

The success of wartime government spending and the popularity of Social Security and of protections for labor convinced many liberals by the end of the war that the New Deal was “more than an eclectic group of policies and programs,” but instead a new concept of state that would last well past the administrations of Roosevelt and Truman.¹⁴² National government after the New Deal consisted of a wider set of state institutions that addressed economic and social policy. For that reason, many historians have described the legacy of the Roosevelt administration as the “New Deal state.”

POLITICAL LEGACIES

In many respects, the New Deal ended with Roosevelt's court-packing plan and the 1937 recession. The only significant New Deal legislation enacted after 1937 was the Fair Labor Standards Act. The “Roosevelt recession” set back economic recovery and weakened Democrats in Congress, who suffered losses in the congressional elections of 1938. As the international situation grew increasingly troublesome after 1938, the New Deal began to lose its political momentum. Nonetheless, the New Deal generated profound changes in the American state and society. It marked the beginning of a notable growth in the size and importance of the modern state. It transformed the federal government from a distant entity into a real presence in Americans' lives. Just consider the fact that more than a third of Americans received some form of direct government aid through the many New Deal programs during the 1930s. The New Deal also established the responsibility of the federal government to act in times of economic crisis. If the private sector could not produce economic stability, government had to intervene. Many aspects of modern corporate life that had developed in America since the late nineteenth century now became subject to federal regulation.

It is important to keep in mind that the New Deal was a *mélange* of often conflicting programs. Some of its programs sought primarily to relieve distress. Others were designed to stimulate the economy or prevent a return of those conditions that had triggered the Great Depression. In many ways, the New Dealers might have been more effective had they had tried to do a few things with precision. Be that as it may, the New Deal created a wider set of institutions and programs that continue to regulate our economic life today, such as the Securities and Exchange Commission, the Federal Deposit Insurance Corporation, unemployment compensation, minimum wages, other workplace regulations, and Social Security.

THE NEW DEAL CONSTITUENCIES

A large number of Americans who lived through the New Deal never forgot the impact that government—and just as significantly President Roosevelt—had on their lives. Saved from bread lines, the stigma and

despair of unemployment, and the turmoil and ruin of home foreclosures—Americans across the nation became loyal supporters of Roosevelt's party. It is hardly surprising that in 1936, 84 percent of Americans on relief voted for the Democratic ticket. They and millions of others formed a reliable political coalition, voting for the Democratic Party until at least 1968.

Workers

Labor unions, particularly those affiliated with the CIO, aligned themselves with the Roosevelt administration and its successors in the postwar years, since it had been the Democratic Party that had made unions a legitimate force in modern industrialized America. The Democrats also won the support of many first- and second-generation immigrants, who came to see themselves less and less as “hyphenated Americans” with their own local ethnic culture. Instead, they increasingly identified as regular “white” Americans who were united in labor unions, received federal paychecks rather than local charity, and were addressed by Franklin Roosevelt as if they were one of his peers. The New Deal thus brought to a close a longer process that had transformed the Democratic Party. Prior to the New Deal, Democrats won the support of many urban immigrants, but was “solid” only in the South. With Roosevelt's administration, Democratic support grew among ethnic groups, many city dwellers, professionals, intellectuals, organized labor, and African Americans, and Democrats also continued to hang on to the southern vote.

Middle-Class Families

The Democratic Party had attracted the middle class with programs that benefited families, many of which had suffered unemployment, home foreclosures, and bankruptcy during the Great Depression. Banking regulations such as the insurance of federal deposits and the regulation of the stock market provided small investors and families that had savings with a sense of security. Most importantly, however, New Deal home loan programs not only protected countless middle-class families from evictions and a descent into tenancy, but they also permitted the expansion of the ranks of homeowners, which has been one of the most important characteristics of middle-class status in the United States. Combined with New Deal income protections such as Social Security, the expanded American middle class was both the most significant beneficiary and the most important legacy of the New Deal. Despite all of this, middle-class support for the Democratic Party never rivaled the support the party received from labor and the African-American community.

