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May 6th, 2022

Cold War Capitalism:

The Political Economy of American Military Spending, 1947-1990

A dissertation presented

by

Tim Barker

to

The Department of History
in partial fulfillment of the requirements for the degree of
Doctor of Philosophy
in the subject of
History

Harvard University

Cambridge, Massachusetts

May 6, 2022

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Dissertation Advisor: Sven Beckert Author: Tim Barker

Abstract

Cold War Capitalism

The Political Economy of American Military Spending, 1947-1990

Everyone knows that the relationship between capital and the state was transformed after the Great Depression, but historians of the goodriUnited States have dramatically understated the militarist character of the new order. Prevailing accounts center on mass consumption, but the share of consumption in national income fell during the "golden age." Standard treatments conflate big government and the welfare state, but the share of federal nonmilitary spending in the economy changed little between 1929 and 1959. The dominant new force was military spending. Since aggregate demand shapes employment and output in both the short and long term, military spending during this period helped set the tempo and direction of broader macroeconomic trends. Given the distribution of political and social power at the time, no other form of government spending could have achieved the same scale and played the same role. We often refer to the exceptional decades after 1945 as "*post*-war capitalism." But given the persistent influence of military outlays, this was really an age of Cold War capitalism.

My dissertation also reveals that historians and the general public remember the post-1945 "golden age" as more stable and egalitarian than it in fact was. Even before the 1970s malaise, the economy hardly took care of itself. Within the broader period of relative stability, history still followed what Hofstadter called the "jagged movements on the business-cycle graphs." The strongest periods of growth and employment were the booms related to the wars in Korea and Vietnam. At other periods, joblessness and stagnation became central topics of political debate. Retrenchment in defense spending contributed heavily to recurrent recessions.

Even during the boom years, economic growth was an occasion for social conflict as much as consensus. Patterns of class conflict were closely related to defense-driven demand conditions, with labor gaining ground during military booms and business fighting back during the subsequent recessions. Meanwhile, persistent business fears about inflation (and government controls) continued to limit the extent of expansionary policy, even in its militarized guises.

The age of high military Keynesianism fell into crisis during the Vietnam War boom. After 1970, the share of defense in the federal budget and in GNP declined. But for more than a decade, no viable formula for a new political economy emerged. By the 1980s, a new neoliberal order was taking shape, defined in part by the waning and then disappearance of the Soviet threat that had defined the Cold War. But the new order had umbilical links to the old one. During the transition, the Reagan defense boom helped secure popular support for otherwise politically untenable neoliberal measures. In the 1990s, defense spending fell sharply without taking down the wider American economy. But the fundamental instability of private investment—the problem to which military Keynesianism had once provided a solution—remained as vexing as ever. The ad-hoc socialization of investment would take on new forms, with central banks assuming new importance. But capitalists remained as dependent on, and suspicious of, state support as they had been during the Cold War.

This dissertation is dedicated to the memory of my grandparents:

Grace Mary Evans (1916 - 2008)

Robert Douglas Barker (1921 - 2014)

Jonathan Post Visel (1920 - 2009)

Elsie Frances Rublowsky (1926 - April 4, 2022)

Now that we all agree that government expenditure can maintain employment, we should argue about what the expenditure should be for.

- Joan Robinson

He bought our house on the G.I. Bill
But it wasn't worth all he had to kill
To get it

- David Allan Coe

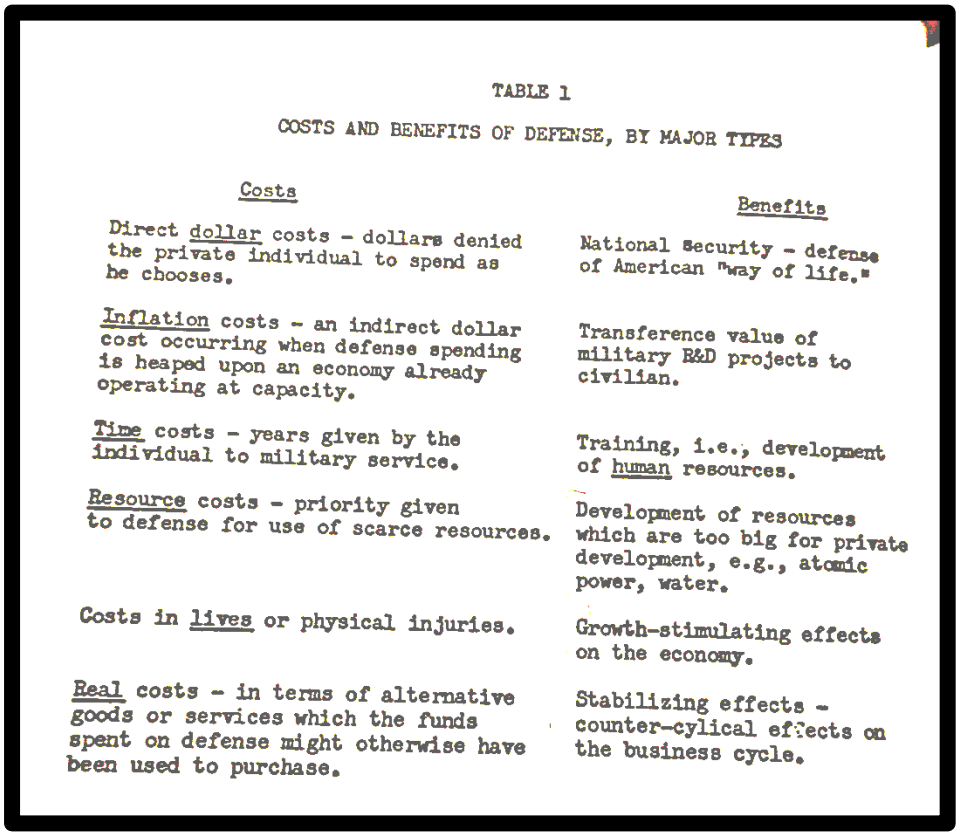

TABLE 1

COSTS AND BENEFITS OF DEFENSE, BY MAJOR TYPES

Costs	Benefits
Direct dollar costs - dollars denied the private individual to spend as he chooses.	National security - defense of American "way of life."
Inflation costs - an indirect dollar cost occurring when defense spending is heaped upon an economy already operating at capacity.	Transference value of military R&D projects to civilian.
Time costs - years given by the individual to military service.	Training, i.e., development of human resources.
Resource costs - priority given to defense for use of scarce resources.	Development of resources which are too big for private development, e.g., atomic power, water.
Costs in lives or physical injuries.	Growth-stimulating effects on the economy.
Real costs - in terms of alternative goods or services which the funds spent on defense might otherwise have been used to purchase.	Stabilizing effects - counter-cylical effects on the business cycle.

Figure 1: Cost-benefit analysis, 1959.

Table of Contents

Title Page *i*

Copyright *ii*

Abstract *iii*

List of Figures *viii*

Introduction: The Deadly Stimulant 1

1. Social Origins of Cold War Internationalism 68

2. From Corporate Internationalism to Military Keynesianism 127

3. The Korean War Boom in the U.S. and the World 180

4. The Unquiet 1950s and the Failed Break with Military Keynesianism 257

5. The Vietnam War Boom and the Crisis of Cold War Capitalism 330

6. Rearming America, Recasting Keynes: The Second Cold War Path to Neoliberalism 401

Epilogue: From Military Keynesianism to the Asset Economy 475

List of Figures

Figure 1: Cost-benefit analysis, 1959. *vi*
Figure 2: Defense spending and world trade as shares of GDP 7
Figure 3: The Political Business Cycle in the Cold War United States 20
Figure 4: Shares of GDP: government purchases (total, defense, and nondefense) 25
Figure 5: Defense purchases versus federal transfer payments 27
Figure 6: Personal consumption expenditures as share of GDP 28
Figure 7: Private nonresidential fixed investment and defense spending 31
Figure 8: Capacity utilization in U.S. manufacturing 41
Figure 9: The 1950 rearmament as a turning point 127
Figure 10: The Keyserling CEA's original five-year plan 194
Figure 11: Actual performance of selected economic aggregates, 1950-1954 .. 194
Figure 12: Relative weight of economic aggregates in GDP 194
Figure 13: Shipments of machine tools (June 1950=100) 203
Figure 14: The Vietnam boom as shares of GDP (percent change) 359
Figure 15: The Vietnam boom as measured by indices of industrial production 359
Figure 16: The late explosion of discourse around military Keynesianism 402
Figure 17: Federal surplus or deficit as percent of GDP 404
Figure 18: Cold War Capitalism interpreted through shares of GDP 408
Figure 19: Neoliberalism interpreted through shares of GDP 408
Figure 20: Components of GDP under Reaganism 430
Figure 21: States with negative growth in manufacturing employment, 1977-1984 445
Figure 22: States with union density above the national average 445
Figure 23: States with military contracts equivalent to more than 5% of GSP 445
Figure 24: Growth of the defense budget compared to hypothetical trend 462
Figure 25: Leon Keyserling as a vanishing mediator 474
Figure 26: The Cold War as a vanishing mediator 474
Figure 27: Federal Reserve, total assets 480

Introduction: The Deadly Stimulant

Can capitalism survive? During the global catastrophe of the Great Depression and the Second World War, people took this apparently melodramatic question quite seriously. To many, from unemployed workers to outstanding intellectuals (groups which, in dark times, sometimes overlapped) the prognosis was bleak. As the 1940s dawned, the black radical polymath W.E.B. DuBois reported with pleasure that he had "lived to see the collapse of capitalism."[1] Around the same time, the economist Joseph Schumpeter—a Viennese exile with Marxist friends and fascist sympathies—mourned the "inevitable decomposition of capitalist society."[2] As late as 1949, tuxedoed WASPs convened at the New York Economic Club to privately discuss questions like "Can the United States Avoid Socialism?"[3] Across the river in Princeton, Albert Einstein—a Jewish refugee who had sympathized with the German Revolution and jumpstarted the Manhattan Project—welcomed socialism as the means to "advance beyond the predatory phase of human development," by which Einstein meant capitalism.[4]

Epigraphs: Joan Robinson, "The Second Crisis of Economic Theory," *American Economic Review* Vol. 62, No. 1/2 (Mar. 1, 1972), 1-10; David Allan Coe, Deborah Coe, and Fred Spears, "If That Ain't Country," performed by David Allan Coe on *David Allan Coe Rides Again* (Columbia Records: 1977). Figure 1 from Herbert Striner, et al., *Defense Spending and the US Economy, Vol 1* – Staff Paper ORO-SP-57 (Bethesda, MD: Operations Research Office/Johns Hopkins University, 1959), second printing, Table 1, 12.

[1] W.E.B. Du Bois, *Dusk of Dawn: An Essay Toward an Autobiography of a Race Concept* (Oxford, UK and New York: Oxford University Press, 2007) 100.

[2] Joseph A. Schumpeter, "Preface to the First Edition, 1942," in *Capitalism, Socialism, and Democracy* (London: Routledge: 1994) 410.

[3] Johnston was the president of Motion Picture Association of America and recent former president of the U.S. Chamber of Commerce. Eric Johnston, "Can the United States Avoid Socialism?" address before the New York Economic Club, Hotel Astor, New York City (March 10, 1949). *Economic Club of New York* < https://www.econclubny.org/documents/10184/109144/1949JohnstonTranscript.pdf>

[4] Albert Einstein, "Why Socialism?" *Monthly Review* Vol. 1 No. 1 (May 1949) 9.

At some point in the 1950s, it became clear that that capitalism had survived. More than that, capital accumulation on a world scale was proceeding more dynamically than ever before.[5] A new question became ubiquitous. *Has capitalism changed?* Most agreed the answer was yes.[6] Sensitive observers across the world and the political spectrum disagreed about what to call the new model, not to mention whether they found it attractive.[7] But clearly capitalism had survived, and clearly it had changed. Indeed, it had survived because it had changed. But to speak of survival, rather than succession, means that something must have persisted across the divide—something fundamentally capitalist. The challenge was not only to understand how the system had successfully changed, but also to recognize just what had been preserved through adaptation.

Military Keynesianism as a Historical Phenomenon

One place to start is in January 1953, with a special edition of *Life* magazine entitled "The American and His Economy." The section hailed the recent transformation of American capitalism as "one of the great social revolutions of history." Never had social revolution been so "orderly and bloodless." It was "something close to a miracle." As they scanned the issue, *Life*'s five million readers would have found almost no evidence that the United States was currently at war in Korea. Almost, but not quite. If the reader made it to page 88 (out of 102), she would be reminded that the "most important" stabilizing force in the economy was "defense spending

[5] For one survey of the general mood and the mid-1950s pivot, see David Cannadine, "The Present and the Past in the English Industrial Revolution, 1880-1980," *Past & Present* vol. 103, no. 1 (May 1984) 142-152.

[6] Editors of *Fortune* with Russell W. Davenport, *U.S.A. - The Permanent Revolution* (New York: Prentice-Hall, 1951); Frederick Lewis Allen*, The Big Change: America Transforms Itself, 1900-1950* (New York: Harper,1952), Adolf A. Berle, *The 20th Century Capitalist Revolution* (New York: Harcourt, Brace & World, 1954); *Has Capitalism Changed? An International Symposium on the Nature of Contemporary Capitalism*, ed. Shigeto Tsuru (Tokyo: Iwanami Shoten, 1961); Andrew Shonfield, *Modern Capitalism: The Changing Balance of Public and Private Power* (London: Oxford University Press, 1965); Michael Kidron, *Western Capitalism Since the War* (Harmondsworth: Penguin, 1970).

[7] Howard Brick, *Transcending Capitalism: Visions of a New Society in Modern American Thought* (Ithaca: Cornell University Press, 2015).

itself," which constituted a "colossal balancer." Even if the shooting war ended, military spending would continue to run at an estimated annual rate of $40 billion. A related lesson was presented earlier in the magazine, but left implicit: according to *Life*, the social revolution had unfolded "during the past dozen years or so."[8] Count back from 1953: the timeframe excludes the entire New Deal, pointing instead to that year of infamy, 1941, as the big bang. Though the writers did not connect the dots, the implication was unmistakable: the American social revolution had been set in motion not by voters, consumers, unions, corporate executives, or the Roosevelt brains trust, but rather by the Imperial Japanese Navy Air Service.

This dissertation argues that modern American history cannot be understood without understanding the centrality of military spending to the development of American (and, by extension, global) capitalism. It is not controversial to claim that the emergence of "big government" was the novelty that allowed midcentury capitalism to survive and thrive. But both academic histories and popular memory have failed to appreciate just how central military spending was to big government in its first three decades. It is not that the idea is completely unfamiliar, but rather that (as in the *Life* article) the idea is presented in passing; the economic importance of defense spending is presented as obvious, but it rarely occupies the center ground. The result is a peculiar sort of oblivious familiarity: most U.S. historians (and many non-academics) intuitively understand the idea of "military Keynesianism," and may well use the words themselves, but no one has written a full-length historical account of the phenomenon.

In seeking to redress this neglect, I have sought to do more than merely fill a gap in the literature. The oblivious familiarity mentioned above has distorting effects. Without a concrete historical understanding, people imagine that military Keynesianism has always existed; that it

[8] "The American and His Economy," *Life*, Jan. 5, 1953, here 46, 57, 88.

has always worked roughly the same way; that the connection between military buildups and economic objectives is either a coincidence or a conspiracy; that the system has remained in place because it has always enjoyed the support of powerful forces. But none of this is true: I shall argue that military Keynesianism is a historically specific phenomenon, that its emergence was neither a coincidence nor a conspiracy, that it changed over time, and that it has always been the object of controversy, even among the military, political, and business elites who might be presumed to support it. If nothing else, the vagueness of prevailing understandings conceals just how militarized was the economy of the high Cold War. People with recent experience of the militarism of the American "global war on terrorism," for example, might imagine that they have some idea of how militarized the Cold War economy was. But never in the Bush years did defense spending constitute more than 5% of GDP.[9] Cold War capitalism—especially the high military Keynesian period of 1950-1970, when the defense share never fell below 9%—was a qualitatively more militarized economy that must be studied as distinct historical period.

Stabilization without Socialization

To understand the special role played by military spending, we must return to the question posed at the outset: how was it that capitalism changed profoundly while remaining capitalism? A useful guide to this question is the Italian revolutionary Antonio Gramsci, and especially his famous, if elusive, concept of hegemony. In an unequal society, how is it that one social class rules over another? For Gramsci, class rule includes moments of both domination and hegemony, with the latter indicating the ways in which subordinate groups recognize the

[9] In the 21st century, the defense share has exceeded 5% only in the aftermath of the contraction of output associated with the Great Recession, reaching 5.5% in 2010. As of 2022, the defense share is around 4%. FRED - Shares of gross domestic product: Government consumption expenditures and gross investment: Federal: National defense. <https://fred.stlouisfed.org/series/A824RE1Q156NBEA>

legitimacy of the existing order. To establish hegemony, a dominant class needs to build alliances with other social layers; it can do this only by considering "the interests and tendencies of those groups over whom hegemony is exercised" and offering appropriate concessions.[10] This way of thinking about class politics is useful for historians because it embraces a good deal of contingency. An attempt to establish hegemony could fail. If a hegemonic project does succeed, it may be that there were other possible paths to hegemony.

But the process is not completely open-ended. Any concessions that the hegemonic group makes to its junior partners "cannot touch the essential" basis of class power. Though it has political and even cultural dimensions, hegemony ultimately "has its material base in the decisive function exercised by the hegemonic group in the decisive core of economic activity."[11] Under capitalism, the decisive function is control of investment, with "investment" here indicating not ownership of stocks and bonds but rather the real creation of new means of producing useful goods and services.[12] Since investment drives economic activity in general, inadequate investment hurts not just capitalists but also workers (who lose their jobs through multiplier effects) and consumers (whose access to an expanding supply of goods and services at stable or falling prices depends on new investment). Given these profound consequences, control of investment is an indispensable source of capitalist power. If this control were broken, the capitalist claim to represent the universal interest would be weakened—perhaps fatally.[13]

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[10] Antonio Gramsci, *Prison Notebooks, Vol. II*, ed. and trans. Joseph A. Buttigieg (New York: Columbia University Press, 2011) 183.

[11] Ibid.

[12] A good definition is "the commitment of abstract purchasing power to specific physical forms—plant, equipment, houses, infrastructure." Stephen A. Marglin, *Raising Keynes: A Twenty-First-Century General Theory* (Cambridge, Mass: Harvard University Press, 2021) 340.

[13] Adam Przeworski, "Material Bases of Consent," in idem. *Capitalism and Social Democracy* (Cambridge, UK, and New York: 1985) 133-169.

Though essential to capitalist class rule, the private control of investment also causes destabilizing tendencies which constitute a different sort of threat to social order. As John Maynard Keynes argued, economic instability was fundamentally a consequence of the instability of investment demand.[14] This led Keynes to conclude that "the duty of ordering the current volume of investment cannot safely be left in private hands."[15] In some moods, Keynes suggested that "an approximation to full employment" would require the "somewhat comprehensive socialization of investment" or even the "euthanasia of the rentier."[16]

But private hands had grown accustomed to the habit of command, and the rentiers refused to sign off on their do-not-resuscitate form. Even those capitalists who favored elements of the New Deal knew that private control of investment was non-negotiable. This was clear in the comments made by Russell Leffingwell, chair of J.P. Morgan & Co. and the Council on Foreign Relations, regarding the proposed Full Employment Act of 1945.[17] Like a good corporate liberal, Leffingwell agreed "that the Federal Government has great responsibility for the maintenance of continuing full employment after the war."[18] But Leffingwell was on alert

---

[14] "The theory can be summed up by saying that, given the psychology of the public*, the level of output and employment as a whole depends on the amount of investment*. I put it in this way, not because this is the only factor on which aggregate output depends, but because it is usual in a complex system to regard as the *causa causans* [immediate cause] that factor which is most prone to sudden and wide fluctuation." J.M. Keynes, "The General Theory of Employment," *The Quarterly Journal of Economics*, Vol. 51, No. 2 (Feb. 1937) 221. Emphasis added.

[15] John Maynard Keynes, *The General Theory of Interest, Employment, and Money* (San Diego: Harvest/Harcourt, 1964), 320.

[16] Ibid. 220, 378.

[17] On Leffingwell's place within the post-New Deal firmament, see Gerald Epstein and Juliet Schor, "The Federal Reserve-Treasury Accord and the Construction of the Post-War Monetary Regime in the United States," *Social Concept*, Vol. 7, No. 1 (July 1995) 16-20; Ron Chernow, *The House of Morgan* (New York: Grove Press, 2001) 357-359, 381.

[18] R.C. Leffingwell to Sen. Robert F. Wagner, June 4, 1945, reproduced in *Full Employment Act of 1945: Hearings Before a Subcommittee of the Committee on Banking and Currency*, *U.S. Senate, 79th Congress, First Session*, July 30-September 1, 1945 (Washington DC: GPO, 1945) 1118-1120, here 1118.

against the socialization of investment: “I do not think any program for a controlled economy by increasing and diminishing public investment and expenditure by the Federal Government can be carried out successfully except by a totalitarian government.”[19] Elsewhere, he wrote that the “conception of government spending as a balance wheel to be expanded in a depression and contracted in a boom is contrary to human nature.”[20]

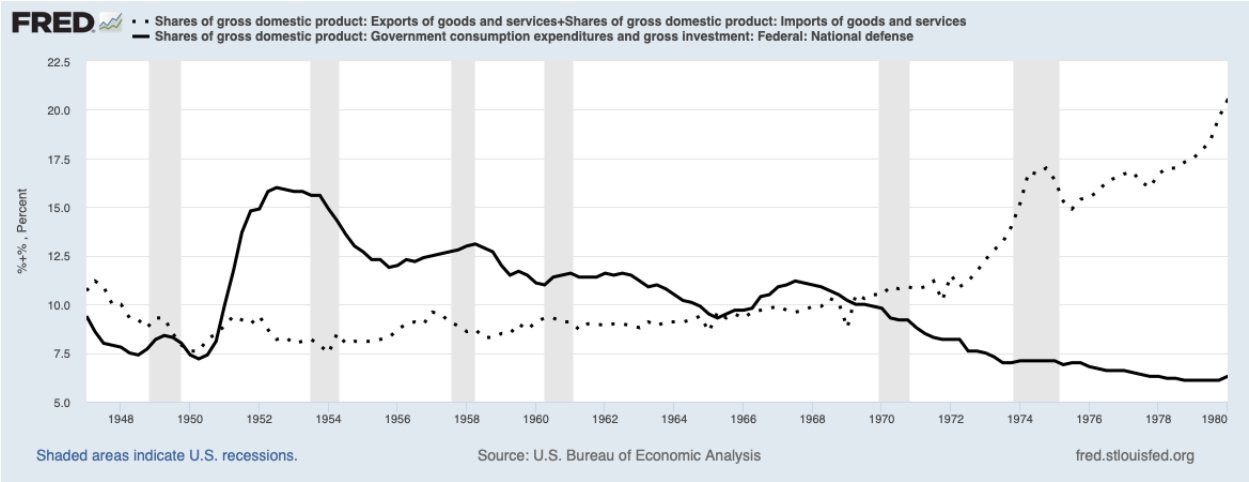

Figure 2: Defense spending (solid line) and world trade (dotted line) as shares of GDP. Note that “world trade” here is given its most expansive meaning: total exports plus total imports. If net exports were used, the share would be considerably smaller.

Between them, Keynes and Leffingwell sketched out a dilemma: private investment was dangerously unstable, but public investment could not be allowed to take its place. One possible solution was to the world economy.[21] During the 1940s, Leffingwell and his colleagues looked to “overseas commercial expansion as a way to promote full employment without having to borrow

[19] Ibid. 1120.

[20] Leffingwell to Thomas Lamont, May 1943, quoted in Patrick Hearden, *Architects of Globalism: Building A New World Order during World War II* (Fayetteville: University of Arkansas Press, 2002) 40.

[21] Keynes himself wrote that nations should “learn to provide themselves with full employment by their domestic policy" rather than continuing to treat international trade as “a desperate expedient to maintain employment at home.” Keynes, *General Theory*, 382.

huge sums of money to finance massive public works project."[22] But, as Figure 2 (above) shows, military spending (solid line) had a much greater weight than world trade (dotted line) in the U.S. economy for nearly all of the 1945-1973 "golden age" of American capitalism.

Though Leffingwell would have preferred foreign trade, military spending on a large and permanent scale also represented an effective solution to his dilemma.[23] The major advantage of military Keynesianism was that it did not threaten capitalist control over the "decisive functions," but it did achieve a version of what Keynes had in mind. Keynes had envisioned "social investment … likely to range from 7.5 percent to 20 percent of net national income."[24] U.S. defense spending from 1947 through 1991 averaged 10.5% of net national product, with a range from 7% to 17.5%—nearly exactly matching Keynes' quantitative sense of what that the socialization of investment might encompass.[25]

The beauty of it was that military spending achieved this stabilizing effect without competing with private capital or weakening the dependence of workers on labor market income. In fact, this form of public spending worked by stabilizing private profits and generating new

---

[22] As paraphrased in Hearden, *Architects of Globalism,* 40. Cf. Russell C. Leffingwell, "Readjustments of the Economic Framework," *Proceedings of the Academy of Political Science* Vol. 21, No. 2, Shaping the Economic Future (Jan., 1945) 1-3.

[23] Michael Bernstein's analysis of the Great Depression deals only glancingly with post-1940 history but provides an incisive formulation of "the fundamental contradiction in the attitudes of the business community toward government economic intervention" consistent with my interpretation. According to Bernstein, interwar American capitalists "wanted centralized cooperation in order to ensure the validation of investments and the resultant generation of high rates of growth. They did not want that cooperation to be so centralized and rigid as to deprive them of the independence and freedom of action characteristic of capitalist ventures." A solution to the dilemma "was provided by World War II, the Korean conflict, and subsequent cold war." Michael Bernstein, *The Great Depression Delayed Recovery and Economic Change in America, 1929-1939* (Cambridge, UK and New York: Cambridge University Press, 1987) 204.

[24] Elba K. Brown-Collier and Bruce E. Collier, "What Keynes Really Said about Deficit Spending," *Journal of Post-Keynesian Economics*, Vol. 17, No. 3 (Spring 1995) 343.

[25] Since net product is lower than gross product, the percentage given here (to match Keynes' categories) is higher than the more commonly used figures for defense as a share of GDP. FRED: Federal Government: National Defense Consumption Expenditures and Gross Investment/Net national product. <https://fred.stlouisfed.org/graph/?g=NE70>

employment in the waged workforce.[26] One of the earliest and clearest recognitions of this point came from *Business Week* in 1949:

> *Military spending doesn't really alter the structure of the economy. It goes through the regular channels. As far as a businessman is concerned, a munitions order from the government is much like an order from a private customer. But … welfare and public works spending … does alter the economy. It makes new channels of its own. It creates new institutions. It redistributes income. It shifts demand from one industry to another. It changes the whole economic pattern. That's the object*.[27]

There were few similarly large programs of which this could be said, and none which were politically viable in the U.S in the late 1940s.[28] A good sense of scale is provided by the Housing Act of 1949, the lone legislative achievement of Truman's Fair Deal. Contemporary critics of the Housing Act pegged its *lifetime* cost at between $9 billion and $16 billion (by comparison, military spending at its post-WWII low still claimed $10 billion in a single year).[29]

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[26] By accounting principles, a deficit on the government's balance sheet must show up as income on business and household balance sheets. This new income sustains business profits, both directly (when the government buys goods and services from businesses) or indirectly (when households buy from businesses). Crucially, a countercyclical deficit sustains business profits at precisely the time when profits would otherwise fall. To give an example: if a government increases the deficit by ordering a B-52, the expansion of the government's deficit is translated directly into revenue for Boeing, which will then be divided into profit for Boeing, wages for Boeing workers, and revenue for the businesses from which Boeing buys inputs and the businesses from which Boeing employees buy consumer goods, and so on. Hyman Minsky, *Stabilizing an Unstable Economy*, (New York: McGraw Hill, 2008) 30-37.

[27] "From Cold War to Cold Peace?" *Business Week*, February 12, 1949, 20.

[28] This particular limitation turned out to be historically specific. Since the mid-1960s, government-financed healthcare spending has emerged as a new form of guaranteed demand on a vast scale, ultimately approaching one-fifth of GDP. However, this "biopolitical Keynesianism" (as historian Gabriel Winant has called it) has otherwise conformed to the imperatives that structured military Keynesianism. The money flows through a vast for-profit medical industry, and the limitation of quality single-payer insurance to Americans over 65 means that the program does nothing to render working-age adults less dependent on their employers. On the nonviability of welfare state extensions, such as state-funded health care, even during the years of unified Democratic government (1949-1951), see William George Phillips, "The Republican-Southern Democratic Coalition versus the Fair Deal: A Study of Voting Alignments in the House of Representatives in the Eighty-First Congress" (unpublished dissertation, American University, 1954). On biopolitical Keynesianism, see Gabriel Winant, "'Hard Times Make for Hard Arteries and Hard Livers': Deindustrialization, Biopolitics, and the Making of a New Working Class," *Journal of Social History* 53, Number 1, Fall 2019, 107-132.

[29] Ellis Haller, "Housing Handouts: U.S. Moves Toward Its Biggest Invasion of Home Building," *WSJ*, July 9, 1949, 1.

Despite this modest price tag, the bill's crucial provision for low-rent public housing passed the House by a margin of just 209 to 204.[30] It is nearly impossible to imagine the transformation of the political balance of power that would have been required to replace the military budget with civilian government spending at this crucial juncture in American history.

Even under the New Deal, the extension of state activity had been carefully prevented from putting capitalists out of business. This was clear in the swift termination of the Federal Emergency Relief Agency (FERA)'s attempts to provide work relief through production of useful consumer goods (such as canned food and mattresses) which would have then been distributed as in-kind support to other relief recipients.[31] In a society whose President lamented that one-third of a nation was ill nourished, surplus crops were destroyed or left to rot, instead of being canned for use. Work relief agencies made sure to concentrate on non-competitive activities, such as planting trees, which did not encroach on the private, profit-driven organization of economic life. The WPA even discontinued its efforts to rid slum dwellings of rats after complaints from the private exterminator lobby.[32] Due to similar pressures, the New Deal was carefully structured to avoid unconditional cash transfers (maligned as "the dole"), and public works programs were explicitly designed as emergency measures rather than permanent features of the welfare state. Even income redistribution through the tax code proved elusive.[33]

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[30] Clayton Knowles, "House Passes Housing Bill; Low Rent Section Retained, A Major Fair Deal Victory," *NYT*, June 30, 1949, 1.

[31] Nancy E. Rose, "Production-for-Use or Production-for-Profit? The Contradictions of Consumer Goods Production in 1930s Work Relief," *Review of Radical Political Economics,* vol 20, no 1 (Spring 1988).

[32] Dawn Day Biehler, *Pests in the City: Flies, Bedbugs, Cockroaches, and Rats* (Seattle: University of Washington Press, 2013) 120-122.

[33] June Hopkins, "The Road Not Taken: Harry Hopkins and New Deal Work Relief," *Presidential Studies Quarterly*, June 1999, Vol. 29, No. 2 (June 1999), 306- 316; Mark H. Leff, *The Limits of Symbolic Reform: The New Deal and Taxation, 1933-1939* (New York: Cambridge University Press, 1984), here 5.

The barrier to government production of useful commodities was obvious even in the state planning atmosphere of the World War II years. In 1942, the émigré economist Gustav Stolper could warn that "the fact that the Government was so easily able to create boom conditions and full employment by a vast expansion of armament must not mislead to the fallacy that a peace boom is easy to achieve." Stolper continued:

> The crucial difference is that an armament boom is something extraneous, imposed on a peace economy without competing with private business. The amounts spent on defense might suffice to rebuild the American cities. But were this technically feasible and not in its early phases handicapped by shortages of certain categories of labor, it would create such a wholesale destruction of real-estate values that the effect would possibly be a depression exceeding in severity even that of the early 1930s.[34]

Many things changed in the decades after 1942, but the constraints identified by Stolper Continued to bind. During the Eisenhower era—which liberals both in and out of the academy now remember as a lost paradise of muted social conflict and enlightened welfare state policy—Henry Luce declared that:

> [The] economy can stand the load of any defense effort required to hold the power of Soviet Russia in check. It cannot, however, indefinitely stand the erosion of creeping socialism and the ceaseless extension of government activities into additional economic fields.[35]

If anyone embodied the post-war mainstream, it was the man who invented the "American Century," and mass marketed its creed through his *Time-Life* empire. Yet here Luce proclaimed melodramatically that "reaffirming" the fight against "creeping socialism" was "as important in the long as the conquest of outer space."[36] Eisenhower himself did not shrink from

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[34] Stolper's *This Age of Fable* quoted in Paul A Baran, [untitled review of Stolper] *American Economic Review* Vol. 32, No. 2, Part 1 (June 1942) 375. Unlike Baran, Stolper was not a leftist, so his conclusion is not motivated.

[35] "Editorial: *Sputnik* and the Budget," *Fortune,* vol. 56 no. 5 (Nov 1957) 125-126.

[36] Ibid.

calling "creeping socialism" the significant parts of the Roosevelt-Truman inheritance that he sought to roll back.[37] During an early meeting on anti-recession policy, Eisenhower laid bare the chasm between the New Deal and Cold War capitalism. Complained Eisenhower:

> the moment we perceive adverse economic trends in the United Stated…we always begin talking about some kind of public works program. *Why couldn't we consider a stepped-up program of military production if something were needed to prime the pump?* We ought to be thinking about such possibilities every minute, and every agency and department should keep the problem in mind.

Treasury Secretary George Humphrey added his "agreement with the President's idea that stepping up the production of military end items was *much to be preferred to some kind of PWA* [Public Works Administration] *program.*"[38] As recession set in, the malign ghost in the room was not Herbert Hoover but Harry Hopkins. So deep was the commitment to private investment that even within the military program, the vestiges of public enterprise were thoroughly extirpated. Though capitalists were given a large role in managing the World War II planned economy, public ownership and even management of industry was widespread. After the war, nearly all of these means of production were privatized. The Cold War was not characterized by WWII-style public power capacity. Where only 40% of WWII defense plants had been privately financed, during the Korean War the figure was 90%. Under Eisenhower and Kennedy alike, the military was further divested of the remnants of public ownership.[39] The

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[37] Pressed for "some concrete examples of that creeping socialism," Eisenhower nominated TVA. After blowback, Eisenhower's moderate economic advisor Gabriel Hauge said he agreed with the underlying idea but encouraged substituting "creeping centralization" or "creeping big government." Dwight D. Eisenhower, The President's News Conference, June 17, 1953. Online by Gerhard Peters and John T. Woolley, The American Presidency Project <https://www.presidency.ucsb.edu/node/231631>; Hauge to Eisenhower, Memorandum for the President, June 22, 1953. DDEL, Gabriel Hauge Records, 1952-1958, Box 1, Folder 1.

[38] Memorandum of Discussion at the 183d Meeting of the National Security Council, Washington, February 4, 1954. *FRUS* 1952–1954, China and Japan, Volume XIV, Part 1, eds. David W. Mabon and Harriet D. Schwar (Washington: Government Printing Office, 1985), Document 167. <https://history.state.gov/historicaldocuments/frus1952-54v14p1/d167>. Emphases added.

[39] The best guide to these points is Mark R. Wilson, *Destructive Creation: American Business and the Winning of World War II* (Philadelphia: University of Pennsylvania Press, 2016). For WWII versus the Korean War, see 269.

newly independent Air Force broke with the tradition of government-owned arsenals and shipyards by building its procurement relations with a private aircraft (later aerospace) industry.[40] Corporations also won the right to control the intellectual property derived from Pentagon-funded research.[41]

As the military-industrial complex became more immaculately privatized, conservative and business fears of "military socialism" receded and massive defense budgets became ever more acceptable.[42] All the way into the 1970s, military Keynesianism remained the only form of government spending that possessed anything even approaching the legitimacy of private investment. At the onset of the 1973 recession, Richard Nixon explained the hierarchy with his characteristic blunt insight: "public service jobs—that means nothing to the country. To goose the economy, the private sector is the best place. In government the best place is the military."[43] At Nixon's behest, Henry Kissinger asked military planners to identify "means of economic pump priming."[44] But as he carried out his marching orders, Kissinger complained: "It proves every argument of every critic of society."[45] The man most hated by the New Left now felt the

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For developments post-Korean War, see 271-285. Another essential work on the persistence of anti-statism within defense is Aaron Friedberg, *In the Shadow of the Garrison State* (Princeton: Princeton University Press, 2000).

[40] Ann R. Markusen, Peter Hall, Sabina Deitrick, and Scott Campbell, *The Rise of the Gunbelt: The Military Remapping of Industrial America* (Oxford, UK and New York: Oxford University Press, 1991) 31-32.

[41] Daniel Traficonte, "Patents Over Planning: Industrial Capital and Federal Innovation Policy" (unpublished dissertation, MIT, 2021), esp. 165-202.

[42] For such rhetoric, see e.g., "Military Socialism," *Chicago Daily Tribune*, Apr 17, 1951, 16.

[43] Memorandum of Conversation: December 22, 1973 - Nixon, Schlesinger, Joint Chiefs, National Security Adviser. Memoranda of Conversations, 1973-1977 - Nixon Administration, 1973-74, Box 3. Gerald R. Ford Presidential Library. <https://www.fordlibrarymuseum.gov/library/document/0314/1552646.pdf>

[44] Memorandum for the Record, Moorer, 27 Nov 1970. Reproduced in *Melvin Laird and the Foundation of the Post-Vietnam Military, 1969–1973: Documentary Supplement*, ed. Richard A. Hunt (Washington: Office of the Secretary of Defense Historical Office, 2016) 285-287.

[45] Military Budget Battles. November 9, 1970. Kissinger Telephone Conversations, 1969-1977. Digital National Security Archive [DNSA]. Accession number: KA04192. ProQuest document ID: 1679133717.

sting of recognizing himself in the caricature. Nixon also realized the danger, instructing his subordinates "Don't discuss jobs outside this room… Don't write any memos on this."[46] Nixon felt that he needed military Keynesianism but thought it too explosive to document. Such complex self-consciousness is one reason why military Keynesianism can feel self-evident and obscure at the same time.

From Function to History

Military Keynesianism was functional, in the double sense that it stabilized demand and reproduced capitalist social relations. Its functionality was widely recognized, including by those responsible for determining policy. But explaining the function of a historical phenomenon is not the same as identifying its causal origins. Birds are able to fly because they have hollow bones, but birds developed hollow bones because of genetic mutation, not because hollow bones turned out to serve a function.[47] This distinction is important. A common objection to the very idea of military Keynesianism is that the massive military budgets of the U.S. since 1945 were a response to geopolitical conflicts, not domestic economic needs. This is true enough. Military Keynesianism was an emergent phenomenon, rather than one imagined *ex ante* and then imposed according to plan. By 1948, significant social forces within the United States had accepted the need for both macroeconomic demand management and rearmament. But the historical record is clear that defense budgets on the level that came about after 1950—on the order of $50 billion annually—were originally envisioned by only a small number of actors, who were extremely concerned about the possibility of a world war. Rearmament on the scale that ensued cannot be

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[46] Memorandum of Conversation: December 22, 1973.

[47] G.A. Cohen, *Karl Marx's Theory of History: A Defence* (Princeton: Princeton University Press, 2000), 249-277.

fully explained with reference to the intentions of any single actor, much less anyone's intentions regarding domestic macroeconomic policy.

But functions can contribute to historical explanation. There is still some sense in which it is meaningful to say that "Birds have hollow bones because hollow bones facilitate flight." If hollow bones had not facilitated flight, hollow-boned birds would not have reproduced in sufficient numbers for the trait to survive.[48] By the same token, military Keynesianism's effects can contribute to an explanation of it. Widespread American resistance to massive Cold War rearmament was based on the widely shared belief that military spending above $15 billion would destroy the American economy, or at least force it to become a post-capitalist garrison economy.[49] Once defense spending at three or four times that level had been observed to be consistent with acceptable economic performance and the preservation of existing patterns of ownership and control, the belief in the $15 billion defense ceiling vanished. People still argued about the size of the defense budget, but no one sought to reduce it in line with the old premise. If economic ruin had occurred, or even menaced, significant modification in defense budgeting would have taken place.[50] The realization that "our military expenditures have not made us poor, they have put us to work" had a causal impact on attitudes toward military expenditures.[51]

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[48] Cohen, *Karl Marx's Theory of History*, 249-250.

[49] Before the Korean War "there was probably no more widely shared or firmly held belief regarding defense matters than the idea that $15 billion was all that the country could afford to spend." Warner R. Schilling, "The Politics of National Defense: FY 1950" in Warner R. Schilling, Paul Y. Hammond, and Glenn H. Snyder, *Strategy, Politics, and Defense Budgets* (New York: Columbia University Press, 1962) 267-378, here 100.

[50] Compare Charles Maier's defense of revealed preference as an analytical foundation of historical political economy: "By treating an economic or political outcome as the expression of a collective preference, the historian asks what set of interests such a preference might have served, hence what alignments and divisions characterize a particular society under stress." Charles S. Maier, *In Search of Stability: Explorations in Historical Political Economy* (Cambridge, UK and New York: Cambridge University Press, 1987) 6.

[51] Alvin Hansen, *The American Economy* (New York: McGraw Hill, 1957) 28.

After 1950, the baseline for defense spending ratcheted up dramatically. But attitudes about how high or low the budget should go shifted depending on how functional defense spending seemed to be at any given time. Whenever defense spending seemed to threaten inflation, international currency disorder, or excessive government intervention, new pressures for trimming spending would emerge. When defense cuts were followed by rising unemployment and stagnant growth, pressure emerged to halt the reductions. Writing in the wake of the 1958 recession, the political scientist Samuel P. Huntington recognized this dynamic: "any drastic decrease in expenditures may well be self-limiting" because "the economic conditions created by a drastic decline may well give rise to political and pressures which can be met by an increase in military spending.[52] In terms of the hollow bones comparison, Huntington identified an analog for natural selection through random mutation—that is, a mechanism through which a function can become part of an explanation.[53]

The macroeconomic feedback loop was not the only interface between function and causation. The other crucial mechanism was the logic of coalition. When Robert Lovett suggested in early 1950 that "the economy of the United States might benefit from the kind of [military] build-up which we were suggesting," he was exploring new aspects of a policy he already supported.[54] But Bob Lovett, "the very embodiment of the Establishment," belonged to a

[52] Samuel P. Huntington, *The Common Defense: Strategic Programs in National Politics* (New York: Columbia University Press, 1961) 277.

[53] G.A. Cohen argued that "we may have good reason for thinking that a functional explanation is true even when we are at a loss to conjecture by what means or mechanism the functional fact achieves an explanatory role." Whatever the status of this view in philosophy, it is difficult to imagine a satisfying work of historical scholarship that did not even conjecture about mechanisms. Cohen, *Karl Marx's Theory of History*, 266.

[54] 70. Record of the Meeting of the State–Defense Policy Review Group, Department of State, Thursday, March 16, 1950. *FRUS, 1950, National Security Affairs, Foreign Economic Policy, Vol. 1*
< https://history.state.gov/historicaldocuments/frus1950v01/d70>

select group. [55] Born to a director of the Union Pacific Railroad and the First National City Bank of New York, Lovett founded Brown Brothers Harriman with his wife's family (the Browns), his father's colleagues (the Harrimans), and various fellow members of Skull and Bones. Lovett's connections to military aircraft went back to his service in the First Yale Unit during World War, while his frequent business visits to Europe continued right through 1940, when he had the opportunity to chat with a couple of Luftwaffe officers at a hotel bar in Milan.[56]

Clearly most Americans had had far less reason to care about world order, and less opportunity to even think about it. They were uncertain whether distant conflicts justified departures from the patterns of American economic life. Military Keynesianism was the way that people like Lovett, who already believed that the U.S. national interest required hegemony, overcame the absence of a preexisting domestic base for internationalism. Part of why military Keynesianism is tough to untangle as a unitary concept is that different people supported it for different reasons, making it hard to identify just what motived "it." But this is the logic of every coalition, which unites different groups by confusing their interests (in the constructive sense of "To mix up or mingle so that it becomes impossible or difficult to distinguish the elements.") As rearmament proceeded, "defense-inspired prosperity" became "rooted in the personal experiences of millions of people," and the base for internationalist foreign policy expanded.[57]

Consider the System of 1896, the hegemonic bloc that preceded the New Deal. As Richard Bensel has argued, American capitalist development after the Civil War depended on political premises—the gold standard and an unregulated national market—which by themselves

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[55] David Halberstam, *The Best and Brightest* (New York: Random House, 1972) 4.

[56] David M. Jordan, *Robert A. Lovett and the Development of American Air Power* (Jefferson, NC: McFarland & Company, 2019) 29-30.

[57] Kenneth E. Boulding, "The Domestic Implications of Arms Control," *Daedalus*, Vol. 89, No. 4, Fall, 1960, 848.

lacked the sufficient popular base required in a democratic system. But the Republican Party successfully fused the developmentalist project with a tariff system that, while not strictly necessary for capital, was necessary to Republican success in extending their social base. In this indirect sense, the "tariff policy complex" *was* necessary to capitalist development, because it enabled the Republicans to hold on to power long enough to implement the more politically vulnerable planks of their developmental program.[58]

Bensel's model is rich with implications concerning the subsequent period in U.S. history, which began with the internationalist defeat of the tariff complex during the Roosevelt era. Like the Republican industrialists who dominated the System of 1896, the corporate internationalists of the 1930s and the 1940s represented the most dynamic capitalist firms of their time. But uneven development within the U.S. meant they faced enormous difficulty in winning popular support. To do so, they had to design a popular developmental agenda and represent it to a broad audience. This bloc-building is where economists made their contribution. Macroeconomists offer expert advice on how to achieve an end—stable and rising national income—that everyone has reason to desire. By putting their stamp of approval on rearmament, they explained why a program particular people wanted would benefit everyone (or, minimally, that it would not detract from the general welfare). Many Americans remained indifferent or hostile to the new economics. But those who tried on the new lenses found a reassuring vision. Military Keynesianism was a way of feeling at home in the Cold War.

The very nature of Keynesian economics is to blur means and ends: in the income-expenditure framework, the money you spend on some particular item, that you want for some

[58] Richard Franklin Bensel, *The Political Economy of American Industrialization, 1877–1900* (New York: Cambridge University Press, 2000).

concrete end, is simultaneously a contribution to aggregate demand, and therefore a means towards general prosperity. At the limit, one could spend money with no purpose and still contribute to demand (Keynes' famous example about burying money and paying people to dig it up), but almost all expenditures will have both intrinsic purposes and macroeconomic effects. Cold Warriors frequently engaged in a military-Keynesian two-step: acknowledging that "jobs are created and investment is stimulated," but denying that the defense budget was really a stimulus program because it was "for a very necessary addition to our strength."[59] But something (especially something like a budget) can serve two ends at once. Nearly every Keynesian measure serves an intrinsic end. When labor leaders made the argument that more purchasing power would help the economy, their sincere interest in raising the living standards of union workers hardly meant the labor leaders were not Keynesians.

Military Keynesianism prevailed because it worked. But it did not work perfectly, which helps explain why it did not prevail forever. Fights over the level of defense spending never ceased, and the logic of those advocating retrenchment was nearly always macroeconomic. Military Keynesianism was more acceptable than social democracy, but it triggered many of the same anxieties triggered by any kind of functional finance: fear of inflation (which is really fear of government controls and eroded asset values) and fear of tight labor markets (which is really fear of a shift in the balance of class forces). The pattern of post-1945 history began with significant initial opposition to rearmament, which was overcome in 1950. This was followed by an alternation of defense booms and austerity drives, which did not exclude defense spending from the ax. Figure 3 below offers a schematic view of these cycles.

[59] Casper Weinberger, address to the New York Economic Club, 295th Meeting, October 27, 1981. Economic Club of New York Legacy Archive. < https://www.econclubny.org/legacyarchive/-/blogs/1981-caspar-weinberger>

Figure 3: The Political Business Cycle in the Cold War United States

	1950-1953	1953-1961	1961-1969	1969-1977	1977-1989
Defense policy	Korean War rearmament	"New Look" budget cuts	Kennedy buildup/Vietnam War	Reduction in real defense spending	"Second Cold War" rearmament
Macroeconomic conditions	Expansion. Initial burst of inflation contained by controls.	Boom (1954-1957) surrounded by chronic recessions.	Slow expansion with price stability followed by rapid expansion with inflation.	Recessions punctuated by mini-boom (1972-73). Inflation throughout.	Recession (1979-1982), high unemployment throughout. Price stability restored.
Class conflict	Full employment profit squeeze, mitigated by wage controls/Treaty of Detroit	Management offensive, esp. after expiration of Treaty of Detroit in 1955	Rise in profits, then after 1965 full employment profit squeeze unmitigated by controls or corporatism	Management offensive with intermittent state support	Management offensive with unconditional state support

In addition to cyclical dynamics, we can also identify a secular trend. Initial opposition to huge military budgets was overcome as the economic viability of military Keynesianism became apparent, but in the late 1960s the disruptive effects of military spending overshadowed the functional effects. This led to a profound reordering of American political economy in the 1970s, the significance of which can only be understood if Cold War capitalism placed at the center of post-1945 U.S. history. On the one hand, the end of high military Keynesianism in the early 1970s opened up new space for social spending and private civilian consumerism. Not by coincidence, social spending started to outweigh military spending in the budget only after the full extension of voting rights to black Americans. A backlash coalition brought together those upset about less military spending, those upset about more welfare spending, and those upset about the civil rights revolution (groups which overlapped frequently, but not consistently).

By the time of the 1980 election, both parties agreed on the need to expand defense spending and profits and private investment, which meant austerity in social spending and pro-elite tax reform. Under Reagan, a final Cold War rearmament boom played a key role in arresting the trends that had been so disturbing to business and sections of the white middle class in the 1970s. But though Reagan should be considered a military Keynesian, the ultimate significance of his breakthrough was not to put defense spending back at the center of American capitalism. Between 1986 and 2000, the defense share of GDP was cut in half. Even America's war without limits against "global terrorism" could not bring the defense share back to Cold War levels. The end of Cold War capitalism brought neither social Keynesianism nor the "release [of] the economy from the heavy hand of the state."[60] Instead, new forms of conservative economic activism emerged. Things continued to change so that they could stay the same.

[60] The quote is from Gary Gerstle, a leading historian of the New Deal Order whose recent work on neoliberalism takes as a premise that "small government" has displaced "big government" since the 1970s. Though he praises the

1. Golden Age or Years of Lead?

The Historiography of the New Deal Order

The major historiographical argument of this dissertation is that historians have systematically understated the importance of militarism in post-1945 American economic life. [61] The root of this misunderstanding is the image of an economic "golden age of American capitalism" (1945-1973) and its political cognate, the "New Deal order" (beginning in the 1930s and stretching until around 1980). These schemas obscure two important realities. First, they understate the militarist nature of American political economy.[62] Second, they overstate the degree of ideological consensus and the economic stability in these years. The points are connected. If the economy had really taken care of itself, there would have been no need for a new stabilization policy. If there had been a Keynesian consensus, stabilization policy would not have needed to take the form of militarism. In the absence of stability and consensus, military Keynesianism took form.

When people think of the political economy of the decades after 1945, two images predominate. The New Deal, writes Gary Gerstle, "forged into existence…a large national

work of Quinn Slobodian, Gerstle's interpretation is incompatible with Slobodian's basic argument that neoliberals do not simply "hate the state." Not only is the neoliberal era not marked by the success of a project to "liberate markets or set them free," such an end was not even pursued by neoliberals. Gary Gerstle, *The Rise and Fall of the Neoliberal Order: America and the World During the Free Market Era* (New York: Oxford University Press, 2022) 5-6. Compare Quinn Slobodian, *Globalists: The End of Empire and the Birth of Neoliberalism* (Cambridge, Mass: Harvard University Press, 2018).

[61] Even the dominant literature on Cold War foreign relations has sometimes understated the period's violence and instability. Compare John Lewis Gaddis, *The Long Peace: Inquiries into the History of the Cold War* (Oxford, UK and New York: Oxford University Press, 1987) with Stephen G. Rabe, *The Killing Zone: The United States Wages Cold War in Latin America* (Oxford, UK and New York: Oxford University Press: 2012) and Paul Thomas Chamberlin, *The Cold War's Killing Fields: Rethinking the Long Peace* (New York: Harper, 2018).

[62] The move is thus an extension to the United States of David Edgerton's argument that 20th century Britain should be considered a warfare state more than a welfare state. David Edgerton, *Warfare State: Britain, 1920–197*0 (New York: Cambridge University Press, 2006).

welfare state." The New Deal consensus which remained in place through Nixon held that "public good ought to take precedence over private right" and "government was the instrument through which public good would be pursued and achieved."[63] Alternately, Lizabeth Cohen has argued that "Mass consumption...dictated the most central dimensions of postwar society, including the political economy...as well as the political culture."[64] By contrast, militarism has been largely excluded from view. The original *Rise and Fall of the New Deal Order* volume focused ample attention on the significance of World War II in shaping the "New Deal" order, but was conspicuously silent about the Cold War, and Cold War political economy in particular.[65] Two recent collections revisiting the New Deal Order do little to remedy the omission.[66]

It is not exactly that military-industrial questions have been ignored. In many cases, they are mentioned as a background condition, often in a single sentence. Historians of the United States are not startled to come across a claim like "the program of military Keynesianism

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[63] Gerstle, *Rise and Fall of Neoliberal Order*, 25-26.

[64] Lizabeth Cohen, *A Consumer's Republic: The Politics of Mass Consumption in Postwar America* (New York: Knopf, 2003) 7-8. For a review that raised the question of how to integrate "the Cold War, military Keynesianism, and the domestic economy as a global PX," see Jean-Christophe Agnew, [review: *A Consumers' Republic*], *Journal of American History*, Vol. 90, Issue 4, (March 2004) 1418.

[65] The exception being Elaine Tyler May's classic essay on the politics of gender and family in the early Cold War. Howard Brick noted that the volume "more or less ignores the role of military Keynesianism" and suggested that a focus on militarism might reveal unacknowledged continuities between Reaganism and the New Deal Order. Howard Brick, "Why There Is No Liberalism," *Against the Current*, No. 33, July/August 1991 < https://againstthecurrent.org/atc033/review-no-liberalism/>.

[66] *Beyond the New Deal Order: U.S. Politics from the Great Depression to the Great Recession*, ed. Gary Gerstle, Nelson Lichtenstein, and Alice O'Connor (Philadelphia: University of Pennsylvania Press, 2019) contains an important essay by David Stein stressing the flipside of military Keynesianism: chronic and unalleviated underemployment, especially for black Americans. In *Capitalism Contested: The New Deal and Its Legacies*, ed. Romain Huret, Nelson Lichtenstein, and Jean-Christian Vinel (Philadelphia: University of Pennsylvania Press, 2020) an essay by Margaret O'Mara contains references to the well-known role of military contracts in launching and sustaining Silicon Valley. A panel on the national security state, with papers from Alexandre Ros-Bordes, Mark Wilson, and Jennifer Mittelstadt, was part of the underlying conference but was not represented in the edited volumes.

inaugurated with the defense buildup of 1940 ensured that the growth and relative stability of American capitalism would continue for the next quarter of a century."[67] But despite this generic familiarity, militarism has been excluded from the center of the interpretive frame. Perhaps the familiarity itself has led people to assume that the military-industrial complex has no history, at least not since World War II. But if historians wish to keep referring to "military Keynesianism," they should attend to its full historical complexity and its implications for understanding the larger story of modern U.S. history.

The first point to establish is that the United States in the ostensibly "post-war" period remained a warfare state more than a welfare state. Between 1954 and 1961, around 70% of all federal spending went to national security. [68] The Johnson and Nixon years saw an appreciable expansion of civilian spending, but even taking the entire period 1947-1971, 47 cents of every federal dollar went to national security.[69] The defense share of federal discretionary spending (that is, appropriations not obligated by statute) was even more pronounced, exceeding 85 percent between 1951 and 1963 and remaining around two-thirds in the Nixon years.[70]

Figure 4, below, represents the growth of government purchases, measured as a share of GDP (an increasing GDP share means that something is increasing faster than the economy as a whole). Between 1929 and 1959, the total government share (represented by the solid line) more

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[67] Nelson Lichtenstein, *Labor's War at Home: The CIO in World War II (*New York: Cambridge University Press, 1982) 233.

[68] Bruce S. Jansson gives estimates ranging from 68% ("narrow military spending" and veterans programs) to 73.6% (which includes interest on past war debt). Bruce S. Jansson, *The Sixteen-Trillion-Dollar Mistake: How the U.S. Bungled Its National Priorities from the New Deal to the Present* (New York: Columbia University Press, 2001).

[69] James L. Clayton, "The Fiscal Cost of the Cold War to the United States: The First 25 Years, 1947-1971," *Political Research Quarterly* 25:3 (1972) 375–395. Clayton includes direct Pentagon spending, veterans spending, plus half of international affairs spending half of space spending, and a conservative estimate of interest on the debt.

[70] Jansson, *The Sixteen Trillion-Dollar Mistake*, 142; Richard A. Hunt, *Melvin Laird and the Foundation of the Post-Vietnam Military, 1969-1973* (Washington, DC: Office of the Secretary of Defense Historical Office, 2015), 282.

than doubled, increasing from 9.2% to 22.7%. Confronted with this statistic, most Americans—including many historians—would see evidence of the New Deal. But nearly all of the expansion of the government share took place in defense (dashed line). Between 1929 and 1959, *the growth of defense purchases accounted for 10.7 points out of the total 13.5-point increase* in the government share. All other federal, state, and local purchases combined (dotted line) contributed only 2.8 points to the increase—the sum total of the relative growth of civilian government purchases of goods and services since 1929. If we use Roosevelt rather than Coolidge as the baseline, we see that the share of nondefense purchases was *lower* in 1959 than it was before World War II, meaning that nondefense purchases had not even kept pace with the growth of the economy.

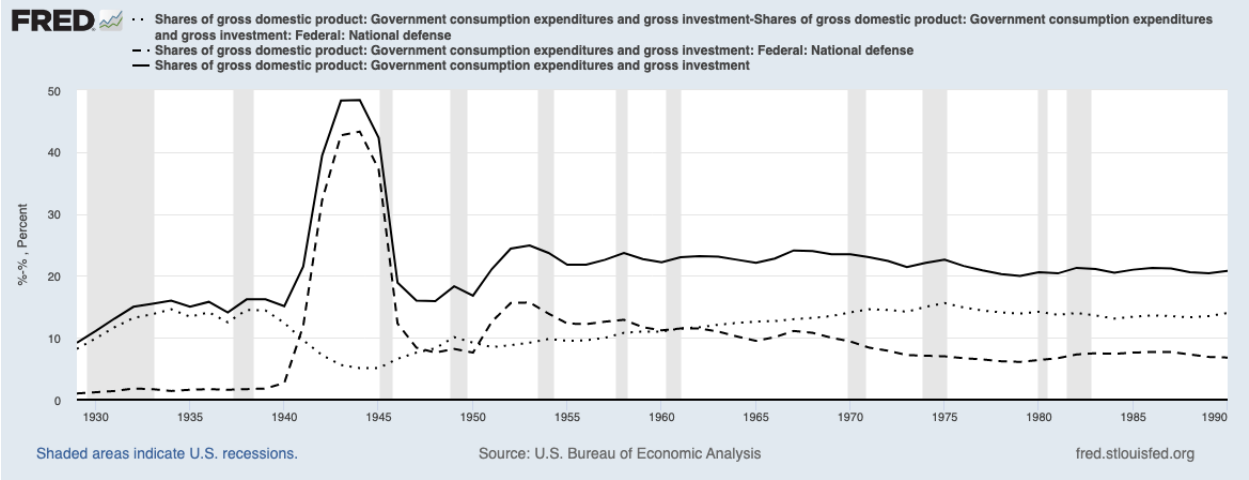

Figure 4: Shares of GDP: total government purchases (solid), defense purchases (dashed), and nondefense purchases (dotted)

While defense spending started at a low level, the impression that big government was dominated by military spending is not an illusion created by baseline effects. In 1929, both defense purchases and nondefense federal purchases had begun at a similar baseline of around 1% of GDP. By 1959, defense purchases had grown 11 times faster than GDP while federal nondefense purchases had increased just 3 times faster. Measured in absolute terms, the federal

government spent more on the military in 1959 than all levels of government combined spent on all other goods and services. What's more, much of what we think of as the civilian economy also derived from the warfare state. The original interstate highway appropriation (passed in mid-1956 as the National Interstate and Defense Highways Act) had by the end of 1960 consumed $10 billion, equivalent to between a quarter and a third of all federal nondefense purchases in that period.[71] The National Defense Education Act of 1958, which authorized $890 million in its first four years, "broke the dike on federal aid to education."[72] However adventitious the "defense" labelling may have been, both interstate highways and federal aid to education by themselves were controversial enough that the military justification was of real significance.[73] During the post-WWII housing boom, which saw residential construction increase from 4.9% of GDP in 1947 to 6.9% of GDP in 1950, VA-loan guarantees accounted for around one-fifth of all mortgages written on homes valued under $20,000 (around $250,000 in 2022).[74]

[71] Council of Economic Advisors, *Economic Report of the President, 1961* (Washington, DC: U.S. Government Printing Office, Jan 1961) 129; Richard F. Weingroff, "The Greatest Decade 1956-1966: Celebrating the 50TH Anniversary of the Eisenhower Interstate System." Federal Highway Administration, Highway History (1996) <https://www.fhwa.dot.gov/infrastructure/50interstate.cfm>

[72] Wayne J. Urban, *More Than Science and Sputnik: The National Defense Education Act of 1958* (Tuscaloosa: University of Alabama Press, 2010) 129-139; 173.

[73] Urban, *More than Science and Sputnik*, 27-31; 37-38; 175; Mark H. Rose, *Interstate: Express Highway Politics, 1939-1989,* revised edition (Knoxville: The University of Tennessee Press, 1990).

[74] *Mortgage Interest Rate Problem: Hearing Before the Committee on Banking and Currency, United States Senate, Eighty-third Congress, First Session*, *Jan 28, 1953* (Washington: GPO, 1953) 92.

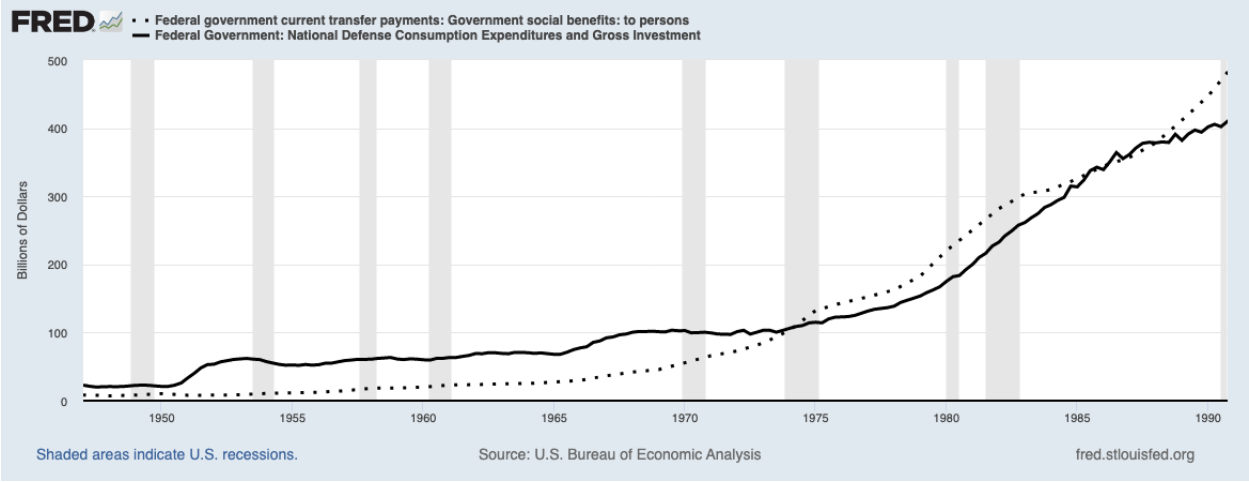

Figure 5: Defense purchases (solid) versus federal transfer payments (dotted)

There is more to government spending than purchases of goods and services. The federal government also disburses a large volume of transfer payments to individuals. Unlike government purchases, transfers are not counted as part of GDP, but they do contribute to income, particularly when they are not offset by taxes. Taking transfer payments into account allows to visualize both the historical dominance of military spending and its eventual eclipse. In figure 5, above, the solid line represents defense spending, and the dotted line represents federal transfers. We see that transfer payments stagnated until the mid-1960s and remained smaller than defense spending until the mid-1970s. After this, transfer payments overtook defense. The figure shows that the Reagan rearmament briefly reasserted the priority of defense, but that the long run rise of transfer payments was not halted. The provocative implication is that the 1970s were a turning point *towards* civilian spending, rather than the return of the free market or even the ascent of a coercive military/carceral state. Even if one rejects this contrarian position, it remains problematic to claim that the U.S. was *more* of a welfare state before the 1970s than after.

It is more accurate to think of the post-1945 U.S. as a society based around the state support of private mass consumption.[75] This acknowledges the ongoing centrality of private accumulation instead of hallucinating a social democracy where there was none. Qualitatively, changes in consumption were a defining feature of the period. In 1945, virtually no household outside of New York City owned a television. By 1955, two-thirds of all households did, and by the beginning of the 1960s the figure was over 90%.[76] In the decade of the 1950s, the nation added 12.2 million housing units (roughly equivalent to one new unit for every fourth American household).[77] This left a strong impression on a generation shaped by depression and rationing.

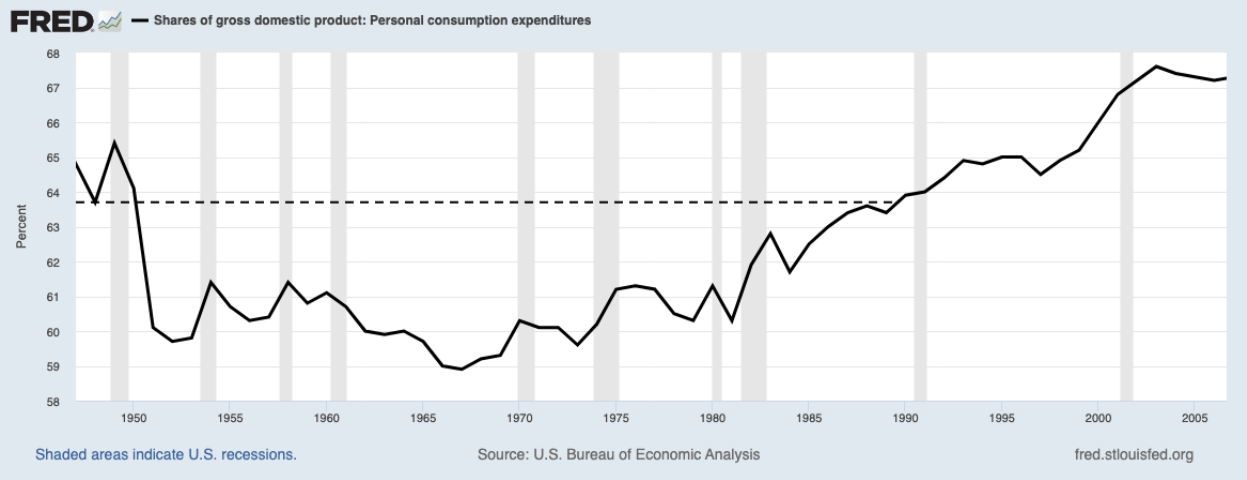

Figure 6: Personal consumption expenditures as share of GDP (solid line). The dashed line emphasizes that the entire Cold War appears as a period of depressed consumption.

But figure 6, above, reveals that the consumption share of GDP (solid line) was consistently *lower* during the "golden age" than it had been before. The dashed line shows that it

[75] Lizabeth Cohen, *A Consumers' Republic*; Jonathan Levy, *Ages of American Capital: A History of the United States* (New York: Random House, 2021) 488-515.

[76] Robert J. Gordon, *The Rise and Fall of American Growth: The U.S. Standard of Living since the Civil War* (Princeton: Princeton University Press, 2016) 415.

[77] F. John Devaney, "Tracking the American Dream," *Current Housing Reports,* Series H121/94-1 (Washington, DC: GPO) 1994, Table 2. Total Population and Housing Units: 1940 to 1990, 8.

did not return to its pre-Cold War levels until the end of the 1980s. To be sure, overall growth meant that consumption could rise in absolute terms, and automatic stabilizers sustained consumption during recessions, which did transform consumption into a new force for stability. But it remains startling that during this golden age of consumerism, personal consumption grew more slowly than the overall economy. Just as significantly, looking at the consumption share provides more evidence that Cold War capitalism was its own historical period.[78] There is an upward trend in consumption after the turn of the 1970s—the same moment when transfer payments took off. From the point of view of consumption as well as social spending, the 1970s represented a break. Just as the miserliness of welfare spending before the 1970s calls into question rosy images of the golden age, so does the growth of consumption after the 1970s force us to consider whether the popular appeal of neoliberalism might have had something to do with the reversal of decades of Cold War underconsumption.

The movement of the consumption share is not just a statistical curiosity. The struggle over income shares was a central organizing principle of conflict during the New Deal and early Cold War eras. Through early 1950, the Truman Council of Economic Advisors (CEA)'s five-year plan called for a "high consumption economy." Their five-year-plan called for a consumption share above 70% by 1954, matched by a falling investment share.[79] Because the distribution of income between consumption and investment is inseparable from wage-profit distribution, business mounted an effective opposition. At this impasse, the administration

[78] Several studies by economists have concluded that the major opportunity cost was non-durable personal consumption, rather than private investment. Boulding, "The impact of the defense industry on the structure of the American economy"; Michael Edelstein, "What price cold war? Military spending and private investment in the US, 1946—1979," *Cambridge Journal of Economics*, Vol. 14, No. 4 (December 1990) 421-437.

[79] *Economic Report of the President, 1950 (*Washington: GPO, Jan. 1950) Table 13--Output, consumption, and investment, 85

replaced the Fair Deal with rearmament. Just like the Fair Dealers, the authors of the State Department planning document NSC-68 (1950) argued in terms of income shares. It is well-known that NSC-68 calls for a massive defense buildup, but it also calls for an increase in the private investment share at the expense of consumption.[80] The cliched image of guns and butter obscures the victory that NSC-68 won on behalf of military spending and private investment, at the expense of an explicitly reformist alternative growth model based on higher consumption.

Like the authors of NSC-68, the Keynesians who powered the Kennedy-Johnson program were explicitly critical of American consumerism, and they were interested not only in boosting defense but in fostering private capital formation. In the late 1950s, economist James Tobin derided the idea that increased consumption should be a priority for Americans, who "already enjoy the highest and most frivolous standard of living in history." Instead of "new plants in which to produce more consumers' goods," new investment should be channeled to "build plants that produce aircraft."[81] Tobin's pre-presidential program for the Kennedy administration called for lowering not only the relative share of consumption share but even lowering absolute consumption for several years, in order to make room for investment and defense.[82] This has little in common with our received image of American Keynesianism, which either ignores military spending or subsumes it under a simple logic of "having it all."

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[80] The memo is reprinted in *American Cold War Strategy: Interpreting NSC 68*, ed. Ernest R. May (Boston: Bedford Books, 1993), 23-82. For investment shares, see Table 1. Percentage of Gross Available Resources Allocated to Investment, National Defense, and Consumption in East and West, 1949 (in percent of total), 45.

[81] James Tobin, "Defense, Dollars, and Doctrines." *Yale Review,* Vol. 67, No. 3 (Spring 1958) 321-334, here 324, 329.

[82] James Tobin, "Campaign Memo on Economic Growth and 'Growth through Taxation" (originally 1960) in idem. *World Finance and Economic Stability: Selected Essays of James Tobin* (London: Edward Elgar, 2003). 95-116.

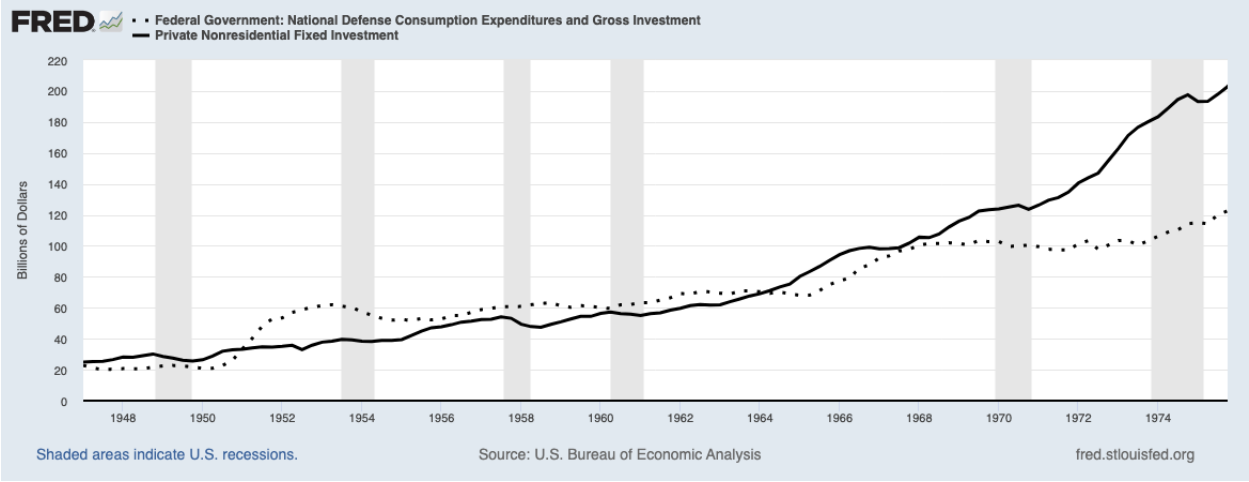

Figure 7: Private nonresidential fixed investment (solid line) and defense spending (dotted), 1947-1975

Rather than a consumers' republic or a welfare state, the "golden age" was a military-industrial mixed economy, built around what Hyman Minsky called a "high-investment, high-profit, and military-spending strategy."[83] As Figure 7 above shows, in this period fixed business investment and defense spending constituted similar magnitudes. The relationships were organic and complex: military spending was not meant to displace private investment but to complement it. Not only did defense orders stimulate investment directly, but mobilization was often matched with special incentives (such as accelerated depreciation) to subsidize the profitability of private investment. Investment and defense boomed together, but in a downturn noncyclical and sometimes countercyclical defense spending offset falls in investment and prevented downturns from becoming cumulative.[84] A good example of this can be seen by looking at the 1958 recession (shaded) on Figure 7.

[83] Hyman Minsky, *John Maynard Keynes* (New York, NY: McGraw-Hill, 2008) 167.

