

Reporter

October 1988

Number 247

THE RISE AND FALL OF FULL EMPLOYMENT.

Part V: Congress Makes A Law

by Bertram Gross

To help offset well-organized business opposition to the full employment bill proposed by Senators Mur- and Truman in December 1945, our coordinating group sought to cultivate some business support, with some success. Two of my colleagues during the earlier battle on reconversion legislation were Charles L. Gragg and Stanley F. Teele, who had been advisors to the War Production Board and had by now returned to their professorships at Harvard Business School. I had kept them informed during the drafting of the full employment bill, and now Senator Murray and I were invited to discuss the measure with business executives at the school (as had been done earlier, during consideration of the Contract Settlement Act). This was part of the school's effort to educate old-style corporate executives about the inevitability of more federal economic intervention in the post-war economy. Gragg and Teele helped out further by writing a *Harvard Business Review* article in which they urged executives to take the full employment bill seriously, rather than responding with knee-jerk negativism.

We also held off the record talks with groups of "corporate liberals," like the Committee for Economic Development (CED), which had been set up a few years earlier to work with govern-

ment on post-war economic policy. One key figure in the more progressive business and planning groups of that time was Beardsley Ruml, a social scientist who bridged the gap between academia and the business world by becoming treasurer of Macy's department store. Two others were Ralph Flanders (the machine tool manufacturer who later became Senator from Vermont), and the CED chairperson, Paul Hoffman of Studebaker.

I remember a meeting in Ruml's Washington apartment where Hoffman asked with a painful grimace "Why full? Why can't we just say *high* employment?" Both Ruml and Flanders agreed with this view. Ruml clarified his friendly, "Yes, but" position: the federal government's responsibility should be limited to avoiding mass depression.

When atom bombs shattered Hiroshima and Nagasaki and brought a sudden end to the war, Senator Wagner received a call from the White House asking for expedited hearings on the full employment bill. The sponsors once again aired terrifying estimates—ranging from eight to 20 million—on how many people might soon be jobless unless bold new action were taken. President Truman backed them up by calling the bill a "must."

Fighting the Bloody Battle

At the hearings, Senator Murray broke with the view of the Keynesians who had been insisting *ad nauseum* that "everybody is for full employment." Launching a populist offensive, he documented the fact that depressions made it possible for clever rich people to "ride the business cycle" by picking up "depression bargains." He also charged that a small but powerful minority of business people have always wanted a "pool of unemployed to regulate wages and keep labor efficient." The witness from the National Association of Manufacturers was so startled by Murray's approach that business opponents temporarily went on the defensive and refused invitations to testify against the bill.

The Chamber of Commerce was actually embarrassed. While its staff had been conducting a strong campaign to kill the measure, its new chairman Eric Johnston was a "Yes, but" supporter. The confusion of the bill's die-hard opponents was compounded when the witness from the Committee for Economic Development hailed the bill as "epoch making," and strongly supported the idea of trying to coordinate Congressional policy-

Institute of Industrial Relations

2521 Channing Way, Rm. 300, Berkeley, CA 94720

University of California at Berkeley

(415) 642-0323

UNIVERSITY OF CALIFORNIA
BERKELEY

making through a Joint Committee. Opponents were also confused by the CED's break with traditional budget balancing, and its support of Herbert Stein's idea that deficits should be used to counteract downturns, postponing balanced budgets or surpluses until the next upturn.

The upshot of all this was (1) that the strongest opponents saved their best ammunition for the House, which was then much more conservative than the Senate, and (2) that it became possible for the bill to slip past its opponents in the Senate Committee and to pass the full Senate. This actually happened. The result, despite a few weakening amendments, was a surprisingly liberal Senate version. Among the reasons for this unexpected outcome, according to Stephen Bailey, were the psychological impact of the end of the war and the dire predictions of the economists about coming unemployment.

Another factor was a remarkable speech in which Senator O'Mahoney breathed economic respectability into the pending legislation. O'Mahoney even urged that it was important for the sponsors to stand firm against amendments that on the surface seemed plausible: "Every concession made by the sponsors of the bill was met by another amendment on the part of those who opposed it." But an equally important factor was that the conservative forces were going through a then well-established routine of concentrating pressure on the House to bury a liberal measure passed by the Senate.

