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GUNS, BUTTER, LEON KEYSERLING, THE AFL-CIO, AND THE FATE OF FULLEMPLOYMENT ECONOMICS

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On 15 January 1954, an intriguing proposal landed on the desks of both CIO President Walter Reuther and AFL President George Meany. Its author was Leon Keyserling, a former chairman of the Council of Economic Advisors and a longtime friend of organized labor. The ebullient, outspoken economist called upon the two union leaders to rededicate themselves to a bold and far-reaching vision of full-employment economics. Massive government investment, he assured the labor barons, could generate new levels of growth—producing a \$500 billion-a-year economy and eliminating poverty. Roused by Keyserling, the CIO and the AFL jointly sponsored a private think-tank, the Conference on Economic Progress, headed by Keyserling. Over the next two and a half decades, the economist profoundly shaped organized labor's approach to economic policy, and through the AFL-CIO, Keyserling continued to influence the national debate. Boldly pursuing his agenda, he increasingly turned to defense spending for the fiscal fuel to fire economic growth. By the early 1970s, however, divisions over the Vietnam War deeply divided liberals—leaving Keyserling and labor discredited and alienated from mainstream economic thought.

Largely overlooked since his death in 1987, Leon Keyserling's legacy and ideas recently have experienced something of a revival among scholars, drawing the attention of historians such as Robert Brazelton and Robert Collins. Collins insightfully describes Keyserling's contributions in his recent work *More: The Politics of Economic Growth in Postwar America*.¹ Neither Collins nor Brazelton, however, fully recognize Keyserling's later influence on policy through his work with organized labor, nor the growing role played by defense spending in Keyserling's formulations.

Leaving government service in 1953, Keyserling continued to advocate an extreme brand of full-employment economics. Particularly through his allies in the AFL-CIO, he tirelessly lobbied for increased federal spending to push growth and employment. The vicissitudes visited on Keyserling-style full-employment economics between the 1950s and 1970s reveal much about the changing economic temper of the times. Perhaps his most profound impact—which would eventually serve as the undoing of full-employment economics—was the promotion of defense spending as an essential component of his program. Never fully able to convince even liberals to adopt his uncompromising faith in growth through federal spending, both Keyserling and the AFL-CIO turned increasingly to the military-industrial-complex to meet the spending levels they prescribed—and turned increasingly to Cold War rhetoric to make the case for such spending. Yet by the 1970s, the unpopularity of the Vietnam War and growing distrust of government in general doomed full-employment economics, paving the way for a new conservative approach rejecting fiscal spending as a drag on the economy.

While the antithesis of Keyserling's ideals, this new line of attack shared his self-assurance and faith in growth as the panacea for all economic and societal ills.

From the onset of his career, Keyserling established himself as something of an outsider from the academically-orientated world of most economists. A native of South Carolina, he studied briefly under Rexford Tugwell and Richard T. Ely at Columbia University in the 1920s. But Keyserling was clearly more interested in shaping policy than studying theory. He left New York City for Harvard University Law School and then was drawn to Washington, D.C. in 1933 by Tugwell to join the legions of young men likewise attracted to Roosevelt's New Deal.² Eventually Keyserling found his way into the employ of Senator Robert Wagner of New York. From the Senate, Keyserling helped prepare some of the most important legislation of the New Deal, including the National Labor Relations Act (Wagner Act) and the Social Security Act.³ In Washington, Keyserling became deeply impressed by proto-Keynesian theories increasingly popular with trade unionists and some progressive businessmen. He later described the early economic outlook of the New Deal as a "raw Keynesianism," but one that "didn't come from Keynes."⁴ By the late 1930s, then serving as deputy and later acting administrator of the Housing Authority, Keyserling became a major advocate of what by then was known as full-employment economics—harnessing government spending to foster employment by creating demand and promoting consumer spending. Alongside trade union leader Sidney Hillman and economist Alvin Hanson, Keyserling became a leading spokesperson for full-employment economics during World War II. While CIO figures such as Hillman had been early supporters of the economic approach, by the 1940s, the supposedly more conservative AFL also embraced full-employment economics. In fact, given the federation's traditional distrust of government and discomfort with some New Deal controls, full employment was an ideal fit for the AFL's ambivalent view of the state; it provided a defined and confined mission for the federal government, leaving collective bargaining largely in the independent hands of employers and labor. Throughout the war, the AFL's mouthpiece, *The American Federationist*, ran article after article extolling the virtues of full-employment economics. Contributors included Keyserling, businessman Paul Hoffman, and government planner John H. G. Pierson.⁵ Although labor historians generally associate the CIO with full-employment economics, in its outspoken support, the AFL often outdid its supposedly more progressive counterpart.

The postwar years should have been the apogee of the full-employment movement. Keyserling helped author the Employment Act of 1946, which, although heavily compromised from its original form, articulated and encoded the basic principles of full-employment economics.⁶ The resurgence of the Republican Party in the 1946 elections and general New Deal-fatigue, however, threw up significant obstacles. Now working directly for the White House as a member of the Council of Economic Advisors (a body created by the Employment Act), Keyserling grew increasingly frustrated as political gridlock sidelined Truman's Fair Deal initiatives even after the Democrats retook control of Congress in 1949. Appointed as chair of

the CEA that year, Keyserling searched frantically for ways to reinvigorate the full-employment agenda.

Whilst fiscal support may have been lacking for domestic initiatives, the Cold War created new mandates for spending. Unable to find a receptive audience for social spending, Keyserling found the military infinitely more interested. He began sitting in on National Security Council meetings and lobbying for increased defense spending, eventually helping to mold the economics undergirding the NSC-68 plan for expanding American military capacity approved in early 1950.⁷ The advent of the Korean War then provided just the spark to further expand defense appropriations spending warmly endorsed by Keyserling, now chairman of the CEA. During the war, unemployment quickly sank to below 4 percent, essentially full employment.

