] Conversations with Edwin Weisl, January 4, 1966: 9421 and 9416. Cochrane, p. 227.

[52] Conversation with Robert McNamara, January 4, 1966: 9407.

the transportation workers union. Johnson called George Brown, of the national construction firm and major steel purchaser Brown & Root, an old Texas ally who was friends with members on the board of the Armco Steel company. US Steel and a number of other steel companies, including Armco, had already met to plan their announcement of a price increase on steel bars, Brown explained; the Bethlehem decision had caught them completely by surprise. While structural steel comprised just 7 percent of US Steel sales, it was one of the primary Bethlehem products. "You don't think jumping the gun like this has anything to do with this meeting you got on the sixth with Wirtz—hadn't he got a meeting with all of the steel boys to go over the guidelines?" "Not that I know of," Johnson said. "He's got a meeting on the guidelines, wanting to raise it from 3.2 to 3.8 or 4," Brown explained. "I just hunch that Bethlehem [thought], 'well, hell, if we're gonna having a meeting about that we better get this price up before that meeting on the guidelines.'"[53]

Weisl, released from New York City traffic, returned the President's call. Blough had been surprised and disappointed about the Colorado Fuel and Iron decision, Weisl explained. But he remained unyielding to threats that the Congress would demand an excess profits tax and wage and price controls, promising only that he would notify McNamara before making his announcement the next day. Johnson's bluff was called. "We can't have the Presidential leadership put on the auction block every time aluminum or steel or copper goes up," the President complained to Weisl. "I can't win a war when I'm dealing with these hardheaded businessmen all day long, every day. They are just tying their own leader['s hands]—I'm not the leader of Russia, I'm the leader of the United States!—and they got me handcuffed because I'm debating with you and with George Brown and with McNamara and them…all day long, instead

[53] Conversation with George Brown, January 4, 1966: 9409.

of trying to beat the Chinese, because they're trying to put their hand in the cookie jar!" Blough, Johnson said, had "got himself in the shape of a Morgan." When the US Steel chairman was called before the JEC to explain the price rise, the President wouldn't "get in there and get the midget off this feller's knee when he goes to testify." Workers, Johnson complained, were "going to demand an excess profits tax…because I've got their wages down. And these liberals, I've got the most liberal Congress anybody ever had and they're gonna pass a damn excess profits tax and I don't want to do that."[54] The episode demonstrated the difficulty, as a rule, of using public authority to guide growth in a way that benefits wage earners at full employment, while at the same time keeping the favor of those who consider themselves the "business community."

That evening, the US Steel leadership flew to Washington to meet with the President's advisers. The White House communicated to the press that the President did not attend the meeting. As Rowen wrote for the *Post*, "Blough [and] other US Steel executives…huddled with officials designated by the President." "Neutral officials were using such terms as 'statesmanlike' to describe Blough's adroit handling of the current controversy," Rowen added. Yet Gardner Ackley later recounted a much more arduous private conversation he facilitated between the President and Blough. "I made the arrangements," Ackley remembered,

> "and Roger came to my office and I took him over to the President's office. Roger started to explain what it was that they wanted to do and why it was a reasonable thing to do. And the President just started working him over and asking him questions and lecturing him. I have never seen a human being reduced to such a quivering lump of flesh. Roger was unable to speak at the end of that interview. LBJ just took him apart, spread him out on the rug; and when we left, Roger was just shaking his head. All that awesome power was really brought to bear! I'd just never seen anything like it."

[54] Conversations with Edwin Weisl, January 4, 1966: 9421 and 9416.

The next day, January 5, US Steel announced a price change averaging a $2.50-per-ton increase on structural steel—undercutting Bethlehem's increase by half—while reducing prices on "West Coast cold-rolled sheet," a product increasingly undercut by Japanese imported steel, by $9 per ton. Immediately, Bethlehem reduced its price to the US Steel rate.[55] The event was publicized as a victory by the administration and an exercise in public responsibility by Roger Blough. The President, however, had compromised considerably.

Friday after the US Steel price announcement, Fowler, drawing on the Thursday meetings with McNamara, Connor, Wirtz, Ackley, Schultze and Califano, recommended the President meet privately with industry and labor leaders before the release of the CEA's Economic Report. This should be followed by a public invitation to the White House to "several hundred leaders of major business concerns and trade unions" to exhort wage and price restraint. "In light of current developments and the prospects ahead," Fowler wrote, "we think it timely to undertake to establish a more formal and public set of arrangements." Johnson objected to the large conference idea, he wrote, "but think is fine on dept. basis by cabinet leaders with business representatives." Fowler and McNamara should be sure to accompany Connor to any meetings with businessmen, he added. "Connor's awful sympathetic with these people and he doesn't hit 'em," Johnson had complained in September, during the steel labor negotiations. "Unless Jack [Connor] is willing to do some of the no-saying, every case will wind up either in the White House or in the Council—or with a price rise," Ackley wrote, "I have no objection to being the bastard; but, in the long run, it may weaken the usefulness of the Council to you."[56]

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[55] "U.S. Accepts $2.75 Steel Price Rise," *Washington Post*, January 6, 1966, p. A1. Ackley Oral History.

[56] BE5 Confidential File. Cochrane, p. 245. Conversation with Henry Fowler and John Connor, January 7, 1966: TK. Conversation with Robert McNamara, September 12, 1965: TK.

Labor and Tripartism During Vietnam: Making or Breaking the Guideposts

Parallel dissension with labor's national leadership had been growing over the course of 1965. Before the Presidential election, the AFL-CIO had lobbied the administration to amend the National Labor Relations Act—the law establishing the federal labor board that regulated collective bargaining—by repealing language, Section 14(B), which authorized states to pass so-called "right to work" laws prohibiting labor agreements from collecting dues from nonmembers. Federation president George Meany accepted Johnson's delay on 14(B) repeal. The voting rights legislation in the Congress would take precedence—Martin Luther King's campaign in Selma was getting underway—as would amendments to the Social Security Act establishing a public insurance program for those over the age of 65. Known as the Medicare program, the AFL-CIO had been one of the primary lobbying organizations for those amendments. But others within the AFL-CIO were much less sanguine. Labor's persistence on 14(B) alienated the CEA, which had been concerned about raising spending during the first half of 1965 before the Vietnam decision—and the spending it entailed—had been made. "I never was as disgusted in my life as with that crowd," Ackley remembered about the meetings with the AFL-CIO Executive Council during early 1965. "All they wanted, Meany and the rest of the them, all they wanted to talk about was the President endorsing the repeal of Section 14(B)… It was about as meaningless a thing as could be." [57]

As profits rose during 1965, tension between the administration and organized labor grew. Legislation to raise the federal minimum wage and to raise the pay of federal employees was bottled up in the Congress; the CEA considered both inflationary in the context of Vietnam spending. When the CEA delivered its annual Economic Report in January 1966, the tension

[57] Ackley Oral History.

finally erupted in public. In 1962, the Kennedy CEA's first report had defined a national wage policy in terms of the "trend rate of over-all productivity increase," estimating this trend for four different periods. The CEA used the 1947-160 trend of 3 percent as the guidepost standard for that year, and this language had remained in the 1963 report. In 1964 and 1965, however, as labor-productivity rose rapidly with the boom, the Council refined its trend measure. Now the productivity guide was estimated as the five-year moving average of output per manhour—a figure that, including the recession years of 1958 and 1959, came to 3.2 percent in those years. But in 1966, as the five-year average dropped the Eisenhower recession years, the same procedure would have yielded 3.6 percent.[58] From the CEA's perspective, incipient inflation, rising service wages, and projected increases in Vietnam spending all called for wage restraint. When the CEA met with the AFL-CIO leadership to announce that year's program, the labor leaders recoiled at the reduced wage figure. For labor, the very same inflation that the CEA cited as a need for wage restraint was a reason for increased wage settlements. P.L. Siemiller, the President of the International Association of Machinists, leaked the figure to the press, noting labor's dissatisfaction. "They gave us no mathematical justification," *Newsweek* quoted an anonymous labor leader. "Those are his [Johnson's] guidelines, not ours," Meany said.[59]

The administration's wage-price program was beginning to dissolve in its hands. In his State of the Union Address, Johnson proposed accelerated corporate income tax collection and continuation of excise taxes on automobiles and telephones, recently rescinded by the Congress—he made no mention of either an excess profits tax or wage and price controls,

[58] *Economic Report of the President*, 1962, 1963, 1964, 1965.

[59] Ackley to LBJ, January 16, 1967, FG11-3, WHCF, LBJ Library. At the 1967 meeting, Ackley wrote that "The only problem [with last years' briefing sessions] was Roy Siemiller's leak of last year's 3.2 percent wage guidepost to the press." A restricted copy of this document is filed in LA EX with Siemiller's name redacted. "The Economic: A Soaring '66—If…," *Newsweek*, February 7, 1966, pp. 59-61.

asking, instead, that "both labor and business to exercise wage and price restraint."[60] Three weeks later, during Congressional hearings on the Economic Report, UAW leader Leonard Woodcock described the wage guideline as "more restrictive than wage controls during the Korean War." "When GM follows the guidepost on pricing, we'll consider the guidepost on wages," he continued, chiding the CEA for "patting GM on the back last year for cutting the price of a Cadillac $1.43."[61] UAW Nat Goldfinger read a statement for Walter Reuther: "The average American worker is being shortchanged. He has not been receiving a fair share of the gains of increasing productivity. The gap between what a worker produces in an hour and what he can buy for money in that hour has been steadily widening." Reuther's statement characterized this erosion of the workers' dollar as an effect of swelling profits on prices:

> "The losses sustained by workers as a result of the inequitable sharing of productivity gains have contributed mightily to the swelling tide of profits…. The 25 largest corporations in the country, as ranked by Fortune, increased their after-tax profits in the first 9 months of 1965 by an average of 30 percent over the same period of 1963. Among those at the very top were Bethlehem Steel Corp. with an increase of 83 percent, International Business Machines with an increase of 70 percent, United States Steel with an increase of 51 percent, and Ford Motor Co. which for the full year of 1065 earned 39 percent more profit than in 193. This enormous rise in nonlabor income, along with the lag in wages and an increasingly regressive tax structure, has produced a wrong-way income distribution trend… the wage policy proposed by the Council of Economic Advisers is extremely negative and grossly unfair." [62]

[60] State of the Union Address 1966.

[61] "UAW Official Cites Tough Guidelines," *Washington Post*, February 9, 1966, p. A6.

[62] U.S. Congress, Joint Economic Committee, *January 1966 Economic Report of the President: Hearings before the Joint Economic Committee*, 89th Cong., 2nd sess., 1966, pp. 387-405. Typescript of Reuther statement, Milwaukee MS 112, Box 56, Folder 7, papers of Henry Reuss, Wisconsin Historical Society, University of Wisconsin-Milwaukee.

After the hearings, Johnson invited Meany and Reuther to discuss the administration's program. "If the guidelines [are] to have any meaning," Meany told Johnson, "labor should be part of the formulating body. The guidelines [are] a political, not an economic, decision."[63]

Wirtz had been preparing just such a tripartite formulating body in late December before the steel industry price controversy seized the President's attention. This meeting had been canceled when Roger Blough came to Washington to discuss the wording of US Steel's price announcement. Reviving the idea in late February, Undersecretary of Labor James Reynolds invited George Taylor, who had directed the Wage Stabilization Board during the Korean War, to meet with Wirtz. The three lunched with Fowler and Ackley as the group planned out a revivification of the committee. New members had to be found: David McDonald was no longer president of the steelworkers union; Clark Kerr had resigned. Two weeks later, Wirtz wrote to the President explaining his thoughts about the developing plan. "In my judgement," Wirtz wrote, "this [further tax increase] won't do the job—at least alone, and by November. I question the effectiveness of the guideposts; doubt the necessity of any general tax increase, and urge as an essential additional element the involvement of American Labor and Industry in a 'hold-the-line' program in which they are participants—both in setting it up and in helping to enforce it." The crucial element, Wirtz proselytized, was the "feeling of private responsibility that comes with participation in the development of the Government's program" which could only be gotten "in the setting up of a system of voluntary self-controls in which they [business and labor leaders] will be active participants. This would take the form of some kind of full-time tri-partite Board, or some system of industry or regional boards."[64]

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[63] Joseph Goulden, *Meany* (1972), pp. 350-1.

