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"The Nation as an Economic Unit:" Keynes, Roosevelt, and the Managerial Ideal

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In a penetrating essay written in 1979, Robert Skidelsky directed attention to the political dimension of John Maynard Keynes's achievement and located its historical significance in the fundamental tension between this century's two great paradigms of social organization—"Freedom" and "Planning."[1] The Great Depression, he argued, starkly exposed the vulnerability of the industrial democracies to impersonal market forces, producing unemployment and misery that challenged the legitimacy of democratic political institutions. To many who were drawn to the radical solutions of planners of both the Right and the Left, it seemed that the West's economic agony would yield only to a thoroughgoing reconstruction of its political order; if Adolf Hitler would preserve capitalism by destroying liberty and democracy, then Joseph Stalin premised the achievement of democracy on the destruction of liberty and capitalism. But if the friends of freedom shrank from these extremes, they remained paralyzed by the apparent incompatibility of effective measures to end the distress with the preservation of traditional liberties that the vast majority still cherished.

It is in this context that Skidelsky measures Keynes's greatness. Aware that improvement in economic technique was the only alternative to political change whose consequences he despised, Keynes so defined the economic problem that its solution required neither the substantial diminution of personal liberty nor a reordering of the property relationships at the foundation of democratic capitalism. He thus postponed the day of reckoning between freedom and planning by offering a technical solution to the political problem, a solution that promised not only economic stability but also the preservation of both the price mechanism and the institutions of liberal democracy. But with the Keynesian consensus now in tatters, Skidelsky argued, in a world of new economic problems that urgently pose the old alternatives of freedom and planning, "we return to the original question. Can we look once more to an improvement in economic technique to solve the political problem? Or must we rely on political and social change to solve the economic problem?"[2]

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[1] Robert Skidelsky, "Keynes & the Reconstruction of Liberalism," *Encounter*, 52 (April 1979), 29–39.
[2] *Ibid.*, 39.

Skidelsky's thoughtful assessment is grounded in the intellectual and political history of Keynes's own Britain, though its claim that Keynes helped "save" capitalism in its hour of greatest crisis reflects a view widely shared on both sides of the Atlantic. My purpose is to propose an alternative interpretation that not only draws on Skidelsky's useful, if rather apocalyptic, dichotomy of freedom and planning but also captures more closely the meaning of *The General Theory of Employment, Interest, and Money* for the history of ideas and institutions in the United States. I shall argue that the significance of Keynes's work for this country lies in his creation of a practical tool for welding the powers of the national state to the maturing ideology of managerial control, a pragmatic collectivism that had by 1930 become the principal manifestation of planning in American life. Like its collectivist counterparts in Europe, American *managerialism* vigorously asserted the primacy of an abstract, reified collective against the philosophical and political claims of living men and women. But to this it added a distinctive commitment to social engineering—the conscious, scientifically informed control of complex social processes and outcomes in the service of a collectively defined purpose.[3] By 1900, this managerial ideology had been firmly rooted in the private sector by new technologies of production and distribution and the innovative forms of business organization that integrated them into the American economy. Deeply impressed by the success of the huge new corporations in harnessing the labors of thousands and turning them to the achievement of a single purpose, American managerialists sought for half a century to extend the ideal of managerial control to the larger political economy, to achieve an effective merger of state and economy based on scientific principles of administration employed in the public interest.[4] But their efforts were frustrated by their continuing inability, even in the midst of the depression, to articulate a sufficiently clear and politically acceptable conception of national purpose, short of total war, toward which the techniques of management science might be directed.

It was precisely this definition of collective purpose, cast in compelling economic terms and divorced from the terrors of war, that *The General Theory* provided. Far from postponing the decision between freedom and planning, Keynes offered Americans the means to realize the managerial ideal of peaceful social engineering by defining a single, aggregated variable that could plausibly be identified with the public interest and manipulated by the state through the techniques of economic science. During the Great War itself, the almost universal subscription of the American people to the objective of victory and their readiness to subordinate individual interests to it had proved sufficient to support a regime of national economic plan-

[3] John Maynard Keynes, *The General Theory of Employment, Interest, and Money* (London, 1936). Citations here are to D. H. Moggridge and Elizabeth Johnson, eds., *The Collected Writings of John Maynard Keynes* (30 vols., London, 1971–1989), VII. Throughout this essay, I shall use the label *managerialism* for the coupling of a broadly collectivist ontology with a commitment to scientific administration, an outlook shared by a wide range of social theorists (such as Lester Ward, Simon Patten, Henry Carter Adams, Richard T. Ely, and the young Woodrow Wilson), influential publicists (among them Edward Bellamy, Herbert Croly, and Walter Weyl), and politicians (such as Theodore Roosevelt and Elihu Root).

[4] Cf. James Gilbert, *Designing the Industrial State: The Intellectual Pursuit of Collectivism in America, 1880–1940* (Chicago, 1972), 8–9, 18–22, 50–53.

ning. But after 1918, the efforts of such men as Herbert Hoover to build on the experience of the war and to turn a rationally organized economy to the pursuit of prosperity—in Hoover's phrase, "to synchronize socially and economically this gigantic machine that we have built out of applied science"—failed because of the rapid evaporation of the lubricating consensus and cooperation on which the success of wartime planning had been based.[5]

Now the "national income" defined by Keynes could become the object of conscious national policy, and the "nation" itself an "economic unit" whose collective interest could be persuasively articulated and pursued without the presence of war or the suffocating hand of coercive central planning looming over it. Still, a second world war was required before the Keynesian experiment could be initiated, and not just for the pervasive spirit of national unity and willingness to sacrifice for an easily perceived common interest that it fostered. The war itself, and not daring and imaginative statecraft, produced a national government with sufficient powers to tax and spend to perform effectively in the role Keynes assigned to it—a truth whose implications for both the political culture and the economic organization of the United States in our own time we have not yet fully understood or appreciated. It need not have been this way. The opportunity to create such a state without war, to reconstruct the federal bargain so as to make the sustained pursuit of Keynesian policy possible in peace, was surely there to be seized in 1933. Only the will to do so was missing.[6]

Instead, President Franklin D. Roosevelt, committed by inclination to the organic collectivism of the managerialists and by his own National Industrial Recovery Act (NIRA) to their vision of economic coordination and social harmony through central planning, consciously rejected the political economy of Keynes in favor of an attempt at deep structural reform of the American economy. Swayed by the potent but essentially false analogy of the depression to the Great War, he sought to recreate the spirit of national unity and common purpose of the war years by declaring war on the depression itself, and to use that unity to support a vast and potentially dangerous planning mechanism. But Roosevelt was no tyrant. He intuitively grasped the fundamental problem of central planning in a free society—how to imbue the people with a spirit of common purpose sufficiently powerful to win their submission to the ends of the planners and their consent to the intrusive control of day-to-day economic affairs that planning must entail. To solve it, he built a formidable planning machine, put the force of law behind it, and then tried to preserve the fragile unity he had created by standing above the policy battle, by withholding his personal support and prestige from any overall strategy or agenda of specific choices and offering instead his own personality as the unifying focus of the

[5] Ellis W. Hawley, *The Great War and the Search for a Modern Order: A History of the American People and Their Institutions, 1917–1933* (New York, 1979), 55.

[6] The phrase "nation as an economic unit" appears in the announcement of the award of the 1984 Nobel Prize in economics to Sir Richard Stone, an assistant to John Maynard Keynes in the British Treasury during World War II who there began to develop the modern system of national income accounts. Royal Swedish Academy of Sciences, "The Nobel Memorial Prize in Economics 1984," *Scandinavian Journal of Economics*, 87 (March 1985), 1. On World War II as a catalyst of national unity, Skidelsky, "Keynes & the Reconstruction of Liberalism," 36.

planning effort. To construct a managerialist state that was never needed, he devoted his considerable energies in the 1930s to a bruising but ultimately successful effort to use the model of total war to establish the constitutional basis for national economic planning in peacetime. In choosing to fight a constitutional revolution for the power to plan rather than another, far less radical and institutionally rending campaign that, under the same banner of national authority, would have transferred to the federal government the fiscal powers that the Framers had originally placed in the states, Roosevelt spurned the Keynesian promise of a true macroeconomics of peace and, in that crucial moment, turned his country to planning the macroeconomics of war.

The corporation is not a person, but an abstraction, a form of organization. Its essence is the intricate set of relationships between its owners, managers, and employees, and not those men and women themselves. Each of these people comes to the corporation with unique capacities and a distinctive welter of motives. But none can achieve their purposes without the cooperation of the others. This mutuality of dependence induces each to abide by various rules of conduct so that the others can predict his behavior in specific situations and adapt their own to it. The resulting order is a contract, based on consent, that regulates the behavior of participants by rules governing specified activities associated with the production of goods. But not all production contracts embody the combination of limited liability and legal independence characteristic of the corporation, and only in the corporation does the law grant legal personality to the coordinating abstraction itself, a continuous existence independent of the identity or interests of any of its temporal human constituents. Breathing life into a real but intangible social order that living men and women use to pursue their diverse purposes in the common enterprise of production, the law transforms their contract into a "corporate person," endowed with rights and interests of its own and guaranteed the protection of the Constitution, just as if it too were a living man or woman.[7]

As limited liability and technological breakthrough produced industrial combinations of unprecedented size and power in the nineteenth century, the reification of the corporation took on increasing significance. The logic of growth demanded the conscious planning and administration of entire domains of economic life, and managers in large firms increasingly assumed the tasks of coordination that were once performed spontaneously by the market. The necessary administrative talent was supplied at first almost entirely by engineers, who brought to the construction and management of business organizations the same confident intellectual style

[7] Cf. Ronald Coase, "The Nature of the Firm," *Economica*, 4 (Nov. 1937), 390–92. *Santa Clara County v. Southern Pacific Railroad Co.*, 118 U.S. 394, 396 (1886). On the changing status of corporations in American law, see *Liggett v. Lee*, 288 U.S. 517, 541–80 (1933) (Brandeis, J., dissenting); James Willard Hurst, *The Legitimacy of the Business Corporation in the Law of the United States: 1780–1970* (Charlottesville, 1970); Morton J. Horwitz, "*Santa Clara* Revisited: The Development of Corporate Theory," *West Virginia Law Review*, 88 (Fall 1985), 173–224; and Richard P. Adelstein, "Islands of Conscious Power: Louis D. Brandeis and the Modern Corporation," *Business History Review*, 63 (Autumn 1989), 614–56.

they had applied so successfully to the design of bridges and dynamos, and their approach complemented and reinforced the emerging legal ideology of corporate personality. They saw the firm as a machine, its operation manifesting the purposes of its designer, its parts constrained to move in concert at the command of a single will. The raw materials might be different, but the objective of control was the same. The task of the engineer was to manipulate stone and metal according to the laws of physical science in the interests of men; the task of the manager was to manipulate men according to the laws of social science in the interests of the corporation.[8]

The problem inherent in such a view stems from the purposive nature of the engineer's task, which is necessarily directed toward the achievement of specific ends that the engineer must know before he or she undertakes the job of design. The attempt to ascribe specific interests or purposes to forms of organization posed a hard question for the proponents of the new human engineering. Before the emergence of the great corporations, the "interests" of business enterprises were never an issue; partnerships and proprietorships were simply legal devices through which easily identifiable individuals pursued their own interests in the marketplace.[9] But if managers were to serve the interests of the new corporate person with the emerging techniques of industrial administration, they first had to know what those interests were. In their earliest days, the corporations, like the small businesses on which they fed, projected the personalities of their creators. What the Carnegie Company "wanted" or "needed" was nothing more or less than what Andrew Carnegie wanted or needed. But the corporations' newly won legal personality ensured that they would survive their creators to be run by anonymous managers committed to the ideal of scientific administration. By 1901 the Carnegie Company had become the United States Steel Corporation, its shares dispersed among thousands of stockholders and effective control of the firm severed from its ownership. With the tangled, personal motives of an Andrew Carnegie no longer at stake, toward what end was that control to be directed?