On the surface, it appeared Keyserling had morphed seamlessly from social Keynesianism to military Keynesianism.⁸ But Keyserling and many in organized labor hoped to directly appropriate defense spending to address social needs—including the problem of lingering pockets of unemployment. Acquiescing to organized labor's demands that it be included in mobilization policy-making, Truman appointed labor leaders and full-employment-minded liberals to dozens of key planning agencies. Together these individuals worked tirelessly to formulate programs to aid economically distressed industries and regions. Pressure from the National Production Agency's labor office resulted, for instance, in the issuance of Defense Manpower Policy Number 4 (DMP#4) on 7 February 1952. The policy directed that special consideration be given to regions officially designated "labor surplus areas," i.e., regions with unemployment rates of 6 percent or more.⁹ DMP#4 and the entire Korean War experience, in which employment levels soared, deeply gratifying Keyserling, marked the beginning of a close, symbiotic relationship between defense and full-employment economics. An avowed cold warrior, Keyserling felt no qualms about this growing relationship, but it would later return to haunt him.

By the last months of the war, however, Keyserling and labor liberals found themselves suddenly divorced from the seat of power after two decades. The Eisenhower administration promised to be much less welcoming to full-employment economics. Campaigning in 1952, Eisenhower told an Illinois audience: "My goal, assuring the cold war gets no worse, is to cut federal spending to something like \$60 billion within four years."¹⁰ In office, Eisenhower's major fiscal goals, centered on curbing inflation and balancing the budget, placed him well out of step with full-employment economics advocates like Keyserling.¹¹

It was in this context of growing frustration that Keyserling approached organized labor with his proposal to revitalize and update the full-employment agenda. In his offer to the AFL and CIO leadership, Keyserling boldly called for a massive push toward full-employment goals. He claimed that through an immense program of government-sponsored pump-priming, the annual rate of

growth could be more than doubled. Such a program, Keyserling insisted, would greatly stimulate production and lift millions of economically marginal Americans into new realms of security. Instead of emphasizing minimum wages, Keyserling set a goal of adding several thousand dollars to the budget of the average family, while improving outlays for education, social security, health, and resource management. Not content to stop at home, Keyserling also proposed generous aid packages and military assistance to developing countries. Any and all spending was to be applauded. Spending, even if it created temporary deficits, produced jobs and increased production. Everything was within the potential of the American economy: full employment, a \$500 billion-a-year economy, and the elimination of poverty.

Keyserling's plan brazenly dismissed all limits. There need be no necessary business cycle; inflation was not to be feared; nor was there to be concern about waste or inefficiency. To most economists, such assurances of painless growth appeared Panglossian, and even dangerous. But in its bold confidence, Keyserling's plan did have its appeal. It also embodied a strong current of social conscience, aimed as it was at elevating the incomes and improving the lifestyles of all Americans.

For Keyserling, reinvigorating full-employment economics would take more than just economic theorizing. It would also require effectively marketing the plan to the general public. His memo to Meany and Reuther stressed public relations as essential to furthering the growth agenda. He cautioned that scaremongering about a coming depression would no longer work. New ideas had to be presented in "modern and popular terms. . . . What is needed is an affirmative prosperity approach, sound yet vital, practical yet inspirational." The current liberal approach, formulated during the New Deal and war years, was "out of date and consequently inadequate and uninspiring." A new approach must take into account the political climate. In the current atmosphere of anticommunism, Keyserling warned, New Deal-style plans to expand social welfare programs would be labeled "socialistic" or even "communistic." Keyserling proposed to market his plan as a middle way that would "steer between the extreme of donothing government, and the opposite extreme of the belief in some quarters that only government can promote stability and growth." The plan would stress growth within the free enterprise system "through the right kind of wage, collective bargaining and price-profit-investment policies."¹² Keyserling's goals naturally found a sympathetic hearing at both the AFL and CIO, where the new leadership of both federations was eager to update approaches to economics and politics. Both Reuther and Meany signed on as the key financial sponsors of Keyserling's proposed think tank, the Conference on Economic Progress. It did not take long for Keyserling to seize upon Cold War rhetoric as part of his campaign to freshen and modernize the discourse of full-employment economics.

Although not mentioned specifically in his memo to Meany and Reuther, defense spending remained an essential component of Keyserling's plan. In many ways, military dollars became the default source of revenue to finance Keyserling's

full-employment drive. The Conference on Economic Progress, in its first report produced by Keyserling in 1954, strongly urged higher military expenditures to meet “gaps in our defense” programs. This was to be part of a proposed \$3 billion increase in spending to go along with a \$4.5 billion tax cut for lower income Americans.¹³ Writing in *The New Republic*, Keyserling insisted that “[w]e most assuredly have the resources to assume whatever tasks may be indicated by the perils—or the promise—of the atomic age.”¹⁴ The AFL and CIO quickly picked up Keyserling’s line. Meany aide George Brown argued that in light of the “uneasy truce in Korea and Indochina” there was more than enough reason for “the U.S. to maintain a strong military defense program.”¹⁵ Likewise, CIO representatives, in testimony to Congress, warned of “rumblings in Indo-China,” and asserted, “We must continue the military buildup that we began.”¹⁶

In Keyserling’s vision, the labor movement found an alluring agenda for the 1950s, one stressing the potential for infinite growth and social uplift. While liberals, such as economist John Kenneth Galbraith, found Keyserling’s faith in growth naïve, organized labor discovered an economic creed to buttress its calls for increased social spending, full employment, and (sharing Keyserling’s anticommunism) expansion abroad.¹⁷ In addition, the joint AFL and CIO support for Keyserling’s work offered an arena for cooperation between the two formerly bitter rivals, foreshadowing the AFL-CIO merger roughly a year later.

Labor unity, however, could not mask deep disaffection with the Eisenhower administration’s continuing fiscal parsimony. In a full-employment economy, Keyserling insisted in 1956, wages should have risen almost 5 percent more than under the current regime. He bitterly lamented Eisenhower’s lack of “perception and originality, courage and vigor in building further upon the gains of the past. . . . [T]he machine needs some new fuel.”¹⁸ Again, Keyserling countered by conjuring up Cold War rhetoric. “[E]conomic expansion,” wrote Keyserling in *The New Republic*, “is neither steady enough nor rapid enough in view of the Soviet challenge.”¹⁹ In fact, throughout the Eisenhower years, the economy grew at the meager (at least by Keyserling’s standards) rate of 2.5 percent a year, barely half the rate of growth between 1947 and 1952.²⁰ While Keyserling never tired of trumpeting the high rate of growth between 1947 and 1952—the period during which he served on the CEA—he often glazed over the role of the inception of the Cold War and the hot war in Korea in fueling a strong economy in the early 1950s.