[64] Correspondence from James Reynolds to George W. Taylor, February 25, 1966, and Taylor to Reynolds, February 28, 1966, MS. Coll. 1210, Box 7, Folder 4, George W. Taylor papers, Kislak Center for Special

As Wirtz moved to organize these boards on a voluntary basis, liberals in the Congress pressed for a statutory basis for price restraint. Emmanuel Celler, Democratic representative of New York, proposed legislation in January to establish a 60-day price notification requirement by large firms. Henry Reuss proposed legislation empowering the JEC to formulate guideposts and investigate alleged violators.[65] After meeting with the President in February and March, Walter Reuther wrote with a proposal for a "Price-Wage Board of Review." Such legislation had long been considered in the Congress.[66] Johnson asked for Wirtz's opinion. The proposal, Wirtz judged, "should not be advanced legislatively until an attempt has been made to develop a similar procedure on the basis of labor-management agreement."[67] It was hotly opposed by business. After the US Steel price fight, Connor and Fowler had proposed the idea of price-review board to W.P. Gullander, president of the National Association of Manufacturers, and Arch N. Booth, vice-president of the US Chamber of Commerce. "They boggle completely on the issue of an obligation on the part of the major companies to notify," Fowler explained to the President afterwards, "and they resent bitterly government officials assessing publicly whether or not a price or wage action—price action by a company or union action—is violative of the guidelines." When asked about Congressional action, the association leaders expressed doubts that majorities could be found for a price-notification bill without Presidential pressure.[68]

Collections, University of Pennsylvania, Philadelphia, Pennsylvania. Wirtz to Johnson, March 23, 1966, FG730-2, WHCF, LBJ Library. Wirtz to Johnson, March 17, 1966, BE5, WHCF, LBJ Library.

[65] *Price Notice Bill* and *A Bill to Enable the Joint Economic Committee to Combat Inflationary Price-Wage Behavior*, 89th Cong., 2nd sess., *Congressional Record* 112 (January 10, 1965), pp. 77-8 and 86-8.

[66] Michigan governor G. Meenan Williams had hosted a public meeting of economists and intellectuals as early as 1959 to discuss the idea, and similar bills had been regularly introduced in the Congress by politicians from the Steel Belt states around the Great Lakes, Pennsylvania, and New York.

[67] Correspondence from Walter Reuther to Lyndon Johnson, March 22, 1966, and memorandum from Wirtz to Johnson, April 7, 1966, BE3, WHCF, LBJ Library.

[68] Califano to Johnson, January 7, BE5 Confidential, Box 2, WHCF, LBJ Library. Conversation with Fowler and Connor, January 7, 1966: TK.

Before Wirtz could make his attempt, however, labor's lower leaders began to move. On March 21, machinery operators struck large construction projects in the state of New Jersey. In January, the state's Associated General Contractors had announced it had reached an agreement with Local 825 of the International Union of Operating Engineers to raise heavy machinery operator's hourly earnings by 30 cents to $7.75 an hour and an additional 35 cents an hour in benefits. The average manufacturing wage in manufacturing was then around $2.60; in contract construction it was round $3.70. The employers' association estimated the agreement to represent an annual increase of between 13 to 17 percent. The CEA invited Local 825's leaders to Washington in February; the union rejected the offer. Wirtz requested assistance from John Dunlop—a professor of industrial relations at Harvard and the impartial chairman of the Construction Industry Joint Conference, a private business association of the national business and labor leaders in the industry—who drafted a proposal for the member organizations of the Conference to intervene in local disputes to secure wage and price restraint. On February 16, Wirtz, Ackley, and Califano met with Meany to discuss the idea. "The Administration is sympathetic to it," Califano wrote to LBJ, "and would look with favor if it were adopted. If Meany, et al cannot live with it, then they should submit some other proposal because something has to be done to get the Building Trades situation in hand." The *New York Times* quoted employers' representatives on "the ever growing power of the building and construction trades unions" and on the administration's response to the Local 825 contract as "the Munich of wage-price restraint." To coerce a guidelines settlement, the group suggested the Bureau of Public Roads withhold funds from the State of New Jersey. [69]

[69] Sheahan, pp. 52-4. Linder, pp. 19-20. Califano to LBJ, February 16, 1966, , LA EX, Box 2, LBJ Library.

Meany was sympathetic to the problem. "On the guideposts themselves," Califano wrote, "as Meany has said to both you and Wirtz if he [Meany] were President he would have something like the guideposts. If we do not control inflation, the working man will be the first to suffer. The rich will still go to Nassau and Puerto Rico." But Meany did not see construction workers' wages as the lynchpin of the stabilization program. The day after Meany's meeting, the 18 national union presidents of the Construction and Building Trades Department (CBTD) of the AFL-CIO, representing 3.5 million carpenters, painters, plumbers, and other building trades, met to discuss the Dunlop proposal. Speaking to a reporter after the meeting, CBTD president C.J. Haggerty said there were over eight thousand local unions within the national unions represented by the CBTD, making any national coordination impossible. The plan to centrally monitor and guide these negotiations was "unworkable and therefore we are unwilling to support it." After five days and with entreaties from New Jersey labor commissioner Raymond Male and Wirtz, Local 825 agreed to settle for the wage increase and to await binding arbitration for the benefit increase.[70]

The construction dispute revealed the difficulty the administration faced in devising a national wage policy without the cooperation of the unions. Linder has argued that the full employment economy made construction unions blind to the effects their wage demands would have in stimulating a counteroffensive of large manufacturing and finance firms who began increasingly to contract with non-union construction firms. [71] But this thesis does not appreciate the degree to which the provocative wage claims of highly organized workers were calculated to force the Johnson administration into adopting wage and price controls as a way of regulating

[70] Califano to LBJ, February 16, 1966. Goulden, pp. 349. February 18, 1966 *Washington Post*. Linder, pp. 20-21. Cochrane, p. 258.

[71] Mark Linder, *Wars of Attrition: Vietnam, the Business Roundtable, and the Decline of Construction Unions* (Iowa City: Fanpihua Press, 2000).

profit rates many workers' leaders interpreted as a national scandal. As the AFL-CIO's Executive Council declared, the federation would "cooperate so long as such restraints are equitably placed on all costs and incomes—including all prices, profits, dividends, rents, and executive compensation, as well as employees' wages and salaries." As Haggerty told reporters after denouncing the Dunlop proposal, construction unions would only support wage restraint as part of a program that included price and profit controls. Meany distilled the issue during a meeting with President Johnson that month: "The guidelines were a political, not an economic, decision." [72]

The organization and financing of construction in the US made the problem of wages particularly acute in this industry. Because many large projects were not active in the winter, construction workers were unemployed for about a third of the year. Exacerbating this problem was the way the Federal Reserve's method of regulating investment generally effected housing investment. In the months after the December discount-rate increase, new housing starts began to fall nationally: builders began 1.3 million homes in February 1966, nearly two-hundred thousand fewer than in February 1965 and four-hundred thousand fewer than December 1965.[73]

Unions insisted on wage premiums to tide workers over during periods of joblessness. Thus, this "seasonality problem" became the center of the Wirtz program for restraining construction union claims. In June, the labor secretary issued a report on the industry proposing an arbitration award establishing a fund jointly administered with the union to finance public works projects in periods of slack demand for construction labor. The employers would contribute 20-cents an hour to the fund and the unions would forego the benefit increase. The

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[72] Goulden, *Meany*, p. 349-51. "Construction Workers Bar Pay Demand Curb," *Washington Post*, February 18, 1966, p. D6.

[73] "Housing Starts in February Fell to a 3-Year Low," *Wall Street Journal*, March 21, 1966, p. 3. Office of Business Economics, US Department of Commerce, *Survey Current Business* (June 1966), p. S-9.

Associated General Contractors of New Jersey called the plan "more inflationary" than the original Local 825 bargaining demands. Smoothing the schedule of construction projects, Wirtz countered, would save the industry "about a billion dollars a year" in overtime wages regularly paid under current arrangements. The national contractors association rejected the proposal on the grounds that stable employment would encourage absenteeism, a remark that provoked a series of three-week strikes by Local 825 in July. An agreement would not be found until September.[74]

Almost simultaneously, the breach of the guideposts repeated itself in the airline industry. In mid-March, just before New Jersey projects came to a halt, the National Mediation Board released a dispute between the International Association of Machinists (IAM) and five national airline companies— Eastern, National, Northwest, Trans World, and United. The IAM represented 34,500 airplane mechanics who had been bargaining for a 15 percent wage increase since August 1965. Unable to find agreement themselves, and threatening a strike of the airways unwanted by the administration, the President had referred the dispute in December to the Mediation Board. Now, the Board recommended the parties agree to binding arbitration by a neutral third party. Unhappy with this result, the local union set a strike deadline for April 23.

Johnson responded by calling for an emergency board under the Taft-Hartley amendments to the National Labor Relations Act. The law called for the President to delay strikes in industries vital to the national interest for 90 days by appointing members to a public emergency board charged with studying a labor dispute and issuing non-binding recommendations. In previous instances, such boards provided a forum for the administration to

[74] Linder, p. 21-2. Cochrane, p. 258. *Business Week*, July 16, 1966, pp. 48-50.

pressure intransigent employers to absorb labor costs or persuade union leaders to trade wage demands for other political perquisites.[75] The political orientation of the airline mechanics union leadership, however, complicated Presidential intervention. IAM president Paul LeRoy Siemiller had been one of the most vocal opponents of the CEA's guidepost number when the AFL-CIO leaders met with the CEA in January. IAM vice-president Joseph W. Ramsey, in charge of the airline negotiations, was a registered member of the Republican Party.[76]

As with the construction union leaders, the politics of price controls complicated the administration's anti-inflation program. Both disputes occurred just as the Vietnam issue began to tighten itself around the President and to absorb more of his attention. In February, as Johnson flew to Hawaii to meet with the leaders of South Vietnam, the Senate Foreign Relations Committee opened public hearings on the US involvement in the war. The President had announced an unconditional pause to the bombing campaign in North Vietnam on Christmas Day 1965, and throughout January the members of the Cabinet debated the desirability of a drawn-out war. The day the President resumed bombing, New York Senator Robert Kennedy had spoken in the Senate to oppose the measure. "If we regard bombing as the answer in Vietnam," he said, "we are headed straight for disaster…the decision to resume may become the first in a series of steps on a road from which there is no turning back—a road which leads to catastrophe for all mankind." [77]

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[75] See, for example, *Emergency Disputes and National Policy*, eds. Irving Bernstein, Harold L. Enarson, and R.W. Fleming (New York: Harper & Brothers, 1955). For an account of one such emergency dispute, see the article by Kristoffer Smemo, Samir Sonti, and Gabriel Winant, "Conflict and Consensus: The Steel Strike of 1959 and the Anatomy of the New Deal Order," *Critical Historical Studies* (Spring 2017), pp. 39-73.

[76] "Five Airlines and Union Far Apart on Money," *Washington Post*, July 9, 1966, p. A1. "Air Strike Talks Make Some Progress: Union Presents New Position," *Wall Street Journal*, p. 9. Cochrane, pp. 258-263.

[77] Arthur M. Schlesinger, *Robert Kenned and Hist Times*, Volume II (Boston: Houghton Mifflin, 1978), pp. 768-9.

Macroeconomic guidance was left pending evaluation of military progress. The administration was uncertain about the duration of the conflict at hand. As the US troop presence increased during late 1965 and early 1966, White House directives to the military were difficult to evaluate—they consisted of "resisting aggression" or "insuring a non-Communist South Vietnam," goals which did not offer the Cabinet or the Secretary of Defense a clear sense of the schedule of military expenditures.[78]

With forward planning halted by the political uncertainty of the war, Ackley proposed "a new approach to industrial price problems" in March. The CEA would begin to regularly convene meetings with ten to thirty business leaders from each "industrial sector: e.g., chemicals, petroleum, machinery, food manufacturing, etc." where the CEA chairman would present executives with the council's studies of their price-productivity-profit trends and seek to work out solutions to any firms' particular profit problems that might otherwise cause them to raise prices. Such close intervention was liable to spark panic, as Wirtz's invitation to the Bethlehem Steel company had in December, and as the lead up to price control during the Korean War had sparked a wave of panic buying and rapidly rising prices. This context made any discussion of a formal change in the economic program anathema. "The nightmares and excesses of excess profits taxes and direct wage and price controls are not in the Administration's thinking," Ackley reassured the President about the industry meetings.[79]

What would public consideration of wage and price controls symbolize in this context, other than a ratification of the nation's commitment to military escalation? Because military spending was the proximate cause of rising service wages and the booming capital goods orders,

[78] Harry Y. Schandler, p.35

[79] Cochrane, 1977. Quoted in McQuaid, p. 238.

the idea of price and profit controls or other mandatory controls on private behavior could not easily be separated from the war and attached to the Great Society project.