In its most general form, this central question would confront all forms of economic planning, public and private, in the age of concentration just then beginning. Where the interests of a thousand relatively autonomous working people had once been mediated by the spontaneous forces of an impersonal, disinterested market, with flexible prices directing the resources controlled by each toward the uses most highly valued by the others, order in the corporation had to be created by command instead. But with individual interests now subordinated to those of the corporation, what end would this visible hand serve? Was there a collective purpose sufficiently compelling to turn independent artisans and tradesmen into reli-

[8] Alfred D. Chandler, Jr., *The Visible Hand: The Managerial Revolution in American Business* (Cambridge, Mass., 1977), 464–66; David F. Noble, *America by Design: Science, Technology, and the Rise of Corporate Capitalism* (New York, 1979), 263. Cf. Samuel Haber, *Efficiency and Uplift: Scientific Management in the Progressive Era, 1890–1920* (Chicago, 1964), x, 2–3, 19–24; Hugh G. J. Aitken, *Taylorism at Watertown Arsenal: Scientific Management in Action, 1908–1915* (Cambridge, Mass., 1960), 16, 21–28, 35–38; and the strikingly explicit articulation of the mechanical metaphor in Louis D. Brandeis, *Scientific Management and Railroads* (New York, 1911), 8.

[9] Cf. F. A. Hayek, *The Counter-Revolution of Science: Studies on the Abuse of Reason* (1952; reprint, Indianapolis, 1979), 165–73; and Glenn Porter, *The Rise of Big Business, 1860–1910* (Arlington Heights, 1973), 20–21.

able employees, to induce them to trade their freedom of action and the autonomy of their interests for the rigorous hierarchical discipline necessary to organize production at the scale required by the new technologies?

The answer was profits. The more there were, the more could be distributed to owners, managers, and workers alike, so it could plausibly be said that larger profits served the interests of all the corporation's constituents. Less obvious but equally significant was the ease with which profits could be visualized and, with increasingly sophisticated techniques of cost accounting, quantified.[10] Reducing the myriad ends of an organization's constituents to the maximization of a single number offered a perfect complement to the engineer's metaphor and a natural basis for both a theory of the firm and an applied science of management modeled on Newtonian mechanics. Theorists would now conflate the peculiarities of human knowledge and experience, the idiosyncrasies of machines, and the subtle value of long-term relationships between colleagues performing specialized tasks—all the qualitative dimensions of working life that give context to the activity of production and influence its organization—into an abstract "production function" that turned faceless, perfectly substitutable "inputs" into equally homogeneous "outputs." The firm, its parts moving in harmony toward the single, unifying objective of maximum profit, could become at once the object and the instrument of control, a fictitious personality of concentrated purpose through which the behavior of real men and women could be disciplined.

In the late nineteenth century, the new values epitomized by the ideal of managerial control found their way into American politics. Before the Civil War, political order was generally understood in Lockean terms; legitimate authority was the product of an agreement between free individuals whose validity, like that of any other contract, depended on the continuing consent of those it bound. The state itself had neither life nor purpose of its own. Instead, like the older forms of business association, it was simply an organizational device to be used by individuals for the promotion of their own welfare, its limited powers, indeed its very existence, conditioned on the prior existence and autonomy of its subjects. Now this view too came increasingly under attack. Led by such thinkers as Lester Ward, Herbert Croly, and John B. Clark, American managerialists began to conceive of social and political order much as the law was coming to see the corporation. Society became an "organism," a concrete, living entity whose existence preceded that of individuals and whose welfare gave meaning to their lives. The purposes and interests of this living collective were entirely its own, distinct from those of its human constituents and superior to them in the arena of politics. The American managerialists, strongly influenced by the "social physics" of Auguste Comte and Henri de Saint-Simon and the idealistic statism of Georg W. F. Hegel and the German historicists, saw the democratic state as the voice and active agent of the social being in the world of affairs. The democratic state must express the interests of the collective and be given

[10] Chandler, *Visible Hand*, 464–65.

pervasive powers to direct individual behavior and manipulate social outcomes to promote them.[11]

The new, empirical social sciences and the techniques of control derived from them would show the way. Once the laws that governed modern civilization were understood, humankind could turn them to the collective good, "precisely," wrote Ward, as people had "taken advantage of the physical forces of nature." Politics could be separated from administration; while the former concerned itself with articulating the common good, the latter could draw upon neutral theories of management science to bring it about.[12] Still, the obstacles along the way to this American utopia were formidable. The intrinsic collectivism of the managerial vision met with strong resistance in an individualistic culture still deeply distrustful of central government. An equally pervasive hatred of monopoly and concentrated economic power led to the Sherman Act of 1890 and bespoke a widespread uneasiness with the apparently inexorable advance of large-scale organization.[13] But the ideal of scientific administration in the interest of society posed a still more basic issue, the solution to the planner's problem in the public sphere. What *was* the collective purpose that could weld individuals together and whose expression could be the object of politics? What, that is, was the public analogue to corporate profits, the end to which the technique of the state's human engineers would be applied?

Some reformers, such as Walter Weyl, were deeply impressed by the productive capacity of the United States economy and sought an answer in the pursuit of material prosperity. Here, they believed, was a uniquely American source of solidarity, one that could both bring the people together and finance their common action through the state. But to contemporary eyes, the contradictions in such a view were obvious; the origins of prosperity, the reigning theory made clear, lay in the state's benevolent passivity toward the natural rhythms of economic life. The state that nourished the creation of wealth by its inactivity could scarcely manipulate its human creators to this very end. Something else was required, and as the effects of a war in which tightly organized industrialized societies hurled themselves en

[11] On society as an organic unit, see Woodrow Wilson, *The State: Elements of Historical and Practical Politics* (Boston, 1894), 597; Richard T. Ely, *Socialism* (New York, 1894), 351; Henry C. Adams, "Relation of the State to Industrial Action (1887)," in *Two Essays by Henry Carter Adams*, ed. Joseph Dorfman (New York, 1954), 82–83; John B. Clark, *The Philosophy of Wealth* (Boston, 1886), 56; Simon N. Patten, *The New Basis of Civilization* (New York, 1907), 43; Frank Tariello, Jr., *The Reconstruction of American Political Ideology, 1865–1917* (Charlottesville, 1982), 53–69; and Robert H. Wiebe, *The Search for Order, 1877–1920* (New York, 1967), 140–42. On the historicists, see *ibid.*, 140; Joseph Dorfman, "The Role of the German Historical School in American Economic Thought," *American Economic Review*, 45 (May 1955), 17–28; and Jurgen Herbst, *The German Historical School in American Scholarship* (Ithaca, 1965). On "social physics" generally, see Hayek, *Counter-Revolution of Science*, 235–400. For the managerialist view of the role of government, see Wilson, *State*, 598; and, for Lester Ward's version of it, Henry Steele Commager, *The American Mind: An Interpretation of American Thought and Character since the 1880's* (New Haven, 1950), 211.

[12] For Ward's statement, see R. Jeffrey Lustig, *Corporate Liberalism: The Origins of Modern American Political Theory, 1890–1920* (Berkeley, 1982), 166. For managerialist attitudes on the relationship of science to administration and political organization, see *ibid.*, 150–94; Woodrow Wilson, "The Study of Administration," in *The Papers of Woodrow Wilson*, ed. Arthur S. Link (62 vols., Princeton, 1966–1990), V, 359–80; and Robert B. Reich, *The Next American Frontier* (New York, 1983), 61–63.

[13] Hans B. Thorelli, *The Federal Antitrust Policy: Origination of an American Tradition* (Baltimore, 1955), 567–68; William Letwin, *Law and Economic Policy in America: The Evolution of the Sherman Antitrust Act* (Chicago, 1965), 59–70.

masse against one another drew closer to home, more and more Americans began to see participation as a way of extending the ideals of democracy and self-determination to a weary and reactionary Europe. The nation, Croly argued in supporting Woodrow Wilson's preparedness program in the summer of 1916, "needs the tonic of a serious moral adventure." In a crusade for peace and democracy, John Dewey wrote the following year, America would come of age at last, finding her cultural independence from Europe in the discovery of "a national mind, a will as to what to be."[14] Both Dewey and Croly recognized the dangers of the venomous pursuit of "disloyalty" and national purity total war would unleash but, in the face of this terrible solution to the planner's dilemma, repressed their doubts. For them, the sense of community and national purpose created by the war was a major justification for fighting it, and while they could offer no practical way to restrain the irrational underside of the popular mood, they remained hopeful that proper leadership could preserve the impulse to unity once the war was over and direct it toward peace and reform. Events seemed to give cause for optimism as increasingly effective techniques of coordination and control were devised and refined. With the elevation of Bernard Baruch to the chair of a now-strengthened War Industries Board in March 1918 and the passage of the Overman Act in May 1918, the power to plan industrial production and distribution passed for the first time to a single, centralized federal organization.[15]

Industrial production climbed, distribution became more efficient, the war itself was won, and all this with property still nominally in private hands. Engineers, economists, and management scientists stood for an exhilarating moment at the center of an administered economic system devoted to the achievement of a clearly defined public purpose, certain that they had glimpsed the future. But, although what a bitter Randolph Bourne called the "herd instinct" persisted in red scares and extended immigration restrictions, the more rational elements of the wartime mood soon evaporated, taking with them the popular support they had engendered for the government's managerial apparatus.[16]

Still, the experience of planning left a deep impression on the planners and their allies in the disciplines of engineering and social science. Wesley Mitchell could speak with authority for both groups. Author of a pathbreaking treatise on business cycles that stressed the statistical analysis of quantitative evidence, Mitchell had

[14] Walter Weyl, *The New Democracy: An Essay Concerning Certain Political and Economic Conditions in the United States* (New York, 1912). See also Charles Forcey, *The Crossroads of Liberalism: Croly, Weyl, Lippmann, and the Progressive Era, 1900–1925* (New York, 1961), 61–64, 78–87; and Wiebe, *Search for Order*, 158. Herbert Croly, "The Effects on American Institutions of a Powerful Military and Naval Establishment," *Annals of the American Academy of Political and Social Science*, 66 (July 1916), 162. Arthur A. Ekirch, Jr., *The Decline of American Liberalism* (New York, 1955), 198–206, esp. 205.