By 1957 the economy appeared poised to slip into the second recession of the Eisenhower administration, but the AFL-CIO remained frustrated in all attempts to gain an audience for its full-employment agenda. Opportunity, however, arrived in the fall of 1957, with the Soviet launch of the Sputnik spacecraft. The Communist feat immediately injected new life into Cold War competition—just at the point when the American economy slid into recession. In light of the dual national emergencies, the AFL-CIO became increasingly outspoken in favor of a vigorous guns and butter (or guns as butter) approach to the recession. From his perch,

Keyserling warned of massive Soviet investments in industry and armaments. “They are ‘affording’ what they think they need,” warned Keyserling, “while we think we ‘cannot afford’ what we know we need.”²¹ In February 1958, the AFL-CIO Executive Council complained that America’s military superiority was clearly “slipping” at the same time as the national economy was “declining.” Meanwhile “unemployment and idle factories and machines” are “robbing us of billions of dollars of potential production of military and civilian goods.” The administration, however, remained mired in “penny pinching and budgetbalancing.” In very Keyserling-like language, the AFL-CIO declared that “the time is now—not tomorrow—for a bold program to lift the economy out of its slump and national defense out of its dangerous lag. . . . Prosperity and strong national defense are both feasible.”²²

Eisenhower, while privately complaining of “Sputnik complexes,” met the AFL-CIO half way by agreeing to raise defense expenditures roughly \$1.1 billion in 1958.²³ Eisenhower’s new outlays, combined with new expenditures for a federal highway system and other spending, helped pull the country out of the recession, at least temporarily. The following year, in testimony before a congressional committee, Walter Reuther credited the increase in defense spending with generating the recovery.²⁴ Labor and other full-employment-minded liberals may have gleaned an important lesson from the fiscal events of 1958. While unemployment alone did not seem to move the government to action, economic worries combined with national security concerns, such as those provided by Sputnik, forced the president’s hand.²⁵

After eight frustrating years of Eisenhower, Keyserling and the AFL-CIO eagerly looked forward to a Democrat in the White House. Still, in 1960 there were initial concerns about frontrunner John F. Kennedy—in particular JFK’s close relations with Harvard economist John Kenneth Galbraith. While considered a Keynesian, Galbraith had argued American workers enjoyed excessive prosperity and luxury as citizens of the so-called “affluent society.” He advocated a shift away from policies aimed only at producing growth, toward programs designed to channel growth and improve quality of life.²⁶ To Keyserling, this was nonsense. Keyserling insisted that poverty and economic stagnation remained plagues and could only be addressed through “maximum economic growth, full employment, and the creation of abundance rather than the rationing of scarcity.” By contrast, Keyserling argued that Galbraith relied excessively on centralized planning and government-organized redistribution.²⁷ The two economists engaged in a running battle during the 1950s and 1960s over the definition and implications of full-employment economics, a disputation historian Robert Collins brands the “quality verses quantity of growth” debate. Simply put, Keyserling (and organized labor) remained concerned about the abundance of poverty, while Galbraith and many liberals shifted their concerns to focus on the poverty of abundance question, or the belief that despite the great prosperity of the times, the quality of American life lagged behind its great material success.²⁸ In this debate too Keyserling often employed the discourse of the Cold War,

warning that while it “has become fashionable for liberals to say we should cut back on private consumption of luxuries,” Russian standards of living were improving due to a growing “industrial base.”²⁹

In 1960, Keyserling’s quantity of growth position seemed to have the upper hand. With the economy in recession, voters and candidates focused primarily on reviving economic growth.³⁰ And Kennedy worked hard during the campaign of 1960 to assure Keyserling and labor of his basic commitment to principles of vigorous growth and full employment. In a late September 1960 meeting with George Meany, Kennedy pushed all the right buttons. He complained about the Eisenhower administration’s tendency to allow the “Budget Bureau, rather than our experts in national defense and foreign policy, to make the decision as to how much is spent on national defense.”³¹ Keyserling, for his part, reassured labor that Kennedy had not “bought the line emanating from Harvard and MIT.”³²

As president, Kennedy delighted the AFL-CIO by adopting Keyserlingstyle, full-employment tactics in response to the recession. He sent Galbraith to India rather than to the Council of Economic Advisors. As chairman of the CEA, Kennedy selected Walter Heller, who, while lacking Keyserling’s singlemindedness, vowed to “return to the spirit as well as the letter of the Employment Act of 1946” and meet regularly with labor leaders.³³ Kennedy also revived military Keynesianism. After several years of neglect, the new president resuscitated Defense Manpower Policy #4. He instructed Secretary of Defense Robert S. McNamara to begin a vigorous program of directing defense contracts to labor surplus areas, a program he dubbed “Operation Booster.”³⁴ Labor applauded such developments and offered an unprecedented “no-strike” pledge in the missile industry.³⁵ Within a month of Kennedy taking office, the AFL-CIO Executive Council proclaimed, “the new administration has given the nation a new sense of purpose, urgency and hope. With forthrightness, President Kennedy has faced the unpleasant fact of recession and stagnation bequeathed by the last Administration.”³⁶

By 1962, however, concerns about slow growth resurfaced. Vigorous economic expansion of the sort envisioned by Keyserling remained elusive. Despite the military buildup, Secretary of Defense Robert S. McNamara concurrently sought to rein in defense spending, and the president seemed timid about massive spending increases. Seeking to prod Kennedy, Keyserling and the AFL-CIO called for a program of public works projects and a reorientation of the federal budget to clearly differentiate government expenses from government investments.³⁷ Labor advocated separating such government investments into a “Federal Capital Budget,” reflecting the amount of government spending devoted to creating a full-employment economy. Keyserling clearly saw this as a means to further institutionalize the Employment Act of 1946.³⁸ The AFL-CIO also called for the introduction of a thirty-five-hour work week, an aggressive program of public works, and a short-term tax cut. But of all these programs, Kennedy’s economists

pushed only the tax cut.³⁹ By 1963, American labor was no longer hiding its frustration. AFL-CIO News columnist Edward P. Morgan lamented, “Kennedy, like Ike, hasn’t yet got the U.S. moving again.”⁴⁰ UAW economist Nate Weinberg warned Walter Reuther that a full-employment economy was becoming less and less likely in the wake of an inadequate tax program, an increasingly restrictive monetary supply, and stagnant federal expenditures.⁴¹ On the eve of the Vietnam escalation, then, organized labor was searching for programs and policies to revive full-employment economics and address the threat of stagnation in the economy.