Since December, Ackley had prevailed upon the President to depress the boom by raising taxes. In May, Ackley, Califano, Fowler, McNamara and Schultze met with the President in Texas to redouble this push. "So far," Walter Heller wrote to Johnson the next week, "inflation hasn't really got us by the throat because higher prices haven't yet infected the wage structure—but just wait, at 2 ½ % to 4%, wage boost will start coming in at 5% to 6% instead of 3% to 4%."[80] These exhortations, however, were kept private. When, in early May, Wirtz and George Taylor finally reconvened the President's labor-management committee for a three-day conference in Washington, the Ackley and Wirtz persuaded the group against pressing for an immediate tax increase.[81] Delay on a tax hike, moreover, accorded with wider public sentiment. Business regarded the corporate and top-bracket income tax reductions of 1964 as a historic achievement and was unwilling to consider reversing them for the purposes of stabilization. On the final day of the labor-management conference, the US Chamber of Commerce held its annual meeting and voted in a closed session by a margin of 18 to 1 for reduced federal spending, *rather than a tax increase*, to deflate the expansion.[82]

The nation's university professors and businessmen aired this debate publicly in colloquia programmed across the nation that spring. In February, the CEA hosted a conference on the twentieth anniversary of the Employment Act of 1946 in Washington. In April, the Graduate School of Business at the University of Chicago held a conference on "informal controls and the marketplace" at which administration officials debated their critics. In May, the

[80] Texas meeting in Cochrane, Califano, and BE 5 Confidential. Heller in BE5 Confidential.
[81] LMAC May meeting.
[82] *New York Times*, May 5, 1966.

Committee for Economic Development hosted a symposium in Los Angeles with Walter Heller, John Harper of Alcoa, and Pierre-Paul Schweitzer, the managing director of the International Monetary Fund. Channeling the tenuous consensus in Los Angeles, Herbert Stein judged that "We would be wise to pursue a wait-and-see policy" before raising income taxes.[83] The subject of these academic debates was the principle of the guideposts—and, by implication, the malleability of the wage-price spiral—and the question of whether the federal government should even attempt to influence private wage negotiations and price decisions continued in the meetings of the reconstituted labor-management committee that summer. At the first meeting in May, only two of the seven business representatives assented to the principle of the guideposts. By June, however, with prices rising and the possibility of a large wage settlement in the airline industry, the businessmen had come to endorse Presidential persuasion in holding down wages. "The industry members had caucused at the subsequent Business Council meeting," Ackley wrote to Johnson, "and obviously had agreed that they had better support the existing guideposts rather than risk something worse." At that month's meeting, all seven business representatives favored the principle. [84]

When the Taft-Hartley board delivered its report in early June, there was little surprise when the IAM rejected the board's proposed settlement. On July 8, thirty-five thousand airplane mechanics across the nation walked off the job, grounding 60 percent of trunk-line air traffic and provoking scandal in the Congress. In late July, Oregon Senator Wayne Morse, who had served on the emergency board, introduced legislation in the Senate for the federal government to take the five companies into receivership. The measure was received poorly; Morse moderated and

[83] Twentieth Anniversary Clips. Guidelines book. *Managing a Full Employment Economy* (New York: CED, 1966), Stein on p. 27.

[84]Taylor papers, box 7, folder 11. Ackley in WHCF FG730.

substituted a resolution for a 180-day "cooling off" period. The next week, Undersecretary Reynolds announced the parties had an agreement amounting to a 4.5 percent annual wage increase. The President took to television to announce the settlement, declaring it not inflationary and an exception to the guideline rule, only to be humiliated two days later when the machinists' rank-and-file rejected the offer in an overwhelming 3-to-1 majority. "I want you to know what the board's recommendations are and I want *you* to know that I am right behind them, 100 percent," Siemiller had said in a speech before the membership. He then opened his coat, revealing a large sign that read "Vote No."[85]

The Monday after the rejection, Robert and Edward Kennedy, the Senators from New York and Massachusetts, who sat with Morse in the Senate Labor Committee, took up Morse's proposal for government seizure. Together with Joseph Clark, they introduced legislation empowering the President for 180 days to assume ownership of profits, fix rates, and establish working conditions at the five struck companies—what Drew Pearson called "unlimited permissive power."[86] Ending the strike through federal intervention, however, was widely perceived as an act of hostility against organized labor. Several newspapers reported that not since the railroad strike of 1917 had the Congress decided against unions. "These papers are not our friends," the President complained to Califano and to press aid Bill Moyers during the Senate debate. "Each article is that labor has really turned on us….UP and AP run each day, as just a matter of fact, that labor is really after me. And we can't turn it. I don't know how to turn it. They just state it, they don't quote a man. They don't say 'Siemiller says that labor's mad' at me.

[85] David Ginsburg Oral History.

[86] Drew Pearson, "Sparks Fly in Debate on Airline Strike," *Washington Post*, August 5, 1966, p. B11.

They do it, then pretty soon people believe it, go to pickin' it up….I don't know really how to handle the public angle of it."[87]

Thursday, August 4, the Senate debated a compromise resolution ordering the machinists back to work for thirty days and empowering the President to appoint another emergency board to mediate the dispute. Initially, many in the Senate had refused to vote on the grounds of supporting organized labor. The Kennedy-Clark measure to empower the President to seize the industry was perceived by many as an infringement on the "free collective bargaining" rights that had come to animate AFL-CIO rhetoric during the early cold war. "When you go back to your state, when the members of the House of Representatives who run for re-election this year go back to their states, you're all going to be charged with being strikebreakers," Pennsylvania's Clark explained, trying to mollify the reticent politicians. "That may be unjust, it may be unfair, but it's a political fact of life."[88] For many conservative and business-friendly politicians, however, the dispute came to symbolize a last stand against the coercive power of unions. "The damage rolls on and on like a cyclonic wave," said Republican Senator Everett Dirksen, urging the Senate to vote. "May the motion to postpone the vote be roundly defeated to show we have not lost our guts, we have not lost our drive, that we have not lost our sense of perspective and our place in the governmental scheme." The Senate approved the back-to-work order, 54 to 33, sending the bill to the House Commerce Committee.[89]

To Johnson's paranoia, the airlines dispute began to symbolize his purported inadequacies as a leader when compared to the Kennedy brothers. "We got a problem here, we're getting a little politics played on us in the Labor Committee in the Senate," Johnson told

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[87] Miller center recordings.

[88] Austin American Statesman.

[89] Austin American Statesman, August 5, 1966. Washington Post, August 5, 1966. New York Times, August 5, 1966. Phone call, LBJ with Moyers and Califano, August 3, 1966.

Joe Beirne, president of the Communication Workers of America: "Bobby Kennedy and Joe Clark are determined for me to recommend something." Robert Kennedy, wrote columnist Mary McGrory after the Labor Committee reported the seizure bill, "generates the only genuine emotion in American political life today," quoting an anonymous Senator that the younger Kennedy was "the attractive alternative to the President."[90] "Bobby's got Alsop and Ben Bradley and Roland Evans and Drew Pearson—about Seven," Johnson complained to Califano as the House debated the issue. "That's the way he operates. We gotta operate the same way."[91] The episode played neatly into Johnson's indulgent sense of persecution, the concomitant to his motivating quest to be at the center of a consensus of the nation's most powerful groups. "At one meeting in the summer of 1966," Chester Bowles, an old New Deal ally and then ambassador to India, wrote later, "literally half our time together was taken up by almost paranoiac references to Bobby Kennedy, Way, Morse, Bill Fulbright and others. He would allude to an obscure news reference and then with his aide, Jack Valenti, embark on a frantic search through the pages of various newspapers to find it."[92]

The House proved unwilling to act as swiftly as the Senate. As Beirne explained to Johnson, "some of these goddamn right-wingers are making their lectures stick in some of the states." The free market dogma was becoming very appealing to workers inculcated in the belief that their livelihoods depended on "free collective bargaining."[93] In the opinion of Commerce Committee Chairman Harley Staggers, the legislation "would set back collective bargaining for 50 to 100 years." Melvyn Laird opposed action without the declaration of a state of emergency.

[90] Mary McGory, "Bobby Kennedy Will Be President," *Atlanta Journal Constitution*, August 1, 1966, p. 5. Phone call, LBJ and Beirne, August 1, 1966.

[91] Phone call, Johnson to Califano, August 5, 1966.

[92] Chester Bowles, *Promises to Keep: My Years in Public Life* (New York: Harper & Row, 1971), p. 535. Schlesinger, *Robert Kennedy*, p. 775.

[93] Phone call: Joseph Beirne to Lyndon Johnson, August 5, 1966.

House Speaker John McCormack of Massachusetts had already received several hundred telegrams against the bill. Representing the White House in the House Commerce Committee's public hearings, Willard Wirtz reiterated the non-emergency nature of the airlines strike. A legislative solution to the strike, he explained, would represent a "weakening of the collective bargaining process…Every time we do it we weaken the determination of the people to do it themselves in the future." [94]

As Wirtz moved to slow Congressional action, Johnson placed calls with national labor leaders to bring Siemiller and Ramsay to reach an agreement. He placed calls with Beirne, Reuther, and with Meany, who was at the racetrack. "I notice the damn machinists on TV," Johnson complained to Beirne.

> "They say 'well the President can't tell us what to do.' I don't want to tell 'em. I'm trying to protect the poor bastard. A goddamn fellow working in a Miami tin shop under the hot sun for three dollars an hour, forty hours a week, he gets 120 a week, and maybe got a boy in college. I feel for him and I don't want to tell him 'you got to back to work' and break his strike, just because I got the power to pass a law. But I want his damn leader to get out of the dentist chair and out of the racetrack and get out here and, by god, go to work and get some negotiation."[95]

Even as they opposed the Kennedy-Clark emergency measure in the Congress, the President's advisers began to consider long-term legislation to establish a formal procedure for resolving wage-price issues. During the Senate debate, Inland Steel had announced a $3-a-ton price increase on sheet and strip steel. US Steel promptly followed. The day of the Senate vote, Califano wrote to Johnson that Fowler, Wirtz, Connor, Ackley, Clifford and Fortas were all supporting the establishment of a board to review price and wage decisions. Both Sidney

[94] "Both Sides in Airline Deadlock Are Warned at House Hearing," *Washington Post*, August 7, 1966, A3. "No Sign of Progress as Wirtz Renews Talks to Settle Airline Strike," *Wall Street Journal*, August 8, 1966, p. 2. "LBJ Mum on Strike Order," *Austin American Statesman,* August 5, 1966, p. A1.

[95] Phone call: LBJ to Beirne, August 5, 1966.

Weinberg and Abe Fortas recommended legislation to establish some form of wage and price controls.[96]

The administration was departing considerably from its late winter and spring posture against formalizing a wage-price commission. In April, Johnson, at Wirtz's urging, had declined to support Walter Reuther's proposal for a Price-Wage Board of Review. As recently as June, the administration's senior economic policymakers had declined to endorse a bill introduced by Congressman Reuss amending the Employment Act of 1946 to require the CEA annually to transmit wage-price guideposts and a report of violations to the JEC for Congressional investigations. "Guideposts that had received specific Congressional approval would have greater authority as a standard for responsible behavior," Ackley wrote Reuss. "Enactment of HR 11916 would thus 'institutionalize' the guideposts…. The CEA believes that experience with the guideposts is still too limited for such a step."[97] Because most of the provisions of the proposal "were already being provided the Congress under existing arrangements," the general counsel to the Treasury explained, the amended procedure of the Economic Report was "unnecessary."[98]

Throughout that summer, the necessity of permanent reforms tying together a national wages policy with fiscal and monetary policies had become apparent to many inside the administration. "The battle we are now engaged in to hold both prices and the wage guidelines is not a battle merely for the next six months until we have a political base for a tax increase," Rostow wrote to the President in June. "It is the kind of battle that will have to be fought on a systematic basis for the long pull, if we are to hold this economy up close to full employment without inflation…. Measures to hold down the level of effective demand…have an important

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[96] Cochrane, p. 268. Phone call: LBJ and Weinberg, August 5, 1966. Phone call: LBJ and Fortas, August 4, 1966.

[97] Gardner Ackley to Henry Reuss, June 2, 1966. Reuss papers, Box 47, Folder 11.