Minorities

Although racial equality frequently took a backseat to white working- and middle-class interests, the efforts of New Dealers like Eleanor Roosevelt, Harry Hopkins, Mary McLeod Bethune, and John Collier on

behalf of racial minorities promised reforms for the future and encouraged civil rights activism. In 1941, A. Philip Randolph, head of the black Brotherhood of Sleeping Car Porters, threatened Roosevelt with a March on Washington to protest segregation in the armed forces and racial discrimination in war industries. To head off the march, Roosevelt gave in and created the **Fair Employment Practices Commission**, which established the role of the federal government in legislating equal employment rights. Thus, while the New Deal took significant steps to include nonwhite minorities, they still had to fight for full and equal treatment. However, Roosevelt's Democratic Party promised the best chances of political participation and inclusion at the time.

THE DUAL WELFARE STATE: HOW THE NEW DEAL GENDERED CITIZENSHIP

Most New Deal legislators worked on the assumption that the depression crisis threatened family stability in numerous ways, and that they had to restore men to their role as bread-winners, despite the fact that a significant number of white women, and a larger proportion of African-American women, participated



Photograph of A. Philip Randolph, founder of the Brotherhood of Sleeping Car Porters, who threatened President Roosevelt with a March on Washington to protest segregation in the armed forces and racial discrimination in war industries.

in the labor force. The private actions of employers and state legislators suggested a growing animosity toward women—particularly married women—in the workplace. One unemployed husband expressed the populist sentiment among working-class men at the time when he stated that he “would rather starve than let [his] wife work.” Despite such sentiments, women's participation in the labor force increased over the course of the 1930s, in part because families needed their income. To many New Dealers it appeared that American men needed assistance in the restoration of their role as heads of families more than ever.

Entitlements for Working Men

The gender biases in many pieces of New Deal legislation testified to this open preference for assisting men. (The underlying assumption was often that this would simultaneously help the family.) When Roosevelt and many of his advisers contemplated the significance of the dignity of labor for the individual's conception of value as citizens, they thought first and foremost of men's sense of self. They commonly assumed that men would respond to a loss of social status and sense of self-worth by resorting to crime, vagrancy, and political radicalism. In short, the economic, social, and political crisis of the Great Depression struck New Dealers first and foremost as a crisis faced by men. It was for this reason, that public works projects like the Civilian Conservation Corps focused only on young men, while other public works projects gave men preferential treatment. This was also the reason that Social Security rewarded men for a lifetime of employment at the same time that it treated wives like “designing” dependents.



President Roosevelt signs the G.I. Bill into law, providing education, job training, and other benefits to military veterans.

World War II temporarily created dramatic changes in family wage-earning arrangements. The men who had been the target of New Deal policy were now subject to the national draft. No longer redundant in a depressed economy or doubtful of their value, American men now had to prove their valor. It was upon their return from service that a militarized New Deal state provided them with the ultimate gendered welfare package—the G.I. Bill.

Welfare for Mothers and Children

In the 1930s most New Dealers and members of Congress expected that **Assistance for Families with Dependent Children (AFDC)** would remain a minor part of the social security system. At the time, it appeared as if only a few widows and small children would have a need for this service. What few people predicted was the massive migration of poor black Americans from the southern states into northern cities during and after World War II, the most consequential demographic shift in twentieth-century U.S. history. This migration was accelerated by the impact of the New Deal's AAA program, which displaced many sharecroppers and tenant farmers, and by the regional inequality in certain Social Security services that made life south of the Mason-Dixon line more precarious than life in the North.

In 1965, President Lyndon B. Johnson rapidly increased social welfare expenditures for AFDC in an effort to address the social and economic urban crisis. In many urban areas, African-American men had few employment opportunities, no access to transportation elsewhere, and few hopes of fulfilling their own and society's expectations of succeeding as breadwinners for their families. The stresses of urban migration, the disappointments of economic uncertainty, and the hardship of urban poverty tore asunder many African-American families in the inner-cities, leaving AFDC as a crucial support for single-parent households. The program also became a lightning rod for conservative critics who charged that the largess of the New Deal welfare state—rather than relieving economic distress in urban communities—was eroding family values and the moral virtue of hard work.¹⁴³