[15] Ekirch, *Decline of American Liberalism*, 205–6; Arthur A. Ekirch, Jr., *Progressivism in America: A Study of the Era from Theodore Roosevelt to Woodrow Wilson* (New York, 1974), 268; Robert D. Cuff, *The War Industries Board: Business-Government Relations during World War I* (Baltimore, 1973), 135–47; Hawley, *Great War and the Search for a Modern Order*, 22–27; Barry D. Karl, *The Uneasy State: The United States from 1915 to 1945* (Chicago, 1983), 40–44.

[16] Randolph S. Bourne, *War and the Intellectuals: Essays by Randolph S. Bourne, 1915–1919*, ed. Carl Resek (New York, 1964), 67–79; Hawley, *Great War and the Search for a Modern Order*, 46–48, 71–73; David A. Shannon, *Between the Wars: America, 1919–1941* (Boston, 1965), 26–30.

worked in the Planning and Statistics Division of the War Industries Board and helped lead the unsuccessful effort to institutionalize a similar agency in the executive branch after the war. The war, he said in 1918, had shown that statistics were an essential ingredient in intelligent social and economic planning for the postwar years. But if their potential was to be realized, the social sciences must emulate the objective, mathematically precise methods of physical science and engineering. Mitchell harbored no doubts as to what these methods were to achieve. "In economics as in other sciences," he wrote six years later, "we desire knowledge mainly as an instrument of control. Control means the alluring possibility of shaping the evolution of economic life to fit the developing purposes of our race. It is this possibility, of which we catch fleeting glimpses in our sanguine moments, that grips us."[17]

The engineers who had participated in the planning enterprise, led by the universally admired Hoover, were gripped by the same dream. Elected president of the new Federated American Engineering Societies in 1920, Hoover began to articulate a vision of economic stability and prosperity based on rational management within individual firms and linkage between firms through associations for the exchange of information and coordination of production decisions. As secretary of commerce after March 1921, he moved decisively to build an integrated, scientifically administered system of cooperative private management with the indirect support of the federal government. Hoover, like Weyl, saw permanent prosperity and a resulting social reconciliation as the unifying public purposes toward which the disciplines of the engineer could be applied. But though he joined Mitchell and his professional allies in their successful assault on the theory of laissez-faire that had trapped Weyl in contradiction, he could never bring himself to accept the political corollary of the new economics, his enthusiasm tempered by opposition to outright federal control and a corresponding reliance on the voluntary cooperation of an enlightened private sector in achieving stable prosperity. He would encourage the proponents of the new science to design an economic machine capable of serving the public purpose and use the state to help build it. Yet he would deny the state the power to define that purpose clearly and leave control of the machine itself in private hands. This attempt to reconcile the economics of a new century with the politics of the old was the hallmark of his public life, and in the crisis of the depression, its contradictions were his ruin.[18]

These stresses were apparent in both of Hoover's major policy initiatives at Commerce. The first, a commitment to the collection and publication of data on costs, prices, outputs, and inventories throughout the economy, would not only assist the invisible hand by disseminating essential information to both large and small firms

[17] Wesley C. Mitchell, *Business Cycles and Their Causes* (Berkeley, 1913); Guy Alchon, *The Invisible Hand of Planning: Capitalism, Social Science, and the State in the 1920s* (Princeton, 1985), 27–32, 35–38; Wesley C. Mitchell, "Statistics and Government," *Quarterly Publication of the American Statistical Association*, 16 (March 1919), 229–30; Wesley C. Mitchell, "The Prospects of Economics," in *The Trend of Economics*, ed. Rexford G. Tugwell (New York, 1924), 25.

[18] On Herbert Hoover's economic and political philosophy, see Herbert C. Hoover, *American Individualism* (Garden City, 1922); and Albert U. Romasco, *The Poverty of Abundance: Hoover, the Nation, the Depression* (New York, 1965), 10–23.

but contribute to stability as well by offering a sound basis for business planning and a psychological ballast of fact to prevent uncertainty and panic. During the war, the federal government, with the power to command information from firms and fix prices and outputs for its own well-defined ends, had been able to enforce a similar cooperation without the abuse traditionally associated with cartels. But Hoover shared the people's distaste for state-sponsored cartels without war, consistently and courageously resisting the efforts of corporate managers to secure a revision of the antitrust laws that would allow them to enforce private price and output agreements in the style of German cartels. But without rigged markets and oligopoly profits, how was cooperation with the state's information brokerage to be secured?[19]

Hoover's answer was to throw the government's support behind the controversial network of private trade associations catalyzed by the war economy of 1917 and 1918. Businessmen were quick to see that the war had created a vocabulary that could justify collusive practices once seen as simply pernicious. To this was added a seeming transformation of values, a new professionalism and public-spiritedness among those charged with operating the great concerns. But if the managers' bald attempt at cartelization gave him cause to suspect their motives, Hoover nonetheless placed his confidence in these men, in the values of science and objective rationality they professed and the institutions of voluntary cooperation they seemed to be building. He saw the key to both economic efficiency and social harmony in a "competitive" economy privately organized to suppress "disruptive competition" and administered in the public interest by a professional elite.[20]

The sharp recession that greeted the Harding administration was the inspiration for Hoover's second major initiative at Commerce. Early in 1921, he asked a committee of leading economists and other experts to advise him and the president on the problem, and in September of that year, he convened the President's Conference on Unemployment to consider their recommendations. These were strongly influenced by the ideas of Mitchell, now research director of the National Bureau of Economic Research (NBER), and Otto T. Mallery of the Pennsylvania State Industrial Board. Like Hoover, Mitchell and Mallery believed that studies like one just completed by Mitchell at the NBER made it possible to estimate the maladjustments and distortions created by the business cycle, and that informed, active cooperation between business and government could tame the business cycle. The policy the conference endorsed was Mallery's. In 1919, he had colorfully described the rippling multiplier effect on income and employment of expenditures on public

[19] William J. Barber, *From New Era to New Deal: Herbert Hoover, the Economists, and American Economic Policy, 1921–1933* (Cambridge, Eng., 1985), 8–13; Robert F. Himmelberg, *The Origins of the National Recovery Administration: Business, Government, and the Trade Association Issue, 1921–1933* (New York, 1976), 10–12, 67–72, 88–109, 151–65. On Hoover's opposition to the Swope Plan and similar proposals, see Arthur M. Schlesinger, Jr., *The Age of Roosevelt*, vol. I: *The Crisis of the Old Order, 1919–1933* (Boston, 1957), 235.

[20] Hawley, *Great War and the Search for a Modern Order*, 83–84; Reich, *Next American Frontier*, 69–73; Ellis W. Hawley, "Herbert Hoover, the Commerce Secretariat, and the Vision of an 'Associative State,' 1921–1928," *Journal of American History*, 61 (June 1974), 116–40; Albert U. Romasco, "Hoover-Roosevelt and the Great Depression: A Historiographic Inquiry into a Perennial Comparison," in *The New Deal: The National Level*, ed. John Braeman, Robert Bremner, and David Brody (Columbus, 1975), 24.

works. Now, he and the conference proposed that governments at all levels set aside a portion of the normal volume of spending on public works as a reserve for use during periods of distress. Since state and local government accounted for over 75 percent of all public spending and 90 percent of that devoted to construction, Washington could hardly take the lead in this regard. But it could exhort the other echelons of government, encouraging spending at low points in the cycle and urging restraint at its peaks.[21]

More important, the federal government might alert firms to the crucial role they could play in achieving economic stability. Hoover saw clearly that mass production required mass consumption, that ordinary people had to be able to buy the goods pouring out of the factories, so he consistently preached the gospel of high wages, not as a matter of abstract justice or even of industrial peace, but as a practical measure to ensure the adequacy of demand. Throughout the decade, he advocated the creation of several voluntary stabilizing mechanisms in the private sector, including unemployment insurance, wage maintenance, export management, and construction reserves. The sustained period of rising real income, stable prices, and nearly full employment that followed seemed to vindicate his ideas, and the affluence of the New Era cast a warm glow on his visible leadership of the associational economy and carried him to the White House in 1929. But when the cycle turned once again, its catastrophic virulence exposed the fragility of the edifice Hoover had helped build. His calls for voluntary unemployment insurance and similar stabilizers had largely gone unheeded, and as the slump deepened, large firms could not hold the line on wages despite massive layoffs and cutbacks in production. He tried to encourage private investment, but lenders would not lend, nor borrowers borrow. He talked of federal public works, but his heart was not in it, and though he understood that any real solution to the crisis must be based on increasing purchasing power, he led the fight in 1931 to balance the federal budget by raising taxes.[22]

Like the managerialists before him, Hoover was caught in the problem inherent in the idea of human engineering. He believed in managerial control and devoted his public life to cultivating techniques to achieve it. But he could see no public purpose short of war simple enough to mobilize a complex system of authority in a single direction and powerful enough to command the people's assent to it. His solution to the planner's problem relied upon the emergence of a new class of profes-

[21] Barber, *From New Era to New Deal*, 16–22; Alchon, *Invisible Hand of Planning*, 59–63, 74, 79. For the National Bureau of Economic Research data, see National Bureau of Economic Research, *Income in the United States, Its Amount and Distribution, 1909–1919* (New York, 1921). On the controllability of the business cycle, see Herbert C. Hoover, "Introduction," in *The Stabilization of Business*, ed. Lionel Edie (New York, 1923), v; and Romasco, *Poverty of Abundance*, 32–38. Otto T. Mallery, "A National Policy—Public Works to Stabilize Employment," *Annals of the American Academy of Political and Social Science*, 81 (Jan. 1919), 57. For the report and recommendations of the conference on unemployment, see President's Conference on Unemployment, *Business Cycles and Unemployment* (New York, 1923), esp. xxvii–xxix, 231–61. Hawley, *Great War and the Search for a Modern Order*, 69; Barber, *From New Era to New Deal*, 18–19.