[84] It is intuitive that countercyclical spending, which rises as other forms of economic activity decline, has a stabilizing or even stimulative effect. But since tax receipts fall automatically during a recession, even an acyclical budget item (which simply remains unchanged during the recession) will translate into a deficit that expands during recessions. Thus, there is no need for the government to increase defense spending during a recession (though this has happened frequently), merely for the government to abstain from cutting the defense budget as tax receipts

Related to the consumerist interpretation is the idea of "commercial Keynesianism," which arose to defeat the New Deal's "social Keynesianism"[85] The hallmarks of commercial Keynesianism are tax cuts, automatic stabilizers, and private consumer industries like auto and appliances. This framework is far superior to the idea that the post-1945 political economy took as its premise that "public good ought to take precedence over private right."[86] The idea of commercial Keynesianism highlights the absence of social Keynesianism and the dominance of private interests in both shaping and benefiting from the New Deal order, especially after 1946. Though images of consumption often dominate, the framework's focus on tax policy is also compatible with a stress on investment. While "commercial Keynesianism" should remain part of our understanding of the post-1945 order, its historiographical predominance over militarism has had two distorting effects. The first concerns periodization. The signature commercial Keynesian policy victory, the Kennedy-Johnson tax cut, did not occur until 1964. The tax cut had

decline. Arthur Okun, chair of the Council of Economic Advisers under Lyndon Johnson, put the point this way: "the largest single stabilizing development stemmed from a change that was not designed to enhance macroeconomic stability, namely the increased size of the public sector as a share of GNP. That compositional shift created a large component of the total economy that was not sensitive to cyclical fluctuations and that resisted multiplier-accelerator interactions." Robert J. Gordon, Arthur M. Okun, and Herbert M. Stein, "Postwar Macroeconomics: The Evolution of Events and Ideas" in *The American Economy in Transition*, ed. Martin Feldstein (NBER: Chicago, 1980) 101-182, here 163.

[85] Robert Lekachman, *The Age of Keynes: The Life, Times, Thought and Triumph of the Greatest Economist of Our Age* (New York: Random House, 1966); Robert M. Collins, *The Business Response to Keynes* (New York: Columbia University Press, 1981); idem, *More: The Politics of Growth in Postwar America* (New York: Oxford University Press, 2000); Margaret Weir and Theda Skocpol, "State Structures and the Possibilities for 'Keynesian' Responses to the Great Depression in Sweden, Britain, and the United States" in *Bringing the State Back In,* eds. Peter B. Evans, Dietrich Rueschemeyer, and Theda Skocpol (New York: Cambridge University Press, 1985) 107-163; *The Rise and Fall of the New Deal Order, 1930-1980,* eds. Steve Fraser and Gary Gerstle (New York: Cambridge University Press, 1990).

[86] Gerstle, *Rise and Fall of the Neoliberal Order,* 25.

faced strong opposition, including from major business groups. Both living former presidents, Truman and Eisenhower, opposed the 1964 tax cut because it would increase the deficit.[87]

A consensus that began in 1964 cannot adequately represent post-1945 American capitalism. As late as 1962, *Business Week* complained that "every postwar government has sought to conceal its discretionary moves by simply speeding up defense spending rather than by going to Congress for tax reductions."[88] Once we have recognized that military Keynesianism predominated, we need to revisit a second part of the existing interpretation. Historians have stressed that the appeal of commercial Keynesianism lay in its depoliticizing focus on indirect fiscal and monetary policy and automatic stabilization—what Alan Brinkley called "Olympian manipulation of macroeconomic levers, not direct intervention in the day-to-day affairs of the corporate world."[89] But even as defense production became increasingly privatized, the state continued to intervene deeply, intricately, and contentiously in the defense sector, and thereby in the overall economy. A military Keynesian lens highlights just these sorts of statist interventions. Formal wage and price controls were imposed during the Korean War and the early 1970s, while informal corporatist wage-price policy span the entire period.[90] For military-industrial purposes, the government became involved in both directly breaking strikes or forcing employers to extend recognition to unions. There were countless instances of indicative planning and direct control

[87] Howard Norton, "Eisenhower Raps Tax Cut," *Baltimore Sun*, September 9, 1963, 1; Truman to Keyserling, Sept 19, 1963, in LHK Papers, HSTL, Harry S. Truman File, Box 1, Folder: Correspondence Between Truman and Keyserling.

[88] "Where Fiscal Policy Went Wrong," *Business Week*, December 29, 1962, 88.

[89] Alan Brinkley, *The End of Reform: New Deal Liberalism in Recession and War* (New York: Vintage, 1996) 8.
[90] Andrew Yamakawa Elrod, "Stabilization Politics in the Twentieth-Century United States: Corporatism, Democracy, and Economic Planning, 1945-1980" (dissertation: University of California, Santa Barbara, 2021).

of raw materials, as well as the creation of entire new industries.[91] Historians have understood that these were all features of the World War II economy, but they tend to suggest that after 1945 fiscal and monetary policy reigned alone.[92]

The direct and complex state intervention was not a sideshow but a central feature of the economy. The focus on consumerism and commercial Keynesianism has obscured the fact that aerospace, not auto, was the United States' largest manufacturing employer for much of the 1950s and all of the 1960s.[93] This means that the modal manufacturing worker during the golden age of Fordism worked in a sector that did around 80% of its business with the Defense Department. Instead of the "post-war" capitalism populated mostly by steel and autoworkers, we might think of this period as a Cold War capitalism structured by a persistently militarist state.

Towards a Political-Macroeconomic History

There are many valuable works that have emphasized the importance of military production in the history of American economy and society. Many of these works focus on World War II or on the very early post-war.[94] By far most of the work on military Keynesianism

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[91] James Tobin once wrote that while Keynes had "not spelled out" what he meant by "socialization of investment," it might mean something like "Jean Monnet's postwar 'indicative planning' in France, where *government sponsored a coordinated raising of sights to overcome pessimism and lift investment*." Though Tobin does not make the link, his last clause aptly describes many Cold War policies, especially the Korean War investment drive. James Tobin, "Keynesian Policies in Theory and Practice" in idem. *Policies for Prosperity: Essays in a Keynesian Mode*, ed. Peter M. Jackson (Cambridge, Mass: MIT Press, 1989) 8. Emphasis added.

[92] For example, Jonathan Levy correctly stresses the privatization of the Korean War mobilization: "Rather than public investment, the federal government financed war production by granting income tax incentives to private business." But in adding that this left the government "inducing private investment but with limited powers to direct its content and location," he obscures the elements of planning under the Defense Production Act, which did not offer cross-the-board tax cuts but rather required the government to certify investment projects in order to qualify them for the favorable tax treatment (accelerated depreciation). This aspect of control allowed the state to direct private investment in line with the hundreds of specific capacity expansion targets drawn up by mobilizers. Levy, *Ages of American Capital*, 468.

[93] Mannie Kupinsky, "Growth of Aircraft and Parts Industry, 1939 to 1954," *Monthly Labor Review* 77, no. 12 (Dec 1954); Aerospace Industries Association of America, Inc., *Aerospace Facts and Figures* (Washington: 1970).

[94] Lichtenstein, *Labor's War at Home*; Gregory Hooks, *Forging the Military-Industrial Complex: World War II's Battle of the Potomac* (Urbana: University of Illinois Press, 1993); Brian Waddell, *The War against the New Deal:*

as such has been in connection with NSC-68 and the 1950 rearmament.[95] Other works deal with other specific periods, often delineated by presidential administration or specific "hot" military conflicts.[96] Another strand of historiography has incorporated the history of defense procurement as part of the history of the Sunbelt, making the crucial argument that the New Deal seeded its own destruction through its particular form of militarized peripheral development.[97]

In the last decade, a number of valuable works have brought the story forward in important ways. Paul Koistinen published the final volume of his epic series on the political economy of American warfare, covering central aspects of the entire Cold War period.[98] Jennifer

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World War II and American Democracy (DeKalb: Northern Illinois University Press, 2001); Paul A.C. Koistinen, *Arsenal of World War II: The Political Economy of American Warfare*, *1940-1945* (Lawrence: University of Kansas Press, 2004; Wilson, *Destructive Creation.*

[95] Paul Hammond*,* "NSC-68*:* Prologue to Rearmament," in *Strategy, Politics and Defense Budgets,* eds. Warner Schilling, Paul Hammond, and Glenn Snyder (New York: Columbia University Press, 1962) 267-378; Fred Block, "Economic Instability and Military Strength: The Paradoxes of the 1950 Rearmament Decision," *Politics & Society* 10, no. 1 (January 1980) 35-58; John Lewis Gaddis and Paul Nitze, "NSC 68 and the Soviet Threat Reconsidered," *International Security* 4, no. 4 (Spring, 1980) 164-176; Lester H. Brune "Guns and Butter: The Pre-Korean War Dispute over Budget Allocation," *American Journal of Economics and Sociology* 48, no. 3 (July 1989) 357-371; Benjamin Fordham, "Domestic Politics, International Pressure, and Policy Change: The Case of NSC 68," *Journal of Conflict Studies* 17, no. 1 (Spring 1997); David M. Hart, *Forged Consensus: Science, Technology, and Economic Policy in the United States, 1921-1953* (Princeton: Princeton University Press, 1998) 148-152, 193-194; Edmund F. Wehrle, "Guns, Butter, Leon Keyserling, the AFL-CIO and the Fate of Full-Employment Economics," *The Historian*, 66, no. 4 (Winter 2004) 730-748; Curt Cardwell, *NSC 68 and the Political Economy of the Early Cold War* (New York: Cambridge University Press, 2011); Luke Fletcher, "The Collapse of the Western World: Acheson, Nitze, and the NSC 68/Rearmament Decision," *Diplomatic History*, Volume 40, Issue 4 (Sept. 2016) 750-777.

[96] Paul G. Pierpaoli, *Truman and Korea: The Political Culture of the Early Cold War* (Columbia: University of Missouri Press, 1999); Christopher A. Preble, *John F. Kennedy and the Missile Gap* (DeKalb: Northern Illinois University Press, 2004); William M. McClenahan Jr. and William H. Becker*, Eisenhower and the Cold War Economy* (Baltimore: Johns Hopkins University Press, 2011).

[97] Roger Lotchin, *Fortress California, 1910-1961*: *From Warfare to Welfare* (New York: Oxford University Press, 1992); Bruce J. Schulman, *From Cotton Belt to Sunbelt: Federal Policy, Economic Development, and the Transformation of the South 1938–1980* (Durham, NC: Duke University Press, 1994); Lisa McGirr*, Suburban Warriors: The Origins of the New American Right* (Princeton: Princeton University Press, 2001); Elizabeth Tandy Shermer, *Sunbelt Capitalism: Phoenix and the Transformation of American Politics* (Philadelphia: University of Pennsylvania Press, 2013). Predating all of these was Mike Davis, *City of Quartz: Excavating the Future in Los Angeles* (New York: Verso, 1990).

[98] Paul A.C. Koistinen, *State of War: The Political Economy of American Warfare, 1945*-2011 (Lawrence: University Press of Kansas, 2012).

Mittelstadt has explored the growth of a military welfare state as a result of the shift to a volunteer army in the midst of an ostensibly neoliberal age.[99] Mark Wilson's history of World War II, a seemingly familiar topic, firmly established crucial but strangely overlooked points about the relationship between public and private capacities in both WWII and its early Cold War sequels.[100] Wilson's forthcoming work on procurement during the Cold War will become the standard work on that neglected topic. Michael Brenes has provided the first full-scale history of how Cold War-level military budgets transformed American politics.[101] Recent dissertations have explored the arms export trade in the later Cold War, the emergence of privatizing and cost-cutting imperatives in the military establishment, and the conflict between the state and capital over intellectual property rights derived from defense research.[102]

This dissertation has small differences of interpretation with many of these other works, but its major distinguishing feature is an attempt to deal with military Keynesianism as macroeconomic history. Instead of focusing on a specific region, belt of defense communities, or industry, I start from the premise that Cold War military spending helped determine the direction and tempo of American economic life as a whole. There are few examples of macroeconomic history written by historians.[103] Most of the classic works of narrative economic history focus on

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[99] Jennifer Mittelstadt, *The Rise of the Military Welfare State* (Cambridge, Mass: Harvard University Press, 2015).

[100] Wilson, *Destructive Creation*.

[101] Michael Brenes, *For Might and Right: Cold War Defense Spending and Remaking of American Democracy* (Amherst: University of Massachusetts Press, 2020).

[102] A.J. Murphy "Corporatizing Defense: Management Expertise and the Transformation of the Cold War U.S. Military" (dissertation, Columbia University, 2019); Jonathan Isaac Ng, "The Unquenchable Fire: The Arms Trade and Reproduction of the US Empire, 1960-1988" (dissertation, Northwestern University, 2021); Daniel Traficonte, "Patents Over Planning: Industrial Capital and Federal Innovation Policy" (dissertation, MIT, 2021).

[103] Among possible lodestars, consider Hans Rosenberg, "Political and Social Consequences of the Great Depression of 1873-1896 in Central Europe," *The Economic History Review* Vol. 13, No. 1/2 (1943) 58-73; E.J. Hobsbawm, "Economic Fluctuations and Some Social Movements Since 1800," *The Economic History Review* New Series, Vol. 5, No. 1 (1952), 1-25; Raford Boddy and James Crotty, "Class Conflict and Macro-Policy: The Political Business

specific firms, industries, or regions, and for good reason. Macroeconomics is an abstraction, and it is difficult to translate into a narrative with historical actors, choices, and drama. However, the abstraction of the macroeconomy is not just an analytical imposition. It is to some degree a feature of the reality we live in. It really is true that shifts in demand in one place can have effects on aggregate outcomes, and thereby on the life-chances of people apparently far removed.

This focus on macroeconomic conditions allows for an intervention into another aspect of New Deal order historiography, namely the idea of a "class compromise between capital and labor."[104] The idea of a class compromise, though it captures something important about the arrest of labor's independent political initiative, is a dubious guide to the actual history of the New Deal order.[105] Macroeconomic instability and unresolved battles of strength on the shopfloor made for several distinct cycles of conflict in the period blithely subsumed into an era of consensus. With my macroeconomic focus, I hope to contribute to this revision of post-1945 history by showing how these cycles were linked to cycles of defense spending. For example, the bitter management offensive in the second half of the 1950s (during which some major corporate leaders spoke of doing away with unions altogether) was a response to the full-employment profit squeeze born of the Korean War. Once we understand that moments of high employment

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Cycle" in James Crotty, *Capitalism, Macroeconomics and Reality: Understanding Globalization, Financialization, Competition and Crisis* (Northampton, Mass: Edward Elgar, 2017) 329-356; Mike Davis, *Prisoners of the American Dream: Politics and Economy in the History of the US Working Class* (New York: Verso, 2000).

[104] Gerstle, *Rise and Fall of the New Deal Order*, 11.

[105] Robert Brenner, *The Economics of Global Turbulence: The Advanced Capitalist Economies from Long Boom to Long Downturn, 1945-2005* (New York, Verso, 2006) 61-65; Daniel J. Clark, *Disruption in Detroit: Autoworkers and the Elusive Postwar Boom* (Champaign: University of Illinois Press, 2018); Gabriel Winant, *The Next Shift: The Fall of Industry and the Rise of Health Care in Rust Belt America* (Cambridge, Mass: Harvard University Press, 2021).

in the "golden age" were linked to defense spending, we can understand both why the image has been remembered as a boom time and why the good times were so fragile from the beginning.

While this dissertation contains no formal economic analysis, it hopes to make the methodological point that historians need to think more seriously about economics. Most books which mention military Keynesianism merely take for granted its effects, without discussing how these are known or what other ways there might be of thinking about the evidence. If the basic concept of military Keynesianism is taken as self-evident but not developed further than a catchphrase, historians will have no way to communicate with those who dismiss the idea that military spending was especially consequential to the development of American capitalism.[106]

Historians cannot and should not become economists. But there are consequences to a complete dismissal of economic thinking. Take an example from Judith Stein's *Pivotal Decade*, which is—by the standards of the 20th century U.S. field—one of the most purely political economy books ever published. The book does not contain a single graph, chart, or table. If this is not a problem *per se*, it becomes one when the lack of data undermines the argument. Stein argues that the fundamental problem in the 1970s was a lack of capital investment, which could have been (but was not) overcome by proper industrial policy. Stein writes: "Why was

[106] The answer is not self-evident to economic historians trained in economics. Michael Edelstein, probably the leading economic historian of U.S. military spending, once devoted a footnote to "whether Cold War spending was an important ingredient of [Cold War-era] high employment." Edelstein described it as "a puzzle with many pieces" though he seemed to land implicitly on a negative answer. But Edelstein's work, which has appeared in the heterodox *Cambridge Journal of Economics*, is in principle open to the possibility that the Cold War mattered. By comparison, scholars with a rigorously neoclassical lack of faith in fiscal policy have argued that that the fiscal multiplier is "below unity irrespective of the amount of slack in the economy." Edelstein's quote is from Michael Edelstein, "War and the American Economy in the Twentieth Century," in Stanley L. Engerman and Robert E. Gallman, eds., *The Cambridge Economic History of the United States, vol. 3: The Twentieth Century* (New York: Cambridge, 2000) 401-402n98. See also idem. "What Price Cold War? Military Spending and Private Investment in the United States, 1946-1979," *Cambridge Journal of Economics* 14 (1990), 424-38. The multiplier quote is from Valerie A. Ramey and Sarah Zubairy, "Government Spending Multipliers in Good Times and in Bad: Evidence from US Historical Data," *Journal of Political Economy,* vol. 126, no. 2 (2018) 850-901.

investment meager? The percentage of GDP devoted to investment was only 9 percent when 12 percent was needed to sustain adequate economic growth."[107]

The claim that investment was too low, and that more investment would have solved the problem, is key to Stein's argument. Yet the only source she provides is a single *New York Times* article from 1978.[108] In fact, the share of fixed business investment in GDP in 1978 was higher than it had been at any time during the "golden age."[109] Instead of comparing the investment share to historical performance, she compares it to an arbitrary baseline she does not attempt to justify. Empirical questions aside, Stein assumes that an increase in the investment share will always improve growth, when economists have long recognized that an excessive investment share can actually cause stagnation. For one thing, the investment share has to increase at the expense of something else. The Carter administration plan (unmentioned by Stein) was explicitly to increase the investment share by squeezing consumption and the non-defense government sector—priorities which sound much like the neoliberalism Stein disdains so much. If I have dwelt on this example, it is not to dismiss Stein's work, which did much to redirect historians of the modern U.S. (myself included) towards political economy, but to point out that even in a well-regarded work, the fundamental economic arguments can be treated with an extreme casualness that has serious effects on our understanding of historical reality.

One question that this dissertation might invite from economists is: what if big government had simply not emerged? This was a third possibility besides military Keynesianism

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[107] Judith Stein, *Pivotal Decade: How the United States Traded Factories for Finance in the Seventies* (New Haven: Yale University Press, 201), 175.

[108] In fact, she only provides a page number and a date; I was unable to find the source for the claim on that page,

[109] Shares of gross domestic product: Gross private domestic investment: Fixed investment: Nonresidential (A008RE1Q156NBEA), FRED. <https://fred.stlouisfed.org/series/A008RE1Q156NBEA>

and social Keynesianism. Mainstream economic theory denies the need for big government: it sees the "capitalist system as inherently self-regulating: given some exogenous disturbance, mechanisms operate to steer the economy back to its full employment growth path."[110] Since the 1950s, even academic Keynesians have tended to assume that while there may be short run demand disturbances, in the long run we are all set. The mechanisms of long-run adjustment, and even the definition of the long run, are left vague.[111] Once this can opener is assumed, one must conclude that the U.S. economy would have found another way to consume all the canned food that was no longer being given out as military rations. All of the inputs freed up by the absence of government demand would simply have found alternative uses.

But there is little theoretical or empirical basis for assuming that demand will take care of itself, either in the short or long run.[112] Unused productive capacity is the rule, rather than the exception, in mature American capitalism. One illustration is given in figure 8, below, which shows how capacity utilization in manufacturing (a highly relevant series for military production). As long as resources are unutilized—which seems to be the normal circumstance—output and employment can be considered demand-constrained. This is the objective reason why military spending has so often been experienced as an expansion of output and employment, rather than simply the redirection of resources from one use to another.[113]

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[110] John Cornwall and Wendy Cornwall, *Capitalist Development in the Twentieth Century*: *An Evolutionary-Keynesian Analysis* (Cambridge: Cambridge University Press, 2001) 1.

[111] Marglin, *Raising Keynes*, 41, 47, 72-73.

[112] Steven M. Fazzari, Pietro E. Ferri, Edward G. Greenberg, and Anna Maria Variato, "Aggregate Demand, Instability, and Growth," *Review of Keynesian Economics* 1, no. 1 (2013) 1-21.

[113] The economist Kenneth Boulding captured the essential point: "If the proportion of the economy occupied by the defense industry increases by 1 percent, there must be a decrease totaling 1 percent in the remainder of the economy, *provided the 'economy' includes unemployment*." Kenneth Boulding, "The Impact of the Defense Industry on the Structure of the American Economy," in *The Economic Consequences of Reduced Military Spending,* ed. Bernard Udis (Lexington, Mass: Lexington Books, 1973) 225.

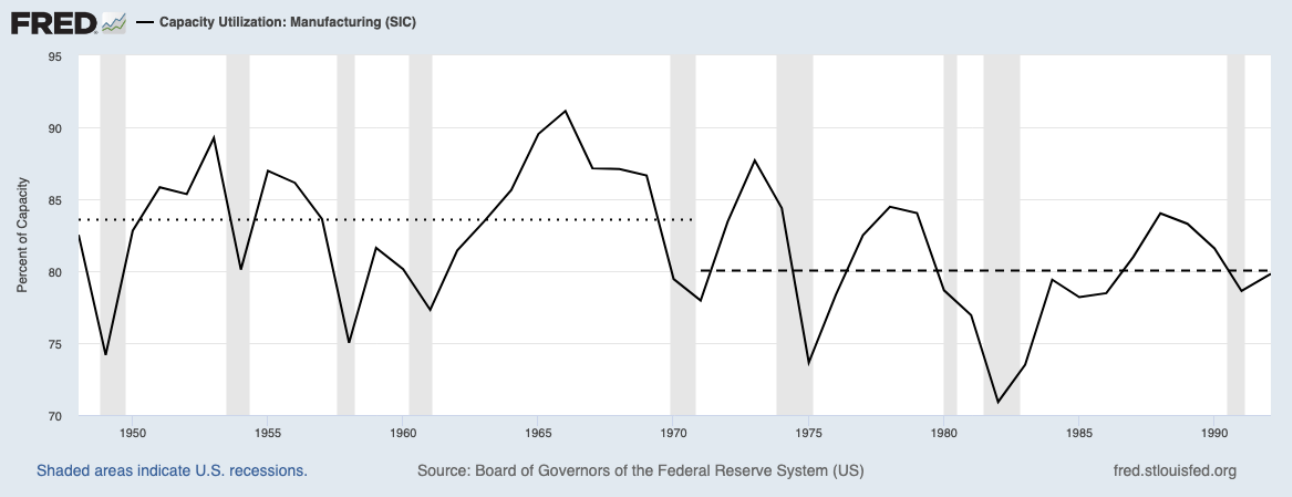

Figure 8: Capacity utilization (output divided by potential output) in U.S. manufacturing, 1948-1992. Note the two highest peaks (1953 and 1966) come during hot wars The broken horizontal lines represent averages for 1947-1970 and 1971-1992.

If it is important to avoid the mainstream fallacy that supply creates its own demand, it is also important for critical political economists to avoid a "vulgar stagnation doctrine" which assumes that advanced capitalist economies are doomed to stagnation in the absence of war.[114] The history of capitalism is distinguished by alternating patterns of euphoria and stagnation. Both boom and stasis have cumulative dynamics that allow them to sustain themselves for decades, but it is also true that periods of boom and stasis can give rise to their opposite. More than other social systems that have existed in history, capitalism is distinguished by lawlike or "quasi-objective" logics. But the capitalist system is evolutionary rather than mechanistic, more like an ecosystem than the space of Newtonian physics. Early Marxist critics of the permanent arms economy tended to portray rising military spending as a prop without which the entire system would simply collapse.[115] This view has been confounded by the empirical record, but

[114] Cornwall and Cornwall, *Capitalist Development in the Twentieth Century,* 153.

[115] T.N. Vance, "The Permanent War Economy," *New International,* Vol. XVII Nos. 1–6 (1951). < https://www.marxists.org/history/etol/writers/vance/1951/permwar/index.htm>

more fundamentally its metaphor is one-sided. Picturing capitalism as a leaning tower that would give way "but for" some extraordinary support may capture elements of reality, especially at specific historical conjunctures. But the image of two static physical objects subject only to the laws of gravity hardly represents either the economic system or the extraordinary forms of intervention which have indeed been crucial to the system's stability.

It would be impossible to deny that to some extent the massive expansion of military spending took resources from away from other possible uses. Just as we cannot assume that all resources would have been employed without military spending, there is no basis to assume that every resource consumed by rearmament would have remained unused if peace had broken out. The Cold War was financed through increased taxes as well as by deficit spending.[116] In an alternate history, taxes could have been lower and personal consumption higher; higher consumption could have sustained investment.[117] The historian's usual response to counterfactual problems is to say that, however things *might* have turned out, they only *did* turn out one way. This point has some validity with regard to military Keynesianism. Even if you assume the American economy would have maintained a relatively high *level* of demand without the Cold War, military spending profoundly changed the *composition* of demand in the world we actually live in. But this sort of response to counterfactuals is unsatisfying. Strong and interesting

[116] Deficit spending creates new demand, while taxing and spending offset each other. However, the first generation of American Keynesians also developed a theory of the so-called "balanced budget multiplier," through which higher government spending can be stimulative even when matched by tax increases. Alvin Hansen specifically connected the concept with military Keynesianism: "Occasionally one still encounters the argument that the increased expenditures following Korea were not expansionist because they were offset by an equivalent amount of taxes. This despite the fact that this matter has been conclusively explored by many distinguished economists including Haberler, Haavelmo, Samuelson, and many others. And as far as I know, no one who has given the matter serious thought has raised a dissenting voice." Alvin Hansen, "Growth or Stagnation in the American Economy," *The Review of Economics and Statistics*, Vol. 36, No. 4 (Nov. 1954) 409.

[117] Studies identifying the major opportunity cost as personal consumption include Boulding, "The Impact of the Defense Industry on the Structure of the American Economy"; Edelstein, "What Price Cold War?"

causal claims imply counterfactual claims, which should be grappled with even if they cannot be answered dispositively by historical methods.

Since this dissertation makes no use of formal economic analysis, my main argument about the significance of military spending is qualitative. Military Keynesianism made possible a breakthrough to a new era of economic growth, and it did this in two ways. First, the permanent arms economy changed the climate of expectations, and through expectations transformed investment demand.[118] As an injection of autonomous demand, the Cold War rearmament occurred very rapidly but also offered unique assurances that the spending would continue. The result was a qualitative transformation on the psychology of business investment, which had remained haunted for twenty years by the debt-driven investment boom of the 1920s and the decade of overcapacity that followed.[119] By 1954, the situation could not be more different. During that year's mild recession, millions of American readers were reassured that "The H-bomb has blown depression-thinking out the window."[120] As Keynes insisted, expectations are relational and reflexive: as investors, we "devote our intelligences to anticipating what average opinion expects the average opinion to be."[121] It didn't even matter if everyone really believed

[118] Michael Bernstein's classic analysis of investment patterns in the interwar periods—which, unlike the present dissertation, *is* the work of a trained economist—develops a similar conclusion. According to Bernstein, investment demand failed to recover during the 1930s because business demanded a "risk-free environment… something secured only later with the start of war." There were two senses in which "World War II, the Korean conflict, and subsequent cold war" removed risk. Politically, war mobilization meant "the business community could control the planning process itself." Economically, the assurance of effective demand meant "there was no risk in the undertaking of investment during times of war or rearmament." Bernstein, *The Great Depression*, 204.

[119] On the growth of excess capacity even before the stock market crash, and long before the trough of the Depression, see R.A. Gordon, "Cyclical Experience in the Interwar Period: The Investment Boom of the 'Twenties," in *Conference on Business Cycles* (New York: National Bureau of Economic Research, 1951) 163-224.

[120] Quote from an unnamed source. "What H-Bomb Means to Business: A Long Period of Heavy Spending, Big Orders," *USNWR*, April 23, 1954, 38.

[121] Keynes, *General Theory*, 155-156.

that the Cold War was an economic stimulus, as long other people did. Through fixed investment—the commitment of abstract purchasing power to specific physical forms—these subjective beliefs about military Keynesianism became objectified in economic reality.[122] Expectations about an imagined tomorrow led to investment decisions today, which in turn provided the demand to validate investment decisions made yesterday.[123]

At an ideological level, the Cold War led to a new era of high-employment growth precisely because it offered a non-economic motivation for economic expansion.[124] Left to themselves, capitalists have no necessary reason to pursue high-employment growth over other objectives such as predictable profits or social authority.[125] For one thing, investment is risky: countless unforeseen developments can mean that a decision to invest today will not be validated by demand tomorrow. But if demand remains strong, the persistence of a high-pressure economy will generate inflation—more specifically, volatile and rising prices in the crucial markets for labor, raw materials, capital goods, and credit.

Carried far enough, inflation contains a profound threat to the reproduction of capitalism. As the economist J.W. Mason has written, "the organization of life through markets...really does

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[122] This definition of investment is taken from Marglin, *Raising Keynes*, 340.

[123] Dimitri B. Papadimitriou and L. Randall Wray, "Minsky's Stabilizing an Unstable Economy: Two Decades Later," in Minsky, *Stabilizing an Unstable Economy*, second edition (New York: McGraw Hill, 2008) xvi.

[124] I use the term "non-economic" advisedly. While the Cold War clearly involved fears about physical security at some general level, the actual shape of Cold War policy (including the size of the defense budget) was determined by a wide range of concerns, some of which were straightforwardly economic and most of which were distinct but inseparable from economics. All the same, the Cold War was a political struggle for international power rather than an expression of the logic of capital at its more abstract levels.

[125] This is not to deny that capitalists also have motives to accumulate. On the contrary, the logic of capitalist competition means that capitalists are often *forced* to invest. The point is that neither exhilaration nor stagnation can be assumed to be the normal state of things. Stephen A. Marglin and Amit Bhaduri, "Profit Squeeze and Keynesian Theory," in *The Golden Age of Capitalism Reinterpreting the Postwar Experience*, edited by Juliet B. Schor and Stephen A. Marglin (Oxford UK: Clarendon Press, 1991) 153-186; James R. Crotty, "Rethinking Marxian Investment Theory: Keynes-Minsky Instability, Competitive Regime Shifts and Coerced Investment" in idem., *Capitalism, Macroeconomics and Reality,* 219-243.

require the fiction of a fixed relationship between quantities of money and real things. There is some level of inflation at which this is no longer tenable." [126] As impersonal market coordination breaks down, the direct powers of the state often expand. As Mason puts it, "Very high demand economies are probably inevitably more centrally planned economies at some point."[127] Thus, indirect demand management always carries the distant threat of direct control.

This helps us understand why growthmanship was invented by New Deal planners and embraced by business later and with great reluctance. It is no accident that historians have followed Charles Maier in identifying the years around 1950 as the moment when the political consensus around "economic growth—the notion of continuously higher levels of national product—came into its own."[128] The pressure of competition with the Soviet Union gave capitalists an entirely new kind of reason to worry about the pace of economic expansion. In like fashion, the slowdown of the U.S. economy in the second half of the 1950s did little to trouble business leaders until the launch of *Sputnik* focused attention on the Soviet growth rate. Once it is recognized that capitalists have no necessary commitment to economic growth, we can better appreciate the significance of military Keynesianism. Cold War military spending was a *tool* for achieving high employment growth, but more fundamentally it was a *reason* to seek high employment growth.

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[126] J.W. Mason, "Alternative Visions of Inflation." The Slack Wire (July 27, 2021). <http://jwmason.org/slackwire/alternative-visions-of-inflation/>

[127] J.W. Mason, "Interview with David Beckworth: On Economic Recovery and Potential GDP." Macro Musings Podcast, Mercatus Center (George Mason University). October 2, 2017. <https://www.mercatus.org/bridge/podcasts/10022017/jw-mason-economic-recovery-and-potential-gdp>

[128] Maier identifies the breakthrough with Leon Keyserling's September 1949 speech, "Prospects for American Economic Growth." In more recent work, Matthias Schmelzer maintains the same periodization. Charles S. Maier, "The Two Postwar Eras and the Conditions for Stability in Twentieth-Century Western Europe" in idem. *In Search of Stability,* 177; Matthias Schmelzer, *The Hegemony of Growth: The OECD and the Making of the Economic* (New York: Cambridge University Press, 2016).

2. The Cold War as Intermestic History

This dissertation also seeks to bring together the history of the domestic United States with the history of American foreign relations. While it is increasingly common to at least acknowledge that the United States exists in an international context, much U.S. history remains completely national in its scope. The history of American foreign relations has produced many fine studies exploring domestic influences on foreign policy, but it this is not the dominant approach to the field, nor has political economy been emphasized relative other factors such as electoral politics.[129] This dissertation is not methodologically a work of diplomatic or international history, and it cannot begin to substitute for the many works on foreign policy on which it draws. But it does offer a modest contribution to the enormous task of integrating the domestic and international history of the U.S. in a single narrative and analytical framework.

The Historiography of Cold War Political Economy

This dissertation argues that the Cold War became the major driving force behind U.S. capitalist development during the "golden age." But what caused the Cold War? One cannot assume the answer is simply the existence of the Soviet Union. As the German historian Eckart Kehr reminded his readers, "A foreign policy has—this may sound trivial, but it is often overlooked—not only an antagonist in front of it but a homeland behind it."[130] Kehr's arguments opened a long conflict in German historiography, and helped inspire a similar debate in U.S. scholarship on the origins of the Cold War. "Orthodox" historians stressed Soviet responsibility and American security concerns while revisionists stressed the importance of American designs

[129] Thomas A. Schwartz, "Henry, ...Winning an Election Is Terribly Important": Partisan Politics in the History of U.S. Foreign Relations" *Diplomatic History* 33 (2009) 173-190.

[130] Eckart Kehr, "Anglophia and *Weltpolitik*" (originally 1928) in idem. *Economic Interest, Militarism, and Foreign Policy: Essays on German History*, ed. Gordon Alexander Craig, trans. Grete Heinz (Berkeley and Los Angeles: University of California Press, 1977) 23.

for world order, the roots of these designs in domestic political economy, and (sometimes) the special threat posed by the appearance of anti-capitalist revolution in the world system.

From the 1980s onward, the orthodox vs. revisionist framework was replaced by something called "post-revisionism," which despite nearly a half century of critiques and updates has still not been replaced by a new comprehensive interpretation. As numerous critics have pointed out, post-revisionism has too often dodged the bitter polemics of the earlier historiography by resorting to a grab-bag approach in which causal relations are underspecified. As Thomas McCormick wrote back in 1982, "While post-revisionists may duly note materialist factors, they then hide them away in an undifferentiated and unconnected shopping-list of variables. The operative premise is that multiplicity, rather than articulation, is equivalent to sophistication."[131] Thus, revisionist historiography, while subject to any number of telling criticisms on points of detail, has not so much been superseded as forgotten.[132]

An encouraging development is the appearance of a widely read survey of the American Cold War by two leading scholars who offer a clear and contestable argument about the role of domestic politics. In *America's Cold War,* Fredrik Logevall and Campbell Craig argue that "for much of the Cold War the domestic variables predominated over the foreign ones."[133] The sharp

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[131] Thomas J. McCormick, "Drift or Mastery? A Corporatist Synthesis for American Diplomatic History," *Reviews in American History* (December 1982) 318–9.

[132] Perry Anderson gives two striking examples. The first is that "forty pages of bibliography in the first volume of the Cambridge History contain no reference" to Gabriel and Joyce Kolko's *The Politics of War*. The second is that when Bruce Cumings once challenged Melyvn Leffler's "failure either to address or even mention the work of Kolko, or more generally the Wisconsin School of historians descending from Williams," Leffler acknowledged that "the writings of William Appleman Williams still provide the best foundation for the architectural reconfigurations that I envision" because "Williams captured the essential truth that American foreign policy has revolved around the expansion of American territory, commerce and culture." Perry Anderson, *American Foreign Policy and Its Thinkers* (New York: Verso, 2017) 48.

[133] Campbell Craig and Fredrik Logevall, *America's Cold War: The Politics of Insecurity* (Cambridge, Mass: Harvard University Press, 2020) 6.

point of their argument is that the Cold War continued, and even escalated, after the basic goals of containment had been met by around 1949.[134] The best explanation for this anomaly is that "regarding the original architecture of containment as adequate" was a view that "served few entrenched political and economic interests in American society." Conversely, "Many more powerful interests stood to benefit from a vigorous prosecution of the cold war and from increased military spending."[135] Coming from respected scholars in the field of diplomatic history, this argument is valuable encouragement for historians of the domestic U.S. to consider how their work might be relevant to the history of the global Cold War.

Given the nature of *America's Cold War* as an accessible survey, it does not provide a clear account of just how domestic interests sustained the Cold War, especially at its origins. Logevall and Craig provide no shortage of likely suspects, falling into the broad camps of political-economic rent-seekers ("the armed forces themselves, civilian officials associated with defense issues, arms industrialists, labor unions associated with weapons industries, universities and businesses that benefited from military research") and electoral vote-seekers ("Politicians, Democratic as well as Republican, recognized the electoral benefits of Cold War belligerence and called for an unyielding line.")[136] But the two are not really parsed out, and an implicit argument is developed that politics rather than economics predominated.[137] This dissertation

[134] In the sense that Germany had been divided and the western half linked to the U.S., Communism sidelined in France, Italy, and Japan, and British imperialism allowed to fall on the pillow of the Truman Doctrine.

[135] Craig and Logevall, *America's Cold War*, 136.

[136] Ibid. 137-138.

[137] Thus, their estimation of revisionist scholarship: "Even the Cold War 'revisionists' who burst upon the scene in the late 1950s and emphasized the primacy of domestic forces in the conduct of U.S. foreign policy generally paid little attention to politics… The emphasis was on internal sources of foreign policy, but not on partisan wrangling, election-year maneuvering, interest-group pandering, or other proximate political concerns." Ibid. 10.

seeks to deliver a more concrete account of the role of domestic forces, and to recover the classic revisionist focus on political economy (rather than electoral politics, though these are clearly important and receive due attention) as the key domestic field.

Capitalism and the Cold War?

Though I have found revisionist scholarship invaluable, this dissertation does not seek to revive wholesale any specific revisionist or New Left interpretation.[138] What is important is to recover the set of questions surrounding the political economy of the Cold War. The phrase "political economy of the Cold War" can take two senses. The first concerns origins: did Cold War foreign policy, especially at its origins, have domestic political economic causes? The second concerns consequences: how did the Cold War transform the domestic political economy? In the crudest possible interpretation of military Keynesianism, these two levels are collapsed: the Cold War was started because of its foreseen and intended effects on the economy. This interpretation is not consistent with the historical record, and even among radical critics very few have suggested that "the cold war and several hot wars were invented just to solve the employment problem."[139]

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[138] The general approach which I have found most inspiring is a loose school of interpretation which Lynn Eden calls the domestic conflict approach, and whose most influential practitioners include Fred Block, Bruce Cumings, Thomas Ferguson. For more citations, as well as a lucid brief on the advantages of this approach, see Lynn Eden, "Review: The End of U.S. Cold War History? A Review Essay," *International Security*, Vol. 18, No. 1 (Summer, 1993), esp. 198n50-51. The most important work in this school postdating Eden's review essay is Benjamin Fordham, *Building the Cold War Consensus: The Political Economy of U.S. National Security Policy*, *1949-51* (Ann Arbor: University of Michigan Press, 1998). While most of the scholars who take this approach appear to have sympathized (at least at one point) with the New Left, it is notable that the same approach has been adopted by at least one political conservative; see: James Kurth, "The Political Consequences of the Product Cycle: Industrial History and Political Outcomes," *International Organization* Vol. 33, No. 1 (Winter, 1979) 1-34.

[139] Joan Robinson, "Second Crisis of Economic Theory," 6. For possible exceptions, which each contain valuable archival research, consider Frank Kofsky, *Harry S. Truman and the War Scare of 1948: A Successful Campaign to Deceive the Nation* (New York: St. Martin's, 1993); Cardwell, *NSC 68 and the Political Economy of the Early Cold War* (New York: Cambridge University Press, 2011) 25. For the contemporary perspective of the Communist Party USA, see James S. Allen and Doxey A. Wilkerson, eds., *The Economic Crisis and the Cold War: Reports Presented to a Conference on "Managed Economy," the "Cold War," and the Developing Economic Crisis; Held at Jefferson School of Social Science in New York, May 14-15, 1949* (New York: New Century Publishers, 1949).

A more sophisticated approach begins from the premise that the Cold War had both political economic causes and consequences, but that these operated on distinct levels. As a first-cut analysis, we might say that the Cold War had military Keynesian consequences but that its origins lay elsewhere, specifically in the project for American global power promoted by U.S. elites from the 1930s onward. But what does this grasp for world power have to do with capitalism? In a penetrating recent study of the American decision for primacy in 1940, Stephen Wertheim rejects political economic explanation. After all, the U.S. has been capitalist far longer than it has been hegemonic: "for most of its existence the United States pursued capitalist growth…while shunning political and military entanglements in Europe and Asia."[140]

This objection loses its force when we recognize that American capitalism has transformed over time. Different moments of capitalist development have corresponded to different foreign policy imperatives. For hundreds of years, the material basis of American capitalist development was continental. This continental space corresponded to the hegemony of the Republican party and its power base of labor-intensive manufacturers, exemplified by their epochal victory in 1896. This system had its own characteristic forms of foreign intervention, which stopped short of the later global commitments.[141] After World War I, capital-intensive multinational firms and international finance became more important to American capitalism.[142]

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[140] Wertheim's concern is the pivot of 1940, not 1950, but the logic extends to the Cold War. Stephen Wertheim, *Tomorrow, the World: The Birth of U.S. Global Supremacy* (Cambridge, Mass: Harvard/Belknap, 2020) 6.

[141] Ideologically, the U.S.'s pre-1940 imperial errands in Latin America and parts of the Pacific were imagined as extensions of the frontier. Materially, these interventions were supported by protectionists in search of underdeveloped export markets, rather than multilateralists in search of reciprocal trade with other industrial powers. Bruce Cumings, *The Origins of the Korean War*, *Vol. II: The Roaring of the Cataract* (Princeton: Princeton University Press, 1990) 87-88; Benjamin Fordham, "Protectionist Empire: Trade, Tariffs, and United States Foreign Policy, 1890–1914," *Studies in American Political Development* 31:2 (Oct 2017) 170-192.

[142] Thomas Ferguson, "Industrial Conflict and the Coming of the New Deal: The Triumph of Multinational Liberalism in America" in *The Rise and Fall of the New Deal Order*, 3-31; Jeff Frieden, "Sectoral Conflict and Foreign Economic Policy, 1914-1940," *International Organization* Vol. 42, No. 1 (Winter, 1988), 59-90.

As the Republicans lost their hold on national power in the 1930s and 1940s, internationalists within both parties formed a powerful and persistent alliance with a Democratic executive increasingly oriented toward free trade and global military alliances.[143]

A historically-specific view of post-1914 American capitalism answers one possible objection. But Wertheim makes a second point which is trickier: "If American policy were driven by the dynamics of capitalism…then the ideas of policymakers would scarcely matter."[144] Certainly any attempt to reduce foreign policy to a mechanical expression of narrowly defined economic interest will fail. But the interpretation of the American Cold War in terms of a Gramscian historical bloc rules out any direct movement from economic interests to specific outcomes. The historical bloc's basis in multinational capital meant that its hegemonic ambitions had to include a greater role for the United States in the world, which required some expansion of military capabilities.[145] But the nature and scope of the new global role was underdetermined by economic facts. The road from the political breakthrough of the Reciprocal Trade Agreements Act in 1934 to the Second World War (much less the Cold War rearmament of 1950) was long and confusing, for both the historical protagonists and for the historians seeking to reconstruct it.

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[143] With only a little violence, Wertheim's account can be put in class terms. He rightly argues that "the agent that made the decision for dominance, is the U.S. foreign policy elite as a group." Further, the locus of this elite power was Northeastern civil society, rather than the state *per se*. Finally, the grasp for world primacy was provoked by the Axis threat "to stop liberal intercourse from traversing the globe." The ideal of liberal intercourse transcends the "narrowly economic," but it is inseparable from the movement of goods and money. The crux of Wertheim's quarrel with revisionism is his denial that the elite believed that the Axis threatened "the economic prosperity of the United States." But his account of post-war planning confirms a classic revisionist argument: American global primacy, if not strictly necessary for prosperity, *was* necessary given the premise that "that capitalist forms of exchange should be preserved." From this, it followed that "the price of preserving liberal economies" would be "increased military expenditures"—the starting point for this dissertation. Wertheim, *Tomorrow the World*, 8, 49, 64.

[144] Ibid. 6.

[145] Thus, even before Wertheim's key turning point of Summer 1940, Dean Acheson already understood that the problem of world order would require "a navy and air force adequate to secure us in both oceans simultaneously and with striking power sufficient to reach to the other side of one of them." Dean Acheson, "An American Attitude Toward Foreign Affairs," address Yale University, Nov. 28, 1939, 6. Dean G. Acheson Papers, Princeton Seminars File, 1953-1970, Folder: July 2, 1953. HSTL
< https://catalog.archives.gov/id/75849275>

The "ideas of policymakers" play a key role in the construction of a historical bloc. In order to assemble a coalition of groups with different interests, the founders of the bloc must find effective forms of representation. Macroeconomics was a form of representation, in which all of economic life was represented as "the economy," and different policy choices were represented in terms of their effects on the economy. The Cold War representation of international relations as a conflict between a free world and a slave world was also ideational at heart, and effective in creating links between interests that did not possess any spontaneous unity.

We can see the role of ideas and representations very clearly in the symbolic repertoire shared by Cold War planners and Keynesian economists. The Cold War architects were tortured by the gap between America's enormous potential power (based on its economic strength) and its relatively small military capacities.[146] As Nitze wrote in NSC-68, "These capabilities within us constitute a great potential force… Between them and our capabilities currently being utilized is a wide gap of unactualized power."[147] This was also the language of Keynesian analysis, which focused on the gap between actual output and potential output. The two visions fused beautifully

[146] The gap between potential and actual power is central to the elegant and largely persuasive account in John A. Thompson, *A Sense of Power: The Roots of America's Global Role* (Ithaca: Cornell University Press, 2015). Like Nitze himself, Thompson recognizes that power is a means to higher ends, not an explanation in itself. For Thompson, the end is the protection of Europe, motivated by the deep cultural (even "civilizational") attachment felt by many Americans for the old continent. Thompson distinguishes this from direct economic interests, but it might be possible to incorporate much of his account into a culturally-enriched account of class formation. For example, Nitze's and Forrestal's joint obsession with Oswald Spengler's *Decline of the West* is strong evidence of the civilizational motive. But the fact that both men were investment bankers illuminates the specific qualities of their concern for the future of the West: intensely anti-communist, obsessed with internal, open to an alliance with the collaborationist business elite of the former Axis powers. Henry Wallace and his followers, no less concerned with the fate of Europe, did not share these attitudes. Reading "civilizational" anxieties through the lens of racial capitalism would provide another materialist approach to Thompson's account, as would Geoff Mann's insistence that Keynesianism is "a theory of 'civilization' and not a theory of capitalism." Nikhil Pal Singh, *Race and America's Long War* (Oakland: University of California Press, 2017); Cherisse Burden-Stelly, "Constructing Deportable Subjectivity: Antiforeignness, Antiradicalism, and Antiblackness during the McCarthyist Structure of Feeling," *Souls* Vol 19, No 3 - Issue 3: Combahee at 40: New Conversations and Debates in Black Feminism (2017) 342-358; Geoff Mann, *In the Long Run We Are All Dead: Keynesianism, Political Economy and Revolution* (New York: Verso, 2017) 63.

[147] May, *American Cold War Strategy,* 42.

into an argument about turning potential into reality. One could argue that the U.S. was in fact *losing* money "because of insufficient spending" and that "An increased outlay of 10-15 billion dollars for security would save from unnecessary wastage of resources and add (through secondary effects) 10-15 billion dollars of income to our private economy."[148]

Besides the shared dread of unused potential, the two ideologies shared a focus on maximizing a fungible end-product. In economics, this was national income: if the national income were increased, through whatever means, the resulting increase in wealth would make it easier to achieve any conceivable goal. Nitze described the geopolitical equivalent: U.S. foreign policy was directed at increasing "the general power of the country," but "the main point about power is that it is fungible, that it can be directed to achieving any one of a number of ends including particular ends which are not foreseen in advance." According to Nitze, the fungibility of power "justifies the analogy…between the role of power in a theory of international politics and wealth in economic theory."[149] This way of imagining systems—in which specific actions can lead to the increase of a universally-useful resource, which can then be directed toward the full range of specific ends—helped blend the line between means and ends, encouraging the accumulation of power and aggregate demand even when no clear purpose beckoned. The rhetoric of military Keynesianism—both the individual visions of Keynesians and Cold

[148] Seymour E. Harris, "Outlays for Security and the Bankruptcy Issue: Remarks Suggested by Nitze's Paper on 'National Defense Policy,'" March 8, 1954. Enclosure to letter from Thomas K. Finletter to Paul Nitze, March 11, 1954. Paul H. Nitze Papers, Library of Congress. Box 93 - Subject File: Finletter Group, 1954. Note Harris's appeal to "secondary effects," a reference to the multiplier effect that distinguishes military Keynesianism from historically prior conceptions of militarized prosperity.

[149] Paul Nitze, "Necessary and Sufficient Elements of a General Theory of International Relations" in *Theoretical Aspects of International Relations,* ed. William T. R. Fox (University of Notre Dame Press, 1959) 7.

Warriors, and their mutual recognition that they were speaking cognate languages—were clearly acts of creative totalization, rather than reflexes of economic structures.[150]

There is another sense in which the framework of a historical bloc requires us to transcend economic determinism. The very success of the hegemonic project requires leadership which is able to discipline the members of the bloc if their perceived self-interest is at odds with the longer-term project. An effective capitalist state is one that can discipline the unruly interests of individual capitals in line with the perceived interests of capitalism as a system. This task requires that state actors possess relative autonomy from economic interests. It is not just that there is little empirical evidence for a direct businessman's plot at the heart of military Keynesianism. Even in principle, hegemony involves the mediation of interests rather than the reflexive transmission of interests into action.

Both Keynesian economics and Cold War policy planning shared systematic perspectives, in which it went without saying that the stability of the system as a whole might come into conflict with the tendencies of its component parts. Macroeconomic management sought to overcome the collective action problems inherent in unplanned capitalist investment, extending the role of the state (usually against objections from business) in order to promote stable accumulation. Cold War policy planners also believed that the future of capitalism required them to reconstruct foreign capitalism and build an expensive national security state at home, which required overriding the immediate preferences of most businessmen.

Bringing the International Back In

[150] At the same time, these discourses of abstractions could only gain purchase in a certain kind of social formation, one constituted by social practices (such as generalized commodity production and exchange mediated by money) which were themselves form of real abstraction. For the argument regarding an earlier moment in the history of capital, see Andrew Sartori, "Global Intellectual History and the History of Political Economy," in Samuel Moyn and Andrew Sartori, eds. *Global Intellectual History* (New York: Columbia University Press, 2014) 110–132.

If we interpret the Cold War as grounded in domestic ambitions for global hegemony, does this amount to an argument for the primacy of the domestic? Logevall and Craig seem to offer two different answers. On the one hand, they write: "Our argument, in brief: for much of the Cold War the domestic variables predominated over the foreign ones." On the other, they introduce the concept of an "intermestic" dimension of policy, in which in which the international and domestic are "dynamically intertwined."[151] Taken seriously, the idea of the intermestic poses serious problems for any attempt to identify whether domestic or foreign variables "predominated." As Barbara Fields once quipped, one might as well ask "whether the numerator or the denominator is more important to understanding a fraction."[152]

Both approaches have their attractions. It is all too easy to say that two variables are intertwined. It is better for historians to give firm, contestable answers about causal priority, rather than the lapse into the vague, non-explanatory multicausality that characterizes too much academic history. On the other hand, it is very difficult to cleanly separate out "domestic" from "foreign" forces, much less to weigh them against each other. Consider an example from Logevall and Craig: "influential entities favored a greater projection of American power in Asia," including "corporations with ambitions in the region."[153] Should US-based multinational corporations (MNCs) with designs on East Asia be considered a domestic or international factor? The practices that constitute global capitalism are premised on the existence of distinct national

[151] Craig and Logevall, *America's Cold War,* 6, 10.

[152] Barbara Jeanne Fields, "Slavery, Race and Ideology in the United States of America," *New Left Review* vol I, no 81 (May/June 1990) 100n12.

[153] The full quote – "corporations with ambitions in the region, certainly, but also right-wing politicians and press barons who believed that America's destiny lay in the East"—raises other questions. Why did right-wing politicians come to believe that destiny lay in the East, especially when the WWII-era non-interventionist right had generally opposed war with Japan? How did the press barons—presumably include William Knowland and Henry Luce—connect to the politicians and corporations? Logevall and Craig, *America's Cold War*, 136-137.

economic space *and* the interaction of national economies. This interaction occurs through inter-state relations as well as private exchange. The growth of American MNCs was a process "located" in both the US and the world. Not only did the process happen in multiple spaces at once, it happened *through* the relation of different places.

There is also the matter of the Soviet Union. Didn't the Cold War have something to do with them? The strength of the domestic interpretations is to point out that Americans who hated and feared the Soviet Union had different ideas about the appropriate foreign policy response. These different ideas were just as clearly associated with different social groups. But to say that the American response to the Soviet Union was mediated through socially-specific interpretations does not imply that the Soviet Union was not in some sense causal. The existence of the Soviet Union did not guarantee that corporate internationalists would win the fight about how to respond, but had the Soviet Union not existed, would corporate internationalists have attempted anything on the scale of the 1950 rearmament?[154]

Some radical scholars have stressed Paul Nitze's admission in NSC-68 that "even if there were no Soviet Union" the U.S. would still need to pursue a new "policy of attempting to develop a healthy international community," with healthy defined as one in which the American social order could "flourish" and American-style social relations could expand around the world. But if we take Nitze's word on this point, we should also be ready to believe when he writes in

[154] Craig and Logevall write, correctly, that "Just as the New Deal created an array of institutions and interests that saw their prosperity and even their existence tied to the ever-growing expansion of the American state, the Cold War did the same thing after 1950 in the arena of foreign policy, though on a greater scale." But this is an explanation of how domestic interests helped perpetuate an existing policy, not how they originated it. To extend the analogy, the interests that brought about Roosevelt's election in 1932 were related, but far from identical, to the coalition that would ultimately benefit from and sustain the New Deal order. Craig and Logevall, *America's Cold War*, 137.

the same document that "'containing' the Soviet system" is also a central objective, distinct from—if interrelated to—the launch of a U.S.-led global capitalism.[155]

It was not simply that nuclear weapons meant that the Soviet Union could conceivably threaten the physical security of the continental United States. The Soviet Union's distinct internal social organization dictated a form of external relations which clashed fundamentally with the U.S. vision for international order long before the Soviet Union had nuclear weapons.[156] Economic life within Soviet Union was organized through the political domination of a party-state. In line with a geopolitical vision of capitalist encirclement, the party-state directed economic activity towards military-industrial ends. Foreign relations were conducted largely through the direct application of force and by reorganizing other societies along Soviet lines.[157] As Norman Naimark put it, the Soviets "bolshevized the [East German occupation] zone not because there was a plan to do so, but because that was the only way they knew how to organize society."[158] Both the U.S. and the Soviet Union attached great importance to what kind of society would emerge in certain parts of the formerly Axis world. It was inevitable that their different modes of foreign relations would lead to conflict that transcended "normal" economic rivalry.

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[155] For studies which quote only the first half, see Cardwell, *NSC 68 and the Political Economy of the Early Cold War*, 25; Leo Panitch and Sam Gindin. *The Making of Global Capitalism: The Political Economy of American Empire* (New York: Verso, 2012) 95.

[156] Indeed, long before the Cold War itself. Alexander Anievas, *Capital, the State, and War: Class Conflict and Geopolitics in the Thirty Years' Crisis, 1914-1945* (Ann Arbor: University of Michigan Press, 2014)

[157] This line of thinking has been developed along materialist premises by Richard Saull, whose approach is summarized in the proposition that "Military conflict was...a defining feature of the Cold War because one state, the USSR, was effectively constituted by coercive-military power." Richard Saull, *Rethinking Theory and History in the Cold War: The State, Military Power, and Social Revolution* (London and Portland: F. Cass, 2001) 81.

[158] Norman Naimark, *The Russians in Germany: A History of the Soviet Zone of Occupation*, 1945-1949 (Cambridge, Mass: Harvard/Belknap, 1995) 467.

Is it possible to focus on the domestic roots of American globalism while also taking seriously the inter-state conflict with the Soviet Union? In the rest of this section, I will propose one way to hold the development of American capitalism and international tensions within a single analytical field. We might call this interpretation the "Gerschenkronian boomerang." The allusion is to economic historian Alexander Gerschenkron's famous argument about the "advantages of [economic] backwardness." According to Gerschenkron, later-industrializing societies can benefit from their lateness through catch-up growth. Practices and technologies that other countries have learned through gradual experience can be implemented all at once; an added benefit is that the late industrializer can construct its entire industrial plant using up-to-date method, while the pioneers of growth are burdened by outdated capital stock.[159]

A political corollary is that later development requires increasing levels of centralized power behind it to make the "big push" from backwardness toward the cutting edge. Classic examples of late industrializers include Germany, Japan, and the Soviet Union, all of which also developed startling new forms of militarized authoritarianism. These late industrializing powers were motivated by a desire to resist incorporation into a world order dominated by British and—increasingly after 1914—American economic power. In his penetrating study of global Fordism, Stefan Link labels this process an "antagonistic development competition…triggered by the rise of the United States." Under threat from American power, other countries recognized their own weakness and adopted American methods precisely in order to maintain their independence from

[159] Alexander Gerschenkron, *Economic Backwardness in Historical Perspective: A Book of Essays* (Cambridge, Mass: Harvard/Belknap, 1966).

U.S. hegemony. Catch-up growth took the form of "post-liberal modernization," with the coercive state deployed in Gerschenkronian fashion towards military-industrial ends.[160]

Link writes at one point: "Because backwardness was measured by reference to the economic and technological level of the United States, Americans were by definition spared its sting."[161] But the history of U.S. militarism shows that Americans were *constantly* worried about being left behind. Paradoxical though it may seem, the U.S. *was* "backwards" in many forms of state capacity, including the capacity to control the world militarily as well as the capacity to actively use fiscal policy to guide the economy. It was precisely the difference between American economic predominance and its underdeveloped military and state capacities that led the authors of NSC-68 to warn that "the Soviet Union will be steadily reducing the discrepancy between its overall economic strength and that of the U.S. by continuing to devote proportionately more to capital investment than the U.S."[162] Less than a decade later, even economic performance became cause for anxiety. As growth rates in other parts of the world, including the Soviet Union, threatened to leave the U.S. behind, John F. Kennedy warned melodramatically that "the hinge of history will move" unless the U.S. implemented a crash program of investment-led growth.[163]

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[160] Stefan J. Link, *Forging Global Fordism: Nazi Germany, Soviet Russia, and the Contest Over the Industrial Order* (Princeton: Princeton University Press, 2020) 11, 18. Link's account is strongly influenced by the interpretation developed across Adam Tooze, *Wages of Destruction: The Making and Breaking of the Nazi Economy* (New York: Penguin, 2008); idem. *The Deluge: The Great War, America and the Remaking of the Global Order, 1916-1931* (New York: Viking 2014).

[161] Link, *Forging Global Fordism,* 16.

[162] May, *American Cold War Strategy,* 37.

[163] The remarks specifically reference rivalry with Khruschev. John F. Kennedy, Remarks at a Civic Luncheon in Chicago., March 23, 1963. Online by Gerhard Peters and John T. Woolley, The American Presidency Project. <https://www.presidency.ucsb.edu/node/237088>

In response, the American Cold Warriors did what all "backwards" countries eventually do: implement a modernization drive, wrapped in patriotic mobilization and focused on increasing investment in armaments and heavy industry, at the expense of consumption. In classic Gerschenkronian fashion, an increasingly centralized U.S. federal government became more and more central to the organization of developmental investment (as exemplified in the aerospace industry, whose capital requirements, it was universally acknowledged, could come only from the state). As with late modernizers who emulated America in order to challenge it, the American Cold Warriors fought the Soviet Union by emulating it. NSC-68 was literally a five-year-plan, built around a set of maximalist production targets for the year 1954. At the time, the right wing of the Republican Party saw this point clearly, raving constantly that rearmament was a form of internal subversion. It is a sign of the success of the internationalist project that these objections, if they are remembered at all, now appear absurd.

The framework of Gerschenkron's boomerang allows us to avoid several potential pitfalls of a domestic, class-focused account of the U.S. Cold War. First, it dispenses with any view in which the rise of corporate internationalism led directly to the Cold War rearmament. Without the startling rise of geopolitically radical late-modernizers, the corporate internationalist project would not have taken the form that it ultimately took.[164] But the radical new forces in the world

[164] Ted Fertik has also argued that the path from "the rise of a new, more powerful bloc of internationally-minded [US] firms" to full-scale American globalism would not have occurred without the intervening emergence of state-led development in other parts of the world. Fertik goes beyond bipolar rivalry to highlight the generative interaction between nationalist industrialization drives in developing countries and the German challenge to Anglo-American world power. In the interwar years. U.S. neutralism and the structure of the capital market prevented U.S. bankers from financing catch-up growth abroad. It took the emergence of successful foreign lending by Nazi Germany—and the threat of its expansion into the Western hemisphere—to force the U.S. state to take on a new set of global responsibilities, exemplified in a 1938 development loan to Brazil and, after 1945, in projects like the Marshall Plan. Just as many government actors and nearly all U.S. businessmen blanched at the dimensions of the State Department's plans for Cold War rearmament, so did U.S. bondholders and exporters object to the Roosevelt administration's hesitant embrace of "a more expansive vision for what it could do with its vast resources." Ted Fertik, "Steel and Sovereignty: The United States, Nationalism, and the Transformation of World Order, 1898–1941" (dissertation, Yale University, 2018).

system are interpreted as responses to American capitalist development—indeed, responses to the same developmental processes that had generated corporate internationalism as a social force in the U.S. even before Hitler or Stalin. We can hold both the history of American capitalism and the emergence of novel international challengers in a single frame of vision, moving from the domestic to the international and back to the domestic. By reimagining military Keynesianism as a developmentalist project—catch-up growth by the leader—we also preserve an important space for ideology and creativity on the part of U.S. elites. The process of state building has never been a direct outgrowth of "economic interests," even if every development project requires a social base and aims at economic transformation.

Leon Trotsky once wrote of later-developing societies such as Russia: "Under the whip of external necessity, their backward culture is compelled to move leaps."[165] During the Cold War, American economic life and political culture did indeed move leaps, precisely through the perceived external necessity represented by late developing states such as the Soviet Union. It is in this sense that the historian Ernest R. May could title an essay "The U.S. Government, a Legacy of the Cold War."[166] Today, the Soviet Union is gone but the domestic institutional

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[165] Leon Trotsky, *The History of the Russian Revolution*, Chapter 1. Translated by Max Eastman (1932). Marxists.org < https://www.marxists.org/archive/trotsky/1930/hrr/ch01.htm> On the likely influence of Trotsky on Gerschenkron, see Anievas, *Capital, the State, and War,* 256.

[166] Ernest R. May, "The U.S. Government, a Legacy of the Cold War," Diplomatic History Vol. 16, No. 2 (Spring 1992), 269-277. In 1990, Bruce Cumings said that it was "commonplace in the literature, at least the competent literature" that the Korean War "enabled the second great wave of American state-building in this century" (after the New Deal). A year later, Ira Katznelson and Bruce Pietrykowski wrote an article on "rebuilding the American state" that did not mention Korea or even the Cold War. This made it possible to claim that "[b]y the later years of the Truman presidency, both the planning and corporatist impulses of the developmental approach to state-market relations were eclipsed"—despite the fact that later years of the Truman presidency (viz. the Korean War) involved more central planning than any time in U.S. history except for WWII. In more recent work, Katznelson doubles down on this artificial separation of the domestic and the international. He describes the "two faces of America's post-New Deal state," a pluralist/proceduralist democracy at home and a secretive, discretionary national security state. The faces are "inextricably fused," but the connection is external, rather than interpenetrating: "garrisons" gave America the "freedom to protect its constitutional practices"; domestic democracy provided legitimation for "global forcefulness." One notes immediately the crudely ideological characterization of the ends of U.S. foreign policy: like the Veteran's Day speaker at an elementary school, Katznelson says essentially that "the troops protect our freedom." Leaving aside this empirically dubious proposition, the Janus-faced image ignores the obvious fact

legacies of Cold War political economy remain all around us, as sediment left behind by the prior motion of uneven and combined capitalist development.

3. Military Keynesianism: A Longer View

Ruptures develop within longer lineages. A brief genealogy allows us to see the longer-term through-lines while also underscoring the precise novelty of military Keynesianism. For thousands of years, societies have chosen how to allocate resources between military or civilian purposes—swords and plowshares, guns and butter. The terms "garrison state" and "permanent war economy" were coined during the 1940s, but militarized societies existed long before.[167] State finance and large-scale military production have been combined throughout history: early "military-industrial complexes" include the Roman *fabricae* and the Venetian Arsenal.[168]

By contrast, scholars who have applied the term "military Keynesianism" to the ancient or late medieval periods are committing a fundamental anachronism.[169] Military Keynesianism is a recent phenomenon. We can think about three nested levels of historical specificity: one nearly transhistorical, one dependent on structures of industrial capitalism that emerged in the nineteenth century, and one whose conditions of possibility were not established until the end of

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that domestic political life has been transformed by the national security state, not just protected by it. Cumings, *Origins* II, 761; Ira Katznelson and Bruce Pietrykowski, "Rebuilding the American State: Evidence from the 1940s," *Studies in American Political Development* 5 (1991): 301–339; Katznelson*, Fear Itself: The New Deal and the Origins of Our Times* (New York: Liveright, 2013) 485-486.

[167] Harold D. Laswell, "The Garrison State," *American Journal of Sociology* 46, no. 4 (January 1941) 455-468; Walter J. Oakes [pseudonym for Edward L. Sard], "Toward a Permanent War Economy?" *politics* (February 1944) 11-17 <https://www.marxists.org/history/etol/writers/vance/1944/02/pwe.htm>

[168] A.H.M. Jones, *The Later Roman Empire: A Social Economic and Administrative Survey,* (Oxford, UK: Basil Blackwell, 1964), Vol. 2: 66, 834-41; Frederic C. Lane, *Venice: A Maritime Republic* (Baltimore: Johns Hopkins University Press, 1973) 163-65.

[169] For creative but anachronistic extensions of the term "military Keynesianism," see Michael Mann, *The Sources of Social Power: Volume 1, A History of Power from the Beginning to AD 1760* (New York: Cambridge University Press, 1986), 150, 234, 278; Giovanni Arrighi, *The Long Twentieth Century: Money, Power, and the Origins of Our Times* (New York: Verso, 1994), 38.

the 1930s. War has always impacted economic activity, sometimes enriching the people who fight them. But the concept of military Keynesianism requires a distinction between the state and society. In societies whose economies were directly structured by political authority, it is almost trivial that one kind of action by political authorities (warfare by feudal lords) would have an effect on another (lordly accumulation of wealth). In these cases, there are not so much military-industrial linkages as military-industrial coterminousness.

An important transformation came with the rise of capitalism, and with it, capitalism's distinctive separation of the economic and the political.[170] Whereas a feudal lord possessed inseparable economic and political power over a peasant, in the world of Adam Smith it was possible to describe state and society as separate spheres, and to study and argue over proper state policy toward society. In her history of guns and the Industrial Revolution, Priya Satia captures the way in which the idea of military-industrial linkages emerged from changing relations between state and society. On the one hand, Satia describes a military-industrial complex in which "[military] contracting and state offices exploded together." But it was only as the military and the economic started to become separated that it became possible to describe a system in which the two were enmeshed, as in the sentence "businesses of the increasingly distinct private sector could thank the state for [its] patronage."[171]

Another historical precondition of military Keynesianism was the emergence of the modern business cycle, as something distinct from natural or climatic rhythms. As Wesley C. Mitchell, the founder of American business cycle research, wrote in 1926, "business cycles are a

[170] Separated means differentiated, not unconnected: unlike a fin, a hand has separate fingers, but they are articulated in one skeletal structure. Ellen Meiksins Wood, "The Separation of the Economic and the Political in Capitalism," *New Left Review* 127 (May-June 1981) 66-94.

[171] Priya Satia, *Empire of Guns: The Violent Making of the Industrial Revolution* (New York: Penguin, 2018) 16-17.

phenomena peculiar to a certain form of economic organization which has been dominant even Western Europe for less than two centuries, and for briefer periods in other regions."[172] During one of the first modern American business depressions, the Panic of 1837, Samuel Colt found it impossible to raise private capital for his Patent Arms Manufacturing Company, so he tried to drum up government business. Colt went to Washington to demonstrate his revolvers to Andrew Jackson and visited Florida to sell guns directly to the U.S. officers fighting to conquer the Seminole. Orders from Florida helped Colt's company withstand the financial panic and the guns helped U.S. soldiers to defeat a previously intractable foe in the Everglades.[173]

A further twist came with a set of interconnected developments in the later 19th century: the second industrial revolution, the "long depression" of 1873-1895, and the naval ambitions of a new form of imperialist state. On the economic side, the depression meant the appearance of significant blocks of unused capacity. On the military side, naval rivalry meant that warfare became increasingly global, high-tech, and capital-intensive. It is not surprising that in this period we find a "proto–naval-military Keynesianism" undertaken by the Great Powers who would eventually clash in 1914.[174] The American economist Thorstein Veblen, whose work anticipated Keynes in several respects, offered one of the first critical analyses of "military Keynesianism" when he noted that:

> it was the Spanish-American War, coupled with the expenditures for stores, munitions, and services incident to placing the country on a war footing, that lifted the depression and brought prosperity to the business community.[175]

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[172] Quoted in Howard J. Sherman, *The Business Cycle: Growth and Crisis under Capitalism* (Princeton: Princeton University Press, 1991) 31.

[173] Jack Rohan, *Yankee Arms Maker: The Incredible Career of Samuel Colt* (New York: Harper & Brothers, 1935).

[174] Dirk Bönker, *Militarism in a Global Age: Naval Ambitions in Germany and the United States before World War I* (Ithaca: Cornell University Press, 2012) 233.

[175] He added that income redistribution, while conceivably an alternative means of preventing depressions, was "manifestly chimerical in any community, such as the modern industrial communities, where public policy is with

But further changes had to occur for military Keynesianism proper to emerge. First, there was a question of scale. For 1889-1914, the U.S. spent 0.71% of GDP on the military, and even the hegemonic U.K. spent just 2.95% for 1870-1914.[176] This was an order of magnitude off from what would come in the rest of the 20th century. The second was a question of conceptualization. The idea of "the economy" as an object of scientific state management emerged only in the 1920s and 1930s. This was not just an ideational innovation but a reflection of social reality: "before the early 20th century, national economies just did not exhibit a sufficient degree of uniformity and predictability or enough systemic properties to give rise to the idea that such institutional regulation was possible."[177]

The transition from naval proto-Keynesianism to a modern discourse of "the economy" can be glimpsed a remarkable government document from 1922 entitled *The United States Navy as an Industrial Asset: What the Navy Has Done for Industry and Commerce*.[178] The document provide an exhaustive catalog of benefits, mostly concrete and specific: physical protection for merchant ships, repression of "threatened revolution" abroad, facilitation of diplomacy, discovery of undersea resources such as "oyster beds," giving directions to disoriented merchantmen. A chapter on ordnance ad industry claimed a role for the Navy research in breakthroughs in high-tech sectors such as steel, instruments, radio, and optics, in addition to the

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growing singleness of purpose guided by business interests with a naive view to an increase of profits. Thorstein Veblen, *The Theory of Business Enterprise* (New York: Scribner's, 1904) 251, 257.

[176] Edelstein, "War and the American Economy in the Twentieth Century," 331n5.

[177] Martijn Konings, *The Development of American Finance* (New York: Cambridge University Press, 2011) 9.

[178] *The United States Navy as an Industrial Asset: What the Navy Has Done for Industry and Commerce*. Office of Naval Intelligence, October 24, 1922 (Washington, DC: GPO, 1923). Radical critics of U.S. foreign policy have cited this publication frequently, perhaps beginning with Robert W. Dunn, "Investments and Foreign Policy of U.S.," *Daily Worker* [New York], July 27, 1928, 6.

more direct impact on shipbuilding and naval yards. But something like a macroeconomic perspective emerges in a later chapter, whose object was not physical production in a specific industry but the impact of Naval finance "on the business life of the nation." The conception of the economy in terms of nominal flows made possible a much broader case for the Navy's benefits "every dollar sent on its business journey by the Navy interests every citizen in some way." Further anticipating the Cold War, the document musters these arguments in order to argue that the American historical tendency to disarm after a war should be suspended in favor of a permanent military-industrial establishment.[179]

A comparison of two texts from the early 1930s offers another snapshot of this historical transformation. The first is John Maurice Clark's *The Costs of the World War to the American People* (1931).[180] The study extensively catalogs direct and indirect costs, but as the title indicates, Clark considers military spending as a deduction from real economic wealth.[181] Just three years later, Paul Einzig published *The Economics of Rearmament*, in which he argued:

> All rearmament does is to absorb part of the surplus products which would otherwise be unsaleable in our present economic system. So long as the problem of adjusting the world's capacity of consumption and the world's capacity of production to each other is left unresolved, any demand for goods, however artificial and unproductive is calculated, on balance, to benefit trade.[182]

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[179] Quotes from *United States Navy as an Industrial Asset,* 4, 8, 123.

[180] John Maurice Clark, *The Costs of the World War to the American People* (New Haven: Yale University Press, 1931).

[181] In terms of national accounts, Clark considered war outlays as an increase in the "value product of government," and probably therefore an increase the "nation's total 'value product.'" But he saw this as "evidence of economic *effort*," not "increased economic welfare." The military product should be deducted from the total in order to arrive at a real index of national income. Clark also deemed it "morally certain" that any war boom had been paid for with depressions (1921 and 1930) that were deeper than they would have been without the war. This boom-bust concept is precisely what was displaced by the "constantly expanding economy" idea embodied in NSC-68. Ibid., 86-87; 278. Emphasis in original. On NSC-68 as the origin of the "stable-growth theme," see Burton H. Klein, *Dynamic Economics* (Cambridge, Mass: Harvard University Press, 1977) 227-228.

[182] Paul Einzig, *The Economics of Rearmament* (New York: Routledge Revivals, 2014) 90.

Two years before Keynes's *General Theory*, one of Keynes's followers reviewed Einzig's book, translating its argument into explicitly Keynesian language:

> expenditure on armaments will, in a time of depression, stimulate activity in the first place in the armaments industries, and secondly in other industries, through the demand for other goods by those employed or making profits in the manufacture of arms. Such a view is, in my opinion, essentially correct, and it is necessary that it should be faced and its implications understood by those who are working for peace.[183]

The next year, 1935, New Deal economists drew up the first ever study of the U.S. government's net contribution to national income. Never before had anyone thought to total up the push and pull of different taxes and expenditures to figure out the overall fiscal thrust—this was simply not how people had thought about the budget. In this inaugural document of demand management, the authors write:

> Under the first four main heads, "Legislative, Judicial, and Executive," "Civil Departments and Agencies," "National Defense," and "Veterans Pensions and Benefits," the items fall without exception into the income-increasing category.[184]

National defense as an "income-increasing" form of government spending: something that would have seemed paradoxical, or even meaningless for most of history, was now part of the ruling political economy of the most important capitalist country in the world. Military Keynesianism had arrived in the United States.