So the sponsors next tried to help their embattled House supporters, who had little or no staff assistance. Indeed, much of the detailed argumentation in the majority report from the Senate Committee was prepared to help arm supporters around the country for the coming battle in the House. To the charge that the bill was un-American, for example, the report responded with a counter-charge: "No hostile foreign agent could do more to wreck the fabric of our society than to tell our people that unemployment is the price we pay for free enterprise."

The bill's sponsors were less than candid in dealing with the issue of inflation—and weak in their demand for a complete Economic Bill of Rights.

To the charge that the bill would be inflationary, the Senate proponents were less than candid. Most of the bill's sponsors favored the kind of civilian growth that would be at least a little inflationary. Many felt that a combination of direct and indirect controls could always be used to slow down price rises if inflation threatened to get out of hand. But they did not openly state these controversial views. Instead they argued that sustained full employment might actually be *anti-inflationary*: businessmen would not need to adopt strategies involving higher prices and lower production levels, in order to protect themselves against anticipated period of recession or depression.

The bill's proponents were weak in replying to those who ar-

gued that the government's policy should be limited to (1) avoiding depression, and, (2) when necessary, relieving destitution through public assistance, and, (3) when absolutely necessary, undertaking a certain amount of work relief and public work. All the proponents could say is that this argument ignored human values. In other words, they never faced up directly to the question presented by Henry Wallace (in Senate testimony on August 24, 1945): "Shall the Government act merely to prevent mass unemployment or shall it strive to maintain full production and full employment?" Wallace and a few others supported Roosevelt's entire Economic Bill of Rights, and demanded full production and full employment in order to make these rights achievable. But most of the bill's proponents merely asserted the right to employment, and were weak in presenting the philosophical and moral justification for this right in the broad framework that Roosevelt had set forth.

The bill's supporters around the country were weaker still. In Washington, few were able to keep track of the propaganda barrage launched both by opponents and proponents. But much more debilitating, as the House Committee started hearings, was the lack of understanding around the country. Supporters tended to rally around abstract slogans rather than specific principles. For most of them, what was going on among the Washington insiders was a complete mystery.

From then on, two insider strategies determined the outcome. First, Truman administration officials pressed House Democrats to get *any bill* through the House. If that happened, the final law could be written in the Senate-House conference committee. Second, and more importantly, the "Yes, but" business leaders drafted a substitute measure which introduced an entirely new focus to the debate, in the following respects: (1) it set a policy of promoting "high and stable" employment; (2) it changed the National Production and Employment Budget into an Economic Report; (3) it eliminated compensatory spending; and (4) it set up an independent Council of Economic Advisers.

The substitute measure was reported to the House, where it was adopted after a wildly confusing debate. The substitute was then sent to a Senate-House conference, where the Employment Act of 1946 was finally written.

A Non-Rights Compromise

From the secret sessions of the conference committee where I served as staff assistant, came a controversial compromise. Stephen Bailey called the new law "an important step in the direction of coordinated and responsible economic planning by the federal government." Others have since hailed it as an historic affirmation of government responsibility—almost equivalent to a constitutional mandate.

Yet at the time, the hard-line rightwingers branded the new law as meaningless. Quite a few radicals agreed with them, refusing to go along with those sponsors who hailed the measure as a partial victory. They regarded the act, rather, as a "weak, meaningless wraith."

One source of continuing confusion was the replacement of "full" employment by "maximum" employment. During the con-

ference committee Senator Tobey had countered conservative opposition to "full" by rejecting "high" and proposing "maximum." Later, he often asked "What could be more than maximum?" The answer to his question, of course, is that while maximum may be as much as full, the term "full" had become a popular symbol. Its replacement was seen for decades as the major defeat suffered at the hands of the conservative coalition in Congress.