[98] Fred B. Smith to Henry Reuss, June 8, 1966. Reuss papers, Box 47, Folder 11.

part to play in this business, but they will not be sufficient." The alternative, Rostow concluded, was either "inflation or a return to boom and bust." [99] Ackley put the same point to the President in late July during the Machinists vote. "Every free industrialized country which tries to maintain full employment faces this problem: strong unions have the power to push wages up…and semi-monopolistic industries have the power to push up prices…No country has really solved it. Sooner or later we will have to come to grips with it."[100]

Business, however, remained opposed to any legislation establishing a board to evaluate prices. During the Cabinet debate over the airlines bill, Connor surveyed business executives on the Reuther proposal, speaking with Ward Keener of Goodrich, Don Burnham of Westinghouse, and H.I. Romnes of AT&T. The reaction, Califano noted, was "uniformly negative." "He [Connor] believes their views…represent a fair consensus. Connor Presented the Wage-Price Review Board as his idea. The three businessmen said that most large companies contemplating price moves would find it impossible to give advanced notice to such a Board on a voluntary basis, not only for philosophical reasons but also because of the complexity of pricing."[101] Nor could the President find an interested statesman to chair such a review board who he considered sufficiently neutral. McNamara was uninterested, preoccupied between managing the war in Vietnam and his own staff turnover in the Department of Defense. McNamara proposed either Douglas Dillon or John Kenneth Galbraith for the position. Johnson exploded at the idea. "Kenneth Galbraith would frighten everybody to hell in this country, and he wouldn't do it anyway," the President told Califano when the aid delivered the news. "He'd have every businessman mad at him….They ain't got no more confidence in him then they have Stokely

[99] Rostow to LBJ, June 14, 1966, LBJ Library, WHCF, BE5 Box 2.
[100] Memorandum, Ackley to LBJ, July 27, 1966, quoted in Cochrane, p. 262.
[101] Califano to LBJ, August 8, 1966. FG150-7.

Carmichael. To recommend that Galbraith head up a program in the federal government that involves businessmen doing something voluntarily after his books and his scare talk, is just like recommending Stokely Carmichael to go in to be mayor of Jackson Mississippi."[102]

Wage restraint and race

The momentum came to a head that summer and early fall. On August 10, the day he returned to Washington from Vietnam, McNamara informed the President of his judgement on military situation. There was "no reasonable way to bring the war to an end soon"; military strategy would entail protecting the cities and assuming "a military posture that we credibly would maintain indefinitely." As Schandler notes, it was a "remarkably somber and pessimistic" conclusion.[103] The next day the President convened the Cabinet to discuss the economic program for 1967. Ackley opened the meeting with a discussion of the general economic situation. While manufacturing wages had tracked with the guideposts, the cost of living had outpaced them. The "sharp and steady rise" in consumer prices, Ackley explained, was due to rapidly rising service wages, pulled up by full employment, and to rising agricultural incomes. Manufacturing productivity had risen at an annual rate of 4.4 percent per year, "substantially faster than in the economy generally." As a result of steadily growing corporate profits, the larger depreciation allowances ordered by President Kennedy, and the increased interest income resulting from the Federal Reserve's December action, the capital share of national income was up.[104]

"This is one of the genuine and serious sources of complaint by labor," Ackley explained. "It is clear that everyone has benefitted from prosperity—benefitted richly, though not equally."

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[102] Phone call, LBJ to Califano, August 5, 1966.

[103] Schandler, pp. 43-4.

[104] Memo, "Presentation by Gardner Ackley at Cabinet Meeting, August 11, 1966," BE5, WHCF, LBJ Library.

> "Both of these income shifts [to service workers and agricultural producers] are necessary and welcome, in themselves. Yet the fast rise in consumer prices which has accompanied these income shifts, now intensifies the demand of the strong industrial unions to achieve larger wage increases, at a time when their bargaining strength is at its peak. Organized labor is eyeing the fat profits of business and believes that those profits—and not the living standards of industrial workers—should absorb the cost to society of higher farm incomes and of higher wages in the unorganized service industries. Yet, if the result of labor's demands is to push union wage rates up faster than the advance in productivity, it is highly unlikely that profits will in fact be squeezed. Rather, industrial producers will merely raise prices to protect their favorable profit positions, and the spiral will be underway in full force."[105]

Employer's pricing power deprived industrial workers of their primary means for raising their real income: wage demands. And that pricing power had enabled stockholders and corporation managers to reap much greater benefits during the expansion than manufacturing workers.

Illustrating the different trends across types of income, Wirtz compared the gains between a stockholder and a wage earner since 1953. Dividends had increased 49 percent; a person who owned stock and received $5,000 in dividends in 1953 was receiving $7,450 in 1966. The stock itself would be worth much more—equity had increased 53 percent. Wages had increased only 25 percent; a worker who earned $5,000 in wages in 1953 would be receiving $6,250 in 1966. "The discontent you hear expressed involves the differences between those two sets of figures," Wirtz explained. "In the airlines situation, you have today these factors brought into graphic and not typical relief when you compare the fact that these five airlines have increased profits between [now] and 1964 of 100 percent." [106]

Intensifying union market demands was the unsettling of historic wage differentials by the full employment economy. During the July meeting of the labor-management committee, the

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[105] *Ibid.*

[106] Memo, "Remarks of Secretary Wirtz Cabinet Meeting August 11," BEF, WHCF, Box 2, LBJ Library.

labor and business representatives had discussed rising service prices as a cause of the rising price level, and found that six of every ten workers in the service industries were women, compared to one in three in total nonagricultural employment. "In such component service industries as medical, hospital, educational, welfare, and personal services, women represented over half of total employment," the report read. "Nonwhites," it continued, had "a disproportionate representation in the service industries." Representing 10 percent of all nonagricultural workers, "nonwhites" represented 17 percent of service industry employment, and tended "to be concentrated in the lower-paying and lower-skilled service jobs. Significant concentration of nonwhite employment appear in private household services (40 percent of the total), hotels, laundries, and other personal services (18 percent), and in hospitals (20 percent)."[107] Over the past decade, Negro and youth unemployment rates had experienced a long-term growth trend. "It didn't make much difference in 1953, as far as unemployment was concerned, whether you were young or old, or whether you were Negro or white," Wirtz explained. Over the past decade, however, the unemployment rate between these groups had diverged "substantially." "It just hurts much more today to be young, it hurts much more to be Negro, comparatively, than it did before."

These were the wages rising the fastest and represented the portions of the workforce whose situation had changed most dramatically by the fiscal expansion. Administration liberals hoped the employment boom would begin to ameliorate the racial disparities, but as it coincided with sharply rising property income and consumer prices, unionized industrial workers had begun to press for larger wage increases themselves. Preparing for the 1967 bargaining round, the UAW had announced it would negotiate a special rase for skilled workers on top of base

[107] George Taylor Papers, Box 7, Folder 11, Kislack Special Collections Library, University of Pennsylvania. W. Page Keeton Papers, Box 97, Folder 6, University of Texas Law Library.

increases.[108] "In the type of industrial society we have here, it is only natural that the worker in one area will be looking at the worker in another area to see how well he does," Meany later explained. "It certainly wouldn't make sense for a union to voluntarily limit its demands…when all around there are other unions…whose members are doing comparable work and are getting settlements over the above what the voluntary controls would expect them to."[109] The near-universally segregated construction unions couched their wage claims in explicit defense against the administration's civil rights program. CBTD president Haggerty had himself accused the Department of Justice of using the new civil rights law as a weapon against the building tradesmen, defending their autonomy to both set wage claims and determine membership.[110] Lyndon Johnson understood the political effects of this dynamic within the public. Speaking of the airplane machinists' wage demands later that summer, Johnson complained that the uncompromising nature of the IAM would only serve to antagonize the public and alienate workers from the administration that refused its bulking wage increase. The administration could not condone it, he told Joe Beirne; "This is what makes Stokely Carmichaels."[111]

Throughout autumn the question of how to unify organized labor behind a national wage policy plagued the administration's economic planners. Here the economists divided from the Department of Labor. When asked about rising prices in the Congress in September, Wirtz explained that he did not think "the increase in wages in the food and the service industries should come out of the pockets of manufacturing employees." Garnder Ackley, speaking before the National Industrial Conference Board in October, explained the dilemma: the "recent increases in food prices have swelled the income of farmers. But the achievement of higher farm

[108] "Unions call 5% a minimum for '67," *Business Week*, November 26, 1966.
[109] "Aluminum Fires Inflation Concern," *Christian Science Monitor*, June 7, 1968, p. 13.
[110] "Construction Workers Bar Pay Demand Curb," *Washington Post*, February 18, 1966, p. D6.

incomes has long been an express goal of public policy…. Likewise, the rise in service prices has been associated with a relative gain in the incomes of our lowest paid workers—surely an objective of every group in our society."[112] Speaking before the American Ordnance Association later that month, Arthur Okun explained that, while the "key current problem for the guideposts stems from the recent increases in food, and service prices, which have accounted for the major part of our rise in consumer prices," that rise was itself no justification for larger union wage claims. Price stability depended on "asking the industrial sector whether owners and workers, in combination, will show the restraint to absorb these costs."[113]

So long as consumer prices continued to rise, much of organized labor proved unwilling to participate in a wage restraint program. So long as the President clung to business, any form of profit control divorced from the national security imperatives was politically anathema. The price-wage spiral was turning, palpably. Many within the administration continued to interpret events as evidence of the necessity of reforming the institutions of union wage and corporate price determination. As Ackley reiterated to the President, the "wage-price problem is not merely a short-term or defense-emergency problem. Rather, it is a permanent problem for an economy operating steadily close to full employment. This is the kind of economy we intend to maintain."[114] Others saw the full employment boom and the wage-price problems it revealed as a temporary byproduct of the exceptional situation of the unplanned Vietnam spending. As Attorney General Katzenbach explained to the President after the August 11 Cabinet meeting, "I think that trying to formalize anything at this point would just not work and is wrong." He advised waiting "until January" and, in the meantime, "to make as many pleas as you can to the

[111] Phone call, LBJ to Beirne, August 5, 1966.
[112] Quoted in Douty, June 1967.
[113] Printed in JEC Vietnam spending hearings, p. 545.

unions and to the businessmen. I don't really believe that trying to formalize guideposts, or formalizing any kind of wage-price review, has any prospects of success, and I think, if I'm right on that, that it would be a mistake to do it."[115] Many students of the business cycle considered profits rising faster than wages natural and beneficial during expansion. When measured across the two previous expansions, Okun explained to the President, "labor has been getting its fair share of our growing national income pie." Though labor's share had fallen since 1965, it was unchanged since 1960 and 3 percent greater than in 1955. "On this comparison, labor has more than held its own." After the August 11 cabinet meeting, Rostow explained to the President that the politics of bulging profits were overstated. They included retained earnings that would be ploughed back into firms as investment, which, even as they raised shareholders' equity, also expanded employment. "Labor, as well as shareholders, enjoys the benefits of plough-back of profits," he explained. "Therefore, the exposition of Bill Wirtz on income distribution was partially misleading and the complaints of labor are partially false."[116]

Unwilling to press for legislation, his advisers divided on the profit controls, the President vested the labor-management committee with all hope for stabilization of the incipient wage-price spiral. In its renewed guise, however, the group served more effectively as an arrangement for the administration to divert Congressional attention from rising prices and the balance of payments rather than as an operational economic planning committee. In part, this was because of the minute quotient of power and autonomy Johnson placed in the committee. As Califano wrote Johnson after the group's July meeting, he thought the "way to get the guidepost problem thought through on a long range basis is not with this committee, but with some good

[114] Califano to LBJ. Ackley to LBJ, August 29, 1966. BE5C

[115] Phone call, Katzenbach to LBJ, August 11, 1966.

[116] Memo, Okun to LBJ, "Labor's Gains." March 4, 1966, LA EX, WHCF, Box 2, LBJ Library. Correspondence, Rostow to LBJ, August 12, 1966, FG150-7, WHCF, LBJ Library.

in-house staff work, which would then be blessed by this committee."[117] In May 1967, Ackley explained the reasons he saw for its ineffectiveness. The first was that "the staff work for the Committee is atrocious." Having none of its own, the Labor or Commerce Secretary relied on their departmental staff for labor-management committee work. The second was the reticence on the part of the public members to set the agenda for the committee meetings.[118] When Califano called the Oval Office during the airline mechanics strike to ask how to respond to questions about whether the administration was "studying wage and price controls," the president was unable to provide a specific answer. Jack Valenti, who was in the room, recommended saying that "We referred to the Labor-Management Advisory Committee." "Yeah, yeah, yeah, that's one thing good," Johnson responded, telling Califano to "just say that the Labor-Managements been studyin' these things, and all he [Johnson himself] did is talk about their study."[119] "Not much is going to come out of that study [on the guideposts] as it now stands," Califano responded. "We built it up too much it may turn out to be a busted balloon when their report finally comes in."[120]

For Ackley and the CEA, however, the labor-management group represented the only opportunity short of legislative reform to find an alternative to unemployment in controlling inflation. When the revived committee met for the fourth time in August, Ackley, Connor, and Wirtz made sure to press the group for a consensus statement on the guideposts. The resulting document stipulated that the CEA should make quarterly reports of guidepost adherence across industries. In order "to determine whether any appropriate corrective action can be recommended," the President's labor-management committee would discuss "major problems or

[117] FG730-2.
[118] Ackley to LBJ, May 10, 1967, FG11-3, WHCF, LBJ Library. (This memo is also included in BE5-7.)
[119] Phone call, LBJ to Califano, August 8, 1966.

shortcomings" in these reports with the CEA. Then the labor-management group would submit its own report and recommendations to the President based on these findings. It was "a most constructive step [that] could be extremely helpful in the months ahead," Ackley explained to the President. That Meany, Reuther and Abel had accepted the goals of the guideposts despite rising prices and despite their effect to stabilize the distribution of income was "remarkable." "It shows that the labor leaders—as well as the businessmen on the Committee—are seriously concerned over the danger of a wage-price spiral."[121] As the *Christian Science Monitor* reported, the administration was "reading great significance into the fact that the [labor-management] committee, which includes such labor leaders as AFL-CIO's George Meany, endorsed the principle that industry productivity is a valid guide to wages and prices."[122]

From Tripartism to Fiscal Restraint

Public attention on the federal budget and the Vietnam war would eclipse this reforming impulse for the remainder of the Johnson administration. In late August, Ackley and Fowler had jointly proposed "an immediate and comprehensive new economic program," allowing the President to "'take charge' of what seems to many a disintegrating situation." The administration would ask Wilbur Mills to propose the elimination of the 7 percent investment tax credit, eliminating an effective subsidy to business passed by the Kennedy administration. This would raise income taxes on corporations and, it was hoped, reduce corporate spending enough to raise unemployment. When Henry Reuss's subcommittee of the House Committee on Government Operations held hearings on September 12 to discuss his proposal to mandate guidepost

[120] Califano to LBJ.