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[183] J.E. Meade, "Armaments and Prosperity," *The Spectator*, Jun 29, 1934, 1004.

[184] Lauchlin Currie and Martin Krost, "Federal Income-Increasing Expenditures, 1932-1935," May 1935, 24. Marriner S. Eccles Papers, Box 72, Folder 5, Item 1. FRASER. <https://fraser.stlouisfed.org/archival-collection/marriner-s-eccles-papers-1343/federal-income-increasing-expenditures-1932-1935-465903>

Chapter 1: Social Origins of Cold War Internationalism

"If it is true that our prosperity depends on that of the world, it is true also that the whole world's economic future hangs on our success at home." – Henry L. Stimson, 1947[185]

The novelty of massive military budgets signaled that Americans had come to believe the world mattered to them in some profound new way. The most common explanation focuses on the changing requirements of "national security." After the bombing experience of WWII, the U.S. could no longer count on the oceanic "physical security from hostile attack and invasion" which it had enjoyed as a free gift of nature.[186] But as the neoconservative Charles Krauthammer once wrote, "if the security of the United States is the only goal of American foreign policy, all that is needed is a minimal deterrent [nuclear] arsenal, a small navy, a border patrol, and hardly any foreign policy at all." This might be accomplished with less than 1% of GDP. Cold War Americans had real nightmares about widespread military destruction within the continental U.S. But there is no unambiguous path from these concerns to the specific globalist strategy that was pursued, and which has remained in place decades after the collapse of world communism.[187]

Some of those who reject security explanations have offered economic explanations for America's embrace of global military supremacy. But others have strongly rejected the premise

[185] Stimson (1867-1950) stands in the history of corporate internationalism as both a prototype (Andover, Skull and Bones, founder of the Council on Foreign Relations, proconsul in Central America, State Department) and a progenitor (his personal disciples included Robert A. Lovett, John McCloy, Robert Patterson, and the Bundys). Henry L. Stimson, "The Challenge to Americans," *Foreign Affairs* Vol. 26, No. 1 (Oct., 1947) 12.

[186] C. Vann Woodward, "The Age of Reinterpretation," *American Historical Review*, Vol. 66 (October 1960) 2.

[187] For this reason, explanations of American Cold War foreign policy in terms of "national security" must define the concept to include much more than what FDR called "the cause of self-evident home defense." Thompson, *A Sense of Power,* 15. In one classic account, the "national security" concerns that motivated American Cold War planners included "Western control of and of American access to the resources of Eurasia outside the Soviet sphere."; Melvyn P. Leffler, "The American Conception of National Security and the Beginnings of the Cold War, 1945-48," *The American Historical Review*, Vol. 89, No. 2 (Apr. 1984) 378.

that the rest of the world was essential to American economic prosperity, whether in terms of export markets, investment outlets, or raw materials. In their most rigorous form, these criticisms offer valuable reminders. The total share of exports and imports in U.S. GDP (7.5% in 1947, then around 4 or 5% for the rest of the "golden age") was low by global standards. The U.S. was unique among major industrial countries in its internal resource and mineral wealth, especially if one considers North America as the relevant economic unit. Despite the significance of American investment to the economies of many other countries, few American capitalists in 1945 had any stake in foreign enterprise. Government initiatives to promote foreign investment regularly encountered indifference from businessmen who preferred to accumulate at home.[188]

Still, there are two fundamental problems with the denial that the Cold War had anything to do with America's place in the world economy. First, the objective unimportance of trade has been overstated. No one denies that specific sectors of the U.S. economy were extremely international.[189] Figures associated with those sectors took the leading role in promoting the

[188] Robert J. Art, "The United States, The Balance of Power, and World War II: Was Spykman Right?" *Security Studies* 14, no. 3 (2005): 365-406; Thompson, *A Sense of Power,* 16-20.

[189] Thompson allows that foreign investment is a more plausible motive for American expansion than export markets or raw materials (oil aside), and that "overseas interests" have "certainly been crucial for some sectors." He therefore finds the sectional interest theory "the most plausible version of the economic interpretation." This partial sympathy reflects the regional cast of Thompson's own theory, which emphasizes the cultural (or even "civilizational") connections between Northeasterners and Europe. Panitch and Gindin likewise concede that exports were "important to particular sectors oil," but dismiss Ferguson's sectoral explanation as an "error," objecting to rigid distinctions between internationally and domestically-oriented sectors as well as to the assumption that capitalists possess a clear and fixed idea of their own interests. Most profoundly, they insist that the tensions of U.S. policy do not just reflect sectoral conflict over control of the state, but tensions between capital and the state. It is not just that the state is relatively autonomous, but that the 1930s-1940s saw a qualitative redefinition of that autonomy. These points are well-taken, but as part of a historical materialist argument they leave a certain mystery about just which interests and agency *did* drive the creation of an American empire. In the book's narrative, as opposed to its analytical passages, the protagonists are still unambiguously sectoral and class-conscious figures such as Acheson, Hull, and Clayton, who are described as "committed" or even "fanatically devoted" to the Open Door. Likewise, the claim that the power of Wall Street "was proved when Congress voted overwhelmingly to endorse Bretton Woods once the Treasury had gotten the bankers onside" suggests that sectoral interests remain key to understanding of the system's origins, if not its continued functioning. Thompson, *A Sense of Power,* 17-20, 180, 253; Panitch and Gindin, *Making of Global Capitalism,* 7, 69-70, 78, 344. Cf. Konings, *Development of American Finance,* 78-86.

thrust toward global power, and state actors frequently expressed the belief (in public and private) that the expansion of world trade was crucial to American prosperity. While some have concluded that these figures were either disingenuous or mistaken, their arguments were not fantastical. A country where world trade is 5% of GDP may have a qualitatively political economy than one where trade is 35% of GDP (as it did in West Germany in 1970).[190] But even the lower figure is large enough to be macroeconomically significant. Private residential investment in the U.S. was also around 5% of GDP during most of the Cold War, and few would suggest that the American economy would have been unaffected if the housing market simply disappeared.[191] Furthermore, effect of relatively small sectors can be magnified at specific historical moments. In 1946 and 1947, net exports directly generated 3.3 million jobs, or around half the total increase in private employment in those years.[192] Without these jobs, American capitalism would have survived. But in the shadow of widespread fears of post-war depression, significantly higher unemployment would have led to significant social upheaval and generated political economic institutions profoundly different than the ones we know today.

Second, the critics of economic explanations adopt an untenably narrow conception of the interests and motives of American capital. In dismissing the importance of world trade and foreign investment, they look only at economic activity within the borders of the United States. But the architects of American globalism were not mercantilists aiming solely to enhance American wealth. Rather, as Paul Nitze wrote, the ultimate end of U.S. military power was the

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[190] Ashoka Mody, *Germany in An Interconnected World Economy*. IMF eLibrary (International Monetary Fund: April 10, 2013) < https://www.elibrary.imf.org/view/books/071/13032-9781616354244-en/ch001.xml>

[191] Shares of gross domestic product: Gross private domestic investment: Fixed investment: Residential (A011RE1Q156NBEA). FRED. <https://fred.stlouisfed.org/series/A011RE1Q156NBEA>

[192] Jason E. Taylor, Bharati Basu, and Steven McLean, "Net Exports and the Avoidance of High Unemployment During Reconversion, 1945-1947," *The Journal of Economic History*, Vol. 71, No. 2 (June 2011) 444-454.

preservation of "an international climate…in which *political groups, organized in the manner of and for purposes similar to those characterizing the United States*, can survive and prosper."[193] Nitze's maxim is indistinguishable from the Marxist argument that, after 1945, the U.S. state would "act, not primarily as a projection of the concerns of US capital, but as a guardian of the general interest of all capitals."[194] To be sure, this represented a form of long-term self-interest: American planners believed that global economic expansion was ultimately necessary for the health of American capitalism, and more immediately that global prosperity would prevent a recurrence of world war and therefore rescue the American social order from the statist nightmare of the "garrison state." But the this-term project had a logic distinct from that of simply expanding U.S. GDP or its share of world trade.[195]

It is a category error to suggest that the fact that "the United States allowed Japan and Western Europe to become its major economic competitors with the help of billions of dollars in aid and military protection" constitutes a categorical falsification of materialist explanations.[196] As a literal roundtable of capitalists (convened by *Fortune* magazine) declared in 1940: "What interests us primarily is the longer-range question of whether the American capitalist system could continue to function if most of Europe and Asia should abolish free enterprise."[197] In such

[193] Nitze, "Necessary and Sufficient Elements of a General Theory of International Relations, 6. Emphasis added.

[194] Anderson, *American Foreign Policy and Its Thinkers,* 55.

[195] In this sense, there is a clear homology between domestic class hegemony (in which the leading class makes "sacrifices of an economic-corporate kind" but preserves for itself a "decisive function" in the "decisive core of economic activity") and international state hegemony. Gramsci, *Prison Notebooks, Vol. II,* 183. The two levels of thinking about hegemony have been fruitfully brought together in neo-Gramscian international relations theory, e.g., Richard Saull, "Rethinking Hegemony: Uneven Development, Historical Blocs, and the World Economic Crisis," *International Studies Quarterly* Vol. 56, No. 2 (June 2012) 323-338.

[196] Francis J. Gavin, "Economists to the Rescue," *ORBIS*, vol. 44, no. 2 (spring 2000) 324-330, here 326. Thompson, quoting Alfred E. Eckes, makes the same dismissal in *A Sense of Power,* 17.

[197] Quoted in Hearden, *Architects of Globalism*, 14.

dark times, there was no contradiction between American economic motives and the encouragement of export-led growth in Japan and Western Europe. It was just this sort of thing that Dean Acheson had in mind back in 1939, when he implored his fellow Yalies "to accept the minor limitations which come from assuming some responsibility for making possible a world of order, to avoid having forced upon us the limitations of a world collapsing about our ears."[198]

Corporate Internationalism

According to Henri Pirenne, "each period into which our economic history may be divided" corresponds to "a distinct and separate class of capitalists."[199] This chapter centers on such a group: international corporate lawyers and investment bankers, along with industrialists oriented toward global markets.[200] In the decades after 1929, people from this these groups eased the United States into a new (and expensive) role as guarantor of world order.[201] It remains a rare

[198] Acheson, "An American Attitude Toward Foreign Affairs," 13.
[199] Henri Pirenne, "The Stages in the Social History of Capitalism," *The American Historical Review* Vol. 19, No. 3 (Apr 1914) 494.

[200] The foundational work is Thomas Ferguson, "Industrial Conflict and the Coming of the New Deal: The Triumph of Multinational Liberalism in America," an argument developed in much detail in idem., "Critical Realignment: The Fall of the House of Morgan and the Origins of the New Deal" (Princeton, dissertation, 1983). Another key work is Frieden, "Sectoral Conflict and Foreign Economic Policy." A kindred analysis runs through revisionist studies of foreign relations, beginning with two figures associated with UC Berkeley: Franz Schurmann, *The Logic of World Power: An Inquiry into the Origins, Currents, and Contradictions of World Politics* (New York: Pantheon, 1974) and Fred L. Block, *The Origins of International Economic Disorder*: *A Study of United States International Monetary Policy from World War II to the Present* (Berkeley & Los Angeles: University of California Press, 1977).

[201] My understanding of corporate internationalism is especially indebted to Clarence Y. H. Lo, "The Truman Administration's Military Budgets During The Korean War" (dissertation , University of California, Berkeley , 1978); William Steinert Hill, Jr., "The Business Community and National Defense: Corporate Leaders and the Military, 1943–1950" (dissertation, Stanford University, 1980); Bruce Cumings, *The Origins of the Korean War*, 2 vols, (Princeton: Princeton University Press, 1981 and 1990); Lynn Eden, "The Diplomacy of Force : Interests, the State , and the Making of American Military Policy in 1948" (dissertation, University of Michigan, 1985); William Burr, "The Truman Administration and European Reconstruction, 1947-1950: Corporate Internationalism and Foreign Aid" (dissertation: Northern Illinois University, 1987), Michael Hogan, *The Marshall Plan: America, Britain and the Reconstruction of Western Europe, 1947-1952* (Cambridge, UK: Cambridge University Press, 1987); and Benjamin Fordham, *Building the Cold War Consensus.* Though most of the authors cited above were identified in some way with the New Left, related conclusions have been derived from a different political starting point by Robert Pollard, *Economic Security and the Origins of the Cold War, 1945-1950* (New York: Columbia University Press, 1985) and James Kurth, *The American Way of Empire: How America Won a World—But Lost Her Way* (Washington, DC: Washington Books, 2019).

point of consensus in Cold War historiography that Truman's foreign policy was made by "a relatively small number of Wall Street lawyers and bankers."[202] They may be critiqued as a "power elite," celebrated as "Wise Men," or simply glossed as the "foreign policy establishment," but few would question the group's coherence or its influence.[203]

The internationalists' ascent was a long process with deep roots but the interwar years were a watershed. In the 1920s, the United States stepped into a new role as a creditor nation. The Depression brought a collapse in world trade, but also domestic political opportunity. A business community previously united in the Republican Party fractured over international political economy. Franklin Roosevelt dislodged the protectionist-Republican system that had dominated national politics since 1896, drawing on support from corporate internationalists. [204] The pro-labor aspects of the New Deal were uncomfortable for even the most open-minded corporate liberal, but internationalism grounded a working relationship that endured into the Truman years.[205]

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[202] Samuel Huntington, "The United States," in *The Crisis of Democracy: Report on the Governability of Democracies to the Trilateral Commission* (New York: NYU Press, 1975) 97.

[203] For best-selling examples of admonition and admiration, see respectively C. Wright Mills, *The Power Elite* (New York and Oxford: Oxford University Press, 1956) and Walter Isaacson and Evan Thomas, *The Wise Men: Six Friends and the World They Made* (New York: Simon and Schuster, 1986). For many additional references, see Priscilla Roberts, "'All the Right People': The Historiography of the American Foreign Policy Establishment," *Journal of American Studies* Vol. 26, No. 3 (Dec. 1992) 409-434.

[204] Walter Dean Burnham, "'The System of 1896'" An Analysis" in *The Evolution of American Electoral Systems*, edited by Paul Kleppner et al. (Westport, Conn: Greenwood Press, 1981) 147-202. Political scientists have criticized the idea of realignments and party systems, but in the case of 1896, the concept has been persuasively defended: "Periodization Schemes and 'Party Systems': The 'System of 1896' as a Case in Point" *Social Science History* Vol. 10, No. 3, Walter Dean Burnham and the Dynamics of American Politics (Autumn, 1986) 263-314; Thomas Ferguson and Jie Chen, "Investor Blocs and Party Realignments in American History," *Journal of the Historical Society* 5:4 (2005) 503-546.

[205] On the absence of corporate liberal support for measures such as the Wagner Act, see Stanley Vittoz*, New Deal Labor Policy and the American Industrial Economy* (Chapel Hill: University of North Carolina Press, 1987).

The protagonists made this plain. Averell Harriman "was a good, hard-shelled Republican until 1928. That year I voted for Al Smith against Hoover for several reasons," including "Republican isolationism," "the Wilsonian policy of supporting the League of Nations," and the reality that "we would not continue to lend money abroad and expect to be repaid unless we changed our tariff policies."[206] Thomas W. Lamont wrote to Henry Stimson: "I was read out of the [Republican] Party by the Wool Club of Boston well over thirty years ago because of my low-tariff views." Stimson replied that his own "lifelong Republicanism" was now confined to local politics. He feared that "so long as so many Republicans in Congress permit themselves to follow the views of the *Chicago Tribune*, they cannot expect to get very far in this international age. If they do, they will wreck the country."[207]

A few statistics can help us picture this new "international age." Compared to 1914, U.S. exports in 1920 were four times greater and in 1944 seven times greater. Wall Street did an average of a billion dollars a year issuing foreign securities in the 1920s, amounting to one-sixth of all issues (in some years, almost one-third). The value of U.S. foreign direct investment (FDI) was 15 times higher in 1929 than it had been in 1900. Total foreign investment (portfolio plus FDI) was worth more than one-fifth of U.S. GDP in 1929.[208] Nonfinancial business also participated, selectively. American industry displayed significant sectoral unevenness. Even

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[206] Quoted in G. William Domhoff, *Fat Cats and Democrats: The Role of the Big Rich in the Party of the Common Man* (Englewood Cliffs, NJ: Prentice Hall, 1972), 17.

[207] Quoted in Ferguson, "Critical Realignment," 152-3. The Chicago Tribune was an archetypal nationalist right-wing paper, published by "Colonel" Robert R. McCormick, an America First activist and scion of the industrial family at the center of the Haymarket violence in 1886. Richard Norton Smith, *The Colonel: The Life and Legend of Robert R. McCormick, 1880-1955* (Evanston: Northwestern University Press, 2003).

[208] Total Exports for United States, FRED. <fred.stlouisfed.org/series/M07023USM144NNBR#0>; Frieden, "Sectoral Conflict," 63, 65; Michael J. Twomey, "Patterns of Foreign Investment in the Third World in the Twentieth Century" (1998) available at <http://www-personal.umd.umich.edu/~mtwomey/econhelp/FDI-Paper.pdf>

during the Depression, investment was relatively high in chemicals, petroleum, processed food, machinery, and aircraft. These industries were linked, on the one hand, to research-driven productivity breakthroughs and, on the other, to new demand patterns (for example, consumer demand for processed food).[209] The same factors that made industries dynamic at home disposed them to seek international outlets for capital and merchandise. Industries that were leaders in both exports and foreign investment included chemicals, petroleum, processed food, machinery, and transportation equipment.[210]

These structural trends lay behind the corporate internationalist project for what Dean Acheson called a "new postwar world system."[211] Acheson personified the establishment: alumnus of Groton, Yale, and Scroll and Key, son of an Anglican bishop, international lawyer at Covington and Burling. He was a Democrat because, like Woodrow Wilson, he understood "the role which his country must play in the realignment of power which the crumbling of empires and emergence of new forces necessitated."[212] This did not make him a New Dealer: Acheson resigned from Treasury in 1934 because dollar devaluation "would violate the obligation of the government to its bondholders."[213] With the coming of war in Europe, he threw himself into the Allied cause, barnstorming from Yale to the convention of the International Ladies' Garment

[209] Michael Bernstein, *The Great Depression.*

[210] Frieden, "Sectoral Conflict," 66.

[211] The phrase is from Acheson's later description of his November 1939 Yale speech. Quoted in Bruce Cumings, "Still the American Century," *Review of International Studies* Vol. 25, The Interregnum: Controversies in World Politics 1989-1999 (Dec. 1999), 280.

[212] Acheson quoted in Michael F. Hopkins, *Dean Acheson and the Obligations of Power* (Lanham, Md: Rowman & Littlefield, 2017) 258.

[213] Henry Morgenthau, *From the Morgenthau Diaries: Years of Crisis, 1928-1938,* Vol. 1 (Boston: Houghton Mifflin, 1959), ed. John Morton Blum, 67; Acheson, *Morning and Noon* (Boston: Houghton Mifflin 1965) 181.

Workers' Union. In these speeches, Acheson evoked a prosperous future grounded in capital mobility, trade expansion, and international monetary reform.[214]

Even the alarmist strategy memo NSC-68 makes clear that "Even if there were no Soviet Union… We would face the fact that in a shrinking world the absence of order among nations is becoming less and less tolerable."[215] But this did not mean that concerns about the Soviet Union were the pretext for a will to power encoded in American capitalism.[216] Historian Campbell Craig offers a helpful thought experiment. If France had emerged as America's rival superpower after 1945, the "competition for economic hegemony would have been fierce" and "some sort of postwar rivalry might well have developed." But the U.S. would not have believed their French rivals were "interested in threatening America directly with military conquest and totalitarian rule."[217] The USSR, unlike France, had been founded by a violent overthrow of capitalism. Under state socialism, internal economic activity was ordered directly and coercively to serve political and military objectives. When the Soviet Union sought to expand its reach, existing social relations (in, say, Czechoslovakia) were overthrown and replaced by state socialism, dominated ultimately by Soviet military power. This mode of expansion generated a conflict with the Unites States that went far beyond mere economic rivalry.

Most Americans did not like the Soviet Union. But this did not mean that they agreed on what the U.S. national interest was or how to best serve it. The ultimate response—an enormous,

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[214] Acheson, *Morning and Noon*, 216-221.

[215] May *American Cold War Strategy,* 52.

[216] For an effective critique of the "pretext" view from within the historical materialist tradition, see Saull, *Rethinking Theory and History in the Cold War,* 131-140.

[217] Campbell Craig, *Destroying the Village: Eisenhower and Thermonuclear War* (New York: Columbia University Press, 1998) 3.

costly, and global rearmament program—was adopted only after years of debate. Faced with this historical reality, it is important to understand where the initially unpopular idea first emerged. Who was the first to predict the phenomenal expansion of military spending? In 1948, Fed governor Marriner Eccles (a Mountain West capitalist sometimes at odds with the New York financial community, including over the defense budget) saw the answer already:

> There is an indication and an expectation certainly on the part of the military and certainly on the part of the people who are *extreme internationalists,* that the budget by 1950 will reach at least 50 billion dollars. There is an expectation that the military program will be expanded within the next two years to 20 billion a year.[218]

One internationalist who stood out for his precocity in understanding the fiscal dimensions of the Cold War was 42-year-old Paul Nitze, who began 1949 as a deputy to Willard Thorp, the Assistant Secretary of State for Economic Affairs. On a trip to Europe in the first half of 1949, British planners told Nitze that between $25 and $45 billion, several times "the cost of the entire Marshall Plan." When he relayed this to Washington, military leaders expressed doubt that Congress would spend even $1 billion on military assistance.[219]

Who was this man who so quickly grasped the fiscal dimensions of the Cold War? Paul Nitze was the kind of teenager whose idea of perversity was to attend Harvard even though Hotchkiss was traditionally a Yale feeder. He was drawn to economics as a "path to

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[218] Address by Marriner S. Eccles: Speech Before Utah Bankers Association, Salt Lake City, Utah, June 29, 1948, Emphasis added. Box 85, Folder 19, Item 1, Eccles Papers, FRASER. <https://fraser.stlouisfed.org/archival-collection/marriner-s-eccles-papers-1343/address-marriner-s-eccles-466820>

[219] The timing of the pivotal trip, and the exact numbers discussed, remain unclear—an example of the unreliability of the retrospective sources which have informed most writing about NSC-68. Fordham, following Nitze's recollections from 1980, places it in Spring 1949 and the cost at $45 billion. Gaddis and Nitze, "NSC 68 and the Soviet Threat Reconsidered" 171; Fordham, *Building the Cold War Consensus*, 34. But in the 1953 Acheson seminars, Nitze places the trip to London in January 1949. Just four years after the fact, Nitze could not remember the exact estimate but called it $25 or $35 billion. Transcript of Princeton Seminars Discussion, Reel 1, Track 1, October 10, 1953, 5. Acheson Papers, Princeton Seminars File, 1953-1970, Oct 10-11, 1953. <https://www.trumanlibrary.gov/library/personal-papers/princeton-seminars-file-1953-1970/october-10-11-1953-0?documentid=1&pagenumber=5>

understanding and influencing the real world," but skipped an econ exam because a "beautiful girl suggested that I go down to Newport for the weekend."[220] Graduating in 1928, Nitze went to work for his father's broker researching investments in Europe. Among his letters of introduction, the most important was from Clarence Dillon, head of the powerful international investment bank Dillon, Read.[221]

Internationalism had long been a hallmark of New York finance. Firms such as Brown Brothers and Lehman Brothers got their start as dealers in slave-grown cotton, which was once the leading U.S. export.[222] But the dimensions of international banking were transformed after World War I, as the international position of the U.S. abruptly swung from debtor to creditor. In the 1920s, Dillon Read invested $160 million in Germany alone.[223] Ferdinand Eberstadt, DR's man in Germany, explained the scale of the bank's operations in terms an American could understand:

> *We have the iron, coal, and steel industry, the United Steel Works, which is approximately the size of Bethlehem Steel, and second only to the United States Steel Corporation.... In the electrical industry we took the Siemens, which recognizes which recognizes as a rival only the United States General Electric… In the banking field, we have selected the Disconto and Deutsche Banks [which] ... correspond to the First National and the National City*.[224]

But when Clarence Dillon hired Nitze in September 1929, he already warned his new employee about an impending depression. He noted that while "the New York banking

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[220] Marilyn Berger, "Paul Nitze, Cold War Strategist, Dies at 97," *NYT*, Oct. 20, 2004, B9.

[221] Paul H. Nitze, *From Hiroshima to Glasnost: At the Center of Decision – A Memoir* (New York: Grove Weidenfeld, 1989) xvi.

[222] Timothy Shenk, "Business Is International: The Rise of the House of Brown, 1800-1866" (thesis, Columbia University, 2007).

[223] Robert Sobel, *The Life and Times of Dillon Read* (New York: Dutton, 1991) 110.

[224] Quoted in ibid., 117.

community had wielded more influence than politicians in Washington since the Civil War," the economic crisis would mean that financiers "no longer control the levers of power and influence; it will be reduced to a secondary element in our society."[225] Dillon was prescient: the market crashed a month later. But he was too pessimistic about his social class. Control over investment remained a powerful lever. The 1937-8 recession, which FDR interpreted as a "capital strike," underlined this point.[226] The president's decision to pursue rearmament made it even more pressing to mend fences with Wall Street. In 1940, FDR called Dillon and asked him to send DR partner James Forrestal to work as a presidential assistant.[227] Soon Nitze received a cable from Forrestal: "Be in Washington Monday morning."[228]

Thus, Nitze could note with pride that investment bankers continued to play an outsized role. To a young researcher, Nitze expounded on why so many Cold War policy planners came from "New York south of Church Street" (his designation for "Morgan Stanley, Dillon Read, Kuhn-Loeb, Lehman Brothers, Brown Brothers Harriman, Lazard, and so on"). These banks "did business for companies in very diverse fields. They'd have to go into a company they didn't know much about, in a business they knew little about." This was "the same kind of thing you have to do down here [in Washington, D.C.]." This general view gave them practice applying

[225] Nitze, *Hiroshima to Glasnost*, xvii.

[226] Brinkley, *End of Reform*, 56-58.

[227] Forrestal had already been involved with the Roosevelt administration through his close friend Paul Shields, a Montanan whose brokerage firm participated in deals organized by Dillon Read. Douglas Brinkley and Townsend Hoopes, *Driven Patriot: The Life and Times of James Forrestal* (New York: Knopf, 1992) 108-117.

[228] When he got the telegram, Nitze was fishing in Louisiana with August Belmont IV, whose family had symbolized the fusion of New York finance and Southern commodity exporters since the days of plantation slavery. Nitze and Belmont had just concluded a Dillon Read deal involving a natural gas holding company. Nitze Oral History, HSTL. < https://www.trumanlibrary.gov/library/oral-histories/nitzeph1>

general patterns of thought to any number of specific programs, such as "Navy shipbuilding, figuring out the logistics and costs, whatever was significant to the outcome."[229]

High-level financiers were accustomed to seeing the economic system as a whole, rather than from the particular perspective of someone with capital sunk into one sector. They were aware of the system's fragility and openminded about the role of government. Nitze claimed that "among the young men of Wall Street," Keynesian economics was "a confirmation of what we had already learned in practice." He and his colleagues quickly understood the Depression as a liquidity trap that called for "massive deficit spending by the government."[230] When economist Alvin Hansen sought to describe the transformation of the American state during the Roosevelt years, he reached for an apt image: "This is neither socialism in production nor even in the ownership of wealth. The government is becoming an investment banker."[231]

If Wall Street provided practical models, independent wealth also allowed for the most abstract contemplation. After a pharmaceutical investment paid off big, Nitze took the 1937-8 year off to read Spengler.[232] The central lesson he absorbed was that "dictatorships were more disciplined, calculating, orderly, and determined—in a word more, serious—than democracies."[233] Translated into Gerschenkronian terms, this meant that coercive centralized states—spawned as late industrializing societies responded to the challenge of liberal Anglo-

[229] Lynn Eden, "Interview with Paul Nitze, 15 January 1980, 9-10:30 a.m. at his office in Arlington," enclosed with Nitze's corrections in Nitze to Eden, April 28, 1980. Nitze Papers, LOC, Box 23, Folder 9, Name Files: Eden, Lynn 1979-80.

[230] Nitze, *From Hiroshima to Glasnost*, xviii.

[231] Alvin Hansen, *Full Recovery or Stagnation?* (New York: Norton, 1938) 318.

[232] Nitze, *From Hiroshima to Glasnost*, xii.

[233] Strobe Talbott, *Master of the Game: Paul Nitze and the Nuclear Peace* (New York: Knopf, 1988) 28.

American capitalism—now threatened to overtake the early industrializers themselves. Such rumination had effects on the real world. Nitze shared the writings of one of his Harvard tutors (George S. Pettee, author of *The Process of Revolution*) with his Dillon, Read colleague James Forrestal. According to Nitze, this was Forrestal's "first systematic exposure to the theoretical approach" to Marxism-Leninism.[234] When Forrestal became the nation's first Secretary of Defense, his theoretical obsession with social decay and revolution moved from the realm of Cambridge bull sessions to the realm of the world-historical.

Nitze's sense that the U.S. might be outstripped by authoritarian late-industrializers came out in his self-described "ambivalent" reaction to National Socialism. On regular visits, he had been struck by "the impressive economic revival which had occurred in Germany" but noted the "obvious dangers" of Hitler's "extremist methods." He "sympathized" with America First, though it is unclear if he belonged to the organization.[235] Nitze's FBI file contains numerous anonymous—and difficult to substantiate—reports of more forceful German sympathies. Most troublingly, "one of his most intimate friends…expressed doubts if Nitze could, with the best intentions in the world, ever conquer completely his prejudices in favor of Naziism, and his fundamental disdain for our forms of government."[236] Whether his glance was sympathetic or just envious, Nitze never denied finding elements of National Socialism "damned impressive."[237]

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[234] Talbott, *Master of the Game*, 31.

[235] Nitze, *From Hiroshima to Glasnost*, 4.

[236] Naturally, a more trustworthy source than the FBI would be needed to judge the accuracy of such claims. Paul H. Nitze FBI Record, File 3 Section 1, 43. FOIA/PA# 1368656-0. MuckRock.
< https://cdn.muckrock.com/foia_files/2019/05/18/1368656-0_-_File_3_-_Section_1.PDF>

[237] Talbott, *Master of the Game,* 28.

He was hardly alone. The Nazi recovery, which many foreign observers attributed to rearmament, was the dominant image of military stimulus in U.S. discourse until 1940.[238]

In addition to a style of thought, the elite social world provided an intimate venue for collective action. State Department official John Ohly recalled that men like Marshall, Lovett, Acheson, and Harriman were already "close personal friends" because of experiences going back to "the war years or, even earlier, in the investment and banking community in New York." Beneath these cabinet-level officials, a secondary level of officials "met almost every week for lunch at the Metropolitan Club, where Paul Nitze was a member." It was these social networks, not just official channels, that "made the complex international security affairs organization work."[239] The networks were unbound by national boundaries. Working with Milanese industrialists, Forrestal raised funds for Italian anti-communists by "passing the hat" at the Brook Club.[240] Forrestal's major conduit of funds to Italy, Edmund Palmieri, was a protégé of Charles Evan Hughes, the Supreme Court Chief Justice who was also the central figure in in the political world of New York corporation lawyers.[241]

The networks were constituted in the household as well as the gentleman's club. Nitze's wife was Phyllis Pratt, whose grandfather Charles Pratt had co-founded the Standard Oil

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[238] For dystopian images of a rearmament-recovery during the late New Deal, see Barker, "Macroeconomic Consequences," 13-14. For an argument that the Nazi recovery, because it deliberately limited the consumption multiplier, should not be regard as Keynesian, see Tooze, *Wages of Destruction*, *698n80*. An interesting comparison is Michael Kalecki's contemporary account of how government stimulus of idle capacity "need not necessarily be associated with a commensurate rise in the standard of living of the broad masses of the population. Kalecki, "Stimulating the Business Upswing in Nazi Germany" (originally published 1935) in idem., *Last Phase in the Transformation of Capitalism,* 65-73, here 73.

[239] Oral History Interview with John H. Ohly, November 30, 1971. HSTL. <https://www.trumanlibrary.gov/library/oral-histories/ohly>

[240] David Wise and Thomas B. Ross, *The Espionage Establishment* (New York: Random House, 1967) 166.

[241] Hoopes and Brinkley, *Driven Patriot*, 315-6; Daniel Ernst, *Tocqueville's Nightmare: The Administrative State Emerges in America, 1900-1940* (Oxford, UK and New York: Oxford University Press, 2014).

Trust.[242] In 1948, five of the top ten largest U.S. corporations were oil companies, three of them descendants of Standard Oil.[243] The oil industry had a number of special characteristics that gave it an affinity with the Roosevelt and Truman administrations.[244] It was capital intensive, so that pro-labor legislation affected operators relatively little. The industry also depended on the government to regulate its extreme price volatility, with the price-fixing Connally Hot Oil Act (1935) providing sectoral exemption from the Supreme Court's overthrow of early New Deal corporatism. The oil concerns were linked to the non-Morgan investment banks, dating back to John D. Rockefeller's relationship with Jacob Schiff of Kuhn, Loeb.[245] Most fatefully, the uneven distribution of oil throughout the world made the business thoroughly international. By 1934, U.S. companies had concessions in Latin America, the Middle East, and the Netherlands East Indies. During WWII, state planners also became convinced that postwar energy needs would require much larger foreign exploration.[246]

Rockefeller money also funded new forms of social science research, much of it disbursed by Beardsly Ruml, an economist who headed the fellowship program at the Laura Spelman Rockefeller Memorial Fund in the 1920s, before going on to serve as dean of social sciences at the University of Chicago, an executive at Macy's, and a director of the New York

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[242] Upon Nitze's ascension to head of State Department policy planning, the vice-president of Standard Oil of Indiana sent congratulations. In reply Nitze wrote: "I am sure you know I shall need a great deal of support and understanding from men like yourself." Thomas E. Sunderland to Nitze, Dec. 29, 1949 and Nitze to Sunderland, Jan 16, 1950, in Nitze Papers, LOC, General Correspondence, Box 8, Folder: 1946-1951.

[243] Thomas Ferguson, *Golden Rule: The Investment Theory of Party Competition and the Logic of Money-Driven Supply Systems* (Chicago: University of Chicago Press, 1995) 136-157.

[244] Ferguson, *Golden Rule*, Table 2.1: Largest American Industrials, 1909–1948 (Ranked by Assets) 139.

[245] Ron Chernow, *Titan: The Life of John D. Rockefeller, Sr.* (New York: Knopf, 1998), 372-373.

[246] David Painter, *Oil and the American Century* (Baltimore: Johns Hopkins University Press, 1986); Nathan J. Citrino, "Internationalist Oilmen, the Middle East, and the Remaking of American Liberalism, 1945-1953," *The Business History Review* Vol. 84, No. 2, A Special Issue on the Oil Industry (Summer 2010) 227-251.

Fed.[247] Ruml had as strong a claim as any to be the founder of Keynesian policy in the United States, having personally persuaded Roosevelt to accept deficit spending in the midst of the 1938 recession (as a retail executive, he understood the importance of purchasing power).[248] In 1945, Ruml offered a frank argument for functional finance, or the view that there were no strictly financial constraints on government spending (the upshot, for Ruml, was that the corporate income tax could be abolished).[249] Ruml also ranks among the most foresighted observers of Cold War budgets. In May 1948, a year before Nitze's pivotal visit to Europe, Ruml already predicted that defense spending would cost up to $30 billion annually.[250]

"Corporate internationalism" might conjure images of urbane Northeasterners. But New York financial power had long rested on an alliance with white Southern commodity exporters.[251] Since Jefferson, Southerners had been leading free traders. Between 1896 and 1932, the only Democratic president was Virginia's Woodrow Wilson, a visionary internationalist and recalcitrant racist.[252] The 1934 Reciprocal Trade Act was the work of Tennessean Cordell Hull, whose commitment to tariff reduction dated to the 1880s.[253] Attracted to Hull, Texan Will

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[247] "Beardsley Ruml, 65, Tax Planner, Dead," *NYT*, April 19, 1960, 1.

[248] Herbert Stein, *The Fiscal Revolution in America,* revised edition (Washington, DC: The AEI Press, 1990) 109-116.

[249] Beardsley Ruml, "Taxes for Revenue are Obsolete," *American Affairs* Vol. VIII, no. 1 (Jan 1946) 35-39.

[250] Herbert Koshetz, "Civilian Say Urged by Ruml in Defense," *NYT*, May 11, 1948, 37.

[251] Philip S. Foner, *Business & Slavery: The New York Merchants & the Irrepressible Conflict* (Chapel Hill: University of North Carolina Press, 1941); Peter Trubowitz, *Defining the National Interest Conflict and Change in American Foreign Policy* (Chicago: University of Chicago Press, 1998) 96-168; James R. Kurth, "Between America and the World: The New York Foreign Policy Elite," in *The American Way of Empire,* 339-364.

[252] The largest donor to Wilson's presidential campaigns was his close friend and Princeton classmate, Cleveland Dodge, a banker whose family mining business had originated as a New York import-export house in the early 19th century. "Cleveland H. Dodge, Philanthropist, Dies" *NYT*, June 25, 1926, 1; Ferguson, *Golden Rule*, 135.

[253] Michael A. Butler, *Cautious Visionary: Cordell Hull and Trade Reform, 1933-1937* (Kent, OH: Kent State University Press, 1998) 7.

Clayton, the largest cotton broker in the world, left the anti-FDR Liberty League and rejoined the Democratic Party.[254] Clayton would become active in the Committee for Economic Development (CED), an influential businessmen's Keynesian organization convened by the conservative Texas banker Jesse Jones.[255] Southern legislative support for internationalism had been crucial to preparedness and Lend-Lease, and it would be crucial for Cold War internationalism as well.[256]

The New Economics

Paul Nitze claimed that investment bankers "saw much of what Keynes had to say about economics…long before Keynes had published his theory."[257] But when he had to make an economic argument, Nitze did not rely on his own practical wisdom. He turned to professional economists, whose emergence as an authoritative source of expertise dates to the 1930s and 1940s—just the moment when plans for an American-led world order were coming together. Americans had experienced wartime prosperity before without allowing the consolidation of a permanent peacetime arms economy. If this changed in the late 1940s, one reason was the novelty of expert arguments that government demand could lead economic growth.

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[254] Ferguson, *Golden Rule,* 204. On Clayton's global scope, see Mira Wilkins, *The Maturing of Multinational Enterprise: American Business Abroad from 1914 to 1970* (Cambridge, Mass: Harvard University Press, 1974) 199.

[255] Paul G. Hoffman, the first head of the CED, gives Jones prime credit for founding the CED in "Jobs: The Key to the Maintenance of Freedom" (April 9, 1943). William Benton Papers, University of Chicago, Box 257, Folder 4. Even within the CED, Clayton stood out for his emphasis on exports. "Committee for Economic Development, Detailed Discussion Notes - Research Committee and Research Advisory Board Meeting, Nov 11-12, 1944, Chicago," 15, Benton Papers, Box 258, folder 5.

[256] Trubowitz, *Defining the National Interest*, 165-168.

[257] Paul Nitze, "The Implications of Theory for Practice in the Conduct of Foreign Affairs" (1954) reprinted as Appendix 5 in Nicholas Guilhot, *The Invention of International Relations Theory: Realism, the Rockefeller Foundation, and the 1954 Conference on Theory* (New York: Columbia University Press, 2011) 277-280, here 278. In a later reminiscence, Nitze revealed his own lack of comfort with the New Economics, contrasting his own economics training with that of the Swedish diplomat Dag Hammarskjöld. Per his interviewer's transcription, Nitze "thought a great deal of [Hammarskjöld's] economics, though it was very different from Nitze's. Nitze's was Marshallian (Alfred, not George) and Hammarskjöld's was national accounts." In short, Hammarskjöld was a macroeconomist; Nitze had gone to school before such a thing existed. Lynn Eden, "Interview with Paul Nitze."

The emergence of economic expertise is not just intellectual history. Its social significance is illuminated by Charles Maier's account of how the bourgeoisie renewed its hegemony across the upheavals of 1914-1945.[258] Stabilization took place in two stages. After 1918-1920, capitalists defeated movements for workers' control of production. Even parties of the left accepted "the premise that the modern industrial order must operate under hierarchical chains of command." But the conquest of the factory floor was not matched by an adequate macroeconomic program. The maintenance of aggregate demand was obstructed by the international gold standard and the domestic balanced budget. The politically explosive unemployment of the 1930s made this point unmistakable. Bourgeois legitimation was only secure when control over the labor process could be complemented by control of the economy.

This was what the new economics promised. It started with a diagnosis: the economy is not self-adjusting.[259] No automatic mechanism ensures that the overall level of demand for goods and services will coincide with productive capacity. Aggregate demand could be too high, leading to inflation, or too low, leading to unemployment and idle capacity. The key to this instability is the most volatile component of aggregate demand: investment demand, or the demand for plant and equipment. Investment is volatile because it depends on expectations about future profits, which in turn depend on conditions subject to fundamental uncertainty. A collapse in capitalist expectations leads to a downturn in investment, and through a multiplier process to a

[258] Charles S. Maier, "The Two Postwar Eras" 153-184. Maier's article is about Europe, but his periodization can be extended to the U.S. if allowances are made for the radically different wartime experience and the absence of fascism. On U.S. cognates for European workers' councils, see David Montgomery, *Workers' Control in America: Studies in the History of Work, Technology, and Labor Struggles* (Cambridge: Cambridge University Pres, 1979). For a trans-Atlantic panorama of the syndicalist high tide, see Mike Davis, *Old Gods, New Enigmas: Marx's Lost Theory* (New York: Verso, 2018) 1-155.

[259] John Maynard Keynes, "A Self-Adjusting Economic System?" *New Republic* (Feb 20, 1935) 35-37.

broader decline in output and employment. Cutting prices or wages—the traditional medicine for a slump—proves ineffective or leads to a further decline in demand.

Without intervention, such a downturn could be self-perpetuating. Government spending could boost aggregate demand, employing workers and generating profits in the industries from which government purchased output.[260] This first-order effect would also encourage new business investment, which in turn would generate further expansion. This expansion could be sustained until full employment was achieved. The recovery process included new investment, which is both a source of demand and ultimately a source of new productive capacity. Therefore, the expansion could become an open-ended growth process rather than the mere restoration of pre-slump production levels. The upshot was politically transformative: the resources mobilized by government spending would not be withdrawn from alternative (private) uses. Instead, they would come from existing capacity that would have otherwise remained idle, or from new capacity created by investment that would not have otherwise taken place.

Keynes' writings are the most famous locus of these ideas. But the idea of a "Keynesian revolution" has been subject to powerful critique. Proto-Keynesian ideas can be found throughout the history of capitalism.[261] Even if one accepts the 1920s-1930s as a breakthrough,

[260] The most effective stimulus would come from deficit spending, but later developments in theory suggested that under certain conditions even tax-funded government spending would generate a so-called balanced-budget multiplier. Roger E. Backhouse, *Founder of Modern Economics: Paul A. Samuelson: Volume 1: Becoming Samuelson, 1915-1948* (New York: Oxford University Press, 2017) 414-424

[261] Already in 1817, the framework knitters of Leicester put forth a resolution arguing that higher wages would increase consumption and thus employment. Concerning more formal economic analysis, David Laidler has argued that the basic elements of the *General Theory* could already be found in monetary and business cycle theory dating back to the late 19th century. Stephen A. Marglin and Amit Bhaduri, "Profit Squeeze and Keynesian Theory,"154; David E.W. Laidler, *The Golden Age of the Quantity Theory* (Princeton: Princeton University Press, 1991); idem. *Fabricating the Keynesian Revolution Studies of the Inter-war Literature on Money, the Cycle, and Unemployment* (Cambridge: Cambridge University Press, 1999).

independent origin stories can be told without centering Keynes.[262] American institutionalist economists produced their own tradition of business cycle research centered on the National Bureau of Economic Research (NBER), established in 1920. The advocates of a "compensatory spending" approach within the New Deal came to their ideas largely independently of Keynes. [263] Since 1936, "Keynesian" economics and policies have often diverged from what Keynes himself might have recommended. This is what Keynes' protégé Joan Robinson meant when she derided her American counterparts "bastard Keynesians," and what Robert Solow meant when he freely identified himself with "the eclectic American Keynesianism of the 1950s and 1960s."[264]

Keynes was only one participant in the transnational invention of macroeconomics. Within his lifetime, he found himself at odds with self-identified Keynesians.[265] But it requires heroic efforts to ignore his impact on early American macroeconomists. The *General Theory*, Paul Samuelson said, "caught most economists under the age of 35 with the unexpected virulence of a disease first attacking and decimating an isolated tribe of South Sea islanders."[266]

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[262] Adam Tooze is comfortable with the idea of a "quantum leap" in practices of economic knowledge during the interwar but maintains that this can be narrated "almost entirely without reference to the Keynesian revolution." This is a worthwhile corrective to more Keynes-centric versions of the "invention of the economy." Adam Tooze, *Statistics and the German State, 1900-1945: The Making of Modern Economic Knowledge* (Cambridge, UK: Cambridge University Press, 2001), 13, 19; cf. Timothy Mitchell, "Fixing the Economy," *Cultural Studies,* vol 12, no 1 (1998) 82-101.

[263]According to Perry Mehrling, even the "apparent Keynesianism" of Alvin Hansen "was in fact already a feature of his thought in the early 1930s," that is, before Hansen's ostensible conversion to Keynesianism. Hansen's true formation was "equal parts American institutionalism and continental business cycle theory." Perry Mehrling, *The Money Interest and the Public Interest: American Monetary Thought, 1920-1970* (Cambridge, Mass: Harvard University Press, 1997) 131.

[264] Joan Robinson, "The Age of Growth," *Challenge*, vol 19, no 2 (May/June 1976), 5; Robert M. Solow, "A Theory is a Sometime Thing," *Review of Keynesian Economics*, 6(4) (2018), 421.

[265] At one 1941 dinner in Washington, Keynes found some young American Keynesians (including Walter Salant) excessively dismissive of fiscal restraint. The master, "obviously somewhat displeased," told the disciples "On this point you are more Keynesian than I." F. Taylor Ostrander, "Recollections of a Dinner for John Maynard Keynes," *Research in the History of Economic Thought and Methodology,* Volume 20-A (2002).

[266] Paul A. Samuelson, "Lord Keynes and the General Theory," *Econometrica* Vol. 14, No. 3 (Jul., 1946), 187.

Looking beyond the university, a generation of economists distressed by depression and war found inspiration in Keynes' energetic (and apparently effective) public career.

To reflect all these ambiguities, this chapter refers to "the new economics" rather than Keynesianism. This is a phrase that contemporaries would have associated with Keynes.[267] But the phrase also implies eclecticism, as when *Time* magazine referred to "the 'new economics,' a kind of Keynesianism-plus."[268] The phrase also translates into "the new economists," a name for the cohort of economists shaped by Depression and war and fundamentally concerned with the political control of the economy. If their orientation was not purely Keynesian, it *was* new—and no one doubted it had something to do with the man from Cambridge, UK.

Countercyclical public works was an old idea, but until the 1930s it was not founded on theoretical grounds.[269] It was only when economists became experts, rather than humanitarians or political tacticians, that fiscal policy came into its own.[270] Expertise involved concrete technologies of power-knowledge. Activist macroeconomic policy required a way of measuring the economy, an analytical object (captured in the form of the Gross National Product) which was new in the 1930s.[271] It was not until 1935 that Federal Reserve economist Lauchlin Currie and his staff began to calculate the government's net contribution to national income—that is to

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[267] *The New Economics: Keynes' Influence on Theory and Public Policy,* edited by Seymour E. Harris (New York: Knopf, 1947)

[268] "The Economy: Problems of Success," *Time*, Dec 3, 1965, 41.

[269] Marglin, *Raising Keynes,* 42, 56-60.

[270] Within Keynes' own output, *Can Lloyd George Do It?* (1929) advocated public works spending but *The Means to Prosperity* (1933) deployed multiplier analysis. For selection from each, see *The Essential Keynes*, edited by Robert Skidelsky (New York: Penguin Classics, 2016), 318-338; 359-372.

[271] Simon Kuznets, "National Income, 1929-1932" (New York: NBER, 1934) <https://www.nber.org/system/files/chapters/c2258/c2258.pdf>; Timothy Shenk, "Inventing the American Economy," (dissertation, Columbia University, 2016).

say, to figure out the general fiscal thrust resulting from the push and pull of countless individual acts of taxing and spending.[272] Such a data series sounds so fundamental that it is hard to believe there was a time before the government kept track of such things: this gap between our contemporary expectations and the reality of the 1930s is the substance of the macroeconomic revolution in the U.S. When recession hit in 1938, Currie's data gave advocates of compensatory spending a weapon in the "struggle for the soul of FDR."[273] By showing that the slump had been preceded by a net reduction in the government contribution, they were able to make a case that spending was not to blame and might provide the cure. [274] Such practical work to create the New Deal's belated embrace of income-increasing deficit spending as an explicit measure of economic recovery, not just a humanitarian relief project which might sometimes, by accident, have a net stimulative effective on the national income as a whole.

"Before Keynes," recalled Richard V. Gilbert, "economists were largely second-rate clerks in government and business."[275] Gilbert's own trajectory illustrated what came next. After receiving his PhD in 1931, he taught economic history and money and banking. In 1938, he and several co-thinkers published *An Economic Program for American Democracy* (1938), which argued for deficit spending on public investment. The book sold well, and Roosevelt

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[272] Already, "national defense" was classified as an "income-increasing" form of federal spending—an early breakthrough toward military Keynesianism. Lauchlin Currie and Martin Krost, "Federal Income-Increasing Expenditures, 1932-1935," May 1935, 24. Marriner S. Eccles Papers, Box 72, Folder 5, Item 1. FRASER. <https://fraser.stlouisfed.org/archival-collection/marriner-s-eccles-papers-1343/federal-income-increasing-expenditures-1932-1935-465903

[273] Herbert Stein, *The Fiscal Revolution in America*, Ch. 6.

[274] Lauchlin Currie, Confidential Memo: Causes of the Recession, April 1, 1938. Marriner Eccles Papers, Box 63, Folder 11, Item 9. FRASER. <https://fraser.stlouisfed.org/archival-collection/marriner-s-eccles-papers-1343/causes-recession-464079>

[275] Quoted in George Rosen, *Western Economists and Eastern Societies Agents of Change in South Asia, 1950-1970* (Baltimore: Johns Hopkins University Press, 1985) 22.

recommended it to his son. Harry Hopkins brought Gilbert and Walter Salant (an *Economic Program* co-author) into the Commerce Department's new Division of Industrial Economics. Salant, two decades younger than Gilbert, had encountered Keynes' ideas while studying in Cambridge.[276] Salant remembered one Commerce report he helped prepare as "perhaps the first statement in an official document of what is now called the 'new economics.'"[277]

In September 1939, the Division of Industrial Economics went to war. Salant and Gilbert argued that rearmament could be provided out of economic expansion, rather than through taxation or repression of demand elsewhere in the economy, "until such time as we have reasonably full utilization of our resources."[278] As Salant remembers, "we wanted to get all-out production, and our estimates of how high production could go were regarded generally as wildly exuberant by other people."[279] In response to such doubts about potential production, Gilbert and Salant developed estimates of the potential output of the U.S. economy—something that astoundingly did not exist.[280]

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[276] The authors, including several who were anonymous because of their government jobs, were Richard V. Gilbert, Lorie Tarshis, Paul M. Sweezy, Maxine Y. Sweezy, John D. Wilson, Arthur W. Stuart, and George H. Hildebrand, Jr. Emile Despres, Alan R. Sweezy (Paul's elder brother), Walter A. Salant, and perhaps (depending on recollections) Robert Bangs, Martin Krost, and others unnamed. The story of the *Economic Program* and its authors is documented in Tim Barker, "Macroeconomic Consequences of Peace: American Radical Economists and the Problem of Military Keynesianism, 1938–1975," *Research in the History of Economic Thought and Methodology* 37A (2019).

[277] Walter Salant oral history, March 30, 1970. HSTL. <https://www.trumanlibrary.gov/library/oral-histories/salantws>. 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: Princeton University Press, 1989), 27-51.

[278] Gilbert's presentation, September 1940, quoted in Byrd L. Jones, "The Role of Keynesians in Wartime Policy and Postwar Planning, 1940-1946," *American Economic Review* Vol. 62, No. 1/2 (Mar. 1, 1972) 126.

[279] Salant oral history, HSTL. Two crucial memos were "The Magnitude of the Recovery Problem" May 1940. Salant Papers, HSTL. Box 79, Folder: "The Magnitude of the Recovery Problem," May 1940; "National Defense and Fiscal Policy," June 19, 1940, Chronological File, 1934-1995, Box 73, Folder: 1940.

[280] There was already a Brookings study on *America's Capacity to Produce*, but rather than imagine economic expansion, this study used the pre-Depression economy as a baseline. Edwin G. Nourse and Associates, *America's*

Gilbert's participation in the mobilization permanently transformed national income accounting. As chief economist of the Office of Price Administration, he helped replace Simon Kuznets's original national income methodology with a distinctively martial Keynesian framework. For Kuznets, defense spending was an intermediate good which provided society with security, rather than a contribution to the pool of final goods and services. Such spending should be counted as a deduction from national income, not a contribution.[281] Gilbert and his bureaucratic allies "struggled to get the US to invest in war capacity" because "the administration worried that such investment would be bad for the economy on the basis of Simon Kuznets's definition of the economy."[282] Drawing on the latest work by Keynes, Gilbert recast gross national product so that it would include military production as a contribution to national income. This redefinition allowed government military purchases to enter directly into gross national product, laying the statistical foundation for post-1945 common sense about the relation between defense spending and the economy.[283]

The contribution that macroeconomists made to the war helped make the reputation of the new economics, but it also revealed its political limits as a political program. It was the economists and statisticians, closely associated with New Deal reform forces, that fought successfully for "all out" production against businessmen who were reluctant to expand capacity. They also ensured that the military's requests for production were kept within the range of the

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Capacity to Produce, Institute of Economics of the Brookings Institution, Publication no. 55 (Washington, DC: Brookings Institution, 1934).

[281] Robert Higgs "Wartime Prosperity? A Reassessment of the U.S. Economy in the 1940s," *Journal of Economic History* (March 1992) 41-60.

[282] Benjamin H. Mitra-Kahn "Redefining the Economy: How the 'Economy' Was Invented in 1620—And Has Been Redefined Ever Since" (Ph.D. dissertation in Economics, City University London) 273.

[283] Ibid. 237-273

feasible. Between these two tasks, which demanded both vision and technical expertise, the economists made possible the huge expansion of production on a relatively orderly basis. On top of all that, the economy's achievement provided an incontrovertible object lesson in deficit stimulus. But despite their indispensable contributions, the New Deal-allied economists found themselves on the losing side of a power struggle between social groups. Business and the ended the war with a solid working relationship which proved far more powerful than liberal and laborite forces.[284]

Like the New Deal coalition, the new economists drew on non-WASP social groups. Gilbert's original family name was Goldberg; one of his Harvard professors once wrote him a letter of reference supporting his candidacy for a job "[i]f they will take a Jew."[285] The American poet, fascist, and amateur monetary theorist Ezra Pound became obsessed with New Deal economist Mordecai Ezekiel, a Henry Wallace advisor whom Pound called "the Jew ... who has toddled first toward the economy of ABUNDANCE in his *2,500 Dollars a Year*."[286] Pound might have been outré, but he was not unique. The National Economic Council, Inc, a nationally prominent anti-New Deal organization led by Merwin K. Hart, freely mixed anti-Semitic diatribes with coordinated attacks on economist Lorie Tarshis's pioneering Keynesian textbook. In his first book, *God and Man at Yale* (1951)*,* America First veteran William F. Buckley, Jr.,

[284] Michael Bernstein, *A Perilous Progress*, 78-90; Koistinen, *Arsenal of World War II,* 500-516.

[285] Irwin Collier, "Harvard. Job placements of economics PhDs. Jewish candidates, 1928-29." Economics in the Rear-View Mirror: Archival Artifacts from the History of Economics. October 2, 2018. <https://www.irwincollier.com/harvard-job-placements-of-economics-phds-jewish-candidates-1928-29/>

[286] *Pound/Cummings: The Correspondence of Ezra Pound and E.E. Cummings*, edited by Barry Ahearn (Ann Arbor: University of Michigan Press, 1996) 175. For the book in question, see Mordecai Ezekiel, *$2500 a Year: From Scarcity to Abundance* (New York: Harcourt Brace, 1936).

adopted Hart's attack on Tarshis and extended it to include Paul Samuelson's textbook; the National Economic Council threw Buckley a celebratory dinner. [287]

Even more widespread than anti-Semitic econophobia, though certainly not unrelated, was the association between economists and socialism. Marshall Planner Calvin B. Hoover remembered a meeting in the late 1940s with John Taber, head of the House Appropriations Committee:

> *In the course of our friendly discussion, in which it became apparent that Mr. Taber was using the terms "economist" and "communist" as substantially synonymous, I remarked to Mr. Taber that I also was an economist.*
>
> *"Well," said Mr. Taber drily, "doubtless there are some economists who are not communists.* [288]

There were in fact a few card-carrying Communists in the economists' guild. [289] Far more common were economists who had swum in the broad currents of the 1930s popular front, either befriending radicals or entertaining democratic socialist ideas of their own.[290] The most consequential was Leon Keyserling, a framer of the Employment Act and member of the first Council of Economic Advisers. Keyserling considered himself a socialist in the early 1930s and flirted conversationally with the necessity of revolution. Through the mid-1940s he aligned

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[287] Zachary Carter, *The Price of Peace: Money, Democracy, and the Life of John Maynard Keynes* (New York: Random House, 2020) 374-379.

[288] Calvin B. Hoover*, Memoirs of Capitalism, Communism, and Nazism* (Durham, NC: Duke University Press, 1965) 259.

[289] Richard Gilbert, for example, had worked side by side and even co-authored an article with Victor Perlo, a CPUSA member involved in Soviet espionage. Richard V. Gilbert and Victor Perlo, "The Investment-Factor Method of Forecasting Business Activity," *Econometrica* Vol. 10, No. 3/4 (Jul. - Oct., 1942), 311-316. On the "Perlo group," see John Earl Haynes and Harvey Klehr*, Venona: Decoding Soviet Espionage in America* (New Haven: Yale University Press, 2000) 116-129.

[290] On the popular front as a social movement irreducible to the narrower history of the CPUSA's Popular Front strategy, see Michael Denning, *The Cultural Front: The Laboring of American Culture in the Twentieth Century* (New York: Verso, 2010). On New Deal/Fair Deal economists and the popular front, see Landon Storrs*, The Second Red Scare and the Unmaking of the New Deal Left* (Princeton: Princeton University Press, 2012).

himself openly with the CIO. As his power in government grew, he became the target of multiple loyalty investigations, which coincided with his disavowal of distributive conflict and his articulation of economic expansion as a near-perfect harmony of interests.[291]

Economists who helped rebuild of global capitalism were investigated or barred from government employment because they had once worked for Treasury Secretary Harry Dexter White, or because they shared a surname with an unrelated Soviet economist.[292] Isador Lubin, whose statistical work was crucial to the reconstruction of Germany, put it bluntly: "In this international business, if you attempt to do anything which may be interpreted in any way as hurting anybody in the business field, your life isn't worth anything. They will just crucify you."[293] When the rump Popular Front split, the anti-communist Americans for Democratic Action (ADA) assembled "a formidable team of New Deal economists" while Wallace's Progressive Citizens of America (PCA) "did not have a single prominent economist." Sincere anti-communism best accounts for the economists' decision to align with ADA, but prudence and fear might still explain why ADA (unlike PCA's) refrained from calling for "nationalization of the coal mines, the steel industry, the railroads, and the electrical utilities"—positions espoused by the global noncommunist left with which ADA otherwise identified.[294]

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[291] Storrs, *Second Red Scare*, 107-146.

[292] Storrs, *Second Red Scare*, 182; Zachary Carter, *The Price of Peace*, 408. The namesake controversy involved the economist Wassily Leontief, see Wassily Leontief to Joseph H. Willits, May 10, 1954, Rockefeller Foundation Records, Rockefeller Archive Center, RF 1.2 Series 200S Box 512 Folder 4375. For accounts questioning the importance of McCarthyism to the development of economics, see E. Roy Weintraub, "McCarthyism and the Mathematization of Economics," *Journal of the History of Economic Thought*, 39:4 (Dec 2017) 571-597; Roger E. Backhouse, [review of Zachary Carter, The Price of Peace: Money, Democracy, and the Life of John Maynard Keynes] *Oeconomia*, 11-3 (2021) 511-518.

[293] Storrs, *Second Red Scare*, 221.

[294] Alonzo Hamby, *Beyond the New Deal: Harry S. Truman and American Liberalism* (New York: Columbia University Press, 1974) 192

People like Donald K. David, dean of Harvard Business School, recognized the need for business to work with economists. He told a meeting of CED trustees in April 1946 that "I have high hopes for the young men, who will be our future economists. These men grew up in the depression. A few years ago, they were strongly anti-business. They came out of the war with a great respect for the job which business did during the war. They are still skeptical of broad business policy but much more open-minded. They are receptive to the scholarly material which CED has put out."[295] Republicans assumed that the President's Council of Economic Advisers would be abolished if Dewey won in 1948. A wry Robert Taft even asked "why, given that military spending could now guarantee full employment, the CEA or the 1946 Employment Act was even necessary?"[296] After the 1952 election, it was almost defunded by Congress.[297] When Eisenhower did appoint Arthur F. Burns as CEA chair, chief of staff Sherman Adams

> had a sinking sensation. If someone had asked me to describe the mental image I had of the type of New Deal official we were in the process of moving out of Washington, this was it—a glassy stare through thick lenses, peering out from under a canopy of unruly hair parted in the middle, a large pipe with a curved stem.[298]

But econophobia was on the wane. As *Fortune* pointed out, "Republicans Need

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[295] Committee for Economic Development, Minutes of Meeting of Board of Trustees, Hotel Astor - New York City, April 26, 1949, 5. Donald K. David Papers, HBS, Box 23 Folder 10.

[296] Bernstein, citing Nourse's diaries and correspondence between Nourse and Taft in 1948, *Perilous Progress*, 112. I have not examined all of these sources, but one key document is the diary entry in which Nourse notes Taft's public criticism of CEA and concludes "The whole agency might be regarded as dispensable if Taft's interpretation were accepted—that it is a anti-depression measure and if it appeared, that military expenditures would assure high employment and some kind of prosperity for some years ahead." Edwin G. Nourse, "1948: May 10 - Memo to the files (15)." Nourse Papers, HSTL. CEA Staff File, Box 5.

[297] Ibid. 116.

[298] Quoted in Wyatt C. Wells, *Economist in an Uncertain World: Arthur F. Burns and the Federal Reserve, 1970-78* (New York: Columbia University Press, 1994) 14. Consciously or not, Adams's focus on physical appearance may have had something to do with the fact that Burns (né Burnseig in Austrian Galicia) was the only Jew to play a prominent role in the administration—a notable departure from the Roosevelt-Truman years. According to one canvass, 85% of Eisenhower's appointments were Protestants. Robert C. Griffith, "Dwight D. Eisenhower and the Corporate Commonwealth," *The American Historical Review*, Vol. 87, No. 1 (Feb. 1982) 103n37.

Economists, Too."[299] Adams soon discovered that Burns "had his feet planted solidly on the ground."[300] Responding to both force and persuasion, the new economists had set off on their journey from maligned central planners to organic intellectuals of a business civilization.

The Mass Worker

Between 1933 and 1947, American society was transformed by the struggles of millions of workers in basic industry. The Congress of Industrial Organizations (CIO) had enrolled around 2 million industrial workers by 1940, and twice that many by the end of World War II.[301] The CIO, and the larger industrial working class which found in it a previously unimagined level of political organization, became one of the fundamental social forces supporting the U.S. turn to globalism. As one representative of the CIO Speaker's Bureau proclaimed in 1944, "Organized Labor stands for a constantly expanding economy in this country and in the entire world…This is our internationalism."[302] In its grandeur, this vision matched anything offered by capital, and exceeded the narrow horizons of many American businessmen at the time.

The catastrophe of the Depression, which overthrew the System of 1896, also generated high levels of unrest and made clear the need for a new relationship between labor and the state. William Green of the American Federation of Labor (AFL) threatened a general strike if appropriate legislation was not passed.[303] FDR sought to contain the unrest with Section 7(a) in

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[299] "Republicans Need Economists, Too," *Fortune* (April 1953) 116.

[300] Wells, *Economist in an Uncertain World*, 17.

[301] Leo Troy, "Trade Union Membership, 1897-1962," *The Review of Economics and Statistics* Vol. 47, No. 1 (Feb. 1965), Table 5- Union Membership by Affiliation, 1935-1962, 100.

[302] Ted F. Silvey, "Can Cartels Provide Full Employment," in *Shall it be Century of the Common Man Or, Century of Cartel Control? Addresses at People's Lobby Conference, February 12, 1944* (Washington, DC: The People's Lobby, 1944) 24-26, here 26. Silvey later took part in the post-war German occupation, the Marshall Plan, and the Korean War-era National Production Authority. For his biography, see "Ted F. Silvey Collection." Finding aid, Walter Reuther Library. < https://reuther.wayne.edu/files/LP000625.pdf>

[303] "Warns of Strike for 30-Hour Week," *NYT*, 6 Jan. 1933, 14.

the National Industry Recovery Act (NIRA), which promised workers collective bargaining through unions of their choosing. When the Supreme Court threw out the NIRA in 1935, the National Labor Relations Act (NLRA or Wagner Act) quickly replaced 7(a), creating an institutional channel for the labor upsurge exemplified by the dramatic strike wave of 1934.[304] For the first time in American history, industrial unionism in mass production industry became a powerful social and political force. Given the profound influence of American production practices on the rest of the world, the organization of the "mass worker" in the capitalist heartland was a social development of worldwide significance.[305]

Unlike most of the AFL unions, the CIO organized on industry-wide rather than craft principles. The social basis for this breakthrough was an alliance between semi-skilled and unskilled "new immigrants"—those from Southern and Eastern Europe and their children—and skilled Anglo, Celtic, or German workers with experience in the bitter cycle of class struggle of 1918-1920 and, oftentimes, syndicalist or other radical worldviews.[306] Organizers from the Communist Party, which grew from 7,500 members in 1930 to a peak of around 70,000 in 1945, made an outsize contribution to the organizational achievement.[307] The WWII mobilization brought millions of black and white migrants, as well as large numbers of women, into the

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[304] Michael Goldfield, "Worker Insurgency, Radical Organization, and New Deal Labor Legislation," *The American Political Science Review* Vol. 83, No. 4 (Dec. 1989). 1257-1282

[305] For one example written in the shadow of the Marshall Plan and the Italian growth miracle, see Mario Tronti, *Workers and Capital*, trans. David Broder (New York: Verso, 2019). For the judgment that, in retrospect, Italian Marxism suffered from "an over-estimation of the New Deal," see Perry Anderson, "The Heirs of Gramsci," 95.

[306] Peter Friedlander, *The Emergence of a UAW Local, 1936–1939: A Study in Class and Culture* (Pittsburgh: The University of Pittsburgh Press 1975)*;* Ronald Schatz, *The Electrical Workers: A History of Labor at General Electric and Westinghouse, 1923-60* (Urbana and Chicago: University of Illinois Press, 1983) 80-104.

[307] Michael Goldfield, *The Southern Key: Class, Race, and Radicalism in the 1930s and 1940s* (New York: Oxford University Press, 2020) Table 8.1: "U.S. Communist Party Membership, 1919– 94," 352.

industrial workforce.[308] Wartime corporatism won the CIO state support for maintenance of membership and even expansion into the non-union redoubts of basic industry. At the same time, the CIO (including its Communist-led "left") enforced a no-strike pledge. Along with other anti-democratic practices, labor's wartime assumption of responsibility for order on the shop-floor sapped the energies of the movement's radical wings and prevented many of the new wartime migrants from identifying actively with the unions to which they now paid dues.[309]

Workers' organizations were inherently internationalist. Mass production industries depended on the world market. In a statement supporting the renewal of the Roosevelt-Hull reciprocal trade program, the CIO's research director stated that "obstacles to trade are invariably costly to a nation" and that the "record since 1934 demonstrates that tariff reduction increases international trade and that this is accompanied by an increase of domestic employment, national income, and general well-being."[310] In addition to this directly economic interest, there other reasons to embrace internationalism: recent immigrants had family in other countries, socialists and social democrats saw themselves as part of a worldwide movement against a worldwide fascist adversary, experienced trade unionists believed that global labor conditions had to be safeguarded to protect against undercutting by "slave labor" economies.

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[308] Denning emphasizes this wartime recomposition of the industrial working class—and the consequences of the Popular Front's failure to develop an adequate response to the nationalization of Southern social dynamics—in *The Cultural Front*, 34-37.

[309] Nelson Lichtenstein, *Labor's War at Home*.

[310] The CIO's complete commitment to economic internationalism is suggested by the fact that the statement's author, J. Raymond Walsh, belonged to the left wing of the CIO and was later blacklisted for his criticism of US Cold War policy. Incidentally, he was also a colleague of Alan Sweezy, a co-author of *An Economic Program for American Democracy*. For the quotation, see Peter Donohue, "'Free Trade' Unions and the State: Trade Liberalization's Endorsement by the AFL-CIO, 1943–1962," *Research in Political Economy* 13 (1992) 1-72. On Walsh, see Barker, "Macroeconomic Consequences of Peace."

Over the course of 1946, 4.6 million workers were directly involved in a work stoppage (at the highest single point, 1.6 million workers were out). Reckoned in lost working time, the strike wave was three times as intense as the sit-down year of 1936-7. The revolt brought a backlash led by business but fed by middle-class discontent. In November 1946, voters gave the Republicans control of both houses of Congress for the first time since 1928. The next year Congress passed the Taft-Hartley Act, which allowed states to pass anti-union "right to work" laws. Jobs could be relocated to, and new plants concentrated in, non-union states. The CIO's Operation Dixie, launched in 1946, took aim at the major non-union region. Despite early successes, including the Tennessee workers who built atomic bombs, the drive ground to a halt.[311] This marked the end of the CIO's new organizing. U.S. capital had secured its internal non-union offshore.

The arrest of the Southern labor movement in the south also meant that regional one-party rule (and the power of white Southern Democrats in Congress) would continue for decades. The disfranchisement of Southern black workers shaped the national balance of class forces. The Murray-Wagner Full Employment Bill of 1945, which would have declared a government-backed right to a job, passed the Senate but passed the House only after it had been weakened substantially by the House Expenditures Committee. One of the key opponents of the progressive bill was committee member William Whittington, a Mississippi Delta cotton planter who held his seat from 1925 to 1951. From the district had 435,000 residents, Whittington was elected

[311] "Work Stoppages Caused by Labor Management Disputes in 1946," Bureau of Labor Statistics, Bulletin no. 918 (Washington: GPO, 1947) <https://www.bls.gov/wsp/publications/annual-summaries/pdf/work-stoppages-1946.pdf>; Nelson Lichtenstein, "From Corporatism to Collective Bargaining: Organized Labor and the Eclipse of Social Democracy in the Postwar Era" in *Rise and Fall of the New Deal Order*, 122-152; Goldfield, *Southern Key*, 288-230.

with just 4,000 votes.[312] In this and countless other ways, the South's sub-national authoritarianism constrained the possibilities for peacetime full employment.[313]

Just when labor was reeling, the Cold War beckoned. George Marshall gave his famous Harvard commencement speech on European reconstruction on June 5, 1947. The very next day, the Senate sent Taft-Hartley to Truman for his signature. After weeks of indecision, Truman vetoed the law on June 20; after a Congressional override, T-H became law on June 23. During the interim period before the veto, NLRB member James Reynolds visited Truman, who complained to him that labor had "gone too far in many. many ways." T-H was "a pretty good law," and that his headcount already told him any veto would be overridden. But Truman gestured at the Soviet Union on a globe given to him by General Eisenhower and said, "if I veto it, I'm going to hold labor support in the election next year. I'll be re-elected and the Marshall Plan will go forward."[314]

If this was the plan, it worked. Even the right wing of the CIO had been searching for other candidates to support in 1948, or even talking third party. Now all but the most militant labor leftists lined up behind the President. General Marshall himself spoke to the CIO convention in October 1948, and polls showed 55% of union members planning to vote for

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[312] Stephen K. Bailey, *Congress Makes a Law: The Story Behind the Employment Act of 1946* (New York: Columbia University Press. 1950) 202-205.

[313] On subnational authoritarianism, see Robert Mickey*, Paths Out of Dixie: The Democratization of Authoritarian Enclaves in America's Deep South, 1944-1972* (Princeton: Princeton University Press, 2015).

[314] Reynolds told this to historian James A. Gross. In response to a query from historian Robert Zieger, Gross added that "I would have confidence in the Reynolds interview. He was a respected member of the Board in the 1940's who was no ideologue…His [overall] interview is not self-serving or apologetic. Reynolds' recollection of Truman's remarks . . . are consistent with other evidence concerning Truman's attitudes toward union leaders and the need for some check on certain actions of some unions." Gross, *The Reshaping of the National Labor Relations Board: National Labor Policy in Transition, 1937–1947* (Albany: State University of New York Press, 1981) 258-259; Zieger, *The CIO*, 449n68.

Truman (compared to 10% for Wallace).[315] Walter Reuther still expected Truman would lose, and "the UAW scheduled a conference on political realignment for January 19, 1949, just one day before Thomas E. Dewey was to be inaugurated president of the United States." But Truman won, and the apparent role of labor in the upset briefly fired hopes that a New Deal revival was at hand. In January 1949, James Loeb of ADA predicted "relatively easy Congressional agreement' on most liberal measures." Within three months, Loeb said it was "hard to recall a more discouraging…legislative picture."[316] Truman's Fair Deal would go nowhere, but the Marshall Plan passed and CIO unions could count on relatively friendly relations until 1952.[317]

Taft-Hartley required union officers to swear a loyalty affidavit. [at first resisted broadly even by Murray. Steel crisis] Having taken the plunge themselves, the anti-Communist CIO leadership decided to use the T-H weapons against their longstanding left-wing rivals. In 1949 and 1950, the CIO kicked out 11 unions with leftist leadership, representing 750,000 workers. Left union leaders did not help themselves by taking unpopular positions against the Marshall Plan and against Truman in the 1948 election. These foreign policy positions virtually guaranteed a fight the left could not win. The experience of the electrical workers illuminates the painful episode. As a high-tech multinational, GE exemplified corporate liberalism. President Gerard Swope had provided the first draft of the National Industrial Recovery Act and

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[315] Zieger, *The CIO*, 275-276.

[316] Hamby, *Beyond the New Deal*, 265, 311, 313.