A FOOT IN THE DOOR: THE IMPACT OF THE NEW DEAL ON MINORITIES

Most Americans today identify the civil rights movement as a postwar development. However, the struggle for black equality was already beginning to stir in the 1930s. In the industrial unions, in the Communist Party, and in other organizations, radicals were unhampered by racial divisions. African Americans also benefited from a new ideological consensus that emerged in the academic community where scholars increasingly discussed the importance of the environment in influencing behavior and culture, downplaying the significance of inborn characteristics, which had often been part of so-called "scientific racism." The new academic consen-

sus also highlighted the damage individuals suffered as a result of prejudice and discrimination, and the costs that the nation had to bear in turn. Intellectually, white supremacy was now on the defensive.¹⁴⁴ This new attitude was particularly apparent in Roosevelt's appointments to the Supreme Court, where African Americans increasingly registered decisive victories.

Truman's Reforms

Following Roosevelt's death on April 12, 1945, his vice president, Harry Truman, moved into the Oval Office. The small bespectacled politician from Missouri committed himself to an expansion of the New Deal legacy of his predecessor. Although angered by labor union demands for social democracy during the strike wave of 1946, Truman remained a loyal supporter of labor and unsuccessfully vetoed the Republican initiated **Taft-Hartley Act** of that year. After Truman won election to the presidency in his own right in 1948, he proposed a twenty-one-point plan for the expansion of federal programs that was formulated in the language of "rights." These rights included the right to a "useful and remunerative" job, the right to good housing, the right to "protection from the economic fears of old age," the right to a good education, and the right to "adequate medical care." During his 1948 campaign and in his 1949 State of the Union address, Truman also extended New Deal liberalism in new directions, primarily toward the issue of civil rights for African Americans. From the perspective of a new cadre of postwar fiscal managers, it made good economic sense to extend a high standard of living to an ever greater number of Americans.



President Harry S. Truman, who took office following Roosevelt's death, is shown here meeting with Joseph Stalin and Winston Churchill.

A New Claim on Civil Rights

In practice, the Fair Deal, as Truman dubbed his legislative program, faced an uphill battle against congressional Republicans. On the issue of race, however, Truman was able to send some political signals and take some significant steps. In 1946, he created a **Presidential Civil Rights Commission**. In 1948, he issued an executive order desegregating the Armed Forces. That same year, his Justice Department filed a supportive brief with the Supreme Court in the case of *Shelley v. Kramer* (1948), a case in which the justices declared racially restrictive housing covenants unenforceable. His Justice Department also filed an important amicus curiae brief in the landmark school desegregation case *Brown v. Board of Education*.

Personally, Truman was sympathetic to civil rights on moral grounds, but he was also concerned about America's image abroad during the Cold War. The segregation of southern blacks invited disparaging comparisons with the Nazi treatment of Jews. A decolonization movement also swept the globe after World War II. In order to win the support of India and other new nations in Africa and the Caribbean, the U.S. needed to address racial discrimination at home. Truman's actions helped strengthen the tie between the Democratic Party and the growing number of African-American voters in the urban Northeast and West. There, racism continued to create obstacles to full equality, but segregation was more frequently an informal institution than a legal one. African Americans in the North and the West had easy access to polls, whereas southern whites suppressed African-American voting rights. African Americans living in the North gave Harry Truman and the Democrats

the narrow winning edge they needed in the 1948 elections, and they increasingly pushed Roosevelt's party to support the civil rights movement.

The Democratic Party had benefitted from strong southern support since the Civil War, but in the South the Democratic Party was the party of white supremacy. Thus, the interracial New Deal coalition contained deep conflicts waiting to erupt. Roosevelt had never turned his back on southern Democrats, but Truman's overtures to African Americans brought southern "Dixiecrats" out in protest. Lyndon Johnson's signing of the Civil Rights Act of 1964 and the **Voting Rights Act of 1965** respectively began to push southern whites into the Republican Party. There, they formed the backbone of a new conservative movement. The New Deal coalition had suffered its first significant break.