[121] Califano to Ackley, August 20, 1966; Ackley to LBJ, August 22, 1966 FG730-2.

[122] *Christian Science Monitor*, August 25, 1966, clipping in Reuss Papers, Box 47, Folder 11.

enforcement by the JEC, most public attention was directed elsewhere to the House Ways and Means Committee, where the first of five days of hearings on suspending the investment tax credit were scheduled to begin.

The Johnson administration's own diffidence about formalizing institutions for a wage-price policy has led many historians to understate just how mutually indispensable the guideposts were to the project of managing a full employment economy. The OECD first proposed member nations adopt a "wage policy" to help control the growth of labor costs, manage their balance of payments, and pursue continued economic expansion in 1961. "By taking on responsibility for full employment, the government took on responsibility for much more," was the conclusion of one British Treasury official. The "attempt to manage the economy by means of fiscal and credit policy alone has shown them to be not enough. They need to subserve a policy for directly promoting economic growth, and to be flanked by a wages policy."[123] The problem of reconciling organized labor to national economic planning on the basis of private control of investment, however, had much older pedigree. It had reached lucid expression during World War II, when the challenge of managing fully employed economies was the dominating political question across the globe. In his *Full Employment in a Free Society*, William Beveridge had suggested the British Trades Union Congress adopt a "unified wage policy" for the nation. There was, he explained, "a real danger that sectional wage bargaining, pursued without regard to its effects on prices, may lead to a vicious spiral of inflation, with money wages chasing prices and without any gain in real wages for the working class as a whole."[124] This danger was doubly apparent in countries where large swathes of production were geared towards export markets. In the Netherlands, for example, the national labor federation cooperated with the central

[123] Printed in *The OECD Observer*, September 1964, pp. 30-1.
[124] Quoted in Douty.

government planning office to hold wage increases to the level of consumer prices for much of the 1950s. Wartime price controls remained in effect until 1954, allowing firms to pass through rising material costs but not wage claims. A community of interest was formed around protecting export sales, and when the national balance of payments fell, unions agreed to limit wage increases to restore it. In France, national planning explicitly targeted relative income shares between wages, agricultural income per capita, and corporate savings according to political choices about the desired future shape of the economy. To guide these changes, a permanent price control agency was established in the Finance Ministry with standby authority to issue orders to individual firms or industries establishing price ceilings.[125]

In the US, until the late fifties, rising prices posed no immediate threat to foreign trade earnings or the nation's balance of payments. Consequently, the community of interests between labor and capital was much weaker than in many European nations committed to maintaining full employment through sustained private investment. Many American businessmen, jealous of their authority within the firm and opposed to obligations imposed on them by the Roosevelt government, opposed price control intransigently during reconversion. Given this political defeat for organized labor, many liberals responded by arguing in favor of rising prices. As the leading American Keynesian Alvin Hansen argued, a steadily rising price level would have a salutary effect on investment, discouraging the accumulation of money savings and providing a growing outlet to which the nation could commit its present wealth. Rising money incomes, rather than falling prices, Hansen wrote, "stimulates progress."[126] The public economist and industrial relations scholar Sumner Slichter, a regular writer at the *New York Times* and the *Atlantic*,

[125] Sheahan, chapter 8. Sheahan, "Problems and POssibilities of Industrial Price Controls: Postwar French Experience," *American Economci Review* (June, 1961), p. 345-359.

[126] Hansen, *New York Times Magazine*, 1946.

agreed. As he explained during the Korean war, “The problem of a wise price policy is complicated by the rise of powerful trade unions in recent years.” Rather than the alternatives of increasing unemployment or interfering with collective bargaining, he wrote, the most preferable option would be to tolerate a “creeping inflation.” The “problems that confront the country…can be solved best through a slow rise in prices.”[127]

When US balance of payments deficits began to translate in rising gold prices during Eisenhower’s second term, the question of regulating wage increases was pushed onto the macroeconomic agenda. The Kennedy administration’s wage-price guideposts represented one attempt to address the problem of rising labor costs at full employment within the managed private-investment economy. Yet US unions proved incapable of agreeing to a national wage policy that did not impose symmetrical limitations on profits. By 1964, the OECD’s Working Group on Costs of Production and Prices had released two reports on the problem of rising prices in member nations and found that, regardless of the “mechanism of cost inflation, wage earners will ask for some quid pro quo in return for any agreement to accept a more moderate increase in wages.”[128] As labor leaders advising the OECD Working Group explained: “An argument can be made out for planning or guiding incomes; an argument can also be made for leaving them unplanned or unguided; but there is nothing at all to be said for planning or guiding half the incomes and leaving the other half unguided and unplanned and subject to market forces or varying degrees of monopoly control.”[129]

This political limit to economic planning was widely understood in the US. As Eisenhower advisor and conservative economist Henry Wallich for *Business Week* during the

[127] Slichter *Harpers*, 1952
[128] Quoted in Reuther, Keeton papers.
[129] Quoted in Reuther, Keeton papers.

airline strike, price cuts in high-productivity, high-profit firms was "the essential part of the mechanism" of the guideposts. This "business has largely failed to implement… [I]t is business that has done a large part of the damage. And within business, the damage has been done by the high-profit industries that would not cut prices." As the *New Republic* editorialized, "If we had been a striking airline mechanic last week we think we should have voted against the compromise settlement the White House worked out." In the Congress, Senator Gaylord Nelson charged that "examples of shameless profiteering throughout the economy are multitudinous." [130]

In November, Walter Reuther circulated a draft proposal for "a rounded and equitable incomes policy to replace the price-wage guideposts" to the members of the President's labor-management committee. "The distribution of national income has been distorted in favor of property income to the disadvantage of employment income and lower-income families," Reuther explained. The old policy had "broken down," having "failed because it did not meet the test of equity" it was "too discredited to be revived and must be replaced." To remedy this inequity of a national wage policy, Reuther explained, other OECD countries had "found it necessary to place increasing emphasis on nonwage incomes." They had moved from a "wage policy" to an "incomes policy." Instead of focusing on the relationship between money wages and labor productivity, they targeted the relationship between total money incomes and real national output. To develop a more effective stabilization policy, the UAW President proposed "the creation of a small, working committee of economists—appointed in equal numbers, respectively, by the labor, management, and public members of the Committee—to prepare for our consideration a proposal for an equitable incomes policy for the United States."

[130] "TRB from Washington," *The New Republic*, August 18, 1966. "Prices and Profits," *The New Republic*, August 27, 1966, p. 7.

The business members of the committee were scandalized by the proposed study. W.B. Murphy, the president of the Campbell's Soup Company and chairman of the Business Council, responded on behalf of the business members: "Whether this country needs a new incomes policy is a question which necessarily places in issue the most fundamental concepts of our economic system." At the heart of Murphy's case was the social role of prices. Whereas labor had come to see many prices as a device for protecting property incomes, Murphy insisted prices served as a public measure of consumer preferences. Firms reaping larger profits signaled social preferences about the desired mix of goods and services in production. Inequality was the byproduct of this social decision-making process. To regulate incomes would deprive the society of this freedom to express and satisfy its wants and desires. "Suggesting the adoption of a completely new economic system to correct a temporary inflation is not a very sound approach to solving our country's problems," Murphy admonished. Without profit signals for future commitments, private capital would withdraw from production altogether. The result would be a "profit squeeze which will cut off the flow of private investment in new plants and equipment."

The obstruction this idea faced shows just how out of step what Howard Brick has called the "postcapitalist vision" was with the demands of US politics during the sixties. Great Society liberal's belief in their ability to overcome the business cycle in managing the economy assumed the class war over the distribution of income could be suspended. Labor's unwillingness to see profits rise at the expense of labor income, and businessmen's insistence on rising profits, put paid to this idea. A rising price level was the result. The conditions businessmen demanded to sustain investment and employment also shows a clear indication of how the creeping and trotting inflation of the middle twentieth century emerged from the free labor ideals of voluntary contract that predated the New Deal. Unless organized labor was willing to work on the terms proposed by industry managers of rising profits and prices, the working class would suffer unemployment. As Murphy explained to Reuther, "Those who would exchange the matter of limiting wage demands to productivity gains for a policy of limitation on profits will live to see their sons looking vainly for nonexistent jobs." [131]

Fiscal Restraint in 1967

During the September 1966 hearings to eliminate the investment credit, Wilbur Mills invited three members of the President's labor-management committee to speak on the nation's fiscal policy. Frederick R. Kappel, chairman of AT&T, told the Mills committee in September 1966 that "meaningful reductions in Government expenditures and appropriations" must have "highest priority." W.B. Murphy told the committee "I am willing to swallow the bitter medicine of suspending the [investment] credit in the expectation that the Government will carry out its promise to reduce spending," but explained that "real Government spending restraint isn't going to curb inflation unless there is a more statesmanlike performance" by the Administration against the unions. Federal spending and the labor demands it empowered were the true causes of inflation, the businessmen asserted.

As Arthur Burns had argued to the House Republican Conference in July, eliminating the investment credit and tapering the investment boom would eliminate the need for more fundamental changes in the future—whether they be a sharp recession or wage and price controls. As Pennsylvania Railroad chairman Stuart Saunders told the House committee, "A mild sedative applied in the early stages could very well forestall the necessity for more drastic

[131] Keeton papers, Box 97, folder 1.

curatives at a later stage."[132] While the AFL-CIO supported repeal of the business subsidy at the September hearings, it had done so as part of an appeal for a broader restructuring of federal spending away from capital and towards labor. Reuther argued the investment subsidy should not be restored without additional spending on retraining assistance for displaced workers. More generally, the reshuffling of civilian fiscal priorities was to be accompanied by controls on corporation profits. As AFL-CIO Research Director Nat Goldfinger told the federation's 130 constituent unions that autumn, the inflation underway was "clearly and directly a profit inflation" that had "washed out much of the value of workers' wage gains." Speaking about wage, price, and profit controls, George Meany told *Business Week* in November: "I personally think it's a possibility, perhaps as early as January."[133]

In addition to controls on profits, liberals within both labor and the Cabinet proposed controls on the allocation of bank credit. The flow of credit out of home building during 1966 had greatly exacerbated the stabilization problem. Throughout that autumn, the AFL-CIO demanded Congressional action to lower interest rates to support the depressed housing construction industry. Within the President's labor-management committee, autoworkers' president Reuther called for "selective credit controls"—rationing of loans for borrowers by the government by means other than interest rates.[134] Throughout the summer, Reuss had lobbied vigorously, against scandalized business opposition, for amendments to the Defense Production Act empowering the President to ration credit. "While I appreciate that wage and price guidelines by definition do not apply to increases in the cost of money," the Congressman wrote

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[132] "Fight Backed on Inflation," *The Sun*, September 15, 1966, p. A9. "Plan to Suspend Busines Tax Incentives Endorsed by Top Executives of 3 Big Firms," *Wall Street Journal*, September 15, 1966, p. 5.