[317] The bargain between Truman and the CIO was a short-term matter, not the start of a "post-war social compact." The understanding broke down during the Korean War mobilization, in which labor was assigned no role equal to that of business. Any accord ended in 1952, with Eisenhower's election—"not ordinarily considered a watershed in American history, but to [CIO president] Philip Murray it was a frightening prospect." Ronald W. Schatz, "Philip Murray and the Subordination of the Industrial Unions to the United States Government," in *Labor Leaders in America*, ed. Melvyn Dubofsky and Warren Van Tine (Urbana: University of Illinois Press, 1987) 255.

voluntarily recognized the United Electrical Workers (UE). But after a hard-fought 1946 strike, Swope's successor Charles E. Wilson described America's problems as "Russia abroad, labor at home," and GE energetically embraced union avoidance tactics that would spread throughout the American economy. The 600,000-strong UE was particularly vulnerable because its leadership was critical of Truman's foreign policy and resistant to the anti-communist affidavits required by Taft-Hartley.[318] The UE's president, Alfred Fitzgerald, was evidence that the left-wing of the CIO was not the same thing as the Communist Party. It is little remembered that Fitzgerald's publicly stated in Fall 1948, "I tell you frankly I do not give a damn for Russia. I tell you frankly that I think Vishinsky and Molotov are engaging themselves in saber rattling and war mongering."[319] But Fitzgerald's closest allies mostly Communists, so he had little room for effective independent maneuver.

Between 1949 and 1954, GE, the federal government, and the newly created anti-communist International Union of Electrical Workers (IUE-CIO) collaborated to drive the UE and individual militant workers from the industry. The plurality of the membership joined the IUE, but the electrical workers were split between more than a dozen unions. This division made for frequent raiding, ineffective strikes, and wages that consistently lagged behind other durable goods sectors.[320] The UE retained important locals in Erie, Pennsylvania and (until 1954) Schenectady, New York. In Lynn, Massachusetts—an original GE city, and Alfred Fitzgerald's home local—the installation of the IUE required special HUAC hearings in Boston and

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[318] Ronald Schatz, "The End of Corporate Liberalism: Class Struggle in the Electrical Manufacturing Industry, 1933-1950," *Radical America*, Vol. 7, no. 1 (Jan.-Feb. 1973) 187-205.

[319] "Reds in Trade Unions," *CQ Researcher,* July 22, 1949. <https://library.cqpress.com/cqresearcher/document.php?id=cqresrre1949072200>

[320] Jules Backman, *The Economics of the Electrical Machinery Industry* (New York: New York University Press, 1962) 229.

summary dismissals of left-wing workers. Warnings circulated that UE victory would cost the plant defense contracts, crucial for Lynn's aircraft engine division.[321] Through it all, UE loyalists in Lynn maintained their own newspaper and shop stewards. The UE was strong enough to force new NLRB elections in 1951, 1953, and 1960. In the last election, they won a majority of production workers and lost the total vote by just 4%. There were nowhere near enough Communist workers to account for this: the UE's support derived from its plant-level record as a militant, democratic, and effective union. [322]

The organizational capacities built by the first CIO generation survived on some shopfloors, such as Lynn. This could not be said for labor's capacity for independent political action, especially concerning foreign policy. This was clear in the fate of Henry Wallace, the former vice president and New Deal tribune. As late as 1946, non-communists including the UAW's Walter Reuther seriously considered launching a laborite third party.[323] But when Wallace decided to challenge Truman from the left in 1948, with a focus on foreign policy, organizational support came only from the CP and the left-led unions. According to Albert Fitzgerald, the Lynn native who headed the UE, "We were convinced that if we got five million votes, we could stop the rush to war. We could have headed off the Korean war and perhaps the Vietnam debacle." In the end, Wallace won just one million votes, half of them in New York. Wallace's disastrous showing, as well as the good feelings following labor's important

[321] In 1948, the liberal head of the Atomic Energy Commission, David Lilienthal, had forced GE to withdraw recognition of UE and United Public Workers (UPW) locals working at the Argonne and Knolls labs. Steven Neuse, *David E. Lilienthal: The Journey of an American Liberal* (Knoxville: University of Tennessee Press, 1996) 202-204.

[322] Jeff Crosby, "It's Not the Water! Local 201 Fights to Survive in a Neo-Liberal World" (unpublished manuscript, July 2008) 27-36. I am grateful to the author—a former president of Local 201—for generously sharing his research.

[323] Lichtenstein, "From Corporatism to Collective Bargaining."

contribution to Truman's narrow victory, brought about a de facto merger between CIO-PAC and Democratic electoral organizations. [324]

The CIO made history with its commitment to organizing all workers. But the CIO was an organization with definite limits. At the beginning of 1955, the CIO's 5.2 million members represented just over 8 percent of the labor force. More than half of CIO members were in Michigan, Ohio, New York, and Pennsylvania, with only 14 percent living in the emergent regions of the South and Southwest. Two unions (in auto and steel) accounted for 60% of the total membership. Just 15% of CIO members were women, and 10% were black, with representation among leaders and delegates even lower than this.[325] As many as one-half were of Slavic or Hungarian descent, a quirk of social history that gave anti-communism special force in precisely the sections of the working class that had been crucial to the CIO insurgency, especially as news of Red Army atrocities spread after 1945.[326] As black leftists were expelled across the South, the CIO's self-described "right wing" leadership worked actively with the Ku Klux Klan, further cementing the alliance between organized labor and peculiar American patterns of ascriptive hierarchy and anti-radicalism.[327]

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[324] Lawrence Lader, "…to Serve the World—Not to Dominate It," *American Heritage*, vol 28, no 1 (Dec 1976), 42-51; Ronald L. Fillipelli and Mark McColloch, *Cold War in the Working Class: The Rise and Decline of the United Electrical Workers* (Albany: SUNY Press, 1995) 126.

[325] Robert Zieger, *The CIO, 1935-1955* (Chapel Hill: University of North Carolina Press, 1995) 339, 345, 349.

[326] Mike Davis offers this estimate (without further explanation) in *Prisoners of the American Dream,* 93. For contemporary estimates that Slavs constituted at least one half of the nation's heavy industrial workers in the 1940s, see "America's Cold War Crusade: Domestic Politics and Foreign Policy, 1942-1948," (dissertation, Boston University 1973) 249. Other estimates suggest that Catholics accounted for just 30% of CIO membership and 40% of its leadership. Since Polish Americans, the largest Slavic group, were nearly completely Catholic and since fewer than half a million Americans belonged to Orthodox churches, Davis's figure is likely too high. Dennis A. Deslippe, "'A Revolution of Its Own': The Social Doctrine of the Association of Catholic Trade Unionists in Detroit, 1939–50," in *Records of the American Catholic Historical Society of Philadelphia* Vol. 102, No. 4 (Winter 1991) 19-36

[327] Goldfield, *Southern Key,* 169-173.

By 1950, American unions were in many respects a conservative force. Sometimes this meant political conservatism but more consistently it meant an attachment to the midcentury industrial complex. Manual production work in goods-producing industries would decline as a share of the labor force after 1953, the same year, that union density began its secular decline.[328] During slumps, and well into expansions, these industries suffered excess capacity. In the relatively mild and barely remembered 1949 recession, 1.5 million manufacturing workers lost their jobs. The pre-recession level was not regained until the Korean War. The Korean War peak of manufacturing employment, in turn, was not regained until 1965.[329]

This tendency toward capacity underutilization, along with the fact that military production had its strongest effects in basic industry, meant that industrial workers often experienced defense spending as a reprieve. Historian Arthur Schlesinger, Jr., who along with Leon Keyserling was one of the intellectual leaders of the anti-communist (and anti-Wallace) liberal group Americans for Democratic Action (ADA), stated the case more explicitly than most. In 1947, he wrote that "it may be necessary to bribe the labor movement to take part in the struggle against Communism. *Whatever else may be said about a 'permanent war economy' at least wages are high, employment is full, and the economy is relatively stable and productive*."[330] How many other leaders of the liberal-labor coalition felt this way is difficult to say. There is no

[328] Production and Nonsupervisory Employees, Manufacturing/All Employees, Total Nonfarm, FRED. <fred.stlouisfed.org/graph/?g=O5uJ>; Richard B. Freeman, "Spurts in Union Growth: Defining Moments and Social Processes," in *The Defining Moment: The Great Depression and the American Economy in the Twentieth Century*, ed. Michael D. Bordo, Claudia Goldin, and Eugene N. White (Chicago: University of Chicago Press/ NBER, 1998) 265-297.

[329] All Employees, Manufacturing, FRED. <https://fred.stlouisfed.org/series/MANEMP>

[330] Arthur Schlesinger, Jr., "The Future of Socialism," *Partisan Review* (May/June 1947), 241, emphasis added. In January 1950—the same time NSC-68 was being drafted—Schlesinger was pushing other ADA leaders to shift their emphasis from domestic issues to rearmament. Michael Wreszin, "Arthur Schlesinger, Jr., Scholar-Activist in Cold War America: 1946-1956," *Salmagundi*, Spring-Summer 1984, No. 63/64 (Spring-Summer 1984), 275.

evidence that industrial workers were more hawkish than other social groups. But it is clear that by the turn of the 1950s, labor had begun to seek out targeted defense procurement as a core part of its political lobbying.[331]

Labor leaders found other perks besides demand stimulus. As hopes for enlightened labor relations and laborite political action collapsed, foreign policy offered an alternative realm where business leaders and politicians treated labor with respect. At home, IUE president James Carey had to listen while GE executives called labor unions the country's number-one problem. But on the Harriman Committee (created by the Truman administration to organize consent for the Marshall Plan), Carey received equal billing alongside GE chairman Philip Reed. This would be a powerful force binding labor to U.S. foreign policy throughout the Cold War.

Finally, it is important to remember that labor did not just figure in Cold War internationalism as voters, lobbyists, and hobnobbers. The ultimate material foundation of American global power was the astonishing productiveness of its economy, which in turn rested on the productivity of workers and the industrial peace required to justify major capital investments. Beyond the direct importance of uninterrupted mass production, the image of abundance and industrial peace was a crucial part of the American hegemonic appeal to Western Europeans of all classes. The internationalist project depended on containing labor militancy enough to keep production and investment flowing, but also required some level of worker consent to the existing order of things. It was enormously helpful to have the nation's industrial unions led by someone like Philip Murray, who said things like "We have no classes in this

[331] Wagnon, "Politics of Economic Growth," 128-129; Edmund F. Wehrle, "'Aid Where It Is Needed Most': American Labor's Military—Industrial Complex," *Enterprise & Society*, Vol. 12, No. 1 (March 2011) 96-119.

country" and was willing to go to Europe to share the good news.[332] If there were no classes in America, then any apparent class conflict must be the work of foreign radicals, who could now be legally fired for refusing to answer questions about their beliefs. CIO leaders such as the IUE's James Carey not only acquiesced but protested that G.E. had not fired enough left-wing organizers.[333]

Was there any alternative? Ironically, in the US as in Europe, Communist Party spokesmen did not dissent from the politics of productivity.[334] The CP leadership accommodationist on the shopfloor, but its positions on foreign policy provided the occasion for purging organized labor of forces that might have fought to transform the domestic political economy. The expelled included many of the best organizers and the unions most committed to internal democracy and racial and gender egalitarianism.[335] Much later, one leading CIO anti-communist, Monsignor Charles Owen Rice of the Association of Catholic Trade Unionists, lamented that "the American trade union movement would be healthier today if Phil Murray had not purged the CIO and if a strong broad-based Communist minority had been able to survive in the trade unions…I think I wasted a lot of time on a crusade that did more harm than good."[336]

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[332] George Lipsitz, *Rainbow at Midnight: Labor and Culture in the 1940's* (Urbana: University of Illinois Press, 1994) 199.

[333] "G.E. Launches Purge of Reds: Will Suspend Employees Who Balk at Probe Questions," *Baltimore Sun*, Dec 10, 1953, 5; Fillipelli and McColloch, *Cold War in the Working Class*, 155-158.

[334] Lipsitz, *Rainbow at Midnight*, 196. On Europe, see Maier, "Two Postwar Eras," 159.

[335] Judith Stepan-Norris and Maurice Zeitlin, *Left Out: Reds and America's Industrial Unions* (New York: Cambridge University Press, 2002); Robert Korstad, *Civil Rights Unionism: Tobacco Workers and the Struggle for Democracy in the Mid-Twentieth-Century South* (Chapel Hill: University of North Carolina Press, 2003); Rosemary Feurer, *Radical Unionism in the Midwest, 1900-1950* (Urbana and Chicago: University of Illinois Press, 2006).

[336] Charles Owen Rice, *Fighter with a Heart: Writings of Charles Owen Rice, Pittsburgh Labor Priest* (Pittsburgh: University of Pittsburgh Press, 1996) 98.

But a winning coalition for Cold War internationalism could not have been built without the purge.

Domestic Obstacles to Cold War Globalism

In 1945 the United States faced no serious international rival. Even the Soviet Union was less productive, more traumatized, and mostly interested in consolidating its direct domination of neighboring regions. But the ascendant internationalist social forces in the U.S.—corporate internationalists, industrial workers, and the new economists—faced significant domestic obstacles in implementing their programs. Many Americans doubted that the internationalist program was necessary and feasible. This skepticism was expressed through organized power. Most important among these were the nationalist wing of the Republican Party and most business organizations. Understanding the composition of this opposition will allow us to understand both the challenges faced by internationalists and the reasons why the opposition ultimately proved insufficient.

The Ghost of the System of 1896

What is the opposite of internationalism? The immediate answer is isolationism. But it is difficult to find anyone who identified themselves with the label. "To the best of my knowledge," wrote leading America First activist General Robert E. Wood, "there has never been a real isolationist, one corresponding to the definition of an isolationist generally attributed to that word by the easterners."[337] Historians have tended to agree. The word is anachronistic, pejorative, and obscures the fact that even America Firsters had their own visions of international

[337] Justus D. Doenecke, "The Isolationism of General Robert E. Wood," in *Three Faces of Midwestern Isolationism,* ed. John H. Schacht (Iowa City: Center for the Study of the Recent History of the United States, 1981) 11-22, here 11.

order.[338] One alternative is to oppose *internationalism* and *nationalism*. This conforms to the self-understanding of historical actors. For example, Michigan Senator Arthur Vandenberg described a conflict between the "'Eastern internationalist' school of thought" and the "'Middle Western nationalist' school of thought." [339] These terms were used on both sides of the split: they were neither pejoratives nor euphemisms.[340] No one has ever imagined that nationalism was inconsistent with expansionism, so the concept allows for the so-called "isolationists" to have a foreign policy of their own.[341]

The geographical base of nationalism was the Midwest. The preeminent early Cold War nationalist was Senator Robert Taft, of whom it was once said unkindly that "the Cincinnati city limits are the horizons of his mind."[342] Taft and his bloc of Senate nationalists were the residue of the once hegemonic System of 1896. Between 1896 and 1928, every president elected but one was a Republican. Half of the Republicans—including Robert Taft's father—came from Ohio. Their power grew from what the country's most dynamic region, the Midwestern agro-industrial complex.[343] The animating cause of 1896 was to secure the gold standard against inflationary

[338] Brooke L. Blower, "From Isolationism to Neutrality: A New Framework for Understanding American Political Culture, 1919–1941," *Diplomatic History*, Volume 38, Issue 2, April 2014, 345–376; Wertheim, *Tomorrow the World*.

[339] Quoted in Ronald W. Pruessen, *John Foster Dulles: The Road to* Power (New York: Free Press, 1982) 223.

[340] Vandenberg himself identified at different times with both sides of the division. Wayne S. Cole, "And There Were None! How Arthur H. Vandenberg and Gerald P. Nye Separately Departed Isolationist Leadership Roles," in *Behind the Throne: Servants of Power to Imperial Presidents, 1898–1968*, ed. by Thomas J. McCormick and Walter LaFeber (Madison: University of Wisconsin Press, 1993) 232–56.

[341] Among historians, Bruce Cumings stands out for his subtle grasp of the nationalism/expansionism couplet. See especially his *Origins* vol. II, 79-121 and *Dominion from Sea to Sea: Pacific Ascendancy and American Power* (New Haven: Yale University Press, 2009).

[342] Joseph and Stewart Alsop, "Taft and Vandenberg," *Life*, Oct. 7, 1946, 102-104, here 103.

[343] Brian Page and Richard Walker, "From Settlement to Fordism: The Agro-Industrial Revolution in the American Midwest," *Economic Geography* 67: 4 (October 1991), 281-315.

Populism. The victorious McKinley coalition favored trade within the vast continental home market, protected by tariffs and networked by railroads and commodities exchanges. Industrialists in the labor-intensive sectors that sustained the coalition (meatpacking, furniture, shoes, textiles, machinery) were intent on containing labor costs, repressing unions, and (at one point) criminalizing the taverns and saloons frequented by their immigrant workers.[344]

Taft's ancestral city was exemplary. By the 1820s, Cincinnati had emerged as "Porkopolis," where the produce of the Ohio Valley corn-and-hog belt was butchered and sent, via New Orleans, to slave plantations and the export market. Industry grew around the abattoirs, so that by 1860 Porkopolis was the nation's third largest manufacturing hub. After the Civil War, Chicago took its place at the center of a new wheat-beef-railroad complex, discrediting Cincinnati's claim to be the "Queen City of the West." But local manufacturing continued to expand, quintupling between 1851 and 1910.[345] Workers' struggles grew to the rhythm of the business cycle, with violent strike waves cresting at the bottom of each Gilded Age panic.

As corporate capitalism took off nationally, Cincinnati capital remained local and proprietary. The business community developed a rich associational culture. In 1895, members of the Cincinnati and Hamilton County Manufacturers Association brought hundreds of industrialists to town for the founding of the National Association of Manufacturers (NAM)[346]. The NAM's original concern was trade policy. McKinley, then Ohio governor, gave the keynote

[344] Burnham, "'The System of 1896'"; Ferguson, *Golden Rule*, 71-79, 131-148.

[345] Henry Louis Taylor, Jr., "Introduction: Race and the City, 1920–1970," in idem., ed. *Race and the City: Work, Community, and Protest in Cincinnati, 1820-1970* (Urbana and Chicago: University of Illinois Press, 1993) 1-28.

[346] Jeffrey Haydu, *Citizen Employers: Business Communities and Labor in Cincinnati and San Francisco, 1870–1916* (Ithaca, N.Y.: ILR Press, 2008).

on the need for export promotion.[347] But the organization quickly developed an anti-union fervor that shocked even the *Wall Street Journal*. To beat back the AFL, which had grown nearly sixfold between 1898 and 1904, NAM fought for injunctions and the open shop and against the eight-hour day.[348] A generation later, Midwestern employers like Ford, Kohler, and Republic Steel reacted to the CIO with a "sense of outraged feudal lordship confronted with a servile revolt."[349] In 1946, NAM spent $100 million to pass the Taft-Hartley Act.[350] J. Mack Swigert, Robert Taft's law partner, helped draft the bill, translating the open shop passion of the Cincinnati business community into federal law.[351]

Liberal intellectuals interpreted Midwestern conservatism (embodied by Wisconsin's Joseph McCarthy) as an atavism. Even Bruce Cumings, the historian who has most brilliantly developed the internationalist/nationalist schema, refers to the conflict between "a rising set of

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[347] Marshall Planner Charles Kindleberger saw business nationalism as false consciousness: "Senator Robert Taft of Ohio continued to cherish his protectionist philosophy when the Middle West had been transformed (for a time) into a mass-production export interest." While it is important that the Midwest *was* a globally significant economic region, Kindleberger overlooks the fear that the revival of European industry would bring import competition even in advanced sectors such as machine tools. Somewhat incredibly, Kindleberger also describes Will Clayton as suffering cultural lag (since Southern textiles need protection), without mentioning that Clayton was the biggest cotton broker in the world. Kindleberger, *Power and Money* (New York: Basic Books, 1970) 27. On misgivings among machine tool makers, see "Charges ECA Fosters World Oil Monopoly: Senators Told of Harm to U. S. Business," *Chicago Tribune*, Feb 18, 1949, 3; "Digging for ECA Orders," *Business Week*, Apr 16, 1949, 117-118; John Fisher, "Contends Aid Gives Edge to Foreign Firms," *Chicago Tribune*, Apr 21, 1954, C7.

[348] Jennifer Delton, *The Industrialists: How the National Association of Manufacturers Shaped American Capitalism* (Princeton: Princeton University Press, 2020) 63, 69, 71.

[349] The quoted line refers specifically to the Kohler strikes. Norton E. Long, "The Corporation, Its Satellites, and the Local Community" in Edward S. Mason, ed., *The Corporation in Modern Society* (Cambridge, MA, 1960) 166. Cf. Ahmed White, *The Last Great Strike: Little Steel, the CIO, and the Struggle for Labor Rights in New Deal America* (Oakland: University of California Press, 2016); Stephen Norwood, "Ford's Brass Knuckles: Harry Bennett, The Cult of Muscularity, and Anti-Labor Terror, 1920–1945" *Labor History* 37:3 (1996) 365-391.

[350] Sanford M. Jacoby, *Modern Manors: Welfare Capitalism Since the New Deal* (Princeton, N.J.: Princeton University Press, 1997) 200. On the continued strength of mid-sized business and ideological conservatives in NAM's leadership, despite the increased importance of big business during WWII, see Philip H. Burch, "The NAM as an Interest Group," *Politics & Society*, Vol 4, Issue 1 (1973) 92-130.

[351] "James Mack Swigert," *The Cincinnati Enquirer,* 21 April 2011.

interests and a new conception of states and markets" (internationalism/the New Deal) and "a waning set of interests and a failed conception of states and markets" (nationalism/Hooverism)[352] But the nationalist formation was not simply the less modern wing of American capital.[353] To be sure, Cincinnati was past its peak of relative importance, as was New England, where nationalist sentiment also ran strong.[354] But *Fortune* reported that the most McCarthyite business community was in in Chicago, including not only relics like the *Tribune's* Robert McCormick but also representatives of the city's booming consumer electronics sector.[355] In the early 1900s, large corporations like International Harvester abandoned the meliorative National Civic Federation (NCF) in favor of the reactionary open shop crusade.[356] In doing so, they followed the small and medium industrialists who organized NAM. In the 1950s, large and dynamic firms proved just as willing to follow the course marked out by the nationalist right.[357]

No one better embodied the complexities of business nationalism than Chicago's own General Robert E. Wood, a major financial backer of right-wing causes including America First, and McCarthy. Wood made his career at Sears, which he transformed from a farmers' mail order catalog to a chain of auto-oriented suburban department stores. He had a visionary grasp of the

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[352] Cumings, *Origins* II, 82.

[353] The dynamism of Cincinnati's machine tool industry is one of the case studies in Philip Scranton, *Endless Novelty: Specialty Production and American Industrialization, 1865-1925* (Princeton: Princeton University Press, 1997). For a related argument concerning midwestern reactionary modernization through the case of Henry Ford, a paradigmatic "isolationist," see Link, *Forging Global Fordism,* Chaps. 1 and 2.

[354] The John Birch Society was founded in Massachusetts by a group including Robert Welch, a candy manufacturer from Belmont, and Robert Waring Stoddard, heir to a family-owned metal forgings company in Worcester. Burch, "The NAM as an Interest Group," 120.

[355] Charles J. V. Murphy, "McCarthy and the Businessman," *Fortune* (April 1954) 156ff; idem. "McCarthy and Texas Business," *Fortune*, May 1954, 100ff.

[356] Delton, *The Industrialists*, Chap. 3.

[357] For example, John McCaffrey of Chicago's International Harvester was a supporter of both the Marshall Plan and Joseph McCarthy. Hogan, *The Marshall Plan,* 137; Murphy, "McCarthy and the Businessman."

mass consumption future, informed by study of the *Statistical Abstract of the United States*. The department store business brought him into close touch with New Deal-oriented investment bankers like Sidney Weinberg of Goldman Sachs. Wood supported Roosevelt in 1932 as a counterweight to "cold selfish" Northeastern Republicans. A certain populism led him to support monetary expansion and the SEC. Alarmed by the labor movement and opposed to U.S. entry into WWII, Wood broke with Roosevelt and alienated Jewish colleagues by remaining a leader of America First after Charles Lindbergh's anti-Semitism had become clear. FDR once said that the one book he could give every Soviet citizen was Sears catalog. Now, Roosevelt banned Wood from the war effort because he showed "far too great approval for Nazi methods."[358]

When nationalists turned to trade expansion, they focused on "less developed countries, especially in Latin America" which offered markets and raw materials but not competition.[359] The System of 1896 scattered dollars and marines across the Caribbean. General Wood made his military career managing the construction of the Panama Canal. Nationalists imagined that an "axis of agriculture and industry, the linking…of Duluth grain elevators and Pittsburgh steel mills would ensure national self-sufficiency."[360] But Latin America could be seen as an extension of the domestic frontier. As Wood put it: "our true mission is in North America and South America…With our resources and organizing ability we can develop ... a virgin continent like South America. The reorganization and proper development of Mexico alone would afford

[358] Justus D. Doenecke, "Power, Markets, and Ideology: The Isolationist Response to Roosevelt Policy, 1940–1941," in *Watershed of Empire: Essays on New Deal Foreign Policy*, ed. Leonard Liggio and James J. Martin (Colorado Springs, CO: 1976) 132-161; idem. "General Robert E. Wood: The Evolution of a Conservative," *Journal of the Illinois State Historical Society* 71 (August 1978): 162-75; idem. "The Isolationism of General Robert E. Wood," 162-175.

[359] Fordham, "Protectionist Empire" 2.

[360] Doenecke, *Not to the Swift: The Old Isolationists in the Cold War Era* (Lewisburg, PA: Bucknell University Press, 1979), 26.

an outlet for our capital and energies for some time to come."[361] Wood was a director of United Fruit and led Sears into Cuba (1942) and Mexico (1947).[362]

Nationalists were also fascinated by East Asia. Access to the China market had always been a distant cause of westward continental expansion. After the 1896 realignment, it was the impetus for the conquest of the Philippines and the Open Door Note. Like Latin America, China could be imagined not as a foreign entanglement but as a new frontier: "a region with vast resources and opportunities, populated by dutiful and cringing peoples who followed white leadership."[363] Evangelical Protestantism, more than direct economic interest, connected traditionalist Americans to China (John Birch was a Baptist missionary). The post-1945 "China Lobby" emerged from an alliance between a wealthy Kuomintang (KMT) clique, professional anti-communists, and Americans with missionary or commercial links to Asia.[364] Outside the hard-core of the China Lobby, the Taft Republicans did not originally see a major military role for the U.S. in East Asia. But when Mao's victory in 1949 presented a badly-needed way to attack Truman, an "Asia first" orientation became more common throughout the nationalist right.[365] What began as a tiny movement driven by extremely parochial interests ultimately

[361] Doenecke, "Power, Markets, and Ideology: The Isolationist Response to Roosevelt Policy, 1940–1941," 140.

[362] "Gen. R. E. Wood Elected Director of United Fruit—Membership of Board is Now 17," *New York Times*, 17 Mar. 1938; William F. Brown, "Mass Merchandising in Latin America: Sears, Roebuck & Co.," *Journal of Marketing,* Vol 13 Issue 1 (July 1948) 73-77.

[363] Cumings, *Origins* Vol II, 93.

[364] Joyce Mao, *Asia First: China and the Making of Modern American Conservatism* (Chicago: University Chicago Press, 2015).

[365] Snyder, *Myths of Empire: Domestic Politics and International Ambition* (Ithaca: Cornell University Press, 1993) 267-268.

became the channel through which American conservatives "staked a heavy investment in global affairs" and became full-fledged contenders for control over the emerging Cold War state.[366]

If the nationalists did not exclusively represent declining economic interests, and they were not isolationists, what made them distinctive? First, they were indifferent if not hostile to Europe. Taft said, "If isolation means isolation from European war, I am an isolationist."[367] Wood told Congress that "Western Europe, the larger portion of it, is finished...I do not care how many loans you pour down, you cannot restore their economy. It is just like pouring money down a rat hole. But you may have to feed them."[368] In the nationalist image, Europe was doubly fraught. Its industries and political systems were too developed. U.S. involvement would require multilateral agreements that constrained American freedom of maneuver, and European industry would compete for markets with American goods. But the continent was also bankrupt, overpopulated, and socialist. All in all, it was a drain on the nation's continental abundance. Europe's advocates had to be either socialist or in thrall to New York-London financial power.

Internationalists worried that without trade expansion, the American economy would falter, and its institutions would be endangered. Similarly, nationalists opposed internationalism because of the effects they thought it would have at home. The traditions of republican liberty and the viability of small business could not survive the wartime engrossment of the federal government and large corporations. Creeping socialism at home was seen as self-evidently a greater threat than conflicts thousands of miles away. This anti-statism provided ideological cover for all manner of coercion, including labor repression and the maintenance of segregation.

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[366] Mao, *Asia First,* 2.

[367] Ronald Radosh, *Prophets on the Right: Profiles of Conservative Critics of American Globalism* (New York: Simon and Schuster, 1975), 130.

[368] General R.E. Wood, "Look Away from Europe," *American Affairs,* Vol. IX, no. 4 (Autumn 1947) 206.

But it also contained a real emancipatory impulse, as seen in Taft's lonely dissent from Japanese internment and his opposition to Truman's desire to draft striking workers in 1946.[369]

Despite his hostility to most of the New Deal, Taft realized that the capitalism "does not necessarily do so well for the lowest income groups." Since "our productive ability is so great," the U.S. should "put a floor under essential things to give all a minimum standard of decent living."[370] Taft's concerns reflected his hometown's yawning inequalities. In the 1920s and 1930s, large numbers of white Cincinnatians moved into new, relatively expensive owner-occupied single-family houses. The growing black population (attracted in part by jobs in war production) was concentrated in tenement districts in the city's old industrial core.[371] Taft's neighbor in the tony Indian Hill suburb was the head of the Cincinnati Housing Authority, who took Taft on eye-opening tours of the city's slums.[372] In 1945, Taft even co-sponsored public housing legislation with the New York liberal Robert Wagner and in 1949 mustered Republican support for the Housing Act.[373] The National Association of Real Estate Boards called Taft "at heart a socialist" and accused him of pandering to the CIO.[374] But Taft's vision was consistent. He hated socialism (and, by extension, most of the Fair Deal) because it would "weaken the

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[369] James T. Patterson, *Mr. Republican: A Biography of Robert A. Taft* (Boston: Houghton Mifflin, 1972) 306-307; Isaacson and Thomas, *The Wise Men*, 199.

[370] *The Papers of Robert A. Taft, 1945-1948*, edited by Clarence E. Wunderlin (Kent, Ohio: Kent State University Press, 1997) 111-112.

[371] Henry Louis Taylor Jr, "City Building, Public Policy, the Rise of the Industrial City, and Black Ghetto-Slum Formation in Cincinnati, 1850-1940" in idem., ed., *Race and the City* 156-192.

[372] Patterson, *Mr. Republican,* 316.

[373] Taft had come to respect Keyserling through their joint work on housing policy. Keyserling HSTL Oral History, "Appendix II: Copy of June 25, 1946 letter from Senator Robert Taft to Wilson Wyatt, Administrator of the National Housing Agency, recommending Leon Keyserling for the position of Commissioner of the Federal Public Housing Authority" < https://www.trumanlibrary.gov/library/oral-histories/keyserlimage1>

[374] Patterson, *Mr. Republican,* 319.

basic unit of our society, the home."[375] Federal aid to strengthen traditional home life was a defense against subversion, not a surrender.

Though small and medium sized business was predominant in the Taft formation, the nationalist worldview also found some purchase in the ranks of labor. Both the right and left wings of the CIO were organically internationalist, but the AFL contained "old-line protectionist and Republican elements" that withheld official endorsement of reciprocal trade and multinational liberal foreign policy more broadly policy until 1948.[376] Anomalous among the founders of the CIO, United Mineworkers (UMW) leader John L. Lewis was an Iowa-born Republican born with economic nationalist affinities. In the late 1930s, Lewis visited Mexico City to promote a new hemispheric labor confederation and proclaimed that "Central and South America are capable of absorbing all of our excess and surplus."[377] He belonged to America First, opposed FDR in 1940, and led the mineworkers out of the CIO in 1942 because of his opposition to the no-strike pledge. Though post-war reconstruction initially meant a boost in U.S. coal exports, Lewis opposed U.S. aid to Europe as a subsidy to foreign coal production and oil dependence.[378] The UMW leadership refused to sign anti-communist affidavits until 1953. But these labor nationalist tendencies were in decline, especially after the Taft-Hartley Act and the 1948 Truman campaign cemented the marriage between unions and the Democratic Party. [379]

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[375] "Text of Senator Taft's Rebuttal to Recent Truman Addresses," *NYT*, May 17, 1950, 16.

[376] Mark Rupert, *Producing Hegemony: The Politics of Mass Production and American Global Powe*r (Cambridge, UK and New York: Cambridge University Press, 1995) 46; Peter Donohue, "'Free Trade' Unions and the State," 9-11, 33.

[377] Jack Scott, *Yankee Unions, Go Home: How the AFL Helped the U.S. Build an Empire in Latin America* (Vancouver: New Star Books, 1978) 201.

[378] Melvyn Dubofsky, "John L. Lewis and American Isolationism," in *Three Faces of Midwestern Isolationism,* 23-33.

[379] In 1948, UMW mobilization helped defeat 41 congressmen and 6 senators who had voted for T-H. In Taft's 1950 reelection campaign, two of the four counties he lost were mining strongholds. Goldfield, *Southern Key*, 78.

2.1 Inflation

Resistance to internationalism was one thing. An even more fundamental obstacle was that during the onset of Cold War, nearly everyone—including internationalists, industrial workers, and new economists—saw inflation as the major domestic economic problem facing the U.S. From the spring of 1946 to the summer of 1948, the consumer price index rose by around one-third, with half of the increase in 1947 alone.[380] Meanwhile, the dreaded post-war depression failed to arrive, with unemployment hovering around 2 million instead of the 5 million Paul Samuelson had predicted.[381] In this context, calls for vast new government spending, including on armaments, ran against the anti-inflationary grain.

Despite the impression given in some popular accounts of military Keynesianism, historians have consistently found little business support for increased defense spending at this moment.[382] Even revisionist scholars long ago concluded that "the large majority of businessmen and their journals and organizations at this time were either indifferent or hostile toward massive arms expenditures."[383] The same seems to have been true of most bankers.[384] Even the leaders of the CED, the most internationalist and Keynesian business organization, welcomed 1949 as "our

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[380] U.S. Bureau of Labor Statistics, "Consumer Price Index for All Urban Consumers: All Items in U.S. City Average," retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/CPIAUCSL, retrieved April 13, 2022.

[381] Other predictions had run as high as 19 million unemployed. Lekachman, *Age of Keynes*, 136.

[382] The most detailed work is Lo, "The Truman Administration's Military Budgets During the Korean War" and Hill, "The Business Community and National Defense." See also John Powers Mallen, "Conservative Attitudes toward American Foreign Policy, with Special Reference to American Business, 1945-1952" (dissertation, Harvard, 1964).

[383] Joyce Kolko and Gabriel Kolko, *The Limits of Power: The World and United States Foreign Policy, 1945–1954* (New York: Harper & Row, 1972) 479.

[384] Jonathan Kirshner, *Appeasing Bankers: Financial Caution on the Road to War.* (Princeton: Princeton University Press, 2007) 122-153.

first portent of what the economy may be like as it functions under more normal postwar conditions."[385] In January 1950, the CED offered its vision for the coming year's federal budget: $2 billion in tax cuts and $6.7 billion in reduced spending, including a $1 billion cut to Marshall Plan funding and at least a $300 million cut to defense. This would have meant a defense budget of $12.6 billion and total federal spending of $40 billion for FY 1951.[386] To put this in perspective, after 1950, defense spending alone would never fall below $40 billion—the level of spending which the CED imagined in 1950 might be a ceiling for the *entire* federal budget.

Concerns about inflation stood in the way of massive rearmament. But what was the social significance of the inflation? At one level, it was simply a case of too much money chasing too few goods. Consumers and businesses had both laid up large stores of liquidity during WWII, which they were now looking to spend; at the same time, materials shortages and investment lag-times placed a limit to how fast production could be increased. But at a deeper level, the inflation was the index of a fight—sometimes coordinated, often anarchic—between social groups over the shape of post-war political economy. The fight had begun before the war ended, with a struggle over how and when to begin civilian reconversion.[387] Behind "resource bottlenecks" lay labor strikes or (the capitalist equivalent) reluctance to invest in sectors like

[385] Thomas B. McCabe, *The Committee for Economic Development: Its Past, Present, and Future* (New York: Committee for Economic Development, 1949), 4. FRASER. <https://fraser.stlouisfed.org/files/docs/historical/federal%20reserve%20history/bog_members_statements/mccabe_19491117.pdf>

[386] Committee for Economic Development Research and Policy Committee, *Tax and Expenditure Policy for 1950* (CED: January 1950); James E. Warner, "Plan for $6,700,000,000 Slash in Federal Spending Is Offered," New York Herald Tribune, Jan 8, 1950, 1.

[387] Barton J. Bernstein, "The Debate on Industrial Reconversion: The Protection of Oligopoly and Military Control of the Economy," *The American Journal of Economics and Sociology* Vol. 26, No. 2 (Apr., 1967), 159-172.

steel or coal. At issue in the strikes was the question of wage, price, and profit: how should the social product be split up between workers, consumers, and owners?

The labor movement and its allies, including some left-liberal economists, called openly for a redistribution of income shares away from profits and toward wages. To achieve this, they demanded that unionized firms grant a large wage increase without raising their prices. (Otherwise, the thinking went, the increase in money-wages would be offset by an increase in the cost of living). The demand for price restraint was politically crucial: by blocking any possibility of a wage-price spiral, it would guard against the perception of unions as special interests whose bargaining gains meant only inflation for non-members. Donald Montgomery, who advised the UAW's Walter Reuther on these matters, came out of the consumer movement and hoped to forestall business efforts to pit consumers' interests against workers.

The issue was sharply posed by the 1945-6 UAW-GM strike. The autoworkers demanded a 30 percent pay increase without any increase in car prices. To prove the company's profit margins were fat enough to absorb the increase, Reuther challenged GM to "open its books." In full page advertisements, the company warned that bargaining over prices and profits, instead of just wages, hours, and working conditions, was a threat to the free enterprise system. The demand was abandoned. Wage increases would become associated with price increases and, too often, with inflationary spirals that generated anti-union backlash. This development helped destroy the labor movement's ability to represent itself as a vehicle of the general interest, rather than a mere interest group. With labor firmly excluded as a candidate for hegemony, the possibilities for social democracy, or even social Keynesianism, receded.[388] From 1948 until the 1970s, American Keynesianism would be military or not at all.

[388] Lichtenstein, "From Corporatism to Collective Bargaining" and Katznelson, "Was the Great Society a Missed Opportunity," both in *Rise and Fall of the New Deal Order*.

Since inflation limited the appeal of broad stimulus, the first anticipations of the military Keynesian theme were addressed to specific sectors and locales, rather than employment and output as a whole.[389] A memo of March 15, 1948, discusses using military materials stockpiles for stabilization purposes.[390] In his January 1947 economic message, Truman called for "a better distribution [of employment] between localities of labor scarcity and labor surplus."[391] By August 1948, manpower officials were already placing defense contracts based on labor market conditions, but the emphasis was on overcoming the prevailing labor shortage rather than aiding depressed areas.[392] Only later, with the onset of recession in 1949, would the emphasis shift toward unemployment relief.[393]

Division in the Ranks

Where in all this did the military leadership—a group which blended the features of a social stratum and a subdivision of the state—fit in? The historical record is surprisingly clear that the impetus for massive defense budgets came from civilian state department planners like Nitze and Acheson, not from the military or even from the civilian Office of the Secretary of

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[389] Another index of the lack of interest in major new spending is that in late 1948, the administration's Fair Deal liberal wing, led by Clark Clifford and Leon Keyserling, had called for just $1 billion in new social spending—a far cry from the budget expansions that would follow from the composition and adoption of NSC-68 in late 1949/1950. Schilling, "The Politics of National Defense: Fiscal 1950," 47-48.

[390] William Remington, "Stabilization Programs," March 15, 1948, HSTL, Keyserling Papers, CEA: Staff Studies, Box 9, Folder: Stabilization Devices Committee.

[391] Harry S. Truman, Special Message to the Congress: The President's First Economic Report. Jan 8, 1947. Online by Gerhard Peters and John T. Woolley, The American Presidency Project https://www.presidency.ucsb.edu/node/232721

[392] Philip Geyelin, "Men Wanted: Rearmament Program, Draft May Swallow One Million in Year; Manpower Officials Trying to Divert Defense Contracts To 'Surplus' Labor Areas Prime Need," *WSJ*, Aug 9, 1948, 1.

[393] At the lowest point of the recession, the Marshall Plan and Pentagon accounted for roughly 70% of all government contracts and loans to 35 designated labor surplus areas. "Procurement and Construction Contracts and Loans by Federal Agencies in Areas of Heavy Unemployment, July-September 1949. Records of the Council of Economic Advisers, 1953-1961, DDE Library. Box 3, Folder: Areas, Depressed [1946-1950].

Defense.[394] There were three major reasons for this. First, the services were bitterly divided, leading them to fight each other for appropriations rather than acting as a coherent advocate of larger budgets in general. The institutional landscape was unstable: the War and Navy Departments were reorganized into the National Military Establishment in 1947, renamed the Department of Defense in 1949. Despite the unification under one Department, the Army, Navy, and the new independent Air Force remained separate loci of power, with links to different social currents. The imposition of budget ceilings turned existing interservice rivalry into a bitter contest over funds, in which the service chiefs strove publicly to kill each other's dearly-held initiatives.[395]

Second, if military actors *had* taken the lead in advocating for a massive buildup, they would have provoked suspicions of self-aggrandizement from Americans uncomfortable with the power of military figures in a republic. Truman in particular believed that the military was out to get as much money as possible. At the very moment NSC-68 was being put together, Truman told reporters in Key West:

> That is a natural feeling for any military man. If I didn't have in view the overall budget of the United States, the military people would have more than half of it. They asked for $22 billion. You know they can't have that, and they know it, too.[396]

Clearly, the demand for a $50 billion could not come from the military. The State Department possessed enough autonomy to convince people like Truman that they were really thinking about the general interest, rather than augmenting their personal power.

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[394] Fordham, *Building the Cold War Consensus,* 33-34.

[395] Anand Toprani, "'Our Efforts Have Degenerated into a Competition for Dollars'. The 'Revolt of the Admirals', NSC-68, and the Political Economy of the Cold War," *Diplomacy & Statecraft*, 30:4 (2019) 681–706.

[396] Harry S. Truman, The President's News Conference at Key West, March 30, 1950. Online by Gerhard Peters and John T. Woolley, The American Presidency Project https://www.presidency.ucsb.edu/node/230873

The final constraint on the military followed from Truman's distrust. Since they knew their funds would be limited, military commanders were reluctant to endorse a major expansion of the scope of the Cold War, lest they be forced to defend untenable positions (such as South Korea) with inadequate forces. This helps explain Johnson's alliance with the right-wing nationalists, who were more averse to worldwide commitments than his own administration's internationalists. Clearly, this reticence could disappear once the funds were unlocked—as proved in the case of Douglas MacArthur, who had once excluded Korea from the defense perimeter. But the military could not unlock the funds itself.[397]

These limitations should not obscure the extent to which military and corporate actors had already begun to build a community of interest. The groundwork had been laid by the capital-military alliance during the WWII mobilization and the struggles over reconversion. As we have seen, the advocates of an independent Air Force had always worked closely with the private aircraft industry. Army figures like General Lucius D. Clay and General George C. Marshall, who had become de facto economic planners through their work on German reconstruction of, became members of the elite Business Advisory Council. In 1950, thanks to Sidney Weinberg of Goldman Sachs, Clay became chairman of the Continental Can Corporation, with a starting salary of $96,000 (over $1 million in 2022 dollars) plus stock options.[398]

Another crucial figure in the rehabilitation of West German capitalism, Maj. General William H. Draper, Jr, was a Dillon, Read vice-president. James Forrestal, the first Secretary of Defense (1947-1949), had been president of Dillon, Read. Despite coming from the same investment bank as Nitze, Forrestal is a transitional figure at best in the history of military

[397] Snyder, *Myths of Empire*, 268-270.

[398] Smith, *Lucius Clay*, 564.

Keynesianism. Consumed by anti-communism and driven half-mad by Truman's budget ceilings, Forrestal had toyed with the idea of treating some military expenses as a "capital item" that could be "removed from the budget," a distinction between the capital budget and the current budget that recalled Keynes's framework for public investment.[399] But Forrestal, who came to the Pentagon from the Department of the Navy and had opposed service unification, was hardly positioned to lead a coherent fight for a generalized defense expansion. During the 1948 air power buildup, he had shared Truman's concerns about defense-driven inflation. Forrestal only dared to ask to that the FY1950 ceiling be raised from $14.4 billion to $16.9 billion. Even this request Truman denied, leaving Forrestal to complain that the president was "a hard-money man if ever I saw one."[400]

In April 1949, Forrestal's replacement, Louis Johnson, reported that one of the services had presented him with "a program, on charts and all, that would cost 30 to 50 billion dollars a year." Johnson told them to "forget this presentation" and "quit that dreaming," since such levels of spending would not fit "within the economy of the United States."[401] This is a sign that the military continued to dream about vastly increased appropriations, as generals have always done. But in public, they would continue to stand by Truman. As late as March 1950, Omar Bradley, the inaugural chairman of the Joint Chiefs of Staff (JCS), told Congress that "realizing that the amount of money which our economy can stand for defense is a Presidential responsibility, I am in complete agreement with that ceiling." Bradley continued, "Obviously, it doesn't give us

[399] Nikhil Paul Singh, "Banking on the Cold War," *Boston Review* (March 14, 2019); Brown-Collier and Bruce E. Collier, "What Keynes Really Said about Deficit Spending."

[400] Friedberg, *In the Shadow of the Garrison* State, 103.

[401] Off-the record comments by Johnson, April 26, 1949, quoted in Fordham, *Building the Cold War Consensus*, 25.

everything that we would like to have." But to ask for everything would mean an appropriations request "out of all proportion to that which we believe the country could afford at this time."[402]

In Bradley's testimony, there was evidence here that the military might someday be won over to a coalition for massive rearmament. But leadership would clearly have to come from someone else: someone with a coherent strategic vision, an independent claim on economic expertise, and sufficient autonomy from the military. The group that answered to this description was the corporate internationalist policy planning current centered in the State Department, whose efforts we shall consider in the next chapter.

[402] *Department of Defense Appropriations for 1951, Hearings before the House Subcommittee on Defense Appropriations, 81s Congress, 2nd Session. Part 1* (Washington: GPO, 1950) 82.

Chapter 2: From Corporate Internationalism to Military Keynesianism, 1947-1950

We are living under a curious kind of military Keynesianism in which Mars has rushed in to fill the gap left by the decline of the market economy. – Richard Hofstadter, January 1950

Hofstadter coined many phrases, but "military Keynesianism" may be the most enduring.[403] The historian was not only witty but prescient. As the essay went to press, U.S. military spending ran around $20 billion annually. This was high: in 1929, the *entire* federal budget had been under $4 billion. But Hofstadter had not seen anything yet. A year later, defense spending exceeded $30 billion; two years later, $50 billion. By the end of the decade, the 1950 budget was already recognizable as a nadir, never to return even in peacetime.

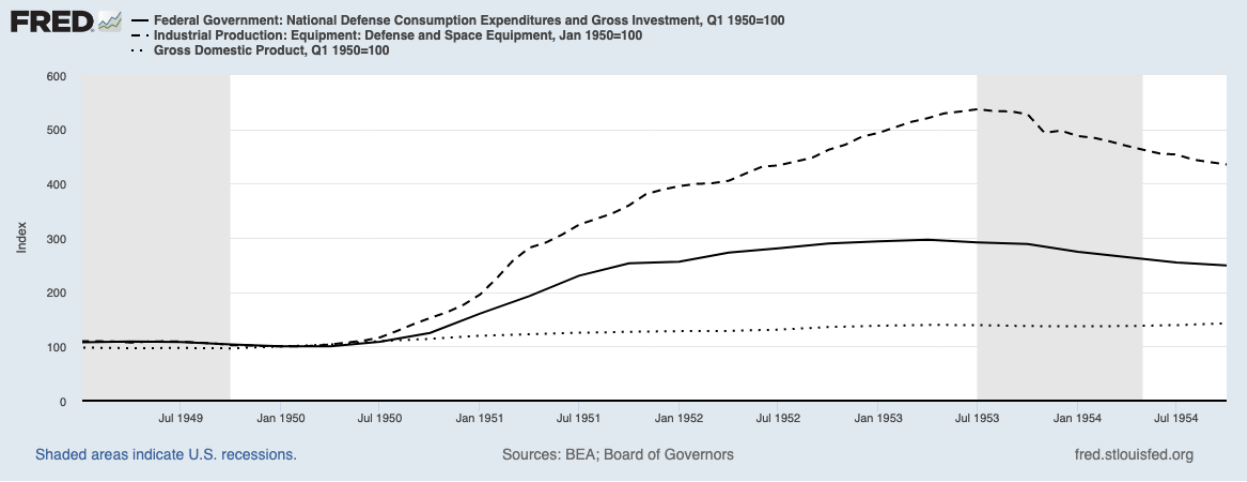

Figure 9: The 1950 rearmament as a turning point. Defense spending (solid) and defense production (dashed) grew much faster than GDP (dotted line). The vertical scale uses Jan. 1950 as an index (e.g., by mid-1953 defense production had increased almost 5.5-fold over Jan. 1950).

The colossal rearmament of 1950 was a relatively late outgrowth of a larger project: the creation of a new, American-led world system. This ambition grew out of capitalist development

[403] It is even more impressive for being tossed off in a minor essay for a forgotten magazine. Richard Hofstadter, "American Power: The Domestic Sources," *American Perspective*, IV (Winter 1950), 32-36. On the journal *American Perspective*, see Justus Doenecke, "Toward an Isolationist Braintrust: The Foundation for Foreign Affairs," *World Affairs* Vol. 143, No. 3 (Winter 1980/81) 264-277.

in the United States after 1914—specifically the increasing importance of international flows to an economy that had previously been centered on domestic capital accumulation. This transformation threw up a new internationalist bloc of capitalists whose interests—and, they believed, those of all Americans—demanded that the U.S. take a lead role in world affairs. But they faced a problem. Even if one can establish that internationalist sections of U.S. capital were "crucially important to shaping attitudes to foreign policy commitments," this is not "sufficient to explain America's assumption of a global role and the degree of political consensus that has made this possible."[404] Paul Nitze may have believed that the American social order could not survive without the revival of European capitalism, but he complained that he faced a serious obstacle in Congress. Any committee "dealing with foreign affairs...has no constituents...The Department of Agriculture has got constituents and it can log roll. How can the Foreign Affairs Committee logroll?" Nitze and his interlocutors also contrasted the lack of a social base for foreign affairs with the powerful constituents attached to the "Military Affairs Committee" and "military appropriations." [405] Internationalism was strong enough to generate a visionary like Nitze and place him at the top levels of the U.S. state, but too weak to command immediate assent in Congress. A constituency would have to be created, a task which could be made easier if internationalists could co-opt the existing support for militarism.

The first and most influential advocates of tripling the budget were corporate internationalists. With economists, they forged a new military Keynesian rhetoric, affirming

[404] Thompson, *A Sense of Power,* 20.

[405] There had been an actual Military Affairs Committee until the end of 1946, when it was combined with Naval Affairs to become the present Armed Services Committee. Princeton Seminars, Oct. 11, 1953, Reel 5, Tape 2, 13-14, Acheson Papers, Princeton Seminars File, HSTL (emphasis added). This conversation is cited in Christensen, *Useful Adversaries*, 71.

within the councils of state what Hofstadter had noted in a small magazine. More than a trope in social criticism, the idea that Mars might rush in where markets failed became a powerful weapon against domestic opponents of rearmament. But even after the onset of Cold War relations around 1946, it took nearly half a decade for the military Keynesian synthesis to emerge. The winding path to 1950 ran through the failure of two earlier projects: the economic assistance program exemplified by the Marshall Plan and the civilian growth politics that underpinned Fair Deal reformism.

Stillborn Syntheses

The Marshall Plan and the Impasse of Economic Assistance

The early Cold War conflict centered on Europe, because that is where American and Soviet designs for the postwar came into direct and immediate conflict. To corporate internationalists, Western Europe (and especially Germany) was the most important industrial center outside North America. Reviving Western European capitalism was essential to the health of American capitalism, and German capacities (especially coal) were immediately seen to be key to reviving Western Europe.[406] By the same token, keeping German military-industrial capacity out of Soviet hands was essential to the balance of power. U.S. planners were willing to divide Germany if this was required to maintain preponderant U.S. influence over the direction of West German industry. For their part, the Soviets imposed political domination in the East and extracted reparations from their zone in the form of dismantled industrial plant. But Stalin also wanted a share of resources from the Western zone and some control over German economic

[406] As befitting policy made in large part by Dillon, Read investment bankers, the American vision for West German recovery involved social relations of production, not just geopolitics. Both the non-communist German Social Democratic Party (SPD) and the British Labour government were interested in nationalizing some of West German basic industry. But, as Marshall himself instructed Will Clayton, the U.S. "could not sit by while the British tried out any ideas which they had of experimenting with socialization of coal mines." Benn Steil, *The Marshall Plan: The Dawn of the Cold War* (New York: Simon and Schuster, 2018) 361.

revival (which would provide a check on the revival of German military power). For this reason, and because they hoped that a formally neutral Germany could somehow eventually be brought into the Soviet sphere, the Soviets remained open to the possibility of a unified, demilitarized Germany. But U.S. officials had already come to see the division of Germany as the best and quickest way to reintegrate West German capacities into the capitalist world system.[407]

Germany was the key, but it was not Europe's only bleeding edge. In early 1947, after a sterling exchange crisis, the British asked the U.S. to take over its imperial responsibilities in the Eastern Mediterranean, including the armed support of the Greek right wing in its civil war against the Communist-led forces who had occupied much of the country after the defeat of the Axis. Truman asked Congress for $400 million to fight communism in Greece and Turkey and, with the indispensable assistance of Senate Republican Arthur Vandenberg, got what he wanted.[408] Truman rejected a first draft of his message to Congress, which focused on the importance of Near Eastern oil, because it sounded "too much like an investment prospectus."[409]

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[407] My discussion here obviously leaves out a huge number of crucial points, not least the role of French and German interests and agency. For a recent synthesis written from an impeccably anti-Soviet framework, which nonetheless emphasizes the early U.S. decision to "divide Europe frankly into spheres of influence" (as Kennan said in 1945) see Steil, *The Marshall Plan*, here 341. For an older account which likewise finds that "the United States and Great Britain bear primary responsibility for the division of Germany" but affirms this decision as the best possible, see Melyvn Leffler, *The Struggle for Germany and the Origins of the Cold War,* Sixth Alois Mertes Memorial Lecture, Occasional Paper No. 16 (1996). For conclusions less sympathetic to U.S. policymakers, see Carolyn Eisenberg, *Drawing the Line: The American Decision to Divide Germany, 1944-1949* (Cambridge University Press: New York, 1996).

[408] Bruce Cumings offers a political economy reading of Vandenberg's ability to mediate: Michigan was split between nationalist agriculture and multinational manufacturing. One might add that the auto industry itself (despite cliched associations with high-tech mass consumption) had a complex relation to New Deal political economy, being both labor-intensive and internationally competitive. Cumings, *Origins* II, 92; Ferguson, *Golden Rule*, *235-236n16*.

[409] Steil, *Marshall Plan*, 42. According to Mira Wilkins, "The U.S. government's commitment to contain communism in Greece and Turkey" was immediately "reassuring to U.S. investors [oil companies] in the Middle East." Wilkins, *Maturing of Multinational Enterprise*, 319.

Vandenberg gave Truman a better idea: to "scare [the] hell out of the country."[410] Following his Republican collaborator's lead, Truman delivered an ominous but substantively dubious declaration of a global struggle between freedom and totalitarianism.[411]

Later in 1947, Truman and Vandenberg faced the much larger challenge of funding the European Recovery Program (ERP), which the White House estimated would $17 billion. According to Averell Harriman, the goal of ERP (better known as the Marshall Plan) was "the recovery of Europe's industrial productivity so that she may be able to sell abroad in payment for what she needs to buy abroad."[412] Without increased production, the Western European economies would be unable to resist Communist subversion and too poor to earn dollars to exchange for the materials and capital goods required for economic expansion. No market mechanism existed to give Europeans the dollars they needed. This would require the state-coordinated transfer of resources, as well as more ambitious projects of development planning.

The executive branch leaned on internationalist bloc social group to help sell the Marshall Plan to the country. The key vehicle was the President's Committee on Foreign Aid, headed by Commerce Secretary Averell Harriman and charged with building public and

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[410] Steil, *Marshall Plan,* 36. The original source for Vandenberg's quote, which has appeared in countless peer-reviewed histories, appears to be Eric F. Goldman, *The Crucial Decade: America, 1945-1955* (New York: Knopf, 1960) 59. Goldman's lack of footnotes has led at least one scholar to question whether Vandenberg ever said such a thing, see Robert L. Beisner, *Dean Acheson: A Life in the Cold War* (New York: Oxford University Press, 2006), 671n23. There is contemporary documentary evidence that the March 1947 speech was designed to "electrify the American people." 32. Minutes of the First Meeting of the Special Committee to Study Assistance to Greece and Turkey, February 24, 1947, 3:00 p.m. *FRUS, 1947, The Near East and Africa, Vol V*. <https://history.state.gov/historicaldocuments/frus1947v05/d32>

[411] Historians of the Cold War, include those sympathetic to Truman, have tended to agree that the public justification for U.S. intervention into the Greek Civil War was exaggerated at best and disingenuous at worst. Arnold A. Offner, *Another Such Victory: President Truman and the Cold War, 1945-1953* (Palo Alto: Stanford University Press, 2002) 209-212. However, as new sources become available, debate on the specific details of Soviet involvement in Greece has continued. For a recent example, see Panagiotis Savvidis, "Greek Civil War: Molotov's Secret Report to Stalin on How the USSR Supplied Weapons to the KKE," *Greek City News*, Jan 5, 2022 < https://greekcitytimes.com/2022/01/25/greek-civil-war-molotovs-kke/>

[412] Quoted in Eden, "Diplomacy of Force," 111.

legislative support for ERP. The Harriman Committee demonstrated clearly that effective support for the internationalist program did not simply exist as a reflex of economic structures. Nor could the state just impose such a program.[413] Rather, consent had to be actively organized through the channels of civil society.[414] The Committee's membership was an X-ray of a historical bloc in the making: two bankers plus executives from auto, steel, rubber, electrical, shipping, consumer non-durables, steel, and coal. The committee was rounded out by a half dozen university administrators—more than half of them trained economists—plus one representative each from the AFL and the CIO. The executive secretary was CED/MIT Keynesian Richard Bissell, who was also the son of the president of a major insurance company and an alumnus of Groton and Yale.[415]

Powerful as this group was, it was not enough to guarantee passage through Congress, the part of the state in which nationalist forces had their greatest leverage. Senate leader Taft saw ERP as a global extension of the "New Deal principle that Government spending is a good thing in itself." Ohio Representative Frederick Smith called it "outright communism," which would have amused the firmly anti-ERP CPUSA.[416] More concretely, nationalists charged that ERP was a giveaway to New York bankers, a cover for tax increases, and an inflationary strain on

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[413] As the Marshall Plan's quasi-official history says of the Harriman Committee: "Although the group was chaired by the Secretary of Commerce and had the full cooperation of government agencies, it was itself only in a limited sense a governmental organization." Harry Bayard Price, *The Marshall Plan and its Meaning, published under the Auspices of the Governmental Affairs Institute*, Washington, D.C. (Ithaca: Cornell University Press, 1955) 41n27. This book was commissioned by the ECA itself but outsourced in the interest of objectivity.

[414] Here, "civil society" should be understood not as a vague ideal of voluntary nongovernmental deliberation, but (following Gramsci) as one term in a complex dialectic in which "the intricate relationships between civil society and political society enable certain strata of society not only to gain dominance within the state but also, and more importantly, to maintain it, perpetuating the subalternity of other strata." Joseph A. Buttigieg, "Gramsci on Civil Society," *boundary 2* Vol. 22, No. 3 (Autumn, 1995) 4.

[415] For membership of the Harriman Committee, see Price, *The Marshall Plan and its Meaning,* 41n27.

[416] Steil, *The Marshall* Plan, 192.

economic inputs needed at home. Vandenberg helped bring the Taft Republicans on board. He pressured the administration to yield to "the overriding Congressional desire that the ERP Administrator *come from the outside business world with strong industrial credentials*."[417] This was specifically meant to keep the Marshall Plan out of the control of the State Department, which nationalists believed was ridden with Soviet spies, Anglophile bankers, and homosexuals. Vandenberg of Michigan recommended Paul Hoffman, the president of Studebaker and chairman of the CED, for the job.[418] Vandenberg also made sure that the initial appropriation was limited to $5 billion, a sum that budget-watchers found easier to swallow.

The white South also lent its support. Dean Acheson's important speech May 1947 speech on European reconstruction, which prefigured George Marshall's own announcement of the Marshall Plan, was delivered after a barbeque in Cleveland, Mississippi.[419] The sponsor was the Delta Council, a boosterish "economic development" outfit founded by the local planter elite in 1935.[420] Lewis T. Barringer, a Memphis cotton factor and longtime Truman confidant, arranged the event. In January 1948, Marshall himself brought the case to the National Cotton Council in Mississippi, co-founded by Will Clayton. Following Marshall's speech, Barringer remembered, "the Mississippi people had a horseback rider proceed from Mississippi to Atlanta, Georgia to highlight the idea that the Marshall plan was on the way."[421] Taft (who eventually

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[417] David M. Jordan, *Robert A. Lovett and the Development of American Air Power* (McFarland, 2018) 125.

[418] As Vandenberg once said, "The automotive industry has been most generously and sympathetically treated by the State Department in all the agreements thus far negotiated." *Congressional Record-Senate, First Session of the Seventy-Fifth Congress*, Vol 81, Part 2 (Feb 23, 1937) 1502.

[419] Beisner, *Dean Acheson*, 70-71.

[420] One Delta Council leader was Rep. William Whittington, the Jim Crow grandee who had played a key role in gutting the original Employment Act of 1945. Stephen K. Bailey, *Congress Makes a Law,* 203-204; Clyde Woods, *Development Arrested*: *The Blues and Plantation Power in the Mississippi Delta* (New York: Verso, 2017), *315n2*.

[421] Oral History Interview with Lewis T. Barringer, Memphis Tennessee, April 15, 1969. HSTL. < https://www.trumanlibrary.gov/library/oral-histories/barringr>

came around to supporting ERP) said that without "the cotton people, we wouldn't have mustered the two thirds we had to have in both Houses of Congress."[422] The first ships carrying Marshall aid left from Galveston.[423]

The right-wing Vermont Republican Charles A. Plumley complained that "there was never such propaganda in the whole history of the nation as there has been for the Marshall Plan."[424] But despite these essays in persuasion, it was only the exploitation of rising military tensions that finally allowed the internationalists to win Congressional approval. Marshall delivered his Harvard commencement address in June 1947, but the aid bill did not gain legislative approval until after the "war scare" of March 1948. On March 5, Lucius Clay (the U.S. military governor in Germany) sent a telegram to Washington warning that a shooting war could come "with dramatic suddenness." Forrestal aggressively publicized the telegram, whose gist the national press gravely communicated to millions of Americans.[425] On March 17, Truman delivered an alarming speech to a joint session of Congress. As expected, the House Appropriations Committee released the ERP bill, and by April 1948 it was law.

The passage of ERP showed that internationalists could overcome nationalist opposition with a mixture of legislative compromise and militarist alarmism. Ironically, most internationalists saw programs like the Marshall Plan as a way to *avoid* a costly militarization of

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[422] Woods, *Development Arrested*, *315n2*.

[423] Anthony Leviero, "First ERP Wheat Shipments Start Texas Loadings Today," *NYT*, April 14, 1948, 1.

[424] Michael Wala, "Selling the Marshall Plan at Home: The Committee for the Marshall Plan to Aid European," *Diplomatic History*, Vol. 10, No. 3 (Summer 1986) 262.

[425] Even sympathetic historians have concluded that "Clay's chilling telegram had little to do with Russians, and everything to do with Congress." Clay himself recalled that General Stephen Chamberlain had come to him in February 1948, asking for "a strong message from me that they could use in congressional testimony [specifically, in seeking military appropriations]. So I wrote out this cable." Isaacson and Thomas, *The Wise Men*, 440; Jean Edward Smith, *Lucius D. Clay: An American Life* (New York: Henry Holt, 1990) 467.

the Cold War. Economist Walter Salant argued that "the export of American capital… may be a major factor in determining whether or not we have to live in a garrison state."[426] Leon Keyserling had stressed the "wealth-creating" contribution of exports while viewing defense spending as "an economic loss necessitated by world conditions."[427] But by March 1948, notwithstanding the evident cynicism of the war scare, the internationalist policymakers were moving towards militarization because of genuine apprehension about the uncertain future. The consolidation of a single party pro-Soviet state in Czechoslovakia in late February 1948 was momentous, providing an image of how the Soviets might use Communist participation in Italian, French, or German governments to turn these countries into outright satellites. In March, Soviet authorities responded to the impending division of Germany by restricting entry into Berlin, a development which further focused American attention on the military balance of power (and, in particular, on air power).[428]

On March 17, 1948, during the war scare, Harriman informed a meeting of the Business Advisory Council of his "view that the European Recovery Program would not be enough and that our material aid would need to be backed up by security commitments to make economic recovery in Western Europe effective."[429] By April 1948, Undersecretary of State Robert A. Lovett, a Brown Brothers Harriman partner, was "already well along the way toward concluding

[426] Walter Salant, "The Domestic Effects of Capital Export under the Point Four Program," *The American Economic Review*, May 1950, Vol. 40, No. 2, Papers and Proceedings of the Sixty-second Annual Meeting of the American Economic Association (May, 1950) 503.

[427] Quoted in Fordham, *Building the Cold War Consensus*, 36.

[428] Leffler, *Preponderance of Power,* 203-219.

[429] Minutes of General Council Meeting of the Business Advisory Council, March 17-18, 1948, Department of Commerce Building, Washington D.C., in Harriman Papers LOC, Truman Administration, Secretary of Commerce, Subject File, Box 230, Business Advisory Council, 1946-1948.

a (still secret) military alliance with Western Europe."[430] In January 1949, Truman's second inaugural called for "a collective defense arrangement," which would take shape over the next few months in the North Atlantic Treaty Organization (NATO), the first non-hemispheric peacetime military alliance in U.S. history.[431]

By mid-1951, ERP aid had allowed European countries to finance $12 billion in essential imports. Three-fourths of this total was for four categories: raw materials and semi-manufactured products; food, feed, and fertilizers; machines, vehicles, and equipment; and fuel.[432] Communists were excluded from the government in France and defeated in the decisive Italian elections of 1948. Anti-communist trade unions were organized across Europe. In 1949, the Federal Republic of Germany (FRG) was established as a distinct nation-state aligned with the U.S. According to Craig and Logevall, "From the American point of view, containment had largely been achieved by 1949."[433]

Still, the internationalists faced obstinate problems. First, Marshall aid was scheduled to run out in 1952, well before recovery was complete. By the end of 1948, the OEEC had already calculated that "Western Europe cannot achieve a balance by 1952 on the basis of its present plans, its present standards of living, and on the existing conditions of world trade."[434] In 1949, a

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[430] Isaacson and Thomas, *The Wise Men,* 446.

[431] Harry S. Truman, Inaugural Address. Jan 20, 1949. Online by Gerhard Peters and John T. Woolley, The American Presidency Project <https://www.presidency.ucsb.edu/node/229929>

[432] Hogan, *Marshall Plan,* 414-415

[433] Craig and Logevall, *America's Cold War*, 3. The authors believe this was Kennan's view as well; the implication is that American foreign policy after 1949 must be explained by something other than the basic realist logic of containment. Both the conclusion, and the imputation to Kennan, have been rejected by Melvyn Leffler in his untitled review of Craig and Logevall; see *Journal of American History* 97:1 (June 2010) 240-241).

[434] Quoted in William S. Borden, *Pacific Alliance: United States Foreign Economic Policy and Japanese Trade Recovery, 1947-1955.* (Madison: University of Wisconsin, 1984) 29.

dramatic pound sterling crisis revealed how far Europe was from full currency convertibility (which would not be achieved until 1958). Inconveniently, business support for internationalism fell off abruptly after 1948. NAM and the Chamber of Commerce calling for the termination of ERP, and even internationalist business organizations voiced complaints about European discrimination against U.S. imports.[435] Faced with "indifference" even among Democrats, the administration had to abandon its plans for an International Trade Organization (ITO) in 1950.[436] Congressional conservatives, led by Taft, were emboldened to reduce ERP appropriations. Even Vandenberg's support was in doubt (as was his health, following surgery to remove a lung tumor in October 1949).[437]

The termination of Marshall aid was clearly a problem for Europe, and for U.S. strategy insofar as European crisis created possibilities for socialist subversion. But Kennan also worried that "the main strain might be felt in this country unless we can decide how we can swallow our own surpluses."[438] Though historians have debated the actual significance of exports for the U.S. economy, research has validated the internationalist logic. The uncertain future of ERP threatened this extraordinary performance, with the IMF predicting "a serious contraction in U. S. exports as ECA aid diminishes."[439] In early 1950, State Department analysts could conclude

[435] Sebastian Huempfer, "Burdens of a Creditor Nation: Business Elites and the Transformation of US Trade Policy, 1917-62" (doctoral thesis, Oxford University, 2016), 219-226.

[436] Thomas W. Zeiler, *Free Trade, Free World: The Advent of GATT* (Chapel Hill: University of North Carolina Press, 1999) 160.

[437] Vandenberg would succumb in April 1951. "Vandenberg Dead; Bipartisan Leader on Foreign Policy," *NYT*, April 19, 1951, 1; Hogan, *Marshall Plan,* 336; Kolko and Kolko, *Limits of Power*, 455.

[438] Luke Fletcher, "The Collapse of the Western World: Acheson, Nitze, and the NSC 68/Rearmament Decision," *Diplomatic History*, Volume 40, Issue 4 (Sept. 2016).

[439] The study provided a breakdown of ERP shipments as a percentage of U.S. exports to ERP countries: 85 percent of coal, 79 percent of agricultural commodities, 59 percent of petroleum, 45 percent of chemicals, and 35 per cent of machinery and metals. Howard K. Carlson, W. John, and R. Woodley, "Role of the ECA Program in Imports of the

"without much doubt" that the "stoppage of the ERP in 1952 is likely to precipitate economic problems at home and abroad which may approach crisis proportions."[440]

In the year between the Truman Doctrine speech (March 1947) and the passage of ERP (April 1948), the internationalist bloc had discovered that the militarization of the Cold War offered an effective means of overcoming nationalist opposition to the core internationalist aim, the American-led revival of Western European capitalism. In hindsight, it is clear these early sales efforts set a lasting precedent. Within a few years, NATO would complete the tasks of the Marshall Plan. [441] From then until the 1970s, both military primacy and trade expansion would become increasingly unquestioned priorities for the U.S. But in the year and a half between the onset of recession in late 1948 and Kim Il-sung's invasion of South Korea, the anxious internationalists had no way of knowing they had discovered a winning formula. Just when internationalist appetite for appropriations and armaments was reaching new heights, Congress and the business community had proven increasingly reluctant to cooperate.

The Fair Deal and the Impasse of Civilian Growth Economics

The politics of inflation, so long as they focused on stabilization, set limits on economic expansion. In the late 1940s, economists associated with the Truman administration strived to shift the lodestar of American political economy from stabilization to growth. As we know, this project would eventually prove wildly successful. But, just as the later success of European economic community has overshadowed the crisis of the Marshall Plan, the ultimate success of

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Participating Countries and in U. S. Exports," *IMF Staff Papers*: Volume 1, No. 1 (Jan. 1950) <https://www.elibrary.imf.org/view/journals/024/1950/001/article-A004-en.xml>

[440] Memo of January 26, 1950, quoted in Borden, *The Pacific Alliance*, 37.

[441] According to one Marshall Planner, "The recovery program never came to an end but was swallowed up in defense activity which developed under the North Atlantic Treaty Organization (NATO) following the North Korean attack on South Korea." Kindleberger, *Power and Money,* 99.

the growth idea has obscured its early challenges. As with the Marshall Plan, the challenges to growth were only overcome under the force of armed conflict.

During the early Cold War, economic expansion was still a left-liberal idea. The political matrix was established during the late New Deal. During the stillborn recovery, prices had begun to rise well before the economy had reached its pre-depression level and continued to rise even as the economy slid into recession in 1937-1938—an early brush with what would later be dubbed stagflation. The New Dealers, locating the problem in sector-specific production shortfalls, or bottlenecks, turned with new interest to anti-monopoly, embodied in the form the Temporary National Economic Committee (TNEC) and Assistant Attorney General Thurman Arnold (who published *Bottlenecks of Business* in 1940). As New Dealers sought to expand production in bottleneck industries, they met with opposition from the owners and managers of highly concentrated major industries, who were reluctant to invest because earlier business cycles (most dramatically, the Depression) had left them with an acute fear of excess capacity. Critics would have added that business wished to restrict production to keep prices up.[442]

The dynamic carried over into the World War II mobilization.[443] New Dealers and new economists pushed for "all out" production while industry obstructed expansion "to avoid excess capacity in uncertain times." For example, throughout 1940, representatives of the Alcoa aluminum monopoly denied reports from the aircraft industry that aluminum shortages existed. In 1941, the government began a $700 million project of capacity expansion in aluminum, publicly financed and powered by electricity from public plants. By the end of 1943, aluminum

[442] Brinkley, *End of Reform,* 106-136; Collins, *More*, 4-10.

[443] Collins, *More*, 10-14; Maier, "Politics of Productivity," 125-134.

capacity was nearly double what it had been in early 1941, and the industry was in the process of transforming for an Alcoa monopoly into an oligopolistic competition [444]

The conflict continued in the late 1940s. It was clearest in steel, which sat at the center of the economy's input-output structure because virtually all other production required it as an input. The Truman administration and many of its constituents believed that more steel production was necessary to ensure national security objectives and the full employment of a growing labor force.[445] One union-affiliated economist claimed that "every working man and woman...would have had $250 more real money in their pockets in 1947 and every year for the next ten--if the nation had enough steel capacity."[446] Besides constraining consumer durables and investment goods, expansion, the capacity problem would limit rearmament and strategic exports (such as 360,000 tons of steel pipe for an oil pipeline from the Persian Gulf to the Mediterranean.)[447]

The steel industry, however, believed it already had sufficient (or even excess) capacity. In 1944, the head of the American Iron and Steel Institute (AISI) had predicted that postwar capacity utilization would average only 70-75 percent.[448] Despite this, the industry did respond to the early postwar boom by expanding, so that by the end of 1949 capacity was 4,000,000 tons higher than the World War II peak.[449] This expansion, however, made them reluctant to build the

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[444] Koistinen, *Arsenal of World War II,* 99.

[445] The most sophisticated economic case for more steel production was the pioneering input-output study carried out by BLS. Jerome Cornfield, W. Duane Evans and Marvin Hoffenberg, "Full Employment Patterns, 1950: Parts 1 and 2," *Monthly Labor Review*, Vol 64 no 2-3 (Feb-Mar 1947) 163-190 and 420-432.

[446] ""To Insure Adequate Steel Supplies," *Trainman News*, May 22, 1948, 4.

[447] Hill "Business Community and National Defense," 278.

[448] Ibid. 166.