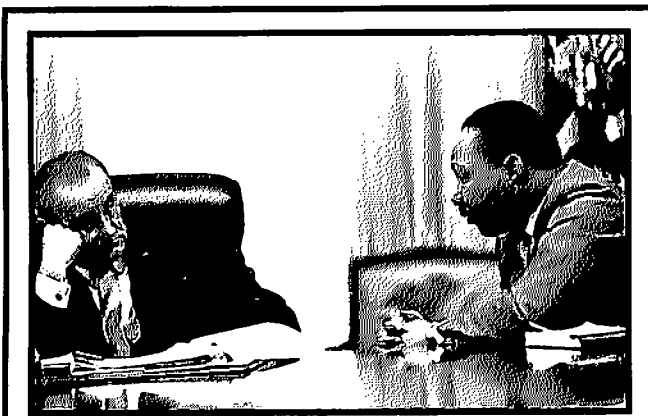
The Expansion of Social Security

The original legislation for Social Security had excluded farm workers and domestics, the wage workers at the bottom of the economic scale who were most in need of Social Security and who were often African American. This was no accident, but rather was, as one political scientist has called it, "**discrimination by design.**" Southern white supremacist Democrats did not want their servants and farmhands to have any security other than that of complete submission to their white employers. Roosevelt agreed to this to keep the southern Democrats in his fold. As a result, fully 65 percent of African Americans fell outside the reach of the original program.¹⁴⁵

At the same time, those African Americans who did prove eligible gained a great deal. By 1940, the Social Security Board had identified nearly 2.3 million black workers who were eligible for old-age insurance.¹⁴⁶ The Truman administration extended Social Security coverage to 10 million new workers and increased benefits by 75 percent, both of which were changes that benefited African Americans. Even though Truman's Republican successor Dwight D. Eisenhower opposed new initiatives in the economic sphere, he too did not want to challenge America's most popular entitlement program. So, Eisenhower further increased Social Security coverage and benefits. This included total permanent disability compensation for those over fifty years of age. The Lyndon B. Johnson administration expanded social security allowances significantly in 1965, and in the 1970s, the Carter administration introduced cost-of-living adjustments to Social Security. Until the 1980s, Social Security seemed to be one of the untouchable legacies of the New Deal that only grew with every reform.¹⁴⁷

THE NEW DEAL WELFARE STATE: A NEW AGE FOR GOVERNMENT

New Deal reformers went into war with two legacies of political experimentation: regulation and fiscal management. Supporters of regulation were committed to restricting the powers of large corporations and



President Lyndon B. Johnson meets with Civil Rights leader Dr. Martin Luther King in 1966. President Johnson's support of civil rights for African Americans led many southern whites to leave the Democratic Party for the Republican Party.

providing legal protections for workers and consumers. Social and economic justice for these regulators was a matter of enforcing law over the unruly habits of the marketplace. Regulators were steeped in the tradition of progressive reformers from the turn of the century. Fiscal managers, on the other hand, subscribed to the economic theory of John Maynard Keynes. Rather than trying to constrain and limit the powers of capital, they promised a policy of steady growth and an end to the ups and downs of the business cycle through countercyclical government spending. Keynesian fiscal managers believed that the injustices and inequalities of the economic system of the past would not be solved through redistribution, but through growth. Both regulators and fiscal managers persisted in the postwar state, and both represented different legacies of New Deal statecraft.

The Triumph of the Regulatory State

Throughout most of the nineteenth century, and with few exceptions until the New Deal, federal government regulation had been designed to address specific problems in particular industries. For instance, the Interstate Commerce Commission had been created to regulate pricing in the railroad, trucking, and water carrier industries. Similarly, the Federal Reserve System was set up to regulate banks and nothing else.

In the postwar years, new federal agencies like the Occupational Safety and Health Administration (OSHA) were designed to regulate a broad range of industries and to address a broad array of problems. The most significant regulatory development since World War II, however, has been the passage of major pieces of legislation designed to protect consumers from purchasing dangerous and otherwise deficient goods and services. While precedents in consumer protection law date back to the early nineteenth century, most **consumer protection** regulation is postwar history and an indication of the broad acceptance of one New Deal tenet, namely that when the market fails, the government has to step in.

Granted, certain pieces of legislation were the result of spectacular accidents and tragedies that quickly convinced the market, too, that new rules were necessary. For instance, the Kefauver-Harris Amendment to the 1962 Food Drug and Cosmetic Act demanded more rigorous testing to determine the safety and efficacy of new drugs in the wake of a surge in birth defects caused by the drug thalidomide. Other laws, however, reflected a deep distrust of the market's ability to produce the best possible outcomes for consumers. One such example is the National Traffic and Motor Vehicle Safety Act of 1966, which provided for the creation of safety standards for vehicles and vehicle parts as well as vehicle recalls in cases of violation.