[22] Romasco, *Poverty of Abundance*, 24–65, 125–42, 187–201; Ellis W. Hawley, "The New Deal and Business," in *New Deal*, ed. Braeman, Bremner, and Brody, 55; Hawley, *Great War and the Search for a Modern Order*, 94–97; Barber, *From New Era to New Deal*, 170–73; Schlesinger, *Age of Roosevelt*, I, 203–34; Herbert Stein, *The Fiscal Revolution in America* (Chicago, 1969), 18–24, 26–38.

sional managers for whom the pursuit of corporate profit by scientific means was to be a virtue and a public calling. He would use the leverage of the state to encourage a vast, interconnected system of private control and trust its leaders to recognize the public interest and act on it. When they failed him, Herbert Hoover was lost.

It is sometimes said that before *The General Theory*, there was only "economics," but thereafter, "economics" became "microeconomics," joined now by the new "macroeconomics" of Keynes, and since the publication of Paul A. Samuelson's *Economics* in 1948, almost every elementary text used in the United States has presented the subject in just these terms.[23] Microeconomics, students are taught, is concerned generally with how independently defined goods are allocated to various uses and specifically with the role of prices in determining the output and distribution of each good. In this view, competitive markets, systems of pure central planning, and all the variants in between are seen as alternative approaches to the microeconomic problem, differing primarily in the reliance each variant places on prices in solving that problem. Macroeconomics is usually said to deal with relations between "aggregated" variables, such as consumption or investment, so that individual prices (except for interest rates) and the quantities of specific commodities produced and consumed (except for money) assume little importance.

So understood, the adage is certainly true, although the essential components of such a macroeconomics had been put in place by such men as Mitchell, J. A. Hobson, William T. Foster, and Waddill Catchings well before 1930. Still, it was Keynes who put the pieces together by constructing a theory in which the aggregates of income, consumption, and investment were mathematically related to one another and, by simple extension, to government spending and taxation. At the heart of this system lay the national income, which was also the focus of Mitchell's research at NBER. But in Keynes's scheme national income took on a theoretical and practical role it never played in Mitchell's. Where Mitchell had conceived of the national income as a *descriptive statistic*, a measure of the economy's performance at any moment and a signal that action of some sort might be desirable, Keynes allowed it to become a *dependent variable*, an object of policy that could be scientifically predicted and manipulated by the politically neutral technique of the state's economic engineers.[24]

The significance of this achievement becomes clearer if we recast the usual distinction between micro- and macroeconomic styles of thought in terms of the idea of purpose. Now the fault line is the one separating the individual from the collective,

[23] Paul A. Samuelson, *Economics: An Introductory Analysis* (New York, 1948).

[24] For Keynes's generous acknowledgment of his debt to J. A. Hobson, and to earlier articulations of the underconsumptionist hypothesis, see Moggridge and Johnson, eds., *Collected Writings of Keynes*, VII, 358–71. William T. Foster and Waddill Catchings, *The Road to Plenty* (Boston, 1928), 134–35; William T. Foster and Waddill Catchings, "Mr. Hoover's Road to Prosperity," *Review of Reviews*, 81 (Jan. 1930), 50–52. On Keynes's belief that public affairs should be managed by "an elite of clever and disinterested public servants," insulated from the political pressures of popular democracy, see Skidelsky, "Keynes & the Reconstruction of Liberalism," 36.

and the alternatives it poses encompass both the economic and political dimensions of social life. On one side lie the "micro" systems, competitive markets in the economic sphere and the liberal, limited state of Lockean theory in the political, in which only the purposes of real men and women are recognized. On the other are "macro" systems, whose characteristic feature is the ascription of purpose and will to abstract forms of organization constructed by the human mind. The corollary of this collectivism is control—the subordination in principle of individual ends and desires to the single purpose of the whole and the creation in practice of corporate, hierarchical systems in which complex social processes can be rationalistically manipulated to achieve that purpose. And if from this new perspective his successors' assertion that Keynes was the first macroeconomist can no longer be sustained, we can nonetheless better appreciate the irony in his own far more important and truthful claim that his work now made it "possible by a right analysis of the problem to cure the disease [unemployment] whilst preserving efficiency and freedom," an irony whose bitterness he soon came to recognize.[25]

Fifty years before, the teleology of profit had given life to the modern corporation as a macroeconomic unit and formed the basis of a new science of management by fusing the interests of owner, manager, and worker into a simple, quantifiable expression of collective purpose. But where the managerialist dream of an analogous macroeconomy on a national scale had seemed possible only under the horrifying conditions of total war, Keynes now offered the hope of economic engineering in the service of peace and prosperity. The Keynesian system, in its exclusive reliance on aggregated variables and its apparent deference to the allocational functions of the price mechanism, separated the idea of economic management in the public interest from the detailed specification of prices and outputs that had always been associated with it and that so many dreaded. The planner's problem was solved by simply eliminating the need for "planning." But in politics as in biology, history makes real only a small part of the possible, and both the personalities and the institutional realities of the critical years between 1932 and 1934 conspired against the Keynesian promise. The ideas themselves were certainly in the air. Yet despite their own rather more sophisticated conceptions of the matter, neither Hoover nor his challenger Franklin D. Roosevelt believed the election of 1932 could be won by a man who did not swear loyalty to the "sound finance" of a balanced budget.[26]

Unlike Hoover, Roosevelt was deeply skeptical of public spending as a solution to the depression and firmly rejected the multiplier theory, the idea that the government's initial expenditure would stimulate its recipients to increase their own spending and thus magnify its effect on national income, as an "illusion of economic magic."[27] But given the enormity of the crisis, the economics of Roosevelt or Hoover,

[25] Moggridge and Johnson, eds., *Collected Writings of Keynes*, VII, 381.

[26] On Hoover's views on the budget, see Schlesinger, *Age of Roosevelt*, I, 231–32; Romasco, *Poverty of Abundance*, 222–29; Stein, *Fiscal Revolution in America*, 26–38. On Roosevelt's position during the campaign and the first months of his presidency, see *ibid.*, 43–47; Daniel R. Fusfeld, *The Economic Thought of Franklin D. Roosevelt and the Origins of the New Deal* (New York, 1956), 202–3, 230; and William E. Leuchtenburg, *Franklin D. Roosevelt and the New Deal, 1932–1940* (New York, 1963), 37, 47–48.

[27] Radio Address, April 7, 1932, in *The Public Papers and Addresses of Franklin D. Roosevelt*, ed. Samuel I. Rosenman (13 vols., New York, 1938–1950), I, 625. See also Schlesinger, *Age of Roosevelt*, I, 136.

or of Keynes himself, was of little consequence in 1933. For a bit of simple arithmetic makes clear that the idea that the federal government could have done anything at all to end the depression was the real illusion. Measured in billions of 1929 dollars, the national income of the United States, which in 1929 had been $104.4, had fallen by 1933 to $72.7, a loss of $31.7. If we assume a multiplier of three, new public spending of some $10.6 billion would have been required to restore the income of 1929. But in 1933, *total* federal expenditure on goods and services was $2.6 billion. Thus the federal government would have had to increase spending by over 400 percent to reach the national income of 1929, at a time when almost all the traditional functions of government were performed at the state or local level.[28] Distrustful of central authority and jealous of the prerogatives of the states, the Framers had in 1787 created a federalism in which primary responsibility for the construction and finance of local public works (roads, bridges, waterworks, and later, sewers, power systems, and mass transit) gravitated naturally to the states and municipalities. Presaging Bourne, they envisioned a national government that would come fully into its own only when it declared war. In the crisis of 1933, amid despair and urgent calls for action from all sides, that is precisely what Roosevelt did.

In this he reflected the mood of the nation. Despite his own allusions to a state of national emergency analogous to war, Hoover had to the end resisted deploying the full power of the federal government against the depression as Wilson had against the kaiser. But Hoover had been decisively rejected by a desperate and impatient people ready to experiment with its charter and to explore the potential of a truly national state. The experiences of the Great War were still fresh in the minds of many, and if memories of an ennobling sense of national community seemed sharper than those of malevolent social coercion and tight administrative control, this was only natural. "Why not," asked Gov. Alf Landon of Kansas in February 1933, "give the President the same powers in this bitter peacetime battle as we would give to him in time of war?"[29]

Such was the new president's inclination. "Our Constitution," Roosevelt said in his inaugural address, "is so simple and practical that it is possible always to meet

[28] The national income figures are based on data compiled by the U.S. Department of Commerce, in Lester V. Chandler, *America's Greatest Depression: 1929–1941* (New York, 1970), 4, 24, 121. On the infeasibility of effective fiscal policy during the early years of the depression, see *ibid.*, 121–22; and Stein, *Fiscal Revolution in America*, 14, 22–24. See also Walter S. Salant, "The Spread of Keynesian Doctrines and Practices in the United States," in *The Political Power of Economic Ideas: Keynesianism across Nations*, ed. Peter A. Hall (Princeton, 1989), 50–51. Keynes's estimate of the multiplier, based on figures he called "very precarious," was roughly 2.5. He believed the value to be somewhat greater during the slump. Moggridge and Johnson, eds., *Collected Writings of Keynes*, VII, 127–28. Total expenditures by state and local governments on goods and services during 1933 were $7.8 billion; they would thus have had to more than double their spending to provide the necessary stimulus. Apart from the infeasibility of such concerted action, they would have had great difficulty borrowing the requisite funds. Unlike the federal government, they could not print new money. Chandler, *America's Greatest Depression*, 121–22.