[133] "Unions call 5% a minimum for '67," *Business Week*, November 26, 1966. "AFL-CIO Backs Johnson Tax Plan," *New York Times*, September 17, 1966, p. 12. "Labor Asks 2 Inflation Safeguards," *The Sun*, September 17, 1966, p. A1. "Help for Displaced Asked by Reuther," *Washington Post*, September 18, 1966, p. A2

to CEA Chairman Ackley, seeking Presidential endorsement, “I am convinced that some guidelines should be brought to bear to control future expansion in these rates.”[135]

Fowler too had grown alarmed when the Federal Reserve’s December interest-rate increase, and rising market rates, had not depressed corporate borrowing and spending. In January, the CEA had hoped the Federal Reserve’s independent action would offset the expansionary forces of the unplanned military build-up. But corporate investment had continued throughout the year even as interest rates rose. Underlying the flow of funds into corporation borrowing was the growth of an entire new market in bank-issued short-term savings instruments: negotiable certificates of deposit, which could pay higher interest rates on deposits than the local savings and loan institutions where many earners kept their money. Commercial banks turned en masse towards this source of funds to maintain their reserves at the levels regulated by the Federal Reserve system while continuing to meet corporations’ demand for loans. As presidential aid and former NBC executive Robert Kinter explained after a July visit with New York bankers, “The more we step up defense expenditures the more the corporate economy has to borrow because the Government doesn’t pay its bills promptly.”[136] To induce savers to move their funds, the banks offered higher interest rates to savers recouped by higher rates for borrowers.

The Federal Reserve system had struggled to exert control over the banking industry to curtail the growth of lending that summer. Congressional authorization for credit rationing had offered one solution: In May, Califano had asked to “quietly move it [the Reuss amendments] along without any indication that the administration is interested in it.” But without presidential

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[134] Reuther to Burnham, September 27, 1966, Keeton Papers Box 96, Folder 8. Ackley to Johnson, April 7, 1966, WHCF, BE3 and BE5 Confidential. Henry Wilson to Johnson, June 16, 1966.

[135] Reuss to Ackley, July 15, 1966, Henry Reuss Papers, Box 47, Folder 1.

[136] BE5C. First National City Monthly Economic Letter, Keeton 97/7.

support, the credit control measure failed in a roll call vote in June, 73 to 275. With a legislative solution a dead letter, the central bank responded to the bank credit boom by raising reserve requirements later than month, and in July it lowered the maximum rates banks could pay on small deposits. The result was a financial panic during the month of August—the first in the postwar period—as banks liquidated their holdings of municipal bonds in a mass scramble for liquid assets to maintain reserves in lieu of new CDs. As bond prices collapsed in the sell-off, the borrowing rates for states and municipalities skyrocketed, imperiling countless local projects. As the Treasury secretary told the Cabinet that month, “Our position has been that raising the price of money should not be the sole means of determining who gets the credit…. For the big banks to rely on higher interest rates as the only means for allocating credit is to put up the cost of money for everyone who borrows.” If the monetary authorities were to obtain “better weapons to restrain credit expansion,” the Congress would have to authorize credit controls and a system of loan rationing. This was the only way to avoid “a highly selective impact on housing, state and local borrowing, and small business—which has usually accompanied substantial monetary restraint.”[137] At the end of the month, the Federal Reserve intervened with emergency lending, flooding commercial banks with liquid assets and urging them to reduce their business lending. As Federal Reserve Chairman Martin explained to Reuss after the crisis, “a wide variety of alternative means for influencing bank borrowing is being examined. Included are some more positive variants of the primarily administrative control exercised today” and “various proposals for quantitative controls.”[138]

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[137] Califano to LBJ, May 7, 1966, WHCF BE5. August 11 Cabinet meeting.
[138] Reuss papers, Box 47, Folder 13.

The US inflation and credit boom also coincided with an acute crisis in the international monetary system. Since the 1950s, the Federal Republic of German had purchased military orders from the US to offset the dollar balances it accumulated from the US troops stationed in the country. Both the US and the FRG wanted to maintain these troops to deter the domestic calls within Germany to develop nuclear weapons. But under electoral pressure, German fiscal capacity had become increasingly devoted to social welfare programs—defense spending as a share of GDP actually fell in Germany between 1963 and 1967. To continue meeting its offset payments, the Erhard government would have to raise taxes, a change rejected by the conservative Frei Demokratishe Partei (FDP). Thus, throughout the fall and winter of 1966, the Erhard government attempted to renegotiate this arrangement to end the military purchases without withdrawal of allied forces.

Given the domestic price rise and the mounting foreign expenditures of the Vietnam war, the Johnson administration was divided over Erhard's proposal. At the heart of the disagreement was how the mixed economies of the North Atlantic alliance would divide the burden of financing the military forces occupying the Federal Republic. The US payments deficit had grown with the increasing Vietnam commitments over the preceding eighteen months. But US business was unwilling to bear the taxes required to maintain the gold value of the dollar for fear of the Johnson administration's expansion of social welfare spending. As a result, civilian spending as a share of GDP had fallen over the course of the Johnson administration. Cuts to Great Society spending had produced smaller federal deficits each year since 1964. McNamara advised the withdrawal of US troops, while the State Department strongly opposed such action on the grounds that it would weaken the military alliance. Like their US counterparts, German business was intransigently opposed to further tax increases. When Erhard capitulated and proposed the domestic tax hike in October, the FDP withdrew from the cabinet and the German government fell. The Sozialdemokratishe Partei Deutschlands (SPD) joined the new coalition government and continued the negotiations which dragged through fall and winter.

The dream of overcoming the business cycle was torn apart by the class war within the mixed economies of the North Atlantic alliance. In the US Congress, as the civil rights movement turned to the question of desegregating housing and education in the northern industrial cities, the pressure for expenditure increases were mounting. Senate Democrats were organizing to withdraw US troops for Europe, with Majority Leader Mike Mansfield spearheading a resolution in September to cut military commitments. In Great Britain, the Labour government's full employment program had exacerbated its balance of payments deficit and already required two rescue loans from the Federal Reserve. In the context of domestic expansion, German offset payments were vital to maintain the pound and avoid raising interest rates and deflation; already, in July 1966, Prime Minister Wilson had abandoned Labour's "National Plan," cut public spending, and imposed a freeze on wages and prices. Without German armament purchases, the British military would withdraw.[139]

The Johnson administration also suffered from the broader political rejection of the 1966 stabilization program and the escalation of the Vietnam war. The Democratic Party lost 47 seats in the House of Representatives and 3 seats in the Senate during the midterm elections that November. In the states, the Grand Old Party won eight governorships. "The net effect, politicians of both persuasions agreed, was to reconstitute the two-party system on the national level after the withering Goldwater defeat of 1964 had reduced the Republican party to a disorderly, ineffective minority," reported the *New York Times*. In the Senate, such liberals and

[139] Gavin. Bird.

erstwhile labor allies as Senators Paul Douglas of Illinois, chairman of the JEC, and Endecott Peabody of Massachusetts, were defeated by Republican challengers. In the House, George H.W. Bush finally won election in Texas, though for a newly drawn district. Beirne's fears during the airlines dispute came to pass. In California, GE spokesman and former actor Ronald Reagan won the Governorship. In Minnesota, Republican Harold E. LeVander defeated the Democratic-Farmer-Labor Party candidate, a member of Vice President Hubert Humphrey's home organization. In Michigan, George Romney won reelection for the Governorship by an impressive 500,000-vote margin, bringing with him fellow Republican Congressman Robert Griffin, a leading proponent of the emergency airlines dispute bill in the House, who won the state's open Senate seat against labor-ally and former Democratic Governor G. Meenan "Soapy" Williams. Declining turnout from union members made up a substantial portion of Romney's margin: the former auto executive polled 11,000 fewer voters among Detroit union members than he had against Williams in 1962; union votes for Romney's Democratic challenger, however, fell by 152,000 compared to their 1962 level. (12/13/1967 WSJ)

Rick Perlstein has written that "Union members voted for politicians who weakened their unions because the Democrats supported civil rights." Undoubtedly this was true. But adherents to the backlash thesis have understated the responsibility the consensus-minded Johnson administration had in ceding the initiative to those campaigning on racist interpretations of the urban uprisings of the preceding two years. As Perlstein writes, the 1966 midterm elections "actually" were "a referendum on the Negro revolution." They were just as much a referendum on the Johnson administration's apparent consensus with big business and its perceived slighting of industrial labor. Divided on the war in Vietnam, their leader unwilling to use the occasion of the war and the strike of the airways to declare a state of emergency, the liberal Democrats found themselves and their program limited by the macroeconomic context of full employment and growing military spending. Speaking to an audience of Chicago power brokers during the open housing marches that August, Martin Luther King had explained that "a genuine leader does not reflect consensus, he molds consensus." Unable to imagine a way of joining the Northern desegregation campaigns to the labor demands for full employment and rising wages—to mold a new consensus—the Johnson administration fell victim to the limitations of its own reflection of the strained agreement between the nation's power centers on the Great Society program.[140]

The moribund product of the Johnson consensus was deflation and Congressional stalemate. The slowdown in homebuilding during the first half of 1966 finally spread to corporate plant and equipment after November, when the President signed into law the suspension of the investment tax credit. Gross National Product (GNP) fell between January and June and unemployment rose during the summer and fall. The annual rate of advance in the CPI declined during 1967. The Wholesale Price Index (WPI) stabilized and actually fell in late spring and early summer that year.

As Okun remembered, "By the beginning of 1967, the boom was no longer a threat."[141] Within the administration, fear of recession prevailed in the Department of Commerce, expressed by businessmen in meetings with the President and in surveys of business sentiment conducted by Commerce Secretary Trowbrige, who replaced Connor after the election.[142] In February, the

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[140] Garrow, pp. 503-6.

[141] Okun, *Political Economy of Prosperity*, pp. 82-3.

[142] After considering discussion between President Johnson and "a small group of businessmen" in July and the results of a wider survey of business opinion conducted by the secretary of commerce, CEA chairman Gardner Ackley judged "considerable business caution." A general liquidation of inventories had "dominated business performance" since January and falling production for inventories—a measure of expectations of future prices—had offset the measured income gains from the sell-off. "Even if the businessmen's hunches were completely wrong," Ackley explained, "we can't ignore them, For their state of confidence can have an impact on their inventory policies, and on their readiness to invest in plant and equipment." Gardner Ackley to LBJ, July 15, 1967, BE5, WHCF, LBJ Library.

New Republic published an opinion by James Tobin against the administration's proposed income tax increase and for immediate restoration of investment credit. (TNR) When Walter Heller published his appraisal of the career of the "new economics" later that year, he wrote described the Kennedy-Johnson boom in its seventh year as "a bit tired and drawn. Excess inventories, depressed housing, hesitant consumers, and an ebbing investment boom seemed to require thinking about the unthinkable: war and recession side by side."[143]

Unemployment, however, did not rise high enough to assuage fears of rising wages. Nineteen sixty-seven was a major bargaining year. According to Department of Labor, fewer than one million workers were covered by the "major wage negotiations" of 1966. The number would rise to 2.1 million in 1967, as contracts in the auto, trucking, communications, paper and rubber industries were up for re-negotiation.[144]

The Johnson administration's reaction to the threat of continued inflation was twofold. In January, during the President's State of the Union Address, Johnson finally proposed the Congress pass an across-the-board income tax hike. To the surprise of the nation's business and labor leaders, he also proposed a reorganization of the executive branch to combine the Departments of Labor and Commerce. This idea for formalizing the nation's wage price policy had been rumored within the White House since November. As Califano had written to the President that month, there was "a real possibility" that an existing task force on executive reorganization, chaired by Northwest Industries CEO Ben Heineman, "will have among its recommendations a proposal to abolish Labor and Commerce and substantially restructure the economy planning organs of the government, and create a Department of Economic and Human

[143] Walter Heller, *New Dimensions in Political Economy*.
[144] "The Economy Awash in Affluence," *Newsweek*, July 18, 1966, p. 74.

Development under one cabinet officer."[145] The new department would combine the major statistical agencies—the Census Bureau and the Bureau of Economic Analysis in the Department of Commerce and the Bureau of Labor Statistics in the Department of Labor—under a single cabinet officer, eliminating the representational problems in policy planning between the Commerce and Labor secretaries that had proved so irritating to the CEA and to the President.

Ostensibly the new organization would serve the purposes of wage and price stabilization, an instrument for which the CEA and the Cabinet had been groping for five years. Yet the Labor-Commerce merger would suffer the same fate as the administration during the midterm elections in November. The administration did not communicate the merger plans to union leaders before the President announced them in his State of the Union address in January. Many took sharp objection to what they saw as the elimination of labor representation in the Cabinet. As labor-management committee member Joe Keenan, secretary of the International Brotherhood of Electrical Workers, told Johnson in January, the Department of Labor within new department had "completely lost its identity, as far as our unions is concerned." Surveying the Congress, White House staffer Paul Southwick wrote to Presidential aide Henry Wilson that "preliminary reaction from the Hill is 'wait and see.' There appears to be little outright opposition on the one hand, and little enthusiasm on the other."[146] "I am running into indifference and disbelief on the Hill so far as the merger proposal is concerned," Wirtz wrote to Johnson. Later that month, after meeting with Meany and Kirkland, he reported that "Beirne, Curran, Siemiller, Schoemann, Harrison, Abel and Feller are all 'strongly opposed to it.'"[147]

[145] Califano to LBJ, November 30, 1966. BE3. Heineman was the CEO of Northwest Industries and on the Board of First Chicago Bank, Mizruich, p. 127.