[449] "U.S. Steel Capacity is 99,392,000 Tons," *NYT*, Jan 18, 1950, 47.

even greater capacity still demanded by Fair Dealers. When the 1949 recession led to softer demand, the steelmen became even less interested in further expansion. Neither was support for forthcoming from other industrialists. Charles E. Wilson of GM, whose firm exemplified consumer durables, recognized that there was a supply-side problem in steel but preferred to blame strikes in steel and coal rather than the private investment function.[450]

In his January 1949 state of the union, Truman called for "an immediate study of the adequacy of production facilities for materials in critically short supply, such as steel." He called for legislation "to authorize the construction of such facilities if action by private industry fails to meet our needs."[451] CEA member John D. Clark told Congress that Truman "is not afraid to take that final step" in which "the Government itself become a producer."[452] The steel industry decried such talk as "a definite step toward nationalization."[453]

Two bills proposed in 1949 put the question of economic growth directly before congress. Both would have explicitly given the government the power to break bottlenecks. In February came the Spence Economic Stabilization Act (HR 2756). As the name suggests, this house bill was written when inflation was the number-one concern of Fair Dealers. In July, the same proposals were revived in the Murray Economic Expansion Act (S 281).[454] Instead of an

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[450] Hill, "Business Community and National Defense."

[451] Harry S. Truman, "Annual Message to the Congress on the State of the Union," 5 Jan. 1949. American Presidency Project. <http://www.presidency.ucsb.edu/ws/index.php?pid=13293>.

[452] *January 1949 Economic Report of the President: Hearings Before the Joint Committee on the Economic Report, Eighty-First Congress of the United States, First Session, February 8-18, 1949 (Washington, D.C.: Government Printing Office, 1949)* 442.

[453] Walton Cloke, "Control of Steel Held Truman Aim: Spokesmen of Industry Assert Threat to Build Plants Is Step Toward Socialism," *The New York Times*, 6 Jan. 1949.

[454] In January 1949, James E. Murray and Alabama's John Sparkman put forth the Full Employment Act of 1950. In June, Truman met with the senators behind the bill. Murray and Wright Patman introduced a revised bill into the Senate and House, respectively, in July. Donald E. Spritzer, "New Dealer from Montana: The Political Career of Senator James E. Murray" (PhD dis., University of Montana, 1980), 414-420.

anti-inflation tool, the Murray bill was cast as an anti-recession aid.[455] The business press, which uniformly opposed both bills, considered it discrediting that the same measures had been pushed for opposing ends.

But such criticism missed the significance of the emerging growth idea. It is precisely in the 1949-50 moment that historians locate the birth of growth politics.[456] Just a few years earlier, stability had been key. The first time he met the CEA in 1946, Truman told them "Now you gentlemen just keep this national income up to 200 billion dollars and we'll be alright." He might have added that price stability was also important. But increasingly the new economists believed that the distinction between stabilization and expansion was false.[457] Stability required expansion: investment was needed to prevent shortages and keep prices down and new jobs were needed simply to prevent new labor entrants from joining the ranks of the unemployed. As Keyserling wrote to a colleague, "the economy cannot be stable by standing still."[458]

Historians have long understood that the appeal of growth was that it offered "a cure for all ills." Why did resistance to economic expansion endure despite this obvious charm? Why did the Spence and Murray acts fail to come to a vote? The premier historian of U.S. growth politics

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[455] Truman publicly acknowledged the recession in July 1949. Our economic situation July 13, 1949 Address by Harry S. Truman Vol. XV, No. 19 (July 1949), pp. 605. Harry S. Truman, Radio and Television Report to the American People on the State of the National Economy. Online by Gerhard Peters and John T. Woolley, The American Presidency Project https://www.presidency.ucsb.edu/node/229710

[456] Maier identifies the breakthrough with Leon Keyserling's September 1949 speech, "Prospects for American Economic Growth." Maier, "Two Postwar Eras," 177.

[457] For two works "dynamizing" the new economics which appeared at this moment, see Roy F. Harrod, *Towards A Dynamic Economics: Some Recent Developments of Economic Theory and Their Application to Policy* (London: Macmillan 1948); Evsey D. Domar, "The Problem of Capital Accumulation," *The American Economic Review* Vol. 38, No. 5 (Dec., 1948) 777-794.

[458] Keyserling to Gerhard Colm, Feb 15, 1950. CEA File, Subject File, Box 6, Folder: Fiscal Policy, 1947-1952. LHK Papers, HSTL.

writes that "Truman withheld administration support *for reasons that are not entirely clear.*" In the next sentence, teleology takes command: "Both the Spence and Murray bills died aborning, but growth, it seemed, was in the air."[459]

According to Keyserling, his "agitating" on behalf of the Spence Bill meant "moving out ahead of the administration, and it almost got me into very serious trouble."[460] In May 1949, Truman ordered Keyserling not to endorse the bill at an ADA meeting. According to CEA chair Edwin Nourse, Truman's rejection of the bills reflected opposition to "the idea of government intrusion in the industrial field."[461] Nourse (who opposed the bills) does not mention that the president had flirted with the idea in his January 1949 speech. Even then, though, it was presented as a last resort. The recession gave some relief on steel prices while unemployment never reached crisis levels.[462] It was not surprising that Truman did not return to the idea of productive public investment.[463]

It would have been a bruising fight, touching "the very foundation of private investment."[464] For the US Chamber of Commerce, the Spence Bill was "legislative

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[459] Collins, *More*, 23, emphasis added.

[460] Keyserling oral history, HSTL.

[461] Edwin G. Nourse, *Economics in the Public Service: Administrative Aspects of the Employment Act (New York: Harcourt, Brace, 1953)* 246, 390.

[462] Anonymous sources told reporters that Truman would take "decisive" action, including elements of the Murray Act, if unemployment exceeded 5 million. An ADA activist predicted the bill would move toward passage when unemployment exceeded six million. Ultimately, unemployment reached 4.9 million in October but fell below 4 million the next month. "Truman Seen Backing Pump-Priming Unless Economy Rallies by Fall," *WSJ* (July 25, 1949): 7; Ellis Haller, "Noise to the Left: Drum Beating for New "Economic Expansion" Begins in Washington Conference of Fair Dealers" WSJ (July 20, 1949): 1.

[463] The *Wall Street Journal* noted with evident satisfaction that the president had "carefully avoiding repeating this request [steel expansion]" in his mid-1949 economic report." "Truman Economics: He Accepts Red-Ink Budget; Wants Business to Increase Its Output," *WSJ*, July 12, 1949, 1.

[464] Ibid.

authorization for the establishment of a planned economy on the Russian model."[465] According to Nevada Republican George W. Malone, the bill would let Truman "build anything from a steel mill to a corner cigar store, to bring about full employment."[466] Even liberal corporate figures blanched. CED's Howard B. Meyers believed that the Spence Act had "grown primarily out of the activities of Leon Keyserling of the Council of Economic Advisers, who has attained what seems to me a very dangerous influence in White House economic thinking." Meyers worried "that the same ideas will come up next year and the year after that" until "some sort of crisis (of inflation, deflation, *accelerated defense expenditures*, etc" provided an opening.[467]

Historians have tended to see growthmanship as anti-political.[468] But implementing the 1949 economic expansion acts would have required direct confrontation between capital and state. Such conflict had been foreshadowed in February 1948. After a 12.5% increase in the price of semi-finished steel, Truman ordered the CEA to investigate the economy-wide effects of steel prices. Simultaneously he sent FBI agents into the executive offices of 16 major steel firms to investigate possible collusion.[469] The FBI also investigated the "gray market" in which brokers

[465] Felix Morley, "The State of the Nation," *Nation's Business* Vol. 37, Iss. 4, (Apr 1949): 17.

[466] *Congressional Record*, U.S. Senate, May 24, 1950, p. 7587

[467] Meyers to William Benton, March 10, 1949, Benton Papers, Box 260, Folder 10. Emphasis added. Benton had written to Meyers praising Theodore Yntema's (CED/Ford) attack on the Spence Bill and asking for further information on the bill's support in Washington. Myers offered some suggestions on the Murray legislation but found that he could not support even a revised version. Myers to John Howe (assistant to William Benton), Sept. 28, 1949. Benton Papers, Box 260, Folder 10.

[468] In one influential argument, economic planning had by 1945 given way to the "Olympian manipulation of macroeconomic levers." Brinkley, *End of Reform*, 8.

[469] "FBI Studies Steel Boost for Truman: Hunts Anti-Trust Law Violation," Chicago Tribune, Feb 25 1948, B5; "FBI Quizzing Officials of 16 Steel Firms as Truman Orders Inquiry on Price Boosts: Anti-Trust, Inflationary Aspects of Last Week's Increases to Be Covered," *WSJ,* Feb 25, 1948, 2.

sold to steel-hungry small businesses at a huge markup.[470] One newspaper observed that "the big chiefs of Big Steel can probably imagine now how nationalized industries are born."[471]

Around the time the Spence Bill was drafted, British Labour nationalized steel.[472] The nationalization was nonviolent and generously compensated. But as historian David Edgerton writes, it marked "an extraordinary transformation in the status of the capitalist," who was now told "they were not fit to run the infrastructural industries of the nation, that they had put their private interests ahead of those of the nation and had in any case not invested properly in the industries in their care."[473] A CEA report disowned any kinship between Labour and the Fair Deal. It acknowledged "current efforts by other peoples with a long tradition of to combine free government with very substantial diminution of free enterprise" but insisted "our problems are not theirs and we have different methods which are all our own."[474]

There could be no economic expansion without business support. At points, Truman himself suspected that "selfish interests…would like to have a depression for political reasons."[475] *Barron*'s, reflecting on the 1948 Truman-Dewey contest, suggested that "a Republican victory at the polls, which now seems likely, could actually turn out to be a deflationary influence for a while. Both for the sake of the nation and for the sake of the party's

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[470] The bigger firms seem to have cooperated with this investigation to some extent. "Steel Heads to Aid Gray Market Quiz," NYT, 06 Jan 1948: 39.

[471] "Bi-Partisan Policy Takes Spotlight in Steel Investigation," *The Austin Statesman*, March 18, 1948, 4.

[472] The takeover was preceded by a capacity expansion dispute: "Disagreement between government and business as to the level of production required is likely to lead to nationalization." Scott Bowman, "What Causes Nationalization of Industry?" *Quarterly Review of Commerce* (London) Vol. 15, Iss. 1, (Spring 1950) 1.

[473] David Edgerton, *The Rise and Fall of The British Nation: A Twentieth-Century History* (London: Penguin UK, 2019) 124.

[474] CEA, *Business and Government: Fourth Annual Report to the President* (Washington: GPO, Dec 1949) 19.

[475] "Truman Lashes Advocates of Economy," *The Hartford Courant* (Jul 14, 1949) 1.

prestige, *an early recession would be advantageous*." The "present boom" was now ten years old and would have to end at some point. Better that the slump came soon enough that it could "be blamed on the Truman Administration." Cyclical recovery would return in time for Dewey's reelection. Since the postwar investment drive approached "a temporary saturation point" and profits were falling, the "early shakeout" would be economically salutary as well.[476]

Truman defeated Dewey. At the next Federal Reserve Board meeting, staff economist Winfield Riefler reported "that the election had shocked those who made investment decisions and they were making no new commitments, that if the condition continued there could be a recession."[477] But a way out was also becoming evident. According to the *Barron*'s item, "a truly substantial increase in Federal expenditures can only occur in case of a much more critical international atmosphere leading close to war."[478] Likewise, the Fed's Riefler said that serious recession was unlikely because "the military program would be larger than now expected."[479] The resistance to expansion would ultimately be broken by militarism. In the guise of the Cold War, rejected Fair Deal programs reappeared with a certain alienated majesty. In 1950, the Defense Production Act of 1950 would borrow heavily from the Spence and Murray bills. Growth politics, far from an immediate solvent of social conflict, in fact required the emergency atmosphere of the Cold War to gain a secure foothold in American political economy.

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[476] "How's Business? Political Values of Possible Slump," *Barron's*, July 26, 1948, 1.

[477] FOMC historical minutes, Nov 15, 1948, 4-5
<https://www.federalreserve.gov/monetarypolicy/files/FOMChistmin19481115.pdf>
For further discussion of an investment strike, see "Secretary's notes on the meeting of the Federal Advisory Council on November 14, 1948, at 2:10 P.M, Washington, DC" 7. FRASER.
< https://fraser.stlouisfed.org/files/docs/historical/nara/fac_minutes/fac_19481114.pdf>; Edwin Nourse, CEA, Discussion Meeting with Philadelphia businessmen, Warwick Hotel, December 8, 1948, NARA RG 304, Mobilization Planning Subject File, 1948-1953, Entry 280, Box 1, Folder: Economic Stabilization.

[478] "How's Business?" *Barron's*.

[479] FOMC, Nov 15, 1948, 5.

A Viable Synthesis

The Air Power Bloc

The first breakthrough toward rearmament came in the form of targeted industrial policy rather than general stimulus. In 1947, American aircraft producers and commercial airlines were in crisis.[480] Airframe production fell to a postwar low of 29.3 million pounds, down from 962.4 million pounds in 1944. Losses were reported to be in the range of $31 million. From its wartime peak, employment collapse at Bell by more than 90 percent, at Consolidated Vultee by 75 percent, at North American by more than 80 percent.[481]

This was alarming not only to aircraft executives and workers but to strategists who believed air supremacy would be key to the conflict with the Soviet Union. Responding to a longstanding request from industry leaders, Truman authorized the President's Air Policy Commission, known after its chair as the Finletter Commission, in July 1947. Like Paul Nitze, Thomas K. Finletter, was a member of the elite Metropolitan Club. He left the Republican Party because of its "isolationism." At Coudert Brothers (which claimed to be the country's oldest international law firm) he supervised the legal work for a major French purchase of U.S. military aircraft in 1939.[482] During WWII, he worked on overseas material procurement under Cordell Hull. The appointment came after the State Department's Herbert Feis called the Council on Foreign Relations and asking them to send "a lawyer experienced in foreign matters."[483]

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[480] "Aircraft Makers Had $12 Million Net in '48" *WSJ,* April 11, 1949, 16.

[481] Employment figures calculated from data in Weston Price, "Past, present and future of the aircraft industry" (dissertation, University of Southern California, 1950).

[482] "Coudert Brothers at 150" (2003); Lynn Eden, "The Diplomacy of Force: Interests, the State, and the Making of American Military Policy in 1948," (PhD diss., University of Michigan, 1985), 226. Biography: "Thomas K. Finletter, April 24, 1950-January 20, 1953," U.S. Department of Defense, <https://media.defense.gov/2016/Mar/11/2001479131/-1/-1/0/AFD-160311-466-006.PDF>.

[483] Joseph Kraft, "School for Statesmen," *Harper's* (July 1958) 64-68.

The panel's co-chair was George P. Baker of Harvard Business School. The other members were publisher Palmer Hoyt, Arthur Whiteside of Dun & Bradstreet (a credit rating agency), and John McCone, an industrialist grown wealthy in California's defense industries. Remarkably, this group was described as "well-rounded and objective" because they came from "outside the aviation industry."[484] An official Pentagon history puts it delicately: "These ad hoc, informal arrangements appear unorthodox from the perspective of later decades, with their heightened sensibilities about the proper relationship between business and government."[485]

The report, *Survival in the Air Age* (1948), affirmed that the military "must be built around the air arm." This called for more spending: "the health of the aircraft industry, for the next few years, at least, is dependent largely upon financial support from Government in the form of military orders." Beyond production orders, the authors identified a role for government in "financial support of aeronautical research," where "the scale of operations is now so great that no civilian organization could foot the bill." The Commission recommended this support not just because of the industry's military importance but for its broader commercial promise. The airplane, it said, was "almost indivisibly, a weapon of war and a carrier of commerce."[486]

The study estimated the production volume (measured in airframe pounds) required to keep the industry running at an adequate level and recommended that Congress pass an

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[484] The author was director of the Institute for Aeronautical Science and had himself served as the Finletter Commission's Executive Director. The journal was linked to Dun & Bradstreet. On the other hand, Lynn Eden argues that Truman would have expected Finletter, a onetime World Federalist and critic of the decision to use the atomic bomb, to resist Air Force appeals. S. Paul Johnston, "Power in the Air: Goals and Recommendations for National Policy (An Analysis of the President's Air Policy Commission's Report. Survival in the Air Age)," *Dun's Review* (March 1948) 14-16, 74-79. Eden, "Diplomacy of Force," 227.

[485] Elliott V. Converse, *Rearming for the Cold War, 1945–1960* (Washington, D.C.: Office of the Secretary of Defense, 2012) 57.

[486] *Survival in the Air Age: A Report by the President's Air Policy Commission* (Washington, DC: U.S. Government Printing Office, 1948) 8, 46, 48, 77.

emergency appropriations bill ensuring this level of orders. The heart of the Congressional air bloc were the business nationalists, who favored air power (especially atomic) as a cheap, capital-intensive alternative to the Truman's proposals for a draft and Universal Military Training (UMT). Taft dreamed of "an air force which will give us complete control of the air"—no need for entangling alliances or compromises with the statist ruins of Western Europe.[487]

In May 1948, Congress approved $3.2 billion for air procurement—more than $1 billion over Truman emergency budget request. At this point, the dominant economic concern was still inflation. Forrestal convened McCone, Lt. Gen. LeRoy Lutes of the Munitions Board, and Oliver Echols of the Aircraft Industries Association (an industry lobby) to assess the economic impact. They determined that the industry could move forward with the Finletter recommendation of a 70 group Air Force without "serious impact on industry."[488] The margin of unused capacity in the aircraft industry was so great that a massive expansion could take place without disrupting the economy. One of the major barriers to rearmament had fallen.

The Finletter report and the successful military bail-out the industry marked the first crystallization of a new military-industrial-complex. Among the very few examples of business pressure for rearmament higher budgets came from the "aircraft manufacturers [who] were at the head of the campaign for higher military spending in 1948."[489] They worked in concert with the newly independent Air Force, which "daringly went beyond the usual channels of

[487] *The Papers of Robert A. Taft: 1945-1948,* 396.

[488] Converse, *Rearming for the Cold War*, 58.

[489] Clarence Y.H. Lo, "Theories of the State and Business Opposition to Increased Military Spending," *Social Problems*, Volume 29, Issue 4, 1 April 1982, Pages 424–438,

communication with the secretary of defense and the president, and, breaking dramatically with the administration, forged an alliance with a voting bloc in Congress."[490]

In other advanced capitalist countries, state ownership played a role in the aircraft industry. In the U.S. experience, arsenals and shipyards were publicly owned and operated. But despite consensus that the air industry could not exist with government orders, support for nationalization was limited to a small and impotent minority.[491] In April 1948, three House representatives (all New Yorkers) voted against the emergency air force appropriation. The dissenters—Vito Marcantonio and Adam Clayton Powell Jr. of Harlem and Leo Isacson of the Bronx—were a remnant of the interracial Popular Front that had seemed vibrant just a few years earlier. Within two years, Marcantonio and Isacson would be gone, with Powell remaining but embracing the foreign policy of militarized anti-communism.[492]

The Balance Shifts

The primal scene of military Keynesianism is the composition and approval of National Security Council Study 68 (NSC-68), the State Department memo arguing for a massive expansion of U.S. military capabilities and a budget to match. Despite the partial breakthroughs of ERP and the Finletter report, full rearmament still faced opposition within the White House.

[490] Eden, "The Diplomacy of Force," 39.

[491] The Air Force command may have had instrumental reasons for promoting private ownership, since they realized that "industrial suppliers, dispersed throughout several populous states" would provide the new military branch with "a potent and enthusiastic source of political support for its programs, with more freedom to lobby and mount promotional campaigns than arsenals and shipyards." Fredric Scherer, "The Aerospace Industry," in Adams, editor, *The Structure of American Industry*, p. 336 The Air Force's self-consciousness on this point is also stressed in A. Ernest Fitzgerald, *High Prophets of Waste*, (New York: Norton, 1972) 59-60.

[492] John G. Norris, "Leftists Isacson, Marcantonio and Powell Voice Only Opposition: Air Power Wins in House," *Washington Post*, Apr 16, 1948, 1

Between early 1949 and mid-1950, the bureaucratic balance shifted definitively. The story has been told before but bears a careful reconstruction.[493]

The State Department's George Kennan and the CEA's Edwin Nourse, two crucial opponents to full-scale rearmament, were sidelined in 1949. Both can be seen as figures caught in between the nationalism and internationalism. The Wisconsinite Kennan identified deeply with the Midwest, maintaining a farm throughout his life and once proposing that foreign officer training should include mandatory agricultural labor.[494] He went to Princeton but failed at networking, and joined the diplomatic corps because law school was too expensive. He stated with pride, "My ancestors never owned capital," nor was any ancestor "to any important degree an employer."[495] After withdrawing from active public service, Kennan began to explore the Taftite idea of a continental foreign policy, arguing that "our own geographic situation is one of the most favorable that could be conceived" for a state which he did not hesitate to call "complete isolation."[496]

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[493] Paul Hammond, "*NSC-68*: Prologue to Rearmament," in *Strategy, Politics and Defense Budgets,* eds. Warner Schilling, Paul Hammond, and Glenn Snyder (New York: Columbia University Press, 1962) 267-378; Fred Block, "Economic Instability and Military Strength: The Paradoxes of the 1950 Rearmament Decision," *Politics & Society* 10, no. 1 (January 1980); John Lewis Gaddis and Paul Nitze, "NSC 68 and the Soviet Threat Reconsidered," *International Security* 4, no. 4 (Spring, 1980); Lester H. Brune "Guns and Butter: The Pre-Korean War Dispute over Budget Allocation," *American Journal of Economics and Sociology* 48, no. 3 (July 1989); Benjamin Fordham, "Domestic Politics, International Pressure, and Policy Change: The Case of NSC 68," *Journal of Conflict Studies* 17, no. 1 (Spring 1997); David M. Hart, *Forged Consensus: Science, Technology, and Economic Policy in the United States, 1921-1953* (Princeton: Princeton University Press, 1998) 148-152, 193-194; Edmund F. Wehrle, "Guns, Butter, Leon Keyserling, the AFL-CIO and the Fate of Full-Employment Economics," *The Historian*, 66, no. 4 (Winter 2004); Curt Cardwell, *NSC 68 and the Political Economy of the Early Cold War* (New York: Cambridge University Press, 2011); Luke Fletcher, "The Collapse of the Western World: Acheson, Nitze, and the NSC 68/Rearmament Decision," *Diplomatic History*, Volume 40, Issue 4 (Sept. 2016).

[494] Joshua Botts, "'Nothing to Seek and... Nothing to Defend": George F. Kennan's Core Values and American Foreign Policy, 1938–1993," *Diplomatic History* Vol. 30, No. 5 (November 2006) 839-866.

[495] Anders Stephanson, *Kennan and the Art of Foreign Policy* (Cambridge, Mass: Harvard University Press, 1989), 215.

[496] Walter L. Hixson, *George F. Kennan: Cold War Iconoclast* (New York: Columbia University Press, 1989) 252

Nourse, an agricultural economist, also self-identified as a Midwesterner. He rose to prominence as a Brookings research director and was appointed CEA chair with "a strong line of support from the agricultural area and from business."[497] As the Cold War emerged, Nourse worried that even a few billion dollars in emergency spending might require the suspension of "free market practices" and their replacement by "a rather comprehensive set of controls of materials, plant operation, prices, wages, and business credit."[498] Like Robert Taft, he preferred to keep the federal budget small and taxes low, but he would rather see a modest federal spending program directed at domestic problems than at militarism.[499]

Kennan's eclipse began in January 1949, when Dean Acheson became Secretary of State. Kennan, head of State's Policy Planning Staff (PPS), believed that the basic task of containment had been completed. The major industrial zones of West Germany, France, Italy, and Japan had been secured. Kennan's thoughts now turned to diplomatic outreach to the Soviets, disarmament talks, and refocusing on domestic problems. He opposed the formation of NATO, German rearmament, and the hydrogen bomb project. He certainly did not favor the $40-$50 billion defense budget contemplated by Dean Acheson, who had become Secretary of State in early 1949.[500] Acheson had once rejected Nitze for a job because he considered the younger man "a Wall Street operator" (which was saying something, considering Acheson's profession). But the older man was won over by Nitze's congressional testimony in support of ERP. With Acheson's approval, Kennan brought Nitze to PPS in July 1949 (a few months after Nitze had his fateful

[497] Edwin G. Nourse oral history, HSTL.

[498] Council of Economic Advisers (U.S.). Letter from Council of Economic Advisers to Harry S. Truman, March 24, 1948, File 14, Folder 3, Item 13, The Attempt to Achieve Stable Economic Growth During the Truman Administration, Student Research File #14. < https://fraser.stlouisfed.org/archival/1348/item/72987>

[499] Fordham, *Building the Cold War Consensus*, 35-36.
[500] Stephanson, *Kennan and the Art of Foreign Policy,* 114-156; Beisner, *Dean Acheson,* 118-119, 229.

conversation with the British defense planners who told him it would cost $45 billion to build a force capable of stopping the Soviets at the Rhine). Three months after coming on as Kennan's deputy, Nitze was effectively in charge. On January 1, 1950, he took over officially. Soon, Nitze and Acheson were meeting regularly for lunch at the Metropolitan Club (where Nitze, though the junior figure bureaucratically, was the one who held the high-status membership).[501]

Nitze's first task was to head State-Defense Policy Review Group that would result in the comprehensive strategy review that became known as NSC-68. Aware that their budget preferences were political poison, Acheson and Nitze agreed to exclude any specific cost figures. Although he deemed the sum (at a "very rough guess," the cost would be "fifty billion dollars per annum") too explosive to put in writing, Nitze still needed to make a general economic case for the viability of vastly expanded spending.[502] Here, he turned to professional economists.

Kennan's departure coincided with the eclipse of Edwin Nourse, the first head of the Council of Economic Advisors. Though not strictly anti-Keynesian, Nourse was opposed to "deficits as a way of life" and had little appreciation for Keyserling's vision of a constantly expanding economy.[503] In August 1949, Nourse submitted one budget memo and Keyserling and John D. Clark another. According to Nourse, anything above $15 billion posed grave threats. Keyserling and Clark offered a strong defense of increased foreign aid, which was "wealth-creating in an economic sense." At this point, Keyserling and Clark still saw military spending was "an economic loss necessitated by unfortunate world conditions." Still, the economists added, "our economy can sustain—in fact, must be subjected to policies which *make it able to*

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[501] Beisner*, Dean Acheson*, 119.

[502] Dean Acheson, *Present at the Creation: My Years in the State Department* (New York: Norton, 1969) 377.

[503] Malcolm Rutherford and C. Tyler Desroches, "The Institutionalist Reaction to Keynesian Economics*," Journal of the History of Economic Thought*, 30 (2008) 42.

sustain—such military outlays as are vital to national safety and the promotion of optimum opportunity for world peace."[504]

The difficult syntax here is worth lingering over. On the one hand, there is the claim that economy can bear higher military spending, if need be. On the other, the economy "must be subjected to policies which *make it able to sustain*" higher military spending. Here, Keyserling and Clark slip from saying the economy *can* bear the Cold War to saying it *must* be made able to bear it. In a more straightforward translation, the idea is that an expanding economy *can* sustain higher military spending, and that the economy *must* be made to expand through active government policy. The argument does not yet go so far as to say that higher military spending will make the economy expand, but (as Aaron Friedberg has written) "among the policies to which the economy might have to be 'subjected' in order to get it to grow fast enough were deliberate federal budget deficits."[505] The very next month, NSC planners began to call for higher defense spending "even though it may result in an increased deficit at this time."[506]

Nourse took the argument against military Keynesianism public with speeches warning that the excessive military spending was as great a danger to the U.S. as any external military threat.[507] Nourse made several offers to resign and, in November 1949 he finally departed,

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[504] Keyserling and Clark to Truman, Aug 29, 1949, quoted in Fordham, *Building the Cold War Consensus*, 31-37, emphasis in original. Cf. Bernstein, *A Perilous Progress*, 111-112; Friedberg, *In the Shadow of the Garrison State*, 106-107.

[505] Friedberg, *In the Shadow of the Garrison State,* 107.

[506] I disagree with Michael J. Hogan's interpretation that this document (NSC 52) "argued a Keynesian case." In fact, it makes no positive argument about the economics of deficit spending at all, besides the implicit claim that the deficits would not destroy the economy in the short run. 146. Report by the National Security Council to President Truman, Sept 29, 1949 (NSC 52/3), in *FRUS, 1949, National Security Affairs, Foreign Economic Policy, Vol 1* <https://history.state.gov/historicaldocuments/frus1949v01/d146>; Michael J. Hogan, *A Cross of Iron*, 279-280.

[507] "1948: November 10 - National Military Establishment, 'Economic Implications of Military Preparedness'" in Edwin G. Nourse Papers, HSTL, Box 10. Nourse gave essentially the same speech again in February 1949, June 1949, and August, 1949. For the speech that seems to have precipitated Nourse's departure, see 1949: October 18 - National Retail Farm Equipment Association, "The March of Progress – Economically," in Nourse Papers, Box 10.

leaving Keyserling acting chair by default.[508] At the same time, Truman had become more receptive to Keyserling.[509] In January 1949, Truman's state of the union included a threat to build state-owned steel mills.[510] Far from a random detail, the public steel proposal was seen by sympathetic observers as the key to Truman's vision for "the social welfare state," a phrase which at this juncture referred not to modest, consensus-driven reforms such as unemployment insurance but to "a peculiarly American version of what in Europe would probably be called 'social democracy.'"[511] In July 1949, as the recession became impossible to ignore, Truman accepted deficit spending as part of his stimulus program and embraced the goal of a $300 billion national income, a target which Keyserling had been promoting.[512] Truman began using the image of an "expanding economy" and talking about "steady economic growth."[513]

Despite all this, Truman did not officially name Keyserling CEA chair until May 1950, six months after Nourse's departure. Why the lag? In Keyserling's telling, Truman wanted to

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[508] Fordham, *Building the Cold War Consensus*, 42.

[509] This seems to have begun after Truman's surprise victory 1948 election, in which Truman had benefited from the advice of a group of administration liberals led by Clark Clifford and including Keyserling. On this circle (known as the Wardman Park Group after the site of their meetings, a Washington, DC hotel occupied by Federal Security Administration head Oscar R. Ewing), see Pickens, *Leon H. Keyserling*, 97-100.

[510] Specifically, Truman called on Congress "to authorize an immediate study of the adequacy of production facilities for materials in critically short supply, such as steel; and, if found necessary, to authorize Government loans for the expansion of production facilities to relieve such shortages, and to authorize the construction of such facilities directly, if action by private industry fails to meet our needs." Harry S. Truman, Annual Message to the Congress on the State of the Union, January 5, 1949. Online by Gerhard Peters and John T. Woolley, The American Presidency Project https://www.presidency.ucsb.edu/node/230007

[511] Stewart Alsop, "Matter of Fact: The Social Welfare State," New York Herald Tribune, Jan 7, 1949, 21.

[512] Harry S. Truman, Special Message to the Congress: The President's Midyear Economic Report, July 11, 1949. Online by Gerhard Peters and John T. Woolley, The American Presidency Project. <https://www.presidency.ucsb.edu/node/229704>; Leon H. Keyserling, "Planning for a $300 Billion Economy," *NYT Sunday Magazine*, June 18, 1950, 9, 24-27.

[513]Truman, Address at a Dinner of the Better Business Bureaus. Public Papers, HSTL. <https://www.trumanlibrary.gov/library/public-papers/157/address-dinner-better-business-bureaus>; "National Affairs: The Expanding Economy," *Time*, January 16, 1950, 13-14.

move immediately but unnamed "other forces" delayed the appointment.[514] Columnist Stewart Alsop attributed the resistance to a conservative group around Treasury Secretary John Snyder.[515] Alvin Hansen and Seymour Harris wrote to Truman supporting Keyserling, describing the opposition as "antagonism against him because he has fought courageously for the FAIR DEAL PROGRAM."[516] While he waited for Truman to decide, Keyserling sought to mend relations with business.[517] In December 1949, the CEA put out a report affirming that "responsible public servants have always wanted our free enterprise system to thrive and prosper." The statement explicitly disavowed the secular stagnation thesis, downgraded "compensatory spending" in favor of "the revival of private investment," and conceded that the balance between wages, prices, and profits "should be left to the actions of managers and workers within our business system itself."[518] The troublesome word "steel" does not appear.[519]

If there was a moment where Keyserling's contentious version of economic expansion transformed into anodyne growthmanship, this was it. The report amounted to a comprehensive recantation of the vestigial New Deal energies contained within the new economics. But

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[514] Keyserling oral history, HSTL, May 10, 1971 <https://www.trumanlibrary.gov/library/oral-histories/keyserl2#74>

[515] Alsop was a supporter of rearmament, a harsh critic of Louis Johnson's budget cuts, and therefore a Keyserling ally in this context. Since November 1949, he and his brother Joseph had promoted Keyserling's economic philosophy as a complement to rearmament. Stewart Alsop, "Fair Deal's New Ace," *New York Herald Tribune* (May 14, 1950) A1; Joseph Alsop and Stewart Alsop, "Patchwork Economics," *New York Herald Tribune* (Nov 6, 1949) A1; Joseph and Stewart Alsop, "Matter of Fact: New Taxes?" *New York Herald Tribune* (Dec 5, 1949) 19.

[516] Alvin H. Hansen and Seymour E. Harris to Truman, Oct 24, 1949. Keyserling Papers, CEA File 1946-1976, Subject File, 1946-1976, Box 6, Folder: Congratulatory Messages [on Keyserling's Appointments as Vice Chairman and Chairman of the CEA]

[517] Edward T. Folliard, "Washington Scenes," *Nation's Business* 38:4 (April 1950) 29-30.

[518] *Business and Government: Fourth Annual Report to the President by the Council of Economic Advisers* (Washington, DC: GPO, December 1949) 5, 12,

[519] The publication was widely understood in the press as an "olive branch" to business. For one example, see "Truman's Advisers Call for Changes," *Los Angeles Times*, Dec 30, 1949, 1.

reconciliation remained elusive. The *New York Herald Tribune* (associated with the New York financial community) acknowledged that "Mr. Keyserling has been using seductive language for business consumption in recent months" but warned that "business leaders have not forgotten that it was Mr. Keyserling who advocated that the government enter the steel industry as a producer."[520] Keyserling's standing within his own profession was also shaky at best. Nebraska Senator Hugh Butler (a nationalist opponent of the Truman Doctrine) inserted into the Congressional Record an editorial pointing out that Keyserling had once been refused membership in the American Economic Association. Keyserling's ascension over Nourse was actively opposed by some credentialed economists and supported by others.[521]

In addition to his unsuccessful business and professional outreach, Keyserling's limbo also reflected Truman's persistent fiscal conservatism. [522] The president had pragmatically accepted deficits during the slump, but as the economy recovered, he showed less appetite for experimentation. Truman had fired because Nourse's public criticism of Truman had become untenable for a political appointee, not because Truman had become a convert to Keyserling's economics. Indeed, even after Nourse's departure, Truman had implicitly sided with Nourse insofar as he submitted a budget in January 1950 that called for *lower* defense spending than had

[520] "The Economic Advisers," *New York Herald Tribune*, May 12, 1950, 20.

[521] Among Keyserling's antagonists were Lester V. Chandler and Robert A. Gordon, among his supporters were Alvin Hansen, Seymour Harris, Walter Salant. Bernstein, *A Perilous Progress,* 254-255, n69-70.

[522] Indeed, Truman would *never* really come around to the new economics. During the Kennedy-era debate around tax cut stimulus, Truman wrote to Keyserling, "While you are the greatest advocate I have ever had around me, I still think that tax reductions ought to come only after you have had enough money to pay our bills. That was my theory when I was President and I still believe that." He added in his own handwriting, "I'm old fashioned—if I don't have a dollar in my pocket I can't spend it!" Truman to Keyserling, Sept 19, 1963, in LHK Papers, HSTL, Harry S. Truman File, Box 1, Folder: Correspondence Between Truman and Keyserling.

been envisioned at the beginning of 1949.[523] The president was attracted to the expanding economy image but unclear about how to get there. He was not alone in his doubts. Even the sympathetic Alsops wrote, as late as May 1950, that "The vision [a $350 million GNP] is certainly a pleasant one. The trouble is that neither Truman, nor Keyserling nor anyone else has any very exact idea of how it is to be realized."[524]

In the end, Keyserling's appointment would depend on the rearmament decision. Consider the timing. In late March 1950, Frank Pace, an opponent of higher budgets, was abruptly removed as head of the Bureau of the Budget. This removed a major obstacle for NSC-68 advocates, allowing them to move forward with pressing Truman for his approval.[525] In early April, top-level White House staffers read NSC-68 for the first time and became firm allies of the group pushing rearmament. Among them was Charles Murphy, who remembered discussing NSC-68 with Keyserling around this time.[526] On April 12, Truman forwarded NSC-68 to the National Security Council, with a note indicating that he was "particularly anxious that the Council give me a clearer indication of the programs which are envisaged in the report, including estimates of the probable costs of such programs." He further requested that "the Chairman,

[523] As Fordham emphasizes, this means that the dramatic events of 1949 (including Mao's victory and the Soviet atomic bomb test) did not by themselves cause Truman to embrace large-scale rearmament. Fordham, *Building the Cold War Consensus*, 28.

[524] Stewart Alsop, "Fair Deal's New Ace: Stewart Alsop Assays Influence of Keyserling as Economic Chief," *New York Herald Tribune*, 14 May 1950, A.

[525] At this point, Pace had been shown NSC-68 and had continued to resist the idea of much higher budgets. As late as March 13, he spoke publicly about his concerns regarding the federal budget deficit. Fordham, *Building the Cold War Consensus*, 52.

[526] Fordham, *Building the Cold War Consensus*, 53-54; Murphy oral history, HSTL, May 19, 1970 < https://www.trumanlibrary.gov/library/oral-histories/murphy8>

Council of Economic Advisers" participate in the review.[527] On April 19, the *New York Times* reported that "Keyserling would be rewarded with the [CEA] chairmanship."[528] On April 20, the very next day, the NSC met for its first formal discussion of NSC-68, with Keyserling, identified in meeting minutes as "chairman" of the CEA, in attendance. The NSC decided that the report should be sent to an ad-hoc committee, which would include Keyserling, for cost estimates.[529] On May 8, 1950, the National Security Council received a memo in support of NSC-68 written by a CEA staff economist and approved by Keyserling.[530] On May 10, newspapers reported Keyserling's official appointment.[531] According to the *Washington Post,* the White House "welcomed Keyserling's insistence that it was not for economists to foreclose high military expenditures if the national defense situation demanded it."[532]

The Economics of NSC-68

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[527] The President to the Executive Secretary of the National Security Council (Lay), April 12, 1950, Enclosure 1 in 85. A Report to the National Security Council by the Executive Secretary (Lay), FRUS, 1950, National Security Affairs; Foreign Economic Policy, Volume 1 <https://history.state.gov/historicaldocuments/frus1950v01/d85>

[528] The same article reported that the conservative Treasury Secretary Snyder would resign, though he in fact remained in office until 1953. "Snyder Due to Quit Treasury Post by Aug. 1; May Head Bank or New York Stock Exchange," *NYT*, April 19, 1950, 16.

[529] Minutes of the 55th Meeting of the National Security Council, April 20, 1950, 2. President's Secretary's File, HSTL. < https://www.trumanlibrary.gov/library/research-files/minutes-55th-meeting-national-security-council?documentid=NA&pagenumber=2>

[530] 91. Memorandum by Mr. Hamilton Q. Dearborn of the Council of Economic Advisers to the Executive Secretary of the National Security Council (Lay). *FRUS, 1950, National Security Affairs, Foreign Economic Policy, Vol. 1* <https://history.state.gov/historicaldocuments/frus1950v01/d91. The memo's author was economist Hamilton Dearborn, who Nitze may have known from their shared service on the U.S. Strategic Bombing Survey, about whom little has been recorded. For a professional reference and C.V., see Carlton Savage, "Hamilton Q. Dearborn," Aril 20, 1954. NARA II, RG 59, Policy Planning Council, Executive Secretary, Subject Files 1935-1962, Box 174, Policy Planning S/P 1954.

[531] "Keyserling Named Top Economic Aide on Economic Council," *NYT*, May 11, 1950, 24.

[532] The story cites two other factors in Keyserling's appointment. The first ("aggressiveness" in advocating for the Truman program) was not a new development and thus cannot explain the timing. The second (White House confidence in Keyserling's record as a forecaster) is more plausible as a contributing factor. Speculatively, we might imagine that Keyserling was vindicated by the apparently benign effects of the FY1950 deficit. "Blough Is Appointed to Economic Council," *Washington Post*, 11 May 1950, 2.

The sequence of events leaves little doubt that, after months of delay, Keyserling's promotion from acting chairman to chairman finally came about because of the need to have a permanent CEA chair in place to move forward with the costing exercises around NSC-68. Keyserling's breakthrough can therefore be considered a function of Nitze's victory. It was won at the cost of a double abdication: deference to the private business community (as demonstrated in the steel dispute) and a commitment to sign off on any defense budget, no matter how high. Still, Keyserling reportedly once said his contribution to NSC-68 was "the lifetime achievement of which I am most proud."[533] What was the nature of this involvement?

Apparently, no contemporary evidence has surfaced that documents communication between Nitze and Keyserling before Spring 1950. In 1960, Nitze warned one scholar researching NSC-68 that "It is very difficult to trust one's recollection on events that transpired ten years ago."[534] But many accounts of NSC-68 rely on interviews and oral histories conducted much more than ten years after the fact. As a result, Keyserling's role has sometimes been exaggerated.[535] In 1960, Nitze recalled that Keyserling participated only "after the provisional approval of NSC 68."[536] In 1980, Nitze suggested that he and Keyserling "discussed these matters frequently" *while* NSC 68 was being written (that is, January through March 1950). These discussions, if they took place, were fairly general: Keyserling assured Nitze that "the

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[533] Lynn Turgeon, an economist hostile to Keyserling, reports that Keyserling told him this personally in 1983, at a Hofstra University conference on the Truman administration. Turgeon, *Bastard Keynesianism*, 126n16. The timing of the conference, and Keyserling's presence, are confirmed in Pickens, *Leon H. Keyserling*, 214.

[534] Nitze even asked that none of the information he shared be attributed to him because "I have so little confidence in the accuracy of my recollections." Nitze to Edward S. Flash, May 9, 1960. Nitze Papers, Box 136, Folder 6.

[535] For example, there is little evidence that Keyserling "significantly contributed to the report with data and text, a claim advanced in Pickens, *Leon H. Keyserling*, 101.

[536] Nitze to Edward S. Flash, May 9, 1960. Nitze Papers, Box 136, Folder 6; White House aide Charles S. Murphy supports the claim that Keyserling was brought in *after* the White House received NSC-68 in April 1950. Murphy oral history, HSTL, May 19, 1970.

country could afford $40 billion for defense if necessary."[537] Top White House aide Murphy recalled similarly general discussions in April and May 1950: "The question came up repeatedly, in one form or another, 'How much can we afford to spend?' … Leon's answer always was, 'I don't know, but you haven't reached it yet.'"[538] Whatever the details of his direct involvement, there is little question that everyone working in the White House would have been aware of Keyserling's positions on government spending, deficits, and economic expansion, as well as his disagreements with Edwin Nourse on the viability of much higher defense budgets.

Less well known than Keyserling but more directly involved was Robert Tufts, the PPS staff economist.[539] Tufts had studied international economics at Tufts University (founded by a distant relative) in the late 1930s.[540] After the OSS, he went to State in 1947 as one of the first economists involved in ERP.[541] Looking back, Tufts thought his major contribution to history was that he could take "some responsibility for assisting Paul Nitze to feel that he was right in this judgment of the capacity of the American economy."[542] The PPS records document Tufts'

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[537] Nitze and Gaddis, "NSC 68 and the Soviet Threat Reconsidered."

[538] Murphy recalled similar general discussions with Keyserling after Murphy had read NSC-68 in April 1950: "The question came up repeatedly, in one form or another, 'How much can we afford to spend?' … Leon's answer always was, 'I don't know, but you haven't reached it yet.'" Murphy oral history, HSTL, May 19, 1970.

[539] In 1960, Nitze told a researcher that the economic analysis in NSC-68 was "done by Bob Tufts and by me," adding that both he (Nitze) and Tufts were "familiar…with the thinking of [CEA staff economists] Gerhard Colm, Hamilton Dearborn and Walter Salant." In 1980, Nitze said that on PPS he "relied only on Tufts" regarding economic matters," also describing Tufts as "one of the best economic minds I'd run into." Nitze to Edward S. Flash, May 9, 1960. Nitze Papers, Box 136, Folder 6; Lynn Eden, "Interview with Paul Nitze."

[540] The faculty included precocious Keynesians such as Richard V. Gilbert and Lorie Tarshis, who contributed to the important stagnationist manifesto by "seven Harvard and Tufts economists," *An Economic Program for American Democracy* (1938).

[541] Charles P. Kindleberger, "Did Dollars Save the World," in idem. *Marshall Plan Days* (New York: Routledge, 2010), 197-213.

[542] Tufts interview with John Lewis Gaddis, Feb 5, 1987, 7-8, in John Lewis Gaddis Papers, MC 256, Box 6, Folder 13, Mudd Library, Princeton. In the same passage, Tufts emphatically shares credit with Keyserling on the general point of reassuring Nitze.

contribution to the drafting of NSC-68 and related papers from the same period.[543] For Nitze, having an economist like Tufts do this work in-house was a way of internalizing the expert authority that economists had previously wielded from the outside. Back in September 1949, just before his resignation, Nourse had objected to an NSC proposal to temporarily increase the deficit by objecting that "The Council does not examine or even comment on the economic results of such enlargement of deficits—a task which in the nature of the case lies outside the province of the National Security Council."[544] With NSC-68, the economics of deficit spending became annexed to the province of the NSC.

According to Nitze and Tufts, the economic record was "of fundamental importance in considering the courses of action open to the United States." The economy was operating below full capacity (whether that was defined as its World War II peak or the pre-recession 1948 peak). According to the report, "Industrial production declined by 10 percent between the first quarter of 1948 and the last quarter of 1949, and by approximately one-fourth between 1944 and 1949. In March 1950 there were approximately 4,750,000 unemployed, as compared to 1,070,000 in 1943 and 670,000 in 1944." [545] The margin of idle labor industrial capacity meant that rearmament could be carried out without economic dislocation or unacceptable government interference. And the yardstick for America's potential output—the proof positive that there was low hanging fruit that could be harvested in a higher-pressure economy—was provided by the

[543] I have found no evidence that Tufts did "did most of the actual writing on NSC 68 and …is most responsible for the language contained in it," as claimed in Curt Cardwell, *NSC 68 and the Political Economy of the Early Cold War*, 192.

[544] 146. Report by the National Security Council to President Truman, Sept 29, 1949 (NSC 52/3), in FRUS, 1949, National Security Affairs, Foreign Economic Policy, Vol 1 <https://history.state.gov/historicaldocuments/frus1949v01/d146>

[545] *American Cold War Strategy*, 46

production miracle of WWII, which had still not been surpassed in brute numbers even after five years of post-war civilian expansion.

Besides pointing to excess capacity, NSC 68 embraced the new theme of economic expansion, as embodied in its adoption of the Keyserling goal of a $300 billion national income. In a crucial sentence, the report made a daring suggestion: "Progress in this direction [the $300 billion GNP] would permit, *and might itself be aided by*, a build-up of the economic and military strength of the United States and the free world; furthermore, if a dynamic expansion of the economy were achieved, the necessary build-up could be accomplished without a decrease in the national standard of living because the required resources could be obtained by siphoning off a part of the annual increment in the gross national product."[546] The theme was reprised in the conclusion: "From the point of view of the economy as a whole…*the economic effects of the program might be to increase the gross national product by more than the amount being absorbed* for additional military and foreign assistance purposes."[547] The novelty of the thought came through in the hesitancies ("might") and circumlocutions. But to a bureaucratic audience aware that the budget was the major constraint on rearmament, the import would have been unmistakable.

In the minds of some of those involved, this was not just an early moment in the history of growth economics but *the* breakthrough itself. Burton H. Klein, a CEA staffer from 1948-1952, remembered that "the stable-growth theme first appeared in the National Security Council's famous Study 68."[548] As an ad-choc NSC 68 review group convened in May 1950, the

[546] Ibid., 46. Emphasis added.

[547] Ibid., 75. Emphasis added.

[548] For Klein, the stable growth theme was novel in its promotion of "economic growthmanship [as] an end in itself" and its integration of the post-Depression full employment goal with the older goal of economic dynamism.

logic crystallized. Staff economist Hamilton Dearborn officially put the Keyserling CEA's seal of approval on NSC 68. "It may also appear," he mused, "that if we take up the slack in total output and employment which has developed since the end of 1948, every expansion of defense will not require contraction elsewhere."[549] A few months earlier, investment banker Robert Lovett had expressed the same idea more directly: "he had no doubts whatsoever about our economic capabilities. In fact, he thought that the economy of the United States might benefit from the kind of build-up which we were suggesting."[550] Lovett's phrasing nicely captured the logic of the new economics: the "capability" of the country to *withstand* higher spending was beyond doubt, at the same time that higher spending could *benefit* the economy. Unused productive potential could be understood as a liability that would benefit from stimulus, or as an asset that would allow the economy to accommodate the burden of defense. As similar amphibology was contained within the new meanings of the word "demand": a demand was a burden placed on economy, but for a Keynesian, effective demand was also a boon to stability and growth.

Lovett had said that "the economy of the United States might benefit from the kind of build-up which we were suggesting." But what kind of a build-up *were* they suggesting? Walter Schaub of the Budget Bureau complained that since NSC 68 was "Lacking any indication of the

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Intriguingly, in the section preceding his reference to NSC-68, Klein mentions the emergence of an electoral-political business cycle. Klein, *Dynamic Economics*, 222, 227-228.

[549] 91. Memorandum by Mr. Hamilton Q. Dearborn of the Council of Economic Advisers to the Executive Secretary of the National Security Council (Lay). *FRUS, 1950, National Security Affairs, Foreign Economic Policy, Vol. 1* <https://history.state.gov/historicaldocuments/frus1950v01/d91>

[550] Lovett, a partner at Brown Brothers Harriman, had been Under Secretary of State until January 1949 and would become Deputy Secretary of Defense in October 1950. However, at the time he sat in on the NSC-68 committee, he was technically a private citizen acting as an external consultant for the government. 70. Record of the Meeting of the State–Defense Policy Review Group, Department of State, Thursday, March 16, 1950. *FRUS, 1950, National Security Affairs, Foreign Economic Policy, Vol. 1*
< https://history.state.gov/historicaldocuments/frus1950v01/d70>

magnitude of the proposed increase in security expenditures, it is impossible to assess the economic impact of this document."[551] In fact, Acheson and Nitze had intentionally left out any estimates, which they knew would cause alarm. As late as September 1950, it was "Noted the President's instructions that there should be no public discussion of this program, and specifically no public quotation of figures, until the appropriate time as determined by the President."[552]

From the very beginning, there was debate about whether NSC-68 explicitly treated military spending as a means of economic stabilization. In a critique of the NSC-68 draft, Walter Schaub of the Bureau of the Budget objected: "it is neither necessary nor desirable to regard military expenditures per se as a method of maintaining high employment."[553] On a copy of Schaub's memo, someone from the Policy Planning Staff has written in pencil a rejoinder: "Does 68 so regard them [military expenditures]?"[554] The potential for both readings was there.

In Soviet rhetoric, the Marshall Plan and rearmament were props for a dying capitalism.[555] When possible, Soviet spokesmen quoted Americans who appeared to agree. For example, in October 1948, Harvard economist Sumner Slichter told a convention of bankers that the Cold War was a "good thing" for output and employment in the U.S. economy. Slichter's

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[551] 90. Memorandum by the Deputy Chief of the Division of Estimates, Bureau of the Budget (Schaub) to the Executive Secretary of the National Security Council (Lay), May 8, 1950. *FRUS, 1950, National Security Affairs, Foreign Economic Policy, Vol. 1*
< https://history.state.gov/historicaldocuments/frus1950v01/d90>

[552] 129. Report to the National Security Council by the Executive Secretary (Lay). *FRUS, 1950, National Security Affairs, Foreign Economic Policy, Vol. 1*
< https://history.state.gov/historicaldocuments/frus1950v01/d129>

[553] 90. Memorandum by the Deputy Chief of the Division of Estimates, Bureau of the Budget (Schaub) to the Executive Secretary of the National Security Council (Lay), May 8, 1950. *FRUS.*

[554] NARA, RG 59, PPS Subject Files: NSC 68.

[555] Richard B. Day, *Cold War Capitalism: The View from Moscow, 1945-1975* (New York: Routledge, 2015) 55-57

pronouncement was reported in the New York *Herald Tribune*, then the CPUSA's *Daily Worker*, and by November was being cited by Soviet foreign minister Andrey Vishinsky in a speech to the UN General Assembly.[556]

Understandably, American policymakers tried to avoid giving the enemy more ammunition. Public affairs guidelines from the State Department state that "defensive rearming… adds a strong factor to the balance against economic decline." But in a section titled "Cautions," the document states "In referring to ERP, etc., as stabilizing factors avoid any language suggesting they are designed to bolster the US economy."[557] Even more strikingly, Nitze once suggested that the U.S.S.R. might agree to mutual disarmament "on the theory that if U.S. rearmament stopped, the effects upon the economy of the United States might be disastrous." However, this stratagem was foreclosed to U.S. negotiators because "it was agreed that we cannot accept the idea that the building of armaments is necessary to keep the economy of the United States stable."[558] But NSC 68 was classified, so its ambiguity probably does not reflect such prudential concerns.[559] More likely, it reflects a blurring of ends and means inherent in the new economics: "Keynesian" policies can be recommended both for their own sake and

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[556] "Slichter Terms the Cold War 'A Good Thing': Meeting Is Told It Spurs Output, Aids Employment," *New York Herald Tribune,* Oct 26, 1949, 34; "Witchhunts? Here's One Reason," *Daily Worker*, Oct 28, 1949, 9; Andrey Yanuaryevich Vyshinsky*, The Soviet Position on Prohibition of the Atomic Weapon and Establishment of International Control: Speeches by A.Y. Vyshinsky at the Fourth Session of the United Nations General Assembly, November 1949* (Washington, DC: Information Bulletin of the Embassy of the USSR, 1949), 17.

[557] "Special Guidance," March 17, 1949, [4280], Salant Papers, Box 2, Economic Cooperation Administration and Mutual Security Agency, 1947-1953.

[558] 118. Notes of the Meeting of the Under Secretary's Advisory Committee2at the Department of State, March 7, 1951, March 7, 1951. *FRUS, 1951, National Security Affairs; Foreign Economic Policy, Volume 1*, edited by Neal H. Petersen et al.
< https://history.state.gov/historicaldocuments/frus1951v01/d118>

[559] Some of the drafters may have intended to publish NSC 68 (or much of it). See the comments on "Operation Candor" in Robert W. Tufts to Steven Reardon, April 14, 1989, in Nitze Papers, Box 136, Folder 7; Steven Casey, "Selling NSC-68: The Truman Administration, Public Opinion, and the Politics of Mobilization, 1950–51," *Diplomatic History*, Volume 29, Issue 4, September 2005, 655–690.

for their multiplier effects.

Military Keynesianism in Public

These years also saw the growth of a public discourse about military macroeconomics. Bernard Brodie suggested that "a military service able to expand or contract its demands upon manpower according to the slackness or tautness of the economy would provide a means of diminishing the adverse sociological consequences of unemployment."[560] Labor economist Sumner Slichter said in 1949 that "we may thank the Russians for helping make capitalism in the United States work better than ever."[561] This sounds tongue in cheek, but Slichter had a more serious version. In 1953, he advised the CED:

> *If there is room for flexibility [in the defense budget], then it seems to me, that a dual economy which combines private enterprise with a large defense program can be made more stable than a private enterprise economy without a defense program and the reason is that any drop in private spending can be offset by an increase in defense spending*.[562]

During the 1949 recession, government publications point outed that "government purchases…more than offset the moderate declines which occurred in business outlays for plant and equipment," so that total final purchases were roughly stable between 1948 and 1949.[563]

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[560] Bernard Brodie, *National Security Policy and Economic Stability* (Yale Institute of International Studies, 1950) 24.

[561] "Slichter Terms the Cold War 'A Good Thing,'" *New York Herald Tribune*, Oct 26, 1949, 34.

[562] Slichter to Lazarus, March 23, 1954, in Sumner Slichter Papers: General Correspondence, Box 2, Folder "Committee for Economic Development." I am indebted to Andrew Elrod for this citation.

[563] U.S. Department of Commerce, *National Income: 1951 Edition—Supplement to the Survey of Current Business* (Washington, DC: Government Printing Office, 1951) 18; C.A. Blyth, *American Business Cycles, 1945-50* (London: Allen and Unwin, 1969) 142; Rendig Fels, "Theoretical Significance of the 1949 Recession," *The American Economic Review,* Vol. 45, No. 2, Papers and Proceedings of the Sixty-seventh Annual Meeting of the American Economic Association (May 1955), pp. 358-366.

Almost 75% of federal government purchases in these years went directly to defense.[564] Federal agencies directed contracts to areas with over 12% employment, like Worcester and Scranton.[565]

A *Wall Street Journal* correspondent reported from Washington: "On this trip to Washington I found less apprehension of imminent severe economic recession than on some other visits.…increased armaments and ERP expenditure are considered sources of demand for full industrial and agricultural output for the visible future."[566] *Barron*'s noted that "excess capacity is finally becoming available…in the capital goods industries, even in such armament essentials as alloy steel." As a result, "Arming the nation today does not require taking resources away from civilian use … but merely utilizing resources that might otherwise become idle."[567] Outside heavy industry, the president of Berland Shoes Store told *Women's Wear Daily* that "The Marshall Plan, defense spending and tax reductions are all plusses for the shoe industry."[568]

In May 1950, *U.S. News and World Report* reported that "Government planners figure that they have found the magic formula for almost endless good times…":

> *Cold War is an automatic pump primer. Turn a spigot, and the public clamors for more arms spending. Turn another, the clamor ceases. Truman confidence, cockiness, is based on this 'Truman formula.' Truman era of good times, President is told, can run much beyond 1952. Cold War demands, if fully exploited, are almost limitless*.[569]

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[564] (FDEFX)/(FGCE), FRED. <https://fred.stlouisfed.org/graph/?g=Oe4u>

[565] Anthony Leviero, "White House Picks 11 Areas for Federal-Spending Help," *NYT*, Aug 10, 1949, 1; *Semiannual Report of the Secretary of Defense*, July 1-December 31 1949 (Washington DC: GPO, 1950) 10.

[566] William Henry Chamberlin, "Washington Impressions: Informed Opinion Believes War Not Imminent," *WSJ*, Apr 22, 1948, 6.

[567] Randy Stout, "Footwear: What ERP, Rearmament and Tax Cuts Mean to Industry: Rearmament Program," *Women's Wear Daily*, Vol. 76, Iss. 75, Apr 16, 1948, SII1, SII28.

[568] "Stocks Again Led by Aircraft Group," *NYT*, Mar 19, 1948, 35.

[569] "Newsgram," *USNWR*, May 26, 1950, 7.

Nourse likely had *USNWR* in mind when he complained "one prominent national magazine of politico-economic reporting and interpretation has on several occasions advised its readers that military spending would be turned off or on as a means of keeping employment at peak level and heading off any disinflationary tendency that might appear."[570] This was a recurring motif in the magazine. In 1952, Robert C. Turner of the CEA confronted his *USNWR* interviewer: "Are you suggesting that we ought to control the arms-expenditure program solely or primarily for the purpose of maintaining economic stability? I would emphatically not agree with that."[571]

Like Nourse, Philip Cortney, a cosmetics executive and a director of NAM and the National Industries Conference Board, was alarmed by the emergence of explicit military Keynesianism. His criticism focused on Harvard economist Sumner Slichter, who Cortney considered "the most dangerous Neo-Keynesian because of the confidence he enjoys in business circles" such as the CED. "As you are probably aware," wrote Cortney wrote to another NAM leader, "Slichter keeps maintaining that the cold war is a good thing from the economic standpoint because it increases the demand for goods."[572] Cortney was scandalized: "it is probably the most serious indictment of our free enterprise system if it can live and be prosperous only when fed by cold or hot wars."

But to say Slichter was scandalous was not to say he was wrong. On the one hand, Cortney was skeptical that the U.S. economy had become stronger between 1940 and 1950—

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[570] Edwin G. Nourse, *The 1950s Come First* (New York: Henry Holt and Company, 1951), 160.

[571] "After the Defense Boom, What? Interview with Robert C. Turner, Member, President's Council of Economic Advisers," *USNWR*, Oct 3, 1952, 78-83, here 82.

[572] Cortney to Earl Bunting, NAM, Aug 28, 1950. Copy enclosed in Cortney to Eccles, Oct 13, 1950, Eccles Papers, Box 86, Folder 12, Item 2. FRASER. <https://fraser.stlouisfed.org/archival-collection/marriner-s-eccles-papers-1343/letter-marriner-s-eccles-462251>

rather, superficial prosperity masked serious pathologies such as the accumulation of debt, the erosion of assets due to inflation, and the physical depreciation of the capital stock. On the other hand, even he had to concede that "many people, particularly the working class and farmers, are better off, enjoy a better standard of living today than before 1940." Likewise, "It is a fact that the idea of deficit spending has pervaded the thinking of a great many people in our country and…they seem to enjoy the deficit spending." What Cortney actually meant when he said the economy couldn't stand more defense spending was that the economy couldn't stand more defense spending without becoming "a dictatorship of labor," directed by the CIO's would-be "commissars."[573] Although historians might conclude that, in retrospect, the forward march of the CIO had been halted, for contemporaries a distinctive specter still remained: a federal government expanded by wartime emergency powers but still answerable to labor for its electoral success.

The military Keynesians agreed with Cortney that macroeconomic policy must reinforce, rather than erode, the social authority of a distinct class of private capitalists. But where Cortney could speak in one breath of "the ideas stemming from Karl Marx and Keynes," more creative capitalists wagered that "compensatory monetary and fiscal policies…will protect the private enterprise system much more effectively than would a complete negation of all economic tools developed during the past fifty years."[574] Cortney thought the Cold War could destroy capitalism, while Slichter thought his countrymen should "thank the Russians for helping make

[573] Cortney, "Inflation or Freedom," speech delivered at the Union League Club of Chicago, Sept 28, 1950. Encl. in Cortney to Eccles, Oct 13, 1950.

[574] Cortney to J. Howard Pew, Sept 13, 1950, copy encl. in Cortney to Eccles, Oct 13, 1950. For the contrasting quote, see the response to Cortney by Elinor Harris, a staff economist attached to the Fed's Business Finance and Capital Markets Section. "Critique of Correspondence between Philip Cortney, Earl Bunting, and J. Howard Pew," Nov 2, 1950, encl. in "Note of Transmittal to Miss Egbert." Box 86, Folder 12, Item 1, Eccles Papers, FRASER. < https://fraser.stlouisfed.org/archival-collection/marriner-s-eccles-papers-1343/note-transmittal-miss-egbert-463430>

capitalism in the United States work better than ever."[575] The logic could not be any clearer if Gramsci himself had written it: military Keynesianism meant changing everything so that everything could stay the same.

Cortney's fears of labor dictatorship explain why so many businessmen, especially in organizations like NAM, resisted military Keynesianism. But the anti-NSC-68 position was inherently less fruitful as an organic formula for class rule. Cortney's analysis focused on distributional conflict, rather than articulating a community of interest. He conceded that war and preparations for war had raised living standards for the working class, and that deficit spending had become an effective way of winning votes, but he objected to the damage this all did to taxpayers, bondholders, managers, and investors. Anti-Keynesians would face an uphill battle winning elections—much less reestablishing the popular legitimacy of business leadership in a country which had just experienced the largest strike wave in its history, and in which the CIO remained central to any formula for national Democratic governance. In mid-1950, no one could say for sure if Cortney or Slichter had a better sense of the future. But it was already clear that only one of the two worldviews disclosed a possible pathway to hegemony.

Contingency, Agency, and Solidarity

According to the historian who has wrestled most profoundly with the domestic and international determinations of U.S. Cold War foreign policy:

> Indeed, we can look back upon even the central mechanism of 1950, the military Keynesianism of NSC-68 that quadrupled defence spending, and see that it was, like the other contingencies, something that did not have to happen.[576]

[575] "Slichter Terms the Cold War 'A Good Thing,'" *New York Herald Tribune*.

[576] Cumings, "Still the American Century."

Did it have to happen? On one level, the answer must be no. It is easy to imagine twists that would have made for unrecognizable histories. Start with the mysteries of the human body: Mao might have been killed in 1927 or died on the Long March. Roosevelt might have lived long enough to attend the Potsdam Conference, or died soon enough to make Henry Wallace president. Stalin might have had a stroke before he could impose his heavily armed geopolitical vision all the way from Bulgaria to Berlin. Leaving aside these great men, we can still say that the triumph of the NSC-68 bloc must considered a masterpiece of bureaucratic maneuvering. Within a year and a half of Dean Acheson's ascension to Secretary of State, every important internal opponent of rearmament had been removed or sidelined and NSC-68 had been accepted as a basis for future planning. The success reflected the vision, skill, and creativity of the people involved. In the absence of remarkable individuals like Nitze and Keyserling, no historical logic would have immediately produced replacements capable of carrying out the same objective function. There were also elements of pure chance, such as the coincidental simultaneity of Nourse's and Kennan's departures, or the timing of Harry Truman's trips to Florida.[577]

But the victory of the NSC-68 bloc within the administration reflected not just chance events and individual force of will. It also registered the balance of social forces outside the administration, primarily the strength of the corporate internationalist community from which the demand for massive rearmament had first emerged. The triumph of NSC-68 can only be understood as a winning play in a bureaucratic poker game. [578] It was a matter of contingency who would win any given hand, or even who would end up on top at the end of the night. But the

[577] Fordham, *Building the Cold War Consensus*, 51.

[578] Men like Acheson, Lovett, and Harriman were not only comrades in "the investment and banking community in New York" but "had played squash, polo, and poker together and were close personal friends." John Ohly oral history, HSTL.

players came into the game with skills acquired in the course of different forms of life, and they wagered with stakes provided by powerful sponsors on the outside. Little was foreordained, but neither was it random.

To be sure, a "class fraction" is an abstraction, not an agent capable of endorsing a candidate or composing a memo. Insofar as we have empirical evidence, we know that many capitalists whose interests objectively depended on U.S. global power were spooked by the prospect of spending $50 billion a year on defense.[579] But it is perfectly possible to describe the effects of class structure on concrete history. Nitze and Acheson were powerful government officials as well as a members of the New York financial elite. Private, class-bound institutions, such as the exclusive Metropolitan Club where the two men cemented their partnership, facilitated the coordination required for the bureaucratic coup against the budget-cutters. Due to their social location, they were able to summon Robert Lovett--an investment banker and private citizen with a high-level security clearance, as a consultant on a highly classified document. If Lovett, once described as "the very embodiment of the Establishment," had not endorsed the economic logic of NSC-68, he would have been making a credible threat that the New York financial community would not accept costly rearmament.[580] Conversely, if Truman had moved with against NSC-68, he could expect that Lovett (who was, after all, a Republican) would withdraw his provisional support for the administration's goals.[581] In 1948, Wall Street lawyer

[579] Clarence Lo, "Theories of the State and Business Opposition to Increased Military Spending," *Social Problems* 29, no. 4 (April 1982),424-438.

[580] David Halberstam, *The Best and Brightest* (New York: Random House, 1972) 4.

[581] According to one report, most Truman cabinet members donated to the campaign fund, but Secretary of Defense Forrestal (Dillon, Read) refused, while Undersecretary of State Lovett (Brown, Brothers, Harriman) neither donated nor was asked. An important issue in the 1948 election was Truman's embrace of Israel, which both Forrestal and Lovett opposed, along with most corporate internationalists. Forrestal was a Democrat but expected Dewey to win and reportedly went so far as to seek reappointment in the Dewey administration. Lovett was a Republican who maintained a kind of neutrality, helping to shape the Democratic platform planks on foreign policy while also

Thomas Dewey had been the clear choice of business, internationalist or otherwise.[582] But with Vandenberg dying and Taft as the favorite to run in 1952, the Democrats stood a chance of winning back the corporate internationalists.[583] Truman certainly could not afford for Lovett's branch of the Republicans to unite with Taft against Democratic foreign policy. The very fact that the corporate internationalists—unlike organized labor— could credibly swing from one party to the other was by itself a source of leverage.

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briefing Dulles in case Dewey won. Unlike Forrestal, Lovett was easily able to serve in the new Truman administration. However, Lovett's self-presentation as "apolitical, a nonpartisan," which has been accepted by biographers, is called into question by his participation in fundraising for John Foster Dulles's bitter 1949 Senate challenge to Herbert Lehman. In one letter seeking a donation from Vandenberg, Lovett reports "getting burned up" with anger "as we stumble toward the swindle of state socialism" embodied by Lehman and Truman. Lovett scourges the New York "financial community" for their attitude of defeatism in the wake of 1948, strongly implying that both he and Wall Street in general had supported Dewey. Doris Fleeson, "'Never was so much owed to so few!': Gentle Rain of Checks Arriving for Democrats," *Boston Globe*, Nov 10, 1948, 18; Isaacson and Thomas, *The Wise Men*, 461; Jordan, *Robert A. Lovett,* 150-154, 168; Vandenberg to Lovett, Oct 26, 1949, and Lovett to Vandenberg, Nov 4, 1949, [not mailed]. Lovett Papers, Yale, Box 28, Folder 404.

[582] Fordham does not elaborate on his claim that "major internationalists" and "the interests they represented had supported the president in 1948." On the electoral map, Dewey did best in the Northeast, while Truman was strong in the West, Midwest, and South (as predicted in the famous "Clifford memo"). Truman *did* receive large donations from individual internationalist elites such as Clayton, Acheson, Harriman, Herbert H. Lehman, and Laurence A. Steinhardt (a nephew of key anti-Morgan figure Samuel J. Untermeyer). However, the bulk of finance chairman Louis Johnson's fundraising focused on a constellation whose somewhat peculiar sectoral alignments are discussed in another footnote below. Dewey's major internationalist backers included Elliot V. Bell of *Business Week*, the Rockefellers, the Dulleses, McGeorge Bundy, Sidney Weinberg of Goldman Sachs, Winthrop Aldrich of Chase Manhattan, Rep. Christian Herter (Paul Nitze's close friend and distant relative by marriage), C. Douglas Dillon of Dillon Reid, and Russell C. Leffingwell of JP Morgan. The matter is complicated by DNC finance chair Louis Johnson's practice of seeking "insurance" donations from figures who had already donated to Dewey (these accounted for $200,000 of the first $300,000 Johnson raised). For Fordham's claim, see *Building the Cold War Consensus,* 64. On donors: "Here Are the Names Of the Recent Big Political Contributors," *The Machinist*, June 24, 1948, 3; "Here's Who Is Putting Up Important Money For Political Campaigns," *The Machinist*, Oct 21, 1948, 3; Leffingwell to Truman, Nov. 26, 1948, in Leffingwell Papers, Yale, Box 7, Folder 165; Richard Norton Smith, Thomas E. Dewey and His Times (New York: Simon and Schuster, 1982) 274, 286, 489; Stephen E. Ambrose, *Nixon: The Education of a Politician* (New York: Simon and Schuster, 1987) 400; Isaacson and Thomas, *Wise Men*, 461; Robert C. Perez and Edward F. Willett, *Clarence Dillon: Wall Street Enigma* (Lanham, Md.: Madison Books, 1995) 135; Keith D. McFarland and David L. Roll, *Louis Johnson and the Arming of America: The Roosevelt and Truman Years* (Bloomington: Indiana University Press, 2005) 140.

[583] The ambivalence of one business supporter following a lackluster conversation with Dewey is documented in Eric Johnston, "Notes on a Meeting with Thomas Dewey (April 28, 1948)." Eric Johnston Papers, Box, 9, Folder 22. I am grateful to Andrew Elrod for sharing this source.

We can also look at these coalitional dynamics from the point of view of the losers. Kennan, a Midwesterner who had felt out of place at Princeton, carried on a lonely and poorly-publicized crusade against Acheson's program. There is no evidence that Kennan made any attempt to join forces with Defense Secretary Louis Johnson, Budget chief Frank Pace, Fed chair Marriner Eccles, or CEA chair Edwin Nourse, each of whom might have provided Kennan with different forms of bureaucratic leverage.[584] There was certainly no way for Kennan to make common cause with left-of-center opponents of the Cold War. [585] Even in the unlikely event that Kennan could have found some ideological basis for a collaboration with Wallace (perhaps on the basis of their shared interest in agriculture), he would immediately become vulnerable to politically motivated exclusion from top-level decision-making.[586]

If Kennan had any consciousness of collective identification, it was with a guild rather than a class: the diplomatic corps. Unlike the corporate internationalists, this group had little structural power in the domestic economic structure. Professional loyalty meant Kennan could not opportunistically joined with the China Lobby, which mixed attacks on diplomats (the "China hands") with intermittent calls for lower defense spending. Within the state, the

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[584] Raymond Ojserkis makes this point with regard to Kennan and Johnson, adding that Johnson's interest in cheap air power put him at odds with Kennan's doubts about the hydrogen bomb. Raymond P. Ojserkis, *Beginnings of the Cold War Arms Race: The Truman Administration and the U.S Arms Build-Up* (Westport, Conn: Praeger 2003) 56.

[585] In 1959, after he had left the government, Kennan would actually meet with the radicals Norman Thomas, Erich Fromm, and David Riesman to discuss their attempt to found a new American socialist party. But for Kennan, "the effect of the meeting was to thrust me firmly back into the organizational isolation where, evidently, I belong." George F. Kennan*,* The Kennan Diaries, ed. Frank Costigliola (New York: Norton, 2014*)*, 391-393. Much later in life, Kennan engaged in a mutually admiring correspondence with, and wrote a professional letter of reference for, Anders Stephanson, an avowedly Marxist historian who wrote an intellectual biography of Kennan. Stephanson, Anders; George F. Kennan Papers, MC076, Public Policy Papers, Department of Special Collections, Princeton University Library <findingaids.princeton.edu/catalog/MC076_c00560>

[586] This point was demonstrated by the fate of nuclear scientist Robert Oppenheimer, who (like Kennan) was a skeptic of the hydrogen bomb. As a result of his personal associations with Communists and fellow travelers, Oppenheimer was stripped of his security clearances in 1953. Priscilla J. McMillan, *The Ruin of J. Robert Oppenheimer and the Birth of the Modern Arms Race* (Baltimore: Johns Hopkins Press, 2018).

diplomats' group interest in the importance of negotiations posed an obstacle to any alliance with ambitious military elites.[587] Whatever wisdom Kennan may have had, he lacked a base within the bureaucracy, much less an anchor in the thickness of American social life.

What about Louis Johnson? One would imagine that the Secretary of Defense at the time of the NSC-68 debate might have been to push events in a different direction. Johnson was politically ambitious and well connected.[588] He owed his job to his success in fundraising for the Democrats in 1948, and he hoped to run for president himself in 1952.[589] Johnson was directly linked to both fiscal conservatives and the military aircraft industry, which helped him broker a political bargain in which total defense costs could be cut by increasing procurement for strategic air power. Johnson could also count as powerful nationalist allies such as Douglas MacArthur,

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[587] Nitze "privately accused Kennan of opposing the arms build-up because it might relieve the diplomatic corps of its primary position in dealing with the Soviets." Ojserkis, *Beginning of the Cold War Arms Race*, 56.