[29] Carl N. Degler, "The Ordeal of Herbert Hoover," in *The Shaping of Twentieth Century America: Interpretive Essays*, ed. Richard Abrams and Lawrence Levine (Boston, 1971), 363; Romasco, *Poverty of Abundance*, 175–81. Cf. Peter A. Gourevitch, "Breaking with Orthodoxy: The Politics of Economic Policy Responses to the Depression of the 1930s," *International Organization*, 38 (Winter 1984), 99. William E. Leuchtenburg, "The New Deal and the Analogue of War," in *Change and Continuity in Twentieth-Century America*, ed. John Braeman, Robert H. Bremner, and Everett Walters (Columbus, 1964), 103. Al Smith found the war analogy equally compelling; see *ibid.*

extraordinary needs by changes in emphasis and arrangement without loss of essential form." It would have to be. For now, he said, the nation must move

> as a trained and loyal army willing to sacrifice for the good of a common discipline, because without such discipline, no progress is made, no leadership becomes effective. We are, I know, ready and willing to submit our lives and property to such discipline, because it makes possible a leadership which aims at a larger good. This I propose to offer, pledging that the larger purposes will bind upon us all as a sacred obligation with a unity of duty hitherto evoked only in time of armed strife.

Congress, he hoped, would cooperate in the struggle to come. But if it did not, "I shall ask the Congress for the one remaining instrument to meet the crisis—broad Executive power to wage a war against the emergency, as great as the power that would be given to me if we were in fact invaded by a foreign foe."[30]

Congress proved quite ready to recognize Roosevelt as commander in chief in the war against the depression. In June, over the objections of those who believed it would promote industrial cartels and feared the great increase in governmental power it implied, Congress created the National Recovery Administration (NRA), giving the president sweeping discretion to fix prices, outputs, and working conditions across the economy by establishing codes of "fair competition" with the force of law.[31] Under a single authority, with lines of command drawn even more sharply than those of the War Industries Board that was its model, the NRA conscripted the forces of production and placed them at the disposal of a commander given the maximum flexibility to respond to the situation as he saw it. Helping to speed the National Industrial Recovery Act through the House, Sam Rayburn of Texas expressed the feelings of many: "It is very true that under this bill . . . the President of the United States is made a dictator over industry for the time being, but it is a benign dictatorship. . . . For my part, I am proud to trust him and proud to follow him." Mobilized for war once again, the economy awaited its marching orders.[32]

But the NRA was a planning mechanism without a plan. The drafters of the NIRA, with no clearer idea than anyone else of what to do and hoping through

[30] Rosenman, ed., *Public Papers and Addresses of Franklin D. Roosevelt*, II, 15, 14, 15–16.

[31] Leuchtenburg, "New Deal and the Analogue of War," 118; Ellis W. Hawley, *The New Deal and the Problem of Monopoly: A Study in Economic Ambivalence* (Princeton, 1966), 29–34. Though subscription to the National Recovery Administration (NRA) codes was voluntary, those who subscribed were subject to a complex sanctioning mechanism if they did not meet code provisions. Violations of a code approved by the president were to be treated as "unfair methods of competition," with enforcement assigned in the first instance to the code authorities, then to the Federal Trade Commission and, ultimately, to the federal courts. The president might compel compliance by licensing individual businesses and was granted an open-ended authority to modify or abolish existing codes at any time. Karl, *Uneasy State*, 114; Albert U. Romasco, *The Politics of Recovery: Roosevelt's New Deal* (New York, 1983), 189. On the recovery act's provisions, see Charles L. Dearing, Paul T. Homan, Lewis L. Lorwin, and Leverett S. Lyon, *The ABC of the NRA* (Washington, 1934), 16–24. On the NRA, see Himmelberg, *Origins of the National Recovery Administration*, 181–218; Arthur M. Schlesinger, Jr., *The Age of Roosevelt*, vol. II: *The Coming of the New Deal* (Boston, 1958), 87–102; Bernard Bellush, *The Failure of the NRA* (New York, 1975); John Kennedy Ohl, *Hugh S. Johnson and the New Deal* (DeKalb, 1985); and Donald R. Brand, *Corporatism and the Rule of Law: A Study of the National Recovery Administration* (Ithaca, 1988).

[32] Leuchtenburg, "New Deal and the Analogue of War," 117–35; Gerald D. Nash, "Experiments in Industrial Mobilization: W.I.B. and N.R.A.," *Mid-America*, 45 (July 1963), 157–74; Brand, *Corporatism and the Rule of Law*, 82–83, and esp. 268. Cf. David M. Potter, *People of Plenty: Economic Abundance and the American Character* (Chicago, 1954), 126. See also *ibid.*, 114–15, 204–6.

vagueness to mask internal conflicts and encourage experimentation, refused to express any guidelines or objectives for the codes. It thus became an enabling act, placing unprecedented powers in the executive without any stated purpose or limitation on their use. Since the president declined to take command, this meant that whoever got control of the machine would get to define the plan. When the heirs to Hoover's vision of industrial self-regulation came forward with a policy not plainly at odds with the goal of increased purchasing power, they were able to claim the prize. As the professional managers saw it, the problem was competition itself, unscrupulous "chiseling" on prices and wages that drained the pockets of working people and drove honest businessmen to ruin. The remedy, they argued, was cooperation in the establishment of prices and outputs, and if such cooperation could not be secured through the voluntary methods of the 1920s, the present crisis demanded the strong hand of the state to enforce it.[33]

As some saw clearly at the time, a properly applied analogy to war in 1933 might well have brought recovery without (or in spite of) the huge expansion of federal control represented by the NRA.[34] Then as in 1917, the problem was insufficient production, but its source, and thus its solution, differed greatly in the two cases. The entry of the United States into the war meant an avalanche of new orders dropped on an economy already operating close to capacity, which resulted not only in widespread scarcity and dislocation but in a general inflation as well. Left to its own devices, the market might in time have induced the necessary adjustments, but time too was scarce, and the profits that the invisible hand would have distributed would certainly have been unacceptably divisive. The centralized controls of the war years, lubricated by a general willingness to cooperate before a threat everyone could understand, helped reduce the confusion and smooth the transition to war production while preserving the politically essential environment of visible sacrifice and common purpose.

Massive spending, contributing to increased output and employment, and only then, if necessary, central control in the face of scarcity and inflation—this was the line of causation drawn by real war. But the war of 1933 was declared by a president who would not spend and whose strategy was to attack the deflated economy and its demoralized army of unemployed with pervasive economic controls explicitly intended to reduce output and raise prices. Reflecting the thinking of the businessmen at its helm, the NRA sought to expand purchasing power by creating artificial scarcity in the midst of overcapacity, setting minimum prices in some industries and limits on production in others. But it soon became apparent that enforcing scarcity meant putting men out of work, men who then could not pay high prices for scarce

[33] Dearing, Homan, Lorwin, and Lyon, *ABC of the NRA*, 23; Hawley, *New Deal and the Problem of Monopoly*, 19–21, 31–34; Romasco, *Politics of Recovery*, 192–93; Himmelberg, *Origins of the National Recovery Administration*, 181, 197; Louis Galambos, *Competition and Cooperation: The Emergence of a National Trade Association* (Baltimore, 1966), 173–202; Robert M. Collins, *The Business Response to Keynes, 1929–1964* (New York, 1981), 28–32.

[34] The idea was expressed not only by such economists as Keynes, William T. Foster, Paul Douglas, and E. R. A. Seligman but also by Thomas Lamont of the House of Morgan and Sen. Robert LaFollette of Wisconsin. Leuchtenburg, "New Deal and the Analogue of War," 96–97, 125–26, 128.

goods. By October, the contradictions of its policy had become obvious, and the NRA was increasingly seen by the public as a simple producers' cartel enforced by the government, conspiring to fix prices in the usual way, and for the usual reasons, under the protective wing of the NRA's symbolic Blue Eagle. Neither the symbolism of war nor the resort to intimations of disloyalty could save the NRA in so poisoned an atmosphere, and the nation's first experiment in central planning in times of peace dissolved with the cohesive spirit of war that had given birth to it. With them was lost the unique political opportunity presented by the nation's overwhelming rejection of Herbert Hoover and the readiness of a vast majority to make common cause with a confident new president in his call to arms. Never again in his struggles for recovery and reform would Roosevelt be able to draw upon reserves of unity and cooperation quite so deep.[35]

He had not chosen this course for want of alternatives. As conditions worsened after 1930, and despite their inability to embed their prescriptions in a new, conceptually satisfying theory of the business cycle, professional economists increasingly joined Foster and Catchings in calling for substantial expenditures on public works as a means of restoring purchasing power. In the Congress, Democrats and Republicans had continuously urged public works on a reluctant Hoover, and during the First Hundred Days, Sen. Robert M. LaFollette, Jr., offered a plan that would have appropriated the staggering (and surely unspendable) sum of ten billion borrowed dollars for public works. The gospel had its propagators inside the New Deal as well. In the fluid days of April 1933, as the administration's initial strategy was being formulated, senior officials, including Frances Perkins, Henry Wallace, and George Dern, argued strongly for some variant of LaFollette's proposal. By the summer of 1934, the still more unsettling idea that it was the purposeful creation of public debt itself, and not the new employment directly created by public works, that was the key to solving the depression had found an institutional home in the Federal Reserve under Marriner Eccles, an unschooled Utah banker and disciple of Foster, and his protégé Lauchlin Currie.[36]

But the most persuasive of the "Keynesians" who had the president's ear was Keynes himself. In an open letter solicited by the *New York Times* and published on December 31, 1933, Keynes candidly expressed his disappointment in the NIRA; it was, he said, "essentially Reform and probably impedes Recovery, [and] has been put across too hastily, in the false guise of being part of the technique of Recovery."

[35] Hawley, *New Deal and the Problem of Monopoly*, 53–129; Himmelberg, *Origins of the National Recovery Administration*, 197, 209, 211–12; Schlesinger, *Age of Roosevelt*, II, 152–76. Cf. Leuchtenburg, "New Deal and the Analogue of War," 120, 132–33. For an argument that the industrial codes helped prolong economic stagnation after the trough of the Great Depression, see Michael W. Weinstein, "Some Macroeconomic Impacts of the National Industrial Recovery Act, 1933–1935," in *The Great Depression Revisited*, ed. K. Brunner (Boston, 1981), 262–81.

[36] J. Ronnie Davis, *The New Economics and the Old Economists* (Ames, 1971); Joseph Dorfman, *The Economic Mind in American Civilization* (5 vols., New York, 1946–1959), V, 664–77, 691–93; Jordan A. Schwarz, *The Interregnum of Despair: Hoover, Congress, and the Depression* (Urbana, 1970), 23–44, 141–47; Romasco, *Politics of Recovery*, 196; Frances Perkins, *The Roosevelt I Knew* (New York, 1946), 268–70; Schlesinger, *Age of Roosevelt*, II, 95; Arthur M. Schlesinger, Jr., *The Age of Roosevelt*, vol. III: *The Politics of Upheaval* (Boston, 1960), 237–41; Alan Sweezy, "The Keynesians and Government Policy, 1933–1939," *American Economic Review*, 62 (May 1972), 116–24; Byrd L. Jones, "Lauchlin Currie, Pump Priming, and New Deal Fiscal Policy, 1934–1936," *History of Political Economy*, 10 (Winter 1978), 509–24.