[146] LBJ Papers Box 433.

[147] Wirtz to LBJ, January 25, 1967. FG 155.

In the context, the President's proposal to streamline economic planning proved increasingly controversial to those labor leaders opposed to the guideposts. The administration had assumed its alliance with Meany and Reuther would pull the other union leaders into accepting the merger of the Commerce and Labor departments as a precondition to greater price and wage restraint. "I really believe, Mr. President, that our people are gonna support this," AFL-CIO official Lane Kirkland told Johnson after the State of the Union. "I know that George is very strongly favorably inclined towards it." By March, however, the leaders of the construction unions and the IAM was unequivocal. When Schultze and Wirtz attended the meeting of the AFL-CIO's Executive Council that month to present the proposal, George Reedy, also in attendance, wrote to the President that even though the pair had "made an extremely good presentation of the plan… the emotional reaction of the labor leaders was so strong that there is no doubt in my mind that the proposal in its present form, and for the time being, cannot be approved." Alexander Trowbridge, the acting Secretary of Commerce after Connor's departure, remembered: "I think the death knell was when George Meany discovered that he had set out in one direction and his troops weren't following."

The President's labor-management committee, which had not met since December 1966, finally reconvened in May 1967 to discuss the merger proposal. Wirtz and Trowbridge prepared a visual presentation. "The first comment after the meeting after the lights went [back] on was, 'Well, we could do without the high-school art work,' which was, I think, fairly indicative," Trowbridge remembered. The meeting was "dominated by the antis in the form of the labor leaders," Trowbridge continued. "Edgar Kaiser was for it; Henry Ford said, 'well, maybe'; Bev Murphy was against it; two or three of the public members—Meredith Wilson, Howard Johnson of MIT—felt that it was good. But the labor voice was unanimous and vehement, and in view of that the general consensus was that it just wouldn't fly as an idea." The minutes read a "majority of the members, and particularly the labor representatives" felt that "loss of identity" for the two departments "would be undesirable."[148] Califano's price-surveillance assistant reported the meeting was a "fiasco."[149]

Johnson had assured Meany in March the administration would drop the proposal. "I don't give a damn about the department," the President said. "Don't you worry about that. What we'll do is just study it." Rather than propose the bill in Congress, the President would propose a commission to do further research the proposal and allow it a quiet death. "I don't want anyone to get into a fight," Johnson said. "We got other fish to fry."[150] The events of the winter of 1966-7 maintained the status quo for another twenty months, until the US election in November 1968. But they did so by depriving domestic reform of its urgency and the liberals in control of the executive branch their opportunity to lead events.

Neither the US slowdown nor the agreement Johnson finally secured from the German government in April 1967 not to exchange dollars for gold, however, addressed the underlying structural trends within the North Atlantic social democracies towards rising labor costs, Anglo-American payments deficits, and the resulting speculative pressures against the dollar. Rising US manufacturing prices and the proliferating credit of US banks, by reducing the US trade surplus, threatened to unravel this military-financial order.

In the spring of 1967, Washington politics turned to the question of halting the US bombing of North Vietnam and opening of negotiations for peace. The administration had

[148] Trowbridge Oral History. Taylor papers.
[149] Ross papers, LBJ library.
[150] Reedy to LBJ, March 10, 1967. FG160. Trowbridge Oral History. LBJ to Meany, March 10, 1967.

insisted that the end of the war—and, by implication, the spending it necessitated—was eminent since the summer, when the question of the "wage explosion" had consumed Congress and the CEA. Then-Attorney General Katzenbach had advised the President to wait until January 1967 to decide on the question of price control. Senior Wall Street executives predicted peace negotiations by the third quarter of 1966.[151] In February 1967, Robert Kennedy could still complain to his staff, after a meeting with the President, that "They think they're going to win a military victory in Vietnam by summer. They really believe it."[152]

In April, Johnson escalated the bombing. By August, Acting Chairman of the CEA Duesenberry wrote to Califano: "We now have no real influence at all on wage settlements." That same month, speaking before the Senate Military Affairs Committee, McNamara had admitted that continued bombing of North Vietnam was pointless. (Schlesinger, p. 859) Those politicians who had been most vocal in denouncing the inequities of the guideposts during the expansion of late 1965 and 1966—Wayne Morse, Gaylord Nelson, Joseph Clark—now directed their ire towards the underlying cause of the full employment boom: the war in Vietnam. The tone of the antiwar position during the early months of 1967 grew from strident to indignant. In February, Martin Luther King, Jr. spoke forcefully against the war in Los Angeles and in April delivered his widely controversial anti-war address at New York City's Riverside Church. Just "a few years ago," King said, it had "seemed as if there was a real promise of hope for the poor, both black and white, through the poverty program…. Then came the buildup in Vietnam, and I watched this program broken and eviscerated as if it were some idle political plaything on a society gone mad on war. And I knew that America would never invest the necessary funds or

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[151] "Mr. [Alexander] Sachs thinks it is quite possible that we are going to have such notable victories in Vietnam as to open up the prospect of negotiations by the end of the monsoon season which is at the end of the third quarter." Kinter to LBJ, July 18, 1966. WHCF BE5C, LBJ Library.

[152] Schlesinger, p. 802.

energies in rehabilitation of its poor so long as adventures like Vietnam continued to draw men and skills and money like some demonic, destructive suction tube."

Then, in mid-July, the national guard was called into Newark and Detroit as retail looting erupted in both cities. In both instances, the proximate cause was local reaction to police beatings of black residents. Over sixty people were killed and hundreds of buildings burned. As business mounted an attack on civilian spending and organized labor as the causes of rising prices, urban liberals in the Congress raised their sights on the class effects of the war effort. The twin issues of domestic deprivation and foreign military intervention were becoming inseparable in the minds of many liberals, joined particularly in the person of Robert Kennedy. "The poor are carrying the burden of the struggle," the junior New York Senator said in March 1968, crystalizing a theme developing in the anti-war rhetoric over the course of the previous year (quoted in Schlesinger, 809). In October 1967, over six hundred people were arrested on the steps of the Pentagon during an anti-war demonstration. By November, Kennedy gave his famous disquisition on *Face the Nation* against the national security argument for bombing North Vietnam: "When we talk about the violence, and the people walking out, and the lawlessness—there is no way for people to express their point of view….There is an unhappiness and unease within the United States at the moment, and there has to be an outlet for it." That outlet was imperative, particularly as the reality of the war in Vietnam was perceived by the American public. "We're killing South Vietnamese, we're killing children, we're killing women, we're killing innocent people….because they [the Communists] are 12,000 miles away and they might get to be 11,000 miles away."

Increasingly, Congressional liberals saw organized labor as an obstacle towards their goals of restructuring federal spending away from the military and towards urban reconstruction and social welfare. Speaking to a dinner for Americans for Democratic Action in Philadelphia in February 1967, Robert Kennedy explained that, for many looking with young eyes saw “labor as grown sleek and bureaucratic with power… a force not for change but for the status quo.” (Schlesinger) Speaking before the same audience in April, ADA President John Kenneth Galbraith described the leadership of organized labor in the United States as “aged, contented, and deeply sonambulant…on important issues of foreign policy its position is well to the rear of Gerald Ford.” (Goulden, p. 354) In July, after the Detroit and Newark uprisings, Senators Robert Kennedy and Joseph Clark introduced legislation to employ two million workers in national public service. The administration, haggling with Wilbur Mills over the size of FY1968, opposed the bill.

Rather than end the war, labor hoped gain a share of the war prosperity either through private bargaining in the free market or through a system of federal controls like those that had accompanied the economic mobilizations for the Korean War and World War II. Meany publicly spurned Johnson’s appeal for wage restraint. “We have always said we are ready to accept equality of sacrifice,” a Meany spokesman said, explaining that that unless Congress imposes “equality of sacrifice” through controls on prices, wages, profits, dividends, executive compensation, salaries, and rents, labor would not restrain wage claims. “We’ll be no part of putting the total burden on the backs of workers,” said Roy Siemiller. “When they get restraint on profits, dividends and executive salaries they’ll find the trade union movement in the vanguard of restraint.” (12/8/67 HC) As Meany said to the AFL-CIO convention in December, he was sure labor, its support for the administration, and the conduct of the Vietnam war represented the “vast, silent majority in the nation.”

In the midst of a divisive and increasingly unpopular war, the prospect of protecting the stability of a partially mobilized war economy posed certain political risks for the administration. For business and much of the public, rising prices had come to serve as quotidian evidence of a state that had become increasingly alienable from the people themselves. Rather than the result of conflict between economic classes or sectors, inflation had come to represent the interference of a force separate from, and originating outside of, the society. During the airline mechanic's strike, the *Wall Street Journal* had editorialized that it was "considered good politics to lay inflation at the door of unions and business," noting that the President's "tone of pained regret" in placing the blame for rising prices on private behavior was "inappropriate at a time when government outlays are breaking all records." (8/9/66) After a series of Johnson speeches on the economic program in January 1968, editors took up this disapproving tone with the President's public framing of rising prices. The President's Economic Report delivered to the Congress that February, the *Journal* wrote, sounded "like an arrogant lecture, with the Administration scolding the public for conditions largely of its own creation." The administration "in its waspish schoolmasterish mood, is perfectly happy to punish the people for its own sins." (WSJ 2/2/68) Speaking during the JEC hearings on the Economic Report, W.P. Gullander of NAM expressed disappointment that deficit reduction would come through revenue increases rather than spending reductions. "[U]nless a greatly intensified effort is made to restrain the growth of federal spending, the country will find itself saddled with both higher taxes and continued inflation." (WSJ 2/2/68)

A desperate search for public and moral authority ensued. Where did price control fall in this tangled struggle? In December 1967, the Brookings Institution published a study of the guideposts by Professor John Sheahan. "To make the guideposts system viable, people must believe it works fairly," Sheahan wrote. "It has fallen short on this score." (12/26/1967) The rise in the cost of living, the editors of the *New York Times* wrote after the new year, had made it "clear that revival of the guideposts is hopeless now. The total ineffectiveness of President Johnson's recent appeals to labor and industry for voluntary restraint require a turn in Washington toward stand-by controls on a selective basis so the country will not be defenseless if cost-push inflation takes on runaway dimensions." (1/1/68 NYT) Two weeks later, Walter Heller spoke in favor of establishing an independent board to monitor major wage and price decisions during an interview on Meet the Press. (NYT, 1/15/1968) (Quotes in BG 1/15/68) "Collective bargaining and voluntary guideposts have failed to prevent strikes against the public interest and to curb inflation," wrote *Newsday.* "Labor courts and economic boards now deserve a test." (Newsday, 1/16/68) The editors of the *New York Times* thought the example of the British Incomes Board "worthy of trial here" in the United States. After Heller's television appearance, they wrote:

> "The value of the special wage-price board would be its ability to concentrate on this specific aspect of the amalgam of economic forces that contribute to inflation. One of the factors that sped the demise of the guideposts was the episodic manner in which they were enforced by the President and the Council of Economic Advisers. A few key industries and major unions were singled out for public attention while others went unrebuked for even grosser excesses. A new board could seek to apply critical standards to all industry and labor decisions of sufficient magnitude to affect the general price level. A good deal of the capriciousness of the old program would be automatically eliminated by such an approach. The new board would not need to be backed up by mandatory controls, nor would there be any widespread sentiment at this time for their establishment. But it should have authority to hold public hearings where its private missionary efforts prove ineffective in holding the wage-price line. And it should have standby power to

defer the application of specific price or wage increases where it believes these would damage the national interest."[153]

The week before the JEC hearings on the Economic Report, Senator Proxmire, Chairman of the committee, announced day of hearings on the guideposts. "The key economic issue is how to reduce inflation without paying the price of higher unemployment and increased idle plant capacity," Proxmire explained. The guideposts "seemed to be one constructive step" worthy of reappraisal. (WP 1/26/68) Sheahan told the committee that "If the case is clear, and well-supported advice does not have any effect, there is no reason to consider that regulation of prices for producers of a particular industrial product should be any more of a capital sin than regulation of charges for long-distance telephone wires." (2/1/68 WP)