Assuming the presidency after Kennedy’s shocking death, Lyndon Johnson sensed political opportunity in reviving the full-employment agenda, perhaps in hope of developing a constituency independent of that of the late President Kennedy. Aggressively courting both Keyserling and trade union leaders, the Texan established in only a few short weeks a relationship of unprecedented warmth and trust. It was not merely Johnson’s legendary powers of persuasion that attracted labor—the new president miraculously pressed through Congress numerous items long on labor’s wish list, including Medicare, Medicaid, civil rights provisions, and a series of programs designed to address poverty.⁴² In his first meeting as president with the AFL-CIO Executive Council, LBJ delighted labor leaders by proclaiming a goal of creating 75 million new jobs.⁴³ Johnson seemed to be the first president since Truman willing to spend freely and aggressively, and, unlike Truman, Johnson had the legislative skills to get his programs passed. In many ways, the president seemed to be responding to Keyserling’s insistence that the state had within its resources all it needed to address social problems, vigorously expand the economy, and meet all of its international commitments.⁴⁴ The promise of Johnson’s War on Poverty—which Keyserling insisted “should be viewed not as a somber obligation but rather as a shining opportunity”—thrilled laborites after the inertia of the 1950s.⁴⁵ Keyserling did worry somewhat that the Johnson administration focused excessively on the cultural roots of poverty rather than recognizing “the entire reason for the amount of poverty . . . was low economic performance.”⁴⁶ Nevertheless, a new spirit of hope pervaded labor in 1964, as cherished programs and policies advocated for decades by Keyserling and the AFL-CIO came within the range of the possible.

Of course, Johnson’s kinetic approach to domestic policy was matched by a willingness to test U.S. power overseas—in particular in Vietnam. Both Keyserling and U.S. labor vigorously supported American intervention in Vietnam. While labor’s longstanding anticommunist ideology served as the basis of its support for intervention, clearly Keyserling’s guns-and-butter credo bequeathed a high level of comfort with the economics of war in Southeast Asia.⁴⁷

From the hour the first marines waded ashore in Vietnam, labor insisted that no necessary trade-off need exist between military and domestic spending—and certainly the war warranted no necessary tax increase, either to balance the budget or quell the threat of inflation. Reflecting Keyserling’s growth-focused economic

views, labor vigorously lobbied the White House against any cuts in domestic spending or any effort to raise taxes. In the early months of the war, AFL-CIO legislative director Andrew Biemiller met with White House aide Joseph Califano to express the federation's fears that Great Society programs might be "gutted" due to the demands of the war. Califano assured Biemiller there would be no major cuts.⁴⁸ The next year, Keyserling, insisting that the growing inflation was the result of a too slowly, rather than too rapidly, growing economy, warned the White House against any tax hike.⁴⁹ George Meany, in meetings with White House staffers, also made clear his "lack of enthusiastic support for a tax increase."⁵⁰ He reiterated labor's views in a July 1967 letter to President Johnson, assailing "the false cry of guns or butter raised from opposite ends of the political spectrum."⁵¹ Later that year, twenty economists working for AFL-CIO unions met with the Council of Economic Advisors and sternly warned that any tax hike would hurt working people.⁵² In lieu of tax hikes, Keyserling prescribed fiscal spending and lower interest rates. He continued to bemoan the "drive against inflation," which he argued stifled growth, "inflated the fat and starved the lean."⁵³

Johnson sided with labor's guns-and-butter approach through most of his presidency. In his 1966 annual budget message to Congress, the president assessed the costs of the war: "The true costs of this conflict are death, pain and grief. . . . But the economic costs of Vietnam impose no unbearable burden on our resources."⁵⁴ Yet in private, the White House was not so sanguine. Joseph Califano warned, in the summer of 1966, that if the current high levels of employment were to be maintained, the result would be an inflation that would not be "tolerated domestically." But with unions demanding wage increases and the Johnson administration unwilling to challenge labor, Califano lamented, "[m]aybe things have to get worse before they get better."⁵⁵

As inflation rose during 1966, pressure mounted on Johnson to propose a tax increase. It was, however, not until late summer 1967 that he offered a concrete plan to raise taxes. Congress then took almost another year to grant the tax hike.⁵⁶ Historian Robert Collins blames Johnson's "long inaction on the tax front" for allowing "the inflationary spiral to take hold."⁵⁷ Johnson aide Bill Moyers labeled the delay "the single most devastating decision in the Johnson administration."⁵⁸ Keyserling and the AFL-CIO, with their intense lobbying campaign on behalf of guns-and-butter, clearly contributed to the president's reluctance to raise taxes. Johnson, loath to alienate one of the few liberal constituencies strongly supporting his Vietnam policy, clearly was hesitant to imperil relations with organized labor.