Artificial scarcity was not the answer. "The object of recovery is to increase the national output," and insofar as "the volume of output depends on the amount of purchasing power . . . expected to come on the market," the attempt to raise prices by limiting output represented a "serious misapprehension as to the part which prices can play in the technique of recovery. The stimulation of output by increasing aggregate purchasing power is the right way to get prices up; and not the other way round."

> I lay overwhelming emphasis on the increase of national purchasing power resulting from governmental expenditure which is financed by Loans and not by taxing present incomes. Nothing else counts in comparison with this. . . . In the past orthodox finance has regarded a war as the only legitimate excuse for creating employment by governmental expenditure. You, Mr. President . . . are free to engage in the interests of peace and prosperity the technique which hitherto has only been allowed to serve the purposes of war and destruction. . . . Could not the energy and enthusiasm, which launched the NIRA in its early days, be put behind a campaign for accelerating capital expenditures, as wisely chosen as the pressure of circumstances permits?[37]

Roosevelt, to whom a sympathetic Felix Frankfurter had sent a copy of Keynes's letter three weeks before its publication, seemed receptive to its call for public works and deficit spending, though he did cite "a practical limit to what the Government can borrow—especially because the banks are offering passive resistance in most of the large centers." Encouraged, Frankfurter urged Roosevelt to see Keynes during his trip to the United States in June 1934. Keynes, "full of faith that we in the United States would prove to the world that [he had] the answer," saw the president alone at the White House and "delivered himself of a mathematical approach to the problems of national income, public and private expenditure, purchasing power, and the fine points of his formula." Roosevelt was uncomprehending. "I saw your friend Keynes," he told Perkins afterward. "He left a whole rigamarole of figures. He must be a mathematician rather than a political economist."[38]

Frankfurter kept the faith, continuing to urge the Keynesian solution on the president whenever he could. But despite Roosevelt's brief dalliance with the heresy of deficit finance in 1920 (when he and Louis Howe had included in proposals for the Democratic platform an explicit call for countercyclical federal spending financed by "Prosperity Bonds" issued at the discretion of the president), for five full years after his inauguration Roosevelt held fast to the ideal of a balanced budget and remained the chief opponent within the administration of an aggressive program of public works. In the campaign, he had excoriated Hoover for his inability

[37] For the letter, see Max Freedman, ed., *Roosevelt and Frankfurter: Their Correspondence, 1928–1945* (Boston, 1967), 178–83.

[38] Roosevelt to Frankfurter, Dec. 22, 1933, *ibid.*, 183–84; Frankfurter to Roosevelt, May 7, 1934, *ibid.*, 213–14. On Frankfurter's support for a program of public works, see Nelson Lloyd Dawson, *Louis D. Brandeis, Felix Frankfurter, and the New Deal* (Hamden, 1980), 28–35. Perkins, *Roosevelt I Knew*, 225. An equally disappointed Keynes told her he had "supposed the President was more literate, economically speaking" and offered a simple verbal example of the operation of the multiplier. "I wish he had been as concrete when he talked to Roosevelt, instead of treating him as though he belonged to the higher echelons of economic knowledge." *Ibid.*, 226.

to close the deficit and pledged himself to deep spending cuts to put the government in the black, and once in office, he moved quickly to show his resolve. Within a month, he had signed the Economy Act of 1933 and used it to issue a series of executive orders reducing benefits to veterans. As sentiment for increasing the money supply spread through Congress during the spring, Roosevelt resisted as best he could, confiding to Col. Edward M. House that "it is simply inevitable that we must inflate and though my banker friends will be horrified, I still am seeking an inflation which will not wholly be based on additional government debt." And when congressional enthusiasm for public works forced him to include a provision in the NIRA authorizing the expenditure of $3.3 billion on them over two years, he made sure that control over these funds rested with him rather than Congress, so that by separating the administration of the industrial codes from that of the public works program and entrusting the latter to the "stingy and meticulous" Harold Ickes, he was able to hold actual expenditures to a trickle.[39]

Roosevelt's indifference to public works was not the result of simple conservatism or timidity but rather the consequence of his deep commitment to another, more radical agenda. In speeches at Atlanta in May 1932, at the Commonwealth Club of California in San Francisco in September, and in a radio address to his supporters in business in October, he stressed the interdependence of all sectors in a mature industrial economy and spoke vaguely of the need for planning to ensure "such balance among productive processes as will tend to a stabilization of the structure of business." But if specificity was lacking in his persistent call for a fundamental reconstruction of the American political economy in which cooperation would replace competition under the watchful eye of a government devoted to the good of all, the philosophical root of his vision was clear enough. "Business," he said, "must think less of its own profit and more of the national function it performs. Each unit of it must think of itself as a part of a greater whole; one piece in a large design." Speaking to a convention of bankers in Washington in October 1934, Roosevelt left no doubt as to the agent of this "greater whole":

> You will recognize, I think, that a true function of the head of the Government of the United States is to find among many discordant elements that unity of purpose that is best for the Nation as a whole. This is necessary because government is not merely one of many coordinate groups in the community or the Nation, but government is essentially the outward expression of the unity and the leadership of all groups. . . . Government . . . must be the leader, must be the judge of the conflicting interests of all groups in the community.[40]

[39] See, for example, Frankfurter to Roosevelt, memoranda, Nov. 21, 1934, Dec. 28, 1935, in *Roosevelt and Frankfurter*, ed. Freedman, 240–42, 296–300. Fusfeld, *Economic Thought of Franklin D. Roosevelt*, 73–75. Rosenman, ed., *Public Papers and Addresses of Franklin D. Roosevelt*, I, 659–69, 795–812, II, 49–54, 99–143, III, 173–81; Collins, *Business Response to Keynes*, 3; Romasco, *Politics of Recovery*, 35–51, 67; Schlesinger, *Age of Roosevelt*, II, 109; Himmelberg, *Origins of the National Recovery Administration*, 189–90, 196–201; Stein, *Fiscal Revolution in America*, 49–70.

[40] Rosenman, ed., *Public Papers and Addresses of Franklin D. Roosevelt*, I, 639–47, 742–56, 780–86, esp. 783.

Roosevelt had not been driven to this way of thinking by the crisis of the depression. His unapologetic subordination of the interests of the individual to the purposes of "the Nation as a whole" and his identification of the national state as the voice and active hand of this larger entity reflected precisely the organic collectivism at the heart of the managerial ideal. He had made this clear more than twenty years before, in an address to the People's Forum of Troy, New York, on March 3, 1912:

> Conditions of civilization that come with individual freedom are inevitably bound to bring up many questions that mere individual liberty cannot solve. This is to my mind exactly what has happened in the past century. We have acquired new sets of conditions of life that require new theories for their solution. . . . I have called this new theory the struggle for the liberty of the community rather than liberty of the individual. . . . The right of any one individual to work or not as he sees fit, to live to a great extent where and how he sees fit is not sufficient.

We must, he went on, emulate the Germans, who in matters that put the ends of the individual at odds with the needs of the community have "passed beyond the liberty of the individual to do as he pleased with his own property and found it necessary to check this liberty for the benefit of the freedom of the whole people."[41]

It is easy to see why a mere program of public spending on roads and bridges, however substantial, that left the institutional foundations of the American economy otherwise undisturbed would have little appeal to a president deeply skeptical of Keynesian theory and presented with an historic opportunity to experiment with a thoroughgoing reordering of American economic and political life. But if Roosevelt was, as Otis L. Graham, Jr., has argued, an "instinctive collectivist" who by 1932 had come to share "an organic view of society which assumed the need for continuous public intervention to compensate for imbalances," why did he shrink from aggressively using the planning mechanism he had created to achieve the structural reform and redistribution of income that he thought so important? Rather than diffusing the immense potential of the NRA as an instrument of power and refusing to commit his prestige fully to any clearly defined plan, why did he not simply consolidate the agency's authority and turn it over to Rexford Tugwell, a colleague of Mitchell's at Columbia University in the 1920s and surely the one man in the administration who would most faithfully adapt the managerial ideal to the needs of a new age and make the NRA a model of scientific planning in the public interest?[42]

Part of the answer can be traced to the constraints of the economic and political

On the need for "rebuilding many of the structures of our economic life and reorganizing it in order to prevent a recurrence of collapse," see also his Message to the Congress, June 8, 1934, *ibid.*, III, 287–93. *Ibid.*, I, 784, III, 436.

[41] Fusfeld, *Economic Thought of Franklin D. Roosevelt*, 49–50.

[42] Otis L. Graham, Jr., *Toward a Planned Society: From Roosevelt to Nixon* (New York, 1976), 20. On Rexford Tugwell's views, see Fusfeld, *Economic Thought of Franklin D. Roosevelt*, 210–12; R. G. Tugwell, "The Principle of Planning and the Institution of Laissez Faire," *American Economic Review*, 22 (Supplement, March 1932), 75–92; Rexford G. Tugwell, *The Industrial Discipline and the Governmental Arts* (New York, 1933), esp. 200–16; and R. G. Tugwell, "The New Deal: The Progressive Tradition," *Western Political Quarterly*, 3 (Sept. 1950), 390–427. On the influence of the "national planners" in the NRA, see Schlesinger, *Age of Roosevelt*, III, 214–15, II, 92–94, 179–84; and Hawley, *New Deal and the Problem of Monopoly*, 43–46.

culture of the moment, with its campaign for relaxation of the antitrust laws by the captains of industry and its still widespread, potent hostility to planning in the service of the redistributive ideals that Tugwell would have brought to the NRA. But more, I think, lies in the complex character of the president himself, the juxtaposition of a muted but genuine collectivism that attracted him to the possibilities of reform and the struggle to achieve it and a countervailing genius for ameliorating conflict that drew him from the battle and enabled him not only to manage an administration often at odds with itself but also to unite behind his own cheerful and confident personality a diverse, unruly people among whom consensus on actual policy was impossible. Roosevelt instinctively grasped what Friedrich A. Hayek would make explicit in 1944, that the essence of central planning, and the source of the immense political problem it poses, is its imposition of a single organizing objective on the multitude of individual purposes and desires characteristic of a free society. A mood of genuine solidarity or a sufficiently powerful collective purpose can command the people's consent to the inequalities of treatment and denial of personal interests large-scale planning entails. In their absence, such planning is intrinsically so divisive that any detailed plan must either be inflicted by the state on a sullen population or fail for want of acquiescence to the objectives and direction of the planners.[43]

Roosevelt's invocation of emergency powers without a declaration of war, his unwillingness to commit himself personally to an explicit and consistent strategic plan for the NRA, and his disinclination to bring the full weight of the law to bear in enforcing the codes all suggest his awareness and understanding of this dilemma. As Al Smith had said, an informal doctrine of emergency executive power had indeed been established during the Great War, when Congress had without serious challenge vested unprecedented discretionary authority in the president as commander in chief of the armed forces. But the formal declaration of war against a foreign state made an explicit statement of legislative policy unnecessary. The national interest for which domestic liberties and the separation of powers would temporarily be sacrificed was clear enough, and the existence of an easily perceived threat and its creation of an effective national consensus behind the objective of victory induced both the voluntary submission of most Americans to the rigors of economic planning and a mood that tolerated or encouraged informal social coercion of the rest. In a real war, when penal law *can* be invoked effectively and with broad public support against those who do not conform to the plan, it is not often necessary to employ so blunt an instrument to ensure cooperation. But now, at Roosevelt's request and relying upon his view of the flexibility of the Constitution in the face of an emergency to legitimate the extraordinary peacetime authority of the NRA, Congress once more delegated sweeping powers to the president to use as he saw fit, this time against a foe no one could see and few could understand.