Justice through Growth: The Promise of Economic Expansion

If the regulatory state demonstrated a lack of faith in the justice of the marketplace, New Deal liberals of the postwar years generally believed that economic growth would eventually deliver prosperity—and thus social justice—to everyone. During World War II, American defense industries were the most diverse workplaces in the world at the time. Americans' broad participation in the economic recovery inspired increasing confidence in the ideas of John Maynard Keynes. Keynes believed that countercyclical government spending on public works, combined with government efforts to stimulate private investment, could restore full employment. Keynes's American disciples, like Alvin Hansen and Paul Samuelson, understood this to mean that the economy could be kept on an even keel if the government increased spending and/or cut taxes during recessions and reversed these actions to address the threat of inflation after full employment had been reached. Thus, economists were hopeful that fiscal policy, rather than regulation, could solve the perennial problem of the business cycle.

THE ROOTS OF MULTI-NATIONAL LIBERALISM

World War II achieved in the United States what the New Deal could not—economic recovery from the Great Depression of the 1930s. The devastating conflict changed not just the military role of the United States in the world, but also its place in the global marketplace. Even before the Great Depression, Americans had lived in the world's most powerful economy, but their nation's global dominance after World War II seemed astounding. The war had destroyed factories and fields as well as homes and workshops in warring nations across Europe, Asia, and North Africa, while military production produced new prosperity in the richest country in the world, the United States.

U.S. military policy and foreign aid, combined with the absence of major economic competitors, extended the global reach of American corporate capitalism over the next twenty years. Those recessions that occurred between 1945 and the mid-1970s mostly lasted a year or less, and none remotely approached the severity of the Great Depression. During these three decades, American manufacturing output steadily grew, with only small setbacks. In fact, manufacturing production doubled between 1945 and 1965 and tripled between 1945 and 1976.¹⁴⁸

The legacy of New Deal policies in international economic affairs was limited, of course. The New Deal state, however, became transparent in Roosevelt's foreign and trade policy. First, Roosevelt had demonstrated his desire to expand the political and economic security fostered by domestic New Deal institutions to the international arena when he signed the Atlantic Charter and gave his support for the United Nations.

Second, the Roosevelt administration set a new tone for American foreign trade policy in the 1930s when it proclaimed fairness and good neighborly behavior while simultaneously pursuing familiar economic interests: favorable conditions for export and cheap access to raw materials for import. In the wake of World War II, American diplomats and foreign economic policymakers were able to secure such an international economic system with the creation of new economic institutions such as the World Bank, the International Monetary Fund (IMF), and the General Agreement on Tariffs and Trade (GATT) and bolster the New Deal order at home.¹⁴⁹

Bretton Woods in 1944

To a large extent, American global supremacy relied on the decisions made at **Bretton Woods**, the allied nations' economic conference held in a small town in New Hampshire in the summer of 1944. There, the allied nations agreed to make the U.S. dollar the principal reserve currency of the global capitalist economy. In other words, the Bretton Woods system defined the parameters of the postwar international monetary regime, which remained intact until 1973. The dollar

played the role of the key currency, which meant that its value was fixed in terms of gold, and other nations' exchange rates were then pegged to the dollar. This system created a stable international monetary framework that assumed the desirability of dollars throughout the world

For the first twenty years of the postwar period, most capitalist economies in the world were eager to earn dollars from international trade and rarely made enough to import all of the American goods they desired. The dollar truly was as good as gold. But after 1965, successful European and Asian economies like Germany and Japan started to generate trade surpluses with the United States and began to accumulate considerable quantities of dollars in their banks. Between 1966 and 1970, American inflation and trade deficits made the Bretton Woods system increasingly unattractive to rival economies. Finally, increasing financial speculation against the dollar—which was considered overvalued—pushed the U.S. to accept floating exchange rates.¹⁵⁰

Recovery and Trade: The Marshall Plan, the World Bank, and GATT

The participating nations also agreed on the creation of an International Bank for Reconstruction and Development (also known as the **World Bank**) that would provide private loans for the reconstruction of war-torn Europe and the economic modernization of Third World countries. The goal of the World Bank was originally not unlike that of the **Marshall Plan**. Officially called the European Recovery Program, the Marshall Plan gave out more than \$13 billion, most of it in grants, between 1948 and 1952 to sixteen Western and Southern European countries, including West Germany.¹⁵¹ The Marshall plan was the international translation of New Deal policy. At a time when private capital—through the World Bank—proved insufficient, the European Recovery Program provided relief to Europeans in need and ensured their political loyalty to the United States rather than to socialism. At the same time, it built up foreign markets for the American export industry.