While organized labor remained steadfast in Keyserling's economic grip, the quality-verses-quantity debate among liberals resurfaced bitterly in the context of the Vietnam War. The liberal advocacy group Americans for Democratic Action (ADA), in which John Kenneth Galbraith served as the chairman and Keyserling as vice-chairman, provided the venue for much of the debate. While Keyserling

remained a spirited defender of the president and guns-and-butter economics, Galbraith and others grew increasingly critical. By late 1967, the critics were actively searching for an antiwar liberal to challenge President Johnson. In early 1968, the anti-Johnson forces gained the upper hand and engineered an endorsement of Senator Eugene McCarthy, a dove and a fiscal moderate. ADA World, the organization's mouthpiece, then refused to print Keyserling's defense of the president. Led by Keyserling, one by one, trade unionists resigned from the ADA.⁵⁹

Increasingly, peace-minded liberals focused attacks on the war's economic impact, assailing the cornerstone of Keyserling economics—that the U.S. economy would thrive on a guns-and-butter diet. Under increasing fire, Keyserling and the AFL-CIO invested tremendous energy and resources in Hubert Humphrey's presidential campaign, but in the end, their efforts were for naught. Despite the best efforts of Keyserling and the AFL-CIO, Republican Richard Nixon, a candidate with no deep devotion to full-employment economics, defeated Humphrey.

For the first two years of the Nixon administration, labor and the new president maintained an uneasy truce—expedited by the AFL-CIO's appreciation of Nixon's handling of the war in Vietnam. By 1971, however, the economy began showing signs of weakness; unemployment soared and inflation edged upwards. But full-employment sympathizers were in short supply in Nixon's administration, and high union wages, especially in the construction industry (spurred by Vietnam-related spending), provided a convenient scapegoat. "Our problems come because of the high wages demanded by the workers of this country," bluntly complained White House economic advisor Arthur Burns.⁶⁰ CEA chairman Paul McCracken likewise claimed "the construction industry continues to cause us extremely serious problems in our attempts to reduce inflation. Wage increases appear to be accelerating instead of subsiding."⁶¹

Keyserling and organized labor responded with calls for a return to full employment policies, and blamed the emerging recession on complications related to de-escalating the war. Meany summed up labor's position in his goals for 1971: "The only game plan for America is full employment."⁶² Denying any necessary "trade-off" between employment and inflation, Keyserling introduced what he called the "Freedom Budget," a full-employment-based plan for massive government investment in the economy.⁶³ But few on either side of the political spectrum paid attention. The nature of the political-economic discourse had changed. Rachele Horowitz, who worked with Keyserling, recalled the Freedom Budget "was opposed by two groups: fiscal conservatives and, sadly, peaceniks in the anti-Vietnam War movement who argued that you couldn't have both guns and butter."⁶⁴

Although fiscally conservative monetarists occupied key positions in the Nixon administration, Nixon's policies veered widely. Finally, in 1971 the president announced price and wage controls. Keyserling was as shocked and dismayed as

the monetarists. “They have substituted the damaging philosophy of scarcity for the rewarding philosophy of abundance,” pronounced Keyserling on the Nixon plan.⁶⁵ Excessive demand, insisted Keyserling, hardly lay at the root of rising inflation; instead, he related inflation to high interest rates and soaring production costs, which stemmed partly from the winding down of the Vietnam War.⁶⁶ Assailing what he labeled the new “scarcity” economics, Keyserling also warned against cuts to the military-industrial complex. The “scarcity school has led the nation and citizen astray, with respect to the entire matter of national defense. They have done this by asserting that our national defense outlays have imposed an excessive and undesirable burden upon the economy.” No such burden existed, Keyserling insisted, and with “the intent of the Soviet Union to gain effective control of the oil supply in the Middle East . . . we should keep our guard high.”⁶⁷ Guns and butter remained Keyserling’s philosophy to the end. “The widespread belief that the Federal Budget can adequately serve the great domestic priorities dependent upon it, only by corresponding slashes in defense spending has no justification,” Keyserling continued to insist in 1975.⁶⁸

While Keyserling and George Meany distinguished themselves as particularly vehement critics of Nixon’s economic policies, landing Meany on the cover of Life magazine, few paid attention to their full-employment prescriptions. Keyserling and the AFL-CIO spent much of the rest of the decade pursuing the passage of the Humphrey-Hawkins Act, which actually became law in 1978, but, as Keyserling complained, quickly was “ignored flagrantly and almost in its entirety.”⁶⁹

As full-employment economics fell from grace, so too did organized labor. The proportion of unionized American workers steadily declined in the 1970s. The AFL-CIO’s political clout suffered a parallel decline. Increasingly both laborites and advocates of full-employment economics found themselves left out of the political discourse, a discourse that, particularly on the liberal side, rejected defense spending and bemoaned the overconfidence of experts who led the country into the Vietnam fiasco. Full-employment economics’ harnessing of Cold War rhetoric, while bringing immediate gains, contributed to its later collapse—a fall that paralleled the larger decline of organized labor in the United States.

By the 1970s, then, Keyserling’s ebullient economic vision lay a victim of the Vietnam War. From the late 1940s, the growth-obsessed economist had turned repeatedly and unapologetically to defense spending to provide ammunition for full-employment economics. Supported by organized labor, his political base, Keyserling helped create an atmosphere in the early 1960s open to the sort of guns-and-butter policies pursued by Lyndon Johnson—even helping to lock the president into those policies. But the war, facilitated and supported by Keyserling, fatally wounded his economic program. Ironically, as Robert Collins has suggested, the promise of easy, painless growth, so boldly advocated by Keyserling and his organized labor supporters, experienced a revival in the late

1970s. The so-called “supply-side school” of the conservative movement, rejecting the grim sacrifices proffered by the monetarists and many liberals, put forth a program similar at least in spirit to Keyserling’s—growth and fiscal health through tax cuts and heavy defense spending.⁷⁰ Ronald Reagan liked to surprise liberals by professing his admiration for Franklin D. Roosevelt, and to many observers the Californian seemed to embody at least aspects of FDR’s contagious self-confidence. In his economic policies, particularly his devotion to strong defense, faith in painless growth, and optimistic rhetoric, Reagan also seemed to embody the buoyant outlook of another New Dealer—Leon Keyserling.