[43] Cf. Romasco, *Politics of Recovery*, 3–12, 241–47. Friedrich A. Hayek, *The Road to Serfdom* (Chicago, 1944), 56–71, 105–7.

Roosevelt was no despot. He wanted the genuine cooperation of the people in his efforts to "balance" the national economy through central planning, not to dictate to them or to compel their compliance with a plan that, once articulated, could not fail to arouse controversy and dissent, whatever its specifics might be. His experiences in the Navy Department during World War I and in the trade association movement in the 1920s had taught him that planning without coercion was possible only in a general atmosphere of common purpose and voluntary cooperation like that of the war years.[44] But in the war against the depression, where the casualties were everywhere but the enemy invisible and elusive, a common objective was much harder to formulate and far less likely to win the needed universal cooperation without coercion. Unlike Hoover, Roosevelt was prepared to place the federal government at the controls of a vast, rationalistically constructed economic machine. But, if for different reasons than his predecessor, he too shrank from defining the ends to which that machine would be put and tried to solve the planner's problem by rallying the people behind him and relying on the public-spiritedness and professionalism of the self-appointed leaders of the business commonwealth to steer it toward the collective good. If they succeeded in mastering the crisis, there would be credit enough for all to share; if not, the president could dissociate himself from the policy of his own administration and live to fight another day.

> Many good men voted this new charter with misgivings. I do not share these doubts. I had part in the great cooperation of 1917 and 1918 and it is my faith that we can count on our industry once more to join in our general purpose to lift this new threat and to do it without taking any advantage of the public trust which has this day been reposed without stint in the good faith and high purpose of American business. . . . As in the great crisis of the World War, [the NRA] puts a whole people to the simple but vital test: — "Must we go on in many groping, disorganized, separate units to defeat or shall we move as one great team to victory?"[45]

And so, from the beginning, he sought to recall the spirit of voluntary cooperation of the war years, hoping to win it by carefully avoiding commitment to any explicit plan and applying the new instruments of coercion he had created as gently as possible, as if the spirit were already there. For a time, it seemed to work. Gen. Hugh Johnson, the administrator of the codes, had served his apprenticeship at the War Industries Board and displayed a sure hand for the symbolic politics of war. Under the banner of the Blue Eagle, parades were held in cities across the nation, badges of compliance appeared in shop windows everywhere, and businessmen who refused to sign on were, at the general's urging, boycotted and stigmatized as "disloyal." But there was cheating too; from the start, violations of price and output provisions of individual codes appeared here and there, particularly in small businesses on the edge of ruin that were hard put to survive the consequences of artificial scar-

[44] Fusfeld, *Economic Thought of Franklin D. Roosevelt*, 58–71, 101–8.
[45] Rosenman, ed., *Public Papers and Addresses of Franklin D. Roosevelt*, II, 252–53, 256.

city. Those who had made the sacrifices asked of them began to demand discipline of those who had not, a demand that put the NRA's leadership in an impossible position. They had not anticipated the sympathy that violations of the codes by those most vulnerable to them would evoke and were not prepared to risk destroying the fragile consensus they had won by punishing such "chiselers" to the full extent allowed by the NIRA. "Without more enforcement," as Donald Richberg, a leading NRA official, sadly put it, "we would lose the support of those willing to comply. With more enforcement we would increase the number and vigor of our opponents."[46]

It was just this planner's dilemma, brought on by the president's own inapposite analogy of the depression to war, that the Keynesian strategy would have avoided. It too offered a national purpose to legitimate and direct the government's efforts at economic engineering, while leaving the price mechanism largely intact, obviating the need to plan prices and outputs in detail, and preserving the ability of the invisible hand to allocate gains and losses spontaneously, without credit or blame. Keynes appreciated "the advantages of decentralisation and the play of self-interest" and believed that despite "the enlargement of the functions of government" it would require, the cardinal virtue of his macroeconomics lay precisely in its rejection of comprehensive planning and its preservation of the "free play of economic forces" in a context of full employment.[47] But if the attempt at central planning would cause problems a politician as astute as Roosevelt might reasonably have foreseen, in the United States of 1933 Keynes's prescription had still other virtues, both political and constitutional, that even its author did not recognize.

On the political side, the key to those virtues lay in the desperate financial situation of the states and municipalities. Throughout the 1920s, with little assistance from the federal government, state legislatures had responded to rapidly rising public school enrollments and the explosion in automobile ownership by spending heavily on schools and roads; total state expenditures, which had been $400 million in 1913, rose to $1.2 billion in 1921 and to almost $2.1 billion in 1929, with highway and school construction accounting for the bulk of the new spending. But despite a doubling of state tax revenues during the same period, resistance to new taxes often caused income to lag behind expenditures. By the end of the decade, counties and municipalities, which in the 1920s disbursed some 60 percent of all public funds, had accumulated a gross debt of $9 billion, and many state governments were deeply in the red. After 1929, as a steadily rising demand for unemployment relief was added to existing claims on falling tax revenues, the states drew closer to bankruptcy. Hoover's response was an offer of loans and advances on revenues to the states, but those were administered parsimoniously by the Reconstruction Finance Corporation and, given the size of the federal budget, were far too small to stem the tide. The states, unable to print new money, their creditworthiness—like that

[46] Schlesinger, *Age of Roosevelt*, II, 114–16; Hawley, *New Deal and the Problem of Monopoly*, 53–55, 105–10; Leuchtenburg, *Franklin D. Roosevelt and the New Deal*, 68–69. On the problems associated with enforcing the codes, see Brand, *Corporatism and the Rule of Law*, 92–105. *Ibid.*, 104.

[47] Moggridge and Johnson, eds., *Collected Writings of Keynes*, VII, 380.

of their citizens—gravely in doubt, had little choice but to slash spending where they could. The stream of public works, which had flowed so freely in the prosperity of the New Era, was now shut down almost completely.[48]

Here was an opportunity for the new president both to attack the slump and to recast the traditional relationship between Washington and the states to make the fiscal power of the federal government commensurate with the national scope of the emergency. To be sure, the opposition to such an attempt to rewrite the federal bargain, generated on both the elevated level of constitutional theory and the more common ground of practical politics, would have been formidable indeed. But for so sensitive a political intelligence as Roosevelt's, there were clear signs that this opposition could have been overcome.[49] And in fact, even an aggressive federal program of public works would have interfered far less with the procedures and day-to-day operations of state government than the experiment in central planning actually did. Concerned that the interstate commerce limitations of the NIRA would enable small firms to evade the codes, General Johnson organized a staff of federal agents to monitor compliance in the field and, in an effort to extend the reach of federal authority that aroused much political resentment, urged the states to legislate "little NRAs" to prosecute code violators in the state courts.[50] Land reclamation projects and the construction of sewers and power systems across the nation would have offered tangible relief to stricken communities everywhere and, if administered sensitively, would have interfered only minimally with the institutions and politics of state governments, which might well have undertaken those projects themselves had they been able to. But the intrusiveness of an ineffective central plan, whose ultimate direction remained obscure, gradually made enemies of the very "army" it was meant to conscript.

The Supreme Court's rejection of the president's war analogy followed closely on the public's disenchantment with it, and the profound hostility and institutional violence of the ensuing constitutional revolution illuminate perhaps the greatest of all the blessings a Keynesian strategy might have conferred upon Roosevelt's America, and our own. In May 1935, observing that "extraordinary conditions may call for extraordinary remedies [but] extraordinary conditions do not create or enlarge constitutional power," the Court in *Schechter Poultry Corporation v. United States* unanimously struck down the NIRA on two grounds: its illegal delegation of congressional power to the president and its improper assertion of the authority to regulate economic affairs under the commerce clause. The demise of the NRA

[48] James T. Patterson, *The New Deal and the States: Federalism in Transition* (Princeton, 1969), 7–10, 13–16, 26–49. Given the stance of the federal government, the states were forced to raise taxes and did so largely by way of regressive sales and consumption levies. The taxes depressed purchasing power when it was most needed and counteracted the mild stimulative effect of Washington's unintentional deficits. See *ibid.*, 95–99; and E. Cary Brown, "Fiscal Policy in the 'Thirties: A Reappraisal," *American Economic Review*, 46 (Dec. 1956), 857–79.

[49] Thus, for example, the campaign for federal public works quietly waged in the administration's earliest days by Louis Brandeis, the most faithful living champion of the states against the claims of the federal government, and the obvious distress of the states themselves suggested the strong possibility of broad acquiescence to an increased federal role in fiscal matters. See Dawson, *Louis D. Brandeis, Felix Frankfurter, and the New Deal*, 28–35; and Patterson, *New Deal and the States*, 158, 91.