Right or wrong, this perception obscured the much greater loss: the total rejection of *the right* to employment opportunities. This rejection, in turn, led to eliminating any responsibility to assure or to guarantee full employment. Similarly, in the United Nations Charter, which was adopted during Congressional consideration of the full employment bill, the drafters rejected the idea of economic rights by setting up a commission to study the subject and limiting the charter commitment to "promoting," not assuring, full employment. As noted in *LCR 241* (Part II of this series), the end result of the Commission's study was the 1948 Universal Declaration of Human Rights, setting forth a broad range of political and economic rights, including the "right to work."

In essence, the Employment Act of 1946 did something a little different. It articulated acceptance by the federal government of responsibility for preventing another mass depression, rather than responsibility for actually attaining and maintaining full employment. To attain this compromise objective, which was unheard of in previous decades, the act declared that

It is the continuing responsibility of the Federal Government . . . to coordinate and utilize all its plans, functions and resources . . . to foster and promote . . . conditions under which there will be afforded useful employment opportunities, including self-employment, for those able, willing, and seeking to work, and to promote maximum employment, production and purchasing power."

The above underlining of *all* emphasizes that the Act brought together both fiscal and non-fiscal plans and functions and resources.

Certain qualifications were added. In carrying out its responsibility, the government should (1) use all practicable means, (2) take into consideration other obligations of national policy, (3) cooperate with industry, labor, agriculture and state and local governments, and (4) promote free competitive enterprise and the general welfare. These additions resulted in an awkwardly long sentence that was mistakenly regarded by some people as undoing the policy commitment. In essence, however, the qualifications were nothing more than actions that could be taken for granted in preventing mass depression in a society of constitutional capitalism.

The final law preserved the idea of requiring the President to

prepare and send to Congress an annual economic program to carry out the stated policy. In each annual program, to be set forth in an Economic Report, the President was required to contrast current economic levels with the "levels needed" to carry out the policy declaration. He was also required to set forth the actions needed to attain the stated goals. In effect, this language set forth the basic element of a "Plan" with a capital "P," as distinguished from a lower case "p" for planning by a single agency or in a single sector of society. Such a combination of statutory policy with a mandate to Presidents was far more of an innovation than the mere creation of another Presidential advisory body. Strangely, in *Political Innovation in America*, (Yale, 1984), Nelson Polsby neglects this aspect of the legislation and instead lists the creation of the Council of Economic Advisers as one of the three most important domestic innovations after World War II (along with MediCare, and Community Action Programs in "the war on poverty").

In setting up the Council of Economic Advisers (CEA), the law made another innovation. It rejected all the long-advocated ideas for independent economic councils—from those of Walter Lippman, Lewis Lorwin and Leon Keyserling, to the independent council in the substitute bill that had passed the House. Instead, it strengthened the hand of the President as an economic manager by placing the CEA in his executive office. Also, by intent of the original sponsors, the act imposed a strict limit on CEA appropriations, and directed it to utilize the services, facilities, and information of other government agencies. The idea was that the CEA could be most effective with a small and lean staff that, instead of trying to duplicate the work of subordinate agencies, would use their people instead.

A major innovation in Congressional procedure was the creation of the Joint Economic Committee as *the* committee to which the President's Economic Report would be referred. Its findings were to serve "as a guide to the several committees of the Congress dealing with legislation relating to the Economic Report." The aim was to escape old-fashioned subordination of employment policy to narrow budget balancing, by instead subordinating the budgetary process to the goals of full employment.

But the innovative idea of a joint resolution on the President's program, originally suggested to me by political scientist V.O. Key, was killed during consideration in the Senate. Many years later it was cleverly brought to life by those who wanted to go back to narrow budget balancing and ignore the full employment goals. The Congressional Budget Act of 1974 set up separate House and Senate budget committees to produce every year a Concurrent Resolution on the Budget. Together, these committees attained hegemony over the Joint Economic Committee. Their concurrent resolutions had the effect of elevating strict budget balancing above other considerations of economic policy.

IR-35

**Center for Labor Research and Education
Institute of Industrial Relations
2521 Channing Way, Room 300
Berkeley, CA 94720**

Non-Profit Org.
U.S. Postage
P A I D
Berkeley, CA
Permit No. 1