Footnotes

1. W. Robert Brazelton, *Designing U.S. Economic Policy: An Analytical Biography of Leon Keyserling* (New York, 2001). Brazelton focuses largely on the World War II era. Robert Collins, *More: The Politics of Economic Growth in Postwar America* (New York, 2000). Also see Alonzo L. Hamby, “The Vital Center, the Fair Deal, and the Quest for a Liberal Political Economy,” *American Historical Review* 77 (1972): 653–78. None of these treatments, however, have considered the important role of defense spending or Cold War rhetoric in what Hamby termed the “liberal political economy.”
2. David C. Colander and Harry Landreth, *The Coming of Keynesianism to America: Conversations with the Founders of Keynesian Economics* (Brookfield, Vt., 1996), 218–23.
3. Alvin Cohen, “Leon Keyserling,” in *Biographical Directory of the Council of Economic Advisers*, ed. Robert Sobel and Bernard S. Katz (New York, 1988), 126–30. Keyserling vita, 15 January 1954, 62/17, Meany Papers, George Meany Memorial Archives, Silver Spring, Md. (henceforth GMMA).
4. Colander and Landreth, 219–20.
5. See for instance John H.G. Pierson, “A Full Employment Program,” *American Federationist*, August 1945. Also see Paul Hoffman, “For More and More Jobs,” *American Federationist*, May 1945; and Leon Keyserling, “Housing and Full Employment,” *American Federationist*, June 1946.
6. The Employment Act of 1946 clearly was a weaker version than would have been preferred by organized labor. Karen Orren, “Union Politics and Postwar Liberalism in the US, 1946–1979,” *Studies in American Political Development* 1 (1986): 244. Orren argues that the act represented a significant retreat and actually set the wrong precedent for future action: “it in effect established a public policy wherein employment at some point would be too high or unemployment too low, to justify additional demand stimulation in the form of dollars.” Also see Alan Brinkley, *The*

End of Reform (New York, 1995), 260–63. In Colander and Landreth, 230–31, Keyserling, however, argued that the compromise shift during congressional negotiations from the term “full” to “maximum” employment did not represent any weakening the act. As Keyserling explained: “there was a lot of talk about it being watered down. It was absolutely meaningless—the difference. Neither ‘maximum’ nor ‘full employment’ means ‘no employment.’” Collins sees the Employment Act as an important turning point, “which signaled the formal recognition of ‘high’ employment and economic stability as the chief aims of macroeconomic policy” (Collins, 16).

7. C. Hargrove and Samuel Morley, eds., *The President and the CEA: Interviews with CEA Chairmen* (Boulder, Colo., 1984), 74; Lester H. Brune, “Guns and Butter: The Pre-Korean War Dispute Over Budget Allocations: Nourse’s Conservative Keynesianism Loses Favor against Keyserling’s Economics Expansion Plan,” *American Journal of Economics and Sociology* 48 (July 1989): 366; Lynn Turgeon, *Bastard Keynesianism* (Westport, Conn., 1996), 126; Keyserling told economist Lynn Turgeon that his contribution to NSC-68 “was the lifetime achievement of which I am most proud.” Also see Collins, 24.

8. For a general discussion of the various brands of Keynesianism see John Patrick Diggins, *The Rise and Fall of the American Left* (New York, 1992), 189–90; Margaret Wier and Theda Skocpol, “Social Structures and the Possibilities for Keynesian Responses to the Great Depression in Sweden, Britain, and the United States,” in *Bringing the State Back In*, ed. Evans, et al. (New York, 1985), 108, 137–45. Keyserling and U.S. labor adopted what Wier and Skocpol labeled a “social Keynesianism,” which sought to harness government’s spending and taxing powers as a means to promote general economic growth and address social and economic problems. In contrast, some businessmen supported a modest program of state economic stimulation that became known as “commercial Keynesianism.” Also see Nelson Lichtenstein, *Labor’s War at Home: The CIO in World War II* (New York, 1982), 233. Lichtenstein assails military Keynesianism as requiring the “maintenance of an ideological consensus and moderation of social and economic conflict.” Yet such an analysis fails to recognize the limited choices available to labor and its creative efforts to mold defense spending to meet larger social and economic needs. Lynn Turgeon (in *Bastard Keynesianism*, 177) defines bastard Keynesianism as “the actual practice of Keynesian policies in the belief that ‘money matters,’ that military expenditure can be used as a form of demand management, and that exports (loans abroad, foreign aid, or a trade surplus) are important goals of international trade. Employment creation or inefficiency replaces employment savings or efficiency as overall goals of macroeconomic policy. The two principle strands of Bastard Keynesianism are Military Keynesianism and Commercial Keynesianism, the use of defense spending and cuts in tax rates to stimulate the economy.”

9. Edmund F. Wehrle, "Welfare and Warfare: American Organized Labor Approaches the Military-Industrial Complex, 1949-1964," *Armed Forces & Society* 4 (summer 2003): 525-46.
10. John Sloan, *Eisenhower and the Management of Prosperity* (Lawrence, Kans., 1991), 70.
11. Reuben Slesinger, *National Economic Policy: The Presidential Reports* (Princeton, N.J., 1968), 36-37. Eisenhower's annual economic reports as president focused much more on the prevention of inflation than creating employment. Also see Iwan W. Morgan, "Eisenhower and the Balanced Budget," in *Reexamining the Eisenhower Presidency*, ed. Shirley Ann Warshaw (Westport, Conn., 1993), 121-25.
12. Leon Keyserling, "Memorandum re. Project to Encourage Economic Expansion," 15 January 1954, 62/17, Meany Papers, GMMA. Keyserling sent the same proposal to Walter Reuther, president of the CIO.
13. The Conference on Economic Progress, "Toward Full Employment and Full Production" (Washington, D.C., 1954).
14. Leon Keyserling, "Good Times in '54, But . . ." *The New Republic*, 4 January 1954.
15. "AFL Economic Committee Report, National Defense, 1954," 62/17, Meany Papers, GMMA.
16. "Testimony on Defense Production Act to be Presented by the CIO Committee on Economic Policy," 10 March 1953, 6/20 Goldfinger Papers, GMMA.
17. On the Keyserling/Galbraith debate see Collins, 62-64.
18. *AFL-CIO News*, 11 August 1956. Sloan, 39-41. The appointment of Raymond Saulnier to replace Arthur Burns as chairman of the CEA in December of 1956 added to problems. Saulnier proved to be more conservative and "committed to a competitive market-oriented economics" than Burns and focused almost exclusively on combating inflation. Saulnier's appointment ushered in a more conservative phase to the Eisenhower administration's fiscal policy, further frustrating the AFL-CIO.
19. Keyserling letter to the editor, *The New Republic*, 25 June 1954.
20. Morgan, 130. Eisenhower's economic record looks somewhat better when compared to the years 1945-47, when severe inflation ate away at economic gains.
21. Leon Keyserling, "Nonsense about Inflation and Recession," *The New Republic*, 10 March 1956.