[588] Even according to a biography which tries its best to put Johnson in a good light, "Johnson seldom acted on the basis of bedrock principles. He nearly always did what he thought would be politically expedient and what he believed would advance his own personal ambition." The book is dedicated to "the traditions of excellence and public service that define Steptoe & Johnson," Johnson's corporate law firm, where one of the book's co-authors was a partner. McFarland and Roll, *Louis Johnson,* 360.

[589] When Johnson took on the job of finance chair, he replenished the DNC's coffers empty with a personal note to cash worth $200,000. The source of much of Johnson's personal wealth, as well as the other money he raised in 1948, lay in a complex of interlocking interests in aviation, chemicals, and public utilities. The key figures were the financiers Victor Emanuel and Floyd Odlum (working through their respective holding companies, AVCO and Atlas) and Foreign Economic Administrator Leo T. Crowley (who, as Alien Property Custodian, transferred to Victor Emanuel control over I.G. Farben assets such as General Dyestuff and General Aniline & Film, or GAF). Johnson, who knew Emanuel from the WWII mobilization, became a director of Convair, General Dyestuff, and GAF. The Emanuel complex was also represented by Truman crony and former DNC treasurer George E. Allen, who ran the Reconstruction Finance Corporation while sitting on the boards of AVCO, GAF, Convair, and Republic Steel. Besides the Emanuel complex, three other currents stand out. First, donors centered on Pan-Am, TWA, and allied shipping and shipbuilding interests (embodied in Pan Am cofounder Cornelius Vanderbilt Whitney, promoted after the election from Assistant Air Force Secretary to Undersecretary of Commerce). Second, a circle of California and Louisiana oil figures with interests in East Asia, Latin America, and Greece (including William D. Pawley, Edwin W. Pauley, Welburn Mayock, and William G. Helis). Finally, a group of Jewish-American businessmen, who were partly motivated by Truman's recognition of Israel. These donors, organized by Johnson's cochair Nathan Lichtblau (described as a "Manhattan plastics manufacturer") included Albert M. Greenfield (Philadelphia, commercial real estate), Jacob Blaustein (Baltimore, oil), Lewis Rosenstiel (Chicago, liquor), and Milton Kronheim Sr (Washington, DC, liquor). "The Angels of the Truman Campaign," *Time*, June 6, 1949, 22; McFarland and Roll, *Louis Johnson,* 55, 127-128, 137-144, 157; Jonathan Marshall, *Dark Quadrant: Organized Crime, Big Business, and the Corruption of American Democracy* (Rowman and Littlefield, 2021) 60-61. (Despite the dramatic title, this last book is a serious work of archival history endorsed by historian David M. Kennedy.)

the American Legion, and the China lobby. This coalitional logic had real force. As we shall see in Chapter 3. Johnson was correct that the 1952 presidential election would be won by a coalition which encompassed fiscally conservative businessmen, the air power bloc, and the China lobby.

Leaving aside personal shortcomings, two factors seem to have stood in Johnson's way. First, he was in the wrong party. Johnson's intimacy with right-wing senators and the Chamber of Commerce would have been hard to capitalize on as a Democrat, at least not without alienating other core constituents such as labor and internationalist business.[590] Instead of forming the base of a bipartisan power bloc, Johnson's alliances meant he was distrusted within his own party. Johnson acted as a paid agent of wealthy KMT figures such as H.H. Kung during the worst of the China lobby's assault on the Truman.[591] It is difficult to imagine Johnson prevailing in a one-man fight to realign the Democratic Party.

Moreover, Johnson's embrace of budget cutting (especially in the absence of a strategic vision beyond air power and budget ceilings) deprived him of support within his own Defense Department. While the evidence is clear that the push for $50 billion annual defense budgets came from the State Department rather than the military, there is no question that military leaders disliked the budget ceilings and generally preferred to receive more money rather than less. As a direct result of Johnson's poor relations with the military leadership, Nitze and Acheson were able to exclude the Defense Secretary from the preparation of NSC-68 (which was officially a joint State-Defense initiative). When the document was presented to a surprised Johnson, it had

[590] Johnson was particularly close to Senate Minority Leader Kenneth S. Wherry. Wherry's fellow Nebraskan, Francis Matthews—longtime finance director of the Chamber of Commerce—was appointed Secretary of the Navy in 1949 after assisting Johnson's campaign fundraising. Fordham, *Building the Cold War Consensus,* 32-33, 109.

[591] Marshall, *Dark Quadrant*, 62. The key go-between was "a mysterious defense department operative known as 'Colonel' Victor O'Kelliher." McFarland and Roll, *Louis Johnson,* 258.

already been signed by the Joint Chiefs.[592] Even though Eisenhower would eventually win election on a version of Johnson's budget balance/air power platform, Eisenhower accepted a level of defense spending that was still far higher than the ceiling Johnson had attempted to enforce. This new fiscal space meant Eisenhower's policy coalition, unlike Johnson's, could maintain the loyalty of the military.[593]

By the end of April 1950, Johnson had "stated privately that his economy program was dead."[594] But it is not clear exactly how much the pro-NSC-68 bloc had won at that point. On balance, the evidence suggests that Truman had accepted that "defense spending and spending on foreign military assistance" could and should "rise by the nontrivial but still comparatively modest sum of several billions of dollars."[595] The full quadrupling of the defense budget would not come until the Korean War, which is the topic of the next chapter. But even before the quantitative explosion, a qualitative breakthrough had occurred. Throughout April 1950, *Business Week* reported that "a rise in defense spending is in the making," on the order of "$l-billion of extra procurement this year, and up to $3-billion next year."[596]

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[592] Fordham, *Building the Cold War Consensus*, 47-49.

[593] Even Eisenhower eventually encountered fierce and openly political criticism of his budgetary restraint from sections of the military, particularly the Army but also eventually the Air Force as well.

[594] Hammond, "NSC-68: Prologue to Rearmament," 337.

[595] This is the conclusion of Aaron Friedberg's carefully reasoned consideration of the question of what would have happened without the Korean War. Benjamin Fordham argues that NSC-68 program was "adopted as policy in the executive branch" in April 1950. While this superficially contradicts Friedberg's view that "nothing in Truman's initial reactions to NSC 68 to suggest that its arguments had changed his preferences," Fordham goes on to say that "the president had decided to proceed with some sort of buildup" but had little sense of the magnitude. This is mostly compatible with Friedberg's view, though a more serious disagreement would concern Fordham's claim that "There is at least as much reason to believe that NSC 68 led to the Korean War as there is to believe the usual argument that involvement in Korea led to rearmament." Friedberg, *In the Shadow of the Garrison State*, 114; Fordham, *Building the Cold War Consensus,* 59, 62, 65.

[596] "Washington Outlook," *Business Week,* April 1, 1950, 15; cf. "Washington Outlook," *Business Week*, April 15, 1950, 15.

It is important to note that the increase in spending being discussed was still an order of magnitude lower than what would soon come. But what was significant was *Business Week*'s explanation of why the buildup was coming: "concern over tense Russian relations, and a growing fear of unemployment back home." The magazine's figures for extra procurement were based on estimates of idle capacity, rather than any strategic rationale. This was the logic of military Keynesianism, filtering out to the public just weeks after the president had first received NSC-68. [597] But the military Keynesianism was not just a matter of hard numbers. It was also a way of making meaning of what was happening: a frame of acceptance.[598] Once you looked at the Cold War through these lenses, the fiscal space between $2 billion in defense boosts and $20 billion suddenly looked less like a chasm and more like a step-ladder.

[597] Compared to *USNWR*, *Business Week* was connected to the highest levels of Wall Street-Washington power. Elliott V. Bell, who became editor and publisher in 1949, was an economic advisor to Thomas Dewey. *BW's* parent company, McGraw-Hill published a major annual survey of capital spending plans. Therefore, *BW* coverage, even when unsigned or based on unnamed sources, offers valuable if not dispositive insight into managerial views. On Bell and Dewey, see Wolfgang Saxon, "Elliott V. Bell Is Dead at 80; ex-Editor of Business Week," *NYT*, Jan 12, 1983, D21.

[598] This is Kenneth Burke's term for "the more or less organized system of meanings by which a thinking man [sic] gauges the historical situation and adopts a role within it." Kenneth Burke, *Attitudes Toward History* (Berkeley, CA: University of California Press, 1984) 5.

Chapter 3: The Korean War Boom in the U.S. and the World

In 1953, Paul Nitze said, "Korea came along and saved us."[599] Nitze's State Department colleague Edward R. Barrett felt the same: "Thank god Korea came along."[600] They meant that the war destroyed all opposition to the hitherto controversial NSC-68 rearmament. They were not the only ones who experienced the Korean War as a sort of deliverance. In Japan, Prime Minister Yoshida Shigeru greeted the outbreak of conflict as "the Grace of Heaven," while military production orders were variously called "salvation," "divine aid," and a "godsend."[601] In West Germany, *der Koreaboom* proved to be the start of an economic miracle (*Wirtschaftswunder)*. South Korea's own "miracle on the Han River" did not take off until the 1960s, but here too the industrial miracle workers could trace their origins to the years of brutal civil war.[602]

The mystical language reminds us that there was nothing natural about either the American rearmament or the achievement of steady economic growth. As inevitable as these phenomena have come to seem in retrospect, contemporaries recognized that they relied on a fortuitous conjuncture of historical structures and events. This chapter argues that the Korean War rearmament was a central event in global economic history because it crystallized a new

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[599] The speaker's identity is somewhat obscure. The statement was made at one of Dean Acheson's Princeton seminars. It is commonly attributed to Acheson himself, but the transcript shows that the statement was made by another, unnamed participant (though Acheson did express agreement with the statement). In his standard biography of Acheson, Robert Beisner says that the evidence "suggests strongly" that Nitze was the speaker. Transcript of Princeton Seminar Discussion, Wire VI, July 9, 1953, 6. Acheson Papers, Princeton Seminar Files, HSTL. <https://www.trumanlibrary.gov/library/personal-papers/princeton-seminars-file-1953-1970/july-8-9-1953-0?documentid=9&pagenumber=6>; Beisner, *Dean Acheson,* 728n5.

[600] Transcript of Princeton Seminars Discussion, Reel 3, Track 1, October 10, 1953, 3. Acheson Papers, Princeton Seminar Files, HSTL. <https://www.trumanlibrary.gov/library/personal-papers/princeton-seminars-file-1953-1970/october-10-11-1953-0?documentid=5&pagenumber=3>

[601] The last three phrases were spoken respectively by Toyota president Kamiya Shotaro, Bank of Japan governor Ichimada Naoto, and U.S. ambassador Robert Murphy, quoted in Michael Schaller, *Altered States: The United States and Japan Since the Occupation* (Oxford, UK: Oxford University Press, 1997), 48-49.

[602] Sang-young Rhyu, "The Origins of Korean Chaebols and their Roots in the Korean War*," Korean Journal of International Studies* 3-1 (December 2005), 203-30.

political economy of growth throughout the advanced capitalist countries. To be clear, the long "golden age" boom that ran into the 1970s was sustained by many forces, with government spending playing a significant but far from primary role. But the beginning of the expansion was powerfully shaped by the rearmament's enormous infusion of autonomous demand. Perhaps in the absence of the war, some other expansionary force would have emerged. But at a moment when the post-WWII social order remained inchoate, timing was everything. Coming just when it did, the Korea boom both transformed and stabilized economic life, leaving behind a durable institutional order within which the rest of the long boom could unfold.

The Eve of War

Why Korea? Between Domestic Conflict and the World System

"Korea came along and saved us." The sentence seems to speak for itself. But world-historical violence does not just come along like a streetcar. Why was there a war, and why did the U.S. join? Without some discussion of the war itself, a reader might assume that the war as an exogenous, or purely "international," event interrupting the course of domestic history. Alternatively, this chapter's focus on domestic effects (the war stimulated the economy) might lead readers to imagine that the function is identical to cause (the war happened because the economy needed stimulus). Neither of these inferences would be correct. Domestic political economy did help determine the nature of the war, but only through complex mediations that must be reconstructed in concrete historical terms. While this section is too brief for even a summary of the literature on the war itself, it is necessary to establish a few crucial points.[603]

First: American internationalists had designs on Korea that predated the Cold War. As

[603] My account relies heavily from Bruce Cumings, *Origins* I and II; Jack Snyder, *Myths of Empire*, 255-304, and Benjamin Fordham, *Building the Cold War Consensus,* 103-130.

early as 1943, State Department planners worried about what would happen once the Japanese lost control of their colony in Korea. Soviet control would threaten American security in the Pacific.[604] But since U.S. planners also believed the Koreans unfit for self-government, they began to plan for their own military occupation. On August 10, 1945—the day after the U.S. obliterated Nagasaki—the fateful decision to divide Korea was made in Washington by a handful of corporate internationalists, including Dean Rusk. Rusk himself conceded that the 38th Parallel "made no sense economically or geographically as far as Korea itself was concerned." Rusk was also "somewhat surprised" the Soviets accepted the line, on which they had not been consulted and which the Americans could not have defended.[605] Why then did Rusk and Charles Bonesteel (his former Oxford roommate) pick the line? Their boss, John McCloy, had given them only thirty minutes and a "small-scale wall map," so they squinted and found a parallel that bisected the country but gave Seoul to the Americans. By late 1945, the division had been reinforced by the U.S. decision to support local elites and Japanese collaborators against popular demands for national liberation and land reform.[606]

Despite these early interventions, the eventual course of U.S foreign policy in East Asia was not overdetermined by the corporate internationalist project. Even after several years of Cold War and the emergence of revolutionary nationalism in East Asia, the Truman administration limited American commitments in Asia to secure more important goals in Europe. Without objection from Acheson, the U.S. withdrew its last troops from Korea in 1949, reflecting a

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[604] Naturally, the Soviet Union *did* plan to occupy Korea. But as Cumings reminds us, "What created 'an entirely new strategic situation…was not that Russia was interested in Korea—it had been for decades—but that the United States was interested." Cumings, *Origins* I, 114.

[605] Ibid. 120-21.

[606] American planners fully recognized that its new allies were "unrepresentative" and that their government had a much narrower "social base" than the People's Committees. Ibid. 143-44, 151.

consensus that that "apply[ing] the Truman Doctrine to Korea would require prodigious effort and vast expenditures far out of proportion to the benefits to be expected."[607] Throughout early 1950, Truman and Acheson stated publicly that they would cut off Jiang Jieshi (Chiang Kai-Shek) and abstain militarily if the PRC invaded Taiwan. In his famous National Press Club speech of January 1950, Acheson's excluded Korea from the U.S. "defense perimeter."[608] In May 1950, Senate foreign relations chair Tom Connally said that even if the Soviets themselves invaded, "the U.S. would not go to fight for the defense of Korea."[609] Even after Kim's invasion, top decisionmakers were still unsure whether and how to intervene.[610]

Subsequent U.S. actions—including sending hundreds of thousands of infantrymen to Korea and the 7th Fleet to the Taiwan Straits—cannot be treated as self-evident responses to foreign provocations. Even if one believes they were strategically or morally sound, the decisions must be explained. Domestic factors play a key role. Joseph McCarthy exploded into national consciousness in February 1950 with an attack on Acheson's State Department for sheltering American subversives and helping Mao's Communists defeat Jiang's KMT. McCarthy represented a new strain of anti-communism created to serve the Republican Party and obscure

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[607] Memorandum by the Department of the Army to the Department of State, June 27 1949, *FRUS 1949, The Far East and Australasia, Vol VII, Part 2* <https://history.state.gov/historicaldocuments/frus1949v07p2/d266>

[608] Historians disagree about the significance of Acheson's speech and the evolution of his views on Korea. Cumings argues that Acheson had decided to defend Korea by 1949 at the latest; the 1950 speech was calibrated "to keep secret the American commitment to Korea's defense," which had been established by 1949 at the latest. Snyder points out that Acheson also discussed non-intervention in a closed Congressional session in January 1950. Beisner also points to the closed session and concludes that only the "war itself would change [Acheson's] view" on Korea. See respectively Cumings, *The Korean War: A History: New York* (Random House, 2011) 72, Snyder, *Myths of Empire*, 291-292, Beisner, *Dean Acheson*, 328-329.

[609] Connally was a close Truman ally and (along with Arthur Vandenberg) the key architect of bipartisan Cold War foreign policy in the Senate. "World Policy and Bipartisanship: An Interview with Senator Tom Connally," *USNWR*, May 5, 1950, 30.

[610] Beisner, *Dean Acheson,* 338-347.

interest groups. The "fall of China" in 1949 and the Alger Hiss conviction in January 1950 had provided the GOP with badly needed political capital after the electoral defeat of 1948. They were aided by the "China Lobby," which united elements of the American right and a handful of extremely wealthy KMT families.[611] Robert Taft's bloc, previously little interested in Asia, had they quickly recognized the political advantage of the China issue.[612]

Domestic pressures warped East Asia policy, as Truman purged anti-KMT diplomats and summoned Republican John Foster Dulles as a special advisor. Though a Wall Street lawyer, Dulles departed from other internationalist Republicans in openly red-baiting internationalist Democrats. This secured a working relationship with the Taft-McCarthy wing of his party. Dulles explicitly promised to restrain attacks on Acheson in exchange for "early affirmative action" against communism in East Asia. This blackmail directly shaped the reversal of Taiwan policy.[613] There is no evidence that it directly influenced policy on Korea, but Truman never forgot that "another setback in the Cold War could decisively cripple his capacity to govern."[614]

If the domestic politics of the June 1950 decision to join the war remain unclear, it is well documented that domestic pressures were decisive in the choice a few months later to cross the 38th Parallel.[615] Even Paul Nitze had advised against the advance, but Acheson rejected such "abstract" analysis as irrelevant "in view of public opinion and political pressures in the

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[611] Snyder, *Myths of Empire*, 292-293; Cumings, *Origins* II, 106-117; Mao, *Asia First*.

[612] Joyce Mao, *Asia First,* 18-23.

[613] Snyder, *Myths of Empire*, 281, 294-95.

[614] Robert Dallek quoted in Wells, *Fearing the Worst,* 141.

[615] By decisive, I mean that domestic factors ruled out any other decision for an administration interested in political survival.

concrete."[616] In September 1950, Acheson told the Cabinet that "the 38th Parallel will be ignored" during a conversation about midterm election strategy.[617] The prospect of reclaiming the foreign policy issue was irresistible. Internally, the move northward was first pushed by Dulles, whose reputation as a "notorious leaker to the press" constituted a constant implicit threat to blow up the fragile edifice of bipartisan foreign policy.[618] Field commander Douglas MacArthur, who wanted to bring the war to China, was enormously popular and closely linked to nationalist Republicans. As Averell Harriman said, "it would have taken a superhuman effort" for Truman to resist obliterating the 38th parallel.[619]

The administration was also worried about NSC-68. The Korean War had produced a consensus in support of massive rearmament, but less than half of the spending went to the war itself.[620] Just as much went to Europe, which remained central to Achesonian strategy. When it appeared that victory in Korea would be rapid, rearmament advocates became concerned that Congress and the general public would demand budget cuts. In October 1950, Army Secretary Frank Pace suggested to George Marshall that the war might be over by Thanksgiving. Marshall told Pace that this was "troublesome," because it might lead to general demobilization.[621] The

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[616] Quoted in Masuda Hajimu, *Cold War Crucible: The Korean Conflict and the Postwar World* (Cambridge, Mass: Harvard University Press, 2015) 107.

[617] Cabinet Meeting Minutes, September 29, 1950. Matthew J. Connelly Papers, Notes on Cabinet Meetings II, 1946-1953: September 1950. HSTL. <https://www.trumanlibrary.gov/library/personal-papers/notes-cabinet-meetings-ii-1946-1953/september-1950>

[618] Beisner, *Dean Acheson*, 121.

[619] Quoted in Robert J. Donovan, *Tumultuous Years: The Presidency of Harry S. Truman, 1949-1953* (New York: Norton, 1982) 274.

[620] Edelstein, "War and the American Economy in the 20th Century," 339-340.

[621] Fordham quotes this from Pace's HSTL oral history, adding that the conversation took place while "preparations for the submission of a second supplemental defense appropriations bill were in progress but not yet complete." Fordham, *Building the Cold War Consensus*, 175-176.

same month, Lovett expressed "fear that procurement has been lagging and that energetic steps must be and are being taken to activate it."[622] Shortly after, Chinese intervention dispelled the idea of quick victory. But when armistice talks began, the anxiety resurfaced. In June 1951, Lovett said, "If we stop our production drive after Korean peace we are sunk. We should on the contrary provide millions of dollars to step up production."[623] In July, Wilson reiterated, "We must sell Congress and people that we must go forward [with $50 billion annual defense budgets] regardless of developments in Korea."[624] Only the continuation of the war made possible the Europe-centered rearmament that NSC-68 had envisioned.

Pressure from Republicans constrained Truman, but the relationship between liberal internationalism and conservative nationalism was dialectical. It was not just attacks by the China Lobby that made Acheson more interested in Asia, but also the development of his own plans to revive Japan.[625] State Department officials flirted with rollback in Asia before 1950.[626] Furthermore, Republican attacks on Acheson made use of the Truman Doctrine's own logic. The Democratic commitment to fight communism on literally every front had been invented to "scare the hell out of the American people" so they would support a very specific project of military aid to Europe. As the Republicans discovered Asia, they appropriated the rhetoric of a global

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[622] "Conversation with Mr. Lovett, Subject: NSC-68/1." October 1, 1950. NARA RG 59, PPS Records. Folder: NSC 68, January 1950-December 1950.

[623] Cabinet Meeting Minutes, June 29, 1951. Connelly Papers, Notes on Cabinet Meetings II, 1946-1953: June 1951. HSTL. < https://www.trumanlibrary.gov/library/personal-papers/notes-cabinet-meetings-ii-1946-1953/june-1951>

[624] Cabinet Meeting Minutes, June 11, 1951. Connelly Papers, Notes on Cabinet Meetings II, 1946-1953: June 1951, HSTL. < https://www.trumanlibrary.gov/library/personal-papers/notes-cabinet-meetings-ii-1946-1953/june-1951?documentid=2&pagenumber=1>

[625] Cumings, *Origins* II, 45-54, 175-177.

[626] Cumings highlights the embrace of rollback thinking by John Paton Davies, a liberal internationalist co-author of NSC-68 (ironically, later purged on trumped-up security grounds). Ibid. 160-171.

crusade.[627] The result was to lock American policy in Asia, and the Third World more broadly, into a rigid form that it had not possessed until 1950.

These complexities have been recognized by those who believe the rearmament was a good thing. Acheson's authoritative and admiring biographer concedes that, "The blunders of the United States had made the Korean War longer and costlier than necessary. The stalemate Washington achieved in Korea did not prevent future conflicts in Asia. But it went far to win the cold war in Europe."[628] From the perspective of Cold War planners, the location was almost incidental: Korea was "a stage" (Acheson), or a "demonstrative war" (Keyserling).[629] Even these highly educated Americans knew little about Korean history or society. Their attitudes betrayed condescension or worse. Lovett said, "the Koreans were only a step above the clay-eaters. I mean they were a very low-grade civilization."[630] These attitudes explain something of the brutality and recklessness with which American leaders waged the war, and therefore—in some small but appreciable part—explain the course of American economic history.

The Economy in mid-1950

It is common to assert that when the U.S. entered the Korean War when its "economy was close to full employment and industrial capacity nearly maxed out."[631] This is true if the

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[627] Jack Snyder, *Myths of Empire*, 263-274; 286-289.

[628] Beisner, *Dean Acheson*, 447.

[629] Cabinet minutes, September 29, 1950. Connelly Papers, Notes on Cabinet Meetings II, 1946-1953: September 1950, HSTL. <https://www.trumanlibrary.gov/library/personal-papers/notes-cabinet-meetings-ii-1946-1953/september-1950>; Keyserling oral history, HSTL, May 19, 1971. <https://www.trumanlibrary.gov/library/oral-histories/keyserl3>

[630] Displaying a firmer handle on Korean history than most American leaders, Lovett added, "They had been kept that way, virtually slaves, by Japan." J.H. Kalicki, "Sino-American Crises in the 1950s: Interview with Robert A. Lovett," July 27, 1970. Lovett Papers, Box 15, Folder 193, 18. On American attitudes toward the Koreans, see Cumings, *Origins* II 690-696.

[631] Paul G. Pierpaoli, "Price Gouging" in Spencer W. Tucker, ed. *The Encyclopedia of the Korean War: A Political, Social, and Military History,* Vol I, 2nd Edition (Santa Barbara: ABC CLIO, 2010), 689-690.

comparison is World War II, which began during a depression. The 1948-49 recession had clearly given way to expansion before the Korean War began. The slump hit bottom in fall 1949, and by June 1950, real GDP was 5.5% higher than before the recession. But the rude bill of health must be qualified. This was an early instance of a "jobless recovery." For most of 1948, unemployment had remained below 4%. But in March 1950, months into the expansion, the figure was 6.3%. When the war started, it was still 5.4%. This was not considered full employment by the AFL, the CIO, or the Truman administration. The economy was unable to absorb the increment of new entrants into the labor force. Older industrial areas were most affected. Of the Labor Department's 163 designated labor-market areas, more than three-quarters had unemployment rates above 7%. More than one quarter were above 12% unemployed.[632] Despite the end of the recession, the number of areas on the over-12%-unemployment list continued to increase into late March.[633]

The counterpart to jobless workers was unrealized production. In June 1950, industrial production was still 4.5% lower than in 1944. Two months later, the 1944 benchmark had been exceeded.[634] Since this was accomplished so quickly, it is unlikely that it reflected new productive capacity. Rather, it provides a rough index of the productive potential that had lain

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[632] "Unemployment Shows Up All Over," *Business Week* (March 25, 1950) 106-107.

[633] In March 1950, seven areas were added to the list: Huntington, WV; Bennington, VT; Atlantic City, NJ; Upper Peninsula Iron Area and Upper Peninsula Lumber Area, MI. Three were removed: New Britain, CT; Fitchburg, MA; Silver City, NM. Remaining on the problem list were Jasper, AL; San Diego, CA; Bridgeport, CT; Mt. Vernon, IL; Terre Haute, IN; Leavenworth, KS; Biddleford/Sanford, ME; Cumberland, MD; Fall River-Lawrence-Lowell-New Bedford-Worcester, MA; Cheboygan/Muskegon, MI; Utica-Rome, NY; Altoona-Johnstown-Scranton-Willes-Barre, PA; Providence, RI. By September, only Lawrence, Scranton/Wilkes-Barre, and Providence remained in the worst category. By November, only Scranton/Wilkes-Barre was left. "Priming Hinted as Concern Mounts," *Newsweek*, March 20, 1950, 66-68; "Labor Supply Cut by Defense Needs," *NYT*, Sep 13, 1950, 21; "Manpower: It Gets Tighter as Defense Program Gathers Speed; Labor Surplus Disappears in 51 Key Industrial Centers," *WSJ*, Nov 3, 1950, 2.

[634] Industrial Production: Total Index (INDPRO), FRED <https://fred.stlouisfed.org/series/INDPRO>

idle until a new war.[635] The initial increase in production (and the implied level of idle capacity) was concentrated in heavy industry. Between June-August 1950, production of defense and space equipment increased 16%, business equipment by 9.1%, and equipment parts by 7.6%.[636]

Contemporary political discourse is also at odds with claims that the U.S. entered the Korean War in conditions of full employment. A February memo by Keyserling "re-emphasizes the possibility that developments during 1950 will make desirable the adoption of deliberately expansionary government programs."[637] In April, *Business Week* reported "fears that the 50's would turn out to be the 30's over again" and noted "the occasional trace of pleasure" from "the subversive who wants our economy to fall apart completely [or] the reformer who wants it to fall apart far enough to make his medicine attractive."[638] The CIO as well as the AFL demanded federal assistance for the unemployed.[639] But business could be expected to resist. New York Senator Herbert Lehman told a Cleveland labor audience that some in the U.S. "like the prospect of a floating pool of unemployed so that they can frighten the workers in to working harder for less wages."[640] *Business Week* confirmed that employers regarded "the loose labor market itself" as a "big contributor to higher productivity."[641]

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[635] Much of the idle capacity likely took the form of government-owned WWII plants which did not show up in most capacity utilization statistics. Robert J. Gordon, "$45 Billion of U.S. Private Investment Has Been Mislaid," *American Economic Review*, 59:3 (June 1969), 230.

[636] Respectively, from FRED series: IPB52300S, IPBUSEQ, IPB53120S, IPB53100N.

[637] "Memo: Procedural Suggestions for the Development of a Possible Expansionary Program," Feb 28, 1950, HSTL, Keyserling Papers, CEA Subject File.

[638] "Unemployment Creeps Higher," *Business Week*, April 1, 1950, 94; "Unemployment Jitters: Only One Answer," *Business Week* (April 22, 1950) 112.

[639] "AFL Asks Action to Halt Rise in Unemployment," *Los Angeles Times*, Mar 26, 1950, 40; "C.I.O. Demands Action to Combat Idleness," *NYT*, 15 June 1950, 23.

[640] Stanley Levey, "Lehman Predicts Unemployed Rise," *NYT*, 19 May 1950, 17.

[641] "Unemployment, Prosperity: Strange Pair," *Business Week*, March 4, 1950, 19-20.

Another cloud on the horizon was the investment outlook. As late as June 1950, surveys showed that capital spending in 1950 would remain below 1949 (a recession year) and well below 1948. Manufacturers expected sales in 1950 to be virtually unchanged from 1949. As a result, they reallocated their capital budgets to modernization rather than capacity expansion. There was sectoral and regional unevenness. Investment in public utilities, auto, and chemicals reflected optimism.[642] In military-industrial greater Los Angeles—now the sixth-largest labor market in the country—capital spending was higher in 1949 than in 1948, and plane-makers felt bullish about 1950. [643] Still, even the growth-obsessed CEA concluded that "capacity had generally caught up with the demands of a peacetime economy…Barring special circumstances… business investment would decline as a share of the national product."[644]

Thus, before the Korean War, unemployment was falling and investment rising. But there was no reason to believe that either would return to pre-recession levels. In the first year of the war, the earlier records were exceeded. From June-November 1950, 778,000 workers (a quarter of the unemployed) found jobs. Unemployment continued to decrease, averaging just 3.1% for three full years. Investment was similarly impressive. From mid-1950 the end of 1956, the share of private investment in GDP averaged 16.8% (compared to 16.1% from 1947 to June 1950).[645]

According to a common quip, "when the U.S. sneezed, Europe caught pneumonia."[646]

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[642] "Industry's 1950 Capital Spending Plans," *Business Week*, Jan 21, 1950, 73-80.

[643] Gladwin Hill, "South California Has Good Outlook," *New York Times* Jan 3, 1950, 79.

[644] Appendix to Annex No 10: Technical Assumptions and Analysis Underlying the Economic Projections for 1950-1955. RG 59, PPS Subject Files, Box 16, NSC 68 (2 of 2).

[645] Both periods contain four recessionary quarters, so the comparison is not biased by cyclical fluctuations.

[646] Attributed to the British economist Dennis Robertson in Charles Kindleberger, *The World in Depression, 1929-1939* (Berkeley and Los Angeles: University of California Press), 278.

The 1949 slump could be described as "mild" at home, but not internationally. According to the IMF, "A recession in the United States that reduced real gross national product by only 1 per cent (on an annual basis) was accompanied by a severe payments crisis and the devaluation of some 20 currencies within a few days."[647] These developments haunted the authors of NSC-68, who advised in April 1950 "that the United States and other free nations will within a period of a few years at most experience a decline in economic activity of serious proportions unless more positive governmental programs are developed than are now available."[648]

U.S. economic expansion was not strong enough to pull the world along with it. According to OEEC's Robert Marjolin, "in the spring of 1950 in Europe…the rise in production was not very rapid and we seemed to be approaching a ceiling imposed not by lack of capacity or lack or real needs but by inadequacy of demand."[649] Robert Tufts, the State Department Policy Planning Staff economist who worked on NSC-68, wrote around April 1950 that ""Further economic progress in Western Europe will probably be slow unless expansionist forces can be released by political action."[650] Unemployment and idle capacity were especially severe in Germany, Italy, and Japan. Even in France, where demand had been stronger, industrial

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[647] J.J. Polak, "The Repercussions of Economic Fluctuation in the United States on Other Parts of the World," *Staff Papers* (International Monetary Fund), Vol. 5, No. 2 (Aug 1956) 279-283, here 280.

[648] May, *Interpreting American Foreign Policy*, 50.

[649] Robert Marjolin, *Europe and the United States in the World Economy* (Durham, NC: Duke University Press, 1953) 30.

[650] Tufts continued, "The picture is by no means black…recovery to date has exceeded expectations, but *economic activity now seems to have reached a plateau from which economic forces alone will carry it upward only slowly."* Robert W. Tufts "Building Up the Economic Strength of the West and the Free World Generally." RG59, Policy Planning Staff/Council, Member Chronological Files, Box 9, Folder: Robert W. Tufts. Emphasis Added. The draft is undated but includes similar language to "U.S. Objectives and Course of Action in the May Meetings," dated April 28, 1950, in *FRUS 1950, Western Europe*, Volume III, 1001.
<https://history.state.gov/historicaldocuments/frus1950v03/pg_1001>

production in June 1950 was 3 per cent lower than a year earlier.[651]

The war jumpstarted world trade. Between 1948 and 1950, the total value of world merchandise trade increased just 6%. But from 1950 to 1951, the index increased 35%, a level sustained or bettered in subsequent years.[652] Despite the ubiquitous "1945-1973" periodization, it makes more sense to think of 1950 as the starting point of the golden age.[653] The decades-long expansion that followed reflected favorable conditions for accumulation, with fiscal policy playing an appreciable but subordinate role. But there is little to suggest that the long boom would have assumed the same dimensions without the Korean War rearmament.[654] Certainly, it would not have begun when it did. The political stabilization of the industrial capitalist countries (which depended on economic recovery) could not have been taken for granted.

A Five-Year Plan for Uncle Sam: The Korean War Fixed Investment Boom

In the U.S, the Korean War boom witnessed a historically strong expansion. Between mid-1950 and mid-1953, industrial production increased more than 25%. Even compared to the WWII peak, this was an increase of almost 20%. During 3.5 years of the Korean War, real GDP increased 20.1%. Across the slightly longer 1954-1957 expansion—the heart of the Eisenhower "peace and prosperity" years—real GDP increased just 13.7 %.

The core of the expansion was rearmament. Defense production expanded four times as

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[651] Warren C. Baum, *The French Economy and the State* (Princeton, N.J.: Princeton University Press/RAND, 1958) 66.

[652] SI3_AGG - TO - Total merchandise, World. WTO Statistics. <https://data.wto.org/>

[653] Thomas McCormick identifies the beginning of the Korean War and the end of the Vietnam War as the periodizing anchors of "the Long Boom of American global capitalism between 1950 and 1973," but does not discuss the economic dynamics at any length. McCormick, *America's Half-Century*, 99-157. A fuller detailed case for the importance of 1950 in launching the boom may be found in Borden, *The Pacific Alliance*.

[654] Alan Milward, who has argued most forcefully that the Marshall Plan was not necessary, concludes that "the impact of rearmament on demand from 1950 onward also helped to preserve stability." Alan Milward, "Was the Marshall Plan Necessary?" *Diplomatic History*, Vol. 13, No. 2 (Spring 1989) 249.

much as overall industrial production. But the expansion was not narrowly military. It was an investment boom as well. As the defense share of GDP more than doubled, the investment share remained steady. Production of business equipment was up 46.4% by the time the war ended, higher than the overall expansion of industrial production. This vast expansion was designed to provide the material basis for defense production, but also to allow the maintenance of civilian living standards and for expanded civilian production after the war had ended.

Back in January 1950, Leon Keyserling's CEA had estimated economic "objectives" for the coming "five-year period," which could be achieved through "affirmative policies, both public and private."[655] Reasonably enough, Republican Senator Arthur Watkins of Utah asked Keyserling, "You would call it a 5-year plan?" Keyserling, a former socialist subjected to recurring loyalty investigations, replied "We do not call it a 5-year plan."[656] But despite these strenuous denials, the impressive macroeconomic record of 1950 through 1954 can only be understood as a kind of planning. It was not, despite frequent misrepresentations, primarily a matter of deficit spending. The budget swung into surplus into 1951, thanks to heavy taxes, and the deficits that did follow in 1952 and 1953 were small compared to the scale of the mobilization. This was not hands-off pump priming but state-directed investment.

[655] CEA, *Annual Economic Report*, January 1950 (Washington: GPO, 1950) 85.

[656] *January 1950 Economic Report of the President*: *Hearings Before the Joint Committee on the Economic Report, Congress of the United States, Eighty-first Congress, Second Session*, January 17-20, 1950 (Washington, GPO, 1950) 15.

Figure 10: The Keyserling CEA's Original Five-Year Plan (from Economic Report of the President, Jan 1950)

TABLE 13.—*Output, consumption, and investment.*

[Billions of dollars]

Item	1948	1949	1954 [1]
Gross national product	262.4	258.7	300–310
Personal consumption expenditures	178.8	178.5	210–225
Gross private domestic investment, exclusive of inventory accumulation	38.6	37.2	38–43

[1] The 1954 estimates allow for only minor variation of prices from the present level.

Source: Department of Commerce (1948–49).

Figure 11: Actual performance of selected economic aggregates, 1950-1954 [657]

	1950	**1951**	**1952**	**1953**	**1954**	***1954 (constant 1950 dollars)***	**(original 1954 target**
GNP	288.3	333.4	351.6	371.6	372.5	*328.2*	300-1310
Personal consumption	192.1	208.1	219.1	232.6	239.8	*207.2*	210-225
Fixed investment	48.3	50.2	50.5	54.5	55.7	*47.3*	38-43

Figure 12: Relative weight of economic aggregates in GDP

	1948 (actual)	1954 (CEA target)	1954 actual
Personal consumption	68	70-73	64
Fixed investment	15	13-14	15
Defense	8	n/a	14

[657] To match Keyserling's categories, I used current dollar data from *Economic Report of the President, 1991*(Washington, DC: GPO, 1991), Table B-1 - Gross National Product, 1929-90. The inflation adjustment is from Table B-3, Implicit price deflators for gross national product, 1929-90. Due presumably to later revisions of estimates, the 1991 figures for years 1948-49 differ slightly from Keyserling's figures. Since the purpose of this illustration is to compare Keyserling's plan with the results, I have used the figures for 1948-49 (which Keyserling would have actually been working with), available in the January 1950 CEA report cited above.

As the figures above illustrate, this was one of the more successful five-year plans in history. The aggregate GNP goal was not just met but surpassed. The big change from Keyserling's plan is shown in the changing composition of GDP: the relative weight of investment and defense increased, while consumption declined as a share. While this was at odds with Keyserling's plan of January 1950, it was consistent with the NSC-68 program, which implied "a considerably larger share of the national product going into government expenditures and business investment than was previously contemplated."[658] This dual project—recomposing the economy toward military spending and high investment—was stunningly successful.

By design, private accumulation was the motor of expansion. As the CEA wrote, "Substantially all investment in industrial facilities will continue to be handled privately, whereas in World War II a major part of it was public."[659] This reflected a lesson the Truman Administration had learned in 1949 about business resistance to government ownership of basic industry. The results of the earlier defeats could be seen in the Defense Production Act (DPA) of September 1950. Sections of the bill were nearly identical to the failed 1949 Spence and Murray bills. Bertram Gross, who had a hand in drafting all three bills, hailed the DPA, especially the provisions for "expansion of productive capacity and supply," as "a third step in a series started by the Spence Bill and the Murray Economic Expansion Bill."[660]

The similarity was immediately noted by nationalist Republicans. In August 1950, Roy

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[658] Appendix to Annex No 10: Technical Assumptions and Analysis Underlying the Economic Projections for 1950-1955. The discrepancy between Keyserling's plan of January 1950 and the outcome is added support for my argument that Keyserling was likely brought into the NSC-68 discussions only in April or May 1950.

[659] Annex No. 10: The Economic Implications of the Proposed Programs: Required Fiscal, Budgetary, and Other Economic Policies (prepared in the Council of Economic Advisers). NARA RG 59, Policy Planning Staff/Council Subject Files, Box 16: 1947-1953, Folder: NSC 68.

[660] Collins, *More*, 25.

Woodruff of Michigan introduced into the Congressional Record an editorial which complained "The same authors of that blueprint for an American socialism have drafted the present *Maybank-Spence* bill, now called the Defense Production bill."[661] *Barron's* called on Congress to "refuse to vote the $1.4 billion for plant expansion slipped into the Defense Act by those who originally favored the socialistic Spence bill."[662] But these protests missed the point. As *Business Week* had recognized, "the revolutionary core" of the earlier bills was "outright government plant construction where business doesn't go along."[663] This "revolutionary core" was conspicuously omitted from the DPA.[664] Not even a shooting war could break through the opposition to socialized production of use values.

Office of Defense Mobilization (ODM) head Wilson strongly believed that such an expansion could not have come about in the normal course of things: "I do not think any businessman representing the stockholders of his company in his right mind would go ahead and agree to produce aluminum at the rate that we are demanding it be produced for this emergency, and use the stockholders' money and have no accelerated amortization."[665] But with the right inducements, business unleashed the investment that Fair Deal planners had so long demanded.

Though it encased private ownership, the investment program was nonetheless

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[661] "Extension of Remarks of Hon. Roy O. Woodruff," Aug 1, 1950, *Appendix to the Congressional Record*, A5561.

[662] "Opportunity for Congress: To See That Defense Is Shorn of Socialism," *Barron's*, Nov 6, 1950, 1.

[663] "Washington Outlook," *Business Week*, May 7, 1949, 15.

[664] A point appreciated by contemporaries: "the 1950 bill [DPA] was patterned after the Economic Stability Act of 1949, the old Spence bill, except that it did not provide for Government construction or operation of industrial facilities." Maurice Cecil Mackey, Jr, "Stimulation of Private Investment by Government" (dissertation, University of Illinois at Urbana-Champaign, 1955) 73.

[665] Statement of Charles E. Wilson, Director, Office of Defense Mobilization, in *Executive Session, Inquiry into the Policies, Procedures, and Program Involving Granting of Certificates of Necessity and Defense Loans, June 13, 1951,* available through ProQuest Congressional.

planned.[666] In the words of the CEA: "With respect to private investment in general, there will be need for a highly selective policy; one which permits or stimulates expansion in areas most essential to military needs and basic economic potential and restrains investment in non-essential areas."[667] In order to claim accelerated amortization on an investment, a firm had to apply to ODM for a certificate of necessity. Unlike during WWII, ODM could also offer fractional certifications (in which some percentage of the cost of an investment could be written off). There were other planning tools as well, including direct allocation controls over scarce materials such as steel, copper, aluminum, rubber, cobalt. According to *Harper's,* Manly Fleischmann, who made such decisions as head of the National Production Authority (NPA) was "the man who exercises the greatest control over the economy in peacetime history."[668]

Between October 1950 and January 1954, ODM certified more than 16,000 investment projects, awarding accelerated amortization to $30.3 million worth of investment. The program continued after the war, covering another $5.6 billion in 1954-55. Certified investment represented a large share of all business spending on plant and equipment: more than 41.3% in 1951, 50.2% in 1952, 17.6% in 1953, 7% in 1954, and 12.8% in 1955.[669] The investment was framed around 227 specific expansion goals, all but 34 of which had been closet out by 1955.[670]

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[666] The Korean War investment drive is probably described as an example of the "indicative planning" typified in the post-1945 era by the French *Commissariat général du Plan*, though a good case could be made that the Korean War-era U.S. state employed stronger direct controls than the French state did. Charles P. Kindleberger, "French Planning," in Max F. Millikan (ed.) *National Economic Planning* (New York: NBER, 1967) 279-303.

[667] Annex 10.

[668] On an organization chart, NPA was subordinate to ODM. Note also the use of "peacetime" in an article written in 1952. Such incoherence became common during the Cold War, but the usage also reflects the stalemate in the Korean War after mid-1951. Robert J. Donovan, "Truman's Guns and Butter Man," *Harpers's*, Jan 1952, 45-50.

[669] The figure represents the certified value; because of fractional certificates, the total cost of the investment projects involved would be greater. Mueller, "Amortization of Emergency Facilities," Table 12 – Amounts Certified for Rapid Amortization, 107; FRED https://fred.stlouisfed.org/series/Q10095USQ027NNBR.

[670] Mueller, "Amortization," 62.

Steel was the first expansion target identified. The planners estimated that, at the peak of rearmament, direct defense needs would require 8.3 million tons of steel (11 percent of the nation's total supply).[671] Expansion of capacity in other vital industries would require still more steel. These demands could be met out of current production, but only at the cost of years of "direct steel controls." Such controls would generate "spreading gray markets" and "severe price pressures." To avoid this, the report called for capacity expansion "much greater than would be provided even with the large expansion plans now known." What were these pre-war plans? Before the June 1950, steel had been at the heart of the economic expansion controversy, owing to "the strong position of the industry opposing further expansion of capacity."[672] At the start of 1950, steelmakers forecast a slight decline in overall sales volume and planned a 14 percent cut in new spending on plant and equipment. They planned to allocate 86% of 1950's capital spending to modernization and expand capacity by just 1%.[673]

The outbreak of war transformed the investment picture. The industry repeatedly lifted its targets for expansion.[674] Between mid-1950 and early 1953, American steel added 16 million tons of steel-ingot capacity—twice the CEA's estimate of defense requirements.[675] By the

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[671] Annex No. 10. For reference, the report adds that the automobile industry absorbed 15 million tons and construction and maintenance another 10 million tons.

[672] Broude, *Steel Decisions*, 211.

[673] "Industry's 1950 Capital Spending Plans," *Business Week*, Jan 21, 1950, 73-80. By May, steel investment plans were already being revised upwards but remained below 1949 levels. "Industry Lifts Its Sights," *Business Week*, May 20, 1950).

[674] "Steel Beats Its Capacity Goal," *Business Week,* Jan. 13, 1951, 79-80.

[675] Director of Defense Mobilization [Henry H. Fowler], *The Job Ahead for Defense Mobilization: Eighth Quarterly Report to the President* (Washington: ODM, Jan 1, 1953) 20.

beginning of 1955, another 8 million tons had come on line.[676] If not state-owned, the expansion was clearly financed and directed by the state. In the first year of the war, iron and steel received 44.3 per cent (by value) of all certificates of necessity.[677] Despite this prodigious increase, much of the war was fought while these investments were still in progress. Thus, in 1951, the industry's output was 9% higher than in 1950, but by year's end "nearly all steel shipments were made in accordance with governmental priorities and allocations."[678]

Steel, the basic metal of an industrial epoch that began around 1870, was by 1950 largely mature. Still crucial to the first half-decade of the Cold War, its importance would soon diminish.[679] By contrast, aluminum—the CEA's second highest expansion priority—was the basic metal of the future. Between direct production and strategic stockpiling, the CEA estimated that the NSC-68 program would require 85% of the current aluminum supply. Clearly, full rearmament would require a major expansion. The basic constraint was "the lack of large blocs [sic] of low-cost electric power."[680] Between 1949-55, two waves of planned expansion more than doubled aluminum capacity. Behind this stood a 49% increase in electric power.[681]

The crash investment in aluminum shaped regional development. Before WWII, the industry had been monopolized by Alcoa. New entrants with links to peripheral regions and the New Deal state became major beneficiaries of the Cold War. Kaiser Aluminum, founded in 1946

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[676] *Fourth Annual Report of the Activities of the Joint Committee on Defense Production* (Washington: GPO, January 1955) 2.

[677] Broude, *Steel Decisions*, 26.

[678] *United States Steel Corporation Annual Report* (1951) 1, 8. America's Corporate Foundation, ProQuest Annual Reports.

[679] Winant, *The Next Shift*, 35-45.

[680] Annex 10.

[681] *Fourth Annual Report of the Activities of the Joint Committee on Defense Production*, 2.

and operating in the Pacific Northwest, increased its market share from 18% to 26% during the Korean War.[682] Anaconda, which entered the aluminum industry in 1950, had obtained 4% of the market by 1955. In Montana's Flathead Valley, 1,600 workers worked to build a 40-acre Anaconda plant, which became the largest building in the state.[683] Low-cost electricity came from the Flathead River via the Hungry Horse Dam, completed in 1953. Montana Senator James Murray had been trying to get the Hungry Horse dam built since 1933.[684] Murray was a New Deal stalwart and lifelong Anaconda enemy; in turn, Anaconda opposed Murray's proposals, claiming that "western Montana already had surplus electrical power."[685]

Korea—and the promise of guaranteed profits—gave Anaconda a new perspective. Murray and his allies tried to give the aluminum project to anyone *but* Anaconda, but wartime urgency and Anaconda's hold on the state foreclosed alternatives.[686] Harold Ickes told Truman that he was "horrified, as are the men and women who fought the long fight of Hungry Horse, that it should be proposed to hand the fruits of victory on a silver platter to our enemies."[687] But even Murray had to concede that his "paramount interest is in the establishment of an aluminum industry in Montana, not in who shall be its operator."[688] In the end, one historian concluded,

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[682] Thomas G. Langton, "Investment Patterns in the Aluminum Industry, 1950-1977: A Historical and Empirical Analysis" (dissertation, Pennsylvania State University, 1980) 76.

[683] Dillon Tabish, "The Rise and Fall of the Aluminum Plant," *Flathead Beacon*, 14 Sept. 2016.

[684] Spritzer, "New Dealer from Montana," 340.

[685] The claim was made by representatives of the Montana Power Company, founded by Anaconda executives and tightly interlocked with the mining corporation. Spritzer, "New Dealer from Montana," 341.

[686] Clayton R. Koppes, "Oscar L. Chapman: A Liberal the Interior Department, 1933-1953" (unpublished dissertation, University of Kansas, 1974) 469-484.

[687] Ibid. 481-2.

[688] "Anaconda Copper to Make Aluminum," *NYT*, Nov 7, 1951, 45.

"some of the cheapest electric power in the country was being used to further entrench one of the archrivals of liberalism."[689] Here and elsewhere, the Korean War boom strangled social democracy even as it fulfilled Fair Deal dreams of economic expansion.

In August 1950, a Washington financial correspondent reported that a friend in the chemical industry was "jubilantly contemplating an all-out war."[690] The chemical industry's annual capital spending in 1951-3 was 53% higher than in 1948-50.[691] The U.S. South produced a quarter of industry output but was home to half of the plants built during the Korean War. Chemicals passed textiles as the region's lead industry.[692] Allied Chemical expanded capacity by 50% at its Hopewell, Virginia facility, the country's largest source of ammonia (which the war had made "one of the world's most important strategic materials.")[693] Ammonia was an input into many military defense production processes such as the production of hydrazine, a chemical building block whose uses included rocket fuel. A new Mathieson Chemical complex in Lake Charles, Louisiana gave the U.S. its first large-scale output of hydrazine—and provided one anchor of the "immense chemical empire" that now stretched along the Gulf Coast.[694]

After 1945, the oil industry had invested heavily in new capacity, to the extent that on the

[689] Koppes, "Oscar L. Chapman," 484.

[690] Carlisle Bargeron, "From Washington Ahead of the News," *CFC*, Aug 17, 1950, 626.

[691] Henry Suihun Ang, "A Study of Financial Expansion in the Basic Chemical Industry, 1947-1956," (PhD diss., University of Illinous at Urbana-Champaign, 1961) 45-47.

[692] Jim Montgomery, "South's Industrial Growth Beckons Ambitious Youth," *Atlanta Constitution*, Oct 7, 1953, 27.

[693] Max Foreter, "Ammonia Now on Chemicals Critical Roster," *New York Herald Tribune*, July 1, 1951, A9; "Allied Chemical Unit to Boost Capacity of Virginia Plant by 50%," *WSJ*, 07 June 1951, 5.

[694] "Soaring Hydrazine Output Promises Boon to Industry," *New York Herald Tribune*, July 14, 1953: 27; Morin Relman, "Industry's Move Southward Increasing as Region Becomes Economic Power," *Atlanta Constitution,* Aug 23, 1953, 1F. According to one generally skeptical analysis of wartime influences on Southern industry, "the Gulf Coast petro-chemical industry was the only significant example of the development of a qualitatively different economy after the war." Robert Lewis, "World War II Manufacturing and the Postwar Southern Economy," *The Journal of Southern History* Vol. 73, No. 4 (Nov. 2007) 853.

eve of the Korean War, oilmen worried about a glut. The new mobilization "absorb[ed] some of the spare capacity that had so agitated domestic oil producers."[695] Now they asked, "How will we keep our producing, refining, and distributing capacity ahead of a tremendous—and mounting—demand?"[696] The U.S. was using 7.7 million barrels per day, one-third more than during WWII. ODM allocated steel for 43,400 new domestic wells in 1951.

In 1948, economist Arthur Schweitzer had predicted that "the real bottleneck" in rearmament "would be a scarcity of most capital goods"—the means of producing other means of production. [697] Indeed, machine tools proved the most obstinate limit to the 1950 rearmament. Metal-shaping tools such as lathes were basic to all industrial production. As *Fortune* put it, "Nearly every artifact of our civilization is either made on machine tools or made by machines that are made on machine tools."[698] But these skeleton keys of mass production were built to order, not mass produced, making for long lead times and a premium on skilled labor.

The industry also exhibited a violent version of the boom-bust cycle that figures like Keyserling sought to replace with stable growth. WWII had depended on a massive expansion of machine tool production. After the war, the industry was overexpanded and markets soft as the government sold off its stocks at low prices. Dozens of companies (more than a tenth of all firms in the industry) were liquidated. In 1948, half of capacity was idle.[699] 1949 was even worse.

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[695] Richard Vietor, *Energy Policy in America Since 1945* (Cambridge, UK: Cambridge University Press, 1984) 99.

[696] "Petroleum: 7-Million Barrels a Day Aren't Enough," *Business Week*, Nov 25, 1952, 88-94, here 88.

[697] Arthur Schweitzer, "Must Rearmament Lead to Regulation?" *The Journal of Business of the University of Chicago* Vol. 21, No. 4 (Oct. 1948) 211.

[698] Dero A. Saunders, "What's Ahead for Machine Tools," *Fortune*, 90-93, 126-133, quote at 90.

[699] Clayton R. Sutton, "Machine Tool Trend: Hints of More Business Come from Factories in U.S., Orders Abroad," *WSJ*, Dec 31, 1948, 12-31.

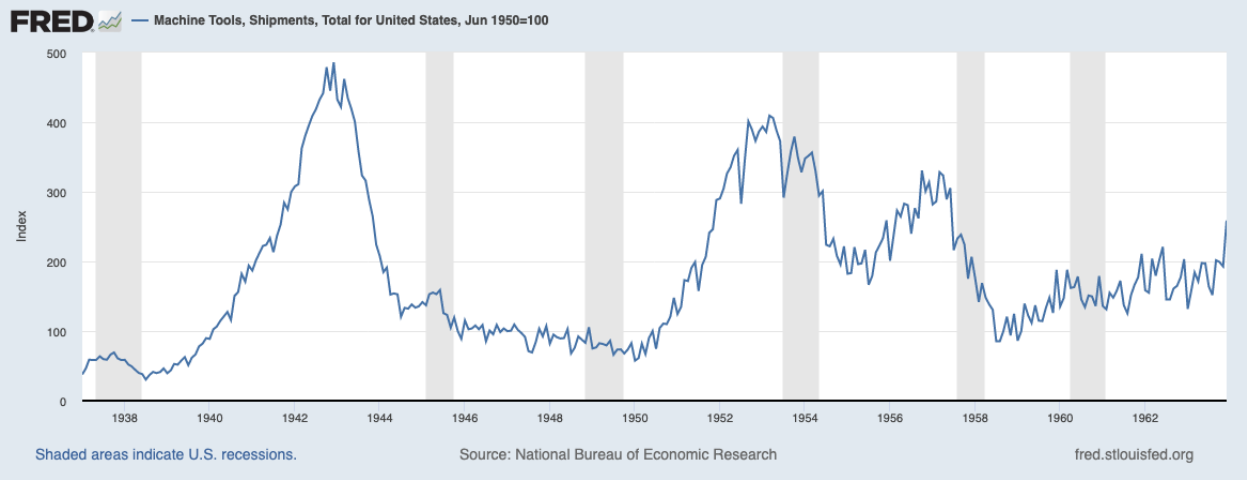

Figure 13: shipments of machine tools (June 1950=100)

As Figure 13 above shows, the war completely transformed the industry. By August 1950, employers reported a new surge in orders and already complained of a skilled labor shortage. In the first year alone, machine tool production levels doubled and employment increased by 50%.[700] Despite this expansion, demand from both the investment boom and the armaments sector raced far ahead of supply. Throughout 1951, machine tool shortages hit many sectors of industrial production.[701] By October, the industry's backlog of orders was equivalent to 22 months of current output (much longer than during the WWII peak). The wait time for one expensive machine tool used to cut compressor blades for jet engines was 120 weeks in August 1951. According to mobilizers, aircraft demand alone could consume all current production of machine tools.[702] Aircraft industry representatives even went to Europe to buy up machine tools;

[700] Max A. Rutzick, "Manpower Requirements in the Machine-Tool Industry," *Monthly Labor Review*, Vol. 73, No. 6 (Dec 1951) 672-675.

[701] Cabinet Meeting Minutes, May 4, 1951. Connelly Papers, Notes on Cabinet Meetings II, 1946-1953: May 1951, HSTL. <https://www.trumanlibrary.gov/library/personal-papers/notes-cabinet-meetings-ii-1946-1953/may-1951>

[702] Robert E. Farrell, "Plane Problem: Jet Engine Makers Say Lack of Machine Tools Blocks Big Production," WSJ, Aug 2, 1951, 1.

by the end of 1951, US imports of machine tools were four times higher the year before.[703]

Industry critics complained, perhaps with some justification, that the defense mobilizers did not understand the intricacies of the machine tool business.[704] But employers evinced little interest in the detailed proposals made by Walter Reuther, himself a skilled tool-and-die maker who had once supervised dozens of mechanics at Ford's Rouge plant.[705] Reuther's concern reflected his general enthusiasm for unleashing the productive forces, but also the specific concerns of UAW members. ODM's response to the bottleneck, once it realized there was one, was to tighten allocative controls giving priority to defense orders. The corresponding pinch on civilian production led to layoffs at the auto plants. At the worst point in 1952, Detroit was home to 2% of the U.S. population but 10% of its unemployed.[706] In order to speed defense production and put the Motor City back on its feet, Reuther proposed an "all out" plan which would activate latent owned machine tool capacity but also establish new, government-owned plants to centralize machine tool building and put it on the road to mass production.[707]

The continued limit on supply had something to do with the nature of the production process. The work took time and specialized custom labor. The industry was relatively decentralized and small-scale, consisting of 200 or 300 firms employing on average few hundred

[703] Daniel R. Wright, "Machine Tools: Americans Hit a Rich European Find of the Hard-to-Get Equipment," *WSJ*, Dec 31, 1951, 1.

[704] "The Machine-Tool Fumble," *Fortune*, Jan 1952, 56.

[705] Nelson Lichtenstein, *Walter Reuther: The Most Dangerous Man in Detroit* (Urbana and Chicago: University of Illinois Press, 1997) 17-18.

[706] Daniel Clark, *Disruption in Detroit*, 54-67. In 1952, the auto industry was also constrained by the steel crisis discussed in this chapter below.

[707] Reuther to Truman, "A Program to Expedite Tool Machines," reproduced in *Hearings: Small Business Problems in the Mobilization Program* (July 14-16, 1951) 159-167.

employees ("most employers know all their workers by their first names").[708] The shops were concentrated in a few belts around the Great Lakes (especially Taft's Ohio) and New England. The employers took an adversarial approach to the government-led mobilization, including widespread refusals to cooperate unless price ceilings were raised.[709] Concern about maintaining profits was also evident on the labor front. In the shortage-plagued year of 1951, the venerable machine tool builder Browne and Sharpe, which had remained union-free until World War II, tried to break the machinists' locals at 17 plants in Providence.[710]

The machine tool shortage was ameliorated by new capacity and tighter government allocations, but the bottleneck was never smashed. By the time the constraints ceased to bind, production had been stretched out and orders cancelled. While it was impossible to quickly transform craftsmanship into stable mass production, some progress was made. Declared *Fortune,* "The best economic news in years is that the often-predicted and much-feared post-Korean slump in capital goods has failed to materialize."[711] The value of machine tool shipments in 1955 was 43.7% lower than in 1953, but this still over twice the level of 1946-49. The sector continued to benefit from investment projects initiated during the war. Moreover, the Cold War allowed the aircraft industry to transcend its own pattern of boom and bust, providing a spin-off of stability to suppliers. As late as 1955, the Pentagon used leftover Korean War appropriations

[708] Saunders, "What's Ahead for Machine Tools"; A.H. Raskin, "U.S. Defense Hinges on Machine Tools," *NYT*, Aug 8, 1951, 18; Philip Scranton, "The Shows and the Flows: Materials, Markets, and Innovation in the US Machine Tool Industry, 1945–1965," *History and Technology*, Vol 25, no 3 (2009) 257-304.

[709] At one point, "half or more of the industry this week [was] refusing to book new orders until the price order is changed." "Trouble in Machine Tools," *Business Week,* May 5, 1951, 23.

[710] Robert G. Rodden, *The Fighting Machinists: A Century of Struggle* (Washington, Kelly Press, 1985) 154.

[711] Gilbert Burck and Sanford Parker, "The Dynamic Market for Capital Goods," *Fortune*, Sept 1954, 100-104, 214-222, here 100.

to purchase $100 million worth of cutting-edge machine tools (85% went to the Air Force).[712]

In May 1952, William F. Edwards told a convention of financial analysts that "We are carrying toward a conclusion an expansion program that will increase our productive capacity about 50% over 1946." He warned that "there is justifiable concern over the degree of expansion…. We will have enlarged our overall plant capacity to where it requires concurrently a civilian boom and a defense boom to operate satisfactorily."[713] Such worries were common, yet the years to come would provide little evidence of ruinous overexpansion. This was partly because defense purchases never returned to pre-1950 levels. But the defense expansion also contributed to the expansion of the civilian economy. In 1954, CED economist Albert Gailord Hart reported that "more and more of the defense facilities set up since 1950 are being transferred to general business purposes," evidence that "the defense boom of 1950-53 may have anticipated many later investment needs."[714] This impression is been confirmed by a later quantitative study of large corporations, which found that firms heavily involved in the Korean War expansion experienced stronger than average growth through the end of the 1950s.[715]

If there were any cases of overinvestment, they might be found in basic metals. Despite industry complaints about coerced overexpansion, the new plant proved profitable in peacetime, at least during cyclical upswings. In 1955, the vastly expanded industry ran at almost 95% of

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[712] Scranton, "The Shows and the Flows," 279-280.

[713] Walter Podolak, et al, "Stock Market Luncheon*," The Analysts Journal*, Vol. 8, No. 4, Proceedings, Fifth Annual Convention, National Federation of Financial Analysts Societies, May 5 to 10, 1952 (Aug. 1952) 148.

[714] Albert Gailord Hart, "Means Available to Check and Reverse a Recession," *American Economic Review* Vol. 44, No. 2, Papers and Proceedings of the Sixty-sixth Annual Meeting of the American Economic Association (May 1954) 407.

[715] Gregory Hooks and Bill Luchansky, "Corporate Beneficiaries of the Mid-Century Wars: Respecifying Models of Corporate Growth, 1939-1959," *Social Science Quarterly* Vol. 77, No. 2 (June 1996) 301-313.

capacity.[716] But as steel expanded, "new technologies and new concepts of plant design, which were already clearly discernible in the early 1950s, were for the most part disregarded."[717] U.S. steelmakers failed to adopt the basic oxygen furnace (first used commercially in Austria in 1950) and, later, the continuous casting process. Rising import penetration in the late 1950s revealed that much of the plant built during that decade's expansion would have trouble competing with world production. One could argue that defense demands for new, reliable sources of steel pushed the industry in the direction of expanding the existing plant rather than employing new methods.[718] But the industry's technological laggardness existed before the Korean War, and continued afterwards, so Korea can at best be a small part of any explanation.[719]

ODM head Wilson wondered "after this emergency is over, what in heaven's name is going to happen to some of these aluminum plants I don't know."[720] One answer was government stockpile agreements to purchase much of the expanded output. These guarantees came in handy

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[716] "Business Outlook," *Business Week*, April 2, 1955, 17-18, here 17.

[717] Walter Adams, "The Steel Industry" in *The Structure of American Industry*, ed. Walter Adams, sixth edition (New York: Macmillan, 1982), 117.

[718] Michael Bernstein, citing the study by Henry W. Broude, writes that "The American steel industry by 1950 was ready to engage in the full-scale development of new mechanized processes and the scaling down of capacity in anticipation of the shrinkage of wartime orders. The Korean conflict reversed this trend." Bernstein, *The Great Depression*, 220. At the same time, it is worth noting that some advocates of capacity expansion also championed technologies that the industry would not adopt the industry for decades. To this extent, the connection between steel expansion and malinvestment can be considered a contingent product of business hegemony over the expansion process. For a very early proposal to use proposal oxygen furnaces and continuous casting to increase production by 25 million tons, see Leonard Engel, "Technology Prods Big Steel," *The Nation,* Jan 22, 1949, 94-96. Engel covered science and the military for the Popular Front tabloid *PM* and spoke at a rally sponsored by the CPUSA's *New Masses*. "New Masses Rally to Hear Noted Speakers," *Daily Worker* [New York] July 25, 1941, 5.

[719] As late as September 1963, the six largest U.S. steel companies had still not installed a single basic oxygen furnace. Adams, "The Steel Industry," 111.

[720] Statement of Charles E. Wilson, Director of ODM. *Executive Session - Confidential: Inquiry into the Policies, Procedure and Program Involving Certificates of Necessity and Direct Loans Granted Under the Defense Production Act of 1950, Wednesday, June 13, 1951, House of Representatives, Subcommittee on Government Operations of the Committee on Expenditures in Executive Departments*, 25. Accessed through ProQuest Congressional.

during slumps: as late as 1958, 18 per cent of aluminum shipments was sold to the government under Korea-era agreements.[721] But outside of recessions, new demand (including as a substitute for steel) kept the new capacity employed.[722]

The State and Social Classes

At one scale, the Korean War boom was an object lesson in the politics of productivity, in which social conflict was successfully replaced by full-employment growth. But closer to the ground, one finds that these years were full of bitter conflict between employers, workers, consumers, and the state. All benefited, in the sense that real GDP grew without interruption, and unemployment remained below 4% for three years. Yet all found grounds for complaint. This historical archive of complaint, which largely vanishes in the macroeconomic statistics, reminds us that the "high-pressure economy" was the source, as well as the solvent, of conflict.

Labor's New War at Home

From the standpoint of labor, the Korean War experience appears ambiguous. By several measures it was a moment of working-class strength, driven by tighter labor markets than the U.S. has seen at any point since. In three years, the manufacturing sector absorbed 2.1 million new production workers. Even measured against the preceding peacetime peak (1947), the Korean War industrial complex employed a million more workers. At the same time, another million workers got new civilian government jobs and nearly two million entered the military. This new demand for labor easily outstripped the growth of the labor force, leading to historically tight labor markets. In the first half of 1950, unemployment averaged 6 percent. By

[721] Jack R. Ryan, "Aluminum Expands, Still Cocky as Ever," *NYT*, Jan 12, 1959, 81.

[722] "Aluminum Races Toward New Markets," *Business Week* (Aug 14, 1953) 130-132; "No More Cut-Rate Aluminum," *Business Week*, August 1, 1959, 26.

January 1951, it was down to 3.7 percent and would fall to just 2.5 percent in mid-1953. Even during the Vietnam boom, the sellers of labor power would never have it this good again.

Unrestrained by any wartime no-strike pledge, the strike weapon made a resurgence from its post-1946 lull. On average, there were 437 major work stoppages per year in 1950-3, compared to 259 in 1947-49 or 299 from 1954-7 (BLS). At the peak of the business cycle, the wage share of income reached an all-time high, driven by strong real wage growth for non-supervisory workers. As in most tight labor markets, the war years were good for those usually excluded from the fruits of prosperity. Black workers were still unemployed more often, but in relative terms they encountered an unusually tight market.[723] Nonwhite unemployment was just 4.3 percent in 1953, just half of what the figure would be in 1954 once the war stimulus was removed.[724] In April 1953, W.E.B. DuBois noted that full employment had become "state of affairs … maintained by manufacturing arms and ammunition." He asked "How long can we maintain this merry-go-round?" But after several years of anti-radical repression within the major civil rights organizations, Du Bois's anti-militarism found little mass purchase.[725]

Why did many in the ranks of labor experience the war years negatively? For one thing, workers had to struggle amidst uncertainty in order to win wage agreements that ended up averaging out as real growth. This is what many of the strikes were about. For significant

[723] As late as 1965 (a year when the U.S. economy had supposedly achieved more or less full employment), Daniel Patrick Moynihan could still write, "The fundamental, overwhelming fact is that *Negro unemployment*, with the exception of a few years during World War II and the Korean War, *has continued at disaster levels for 35 years*." Office of Policy Planning and Research, *The Negro Family: The Case for National Action* (U.S. Department of Labor, March 1965) 20. Emphasis in original.

[724] "Nonwhite" was the category used then. An estimated 95 percent of nonwhite workers were black. Herman Travis, "The Structure of Unemployment in Recent Years," *Monthly Labor Review*, Vol. 79, No. 9, September 1956, 1029-1036.

[725] W.E.B. DuBois, "Negroes and the Crisis of Capitalism in the U.S.," *Monthly Review* 4:12, April 1953.

periods, workers saw the real value of their wages eaten away by rising prices. For workers without unions (still most workers, even at this all-time peak of union density), the periods of falling behind were especially painful. Despite common references before and since to "butter and guns," by no measure was the war a consumer bonanza. As a share of GDP, personal consumption expenditures underwent a striking decline. Absolute consumption never fell significantly below prewar levels, but it did decline or stagnate for much of the war.

If an American worker or homemaker was comparing their consumption to the recent past—whether the Great Depression or even just 1949—they might well have experienced the Korean War as years of high consumption. Certainly, nothing in their lives would have given credence to the idea that big government spending would drive the nation into poverty.
But these were the years of the growth consensus, so it remains significant that consumption lagged significantly behind the growth of the economy. It was not the case that the relative shares of the pie were frozen while the entire pie grew. Instead, there was a re-slicing of the pie, in which consumption lost out. This was by design. NSC-68 had called for a major increase in the "defense and investment" share of national income. The CEA's Annex on NSC-68 requirements was explicit that "[t]he projected absorption of output by defense and investment needs would permit little or no increase in per capita consumption through the fiscal year 1954." Consumption was an afterthought, estimated as the "residual" left over after investment and defense had been deducted from estimates of total output. [726]

Consumers' fears of material deprivation became the driving force behind the first wave of the Korean War. As the above shows, consumption expenditures soared after June 1950 and again in early 1951 (after the Chinese entered the war), as buyers laid up stores in anticipation of

[726] Annex No. 10, 20; Appendix to Annex No. 10, 8.

rationing, if not World War III.[727] The most serious inflation was concentrated in the first six months, driven more by private panic buying than by defense production per se (which had not yet begun in earnest).[728]

As defense production came into its own, the shape of the boom was transformed. Consumer industries contracted, largely under government efforts to restrain income and credit growth, which resulted in a government surplus in the first part of 1951. Nondefense capital spending slowed and residential investment shed several points of GDP. Consumer durables contracted more sharply than non-durables, suggesting that physical limits imposed by defense production played a role as well as general demand restraint. In macro terms, the civilian recession was more than offset by defense expansion, but consumers felt the pinch. Late in the war, a leading social historian observed that workers felt "the burdens of [the Korean war] … not only in the absence of sons and husbands who are at the front, but also in the difficulty of using the wages of prosperity for the new house or the new car."[729]

The purchasing power problem was dealt with through the introduction of escalator clauses and cost of living adjustments (COLAs). Historians think of these as a basic element of "post-war" U.S. social compact, but in fact they were specifically an artifact of the Korean War boom. In September 1950, only 800,000 workers were covered by escalator clauses (nearly all of them in auto). By the summer of 1952, 3.5 million workers were covered by such agreements.[730]

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[727] According to a November 1950 poll, 55% of Americans believed they were in a new world war. Frank Newport, "Korea, 63 Years Later," *Gallup News*, 3 April 2013, https://news.gallup.com/opinion/polling-matters/169589/korea-years-later.aspx

[728] Between June 1950 and October 1953, CPI increased 12.9 points. Around two-thirds of this increase had occurred by February 1951. FRED.

[729] Oscar Handlin, "Payroll Prosperity: Will American Labor Go Conservative?" *Atlantic Monthly* (February 1953)

[730] H.M. Douty, "The Growth, Status, and Implications of Wage Escalation," *Monthly Labor Review* Vol. 76, No. 2 (Feb 1953) 126-12.

The UAW-GM "Treaty of Detroit," settled in May 1950, provided a model, but the "primary reason for the rapid growth in wage escalators" was the war, which both raised fears of inflation and gave workers the bargaining power to demand protection.[731] In the historiography, "Treaty of Detroit"-style bargains are often depicted as a painless and consensual element of postwar class compromise. But in fact, they were extremely controversial. The *New York Times* blamed escalators for setting off a "a sort of chain reaction wage-price inflation."[732] During the Korean War, the combination of cost-of-living adjustments and wage controls meant that a one point shift in the Consumer Price Index led around one billion dollars to shift between employers and employees.[733] The arrangements were not just controversial but fragile: "the spread of wage escalators…came virtually to a halt in the middle of 1952" and by 1955 the number of workers covered by such agreements had fallen by almost two million.[734]

For rank-and-file workers, the war imperative meant the end of a growing movement for reduction of the working hours. As part of his expansion program, Keyserling called instead for the workweek to be increased above forty hours.[735] In 1951, a delegation of autoworkers from Ford's River Rouge plant showed up at the UAW headquarters with thirty thousand signatures in favor of a thirty-hour week. UAW officials rebuffed them and attributed the movement to the

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[731] The WSB also helped promote the model by allowing for productivity-based price increases even after it froze wages. Dudley W. Johnson, "An Economic Analysis of the Effects of Wage Escalators on the Levels of Prices, Incomes, and Employment" (dissertation, Northwestern University, 1957) 55-56.

[732] Edward H. Collins, "Economics and Finance: Chain Reaction Inflation," *NYT*, 6 Nov 1950, 41.

[733] Thomas A. Stapleford, *The Cost of Living in America: A Political History of Economic Statistics, 1880-2000* (Cambridge, UK and New York: Cambridge University Press, 2009) 260.

[734] Dudley, "An Economic Analysis of the Effects of Wage Escalators" 57-58.

[735] "Keyserling Seeks Longer Work Week," *NYT*, 3 Oct. 1950.

left-wing group within the Rouge's Local 600.[736] In fact, Local 600 activists did connect foreign and domestic issues, warning that leaders like Walter Reuther had been "influenced by the government's pronouncements of abundant defense employment," blinding him to the need for job-saving work reduction measures.[737] Thus, in addition to the deaths and injuries of perhaps 100,000 working class husbands and sons, workers also found themselves working longer and harder, and failed to deploy their momentary power in order to win protections against the deindustrialization that already threatened in places like Detroit.