[50] Patterson, *New Deal and the States*, 112–18.

left the president at a loss and his administration without any economic policy at all, and despite Roosevelt's own inclinations in the matter, purposeful deficit spending seemed to many the only serious alternative left. Still unconverted to the Keynesian faith, the president nonetheless relented in April 1938.[51] His advisers had estimated full employment national income to be $88 billion, and with current income some $32 billion below that, they argued that the expectation of even $4 billion in new private investment was optimistic. But the constitutional constraints of 1787 still bound the federal government, and as the strains created by the $3 billion program Roosevelt sent to Congress made plain, it was not yet possible for it to spend in time of peace at the rate required to fill the gap. Despite the failure of the NRA, the president's belief in the need for structural reform and federal control remained unshaken. Convinced that stability required planning and coordination, he declared early in 1935 that abandoning the NRA was "unthinkable" and proposed a two-year extension of the agency and a strengthening of its authority. After *Schechter* he began to explore the possibility of relaxing the antitrust laws to permit voluntary coordination of business activities along the lines Hoover had resisted so strenuously.[52] When these came to naught, he turned again to direct regulation of prices and outputs, this time without even the NRA's nod to voluntarism. With the passage in 1938 of a Fair Labor Standards Act that provided for criminal sanctions against violators and a second Agricultural Adjustment Act, the hand of the federal government was again extended across the entire economy.

With the departure of the "Four Horsemen" (the four justices who had consistently voted to strike down New Deal legislation) in the wake of the harrowing Court-packing episode and their replacement by justices more in sympathy with Roosevelt's views, the Court's resistance to comprehensive peacetime planning crumbled. The Fair Labor Standards Act was upheld as a legitimate exercise of the commerce power in *United States v. Darby*, and by 1942 the constitutionality of mechanisms of central control whose authority reached even further than that of the NRA was firmly established. In *Wickard v. Filburn*, the Court upheld an order by the secretary of agriculture denying a farmer the right to grow wheat in excess of the department's quota, even though the excess was to be consumed entirely on the farm. However small the amount, reasoned the Court, home consumption withdrew some element of demand from the market, and if individual farmers were permitted to act in this way, the aggregate effect of their behavior would be to depress

[51] *Schechter Poultry Corporation v. United States*, 295 U.S. 495, 528 (1935). Four months earlier, the Court had signaled its views on the delegation issue in *Panama Refining Co. v. Ryan*, 293 U.S. 388 (1935). For an account of Roosevelt's outlook two days after the *Schechter* decision, see Romasco, *Politics of Recovery*, 214. The combination of extraordinary relief expenditures and falling tax revenues had forced a mild course of deficit spending on Roosevelt, and by 1936, this involuntary fiscal policy had begun to bear fruit; unemployment remained high, but production had regained the level of 1929, and with some prices starting to rise, a few speculators began to invest in inventory. But the president saw only the possibility of balancing the budget at last and moved to cut spending. He almost succeeded. The budget deficit was $3.6 billion on expenditures of $8.7 billion for 1936; $2 billion in new revenues and $1.3 billion in spending cuts slashed this figure to $358 million in 1937. In August 1937, the economy responded by registering the sharpest decline in industrial production ever measured. Stein, *Fiscal Revolution in America*, 91–95; Salant, "Spread of Keynesian Doctrines," 42–45.

[52] Romasco, *Politics of Recovery*, 211, 225–40; Stein, *Fiscal Revolution in America*, 103–18; Leuchtenburg, *Franklin D. Roosevelt and the New Deal*, 248–49, 254–64.

market demand and thus affect the price of wheat in interstate commerce. For 150 years, congressional authority under the commerce clause had waxed and waned, subject in the Court to the normal pressures of politics and circumstance. But *Filburn* marked a decisive, even revolutionary break with the past. Even *Darby* had required that some tangible commodity actually cross state lines before the power to regulate interstate commerce could properly be invoked. But after *Filburn*, all that was necessary was an assertion that the price of some good, somewhere, traded in interstate commerce would be altered by sufficiently extensive behavior of the kind the government sought to require or prohibit, a condition that in principle characterizes *every* individual decision to buy or sell any good. Exceeding the vision of even the most Hamiltonian of the Framers, the Court thus wrote its own version of the general equilibrium theory into the commerce clause and brought virtually all forms of private activity, "economic" or otherwise, within the regulatory reach of the federal government. If enthusiasm for its exercise had flagged since 1933, the power to plan now clearly resided in Washington. It remains there still, awaiting a new emergency and, perhaps, a leader less noble than Franklin D. Roosevelt.[53]

Within a single decade, Roosevelt's determined efforts to subject the undisciplined forces of economic life to rational control and to re-create the merger of state and economy that had existed in the heady years of the Great War had resulted in a vast expansion of the regulatory powers of the national state. Yet even as real war erupted once more in Europe, the statecraft of the Framers still denied the federal government the means to stabilize the economy through public expenditure without the expedient of war. They had made the preservation of personal liberty the organizing principle and first obligation of the limited government they constructed, and a tightly constrained national state and faith in the efficacy of local government formed an environment within which the microeconomics of individual purpose and free exchange could flourish. But the enlargement of government of which Keynes now spoke was real and would have presented difficult practical and political problems even to a president eager to construct the apparatus necessary to manage demand effectively while maintaining the "free play" of individual interests in markets. Simply adapting existing budgetary procedures and creating the new disbursement machinery needed to enable a national government of traditionally circumscribed powers and with almost no experience in demand management to increase its taxing and spending authority fourfold would be daunting. And as Keynes recognized (and our own experience confirms), stabilization by purposeful fiscal policy appears possible only at some cost in popular control; guarding against the distortions that follow undisciplined deficit spending in periods of high employment seems to require either placing the ultimate authority to determine aggregate levels of expenditure and tax revenue in a board of technicians insulated from political pressures or the raising of constitutional barriers to permanent deficits.

All this would certainly have created great political tension, not just between

[53] William B. Lockhart, Yale Kamisar, and Jesse H. Choper, *Constitutional Law* (St. Paul, 1970), A1–A10; *United States v. Darby*, 312 U.S. 100 (1941), *Wickard v. Filburn*, 317 U.S. 111 (1942).

Congress and the executive, but between the state and a people still unaccustomed to government by experts. But in 1933, an American Keynesianism without war would have required still more, a controversial reconstruction of the constitutional relationship between the states and the federal government. The issue would not have been, as it was in *Schechter*, the regulatory powers conferred by the commerce clause, but the division between Washington and the states of the authority to tax and spend, a contest that would turn on the meaning of the congressional power to provide for the "general welfare of the United States." As the Framers had intended, the states and municipalities built roads and bridges, constructed hospitals and schools, reclaimed land, and offered relief to the poor and sick. The creation of a new federalism that largely relocated these responsibilities in the federal government would certainly have demanded both an invocation of emergency powers at the outset and the persistence and political leadership necessary to make them permanent. Still, a president willing to lead this battle, to expend on this revolution the energy and political resources Roosevelt devoted to establishing the power to plan, could surely have won the day with far less violence to the constitutional order. Where the commerce clause had been a constant field of struggle since the time of John Marshall, and layers of interpretive doctrine stood between Roosevelt and the powers he sought for the national government, the boundaries of the general welfare clause were still unexplored, and what doctrine there was seemed far more favorable to an expansion of federal authority. But Roosevelt's commitment to the macroeconomics of war precluded the institutional experimentation and reform that would have made possible the far more modest control implied by Keynes's macroeconomics of peace. To build a government capable of comprehensive planning that was never needed, he declared a war where there was no enemy, and not until Dr. New Deal was replaced by Dr. Win the War was his reluctance to incur the deficits necessary for real recovery overcome. In fighting the wrong battle at the wrong time, he made real war the prerequisite to economic recovery and enabled his successors to make the Cold War that followed a bulwark of stable prosperity.[54]

Historians are properly skeptical of even the most sensitive, circumspect counterfactual discourse and the speculative form of argument it demands. But the generation of hypotheses about events not yet observed, the analysis of things that have never been, is the essence of all science, and perhaps an economist can best contribute to historical inquiry precisely by attempting to understand what did happen by asking what did not, and why. Given the political, constitutional, and cultural obstacles in its way, the achievement of the American Keynesianism I have described would have been a formidable task, and one may reasonably question Roosevelt's capacity to accomplish that task, even had he wanted to. But the best evidence of what he could have done is the magnitude of what he actually did. Perhaps because it succeeded so completely, it is easy to lose sight of the significance of Roosevelt's

[54] U.S. Const., art. I, sec. 8, cl. 1. On the general welfare clause, cf. David E. Engdahl, *Constitutional Federalism* (St. Paul, 1987), 162–73. Roosevelt used these terms in a press conference late in 1943. Rosenman, ed., *Public Papers and Addresses of Franklin D. Roosevelt*, XII, 569–75.

constitutional revolution, the speed and thoroughness with which it reordered the institutional foundations of the American political economy against powerful, principled resistance, and the dedication and expenditure of political capital required to see it through. In a period of fluctuating, almost aimless economic policy, a federal power to plan remained the president's only consistent, energetically pursued objective, and as the Court-packing struggle made clear, he was fully prepared to shed the blood his revolution demanded. Had he been able to break free of the weakening constraints of the reigning political and economic culture and the blinders of his own collectivism and to persuade himself that a revolution for the power to spend was as worthwhile as one for the power to plan, we might well have been spared the distortions of the "military Keynesianism" that are part of his legacy.

As his open letter of 1933 intimates, Keynes had feared precisely this result. With his characteristic flair, he made clear in *The General Theory* that the importance of compensatory spending by the state lay not in what the money bought but simply that it was *spent*. But by 1940, with war a reality, he was considerably more subdued. Writing in Croly's journal, the *New Republic*, he betrayed the depth of his fears as he expressed his hopes for the future. Let him have the last word.

> It is, it seems, politically impossible for a capitalistic democracy to organize expenditure on the scale necessary to make the grand experiments which would prove my case—except in war conditions. It is thus that, not for the first time in the fluctuating fortunes of mankind, good may come out of evil. If the United States . . . steels itself to a vast dissipation of resources in the preparation of arms, it will . . . learn a lesson that can be turned to account afterward to reconstruct a world which will understand the first principles governing the production of wealth and which can endeavor—a harder task—to put it to good use. . . .
>
> Is it vain to suppose that a democracy can be wise and sensible? Must the poison of popular politics make impotent every free community? So much hangs on the issue that it is our duty to believe that we can do what we should, until the opposite is proved.[55]

[55] "If the Treasury were to fill old bottles with banknotes, bury them at suitable depths in disused coal mines which are then filled up to the surface with town rubbish, and leave it to private enterprise on well-tried principles of *laissez-faire* to dig the notes up again . . . there need be no more unemployment. . . . It would, indeed, be more sensible to build houses and the like; but if there are political and practical difficulties in the way of this, the above would be better than nothing." Moggridge and Johnson, eds., *Collected Writings of Keynes*, VII, 129. J. M. Keynes, "The United States and the Keynes Plan," *New Republic*, July 29, 1940, pp. 158–59.