Originally American foreign policy experts had worked on the creation of an International Trade Organization (ITO) that would have had the United States and Great Britain as founding members and would then have invited other nations to join. Within this ITO, the familiar barriers to global commerce—tariffs—would have been negotiated at low levels to secure maximum international trade. However, Republican isolationists and representatives of the financial sector in Congress were suspicious of the internationalist orientation of this organization. Fearing a loss of sovereignty, they prevented the United States from joining. Instead, a weaker alliance emerged with the General Agreement on Tariffs and Trade.¹⁵²



Economist John Maynard Keynes (right) represented the U.K. at the Bretton Woods Conference and Assistant Secretary of the U.S. Treasury, Harry Dexter White (left), represented the U.S.

The International Monetary Fund

The **International Monetary Fund (IMF)** was another product of the Bretton Woods conference. The IMF was designed to stabilize the value of currencies and guide the world economy in the postwar years. The IMF was born out of the negotiations between conference participants. John Maynard Keynes and U.S. negotiators agreed on the overall merit of pursuing full employment policies in participating economies, but did not agree on how to distribute the financial and political burden of maintaining a balance in the international economy. In its compromise form, the IMF was to facilitate the expansion of international trade, promote exchange rate stability, eliminate foreign exchange restrictions, help in the establishment of multilateral payment systems, and provide assistance to member countries facing serious international payment deficits. The fund also had the right to make strong recommendations for changes in domestic policies in order to correct such deficits.¹⁵³

Both the World Bank and the IMF favored American-style internationalism—if not outright political meddling—that often went against the grain of economic nationalist traditions in most countries. While on the surface the IMF had the objective of expanding American economic prosperity to member countries, the United States was also very influential in limiting the size of the loans available. The “IMF-set” conditions that countries had to meet in order to be eligible for a loan were often actually conditions set by the U.S.

SOCIOECONOMIC DIMENSIONS OF THE NEW DEAL LEGACY

The legacy of the New Deal became deeply intertwined with World War II domestic and international politics. Nowhere is this more important than in the formation of a Keynesian welfare state that supplanted former conflicts over the distribution of economic rewards and pessimism about a “maturing” capitalism with the confidence that the solution to poverty and inequality rested in future growth.

Initially, many policymakers and economists feared that the Great Depression would return once the war was over. After all, it appeared as if only the extraordinary levels of government spending during the World War II had pushed the country out of its deep depression. For many, it seemed a logical conclusion that any cuts in spending would sink the economy back into the malaise of the 1930s. Economists, lawmakers, and the president agreed that this was hardly an acceptable prospect. Thus, when Roosevelt described the goal of World War II as the preservation of “**the Four Freedoms**,” he deliberately expanded on the traditional constitutional rights of “freedom of speech” and “freedom of religion” with the wartime-inspired assurances of “freedom from fear” and “freedom from

want.” If the first of these two new freedoms formed the foundation of a *national* security state, then the second embodied the main mission of the New Deal and provided the foundation for a *social* security state.

THE BIRTH OF A KEYNESIAN STATE

The anticipated return into depression did not materialize. Over the course of the war, workers had earned far more money than they could spend in a wartime economy shaped by rations and shortages. Moreover, as Americans moved to fight overseas and work elsewhere in the nation in war industries, families suspended their plans for the future and saved their earnings rather than investing in the formation of households. Once the war was over, these ample savings created a surge in demand that contributed both to a postwar rise in prices and to the fast reconversion of military industries into consumer goods industries. Consider, for example, the decision of American car manufacturers to market the most famous vehicle of World War II—the Jeep—to civilian consumers. The pressure to adapt productive capacity also meant a fast reintegration of male workers from the Armed Forces and defense industries. (Meanwhile, many women who had been employed in factory jobs during the war were encouraged or forced to leave.)