22. AFL-CIO Press Release, "Statement of the Executive Council: Defense and Economic Growth," 9 February 1958.
23. Herbert Stein, *The Fiscal Revolution in America* (Chicago, 1969), 320; Douglas Kinnard, "President Eisenhower and the Defense Budget," *Journal of Politics* 39 (August 1977): 611. Also see Robert Divine, *The Sputnik Challenge* (New York, 1993), 118–28. Divine depicts the defense spending hike of 1958 as largely the result of congressional pressure to address the slumping economy.
24. "Balanced Economic Growth and Full Employment" draft of Walter Reuther statement before Joint Economic Committee, 30 October 1959, 2/12, Rutenberg Papers, GMMA.
25. Stein, 320. Republican economic advisor Herbert Stein found important lessons learned from the dual crises of 1958. He noted that the "common deduction from these comparisons [between the U.S. and U.S.S.R] was an American weakness in space exploration, in missile capability, in education and in the rate of economic growth—with the further conclusion that these deficiencies had to be remedied for the sake of our security and self-esteem, even at the expense of expansion of government programs." For a contemporary view of the economic implications of Sputnik see James Tobin, "The Eisenhower Economy and National Security: Defense, Dollars, and Doctrines," *Yale Review* 47 (March 1958): 321–34. Keynesian economist Tobin wrote that "Sputnik will be well worth the blow it has dealt our national pride if it frees national policy from the shackles of fiscal orthodoxy." Harold Vatter, *The U.S. Economy in the 1950s* (New York, 1963), 72, also recognizes the recession of 1957–58 as leading to a new appreciation of defense spending as "a powerful new discretionary stabilizer."
26. John Kenneth Galbraith, *The Affluent Society* (New York, 1958), 292–307. In a section particularly offensive to trade unionists, Galbraith decried the false urgency and waste of attempting to offer employment to all and instead recommended an expanded program of unemployment insurance.
27. Leon Keyserling, "Investment and Consumption," *The New Republic*, 10 October 1960.
28. Collins, 62–64.
29. Leon Keyserling, "Less for Private Spending," *The New Republic*, 23 May 1960.
30. Collins, 49–50. Even candidate Nixon sought to put some distance between himself and Eisenhower by embracing growth-focused economics.
31. AFL-CIO News, 1 October 1960.
32. Nat Goldfinger to Keyserling, 26 October 1960, 1/50 Goldfinger Papers, GMMA.

33. Walter Heller to George Meany, 6 October 1961, 1/45 Goldfinger Papers, GMMA; AFLCIO News, 31 December 1960. Walter Heller, *New Dimensions of Political Economy* (New York, 1967), 27–34. Heller notes that Kennedy had some initial doubts about Keynesian economics. Kennedy frequently received phone calls from Galbraith in India urging more public spending and no tax cuts. David Calleo, *The Imperious Economy* (Boston, Mass., 1982), 11–12. Calleo suggests that to the Kennedy administration “growth seemed the first and best answer to the country’s problems” (Leon Keyserling, “JFK Economics: Should We All Stand Up and Cheer?” *The New Republic*, 9 October 1961). Despite his appreciation for Kennedy’s economic program, Keyserling in 1961 urged still more aggressive action. Within months, the AFL-CIO was echoing this new more critical line.

34. Kennedy to Secretary of Defense, Secretary of Labor, Administrator General Services Administration, 2 February 1961, Procurement Policy Branch, General Correspondence, 1961, Office of the Quartermaster General, RG 92, National Archives, College Park, MD (henceforth NA). In issuing his directive, Kennedy pointed to previous problems with such policies: “Although for a number of years there has been a government policy to provide assistance to those areas of the country suffering from chronic heavy labor surpluses, very little actually has been done in the way of channeling government procurement contracts to those areas. Perhaps the major reason for this is the ineffective machinery that has been set up to accomplish this objective.”

35. AFL-CIO News, 29 July 1961.

36. Executive Council Minutes, 23 February 1961. Solomon Barkin to William Pollock, 19 February 1962, 4/54, Ruttenberg Papers, GMMA. Textile Workers economist Solomon Barkin was particularly celebratory of the new administration’s first year in office: “I believe that we are witnessing the recreation of an atmosphere in Washington which resembles the one we experienced in the days of the Roosevelt Administration. Our advice and counsel are being sought on many matters of direct interest to trade unions.”

37. Jack Conway Oral History, 60, John F. Kennedy Library, Boston, Mass.

38. Dewey Anderson to Stanley Ruttenberg, 7 July 1961, 4/52, Ruttenberg Papers, GMMA.

39. Meany to Philadelphia Inquirer (draft), 17 December 1962, micro 81, GMMA; John Herling Labor Letter, 5 January 1963; AFL-CIO News, 19 October 1963.