What did union leaders get in exchange for supporting Truman's foreign policy? Union membership grew faster than the growth of the labor force. Union density also reached its all-time peak in 1953, when one in three nonfarm employees belonged to a union. The CIO, which had lost 750,000 members between 1947-50, recovered and reached new highs. [738] But unionists hoping for tripartite management of the economy were sidelined. ODM was directed by Charles E. Wilson, the anti-union head of GE, and his "special assistant," Goldman Sachs' Sidney Weinberg. For months, Wilson simply refused to appoint a labor representative to ODM.[739] In February 1951, CIO and AFL representatives (who had teamed up in a United Labor Policy Committee) pulled their representatives from the various wartime stabilization bodies. They were protesting the control of the rearmament economy by what Phillip Murray called "a clique of men who represent only one attitude: the attitude of the top executive offices [of] big

[736] Thomas Sugrue, *Origins of the Urban Crisis*: *Race and Inequality in Postwar Detroit* (Princeton: Princeton University Press, 2005) 159.

[737] Jonathan Cutler, *Labor's Time: Shorter Hours, the UAW, and the Struggle for American Unionism* (Philadelphia: Temple University Press, 2004), 59.

[738] Leo Troy, "Trade Union Membership."

[739] Pierpaoli, "Price Gouging," 88-92.

business."[740] Privately, the UAW's Washington lobbyist complained that Wilson had become an unelected "domestic president," and that:

> Under the imperatives of the world conflict, we drift into a military-industrial receivership. because neither in the White House, the Congress, nor in the divided house of labor have we developed the principles, the program, and the methods for victory.[741]

But none of this led to a break with Truman or the war. Part of the trouble was the separation of shopfloor power from any national political program for labor. Even historian sympathetic to CIO leadership have concluded that engaging "through channels of government bureaucracy leeched power from labor's grass roots and often made rank-and-file workers spectators in their own drama."[742]

Sharpened industrial conflict went hand in hand with the consolidation of labor's post-1946 deradicalization. The Truman administration bought support for its foreign policy by acceding to conservative and business demands for intensified "internal security."[743] This development built on existing relationships, between administration officials and the business lobbies and between the labor relations staff of the federal Munitions Board and private defense contractors. A representative of Standard Oil New Jersey told the munitions board that companies would "like to get rid of them [radical workers] but you don't think you can and, therefore, you want the government to do it for you."[744] The Internal Security Act in September 1950 (and related arbitration decisions) ruled that it was just cause to fire workers not just for

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[740] Quoted in Zieger, *The CIO*, 297.

[741] Paul Sifton to Reuther, December 1951, quoted in Kevin Boyle, *The UAW and the Heyday of American Liberalism, 1945-1968* (Ithaca: Cornell University Press, 1995), 78.

[742] Zieger, *The CIO*, 304.

[743] Fordham, *Building the Cold War Consensus,* Chap. 6

[744] Fordham, *Building the Cold War Consensus,* 139.

membership in the CP but also for failing to obtain security clearances or refusing to testify. This was an environment where John Paton Davies, who literally co-wrote NSC-68, was forced out of government on loyalty charges. Anyone to his left was a potential target for internal security.

The Korean War further disorganized what remained of the independent left. Henry Wallace broke with his own Progressive Party to back the war effort, apologizing for his naivete about the Soviet Union.[745] The UE's Albert Fitzgerald pledged "100 percent support for American forces" but insisted that "if a UE member thinks it was US foreign policy that led us into this mess, it does not necessarily make him a traitor to his country."[746] Deradicalization proceeded through local, molecular dynamics. In Montana's copper mines, support for the United Steelworkers (USWA) attack on the left-led Mine Mill union "came from younger workers who had either fought in World War II or Korea, or knew others who did." In New Jersey, unionists handing out anti-war pamphlets were assaulted by fellow workers who vowed to "make every gate at the…plant a 38th parallel."[747]

These attitudes hardly meant workers subordinated their material interests to the war effort. "Why should I be more patriotic than the company?" asked one striking machinist. Another said, "My own kid is headed for Korea or Germany or some other miserable hole, and while he's fighting for me, I'm fighting for him. He'll probably work in this damn mill, and he won't get paid a penny more than the union demands."[748] In a pattern that would persist into the

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[745] Henry Wallace, "'Where I Was Wrong," *This Week* (September 7, 1952).

[746] John Bennet Sears, *The Electrical Unions and the Cold War: Generation of Resistance* (New York: International Publishers, 2020) 100.

[747] Larry Blomstedt*, Truman, Congress, and Korea: The Politics of America's First Undeclared War* (Lexington: University Press of Kentucky, 2016) 72.

[748] Gerald M. Carbone, *Brown & Sharpe and the Measure of American Industry: Making the Precision Machine Tools that Enabled Manufacturing, 1833-2001* (Jefferson, NC: McFarland and Company, 2017) 186-87.

1970s, labor was too weak to act as an independent political force but strong enough to frustrate employers and government planners.

The Bankers Make a Separate Peace: The Fed-Treasury Accord

Throughout 1951, capital began to push back against the state, especially the executive branch. The first blow was the refusal of the Federal Reserve to continue maintaining a low long-term interest rate for government bonds. Since before the Korean emergency, the Fed had been eager to rid itself of the interest rate peg (set at 2.5%), which had its origins in WWII finance.[749] Low-level internal conflict broke into the open in late January, when FRB governor Marriner Eccles used public congressional testimony to charge that the interest rate peg "makes the entire banking system, through the action of the Federal Reserve System, an engine of inflation."

The Truman administration took steps to impose its will, including summoning the entire FOMC to the White House. The administration prepared a draft executive order to the effect "that the Federal Reserve System's open market operations in Government securities be made with the approval of the President of the United States."[750] After months of tense negotiations, a compromise was worked out which restored the Fed's ability to independently set interest rate policy. Truman's cratering approval rating (the MacArthur crisis was raging as the Accord was settled) meant he would not have been able to win a public fight against the central bankers and

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[749] New York Fed president Allan Sproul had expressed a desire to end the peg at the FOMC meeting on June 13, 1950. Robert L. Hetzel and Ralph F. Leach, "The Treasury-Fed Accord: A New Narrative Account, *Economic Quarterly,* Federal Reserve Bank of Richmond (Winter 2001) 33. This contrasts somewhat with Sproul's 1964 recollection that "Up to the time of the Korean crisis, the Federal Reserve was content to carry on a holding operation… In the face of the economic repercussions of the Korean crisis, however, such an approach was no longer practical." Quoted in Pierre-Christian Fink, *The Rise of the Money Market: The U.S. State, New York City Banks and the Commodification of Money, 1945–1980* (dissertation, Columbia University 2020) 42.

[750] Epstein and Schor, "The Federal Reserve-Treasury Accord," 42n62.

their allies, who included ODM chief Wilson and the CED.[751] In this sense, the rise of Fed power, at the expense of more directly democratic fiscal policy, can be considered a legacy of the war, along with the destruction of much of the rest of the Fair Deal agenda. Conventional wisdom among historians has obscured the fact that "the reinstatement of the Federal Reserve as the rudder of American economic policy" through "the 'liberation' of American monetary policy" took place during the supposed Keynesian consensus, not during the neoliberal ascent.[752]

In the dispute, regional dynamics could be observed. The Fed's antagonists were Truman and Treasury Secretary John Snyder, a longtime Truman crony and parochial Missouri banker. Truman's one ally on the FOMC, who leaked information and coordinated pressure with legislators, was James K. Vardaman, Jr, a Mississippian who had worked at the Tower Grove National Bank in Saint Louis. These men were political conservatives but suspicious of Northeastern finance. Snyder believed that "Sproul and New York bankers and brokers were trying to recapture the primacy in fiscal and monetary affairs that had been lost to Washington during the New Deal."[753] Among those who wanted to hold hearings critical of the Fed were Wright Patman, the Texas populist, and Homer Capehart, the Taftite nationalist from Indiana.[754] During the Fed-Treasury dispute, it was ironic that Eccles, a Utahn New Dealer who had helped to lead the peripheral challenge to New York finance in the 1930s, was allied with the eastern

[751] Ibid. 30-31.

[752] Marcello de Cecco, "International Financial Markets and US Domestic Policy Since 1945," *International Affairs* (Royal Institute of International Affairs 1944 -) Vol. 52, No. 3 (Jul., 1976) 383-384. One leading historian has recently written that "neoliberals were committed to strengthening the state in other areas, by awarding it, for example, exclusive control of the money supply through a central bank," a claim which not only excludes but renders incomprehensible the 1951 Accord. Gerstle, *Rise and Fall of the Neoliberal Order*, 89.

[753] Donovan, *Tumultuous Years,* 328-329.

[754] Hetzel and Leach, "The Treasury-Fed Accord," 49.

establishment. Part of the explanation is that Truman and Snyder were very close to the Giannini family of California, founders and controllers of Bank of America, who were Eccles' bitter enemies. Fired by his hostility to WASPs, New York bankers, and the Fed, A.P. Giannini offered support to Roosevelt in 1932 through his friend Joseph Kennedy. Eccles and Giannini had spent most of the 1930s fighting together against the conservative New Yorkers within a sharply divided banking community. [755] But the relationship turned sour as Eccles began to attack BOA and its holding company Transamerica as an incipient West Coast monopoly. For their part, the Gianninis charged that Eccles was defending his family's own First Security Corporation, a leading lender across the mountain West.

When Truman unexpectedly refused to reappoint Eccles as Fed chair in 1948, Eccles and many in the press saw the hand of the Gianninis, working through Snyder. Allegedly, the favor was payment for election year support in California (which Truman won by less than 20,000 votes).[756] Truman denied the charge but never offered an alternative explanation of his move against Eccles, while Snyder refused to deny he had been offered a job at Bank of America. Though scholars have hitherto not drawn a definite conclusion, there is documentary evidence to support Eccles' accusation.[757] While these personal conflicts were not the origin of Eccles's

[755] When FDR claimed that bankers had advised him back in 1933 that the national debt could be safely doubled or tripled, the Chicago Tribune identified only two bankers who could have said something so "fanciful"—Eccles or Giannini. Howard Wood, "Bankers Flout Spending Alibi of Roosevelt," *Chicago Tribune,* Nov 30, 1935, 23.

[756] Quid pro quo would have fit a pattern: back in 1932, the Gianninis had first approached the Democratic Party with the express goal of removing a regional Fed chair they did not like. Russell M. Posner, "A. P. Giannini and the 1934 Campaign in California," *The Historical Society of Southern California Quarterly* Vol. 39, No. 2 (June, 1957), 190-201.

[757] The correspondence shows without question that Giannini had made a standing offer of employment to Snyder and that Giannini offered Truman assistance in California in 1948. Further, just weeks before Truman snubbed Eccles, Giannini wrote to Snyder, "Rumors seem to point to the reappointment of a certain man …. I'm wondering if, at the moment, there isn't any one readily available as successor." The day the news broke, Giannini cabled Snyder at his home with "Heartiest congratulations." After Drew Pearson reported that Giannini had boasted of his role, Giannini wrote to Snyder denying any such boast, adding the dubious reassurance that Pearson "isn't going to be able to prove it." See Giannini to Snyder, 1/13[illegible?]/48; Cable 1/27/48, 2/17/48; James Roosevelt to

concern about inflation, but they likely account for his willingness to go lead the FOMC in publicly challenging Snyder and Truman.

Eccles's actions also reflected his views on foreign policy.[758] In March 1950, Eccles called for concessions to Russia, which he hoped would stop an economically ruinous arms race.[759] A few months after the Accord, he charged that "in Iran, China, Korea, Indo-China and elsewhere, we have given our blessing and backing to reactionary governments that lack the confidence and support of the people.[760] The Accord showed that critiques of Truman Doctrine still had currency—but that bankers were the only social force capable of backing them up.

The Eccles-Giannini split shows that, while business support remained key to Democratic power, the pro-New Deal business coalition had already mutated by the late 1940s. The nation's fast-growing periphery was contested political terrain and its alliances with other interests remained open. Eccles—a Utahn advocate of compensatory spending—ended up working with the New York banking establishment against BOA and on behalf of the Accord. On issues including defense, Eccles found himself close to Taft.[761] The Gianninis of California, on the other hand, represented the continued alliance between the far West and the Democrats'

Matthew Connolly (The White House), Oct 18, 1948, all in Amadeo Peter Giannini papers, 1943-1955, Box 1, Columbia RBML.

[758] The administration made constant attempts to use Korea as a bludgeon, including Truman telling the FOMC that ending the peg would be "exactly what Mr. Stalin wants" and Snyder claiming "the possibility of a direct attack on the United States within the foreseeable future." See Hetzel and Leach, "The Treasury-Fed Accord."

[759] Eccles confirmed the accuracy of the report. "Eccles Calls for Shift in U.S. World Policy: Advocates Concessions to Russ, Enforced Peace, If Necessary," Salt Lake Tribune (Firm). Box 86, Folder 9, Item 1. Eccles Papers. https://fraser.stlouisfed.org/archival/1343/item/467652; Telegram to Marriner S. Eccles, Box 86, Folder 9, Item 3, Eccles Papers. https://fraser.stlouisfed.org/archival/1343/item/464304.

[760] Marriner Eccles, "The Way to Peace and Prosperity: Address at Luncheon of the Commonwealth Club of California, in San Francisco, California," July 27, 1951." Statements and Speeches of Marriner S. Eccles, FRASER. https://fraser.stlouisfed.org/title/statements-speeches-marriner-s-eccles-446/way-peace-prosperity-7744.

[761] For example, see Eccles to Taft, July 14, 1950, Eccles Papers, Box 70, Folder 8, Item 19 <https://fraser.stlouisfed.org/archival-collection/marriner-s-eccles-papers-1343/letter-robert-a-taft-462727>

militarized internationalism. The Bank of America, which held 55.8% of all bank loans outstanding in California in 1950, had a clear economic stake in militarism.[762] Reportedly, Truman even offered to make L.M. Giannini Secretary of Defense.[763] The bank was further tied to the Truman foreign policy by their extensive international interests. They were hardly corporate liberals: L.M. Giannini considered Republican California governor Earl Warren a "socialist at heart."[764] In time, this adventitious alliance with essentially conservative interests would wreck the Democratic coalition.

The mainstream of the financial community feared inflation more than Communist military onslaught. This might be suspended during a hot war, but even then, not indefinitely. In January 1951, just weeks after Chinese troops had captured Seoul, Eccles warned that "Regimentation or further inflation…will ultimately lead to the destruction of our capitalistic democracy."[765] William McChesney Martin, upon assuming leadership of the Fed in April 1951, said "Unless inflation is controlled, it could prove to be an even more serious threat to the vitality of our country than the more spectacular aggressions of enemies outside our borders."[766] But now that the defense boom was underway, even Martin "stayed awake nights wondering what

[762] Victor Perlo, *The Empire of High Finance* (New York: International Publishers, 1957) 242; Marquis James, *Biography of a Bank*: *The Story of Bank of America N.T. & S.A* (New York: Harper & Brothers, 1954) 464, 487.

[763] Moira Johnston, *The Tumultuous History of the Bank of America* (Washington, DC: Beard Books, 2000) 20. Johnson and the Gianninis were also in touch, though the correspondence is not particularly revealing. Correspondence with Amadeo Peter Giannini, Transamerica Corp., Bank of Virginia 1949 and Correspondence with L. M. Giannini, Bank of America 1949-1950, both in Louis A. Johnson Papers, University of Virginia, Box 105.

[764] Claire Giannini Hoffman, "The Giannini Family in Banking and Public Service," An Interview Conducted by Ruth Teiser in 1976, Bancroft Oral History Office, UC Berkeley, 85.

[765] Mariner S. Eccles, "Preparedness Against Both War and Inflation," FRED, 1-6, https://fraser.stlouisfed.org/files/docs/historical/eccles/eccles_19510125.pdf.

[766] Martin, William McChesney. "If I Were Accepting...", Box 23, Folder 2, William McChesney Martin, Jr., Papers. https://fraser.stlouisfed.org/archival/1341/item/578949.

we would do to sustain our prosperity if we did not have the defense program."[767]

Industrialists from Stretch-out to Seizure

Despite their firm hold on the machinery of the wartime state, capitalists had grounds for complaint as well. From 1950-53, corporate profit margins fall from 5.3% to 3.5%, due to higher taxes and rising unit labor costs. The mood was exemplified in U.S. Steel's 1951 annual report. Under the heading "Forced Limitation of Profits," chairman Irving S. Olds told shareholders that the "squeezing or socialization of corporate income is becoming increasingly apparent." This development could be "as dangerous...as the threat of aggression from abroad."[768] Olds concluded with a familiar threat: capitalists would not "venture their savings for job-creating tools of production" if they feared being "arbitrarily and forcefully prevented from earning competitive profits."[769] Not long ago, Fair Dealers had imagined building nationalized steel mills to nullify this threat, but the Korean War mobilization had confirmed that capital retained its core power: control of the investment function.

Over the course of 1951, the business community moved to join Eccles in confronting the executive branch. The administration's imposition of a mandatory wage-price freeze in January were not popular with business. Truman's request for further tax increases in February 1951 met with significant conservative opposition. When a much smaller tax bill was finally passed in November, it lightened the relative burden on corporate income.[770] Between December 1951 and

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[767] Craufurd D. Goodwin and R. Stanley Herren, "The Truman Administration: Problems and Policies Unfold," in *Exhortation and Controls: The Search for a Wage-Price Policy, 1945–1971*, ed. Craufurd D. Goodwin (Washington, DC: Brookings Institution, 1975) 9-93, here 86.

[768] *United States Steel Corporation Annual Report – 1951*, 23. America's Corporate Foundation/ProQuest.

[769] Ibid. 28.

[770] Hogan *The Marshall Plan*, 337.

March 1952, the CED and the Business Council withdrew their support for the administration's controls.[771] As profits slid, capitalists put their considerable influence behind a movement to "stretch out" defense spending.[772] The movement had supporters within the state and military, including Economic Stabilization Agency head Eric Johnston, Eisenhower, and Charles E. Wilson. Their case was easier to make as the war turned into a stalemate, with armistice talks beginning in June 1951. Furthermore, defense production had fallen behind schedule in July 1951, so "the decision simply confirmed what had already happened."[773] The $64.2 billion requested by the JCS for FY1953 was cut to $48.6 billion by Truman officials, then to $44.3 billion by Congress. The next year, Lovett and Truman reconfirmed the downward trend, against opposition from the military, with a FY1954 request of $41.3 billion.

The major figure standing against the stretch-out was Keyserling. In an October 1951 memo, the CEA chair claimed that even an $80 billion defense budget (for FY1954) "lies within our capacity to produce and need not require undue sacrifices either in terms of economic strength or consumers' standard of living." In Keyserling's view, "the willingness of the people to put up with the inconveniences of controls has hardly been tested" because "virtually everybody gained." The primary difficulty Keyserling saw was that the program "has not yet been translated sufficiently into specific material and other requirements" nor "yet been scheduled sufficiently as to timing."[774] This meant, in short, much more substantial central

[771] McQuaid, *Big Business*, 167.

[772] Clarence Lo, "Theories of the State and Business Opposition to Increased Military Spending." Keyserling also assigns primary responsibility for the stretch-out to "important business groups." HSTL oral history.

[773] Hogan, *The Marshall Plan*, 356-357.

[774] 56. Statement by the Chairman of the Council of Economic Advisers, Keyserling. Oct 16, 1951. *FRUS, 1951, National Security Affairs, Foreign Economic Policy, Volume 1* <https://history.state.gov/historicaldocuments/frus1951v01/d56>

planning, and Keyserling's inability to reckon with the powerful business opposition this would provoke marked a serious limitation of his faith in growth politics. It also revealed the weakness of the typical economist's refusal to address himself to the qualitative substance of defense production. This self-denying ordinance meant he could not explain why the program should continue at breakneck pace independent of the stalemate in Korea.[775]

The worst breakdown of the Korean War boom came with the Truman administration's chaotic failed nationalization of steel in the spring and summer of 1952. The essential conflict was that the steelmen refused to grant wage demands unless they were allowed to raise prices by an amount that the administration considered inflationary and unnecessary except to preserve profits. In April, Truman announced that the government would assume control of the steel plants in order to avert a strike. In June, the Supreme Court rejected the president's authority to seize private property, even during the defense emergency.[776] Hours after the steelmen got their mills back, the steelworkers struck. They stayed out for 53 days,

The respondent named in *Youngstown Sheet & Tube Co. v. Sawyer* was Commerce Secretary Charles Sawyer, universally seen as a friend of business. His statements make clear conflicts between the wartime state and capital persisted even when the state was run by someone personally associated with capital. As Sawyer said, he had not "requested or wanted"

[775] Years later, as the U.S. faced defeat in Vietnam, Keyserling did offer a strategic justification for opposing on the Korean War stretch-out: "the greatest power on earth…couldn't allow itself to be tied by a very minor infinitesimal power." The discussion is marked by symptomatic ambiguity. At one point, Keyserling proclaims he "would be the last to argue that we should have maintained defense outlays merely to support the economy." A few minutes later, he says: "*Even if it [the stretch-out] wasn't a mistake from the viewpoint of international policy, it was a mistake domestically* because it laid the foundations for the seven years of *very poor economic performance* between 1953 and 1960." Despite his best efforts to avoid saying it out loud, Keyserling was suggesting that the war should have been intensified for domestic economic purposes. Oral history, HSTL. Emphasis added.

[776] The ruling was 6-3; every vote in the majority had been appointed by FDR or Truman. Maeva Marcus, *Truman and the Steel Seizure Case: The Limits of Presidential Power* (Durham: Duke University Press, 1994) 182.

the job of running steel. As Sawyer said, he had not "requested or wanted" the job of running steel. "I dislike as much as anyone to witness, let alone participate in, the seizure of property." But, in a "situation of great peril," he had received his orders and "when our men at the front are taking orders in the face of great danger those of us further back can do no less."[777] But most of the nation's business class could not see things Sawyer's way. "Electric Charlie" Wilson, the director of ODM, resigned at the end of March, just before the seizure.[778] Most editorial opinion took Wilson's side, and "liberal-internationalist businessmen turned against him in droves."[779] Sidney Weinberg, specifically alienated by the steel strike, would become a lead organizer of corporate support for the Eisenhower-for-president movement in 1952.[780]

The events of 1951-2 revealed that the Cold War consensus threatened to melt down as semi-war approached full mobilization. The state was thoroughly colonized by representatives of the large corporations, but this personal representation could not fully resolve the conflict between state imperatives and business desires. The CIO offensive had been contained by 1948, but no coherent policy of wartime labor peace had been developed to fit the emerging Cold War. The steel crisis brought together the conflict over state power and the struggle between labor and capital. You couldn't fight a war without steel, and you couldn't have steel without labor peace. Robert Lovett, like most corporate elites, had advocated the stretch-out because they feared the

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[777] "Statement by Secretary of Commerce Charles Sawyer Following the President's Directive," reproduced in *Defense Production Record,* April 10, 1952, 8.

[778] Wilson considered the proposed wage increase excessive and wanted to avoid a shutdown by allowing steelmakers to pass on the labor costs through increased prices. His resignation followed disagreement with others in the administration over the price increase. Marcus, *Truman and the Steel Seizure Case*, 70-72.

[779] Pierpaoli, *Truman and Korea*, 156.

[780] On Weinberg, see "The Last Days of Charlie Wilson," *Fortune* (June 1, 1952) 85-6, 222-4 [detail at 224]; William O. Douglas, *Go East, Young Man: The Early Years* (New York: Random House, 1974) 292-93.

further incursion of central planning. But Lovett recognized that "any stoppage of steel production, for even a short time, would increase the risk we had taken in the 'stretch-out' of the armament program."[781] The anti-government gamble of the stretch-out depended on continuous production and, thus, on control over labor. During World War II, Lovett had sought powers to physically force workers to continue war production.[782] Even after the war, Truman had supported a measure to conscript strikers.[783] But the Cold War consensus enshrined the principle of "free protective bargaining," leaving no obvious solution to the problem of continuous production during semi-war.[784]

It was easier, perhaps, to end the hot war. This is what Eisenhower promised to do. Most business leaders supported him, even those directly involved in war production. From late 1951, Robert E. Gross of Lockheed called for a long-range aircraft program that would avoid "these $30-billion-a-year crises."[785] By June 1952, *Business Week* reported that "three times as many businessmen are troubled by labor problems as are bothered by a threat of recession."[786] Just as Kalecki would have predicted, capital had grown "boom-tired."[787]

Globalizing NSC-68

[781] David M. Jordan, *Robert A. Lovett*, 187.

[782] Jonathan Fanton, "Robert A. Lovett: The War Years" (dissertation, Yale University, 1978) 131-133.

[783] Lipsitz, *Rainbow at Midnight*, 169.

[784] If Truman had convinced a judge to invoke T-H (itself open to question), the strike would only have been delayed 90 days. Marcus, *Steel Seizure*, 76.

[785] Robert E. Gross, "Air Power and the Future Air Age," CFC. Oct 11, 1951. For further illustrations, see Lo, "Theories of the State and Business Opposition to Increased Defense Spending."

[786] "Less Depression Fear, More Labor Woe," *Business Week,* June 21, 1952, 29.

[787] Michal Kalecki, "Political Aspects of Full Employment," in idem. *The Last Phase in the Transformation of Capitalism,* 75-83, here 82.

"Economic historians may well consider Korea as a dividing line," said leading New York banker W. Randolph Burgess in November 1950.[788] He had in mind not just the U.S. economy but the world. The Korean War had profound effects on global capitalism. For a rough sense of scale, consider that the Marshall Plan was $13.3 billion, while the Korean War cost an estimated $50 billion (and the overall U.S. rearmament cost more than twice that much).[789] For a more direct comparison, U.S. military assistance to Europe from 1951-54 totaled around $14 billion—by itself more than the much better-known Marshall Plan.[790] The total effects of U.S. import demand, defense spending by the U.S.'s NATO allies, and the broader war-spurred investment boom would be impossible to reckon. The following sections discuss these global dynamics, with two special focuses: the industrial economies in Western Europe and Japan and the commodity producing economies of the global south.

As historian David Edgerton has written, "the Cold War was a supremely transnational effort."[791] One major American contribution as to provide an economic paradigm to harmonize rearmament and broader macroeconomic goals. Figures associated with NSC-68 played a key role. Richard Bissell, who had represented ECA in the NSC-68 ad-hoc review committee. was now working for the Mutual Security Agency (MSA), an agency created in 1951 to replace Marshall planning with military planning. Bissell requested assistance from the CEA's Keyserling. Wrote Bissell: "In many respects, the material requested is similar to that provided

[788] Quoted in Huempfer, "Burdens of a Creditor Nation," 218.

[789] Edelstein, "War and the American Economy in the 20th Century," 339-340.

[790] *Housing Act of 1954: Report from the Committee on Banking and Currency to Accompany H.R. 7839, Containing the Separate Views of Mr. Lehman, U.S. Senate, Report No. 1472, 83rd Congress, 2nd Session*, 32.

[791] Edgerton, *Warfare State*, 233.

by the Council in connection with the NSC-68 work."[792] Robert W. Tufts, the Policy Planning Staff's in-house economist, applied his analysis to European rearmament, writing that ""the defense effort, if it is vigorous and determined will...tend to decrease the competition for markets, and may stimulate investment and foster confidence."[793] The NSC-68 paradigm was going global.

Even before the Korean War, the idea of a global military Keynesianism had already begun to emerge in adjacent internationalist circles. In March 1950, Under Secretary of the Army Tracy Voorhees presented Acheson with a proposal to harmonize economic and military assistance. Wrote Voorhees, "While it seems to be generally admitted that Europe will have a continued dollar deficit which we must make up," wrote Voorhees, "there seems not to be adequate realization of the fact that *such inescapable dollar assistance* (through the counterpart funds arising from it or as a direct condition of the aid*) could be so employed as to effect a corresponding increase in Europe's military production*, as well as to shape and correlate such production into a sound total defensive plan."[794] In this memo, Voorhees stressed that his plan did not require additional appropriations.[795] But within a few weeks he joined the Ad Hoc Committee on NSC-68, where higher outlays (and even deficits) was openly discussed.

"Tick" Bonesteel was thinking along similar lines. In March 1950, Bonesteel proposed

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[792] [Bissell to Keyserling, April 27, 1951. NARA, RG 469, Executive Secretariat, General Correspondence (Name Files) 1948-1954, Box 79, Folder: Council of Economic Advisers.]

[793] Tufts, "Building Up the Economic Strength of the West and the Free World Generally."

[794] Voorhees, "Proposal for Strengthening Defense Without Increasing Appropriations," enc. in 36. The Under Secretary of the Army (Voorhees) to the Secretary of State, *FRUS, 1950, Western Europe, Vol III* <https://history.state.gov/historicaldocuments/frus1950v03/d36>

[795] Voorhees was likely deferring to his boss, Secretary of Defense Louis Johnson, whose recent cuts in defense spending the Voorhees memo calls "vigorous and necessary." Ibid.

that "an important segment of European productive capacity be utilized, with American aid, to produce most of the arms required for Europe's re-strengthening." He put the problem in Keynesian terms: "Most of this potential physical capacity in Europe is un-utilizable at the moment, partly because of insufficient military budgets or insufficient *total* budgets, if you want to look at it that way…," a problem that would only worsen with the impending end of Marshall Plan aid. Bonesteel even used the classic "pump priming" metaphor in his proposal to provide "direct dollar assistance" to the benefit of "both military production and the economic situation of Europe in the future."[796] Not accidentally, both Voorhees and Bonesteel were involved in Korea. Bonesteel had helped draw the 38th Parallel in 1945. Voorhees was a proponent of triangular trade linking Korea, Japan, and the U.S. He freely called this "a restoration" and freely compared it to the Imperial Japanese scheme for an East Asian Co-Prosperity Sphere.[797]

But as Michael Hogan writes, the "the triumph of military over economic diplomacy" of the ECA did not mean the abandonment of "such old themes as economic integration, greater productivity, and corporative collaboration between labor, business, and government."[798] To the contrary, the militarization of the Marshall Plan dovetailed with the Keynesian orientation that was emerging among American planners just before the Korean War. Charles Maier has suggested that a "second" Marshall Plan began in mid-1949 which "used economic growth as a major rationale for policy intervention." The key figure in the Marshall Plan's Keynesian turn, Richard Bissell, was also central to the Mutual Security Administration, which tellingly replaced

[796] 31. The Executive Director of the European Coordinating Committee of the Mutual Defense Assistance Program (Bonesteel) to the Deputy Director of that Program (Ohly), 29 March 1950. FRUS, *Western Europe, 1950*, Volume <https://history.state.gov/historicaldocuments/frus1950v03/d31>

[797] Bruce Cumings, "Power and Plenty in Northeast Asia: The Evolution of U.S. Policy," *World Policy Journal*, (Winter 1987/1988) 90.

[798] Hogan, *Marshall Plan*, 382.

the Economic Cooperation Administration. Bissell, a trained economist, helped inaugurate the "idea of linking defense expenditures to national income" as "a principle of supranational coordination."[799] Even before the outbreak of the Korean War, in April 1950, the Bureau of European Affairs drew up a briefing paper for an upcoming meeting of the North Atlantic Council (NATO's governing body), which suggested discussing "the use of compensatory public expenditures on programs to strengthen defense" as part of "the development of coordinated measures to be taken to combat an economic recession which, makes a major depression a possible prospect."[800]

One crucial element of this was offshore procurement, or the purchase by the U.S. of military supplies and equipment from allied countries. By allowing allied countries to export military goods to the U.S., OSP offered these countries badly-needed dollar reserves and demand-stimulus as well as increasing the military capacity available to the United States (and, as a secondary effect, creating capacity which could one day be used for the allies to produce military supplies for their own use). Offshore procurement (under that name) began in August 1951 with a directive from Secretary of Defense Robert Lovett (who had been part of the NSC 68 committee).[801] At its peak in FY1953, OSP spending reached $1.6 billion; the total figure for 1952-1954 was $3.2 billion. The most procured commodities were ammunition, aircraft and

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[799] Charles S. Maier, *Among Empires: American Ascendancy and its Predecessors* (Cambridge, Mass: Harvard University Press 2006) 177.

[800] 49. Paper Prepared in the Bureau of European Affairs Background for the May Foreign Ministers and North Atlantic Council Meetings, April 25, 1950. FRUS, *Western Europe, 1950, Volume 3,* <https://history.state.gov/historicaldocuments/frus1950v03/d49>

[801] Doris M. Condit, *History of the Office of the Secretary of Defense, Vol. II*: *The Test of War, 1950-1953*, general series editor Alfred Goldberg (Washington DC: Historical Office, Office of the Secretary of Defense, 1988), 444-451; Till Geiger and Lorenza Sebesta, "A Self-Defeating Policy: American Offshore Procurement and Integration of Western European Defense Production, 1952-56," *Journal of European Integration History* 4, no 1. (1998), 55-73.

aircraft parts, and ships and harbor craft. Critics charged offshore procurement was "merely an economic aid program in disguise." In fact, policymakers were quite clear that OSP was intended as an economic and political instrument as well as a military measure. As one planner explained, "The purpose of OSP is not solely the purchase of a piece of equipment. It is intended to, and does, also have strategic economic and political consequences." The consequences included not just the stimulus of production in idle European industry but "the massive transfer of dollars" which Europeans needed to increase their imports, and which they had so far failed to obtain in adequate volume through trade and even the Marshall Plan. At the same time, it is too simplistic to see rearmament as a mere pretext for economic pump priming. Among the economic problems that OSP solved were some which would not have existed apart from the rearmament. As Bissell wrote to Harriman: "a large program of offshore procurement is a desirable, and, indeed, the only politically feasible, means of providing Europe with sufficient foreign exchange to sustain the rearmament effort."[802] Rearmament was an end in itself—one requiring new forms of economic accounting—as much as it was a means to an economic end.

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[802] Bissell to Harriman, "Financial Administration of Offshore Procurement," Jan 16, 1952. RG 469, Executive Correspondence (Name Files), 1948-1954, Box 93, Folder: Richard W. Bissell.

[803] Borden, *Pacific Alliance,* 57.

[804] Miss Allen and Mr. MacDonald to Mr. J. Heyl. "Operational effect of dispersal of administrative responsibility for U.S. foreign economic policy," December 12, 1952, RG 469 OSP Box 5, Folder: OSP -Procurement - off shore (general)

stimulus of production in idle European industry but "the massive transfer of dollars" which Europeans needed to increase their imports, and which they had so far failed to obtain in adequate volume through trade and even the Marshall Plan.[805] At the same time, it is too simplistic to see rearmament as a mere pretext for economic pump priming.[806] Among the economic problems that OSP solved were some which would not have existed apart from the rearmament. As Bissell wrote to Harriman: "a large program of offshore procurement is a desirable, and, indeed, the only politically feasible, means of providing Europe with sufficient foreign exchange to sustain the rearmament effort."[807] Rearmament was an end in itself—one requiring new forms of economic accounting—as much as it was a means to an economic end.

Just as it happened domestically, the international economic program of rearmament would go about in two steps: identifying excess capacity which could be put to work immediately with defense procurement contracts *and* initiating a longer-range capacity expansion to blunt the conflict between military and civilian demands. From the vantage point of August 1952, Averell Harriman judged the effort a success: "The continuous growth of Western Europe's economic base had an important politically stabilizing effect. It proved that a measure of rearmament could be carried on while still expanding the economy as a whole. Most important of all, the continuous economic expansion made it possible for most of the NATO countries to

[805] John Ohly quoted in Cardwell, *NSC-68 and the Political Economy of the Early Cold War*, 242.

[806] As Curt Cardwell does when he suggests it is "quite possible" that the "military aid aspects" of OSP were "merely accoutrements" to the "economic aid aspects." Cardwell, *NSC-68 and the Political Economy of the Early Cold War*, 243.

[807] Bissell to Harriman, "Financial Administration of Offshore Procurement," 16 Jan 1952. RG 469, Executive Correspondence (Name Files), 1948-1954, Box 93, Folder: Richard W. Bissell.

carry the armament burden without serious inroads on the living standards of their people." Country by country, economists calculated how economic slack, so that beneficial employment effects could be distributed along with procurement plans. It is striking how much of the idiom of Keynesian economics shows up in the documents: "pump-priming," stimulus, the multiplier, the accelerator.[808] Five short years after the WWII crucible, Keynes was back on the firing line.

The Keynesian Empire

Even within the advanced capitalist countries, the rearmament had differential effects. American planners quickly realized that three countries stood to gain the most: Germany, Italy, and Japan.[809] When the war began, the former Axis powers were all experiencing significant unemployment and idle industrial capacity. In each case, this was the result of deflationary policies promulgated by the Americans in alliance with the local economic elite: the Italian "Einaudi line" of 1947, the German currency reform of 1948, and the Japanese "Dodge line" of 1949. In each country, the result was dire unemployment. Germany between late 1948 and late 1949, unemployment rose from 700,000 to 2 million (12%).[810] The crucial outpost of West Berlin suffered from especially high unemployment, which reached 30% in early 1950.[811] In Japan, unemployment in April 1950 was twice as high as it had been in 1948.[812]

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[808] William C. Foster, Paul Hoffman's successor as ECA head, invoked a "multiplier effect" when discussing the economic potential of rearmament. See Hogan, *The Marshall Plan*, 389.

[809] "Statement of Richard M. Bissell, Deputy Administrator, Economic Cooperation Administration" in Executive Session: S. 1762, Mutual Security Act of 1951, U.S. Senate Committees on Foreign Relations and Armed Services, Washington, D.C (July 31, 1951). Unpublished Hearings. ProQuest Congressional, 284-334; Michael Schaller, *The American Occupation of Japan: The Origins of the Cold War in Asia* (New York: Oxford University Press, 1987) 289.

[810] Werner Abelshauser, "West-German Economic Recovery, 1945-1951: A Reassessment," *Three Banks Review* 135 (1982), 34-53.

[811] Lo, "Theories of the State and Business Opposition to Increased Military Spending."

[812] William Borden, *Pacific Alliance*, 99.

On a technical level, these reforms sought to end postwar inflation and establish stable currencies that would promote investor confidence and export competitiveness. But in a more profound sense, they were moves in the struggle between social groups over the shape of postwar society. In particular, they were measures taken to strengthen the industrial and financial elite against workers, in the context where the economic elite had largely discredited by its collaboration with fascism and workers and leftists strengthened by their participation in liberation and the relaxation of state repression. In Japan and Italy especially, workers had encroached on management prerogatives, like the ability to fire workers or organize shopfloor practices. According to historian Paul Ginsborg, "Photos of Stalin, cut out from the newspapers, were stuck on to walls and machinery in most factories in Italy."[813] West Germany was different, due to the Nazis' physical elimination of what had been the world's largest workers' movement (additionally, the appeal of the radical left was weakened by the tightening Soviet domination of East Germany). But even in Germany, democratic socialist possibilities were entertained by workers' organizations and some elements of the British occupying power.[814]

Initially, American occupation authorities supported social reform in these countries, seeking to prevent the reemergence of the big business structures that they believed had led to fascism. But from 1947 forward, Americans abandoned reformism in response to a concerted effort by corporate internationalists who sought to restore the traditional business classes with whom they had done extensive business in the 1920s through the late 1930s.[815] As Defense

[813] Paul Ginsborg, *A History of Contemporary Italy: Society and Politics, 1943-1988* (New York: St. Martin's 2003), 87.

[814] Steil, *Marshall Plan,* 361.

[815] Sobel, *Life and Times of Dillon Read*; Robert Boyce, *The Great Interwar Crisis and the Collapse of Globalization* (New York: Palgrave Macmillan, 2009); Gian Giacomo Migone, *The United States and Fascist Italy: The Rise of American Finance in Europe*, trans. Molly Tambor (New York: Cambridge University Press, 2015).

Secretary James Forrestal (a Dillon, Read executive) put it, "the world could only be brought back to order by a restoration of commerce, trade, and business, and *that would have to be done by businessmen…Japan, Germany, and other affiliates of the axis get back to work*."[816] The Soviet threat added urgency, but this was the resumption of a project that grew organically from the pre-WWII development of multinational businesses and their financial and legal partners.

Dillon, Read treasurer William H. Draper took a leading role in restoring business power in both Japan and Germany. The deflation in Japan may have been imposed by Detroit banker Joseph Dodge, but Dodge was dispatched by Draper and Nitze. Averell Harriman and his media properties were at the center of the organized effort to discredit the SCAP's ostensible efforts to undermine "American capitalist principles."[817] The primary antagonist to Harriman's Japan Lobby was military governor Douglas MacArthur, a Kansan nationalist who distrusted the Japanese *zaibatsu* conglomerates as a form of state socialism. But even MacArthur was alarmed by the labor movement, and in early 1947 used his authority to forbid a general strike that might have involved 6 million Japanese workers. The restoration of class power did not rest on the threat of force alone, but armed coercion was unquestionably present: another uncanny similarity between Japan and Italy was the deployment by state and business of yakuza and mafia violence to repress the independent organization of students, workers, and peasants.[818]

Deflation as restoration was checked the strength of labor and the left at the cost of depression. American planners feared that mass unemployment would lead to political

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[816] Forrestal Diary, March 3, 1947. James Forrestal Papers, Princeton. <https://findingaids.princeton.edu/catalog/MC051_c05094>

[817] John G. Roberts, "The 'Japan Crowd' and the Zaibatsu Restoration," *Japan Interpreter* 12:3–4 (Summer 1979).

[818] Richard J. Samuels, *Machiavelli's Children: Leaders and Their Legacies in Italy and Japan* (Ithaca: Cornell University Press, 2003) 189.

discontent, whether in neutralist or outright Communist forms. But increasing aggregate demand seemed to require increasing popular purchasing power, which local elites were reluctant to accept. In Italy especially, American Marshall Planners pushed for demand stimulus but found the *classe dirigente* completely opposed.[819] The Korean War provided the indispensable ingredient: an external source of aggregate demand that could increase exports and boost domestic profits and investment—while dispensing with necessity for a "social Keynesian" alternative of government social spending and an increased wage share of income. Likewise, the stationing of U.S. troops (with their families) at permanent bases provided host countries with another source of demand that was independent of the domestic income distribution. Without the deflations, the Korean War stimulus might have caused runaway inflation. Without the war stimulus, the deflations might have become persistent depressions. But the unplanned sequence of the two provided the ingredients for a specific form of Keynesianism without redistribution.

The Japanese name for this period—*tokuju keiki*, or special procurement boom, clearly identified the role of military demand. American planners also considered matters in these terms, writing explicitly that "off-shore procurement of military and economic aid supplies is serving as a stimulus to industrial development."[820] According to one historian, "nearly every sector" benefited.[821] Direct procurement—including such orders as 200 million gunny sacks or 2,000 Toyota trucks per month—stimulated the existing industrial structure. Labor-intensive sectors

[819] The conflict between Keynesian Marshall Planners and the hard-money Italian political class crystallized around the ECA "Country Study" on Italy, largely written by Richard Bissell. Charles Kindleberger called the report "The first use of Keynesian analysis in a major governmental document that I recall." It made little head way on the Italian government and anti-Keynesians today continue to argue that Italian unemployment in the immediate post-war was not accurately characterized as demand-deficient. Steil, *The Marshall Plan,* 345.

[820] [Editorial Note] 646. Progress Report submitted with NSC 125/5, April 1952). FRUS, 1952-1953, China and Japan, Vol XIV, Part 2. <https://history.state.gov/historicaldocuments/frus1952-54v14p2/d646>

[821] Schaller, *The American Occupation of Japan,* 289.

such as textiles, coal, and construction boomed.[822] So did legacy heavy industry (auto, cement, iron and steel, machine tools, chemicals). In October 1950, industrial production returned to pre-WWII levels for the first time, and by May 1951 had exceeded them by one-third. As the war continued, Occupation-era restrictions on shipbuilding and armaments were lifted, and idle military facilities—including arsenals, fuel depots, and aircraft factories—were restored to their former owners or (in the case of former imperial property) transferred to private business.[823]

Joseph Dodge worried that the war boom might be wasted in increased consumption, and urged the Japanese to plow their earnings in "essential capital improvements" in export-oriented sectors.[824] He would not be disappointed. The Japanese recognized that procurement orders (paid in dollars) loosened the balance of payments constraint on their development. They were able to double their imports, including not just raw materials but up-to-date capital goods needed for capacity expansion and modernization.[825] These included not just raw materials, but also up-to-date capital goods needed for capacity expansion and modernization. As in the U.S., the state called forth investment with special depreciation provisions targeted at key bottlenecks, including transport, steel, and energy.[826]

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[822] In 1950, Japan led the world in cotton cloth exports. Taken together, all cloth and thread products represented as much as 40% of total exports and remained above a quarter through 1954. Yutaka Kosai, "The Beginnings of High-Speed Growth" in Nakamura Takafusa and Odaka Konosuke, eds. *Economic History of Japan, Vol 3 - 1914–1955: A Dual Structure* (Oxford: Oxford University Press, 2003) Table 10.4, 377.

[823] Michio Morishima, *Why Has Japan "Succeeded"? Western Technology and the Japanese Ethos* (New York: Cambridge University Press, 1982) 161-163, 186-187; Schaller, *The American Occupation of Japan*, 47, 147-148; Ishamaru Yasuzo, "The Korean War and Japanese Ports: Support for the UN Forces and Its Influences," *NIDS Security Reports*, No.8 (December 2007) 55-70; Mark Metzler, *Capital as Will and Imagination: Schumpeter's Guide to the Postwar Japanese Miracle* (Ithaca: Cornell University Press, 2013); M. William Steele, "Constructing the Construction State: The Postwar Revival of the Cement Industry in Japan," Asia Pacific Journal: Japan Focus 15 (11), Number 5 (June 2017) Article ID 5043.

[824] Schaller, *The American Occupation of Japan*, 138-140, 145-146, 231.

[825] Takafusa Nakamura, *The Postwar Japanese Economy* (Tokyo: University of Tokyo Press, 1981) 40-42.

[826] 40-45% of plant and equipment spending in 1951-54 went to these sectors. Ibid., Table 2.8, p. 44

The steel industry was a good example.[827] Through the "superb luck" of the war, the struggling industry had received 78,000 tons of military procurement orders by September 1950. By the end of 1950, the industry (along with the Ministry of International Trade and Industry, or MITI) had planned its "First Rationalization Program," which would continue into 1955. The prewar steel industry had been essentially a byproduct of armaments production. The plan directed investment into continuous rolling methods that would make Japan internationally competitive in the production of high-quality thin plate steel (suitable for consumer durables). Between July 1950 and March 1951, the U.S. ordered almost 12,000 motor vehicles from Japanese producers, who were able to work down inventories and pay down debts. Toyota, which had been heavily indebted and close to bankruptcy, saw its net income triple and paid a dividend for the first time since World War II.[828] In the first year of the war, U.S. military trucks represented a quarter of the firm's total product. By February 1951, Toyota had already set out its own five-year modernization plan, aimed at establishing the scale necessary for a globally competitive assembly line system.[829] Nissan received fewer order than Toyota, but net income increased fourfold by September 1951. Industrywide, annual investment spending doubled in 1952 and increased 2.5-fold in 1953.[830] U.S. military-industrialism had another fateful influence: according to plant manager Yukio Arima, the Toyota Production System was inspired by a

[827] Yoshitaka Suzuki, "The Rise and Decline of Steel Industries: A Business Historical Introduction" in *Changing Patterns of International Rivalry: Some Lessons from the Steel Industry*, ed. Etsuo Abe and Yoshitaka Suzuki (Tokyo: University of Tokyo Press, 1991) 211.

[828] Chan Sup Chang, "The Japanese Motor Vehicle Industry: A Study of the History of the Japanese Motor Vehicle Industry and the Impact of the Japanese Motor Vehicles on the U.S. Market (dissertation, American University, 1974) 60.

[829] Kosai, "The Beginnings of High-Speed Growth," 383.

[830] Chang, "The Japanese Motor Vehicle Industry," 61-63.

newspaper article about Lockheed's plant in Marietta, Georgia.[831]

Even more than Japan, Germany's experience of late modernization and fascist mobilization had left it with significant unused potential for the production of armaments, steel, and machinery. Despite wartime destruction and postwar dismantling, the nation's physical plant was largely intact (in 1948, gross fixed assets were still 11.1% higher than they had been in 1936).[832] In particular, Germany possessed capacity for capital goods unrivalled outside the U.S.[833] The Korean War boom generated intense demand for just these goods.[834] If Japan had its had *tokuju keiki*, Germany had *der Koreaboom*. The production restrictions imposed by the occupation were loosened in key export sectors like steel and chemicals then removed across the board. The index of industrial production (1936=100), which had been only 93 in early 1950, rose to 135 by 1951. [835] Growth was especially strong in the metals and machine building sectors. Though the heavy armaments production was restricted until 1955, West Germany did receive millions of dollars in offshore procurement contracts for ammunition and light arms.[836]

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[831] There are, to be sure, many contested origins stories. For the claim about Lockheed, see Kazuo Wada, *The Evolution of the Toyota Production System* (Singapore: Springer, 2020) 120. The primary text may be coverage of Lockheed's "supermarket" inventory system in "Self-Service Speeds Parts Handling," *Aviation Week*, Aug. 23, 1954, 38.

[832] Abelshauser, "West German Economic Recovery, 1945–1951," 32.

[833] Cristiano Andrea Ristuccia and Adam Tooze, "Machine Tools and Mass Production in the Armaments Boom: Germany and the United States, 1929-44," *The Economic History Review* Vol. 66, No. 4 (Nov 2013) 953-974.

[834] Reinhard Neebe, "German Big Business and the Return to the World Market after World War II" in Volker R. Berghahn, ed. *Quest for Economic Empire: European Strategies of German Big Business in the Twentieth Century* (Providence: Berghahn Books, 1996) 120.

[835] In iron and steel, the index rose from 37 in 1948 to 89 in early 1950 and 98 in 1951. For machine building, the index rose from 54 in 1948 to 179 in 1951. Production of chemicals in 1950 was just over the 1938 level, then increased 74.6 points by 1955. M.G., "The West German Coal and Steel Industries since the War," *The World Today* Vol. 8, No. 3 (Mar., 1952) Table I; Tamás Vonyó, *The Economic Consequences of War: West Germany's Growth Miracle after 1945* (New York: Cambridge University Press, 2018) Table 3.1, 90.

[836] Edwin Hartrich, "Cross-Purposes: One Allied Arm Wants to Arm Germany; Another Keeps It from Arming Itself," *WSJ*, Apr 16, 1953, 8.

Like Japan, the Korea Boom provided Germany with a distinct stimulus toward export-led growth. In August 1950, Chancellor Ludwig Erhard wrote in a latter that "a great opportunity for the future of German exports has arisen out of the current situation"—the opportunity to resume the export-led growth that had defined German capitalist development since the late 19th century.[837] Recent studies confirm that "the staggering growth of [German] exports during the 1950s was, above all, the consequence of the Korea Boom, when the value of exports increased by an astronomical 74 per cent within just one year."[838] The boom was not without its complications. At first, rising import prices caused balance of payments difficulties, but a fast-growing export surplus was restored second half of 1951.[839] As did Japan, Germany encountered bottlenecks in energy, but in meeting the challenge laid the groundwork for a consequential shift from coal to oil.[840]

Italy had a different economic profile than Germany or Japan. It did not possess the same strengths in capital goods or heavy industry, nor did American planners designate it as a pole of regional accumulation. But, like Japan and Germany, NATO analysts reported that "Italy, with

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[837] Erhard quoted in Julian Germann, *Unwitting Architect: German Primacy and the Origins of Neoliberalism* (Palo Alto: Stanford University Press, 2021) 69.

[838] Tamás Vonyó, *The Economic Consequences of War: West Germany's Growth Miracle after 1945* (New York: Cambridge University Press, 2018), 136.

[839] The balance of payments crisis is emphasized in Peter Temin, "The 'Koreaboom' in West Germany: Fact or Fiction?" *The Economic History Review* New Series, Vol. 48, No. 4 (Nov., 1995) 737-753. Temin manages to answer "fiction" by focusing narrowly on the year 1950. Temin further disregards the NATO rearmament, offshore procurement, and the stationing of U.S. troops in Germany, leading to artificially restricted claims such as "It is unlikely that materials to be used in Asia were purchased in Europe and particularly unlikely that any war-related goods were purchased in Germany." Even this conclusion is doubtful however. According to Alan Milward, "because of rearmament," the U.S. was "the second biggest market for German exports of metal-working machinery" in 1952. Presumably *something* made by those machines ended up in Asia. Milward, *The European Rescue of the Nation-state* (New York and London: Routledge, 2000) 139.

[840] Raymond G. Stokes, *Opting for Oil: The Political Economy of Technological Change in the West German Industry, 1945-1961* (New York: Cambridge University Press, 1994) 96.

her unused Industrial potential and over-population, needed a pump priming effort."[841] The unemployment problem was aggravated by the country's dual economic structure, split between the advanced industrial north and the impoverished agrarian south. 1951, seven million Italians worked in agriculture, 5.5 million in industry, and two million were unemployed.[842]

American planners found Italy's unemployment problem especially ominous because the labor movement remained overwhelmingly oriented toward the Communist Party (PCI).[843]

This gave offshore procurement (OSP) special importance: "the OSP program …has helped counteract Communist influence stemming from serious unemployment situation."[844] But the real significance lay beyond raw job creation. By refusing to procure from plants with leftist unions, the U.S. leveraged military orders to loosen the PCI's connection with its working-class base.[845] Tens of millions of contracts could be cancelled based on slight changes in plant-level shop steward committee elections.[846] OSP could even become part of the political business cycle.

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[841] Commander-in-chief, Southern Europe's Second Annual Report, 8/31/1953. NATO Archives online. Item SGM-1333-53. <http://archives.nato.int/commander-in-chief-southern-europes-second-annual-report>

[842] Michele Salvati, "The Impasse of Italian Capitalism," *New Left Review* I/76 (Nov/Dec 1972) 6.

[843] On American awareness of persistent of PCI support into 1950, Bent Boel, *The European Productivity Agency and Transatlantic Relations, 1953-1961* (Copenhagen: Museum Tusculanum Press, 2003) 149. By contrast "Belgium's relative lack of domestic Communists" reportedly limited its OSP contracts. Walter H. Waggoner, "Lag in U.S. Orders Pinches Belgium," *NYT*, Apr 27, 1956, 8.

[844] "Effects of Offshore Procurement and Other U.S. Programs Related to European Defense Production Activity on Labor, Productivity, Restrictive Practices and Cartels, Small Business, Private Investment, and Industrial Investment Guarantees," May 10, 1953. NARA RG 469, OSP. Box 3 Folder: OSP -Funds-Budget (Congressional Briefing Papers).

[845]In addition to OSP records in NARA RG 469, see the discussion of "Offshore Procurement as a Political Weapon" in Ronald D. Landa, "'Shots from a Luce Cannon': Combating Communism in Italy, 1953-1956" (Historical Office, Office of the Secretary of Defense, 2011) Declassified 2018. National Security Archive. <https://nsarchive.gwu.edu/document/22601-01-shots-luce-cannon-combating-communism>

[846] Henry Gaggiotitini, "$460 Million in U.S. Aid Given to Italian Plants," *Chicago Tribune*, Feb 6, 1955, 42. Around the same time, the U.S. calculated: "The ratio of Communist to non-Communist votes in shop steward elections in all Italy has moved in the last year and a half from 65–35 to about 50–50; while the ratio in industries having OSP contracts is about 60–40 in favor of the free labor unions." https://history.state.gov/historicaldocuments/frus1955-57v27/d122

In 1952, the American ambassador in Rome wrote to Harriman that "we all realized that offshore procurement, if begun early, could influence the critical Italian elections in the spring [1953]." The letter included specific estimates of the lag time this military Keynesianism would require to hit in time for the elections. Washington reassured him that "all here fully appreciate political importance of sizeable OSP program in Italy and, in view imminence of Italian elections, need for early contract placement if maximum political benefits to be derived from program."[847]

Italian representatives learned to invoke American concerns about communism in order to demand continued military assistance, even after the Korean War ended.[848] The ongoing targeted stimulus also contributed to the worsening fracture of the labor movement, so that relatively full employment could be achieved while simultaneously weakening the capacities of workers as a class. In 1951, 50% of Italian workers were united in a single labor federation. Ten years later, union density had fallen to 20%, a diminished total split among rival organizations.[849]

The connection between the Cold War and Italy's vigorous but inegalitarian growth miracle was reflected in the jerry-rigged housing complexes erected by Southern migrant workers outside of cities like Milan. Italians called these settlements *Coree* (Koreas), reflecting the period during which they began to appear and their resemblance to newsreel footage of Korean refugees.[850] If Italy's "Koreans" occupied inadequate housing at the same time their

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[847] 737. The Secretary of State to the Embassy in Italy, January 24 1953. *FRUS*, *Western Europe and Canada*, *Volume VI, Part 2*, No 737 <https://history.state.gov/historicaldocuments/frus1952-54v06p2/d737> See also documents 733 and 736, same volume.

[848] Telegram, The Minister in Luxembourg (Mesta) to the Secretary of State, January 19, 1951. *FRUS*, *European Security and the German Question, Volume III, Part I* <https://history.state.gov/historicaldocuments/frus1951v03p1/d241>

[849] Salvati, "Impasse of Italian Capitalism," 24fn21.

[850] The name came about because many such settlements emerged during the Korean War, but it may also reflect a comparison between the migrants and Korean refugees as seen on newsreels.

labor powered an export-led boom, their fate was not atypical: in Italy in these years, "Exports were the fastest-growing components of effective demand, and private consumption the slowest."[851]

By comparison with the former Axis, the former European Allies enjoyed fewer benefits. Though they suffered from unemployment and uncertain growth prospects in early 1950, neither France nor the U.K. had the significant banks of idle capacity found in Germany or Japan. Prewar levels of production had been recovered or surpassed by the time the war began.[852] Precisely because the victors had been allowed to keep their empires, their defense budgets were already high (6% of GDP in the U.K. and 7.3% in France) and their armaments industries busy.[853] As a result, the 1950 defense expansion came largely at the expense of alternative economic projects, rather than from the low-hanging Keynesian fruit of expanded production.

In the U.K., the most detailed history finds that "the large defence effort [of the early Cold War] hampered postwar recovery slightly."[854] The structure and scale of U.K. export production was oriented toward the captive markets of imperial trade bloc, not an integrated European market. Furthermore, British rearmament diverted much of the capital goods industry towards defense production. As a result, the European boom saw Germany pull further ahead of its old rival in exports (and capital goods exports in particular).[855] The war also took a bite out of

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[851] Salvati, "Impasse of Italian Capitalism," 10.

[852] Frances M.B. Lynch, "The Economic Effects of the Korean War in France, 1950–1952." Working paper, European University Institute, no. 86/253, 2.

[853] Lynch, "Economic Effects of the Korean War in France," 4.

[854] Till Geiger, *Britain and the Economic Problem of the Cold War: The Political Economy and the Economic Impact of the British Defence Effort, 1945-1955* (New York: Routledge, 2017), 325.

[855] Joseph Halevi, "The Political Economy of Europe since 1945: A Kaleckian Perspective." INET Working Paper No. 100 (June 2019) < https://www.ineteconomics.org/uploads/papers/WP_100-Halevi.pdf >

the welfare state. In 1951, Aneurin Bevan, the father of the National Health Service, resigned because his Labour colleagues funded rearmament with user fees for glasses and dental care.[856] For the French economy, likewise, "the three years following the outbreak of the Korean War were not successful ones."[857] Real incomes for workers in 1951 were lower than they had been in 1938. A wave of strikes was blamed on wartime inflation, which ran to around 10 percent. [858]

But in longer perspective, there were also benefits. France received almost half of all the value of offshore procurement contracts, greatly benefiting its domestic military industries.[859] In particular, the injection of American orders and technology-sharing allowed the aviation industry to modernize and become one of France's most competitive export earners.[860] U.S. financing likewise allowed Britain to sustain internationally formidable armaments and aviation sectors.[861]

Perhaps most crucially, the 1950 rearmament decision also coincided with crucial U.S. commitments to support the recalcitrant colonial wars being waged by the French in Indochina and the British in Malaya. Like Korea, both of these were territories where the dual experience of Japanese and Western domination had given anti-colonial nationalism a distinctly revolutionary character. The hardening of U.S. policy toward Northeast Asia— including the Japanese "reverse course," the purge of anti-KMT diplomats, and the Korean War itself—corresponded to

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[856] Geiger, *Britain and the Economic Problem of the Cold War*, 103-115.

[857] Like Geiger on Britain, Lynch sees the war as "highlight[ing] the underlying weaknesses of the French economy" rather than causing the problems. Lynch, "Economic Effects of the Korean War in France," 26.

[858] 157. Background Memorandum Prepared in the Department of State, March 1951. *FRUS, 1951, Europe: Political and Economic Developments, Volume IV, Part 1* <https://history.state.gov/historicaldocuments/frus1951v04p1/d157>

[859] Edward A. Kolodziej, *Making and Marketing Arms: The French Experience and Its Implications for the International System* (Princeton: Princeton University Press, 1987) 42.

[860] Ibid. 45-46.

[861] Edgerton, *Warfare State*, 230-235.

deepening concerns about Southeast Asian communism. American planners proved willing to put aside their considerable initial doubts that continued colonialism was desirable or viable.[862] U.S. support allowed the old Allies to continue their counterinsurgencies while limiting (though not eliminating) the economic squeeze on the metropole. While the empires held out, Asian rubber and tin continued to count as European "exports," strengthening the balance of payments with crucial dollar inflows as demand for raw materials surged during the war boom.[863]

Another crucial consequence of the war was the creation of the European Coal and Steel Community (ECSC), whose early history neatly illustrates the shift from fear of gluts to confidence in expanding markets. In May 1950, French foreign minister Robert Schuman had proposed transnational control of French and West German coal and steel. When talks began in June, participants believed the immediate problem would be glut. The coming of the war that very month shifted the problem to maximum expansion. The ECSC, created in 1951, reflected the rearmament balance of power. French proposals for weakening German heavy industry were abandoned, but France won its original goal of binding Germany within a transnational framework and delaying full German rearmament. Meanwhile, unleashed German production could now power the collective NATO rearmament and its attendant economic stimuli. As John McCloy explained to Harriman, "Since Germany's industrial potential and manpower reserves are still not fully used, it appears probable that the utilization of these facilities for the benefit of

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[862] Andrew Rotter, *The Path to Vietnam: Origins of the American Commitment to Southeast Asia* (Ithaca: Cornell University Press, 1988).

[863] In 1951, Malaya's rubber and tin provided two-thirds of the value of U.K. exports to the U.S. and Canada. Kevin Ruane and Matthew Jones, *Anthony Eden, Anglo-American Relations and the 1954 Indochina Crisis* (New York: Bloomsbury, 2019), *266n59*. For France, the benefits were more potential than actual. Richard Bissell testified that before WWII, "Indochina was one of the few countries which had a trade surplus with the United States, as a result of its sizable exports of rubber." By 1950, the costly struggle with the Viet Minh meant that the area developed a trade *deficit* with the U.S. *Hearings: To Amend the Economic Cooperation Act of 1948, as Amended* (Washington, DC: GPO, 1950) 86-88.

Western European defense would lead to a further economic expansion."[864]

All in all, the effects of the rearmament boom were crucial in forging a Keynesian empire led by the U.S. but sustained by regional circuits of accumulation in Western Europe and Japan. The notion of a Keynesian empire helps overcome a certain uncertainty in analyses of the golden age of capitalism. On the one hand, the golden age is often described as a "Keynesian" era across the advanced capitalist world.[865] On the other, outside of the U.S. and to some extent the U.K., these years saw governments follow fairly strict budgetary policy. Not until the mid-to-late 1960s did West Germany and Japan embrace deficit stimulus.[866] The circle can be squared by recognizing that the Korean War boom was the midwife of a particular kind of demand stimulus: one founded specifically on U.S. deficits and global export demand. This allowed the rest of the advanced capitalist world to expand while holding down wages and restraining fiscal policy.[867]

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[864] 7. The United States High Commissioner for Germany (McCloy) to the Secretary of State and the Director for Mutual Security (Harriman). *FRUS, 1950, Western Europe, Volume III, Part 2* <https://history.state.gov/historicaldocuments/frus1951v03p2/d7> Even earlier, Acheson had inquired whether "equipment deficiencies of Eur NAT countries, which cannot be met by them because they do not possess the necessary industrial capacity without diversions from civilian production which would jeopardize economic recovery, could be met by use of available industrial capacity in Western German without violating existing security prohibitions." 27. The Secretary of State to the Embassy in the United Kingdom, March 23, 1950. FRUS, 1950, Western Europe, Volume III, Part 2 <https://history.state.gov/historicaldocuments/frus1951v03p2/d7>

[865] For example, in Servaas Storm, "The Economics and Politics of Social Democracy: A Reconsideration" INET Working Paper No. 122 (April 27, 2020). < https://www.ineteconomics.org/uploads/papers/WP_122-Storm-Social-Democracy.pdf>

[866] Generally accepted turning points are 1965 in Japan and 1966-67 in Germany in 1966-67. Hall ed., *Political Power of Economic Ideas*, 264, 292.

[867] The same point has been made from a conservative, explicitly anti-Keynesian position: "the timing of the Korean War was certainly good fortune as it helped to *diminish the calls for more expansionary domestic policy* measures... *Unlike a domestically engineered macro expansion...most of the extra demand came from abroad* and therefore West Germany's reorientation toward a structure of production in line with the country's comparative advantages was hastened and not delayed or even distorted, as would have happened in the case of an unsustainable internal stimulus. After the Korea boom, *the stability-oriented macroeconomic policy of both the central bank and the federal government was no longer seriously questioned* for some time." Herbert Giersch, Karl-Heinz Paqué, and Holger Schmieding, "Openness, Wage Restraint, and Macroeconomic Stability: West Germany's Road to Prosperity, 1948-1959" in *Postwar Economic Reconstruction and Lessons for the East Today,* ed. Rudiger Dornbusch et. al. (Cambridge: MIT Press, 1993) 9.

In turn, export strength came to depend on holding down wages—a task for which the weakening of labor first by fascism, then by the deflation-restoration and the Cold War assault on left-wing unions was crucial. The radically new growth idea was introduced, and absolute living standards rose, while domestic social structures were maintained. No wonder they called it a miracle.

International military Keynesianism did not end after the ceasefire. U.S. military spending abroad did not reach its peak of the decade until 1958, when the figure hit $3.4 billion. Around 20% of this went to Japan, enough to fund fully half of Japan's imports from the U.S.[868] Since Japan was at the time the second largest U.S. export market, the import for the U.S. economy was significant. Procurement from Japan continued to run around $500 billion until the early 1960s, with the total for the decade of the 1950s coming to $5.6 billion.[869] In the NATO area, OSP spending did not peak until 1956, when the annual total was over $620 million.[870] Not until the turn of the 1960s would the flood of procurement contracts decelerate, just in time for the transition to full currency convertibility among Bretton Woods members in 1958. After a decade on military crutches, the corporate internationalist project would find its commercial legs.

The Empire of Extraction

Most of the world was not part of the advanced capitalist Keynesian empire. But for many of the countries of the global south, the Korean War years were also relatively good ones (obviously excluding Korea itself, where 10 percent of the population was killed). As the head of the UN Economic Commission for Asia and the Far East noted at the time, "The blunt and grimly paradoxical fact is that these [economic] improvements were based primarily on the

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[868] *Review of Foreign Policy, 1958: Hearings Before the Committee on Foreign Relations, Senate, 85th Congress, 2nd Session, Part I, Feb-March 1958* (Washington, GPO: 1958) 440.

[869] Borden, *Pacific Alliance*, 190.

[870] Jack Raymond, "U.S. to Increase Buying Overseas," *NYT*, Dec 20, 1957, 12.

impact of the Korean War."[871] For countries that mostly exported raw materials, the means to wartime prosperity was what another observer called "the wildest and most perplexing boom in international commodity history."[872] During the commodity disruptions of the 1970s (far better remembered today than the early 1950s episode), the Korean War commodity boom stood out to observers as the natural comparison from recent history.[873]

Defense production called for two major types of raw materials. There were fibers and foodstuffs, commodities derived from animals or plants: jute, cotton, wool, coffee. Production could be expanded relatively quickly in response to higher prices. Then there were minerals and metal ores, including tin, nickel, cobalt, and bauxite (for aluminum). Because production of these depended on expensive and time-consuming exploration and mining, it could be more difficulty to expand supply through short-term market forces. Thus, pressure on these commodities continued longer than it did in agricultural markets. One example was tungsten.[874] The number of tungsten mines in the U.S. continued to increase until 1955, and the government did not judge its strategic stockpile of tungsten "adequate" until 1957.[875]

Across Asia, the high prices of cotton, jute, rubber, and tin eased balance of payments

[871] Quoted in Rotter, *Path to Vietnam,* 206.

[872] Heinz Heimann, "The Return to Buyer's Markets," *Quarterly Review* [Skandinaviska Banken] (April 1953) 33.

[873] Angus Hone, "The Primary Commodities Boom," *New Left Review* I/81 (Sept/Oct 1973) 85; Richard N. Cooper and Robert Z. Lawrence, "The 1972-75 Commodity Boom," Brookings Papers on Economic Activity, 1975, no. 3 < https://www.brookings.edu/bpea-articles/the-1972-75-commodity-boom/>

[874] Incidentally, after the Chinese Revolution in 1949, Korea itself became the non-communist world's second largest tungsten producer. If this was not a major cause of the war, its importance was well known to American planners. Even before the war, South Korean tungsten mines were operated by the U.S. military government. "Korean Mined Tungsten is Going to Reds: Lax Stockpiling is Blamed." *Chicago Tribune*, Dec 26, 1947, 5; Cumings, *Origins* II, 146-150; Jonathan Marshall, "Opium, Tungsten, and the Search for National Security, 1940–52," *Journal of Policy History* (Oct 1991) 89-116.

[875] Jack R. Ryan, "700 Tungsten Mines In 1955–One Now," *NYT*, July 6, 1958, F1.

constraints and underwrote expanded consumption. Latin American producers could bank on minerals, crops, and fuels. There were political ramifications. James C. Scott suggested that it was no accident that "the high-water mark of machine politics in the new nations occurred in the mid 1950's when Korean War boom prices for primary exports underwrote high rates of growth."[876] In the remaining colonial outposts, the export windfall complemented counterinsurgency, perhaps most dramatically in British Malaya, where the quadrupling of rubber prices provided the material basis for the successful containment of a communist insurgency.[877]

In Germany and Japan, the war boom marked the beginning of a new model of the steadily expanding economy. But for commodity producers, the experience fit a familiar boom-bust pattern. Price volatility had always existed, but "the cold war and the conflict in Korea have made the swings much wider."[878] The boom did leave some developmental residues. In Pakistan the war invigorated sales of jute, cotton, leather, and wool. Export earnings more than doubled, allowing the new nation "to import capital goods for industrialization, arms and munitions for the armed forces, and consumer goods for a burgeoning urban middle class."[879] In British and French colonial Africa, "expanded earning from export agriculture…and mining wages,

[876] James C. Scott, "Corruption, Machine Politics, and Political Change," *The American Political Science Review* Vol. 63, No. 4 (Dec. 1969) 1158.

[877] Richard Stubbs, *Counter-Insurgency and the Economic Factor: The Impact of Korean War Prices Boom on the Malayan Emergency* (Singapore: ISEAS Publishing, 1974).

[878] John C. Perham, "Metal Meddlers: Raw Material Plenty Leaves the Planners Baffled," *Barron's*, Nov 9, 1953, 5.

[879] Tariq Omar Ali, *A Local History of Global Capital: Jute and Peasant Life in the Bengal Delta* (Princeton: Princeton University Press, 2018) 178. For another claim that "the Industrial Policy would have remained a paper dream without the Korean War," see Shahid Javed Burki, *Pakistan: Fifty Years of Nationhood,* Third Edition (New York: Routledge, 2018) 111.

facilitated by the Korean War boom" induced growth in local consumer manufacturing.[880]

But by and large commodity exporters found it difficult to turn the war boom into lasting prosperity. In Sri Lanka, the government responded to the postwar bust by cutting social programs and subsidies, nearly tripling the price of rice. The leftist opposition organized a nationwide strike in August 1953, which led to at least 21 deaths and, within two months, the resignation of the Prime Minister.[881] From Southeast Asia, came the report:

> Since the Korean war price 'boom' ended the terms and balance of trade have turned sharply against all the underdeveloped countries. This has contributed markedly to their internal instability and has enhanced the position of the Communist wing … Rightly or wrongly there is a widespread belief that the United States was directly responsible for the boom and bust.[882]

There was trouble in Washington's backyard, as well. In 1952, miners and peasants voting in Bolivia's first universal suffrage elections brought to power the *Movimiento Nacionalista Revolucionario* (MNR). According to historian Rosemary Thorp, the MNR intended "to use the nationalized tin sector for 'national autonomous development." But facing "international recession following the Korean War," the new government succumbed "to drastic stabilization and a shift to the right."[883]

On the eve of the war, Cuba (the world's largest sugar producer) found itself with million

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[880] Gareth Austin, Ewout Frankema, and Morten Jerven, "Patterns of Manufacturing Growth in Sub-Saharan Africa" in *The Spread of Modern Industry to the Periphery since 1871*, ed. Kevin Hjortshøj O'Rourke and Jeffrey Gale Williamson (New York: Oxford University Press, 2017) 354.

[881] *We Were Making History: The Hartal of 1953*, ed. Wesley S. Muthiah and Sydney Wanasinghe (Colombo: A Young Socialist Publication, 2002); Elliott L. Watson, "South Asia and the Cold War: Vice President Nixon's forgotten trip to Ceylon," *South Asian History and Culture*, 2:1 (2010) 37-54.

[882] 280. Memorandum by the Director of the Office of Philippine and Southeast Asian Affairs (Bonsal) to the Assistant Secretary of State for Far Eastern Affairs (Robertson), March 15, 1954. *FRUS 1952-1954, The Geneva Conference, Vol XVI* < https://history.state.gov/historicaldocuments/frus1952-54v16/d280>

[883] Rosemary Thorp, "The Latin American Economies, 1939–c. 1950" in *The Cambridge History of Latin America, Vol VI: Latin America since 1930, Part I: Economy and Society*, ed. Leslie Bethell (New York: Cambridge University Press, 1994) 117-158, here 151.

tons of unsaleable sugar (about one fifth of the total crop). Soon, a representative of the National Association of Sugar Mill Owners explained, "the Korean situation has solved completely any problem of a surplus this year."[884] The war boom led to increased planting and a record crop in 1952, which exceeded market demand. Worse, the post-Korean War sugar slump led U.S. sugar growers to successfully lobby for a reduction in Cuba's import quota. The decline of Cuban sugar weakened support for Fulgencio Batista and stirred industrial conflict that contributed to the growth of revolutionary sentiment.[885] Fidel Castro's failed attack on the Moncada Barrack on July 26, 1953 coincided exactly with the signing of the Korean armistice; when people heard the gunfire, they thought it was a celebration of the armistice.[886] In his famous speech from the dock, Fidel Castro referred to "twenty thousand small business men weighed down by debts, ruined by the crisis."[887] The reference is obscure today, but everyone listening in 1953 knew which crisis he was talking about.[888] The Cuban Revolution was an attempt to pull the emergency brake on an dynamic in which "War rather than peace …brought prosperity."[889]

The slide in commodity prices drew the attention of the Argentine development economist Raúl Prebisch. By the time he took charge of the UN's Economic Commission for

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[884] "Cuba's Sugar Excess Solved by Korean War," *Christian Science Monitor*, July 15, 1950, 12.

[885] Alan Dye and Richard Sicotte, "The U.S. Sugar Program and the Cuban Revolution," *The Journal of Economic History* Vol. 64, No. 3 (Sep. 2004), 673-704; Steve Cushion, "Cuban Popular Resistance to the 1953 London Sugar Agreement," in *Global Histories, Imperial Commodities, Local Interactions*, ed. Jonathan Curry-Machado (Basingstoke: Palgrave Macmillan, 2013) 168-185.