President Roosevelt was convinced that the demobilization after World War I had gone badly and had damaged both the economy and the prospects of veterans at the time. He appointed a Postwar Manpower Committee, which recommended a generous package of benefits for veterans. This was smart policy—Americans rightly felt gratitude toward service



Following WWII, many military industries were converted to consumer goods industries. For example, General Motors began to market its military vehicle, the Jeep, to private citizens.

members—but it was also an effort to prevent veterans from going straight from “the battle lines to the bread lines.” Between 1944 and 1971, federal government spending for veterans in this “model welfare system” totaled over \$95 billion. In 1948, 15 percent of the federal budget was committed to the G.I. Bill, and 17 percent of the federal workforce was employed in the Veterans Administration (VA).¹⁵⁴ The extraordinary cost of the **Servicemen’s Readjustment Act** proved less divisive than New Deal measures, however.

The Employment Act of 1946

When Congress passed the **Employment Act of 1946**, it committed the government to maintaining “maximum production, maximum employment, and maximum purchasing power.” The law thus indicated an ideological commitment to maintaining a balance between wages and prices that was favorable to workers. The act provided goals regarding employment and prices, as well as instruments to accomplish these goals. In practice, the government also relied on automatic stabilizers, such as Social Security payments, that would shore up private consumer spending through transfer payments in times of rising unemployment. The Employment Act required the president to submit an annual economic report “setting forth ... current and foreseeable trends in the levels of employment, production, and purchasing power ... and a program for carrying out the policy,” to foster “conditions under which there will be afforded useful employment for those able, willing, and seeking to work.” In other words, the president had become the nation’s chief macroeconomic engineer—a role virtually all presidents prior to Roosevelt would have adamantly rejected.¹⁵⁵

The Council of Economic Advisors

The government’s commitment to an economic policy oriented toward full employment and stable prices for consumers and workers was also apparent in another section of the Employment Act of 1946—the creation of the **Council of Economic Advisors (CEA)**. What had been an impromptu gathering of the “best and brightest” economic minds around Roosevelt in a time of crisis had now become a regular institution in the White House. Truman appointed conservative Edwin Nourse as the first CEA chairman in order to assuage the concerns of business interests and Republicans, but the presence of the familiar New Dealer Leon Keyserling on the CEA simultaneously assured labor’s political influence. Although Nourse preferred to describe the work of the CEA as science in the service of the executive branch, Keyserling and most other future appointees to this board of advisors that came from old New Deal ranks recognized that the role of government in the national economy was not a scientific, but a political one. “While we economists have long talked in the refined atmosphere of theoretical underpinnings,” Keyserling wrote, “we live in

a world where prices and wages and profits are being made.”¹⁵⁶

The first postwar recession seemed to prove Truman’s Council of Economic Advisers right. After a sharp drop in industrial production and a 4 percent decline in the gross national product, Truman’s advisers quickly awarded military contracts in economically “distressed areas.” Although unemployment rose above 5 percent for a couple of months, economic recovery came so soon that the public did not even get the chance to demand more drastic action. Keynesian medicine had worked.

John F. Kennedy employed Keynesian fiscal policy most boldly with his **Tax Reduction Act of 1964**. JFK proposed deliberately creating a federal deficit by spending and simultaneously cutting taxes. Congress refused to enact such an unorthodox proposal, but following Kennedy’s assassination, his successor Lyndon Johnson pushed it into law in February 1964. The act marked a milestone in the use of fiscal policy and became an approach that Republicans and other fiscal conservatives would later embrace.

THE ECLIPSE OF THE WORKERS’ STRUGGLE: A CONSUMER SOCIETY

When Roosevelt assumed office in 1932, the “labor question” had long been both the nation’s paramount economic question and the most profound moral, political, and social dilemma of the industrial order. Addressing this question, some thought, might lead to the elimination of immorality and exploitation and bring an end to “the social inequality and antagonism fostered by great aggregations of wealth, the threat to democratic politics represented by overbearing



A meeting of the Council of Economic Advisors in 1949. Leon Keyserling is seated third from the left.