40. AFL-CIO News, 13 May 1963.

41. Nate Weinberg to Walter Reuther, 5 August 1963, 3/43 Goldfinger Papers, GMMA.

42. Meany to Johnson, 3 March 1964, box 124, White House Central Files, Name Files, Lyndon Baines Johnson Library, Austin, Tex. (henceforth LBJ).
43. U.S. Department of Labor, *International Labor* (November-December 1963), 9.
44. Leon Keyserling, "Progress or Poverty: The U.S. at a Cross-Roads," (Washington, D.C., 1964); James T. Paterson, *America's Struggle against Poverty, 1900-1985* (New York, 1986), 113-14; Lichtenstein, 391. Keyserling, however, did criticize the War on Poverty for focusing too closely on the downtrodden rather than stressing overall economic growth. Schlesinger, 1010. Still, historian Arthur Schlesinger, Jr. credits Keyserling's studies of poverty in the 1950s as an early inspiration for Johnson's poverty program.
45. Keyserling, "Progress or Poverty," 1.
46. Leon Keyserling, " 'Liberal' and 'Conservative' National Economic Policies and their Consequences" (Washington, D.C., 1979), 50. Also see Keyserling, "Growth with Less Inflation" (Washington, D.C., 1970), 27; and Keyserling, "Progress or Poverty," 15.
47. Keyserling, "The Economic Record," *The New Republic*, 24 October 1970. By 1970, however, Keyserling was criticizing economic decisions related to Vietnam, comparing the Vietnam mobilization unfavorably to that of Korea (during which Keyserling sat atop the CEA).
48. Califano to Johnson, 23 December 1965, box 125, White House Central Files, Name Files, LBJ. Califano did admit that the administration would submit a "tight" budget so as to prevent any efforts by "right wingers in the Congress . . . to gut the Great Society programs using the Vietnam war as an excuse." Larry Berman argues that American intervention resulted from Johnson's fears that abandoning Vietnam would leave him politically vulnerable and endanger his War on Poverty programs. Yet—as the Califano memo suggests—the Johnson administration clearly saw the war as threatening not saving its domestic programs.
49. Keyserling to Johnson, 25 November 1966, box 119, White House Central Files, Name Files, LBJ.
50. E. Ernest Goldstein to Johnson, 7 September 1967, box 125, White House Central Files, Name Files, LBJ.
51. Meany to Johnson, 29 July 1967, 34/16, Department of Legislation, GMMA.
52. Gardner Ackerly to Johnson, 27 November 1967, box 125, White House Central Files, Name Files, LBJ.

53. Leon Keyserling, "Employment and the 'New Economics,'" *Annals of the American Academy of Political and Social Science* 373 (1967): 102–19.
54. *Public Papers of the Presidents of the U.S., Lyndon Baines Johnson, 1966* (Washington, D.C., 1967), 96–109.
55. Califano to Nicholas Katzenbach, 28 July 1966, box 31, White House Central Files, Ex LA 7, LBJ.
56. On inflation, taxes, and the Johnson administration see Irving Bernstein, *Guns or Butter: The Presidency of Lyndon B. Johnson* (New York, 1996), 358–78, and Robert Warren Stevens, *Vain Hopes, Grim Realities: The Economic Consequences of the Vietnam War* (New York, 1976), 74–81.
57. Robert Collins, "Growth Liberalism in the Sixties: Great Societies at Home and Grand Designs Abroad," in *The Sixties: From Memory to History*, ed. David Farber (Chapel Hill, N.C., 1994), 30.
58. Donald F. Kettl, "The Economic Education of Lyndon Johnson: Guns, Butter, and Taxes," in *The Johnson Years, Volume Two*, ed. Robert Divine (Lawrence, Kans., 1987), 54. Also see David Halberstam, *The Best and the Brightest* (New York, 1972), 733. Halberstam, arguing that the president covered up the real costs of the Vietnam War in order to preserve his war on poverty programs, labeled Johnson's economic program "a living lie." Kettl, however, argues against any deliberate distortions, suggesting that choices were less clear than Halberstam contended.
59. *CPR National Journal*, 5 September 1970; Kevin Boyle, *The UAW and the Heyday of American Liberalism, 1945–1968* (Ithaca, N.Y., 1995), 236. Edmund Gillon, *Politics and Vision: The ADA and American Liberalism* (New York, 1987), 210–13, 271. The rejected piece included an angry attack on the ADA chairman John Kenneth Galbraith, whom Keyserling blamed for betraying the principles of full-employment economics. Keyserling printed one hundred copies of his critique of the ADA at his own expense and distributed them to the ADA National Board. The AFL-CIO later published his article in *Free Trade Union News*, March 1968.
60. *Proceedings of the Ninth Constitutional Convention of the AFL-CIO, Bal Harbor, Fla., 18–22 November 1971*, 13.
61. Paul McCracken to Hodgson, 13 November 1970, box 36, White House Central Files, Staff Member and Office files, Herbert Stein, Nixon Archives, NA. *New York Times*, 24 February 1971. Nixon followed McCracken's advice by suspending the Davis-Bacon Act in February 1971. Meany lambasted the action as "an open invitation to unscrupulous employers to exploit workers by competitive undermining of fair wage and labor standards." Freeman, 733. The business community shared McCracken's concerns and linked together to form the

Construction Users Anti-inflation Roundtable, which later became the Businessmen's Roundtable.

62. AFL-CIO News, 9 January 1971.

63. Keyserling to ADA Board Members, 29 January 1968, 45/17, Lovestone Papers, GMMA. Also see Bayard Rustin, "Black Rage, White Fear: The Full Employment Answer."

64. Jervis Anderson, Bayard Rustin, *Troubles I've Seen: A Biography* (New York, 1997), 290.

65. Leon Keyserling, "The Scarcity School of Economics" (Washington, 1974), 84; Haldeman, 326. Leon Keyserling, "Seminar on Manpower Policy and Program: How Well is the Employment Act of 1946 Working?" (Washington, D.C., 1966), 33. Well before Nixon's program, Keyserling was warning against price and wage controls, "I go along with Adam Smith. . . . Let the Government do all these things well within its own established spheres of action before it goes into the additional area of concerning itself with each basic price change and basic collective bargaining contract."

66. Keyserling, 25. "The period 1969-last quarter 1973 called for a highly stimulative national economic policy. but this was stopped because . . . the scarcity economists had become frightened when we got even reasonably close to full resource use by 1966."

67. Keyserling, "The Scarcity School," 8, 84–86.

68. Leon Keyserling, "Full Employment without Inflation" (Washington, D.C., 1975), 39.

69. Keyserling, "'Liberal' and 'Conservative' National Economic Policies and their Consequences," 3; Collins, 167.

70. Keyserling, "The Scarcity School," 48. Keyserling, however, was no proponent of Reaganstyle tax cuts. While he acknowledged that on the surface such tax cuts might seem a negation of "a scarcity approach to economics, because it has put more spendable income into the hands of the private economic community," the "practical consequence has been to feed the fat and starve the lean, by redistributing after-tax income in non-progressive directions." Also see Keyserling, "Progress or Poverty," 117.