The editorial board of the *Washington Post* responded that "a public utility approach to price and wage control…would merely recapitulate the follies committed during 400 years of mercantilism. Economic efficiency would be diminished, labor mobility drastically reduced and equity in the income claims of capital and labor fragrantly violated. In the end Adam Smith's Wealth of Nations would reemerge as a best seller." (2/5/68 WP)

Speaking before the JEC on February 1, President Johnson called for a no-strike pledge. "We must slow down the wage-price spiral," he explained, listing two tools to accomplish this task: the tax increase, and a new Cabinet Committee on Price Stability. Unless Congress acted on the tax increase, the President continued, "we face the prospect that the spiral will still be turning steadily in 1969 and into 1970. The longer it turns the harder it is to stop." In its annual report to Congress, the CEA explained it would be holding a series of industry conferences with labor and public representatives "to attempt to reach some consensus on appropriate general standards to

[153] NYT 1/16/68

guide private price and wage decisions." The Council made no mention of the threat of controls, using such words as "folly," "repugnant," "arbitrary," and "clumsy" in discussing them. (ERP remarks, AAS 2/1/68)

Johnson's March decision not to accept the Democratic Party nomination for the Presidential election that fall did not alter the rhetorical cul-de-sac in which public discussion of inflation inevitably ended. "I don't believe we will learn to live with a 4 percent or even a 3 percent annual inflation," Okun told the Business Council at their annual Hot Springs retreat in May. But the country would not allow unemployment to rise dramatically nor would it impose what the *Washington Post* termed, in reporting the talk, "formal wage-price control." Of the "alternatives" of recession and control, Okun continued, "I think some form of improvement of the voluntary structure has the most to commend it." Okun says unions and firms raising prices and wages were like "a lot of people standing on tiptoes trying to watch a parade. None of them is seeing very much and they are all uncomfortable. But if only one drops down he won't see anything at all." The CPI was rising at 4 percent, while the average wage gain during the first half of the year was 5 ½ to 6 percent. "Nobody is making out in this situation," he said. "We are bruising the fruits of prosperity instead of enjoying them equitably." The need for a "new form" of labor-management cooperation "is very great indeed."

"The country will take another leap toward a managed economy by returning to the wage-price guideposts probably after the November elections," the *Boston Globe* wrote in May 1968. "The next attempt at reviving the guidepost principle, however, will probably result in a 'syndicalist' approach where the administration will invite leaders of labor and industry to participate in the decision-making." (5/14/68 BG) October 14, 1968: Humphrey unveils what the Washington Post calls "a sophisticated new version of the abandoned wage-price guideposts."

The approach, based on a report prepared by Otto Eckstein, Robert Nathan, Joe Pechman, and other old hands of the Democratic Party affiliated with the Brookings Institution, entailed the formation of a National Conference on Wage-Price Stability composed of representatives of business, labor, and the public. The Conference would meet annually at the beginning of each year to negotiate acceptable figures for wage and price increases in the economy. When asked by the New York Times how a Humphrey administration would employ the guidepost concept, the candidate answered that the "major change" would be "to obtain labor and business cooperation in the development of principles to guide responsible price and wage behavior." (10/27/68 NYT) One of the staff of the Cabinet Committee on Cost Price Stability later remembered the direction in which the Humphrey campaign had been moving on the wage-price front. "I had reason to believe at the time that if Humphrey had been elected we may well have moved in this direction: we talked about establishing industry desks—one for each of the fifteen or so inflation-prone industries. These people would be charged with knowing what was going on and whom to contact. There was also concern that the tripartite meetings be resumed. There was talk of the need for an 'incomes crunch' (a freeze) to supplement a monetary crunch; the function of the former was to break inflationary expectations and give time for macro policies to take hold."[154]

Nevertheless, the Humprhey campaign encountered considerable difficulty in framing this cautious approach toward political price and wage setting as a political departure. The two different headlines given to the same syndicated column from October give a hint of the challenge. Describing the Eckstein report, the *Washington Post* announced that Humphrey "would stress activism." (10/24/68 WP) Over the same copy, the *Boston Globe* printed that Humphrey promised "More of the same." (10/23/68 BG) Nor did leaders of the organizations

[154] Cochrane, p. 288, n. 224.

who would be exhorted and shamed move beyond the alignments of late 1966. Speaking to the Business Council at Hot Springs in May, Alfred Hayes, president of the New York Federal Reserve, came to endorse re-installing the guideposts. “It is now fashionable to deride this approach as unworkable,” he explained. But with fiscal restraint following the final Congressional acceptance of President Johnson’s tax hike, “We will have moved toward a situation where the guidepost principle can work.” (5/12/68 LAT) “Voluntary controls just don’t work. It is as simple as that. They don’t work,” Meany told the *Christian Science Monitor* during the campaign.

Many businessmen agreed. In the weeks before the JEC hearings that winter, in aa special message on the balance of payments, President Johnson had announced new mandatory controls on foreign direct investment and lending. The voluntary merging state and business eminent since the Kennedy administration now appeared in a new, menacing form. In response to the continued strong bargaining position of construction unions, and to the Humprhey campaign’s proposals for new wage-price conferences, a number of executives of national and international corporations began during 1969 to organize their own campaign for wage restraint. November 3, 1968. AFL-CIO news “The nation’s major corporations have joined forces for the first time in a concerted effort to limit the strength of labor unions, a top Chamber of Commerce official says.” (Wirtz, Box 113) If wage control could not be found through the voluntary restraints of the wage-price guideposts, business would pursue it by opposing collective bargaining.

A week after the inauguration, at his very first press conference, President Nixon distilled the lesson he and his advisers had learned over the preceding eight years. “I do not go along with the suggestion that inflation can be effectively controlled by exhorting labor and management and industry to follow certain guidelines," he explained. Public authority could not intervene successfully in market negotiations in this way. "The leaders of labor and the leaders of management, much as they might personally want to do what is in the best interests of the Nation, have to be guided by the interests of the organizations that they represent," which presumably entailed greater money incomes in the immediate future. The "primary responsibility for controlling inflation rests with the national administration and its handling of fiscal and monetary affairs… We think we can meet it, that we can control inflation without an increase in unemployment." In March, Nixon extended the income tax increase Johnson had finally achieved the previous summer.

Liberal faith in incomes policies was profoundly shaken by the guideposts experiment. One effect of this challenge was to alter professional understanding of the inflationary process. In the place of cumulative sectoral wage and price movements amenable to the political decisions of business and labor leaders, there now stood an image of inflation as the product of a mass business psychology made anarchic by full employment. The product of private expectations of gain or loss, unyielding to any shared norms or standards of equity to guide the distribution new income towards a new position of stability, rising prices and wages were a social malady only remedied by the deliberate raising of the unemployment rate. The Eckstein Report which inspired Humprhey's anti-inflation program during the Presidential campaign betrayed the contradiction in liberal thought between political solutions to economic problems and the rejection of politics inherent in the new fiscal policy discourse. In addition to proposals for a national conference of labor and business leaders, the report also identified regulatory commissions as sources of inflationary behavior, calling them "fossils embedded in legislation conceived in an earlier era." (10/15/68 WP) The sharpness of political conflict over incomes in regulated industries, and the ease with which the conflicts shaded into inflationary compromises to expand combined income claims, persuades Eckstein and his collaborators to emphasize a reliance on markets in place of political institutions. The airlines dispute in 1966 was a major influence the group cited. Markets, they concluded, might be made a device to restrain the income claims political institutions had proved incapable of securing.

Some of the most influential intellectual products of the economics profession at the end of the sixties sought to provide theories of private behavior that explained the irreconcilability of full employment and price stability. Milton Friedman's December 1967 presidential address to the American Economics Association postulated a "natural rate of unemployment," which represented the cumulative private decisions for individual gain, below which measured unemployment could only fall at the price of accelerating price increases. Herbert Stein, a member of President Nixon's Council of Economic Adviser's (CEA), gave a historical grounding to this interpretation of US collective behavior in his field-defining history of fiscal policy published in 1969. After the 1946 passage of the Employment Act, Stein wrote, "a problem which was to become more and more worrisome" was "the possibility that with a very low level of unemployment, and especially if the government were committed to maintain it, uncontrolled wage and price determination might lead to continuous inflation." Edmund Phelps ratified Friedman's theoretical argument in 1969, writing that, because of cumulative individual expectations for private gain, "steady inflation will not 'buy' a permanent (non-vanishing) reduction of the unemployment rate." Rather, each diminution of joblessness, Phelps asserted, would have to come by an increase in the rate of price advance—a process logically culminating in a destabilizing hyperinflation.

The experience of the sixties brought many liberals to embrace versions of this interpretation. In early 1969, the *New Republic* published the opinion of *New York Times* White House reporter Edwin Dale: “It is time to say why we have a dangerously high rate of inflation in the United States…The explanation is not the grasping demands of labor unions for higher wages, nor the grasping demands of corporations for higher profits.” The “explanation” for inflation, Dale explained, lay not in the behavior of these groups but rather in the defense department’s spending requirements for the war in Vietnam. The underestimation of these requirements during late 1965 had been “a truly mammoth mistake” responsible for the current inflation, rather than any collective behavior within the public amenable to political reform.[155]

Arthur Burns, candidate Nixon’s chief economic advisor and an regular in the Cabinet during 1969, had spent much of the preceding four years arguing that the LBJ administration should allow the inevitable recession to begin. Just as Burns was coming to see the necessity of incomes policies to sustain employment, his arguments against attempts to apprehend the wage-price spiral were taking root within the public, seemingly ratified by the Johnson administrations failure to restrain wage and price increases over the preceding two years.

By June 1969, McCraken was arguing that bankers were prolonging inflation, as banks have been "for too long making commitments to lend funds that weren't readily going to be available.” The underlying problem of the US political economy of the sixties was one of coordinating consumption against investment. Maintaining foreign markets for US investment required military spending and raised the rate of employment and current consumption. But if raising employment and wages came at the expense of profits then private capitalist firms would curtail investment or direct it abroad. Raising prices could protect profits at home, but only at the

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[155] Herbert Stein, *The Fiscal Revolution in America* (Chicago: Chicago, 1969), p. 200. Edwin L. Dale, Jr., “The Inflation Goof,” *The New Republic*, January 4, 1969, pp. 16-7.

expense of devaluing savings and squeezing exports: this was inflation. Investments might continue to be financed loans rather than retained earnings. But if investments competed with consumption for existing resources, prices would continue to be bid up, and lenders would raise interest rates to protect their future income against the rise in prices their credit creation was fueling. Thus, if rising prices diminished the real value of fixed incomes, particularly interest payments, then employers efforts to protect profits had the effect of weakening capital income more generally unless alternative projects paying greater rates of return could be found.

The debate over the relationship of employment to prices has long turned on managing demand through taxes and spending, fiscal policy. But the challenge of full employment is not merely finding the appropriate level of demand and adjusting it when prices begin to rise. Rather, it is to find some way to approximate price stability at high levels of demand. This is corporatism.

What we have come to call neoliberalism grew out of the corporatist arrangements of the middle twentieth century as the public need to balance consumption against investment departed from the institutions of political representation that had emerged during the 1920s and 1930s. In the US, a high investment strategy resulted in accelerating inflation. Investment could not come at the expense of growing working class consumption or of property income. But as zero-sum decisions came to be seen as necessary, divising policies for trading investment for consumption had to be worked out beyond existing corporatist arrangements.

Pressed by the gold outflow, the members of Nixon's CEA called economist Lloyd Ulman in 1969 to discuss the European experience with incomes policies. Ulman, who had served as a staffer in Kennedy's CEA, had been hired by the OECD to do a comparative study of national industrial relations regimes. To more fully discuss the possibility of coordinating national wage levels with fiscal policy, Ulman suggested the group meet with the Secretary of Labor George Shultz. The Republicans were opposed to the idea. In early 1970, Paul McCracken, the chair of Nixon's CEA, called Ulman to meet with the President. "I really felt bad about it," he remembered. "Nixon had an awful reputation…Should I do it? But if you're asked, you must accept. So I went there." On the afternoon of April 27, 1970, the CEA met with Ulman, Milton Friedman, and two investment bankers—James O'Leary of US Trust and Pierre Rinfret of Boston Associates—to discuss an incomes policy. O'Leary and Rinfret, Ulman later remembered, were enthusiastic supporters. Speaking years later, George Shultz made a similar observation about the intellectual shift in favor of controls among the members of the Business Council. They "argued for wage controls…not price controls" in the Cabinet room with Nixon.

In May, Arthur Burns famously announced his reversal on the question of government intervention in pricing policies and wage settlements. An "incomes policy," he said, would be "useful" in containing inflation. In December Burns gave his Pepperdine speech. On August 15, 1971, Nixon announced the implementation of wage and price controls to be administered by a new Cost of Living Council. Shultz later remembered the first phase of the program was "so popular" he thought "we've got to get out from under this."