[886] Antonio Rafael de la Cova, *The Moncada Attack: Birth of the Cuban Revolution* (Columbia: University of South Carolina Press, 2007) 154-155.

[887] Fidel Castro, "History Will Absolve Me" (Oct 16, 1953) trans. by Pedro Álvarez Tabío & Andrew Paul Booth. Marxists.org <https://www.marxists.org/history/cuba/archive/castro/1953/10/16.htm>

[888] Between 1952 and 1953, Cuban per capita income fell 18 per cent, bringing it almost back to the level of 1945. Samuel Farber, *The Origins of the Cuban Revolution Reconsidered* (Chapel Hill: University of North Carolina Press, 2007) 29.

[889] Hugh Thomas quoted in Dye and Sicotte, "The U.S. Sugar Program," 697.

Latin America (ECLA) in 1950, Prebisch had already published his hypothesis that primary commodity exporters faced a secular deterioration in their terms of trade with industrial nations. But as his arguments gained wider circulation, they were updated to reflect the Korea experience. In a widely cited UN report, Prebisch framed his data around the years 1950 to 1961—dramatically heightening the demonstrated effect of collapsing terms of trade by using as the Korea boom years as a baseline.[890] Already at UN meetings in 1950 and 1951, delegates from Brazil and Egypt adapted Prebisch's arguments in order to demand protection against sharp wartime price fluctuations—proposals which anticipated the more comprehensive demand for a New International Economic Order (NIEO) in the 1970s.[891]

The U.S. contained its own peripheries, such as the Alcoa company town of Bauxite, Arkansas. Nearly all bauxite (an aluminum ore) mined in the U.S. came from Arkansas, where deposits had been discovered in the 1880s. During World War I, the first wartime aluminum boom left Bauxite, Arkansas with a distinct spatial organization. Managers lived on "silk-stocking row" and workers were segregated into camps with names like "Italy Farm, "Africa" and "Mexico." In slack times, workers were shed, camp by racialized camp. In 1932, when Depression hit, Mexican workers were "loaded into trucks and sent away," while black workers moved into the Mexico camp and the Africa camp was demolished.[892] In 1953, after the Korean

[890] Raul Prebisch, *Towards a New Trade Policy for Development* (New York: UNCTAD, 1964) < https://archivo.cepal.org/pdfs/cdPrebisch/121.pdf>. The choice of 1950 as a baseline was repeatedly criticized, see e.g., Harry G. Johnson, *Economic Policies Towards Less Developed Countries* (Washington, DC: Brookings Institution, 1967), 249-250.

[891] Craig Murphy, *The Emergence of the NIEO Ideology* (Boulder, CO: Westview, 1984) 45.

[892] Robert W. Keltner, "Tar Paper Shacks in Arcadia: Housing for Ethnic Minority Groups in the Company Town of Bauxite, Arkansas," *The Arkansas Historical Quarterly*, Winter, 2001, Vol. 60, No. 4 (Winter, 2001) 347.

War ended, the Mexico camp was "terminated."[893] The racialized camps in Bauxite were condensations of wider patterns. Throughout the West and Southwest, the post-Korean War recession was the occasion for "Operation Wetback," in which the U.S. federal government used military tactics to deport around one million residents of Mexican descent, many of whom had been recruited in order to meet the labor demands of the war boom. Among the rationalizations offered was the need to free up employment opportunities for returning (white) soldiers.[894]

Successive wars booms had left little developmental residue in Arkansas. In 1950, Arkansas's per capita income was only 56% of the national average—lower than in 1945.[895] Sid McMath, who became governor in 1949, attributed this to the state's quasi-colonial status. Like a Third World developmentalist, McMath sought to move Arkansas up the value chain by building local processing capacity (and the requisite public electrical power).[896] In 1951, under defense mobilization auspices, Alcoa did build a major new plant for extracting alumina in Arkansas, which continued to process imported bauxite even as the importance of local ore declined.[897] But as in Montana, McMath's efforts to tie economic development to anti-monopoly public capacity had been defeated: Arkansas got economic development but the large aluminum and private power companies kept control while enjoying public subsidy.[898]

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[893] Gordon Scott Bachus, "A Historical Analysis of the Socio-Economic Forces Which Shaped a Small Industrial Town in Arkansas" (unpublished master's thesis, Ouachita Baptist University) 78.

[894] "Editorial: Wetbacks, Cotton, and Korea*," The Nation*, May 5, 1951, 408; Kevin Starr, *Golden Dreams California in an Age of Abundance, 1950-1963* (New York: Oxford University Press, 2009) 447-448.

[895] S. Charles Bolton, "Turning Point: World War II and the Economic Development of Arkansas," *The Arkansas Historical Quarterly* Vol. 61, No. 2 (Summer, 2002), Table 1: Selected Indicators of Economic Change in Arkansas 1929-1990, 125.

[896] Sid McMath, *Promises Kept: A Memoir* (University of Arkansas, 2003) 253-254.

[897] "Alcoa to Build New Alumina Plant Near Bauxite, Arkansas: Unit Will Process Low-Grade Bauxite Ore, Boost Firm's Alumina Output by 50%" *WSJ*, Jan 22, 1951, 4.

[898] McMath, *Promises Kept,* 26.

If Arkansas was an internal periphery, U.S. Korean War mobilizers also regarded the world as a kind of global interior.[899] The ODM issued certificates of necessity for investments in the West Indies, Canada, Mexico, and South America.[900] Among these were facilities that enabled the U.S. to replace Arkansas bauxite with imports. Reynolds had led the way in January 1950 with an $11 million investment in Jamaica (since this was a U.K. colony, the project was actually funded by the Marshall Plan).[901] Bauxite mined in Jamaica might end up being processed in the new Anaconda plant in Montana, a state whose quasi-colonial experience with resource extraction had parallels in the global south. Montanans referred to Anaconda as simply "the company," a linguistic practice that mirrored Chilean references to "*la compañia*."[902] As post-Korea recession hit the Third World, Montana saw its biggest strike year since 1934.[903] Lumber workers struck across the Northwest, and Anaconda workers took part in an internationally coordinated work stoppage stretching all the way from Montana's Flathead Valley to Chile's giant El Teniente copper mine.[904]

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[899] A phrase borrowed from Megan Black, *The Global Interior: Mineral Frontiers and American Power* (Cambridge, Mass: Harvard University Press 2018). For the material most relevant to this period, see 125-132.

[900] Mueller, "Amortization of Emergency Facilities," 70.

[901] Stanley Kligfeld, "Indies Aluminum: Ore for America Gives Fillip to Jamaica's Rum-Sugar Economy Reynolds Metals Steps Up Mining of Huge Deposits: Has 'Private Point Four,'" *WSJ*, Aug 28, 1952, 1.

[902] Spritzer, "New Dealer from Montana," 172, 314. I am grateful to Georgia Whitaker for a discussion of the Chilean equivalent.

[903] Ann J. Herlihy and Daniel P. Willis, Jr. "Analysis of Work Stoppages During 1954", *Monthly Labor Review*, Vol. 78, No. 5 (May 1955), 538-545.

[904] "Workers Strike Anaconda's Copper Works in Montana," *WSJ*, Aug 24, 1954, 2. The struggles were connected by the Cold War more broadly. In 1948, just as the CIO was splintering, the multinational copper corporations and the U.S. state had pressured the Chilean government to pass a law restricting Communist participation in labor unions. Willem Morris, "Copper Democracy: An International Labor History of The Anaconda Company: 1945-1960" (Undergraduate thesis, Columbia University 2021) 7. On the history linking left-wing CIO unions such as Mine, Mill with older transnational radicalisms such as the Industrial Workers of the World, see Israel García Solares, "Striking Hard Rock Veins: Multinational Corporations and Miners' Unions in Mexico and the United States, 1906-1952," *Labor History* (2019) 1-15.

Peace and/or Prosperity

The Korean War wrought nearly incomprehensible destruction. In three years, over 3 million Koreans died, including at least 1.5 million civilians (out of a population of around 30 million). By comparison, Japan had lost 2.3 million people in the Pacific War. The U.S. dropped more tons of bombs on Korea than it had dropped in the Pacific Theater of WWII, or about as many as the RAF dropped on Germany.[905] In 1951, Air Force Maj. General Emmet O'Donnell told the Senate that "There were no targets left in Korea … Everything is destroyed. There is nothing left standing worthy of the name."[906] Somehow, the war continued for two more years. For all that, the new border between the two Koreas lay within ten miles or less of the line that Rusk and Bonesteel had picked on a National Geographic map in 1945.

The United States obviously suffered nothing comparable, but nearly 37,000 dead and 100,000 wounded and missing was bad enough. Truman's approval scraped 23%.[907] If anything, the economic boom made some people feel worse. Pollster Samuel Lubell reported that "surprising numbers of voters came to resent the prevailing prosperity as being 'bought by the lives of boys in Korea.'"[908] Spokesmen from both Republican factions denounced a "blood-stained prosperity" in which "you can't separate the cushy jobs from the corpses."[909] If voters

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[905] Cumings, *The Korean War,* 35, 159, 244.

[906] *Military Situation in the Far East: Hearings Before the Committee on Armed Services and Committee on Foreign Relations, U.S. Senate, 82nd Congress, 1st Session, June 1951* (Washington DC: GPO, 1951) 3063, 3075.

[907] Cumings, *The Korean War*, 35, 149.

[908] Samuel Lubell, *Revolt of the Moderates* (New York: Harper & Brothers, 1956) 60-1.

[909] The first quote is from corporate internationalist Thomas E. Dewey, the second from midwestern nationalist Everett Dirksen. "Dewey 'Shameful,' Fitzpatrick Asserts," *NYT*, Oct 23, 1952, 18; *Longines Chronoscope with Sen. Everett M. Dirksen*, May 7, 1952, at approximately 9' 30''. <https://www.youtube.com/watch?v=VJnie5LLgEE&ab_channel=PublicResourceOrg>.

really believed they faced "a choice of voting for war or hard times," then they risked depression by ending war.[910] Eisenhower's margin was decisive enough that no single cause can be credited. But 1952 should trouble any caricature of American workers trading blood for factory jobs.

Just as importantly, the election provided a reminder that the Republican Party had become the only nationally significant home for those interested in foreign policy restraint.[911] Henry Wallace voted for Eisenhower at least once.[912] The Democratic Party picked up on the pattern, charging that the Republican critique of military Keynesianism "parallels exactly the line of the Communist Party in America."[913] In 1952, this attempt to recapture the red-baiting card did not pay discernible political dividends. However, it foreshadowed the success of John F. Kennedy, a missile-obsessed admirer of Joe McCarthy.

Despite the unpopularity of the Korean War, over the rest of the 1950s, few Americans in 1957 would have challenged Alvin Hansen's conclusion that "Out of the Korean experience a great deal was learned, controversies over economic policies were softened, the economic climate was changed."[914] By implementing NSC-68, the state assumed a new role in organizing

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[910] Lubell, *Revolt of the Moderates*, 61.

[911] At the same time, we should bear in mind that Eisenhower's approach to negotiations included bombing North Korean dams and dikes and brandishing nuclear weapons. It was typical that the conservative critique of Cold War overextension was bound up with a frightening willingness to threaten "massive retaliation." Wells, *Fearing the Worst*, 231, 362; Cumings, *Origins* II, 101-102.

[912] John Nichols, *The Fight for the Soul of the Democratic Party: The Enduring Legacy of Henry Wallace's Antifascist, Antiracist Politics* (New York: Verso, 2020) 137-152

[913] "Dewey 'Shameful,' Fitzpatrick Asserts," *NYT*, Oct 23, 1952, 18. During the Korean War, Robert Taft "maintained contact with figures on the pacifist left," including socialists such as A.J. Muste and Norman Thomas. Despite keeping the option for a right-left coalition open, Taft and his forces found much richer domestic coalitional payoffs from embracing the Cold War. Fordham, *Building the Cold War Consensus,* 180.

[914] Hansen, *The American Economy,* 111.

investment. This stopped short of socialization, but by replacing uncertainty with guarantees it did help to "defeat the dark forces of time and ignorance which envelop our future."[915] The year 1950, declared *Business Week*, "dispelled most doubts about future demand." A stalemated social conflict gave way as "industry's views on expansion seem to be turning more into line with the Fair Deal's very own."[916] The growth idea had become consensual. Along with the militarized division of the Korean peninsula, this legacy endures today.

[915] This was Keynes' definition of "the social object of skilled investment." Keynes, *General Theory*, 155.

[916] "Expansion—One Way or Another," *Business Week*, September 23, 1950, 19-20, quote at 19.

Chapter 4: The Unquiet 1950s and the Failed Break with Military Keynesianism

Two great events have taken place recently. The death of Hitler and the death of Lord Keynes. It is difficult to decide which has put the greater scar upon the face of civilization. Measured in blood, the answer is Hitler. Measured in permanent suffering, the answer is Keynes, the leader of the invisible invasion of England and the United States. Keynes' philosophy was to abolish free society. –Roger M. Kyes (future Eisenhower Deputy Secretary of Defense), Detroit, 1946

The deficit can be any size, the debt can be any size, provided they don't cause inflation. Everything else is just talk. – John F. Kennedy, 1962

The 1950s are remembered as a time of peaceful prosperity and ideological consensus, particularly on questions of political economy. Yet the decade after the Korean War was marked by intense ideological and social conflict as well as faltering aggregate demand and stunted growth.[919] Both the ideological debate and the economic trends were defined by military Keynesianism. From 1953 on, Dwight Eisenhower and his business constituency sought to establish "a prosperity not based on war."[920] Eisenhower reduced defense spending nearly 15% from its 1953 peak. The results were decidedly mixed. A post-Korea recession was followed by an impressive civilian recovery, followed by two more recessions and deepening stagnation. While balanced budgets failed to pay off macroeconomically, Eisenhower's defense cuts terrified

[917] "This World of Ours" – Given at Detroit, May 1946, 9-10. Roger M. Kyes and Kyes Family Papers, DDE Library. Box 34, Folder: [Speeches – Roger M. Kyes,] "This World of Ours" Given at Detroit – May 1946."

[918] As recalled by James Tobin. Council of Economic Advisers: Walter Heller, Kermit Gordon, James Tobin, Gardner Ackley, Paul Samuelson, recorded interview by Joseph Pechman, August 1, 1964, (Appendix A, Note 1). John F. Kennedy Library Oral History Program. <https://www.jfklibrary.org/sites/default/files/archives/JFKOH/Council%20of%20Economic%20Advisers/JFKOH-CEA-01/JFKOH-CEA-01-TR.pdf>

[919] Historians have begun to rediscover the economic malaise of the 1950s, a phenomenon that was extremely well recognized by contemporaries: David Stein, "Inflating Fears, Fearing Inflation"; Krisotoffer Smemo, Samir Sonti, and Gabriel Winant, "Conflict and Consensus: The Steel Strike of 1959 and the Anatomy of the New Deal Order," *Critical Historical Studies* vol 4, no 1 (Spring 2017) 39-73; Clark, *Disruption in Detroit*; Elrod, "Stabilization Politics in the Twentieth-Century United States." I discuss the periodization at greater length in my review of Clark, published as Tim Barker, "From a Golden to a Gilded Age," *New Labor Forum* vol 30 no 2 (Spring 2021).

[920] W.H. Lawrence, "Eisenhower Gives 10 Points to Assure Prosperous Peace," *NYT*, Aug 6, 1952, 1.

Americans with an interest in either procurement contracts or the maintenance of armed global supremacy primacy in a context of Soviet advances in space technology and revolutionary transformations across the formerly colonial world.

This conjuncture—defined by fiscal retrenchment, economic stagnation, and an apparent loss of geopolitical initiative—defined the terms of political opposition. Eisenhower's domestic rivals, many of them veterans of the NSC-68 rearmament, seized the opportunity to reconsolidate the military Keynesian formula. Running for president during a recession, John F. Kennedy displayed unprecedent frankness in his willingness to combine the themes of the "missile gap" and the "output gap." As he told a crowd of aircraft workers in upstate New York, "I think we can use defense contracts to strengthen the economy as well as strengthen the country."[921] The Republican candidate—Eisenhower's vice-president Richard Nixon—did the same thing, visiting aircraft hub Fort Worth on the eve of the election to assure voters that "no state in the union has done a better job than the state of Texas on defense contracts and certainly Texas is going to get its fair share—you can be sure of that—under my administration."[922]

There is clearly a discontinuity between Eisenhower, who balanced the budget at the cost of recession, and Kennedy, whose aides considered him "the first Keynesian president."[923] But the appearance of continuity in these years is not wholly illusory. Even as budgets went up and down, and ink ran red and black, two things remained true. First, the U.S. remained committed to

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[921] John F. Kennedy, Remarks of Senator John F. Kennedy, Bell Aircraft Co., Niagara Falls, NY, Sept 28, 1960. Online by Gerhard Peters and John T. Woolley, The American Presidency Project https://www.presidency.ucsb.edu/node/274734

[922] Richard Nixon, Remarks of the Vice President, Burk Burnett Park, Fort Worth, TX. Nov 4, 1960. Online by Gerhard Peters and John T. Woolley, The American Presidency Project https://www.presidency.ucsb.edu/node/273737

[923] Arthur Schlesinger, Jr., *A Thousand Days: John F. Kennedy in the White House* (New York: Houghton Mifflin, 1965), 630.

a Cold War posture of global military primacy—a position that was only established definitively with Eisenhower's 1952 defeat of the conservative nationalist Robert Taft for the Republican nomination. Second, the U.S. remained committed to a domestic policy of economic stabilization without social democracy. This domestic "containment" also scored an important victory in the 1952 election, which saw Eisenhower focus intently on dismantling the centralized state economic power that had been built up between the New Deal and the Korean War. Domestic containment notched a further accomplishment after the 1960 election, when John F. Kennedy was forced to shelve any ambitions for large-scale social spending in favor of military spending.

The two elections add up to a cascading consolidation of the basic corporate internationalist position: in 1952, Republicans retook the White House for the first time in two decades, but their "isolationist" wing was clipped; in 1960, Democrats retook the White House on a platform of fiscal expansion, but were compelled to shelve any ambitions for large-scale social welfare spending or non-military public investment. As late as 1962, even tax cuts (ostensibly a business-friendly variant of fiscal expansion) remained subordinated to defense spending as the principal form of American demand management.

Eisenhower attempted to break with military Keynesianism, but he continued the status quo by refusing to offer an alternative program of activist fiscal policy in its place. The years between 1952 and 1962, thus, were marked by sharp division but also united by the absence of a social Keynesian alternative. Americans at the polls could choose between clearly distinct fiscal philosophies, and in the case of 1960, Richard Nixon, the candidate favored by most of organized business, lost to Kennedy, whose key support came from farmers and industrial workers and their families. Despite this democratic contestation, voters never encountered a Keynesian option on the ballot that was not joined at the hip to Cold War militarism and even

escalation. Understanding this episode allows us to understand the post-1945 era as a period which was simultaneously more sharply divided than we have remembered, but nonetheless characterized by a dynamic equilibrium around the core imperatives of obstructing public economic power and maintaining world leadership.

The Stakes in 1952: Containment at Home and Abroad

Given Eisenhower's enormous personal popularity, both in his own time since, it is easy to forget that he might not have run for president. The group that did most to recruit him came from a specific social location, namely the corporate internationalist elite. They were motivated above all by opposition to Robert Taft, the "isolationist" who would surely win the GOP nomination if Ike did not run. In 1951, Lucius D. Clay, former US military governor of Germany turned CEO of the Continental Can Company, wrote to his friend Eisenhower, "We cannot let the isolationists gain control of government if we are to endure as a free people over the years." Soon Clay was organizing other leading corporate internationalists into Citizens for Eisenhower, independent of the Taftite GOP machinery.[924]

Naturally, the interest that Eisenhower and Clay shared in Europe flowed more from their military experience than their business concerns. Even for internationalists with a more purely commercial outlook, investments in Europe remained mostly notional.[925] But it was significant that the impetus and organizational muscle for the Eisenhower campaign came from corporate internationalists. It was Thomas Dewey who originally implored Clay to implore encouraged Eisenhower to run. Here was a chain running from a Wall Street lawyer (Dewey) to a military

[924] Among the leaders were Sidney Weinberg of Goldman Sachs; Stanley Rumbough of Colgate-Palmolive; Walter Williams of the CED; and John Hay "Jock" Whitney, the Mayflower scion, venture capitalist, and publisher of the *New York Herald Tribune*. Hitchcock, *Age of Eisenhower*, 55-6.

[925] According to Mira Wilkins, 1951-52 was just when "U.S. businessmen renewed their interest in the possibilities of investment in manufacturing in western Europe to fill the demands of these markets—demands that exports from the United States failed to fill." Wilkins, *Maturing of Multinational Enterprise,* 311.

hero (Eisenhower), routed through a military figure turned business executive (Clay). The association was lubricated not only by social proximity at the Business Council and the golf course, but also by an affinity between corporate interests in Europe and the Army's specific interest in conventional forces (such as the divisions now stationed in Europe) as opposed to the Asia First, sea and air power strategic orientation associated with Taft and MacArthur.

For Clay and Eisenhower, whose soldiers had died liberating Europe, strategic interest in the continent could hardly be a mask for economic concerns. Perhaps Dewey's beliefs about security were just as sincere, but some voters still suspected him of representing Wall Street. Eisenhower—the universally admired winner of WWII—represented the same internationalist position much more convincingly.[926] Within the matrix of state power, the military (or even the Army) constituted a relatively autonomous level with its own particular history, materiality, and interests. Military interests were articulated with, but distinct from, the interests of other groups within and beyond the state. The distinction between the military and the leading fractions of capital could create conflict within the state, but the nonidentity of forces was also generative. In this case, it was precisely Eisenhower's distance from internationalist capital that allowed for the triumph of Cold War internationalism on a mass basis in 1952.[927]

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[926] Two anecdotes recounted by Samuel Huntington capture something of this dynamic. In 1926, GE's Owen Young said that a president of the newly formed Radio Corporation of America (RCA) should be "should not have been previously identified with politics" and *"should not have been identified with Wall Street or the money interests because it is important that the American people should accept* the Radio Corporation as an organization *for service to American interests both at home and abroad* rather than as an organization primarily to make a profit for Wall Street interests." Since Young also wanted someone with "administrative experience" who could "speak with authority…to foreign governments," the requirements dictated a military man: James Harbord, who had been Pershing's chief of staff in France. In 1945, GM president Alfred Sloan's proposed to add Gen. Marshall to the board of directors, because *"recognizing the position he holds in the community* and among the government people and the acquaintance he has…*it might offset the general negative attitude toward big business, of which we are a symbol* and a profitable business, as well." Samuel P. Huntington, *The Soldier and the State: The Theory and Politics of Civil-Military Relations* (Cambridge, Mass: Harvard/Belknap, 1957) 363. Emphases added.

[927] The language in this paragraph is borrowed from Nicos Poulantzas, *State Power and Socialism* (New York: Verso, 2001) 127-139. It should not be particularly controversial that the military was only *relatively* autonomous from capital. During WWII, Clay relied on corporate managers to produce armaments; during his presidential

Domestic concerns were also crucial for the businessmen supporting Eisenhower. After all, this group included several notable defectors from the Democratic Party, which remained solidly internationalist. Perhaps most significant was Sidney J. Weinberg of Goldman Sachs, the very picture of a New Deal capitalist: the son of Polish Jewish immigrants and a non-Morgan banker with extensive ties to multinational and mass consumption industries. In 1932, Weinberg "raised more money for Roosevelt than any other man in Wall Street."[928] After FDR's election, Weinberg organized the Business Advisory Council to the Department of Commerce, bringing capitalists like Gerard Swope of GE and Averell Harriman into regular contact with the Commerce Department. He remained an insider's insider through the World War II and Korean War mobilizations. Yet in 1952, Weinberg became the treasurer of Citizens for Eisenhower.[929]

Another example, representing another wing of the Roosevelt coalition, was Amon G. Carter, a Texan who shared Weinberg's plebeian origins. The core of Carter's business interests lay in newspapers, radio, and eventually Texas' first TV station. He used his media platforms and political connections to attract airlines, aircraft manufacturers, and oil companies to Fort Worth.[930] In 1944, Carter and Weinberg were both charter members of the Air Power League, a lobbying organization which represented their shared interests in not just aircraft manufacturing but U.S. world leadership and the big government that all this required. Carter had provided

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campaign, Eisenhower relied on Wall Street money and organizational capacities as a readymade alternative to the Taftite GOP machinery; as president, Eisenhower's domestic and foreign policy goals depended on private investment which he could not (and did not want to) compel. Koistinen, *Arsenal of World War II,* 507-508; "It Takes Strategy and Money to Make Presidents," *Business Week*, Dec 8, 1951, 88-96; McClenahan and Becker, *Eisenhower and the Cold War Economy*, passim.

[928] "Sidney Brings Them In," *Business Week* (Jan. 27, 1951) 89-92, quote at 90.

[929] Back in 1940, Weinberg had also put together a Democrats for Willkie organization: "I didn't think any man should serve more than two terms. I was getting a little tired, too, of all the New Deal things." The coming of war restored his relationship with FDR. Studs Terkel, *Hard Times*, 73.

[930] Brian A. Cervantez, *Amon Carter: A Lone Star Life* (Norman: University of Oklahoma Press, 2019)

important support to Roosevelt and to Truman in 1948. But in 1952, Carter's *Star-Telegram* was the first newspaper in Texas to endorse Eisenhower. Ike thanked him, noting "that it takes courage in the South to go full out for any other than an avowed Democrat."[931]

Why would Carter and Weinberg, lifelong Democrats and precocious and backers of Roosevelt, switch in 1952? Why change horses in the middle of what historians have supposed to be a very placid stream? Understanding the stakes of the defections will illuminate the political controversies that continued to roil American politics even in the 1950s, supposedly the height of consensus. Many of their problems turned on the question of state control of productive economic activity. Weinberg had been on the opposite side of the Truman administration on several key fights, including the 1951 Fed-Treasury Accord (which increased the power of unelected central bankers, and through them, the private financial community) and the 1952 steel seizure.[932] As a director of BF Goodrich, Weinberg would also have been focused on continued government ownership of the synthetic rubber industry.[933] These were existential issues, as Weinberg explained in a speech few years later:

The struggle between public and private electric power is a struggle between socialist and

[931] Eisenhower to Carter, Letter re: Eisenhower article. Carter Papers, TCU, Box 072, Eisenhower, General Dwight D. 1952 1 of 3 folder, Item 019 <https://amoncarter.tcu.edu/records/tcu:24977>

[932] According to *Fortune*, Weinberg "was behind the scenes in effecting the historic Federal Reserve-Treasury Accord, which put an end to the inflationary support of the government bond market." Robert Sheehan, "Let's Ask Sidney Weinberg," *Fortune* (Oct 1953) 173-4, 206-218; quote at 210. On steel, see "The Last Days of Charlie Wilson" Fortune (June 1, 1952) 85-6, 222-4 [detail at 224]; William O. Douglas, *Go East, Young Man*, 292-93.

[933] Goodrich president John Collier had been a leading advocate of the initial government finance for synthetic rubber and for the early reversal of "socialization" in the industry. Weinberg was among Collyer's "most senior " collaborators at Goodrich, with an interest beyond attendance at board meetings. Mansel G. Blackford and K. Austin Kerr, *BFGoodrich: Tradition and Transformation, 1870–1995* (Columbus, OH: Ohio State University Press, 1996), 196; Daniel J. Berkhout, *The Military-Industrial Complexes of WWII| Research Facility Expansion and Product Diversification at B.F. Goodrich and the Largest U.S. Industrial Manufacturers, 1941-1960*, (dissertation, George Washington University, 2017) 80-81, 111.

> capitalist convictions, no matter how the opponents describe themselves. And that same battle is now underway in the new atomic power industry."[934]

Amon Carter had similar concerns. He was angered by the labor unrest of 1945-6, complaining directly to Truman about the UAW's demands to "open the books" during the GM strike.[935] He likewise objected to Truman's brief seizure of the steel industry, writing to Lyndon Johnson: "Sooner or later, we are going to have to find out whether the CIO is ruling the country or the President and Congress."[936] But he was especially angry at Truman's reluctance to privatize the so-called "Tidelands" – offshore oil reserves. Here too there was a defense connection: Truman cited "national security" as a reason to maintain federal ownership.

Essentially, businessmen like Weinberg and Carter were demanding the privatization of what remained of the publicly-owned warfare state. One major reason for doing so was to limit the economic power of a federal government which, they believed, was dangerously responsive to organized labor. Business was also concerned that current levels of government spending would cause inflation. This would not only erode the value of debts and threaten the international status of the dollar. More existentially, business also believed that inflation would eventually call forth increasingly comprehensive government controls that threatened the future of free enterprise. As Philip Reed of General Electric put it, "If a Democrat is returned to office in November, we shall have a 25-cent dollar within 5 years, and God knows what else."[937]

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[934] Sidney J. Weinberg, "The Challenge to Private Enterprise," remarks by Mr. Weinberg in accepting the 1957 Public Service Award from the Advertising Council at the Annual Dinner of the Council, New York City, Dec. 2, 1957, *Commercial and Financial Chronicle* (Dec 5, 1957) 6, 10.

[935] Carter to Truman, Dec 24, 1945. Telegram re: General Motors. Carter Papers, TCU. Box 214, Truman, Harry S. 1945-1946 Folder, Item 013 < https://amoncarter.tcu.edu/records/tcu:51767>

[936] Carter to LBJ, Letter re: Tidelands Bill, May 1, 1952. Amon G. Carter Papers, TCU. Box 112, Johnson, Lyndon B. 1951-1952 folder, Item 055 <https://amoncarter.tcu.edu/records/tcu:26001>

[937] Quoted in Jessica E. Martin, "Corporate Cold Warriors: American Business Leaders and Foreign Relations in the Eisenhower Era" (dissertation, University of Colorado, 2006), 52.

These lofty concerns about preserving the American economic order existed in an ideological field that also contained widespread concern about the apparently extensive personal corruption in the Truman administration. While unsurprising given Truman's background in Kansas City machine politics, the sheer number of scandals—along with Truman's stubborn defense of old cronies when they got caught—proved alarming.[938] Despite various attempts to rehabilitate Truman's reputation, historians have provided considerable support for the clouds of suspicion around the administration.[939] It would have been odd if military procurement was not given the Kansas City treatment, and indeed scandals proliferated in this sphere as well.[940] Thus, the business backlash against military Keynesianism in the 1952 election mixed concerns about corrupt favors and larger concerns about the structure of the American economy. The scandals also created a common ground between the Taft-McCarthy wing of the GOP, which saw outright treason in the Truman administration, and the corporate internationalist wing, which saw a pervasive betrayal of the public interest. North Dakota Senator Karl Mundt, a staunch McCarthyite, summed up the strategy in 1952: "K^1C^2"—Korea, Communism, and corruption.[941]

Though it is rarely recognized as such, the 1952 election was a local turning point in the history of the New Deal order.[942] Instead, Eisenhower is nearly always seen as someone who

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[938] Andrew J. Dunar, *The Truman Scandals and the Politics of Morality* (University of Missouri Press, 1984).

[939] Jonathan Marshall, *Dark Quadrant,* 21-74. On Truman's personal corruption, see Paul Campos, "The Truman Show: How the 33rd president finagled his way to a post–White House fortune — and created a damaging precedent." *New York Magazine,* July 24, 2021 < https://nymag.com/intelligencer/2021/07/the-truman-show.html>

[940] For a hostile right-wing treatment based on information from Congressional inquiries, see the chapter on "Influence Peddling in Defense Work" in Jules Abels, *The Truman Scandals* (Chicago: Regnery, 1956) 263-282. Covering some of the same scandals is Dunar, *Truman Scandals and the Politics of Morality*, 40-77.

[941] William Hitchcock, *Age of Eisenhower*, 74.

[942] According to Walter Dean Burnham, "a 'mini-realignment' occurred within the New Deal system between about 1948 and 1952," reminiscent of earlier intra-systemic transitions in 1873-1880 and 1910-1916. Bruce Cumings calls it a "critical election." Burnham, "System of 1896," 170; Cumings, *Dominion from Sea to Sea,* 347-352.

accepted the framework of the New Deal and thereby made it durable. Indeed, Eisenhower was significant in his support for the internationalist foreign policy that had been pioneered by the Democratic Party. He also accepted elements of the New Deal's domestic legacy, including social insurance, trade union legality, and automatic fiscal stabilizes. But neither Ike nor his corporate supporters believed that those measures were all there was to the Roosevelt-Truman legacy. Rather, they saw a continuing threat from state control of major productive processes. This was not a hallucination: government ownership and control had been part of the vision of many New Dealers, and it became real during World War II and Korean War mobilizations. Privatization the key issue for business in the 1952 election, which should be remembered as a major step on the road away from the New Deal rather than a simple vindication of FDR.

Given the unpopularity of Truman and the Korean War, beating the Democrats was easy. Harder was doing it without elevating Robert Taft, seen by many as the natural Republican candidate. The Taft supporters (referred to as the party "regulars") who controlled the party machinery believed that Northeastern Wall Street-backed candidates had been losers them in 1940, 1944, and 1948. They saw Eisenhower as an extension of this record of failure.[943] It was still much closer than most people remember. Even with Eisenhower's enormous personal popularity, Taft won almost 800,000 more votes in the primaries, setting the stage for a bitter Republican convention in Chicago (a Taft stronghold) in July 1952. Eisenhower prevailed only through parliamentary wrangling that stripped 42 southern delegates from Taft. The dispute was settled by a resolution that passed 658 to 548. The closeness of his loss led the Ohioan complained that "Every Republican candidate for President since 1936 has been nominated by

[943] For a typical nationalist reading of Eisenhower that links him to the wing of finance capital that had also collaborated with Roosevelt and Truman, see Walter Trohan, "Wall Street's Power on Rise in Washington: Reins Taken Over from Early New Dealers," *Chicago Daily Tribune*, Jun 25, 1951, 8

the Chase Bank."[944] More than a decade later, Phyllis Schlafly's *A Choice, Not an Echo* (a wildly popular text for the Goldwater movement) recounted this same anti-Wall Street narrative of the 1952 convention in a chapter called "The Big Steal."[945]

Taft's defeat—and his death the next year—marked midwestern nationalism's last thrust at national hegemony. The successive electoral triumphs of the New Deal-Fair Deal coalition had reduced the once-dominant System of 1896 to a residual formation, but it took the intra-Republican triumph of internationalism in 1952 to ensure that the Taft formation would never again make a thrust for national power. In its place emerged what Bruce Cumings calls "an uneasy coalition between eastern Republicans … and a newly rising western Republicanism."[946] 1952 was the first election in which California had more electoral votes than Ohio. Californian Nixon was nominated for vice-president by Oakland's William Knowland. Eisenhower became the first Republican since Hoover to carry Texas, where Ike had been born. The rise of Western Republicanism was politically significant, since representatives from this region recognized the economic importance of military spending and also entertained their own version of Pacific-oriented internationalism. By incorporating them, and by making new gains in the South under Eisenhower, the Republicans began to coopt the regional periphery that had been essential to the New Deal coalition and which had underwritten Truman's surprise victory in 1948.

But Cumings' claim that 1952 achieved "the silencing of a principled Republican fiscal conservatism" represented by Taft must be qualified.[947] Midwestern manufacturers were an

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[944] Quoted in Sidney Blumenthal, *The Rise of the Counter-establishment The Conservative Ascent to Political Power* (New York: Union Square Press, 2008) 75.

[945] Phyllis Schlafly, *A Choice Not an Echo* (Alton, Illinois: Pere Marquette Press, 1964) 52-68.

[946] Cumings, *Dominion from Sea to Sea*, 347

[947] Cumings, *Dominion from Sea to Sea,* 349.

important part of Eisenhower's governing coalition and powerfully influenced the administration's approach to the fiscal politics of defense. Even during the primary campaign, Eisenhower drew support from figures like "Little Steel" operator Ernest Weir, a classic midwestern business nationalist who rejected the National Labor Relations Act and opposed the Marshall Plan. Weir feared that Taft was unelectable, and that therefore Eisenhower was the only person who could save the U.S. from socialism.[948] After the campaign, Eisenhower reached out to Taft personally and appointed Taft supporters to try to bolster his relations with that wing of the party, which remained influential in Congress after the elections of 1950 and 1952.[949]

Eisenhower also leaned naturally more toward industrialists than investment bankers, though he got along with both. It was not lost on Ike that his cabinet picks represented distinct social groups. Before selecting General Motors head Charles E. Wilson as his Defense Secretary, Eisenhower told an aide, "We have tried two investment bankers [James Forrestal and Robert Lovett], a politician [Louis Johnson] and a military man [George C. Marshall]. Maybe we should try an industrialist."[950] Lovett, one of the impugned, made the same distinction from the opposite perspective, criticizing Wilson for trying to run the Pentagon like a "General Motors type of organization." The Pentagon, Lovett thought "has little or no relationship to either a commercial or industrial enterprise and it suffers badly when attempts are made to torture it into conformity with some personalized management concept."[951]

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[948] McQuaid, *Big Business and Presidential Power*, 171.

[949] Cox and Skidmore-Hess, *U.S. Politics and the Global Economy,* 88.

[950] Jordan, *Robert A. Lovett*, 194.

[951] Lovett to Paul Y. Hammond, May 16, 1960, Lovett Papers, Series 1, Box 11, Folder 126.

The most important figure here was Treasury Secretary George Magoffin Humphrey, born in 1890 and even in 1952 a living embodiment of the System of 1896. Reared in Saginaw, Michigan, Humphrey joined the Cleveland-based M.A. Hanna Company in 1918 and became president in 1929.[952] The original core of the Hanna Company was shipping coal and iron ore around the Great Lakes, but under Humphrey it expanded into new territories and product markets. The business interlocked with strident anti-New Deal forces including Little Steel and the Pittsburgh-based Mellon complex.[953] Humphrey considered the Wagner Act unconstitutional and supported every one of Taft's national campaigns. Yet he maintained effective ties with the centrist wing of business, participating in the CED and in Marshall Plan-era surveys of German industry (where he met Lucius Clay, who would later recommend him to Eisenhower).

Humphrey's fiscal politics were decidedly pre-Keynesian, and he made no exception for defense spending. At an early NSC meeting, Humphrey declared: "The money and resources required by the great security programs which had been developed since Korea to the present time simply could not be borne by the United States unless we adopted essentially totalitarian methods."[954] This perspective was shared by other midwestern businessmen in the administration, such as Defense Secretary Charles Erwin Wilson (president of General Motors) and Budget Director Joseph Dodge (chairman of the Detroit Bank and Trust and architect of

[952] Marc Hanna had been McKinley's chief fundraiser in the 1896 struggle against W.J. Bryan.

[953] Specifically, Weirton Steel. Edie Black and Fred Goff, "The Hanna Industrial Complex: Part II: The Humphrey Establishment," *NACLA Newsletter* (1969).

[954] Memorandum of Discussion at the 138th Meeting of the National Security Council, Wednesday, March 25, 1953. FRUS <https://history.state.gov/historicaldocuments/frus1952-54v02p1/d52>

Japan's pre-1950 austerity). As his deputy, Wilson brought with him Roger M. Kyes, the GM vice-president who had once said that Keynes caused more "permanent suffering" than Hitler.[955]

The nationalist influence on foreign policy was also clear in Eisenhower's continued deference to Joseph McCarthy and his supporters. Nitze was blackballed from even a minor post in the new administration and McCloy blocked from becoming Secretary of State. Despite being cleared by Eisenhower, Nitze and McCloy were seen as Achesonian "Wall Street operators" by figures like Knowland, Taft, and McCarthy.[956] The epithet was mostly symbolic, since Dulles himself was a Wall Street lawyer. But the personnel decisions confirm the residual influence of nationalists in the Republican party and contributed to an intangible change of atmosphere in Washington. In December 1953, Richard Bissell wrote to a friend that "Washington is a fairly depressing place for most of the people who were working here a year ago and indeed for anybody who is as concerned with American weakness and with the threat of war as all of our former colleagues are." Bissell had "the impression that this crowd [the Eisenhower administration] is so intent on budget cutting that they are much more interested in reducing and withdrawing from U.S. commitments abroad than in overcoming some of the glaring and dangerous weaknesses in our position that concerned all of us only a year ago. It is hard for me to see how this direction of policy can fail to exert a deeply depressing influence in Europe."[957] Feeling exile, these policy planners—some of them erstwhile Republicans—would ally with the

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[955] "This World of Ours" – Given at Detroit, May 1946, pp. 9-10. Roger M. Kyes and Kyes Family Papers, DDE Library. Box 34, Folder: [Speeches – Roger M. Kyes,] "This World of Ours" Given at Detroit – May, 1946

[956] Wise Men, 570-571. Recall that Acheson himself had originally derided Nitze as a "Wall Street operator." Cf. "Acheson Policy Boss in Line for Defense Post: Planned Big Spending for Truman, Edwards, Willard." Chicago Tribune, 13 June 1953, 14.

[957] Bissell to William N. Dale, December 18,1953. Bissell Papers, DDE Library. Correspondence Box 3, Reading File July-December 1953 (1).

Democratic opposition. Nitze, a confirmed trans-partisan who had abandoned the New Deal after FDR's court packing scheme, reaffiliated with the Democrats in 1952.[958]

The nationalists also received representation within the top military leadership. As chairman of the Joint Chiefs of Staff, Eisenhower named Admiral Arthur W. Radford, who had advocated expanding the Korean War into China and who remained a close ally of Douglas MacArthur. Radford's appointment ensured that the right-wing "Asia First" constituency (which increasingly made common cause with the Navy, which had its own interest in emphasizing the Pacific theater) remained represented at the highest levels. Radford, though protective of the Navy, was supportive of cuts in overall defense spending (and even more supportive if they could be taken out of the Army). Radford also advocated a specific right-wing cost-cutting measure in which anti-Communist Asian armies would be unleashed to take the war to China without involving white soldiers in a land war. Eisenhower did not take him up on this, but the basic idea was reflected over a decade later in Nixon's strategy of "Vietnamization."[959]

Economic Consequences of the New Look

Eisenhower's campaign promises to cut defense spending became reality in a strategic departure called the New Look, which resulted in significant budget cuts and qualitative shifts in the political economy of defense. The record on the budget was initially impressive. From FY1953 to FY1955, Eisenhower brought the Pentagon budget down by $8.1 billion (and cut almost another $2 billion from other national security spending).[960] This left the defense budget

[958] Nitze, *From Hiroshima to Glasnost*, 141.

[959] On the Navy as both a domestic policy and a key force in East Asia, see Franz Schurmann, *Logic of World Power*, and Jim Glassman, *Drums of War, Drums of Development: The Formation of a Pacific Ruling Class and Industrial Transformation in East and Southeast Asia, 1945–1980* (Leiden and Chicago: Brill/Haymarket 2019).
[960] Huntington, *The Common Defense*, 76.

at just over $35 billion per year—still several billion over the administration's original goals, but sufficient to balance the federal budget in 1956 and 1957.[961]

The initial result of the defense cuts was a recession in 1953-54, as federal purchases dropped by close to 20 percent. According to a Congressional study, the recession was understood, "quite clearly to have been a direct result of the cutback in the defense program and the associated liquidation of nonfarm business inventories."[962] Since the 1951 Accord, the Federal Reserve had begun to use their new powers to tighten money, which also contributed to the contraction. However, the recession was relatively mild, and even salutary from the standpoint of capital. As one banker said, a "small corrective depression" might be "desirable."[963] When the recession threatened to go too far, the Eisenhower administration impressed Keynesians with its willingness to cut taxes. In this case, Eisenhower adroitly tilted toward his economic advisor Arthur Burns (a self-described "Democrat for Eisenhower") rather than Treasury George Humphrey, who considered Burns "socialistic."[964] The Democrats did make an issue out of unemployment, the success of which was reflected in the 1954 midterms.[965] But the message most people from the first Eisenhower recession, took away was that the Republicans had successfully shed the ghost of Herbert Hoover.

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[961] Eisenhower's compromise with Taft had resulted in a commitment to bring the *total* federal budget down to $60 billion by FY1955, which would require even more intensive defense cuts. Richard M. Leighton, *Strategy, Money, and the New Look, 1953–1956* (Washington, DC: Historical Office of the Secretary of Defense, 2001)

[962] Joint Economic Committee, Staff Report on Employment, Growth, and Price Levels (Washington, DC: GPO, 1959, 238.

[963] "Fear of a Bad Slump Termed Baseless," *NYT*, Sep 23, 1953, 47.

[964] Cox and Skidmore-Hess, *US Politics and the Global Economy*, 79.

[965] Sundquist, *Politics and Policy*, 431-441

The transition from war boom to recession provided employers with favorable terrain to push back against labor's recent gains. Wages for textile and garment workers were cut. There were instances of workers rejecting union concessions, only to see their plants close (e.g., Studebaker). Strike activity fell to the lowest point in six years.[966] Investment and consumption had held up relatively well. The strength of investment during the downturn was partly because firms used the opportunity occasion for geographical and technical restructuring. In Chicago, Armour spent $10 million to demolish 38% of its physical plant and modernize the rest. The wool textile sector faced "depression" conditions as the military purchase share of their product fell from 28 percent to 12 percent, leading to industry-wide losses from 1952 through 1955. The industry restored profits by scrapping plant and redirecting investment southwards. 300 Northeastern textile mills with 100,000 employees shut down.[967] At the other end of the product cycle, General Motors—the number one defense contractor during the Korean War period—announced a $1 billion capital investment program, internally financed, in the middle of the recession.[968] The cash bought a comprehensive retooling around labor-displacing technologies.

Behind this, defense continued to put a floor under the economy. GM explicitly listed the continued level of military spending as a premise for its large investment.[969] For his part, while Eisenhower struggled mightily to restrain the long-term growth of defense spending, he was

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[966] Daniel J.B. Mitchell, "Recent Union Contract Concessions," BPEA (Washington: DC, Brookings Institution, 173).

[967] John A. McWethy, "Meat Retreat: Packers Cut Capacity, Treat a Trouble Shared by Other Industries," *WSJ*, Nov 23, 1954, 1; Sidney Goldstein, "The Woolen and Worsted Textile Industry in a Transition Period, 1939-1952: A Case Study," (dissertation American University, 1954) 30; Donald N. Anderson, "The Decline of The Woolen And Worsted Industry Of New England, 1947-1958; A Regional Economic History" (dissertation, NYU, 1971) 188-189

[968] "General Motors Plans to Spend at Least $1 Billion on Expansion in Next Two Years: It May Hit $1.5 Billion in 3 Years, Sloan Says; Financing Won't Be Needed," *WSJ*, Jan 20, 1954, 20.

[969] "The G.M. appraisal for the near future was optimistic...Defense expenditures will not be reduced drastically in 1954, although adjustments will be made as between various categories of defense products." See: "General Motors Plans to Spend at Least $1 Billion," cited above.

perfectly willing to accelerate already-obligated defense spending as a countercyclical tool. In February 1954, Eisenhower asked his advisors, "Why couldn't we consider a stepped-up program of military production if something were needed to prime the pump?" Defense Secretary Wilson said that "any time the President told the Defense Department to spend more money he could do it for him. Tell us when you want the heat turned on and we'll do it." Even the arch-conservative Humphrey conceded that "stepping up the production of military end items was much to be preferred to some kind of PWA."[970] Arthur Flemming of the Office of Defense Mobilization said that "we were making decisions every day at the procurement level" with a view toward "how to prevent unemployment." For example, ODM had directed $53 million for destroyers to the Quincy, Massachusetts shipyards, "where unemployment is serious, even though the job could have cost less at yards in other parts of the country."[971]

But this was a question of accelerating or targeting money already budgeted, not adding additional spending.[972][973] There was no doubt about the Eisenhower administration's overriding commitment to restrain spending in the long run. The basic approach was to hand over the Pentagon to GM executives and turn them loose on the budget. It was in his confirmation

[970] Memorandum of Discussion at the 183d Meeting of the National Security Council, Washington, February 4, 1954. *Foreign Relations of the United States* [*FRUS*], 1952–1954, China and Japan, Volume XIV, Part 1, eds. David W. Mabon and Harriet D. Schwar (Washington: Government Printing Office, 1985), Document 167. <https://history.state.gov/historicaldocuments/frus1952-54v14p1/d167>.

[971] The Quincy shipyard case is discussed in the FRUS document cited in the note immediately above. It was also referred to disparagingly in Congress by Margaret Chase Smith of Maine, who claimed the contract had been transferred to Quincy from Bath Iron Works. See *Congressional Record* February 5, 1953, pp. 1390-1391. The $53 million figure comes from Congressional Record Appendix August 18, 1954, p A6143.

[972] For further evidence of contract acceleration, see "A Nudge for Prosperity," *Business Week* (August 7, 1954) 25-26.

[973] There was some parallel with pre-New Deal programs for accelerating public works during downturns. William J. Barber, *From New Era to New Deal: Herbert Hoover, the Economists, and American Economic Policy, 1921-1933* (Cambridge, UK and New York: Cambridge University Press, 1985) 16-22.

hearings that Wilson supposedly said that "what is good for General Motors is good for America," but despite GM's status as a leading defense contractor, this particular instance of the military-industrial revolving door meant keeping appropriations under control. The Eisenhower-Humphrey-Wilson approach— the New Look—placed a ceiling on the overall defense budget while shifting the composition toward high-technology, capital-intensive hardware, especially strategic airpower).[974] Air power was seen as cheaper than conventional mobilization, and less conducive to centralized state authority.[975] At the same time, the focus on hardware would the military program's stabilizing effect on private industrial production.

The compositional shift was successful. Between 1956 and 1956, the army's annual spending was halved, and its manpower reduced by a third. Meanwhile, spending on the Air Force continued to rise, consistently claiming as much as the Army and Navy combined. Hard goods and "other capital-type items" now accounted for half the defense budget, compared to a one quarter in 1951. 75 cents out of every procurement dollar went to missiles, aircraft, and electronics. Even within the Army and Navy, aerospace products accounted for more than half of procurement. In 1953, the top prime contractor was General Motors; by 1955, it was Boeing.[976]

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[974] The view from the business press was that "The drill field, in short, would give way to the high-pressure research laboratory. Henry T. Simmons, "Budget & Defense: President's "New Look" Proposals Portend Sharp Shift for War Plants," *WSJ*, Jan 22, 1954, 1.

[975] This perspective dated back to the late 1940s, when nationalist Republicans had supported Air Force appropriations as an alternative to the Truman administration's UMT and Louis Johnson, the budget cutting Defense Secretary and opponent of NSC-68, had served on the board of Convair and fought for the B-36. More recently, "Secretary Lovett, characterizing the nature of modern armament as exceedingly complicated and costly, said that unless it were possible to rely more and more on atomic weapons as a means of shrinking the size of the military budget, we may well find ourselves running into astronomical rearmament cost figures." 14. Minutes of the Meeting of the United States Members of the Combined Policy Committee, Washington, April 16, 1952, 3:30 p.m. FRUS, 1952-1954, National Security Affairs, Vol II, Part 2 <https://history.state.gov/historicaldocuments/frus1952-54v02p2/d14>

[976] Huntington, *Common Defense*, 79; Murray L. Weidenbaum, "Some Economic Aspects of Military Procurement," *Current Economic Comment*, Nov. 1960, 3-13; "Aircraft Makers Top Contract List: U. S. Names The 100 Leaders in Defense Orders -- G. M. No Longer Among Them," *NYT*, May 24, 1955, 46.

The New Look was about power, not just black ink. This was clearest in Wilson's and Kyes's elimination of federal support for Wassily Leontief's input-output research. Working with the BLS, the Air Force had funded a computer-driven input-output model of the entire U.S. economy to aid with Korean War mobilization. Business executives, especially in auto, worried that this would lead to central planning. Even before Eisenhower's inauguration, it was reported that Wilson would "take a close-up look." By August 1953, Kyes had axed the program in order to allay business concerns about "the chill shadow of a robot-planned and robot-managed age."[977] To drive the political point home, the Air Force's "Planning Research Division" was renamed the "Computation Division."[978] The decisive counsel against input-output came from Stephen DuBrul, another GM executive whose ideological profile belies any notion of a liberal consensus. In the 1930s, DuBrul had "sabotaged and then suspended" the NRA's Research and Planning division.[979] During the 1946 strike, while serving on GM's negotiating team, DuBrul served as a founding vice chair of the "Society of Sentinels," a Detroit-based group that worked with Gerald L.K. Smith (an avowed fascist) and advocated immediate repeal of the Wagner Act, the Fair Labor Standards Act, and the Social Security Act.[980]

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[977] Reportedly, William Truppner of the DPA sought additional information to complete the input-output tables from auto executives in Detroit, who then complained to Washington. "Industry Bristles at Robot Planning," *Business Week*, Jan. 5, 1952, 23; "Down the Drain," Business Week (September 5, 1953) 172.

[978] Paul Erickson, Judy L. Klein, et al, *How Reason Almost Lost Its Mind: The Strange Career of Cold War Rationality* (Chicago: University of Chicago Pres, 2013) 77.

[979] Joseph W. Duncan and William C. Shelton, *Revolution in United States Government Statistics, 1926-1976* (Washington, DC: Department of Commerce, 1978) 112; Karen Polenske, *Multiregional Input-output Analysis: The U.S. input-output accounts and model* (Lexington, Mass: Lexington Books, 1980) 12; Ellis Hawley, *The New Deal and the Problem of Monopoly*: *A Study in Economic Ambivalence* (Princeton, Princeton University Press, 1966) 78.

[980] "Detroit's 'Fascist' Group," *New Leader,* Vol 29, no 9 (March 2, 1945) 5; Lichtenstein, *Walter Reuther*, 244; Glen Jeansonne, *Gerald L. K. Smith: Minister of Hate* (Baton Rouge: Louisiana State Press, 1997), 72-73

As the New Look succeeded in cutting costs and firing planners, the recession gave way to an impressive burst of expansion. However, this expansion—which is the core of what we think of when we think of the 1950s as a time of "peace and prosperity" was rather short-lived. Without question, 1955 was an *annus mirabilis* of consumer capitalism, driven by auto and residential construction. But by year's end, the expansion nearly stalled out. The rate of growth slowed considerably and even turned negative in the first and third quarters of 1956. Consumer spending, particularly for durables, was stagnant, and housing and auto saw significant declines.[981] By November 1956, one business analyst concluded that "for the last year we have had overcapacity in every single consumer end-product industry."[982] The decline in consumer spending rippled out to materials, causing production declines in industries like steel, lumber, and rubber.[983]

The faltering of consumer spending as an engine of growth was directly related to distributional questions: wages and salaries had not grown as fast as the new capacity flowing from high investment. The nature of the problem can be understood through a comparison to the defeated Fair Deal vision of a high-consumption economy. In May 1950, Harry Truman had endorsed Keyserling's goal to raise all American families to an annual income of at least $4,000 in a decade.[984] But in 1960, nearly a third of families still earned below $4,000, and 17.5% earned below $2,500. These figures understate the failure of the goal, since Truman had

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[981] Comparing 1955 peaks to 1956 troughs, residential investment fell by 9.7% and auto production by 50.8%. FRED.

[982] *The Business Outlook, 1957* (New York: National Industrial Conference Board, 1956), p. 56

[983] Hickman, *Growth and Stability*, 133.

[984] Harry S. Truman, Address in Pendleton, Oregon. May 10, 1950. Online by Gerhard Peters and John T. Woolley, The American Presidency Project <https://www.presidency.ucsb.edu/node/230511>; Jacobs, *Pocketbook Politics,* 244.

explicitly referred to real income. In constant 1950 dollars, over 40% of families in 1960 were below the $4,000 threshold. Since poorer families consumed nearly all of their income, this shortfall directly constrained the growth of consumption. The magnitude of the shortfall was in the tens of billions of dollars, in other words the same scale as the military budget.[985]

Because of the lags involved in investment decisions, demand held up longer in the capital goods industries than in consumption. But by early 1957, fixed investment flattened out. In March, the Suez Canal, whose wartime closure had caused a convenient U.S. export boom, reopened. The most important support for the late expansion came from military spending. The petering out of the consumer boom fortuitously coincided with the reversal of the post-Korean downward trend in defense. Between 1956 and mid-1957, the annual rate of defense outlays rose by $7.9 billion, or around 15%.[986] By May 1956, Wilson and Radford told the NSC that they "simply could not carry out their commitments on the basis of the budgets on which the Defense Department now operates." Wilson probably wanted to reduce commitments.[987] But other pressures ensured that budgets would increase. The bet on air power, initially seen as a way of saving money, had generated an arms race dynamic of accelerating expenses. As budget director Maurice Stans told a meeting of bankers in 1958, "the incredible cost of new weapons will plague us as long as it is necessary to buy both today's and tomorrow's technology."[988] Paul

[985] In 1960, around 8 million families earned below $2,500 (around $2,000 in 1950 dollars). Thus, the shortfall *for this group alone* was at least $16 billion. Another 11 million families earned between $2,500 and $5,000 (around $2,000-$4,000 in 1950 dollars). If every one of these families earned exactly $3,000 in 1950 dollars (an arbitrary and unreal assumption made here for the sake of illustration), this would represent another $11 billion missing, for a total of $27 billion. Total DOD spending in 1960 was around $40 billion. All of the information on income distribution in this paragraph is taken from "Income of Families and Persons in the United States: 1960," *Current Population Reports: Current Income Series* P-60, No. 37 (Washington, DC: Bureau of the Census/Department of Commerce), with the author's own adjustments for inflation between 1950 and 1960.

[986] [FDEFX], FRED.

[987] Robert J. Watson, *History of the Office of the Secretary of Defense, Vol IV: Into the Missile Age, 1956-1960*, (Washington, DC: 1997) 76-77.

[988] "Industry Report: Missile Business," *Missiles and Rockets* September 15, 1958, 21.

Hoffman, a veteran of the Marshall Plan and head of an auto company, expressed something close to despair: "there is literally no way in which federal expenditures can be reduced to a comfortable level until world tensions are so lessened that military expenditures can be sharply cut."[989]

Eisenhower was also confronted by an effective air power lobby which wanted more than the New Look would give. Back in 1948, the political home of the air lobby had been budget-conscious Republicans, but now Democrats sensed an opportunity to take back the national security issue while increasing federal spending. These politicians hailed from defense dependent areas and built thick relations with representatives of industry and the military. Their leader was Senator Stuart Symington, former head of St. Louis-based Emerson Electric and Secretary of the Air Force. Missouri depended heavily on aircraft orders. Symington organized hearings around the supposed "bomber gap" in 1956 and then the "missile gap" after 1958.[990] The air power bloc worked with military figures like Air Force General Curtis LeMay and publicists like the Alsops and *Aviation Week*.[991] Under pressure, the Eisenhower administration submitted two supplemental appropriations in 1956, to which the Senate added another $900 billion in Air Force funding. The biggest item was a step-up in the production of the Boeing B-52 bomber, which replaced the B-36 fleet, scrapped before it ever saw combat.[992]

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[989] Paul G. Hoffman to Eisenhower, March 22, 1957, President Dwight D. Eisenhower's Office Files, 1953-1961, Part 1: Eisenhower Administration Series, Reel 16 of 32

[990] Leighton, *Strategy, Money, and the New Look,* Chap. XVII.

[991] [Bomber Gap] Air Force. Strategic Air Command. Commander-in-Chief. Top Secret, Letter. October 17, 1955. DNSA collection: Nuclear History I, 1955-1968 United States. DNSA; Joseph Alsop and Stewart Alsop "The B'52 Problem," *New York Herald Tribune* Mar 9, 1956, 14.

[992] C.P. Trussell, "Air Force to Drop Its B-36 For B-52: Bomber Never Tested in War Held Outmoded," *NYT*, 20 Aug 1957: 15.

But each B-52 cost twice as much a B-36. This was just one example of how defense production costs were increasing. The price index for government purchases of goods and services increased 7.2% from 1954 to 1956, even before the economy-wide inflation of the late 1950s kicked in.[993] Like a good executive, Wilson showed Eisenhower "several charts on the trend of employment and wage rates in the aircraft industry" that supposedly explained "the 'run away' on expenditures."[994] Costs also reflected a sectoral inflation centered in the capital goods industries, which faced heavy demand from the combined forces of private investment and defense. As Randolph Burgess of National City bank put it, the nation was facing "a capital goods inflation, underlying which is an enormous armament expenditure in this country which has used a great deal of the same kind of labor and materials and ingenuity and money that is used in a capital boom."[995] With cost-plus contracts, any increase in input prices was passed on to the Pentagon. More fundamentally, Budget director Maurice Stans told a meeting of bankers in 1958, "the incredible cost of new weapons will plague us as long as it is necessary to buy both today's and tomorrow's technology."[996]

There was no macroeconomic plan at work, but the increased spending after 1956 kept the expansion going after the civilian consumption boom ran out of steam. In spring 1957, employment in the aircraft industry surpassed its Korean War peak. As investment demand and the export boom flattened out, military demand became "the major and almost exclusive

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[993] Rodney Crowther, "Brundage Hists Byrd on Budget," *The Baltimore Sun*, May 17, 1957, 1.

[994] 145. Memorandum of a Conference with the President, White House, Washington, October 8, 1957. FRUS, 1955-1957, National Security Policy, Vol XIX <https://history.state.gov/historicaldocuments/frus1955-57v19/d145_TK>

[995] *Investigation of the Financial Condition of the United States: Hearings Before the Committee on Finance, United States Senate, Eighty-Fifth Congress, First Session, June-July 1957, Part 1* (Washington, DC: GPO, 1957) 738.

[996] "Industry Report: Missile Business," *Missiles and Rockets* September 15, 1958, 21.

dynamic growth factor."[997] Crucially, the nature of military hardware, especially aerospace, meant that the capital goods sector was sustained just as the business investment boom collapsed.

But in the first quarter of 1957, Pentagon officials, who lacked accounting practices adequate to the vastness of their procurement empire, discovered with alarm that they were spending more than they had budgeted. Throughout the summer of 1957, Wilson reduced manpower, cancelled orders, stretched out production schedules, and tightened rules on overtime and progress payments.[998] Pentagon officials discovered they "had lost control of the Pentagon's fiscal machinery."[999] Sometime around March, they figured out that actual military outlays were on pace to exceed their planned FY1957 levels by over $2 billion, and by the summer there was concern that the overrun FY1958 could be $4 billion. The problem was not just rising and uncontrollable unit costs but the imprecision of control over spending. The services carried over unused spending authority from year-to-year, loosening the link between current-year budgeting and outlays. Another lag opened between placing a contract and paying a vendor, which usually happened upon delivery, though the military also sometimes provided "progress payments" on an installment basis. Thus, unexpected deliveries could be as frustrating for the comptroller as production delays. The Pentagon claimed that the summer 1957 situation arose in part because of "unforeseen success in missile programs" and "an unexpected speedup in deliveries of aircraft." All in all, one Pentagon aide said "predicting expenditures isn't a very exact science. If you stay within 4% or 5% of your prediction you're doing darn well."[1000] But as Charles E. Wilson

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[997] Murray Weidenbaum, "Some Economic Aspects of Military Procurement," 10.

[998] Wilfred Lewis, Federal Fiscal Policy, 162-3; *Air Force Comptroller* April 1985, p. 18.

[999] Edmund K. Faltermayer, "Throttling Down: Defense Chiefs Step Up Efforts to Curb Climb In ..." Wall Street Journal, Jul 2, 1957, 1.

[1000] Ibid.

pointed out, with the defense budget "a difference of 3% is a difference of $1 billion"—a figure which threatened to throw the federal budget back into deficit.[1001]

The administration accepted that it could not maintain the present level of military force without abandoning its budget goals. With the assent of the Pentagon, a choice was made to preserve "stability of expenditures" and gave up on "stability of program."[1002] Beginning in March, development was canceled, and procurement stretched out on a number of major aircraft programs. The chief recent achievement of the Congressional air power bloc—the acceleration of B52 production—was reversed in April.[1003] The austerity drive continued all summer, with further stretch outs, manpower cuts, and new restrictions on progress payments and overtime for contractors.[1004] On June 21, Air Force Secretary James H. Douglas summoned 100 industry representatives to a meeting which left executives "with the distinct impression that some of their companies would not survive the coming cutbacks." Douglas told the contractors that "there are too many systems now in the stage of testing," and indicated that he would eliminate redundancy within missile procurement.[1005] Between June and August, the annual rate of contract letting declined by $1.5 billion.[1006] By October 1957, current production of defense and space

[1001] Ibid.

[1002] Watson, Into the Missile Age, 101.

[1003] John W. Finney, "B-52 Production Will Be Slowed," NYT, April 19, 1957, 1.

[1004] *Air Force Comptroller* April 1985, p. 18; Wilfred Lewis, Jr. *Federal Fiscal Policy in the Postwar Recessions* (Washington, DC: Brookings Institution, 1962), 192-193

[1005] Faltermayer, "Throttling Down."

[1006] Harlow D. Osborne, "National Income and Product: A Review of the 1957-58 Decline and Recovery," Survey of Current Business, November 1958, 9-17.

equipment was 10% lower than it had been at the beginning of the year.[1007] The slowdown on defense spending in mid-1957, dealt the aerospace industry a serious blow.

By August, the defense cutbacks and a simultaneous decline in business investment had pushed the economy from weak expansion into recession.[1008] The fiscal impact of the military budget became deflationary, accounting for almost half of the fall in final demand in late 1957.[1009] More than a demand shock, the Pentagon cutbacks threatened the financial stability of the defense industries (especially aircraft). [1010] The Pentagon began to stretch-out its payment schedule, allowing the Treasury to hold on to cash but forcing contractors to either lay off workers or come up with their own sources of working capital. At a time of relatively tight money, this left the contractors facing a "cash crisis".[1011] Rumors circulated that the government would default on already-committed payments. Treasury Secretary Robert Anderson had to take steps to reassure banks that there was no serious liquidity crisis in the works.[1012] In September, *Fortune* estimated that defense cuts meant "business will need $2 billion less inventory than expected, and instead of accumulating inventory in early 1958, will be cutting it."[1013]

[1007] Industrial Production: Equipment: Defense and Space Equipment (IPB52300N) FRED. https://fred.stlouisfed.org/series/IPB52300N

[1008] In Robert A. Gordon's language, the economy was in a "turning point zone" from the beginning of 1957 but the defense cutbacks determined the precise timing of the actual "turning point" toward "cumulative contraction." Gordon, *Business Fluctuations*, 497.

[1009] Hickman, *Growth and Stability*, 153.

[1010] "New Demands on Money Mart," *Business Week* (Oct 19, 1957) 45.

[1011] Albert K. Kraus, Sputnik Flashes Financial Signal, Oct 13 1957, 163; *Air Force Comptroller,* April 1985, p. 18

[1012] *Air Force Comptroller* April 1985, p. 18

[1013] Defense and Business Plateau, Fortune, Sept. 1957, 51-54.

The premises of sound money internationalism—cheap air power, balanced budgets, and civilian expansion—both encountered crisis in late 1957. Air power had become too expensive to allow for budget balance, while civilian expansion had petered out in the fashion of a classic investment boom. Eisenhower initially sacrificed military spending in order to balance the budget, but far from rescuing the economy his cuts tipped things over into contraction. The worst downturn since the 1930s was bad, but the real shock came from its conjunction with another event. On October 4, 1957, the Soviets launched *Sputnik*. On October 14, Eisenhower was finally told "a recession could be in the offing."[1014] The combination of events was widely remarked on. Advocates of military spending and economic expansion lost no time in seizing the moment.

The Reconsolidation of the Defense-Growth Coalition

The conjuncture of late 1957-58, bringing together as it did the *Sputnik* shock and the most serious economic downturn since the Depression, set the table for a military Keynesian response. But the military Keynesianism which followed was not merely a response to the sudden shocks. In the years leading up to the dramatic *Sputnik*-recession juxtaposition, political and social actors had been building support for a revival of military Keynesianism.

The center of the coalition was a veritable "shadow government" that took form within the Democratic Party during the exile of the Eisenhower years. The group, which ultimately took the form of the Democratic Advisory Council, aimed to provide a more coherent ideological program to the cross-pressured party, and especially to outmaneuver machine elements. The origins of the DAC group lay in an informal circle called the Finletter Group, which met in the luxurious Upper East Side apartment of corporate lawyer, Thomas Finletter. According to one participant, Arthur Schlesinger Jr, Finletter was a "true radical" on domestic issues such as civil

[1014] Charles Murphy, "The White House and the Recession," Fortune, May 1958.

rights and economic policy but was also "identified with air power and hard-nosed things like that. This gave weight to his views that Ken Galbraith and I did not have with Stevenson."[1015] Thus, it was not by accident that the embrace of Keynesianism by Stevenson (and the Democratic Party more generally) took place through an articulation with Cold War militarism.

The foreign policy branch of DAC was headed up by Acheson and Nitze, while the domestic section of the DAC became the ideological entrepôt through which the New Economics was imported into the Democratic Party. The pioneer here was Seymour Harris—editor of volumes like *Saving American Capitalism* and *The New Economics*—who assembled a circle of Cambridge intellectuals, including Arthur Schlesinger, John Kenneth Galbraith, James Tobin, and Paul Samuelson, to advise Adlai Stevenson's failed campaigns of 1952 and 1956. James Tobin recalled one meeting of the group attended by Stevenson, Averell Harriman, and Alvin Hansen in 1955 or 1956: "I remember the discussion concerned the ability of the United States to stand defense or other government expenditures and I remember making a strong point of this."[1016] Being able to afford more defense was one thing. Seymour Harris was willing to go farther and argue that the U.S. could not afford *not to* spend more on defense. In a Finletter group memo of 1954, Harris wrote:

> I stress the point that the Treasury cut military outlays by $4 billion when, according to all forecasts, GNP in 1954 is likely to fall by 5 percent or more (or at least $17 billion) because of inadequate spending, and besides fail to gain, as it normally does, by $11 billion. Hence*, here, because of insufficient spending, is a loss of $28 billion. An increased outlay of 10-15 billion dollars for security would save from unnecessary wastage of resources and add (through secondary effects) 10-15 billion dollars of income to our private economy.*[1017]

[1015] Parker, Galbraith bio, 265

[1016] https://www.jfklibrary.org/sites/default/files/archives/JFKOH/Council%20of%20Economic%20Advisers/JFKOH-CEA-01/JFKOH-CEA-01-TR.pdf

[1017] Seymour E. Harris, "Outlays for Security and the Bankruptcy Issue: Remarks Suggested by Nitze's Paper on 'National Defense Policy,'" March 8, 1954. Enclosure to letter from Thomas K. Finletter to Paul Nitze, March 11, 1954. Paul H. Nitze Papers, Library of Congress. Box 93 - Subject File: Finletter Group, 1954. Emphasis added. Note Harris's appeal to "secondary effects," a reference to the multiplier effect that distinguishes military Keynesianism from historically prior conceptions of military-driven prosperity.

Harris was also willing to offer a military Keynesian reading of the entire period:

> If we treat the years from 1941 to the present as a whole, we find again that a period of record prosperity coincided with a period of heavy military outlay. … About one dollar out of seven went for war and preparation for war, and this expenditure was undoubtedly a stimulus to the economy.[1018]

Tutored by these economists, Stevenson—initially a skeptic of Keynesian economics—had learned to mouth a version of the military Keynesian credo: "Nor in current talk of 'getting government out of business' does there appear to be much recognition that government is in business to the tune of about $15 billion worth of military orders each year and is therefore playing, whatever the theory of the matter, *a decisive part in keeping demand steady through the whole economy*."[1019]

Harris had also gotten to know the young legislator John Kennedy through their shared interest in the Massachusetts economy, which had been badly hurt by the departure of labor-intensive industry to the non-union South.[1020] At the precise moment that the New England textile industry was evaporating, the military spending attracted by the military-industrial-academic research complex around Cambridge offered a lifeline to New England. By 1959, Raytheon (which did 80% of its business with the government) had become the largest employer in Massachusetts.[1021] The New England textile industry had shed 100,000 jobs between 1951 and 1954; Raytheon alone employed 36,200, or more than one-third of the jobs lost. In case the

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[1018] Seymour E. Harris, Can We Prosper Without Arms?, NYT, Nov 8, 1950, SM20.
[1019] Adlai Stevenson, "My Faith in Democratic Capitalism," Fortune, October 1955, 126-7, 156, 160, 162, 167-8, quote at 126. Emphasis added.
[1020] Senator From New England

[1021] Frederick McCarthy, Taxes May Push Raytheon into Expansion Out of State, Boston Globe, April 24, 1959, 37; Raytheon Awarded $75 Million Contract, Christian Science Monitor, Mar 15, 1998, 2.

upshot wasn't clear, the *Boston Globe* reminded its readers, "A cutback in this country's defense budget could hurt these companies."[1022] Harris helped lead the Cambridge intellectuals from Stevenson (who important party liberals, such as Eleanor Roosevelt, supported for a third run in 1960) to embrace Kennedy, and they brought the Finletter/DAC policy network with them. Likewise, he helped turn Kennedy into a Keynesian.

Another important Democratic constituency, organized labor, continued to be a major force in the defense-growth coalition. According to *The Nation*, "no voice has been louder in support of limitless spending for aircraft and missiles than the International Association of Machinists."[1023] As early as 1948, IAM organ *The Machinist* had advised its readers that "the armament programs and the Marshall Plan will create an additional million and a half jobs" in airplane, shipbuilding, and related industries.[1024] After 1949, its ranks were swollen by the growth of the military economy, as well by its absorption of 50,000 former members of the purged left-wing UE. Pictures of new planes and missiles—and IAM members assembling them—became a regular feature in *The Machinist*, alongside health tips and pin-ups in union-label bathing suits.

When IAM president Albert J. Hayes called for increased defense spending in September 1956, he claimed that the IAM's 210,000 members in aerospace gave the union "the right to speak and the prestige to be heard on the subject."[1025] Roy Brown of the IAM explicitly linked

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[1022] Ian Menzies, "New England's industry is enjoying a rebirth because it has...: The Greatest Brains in the World," *Boston Globe*, July 5, 1959, B3.

[1023] Al Toffler, "The Airpower Lobby: Salesmen in Uniform," *The Nation*, November 30, 1957, 401-5, quote at 402.

[1024] "Skilled Workers Will Soon Be at a Premium," *The Machinist,* Aug 12, 1948, 7.

[1025] "Head of Machinists Stresses War Peril," *New York Times*, September 5, 1956, p. 20

the summer 1957 defense cuts to UN disarmament talks in London.[1026] In 1960, these developments were consummated as union renamed itself the International Association of Machinists and Aerospace Workers (IAMAW), the name it still bears today.

During the 1958 recession, the AFL-CIO executive council issued a 10-point program of "bold forward steps for the welfare of all of America." Included on this welfare program was the demand: “"Provide America with an adequate defense program. America's security is too important a matter to be determined solely by bookkeepers.”[1027] The pollster Samuel Lubell, who was interviewing voters in New York and New Jersey when *Sputnik* launched, documented these affinities at the time. Lubell talked to a laid-off aircraft worker, who had voted for Eisenhower twice but now planned to vote Democrat, because “The fellows in the union say there wouldn't be these cutbacks if the Democrats were in. They always saw we had work.” The same voter held that, “We ought to be spending more, not less, on defense. Look how we've let the Russians get ahead of us with that moon and with missiles.” Conversely, Lubell reported that those who were “contented economically” were also unconcerned by *Sputnik,* offering opinions like “[I’m] not sure the Russians have a missile—they may be bluffing” or “we have one too.”[1028]

One novel feature of the 1950s military-industrial complex was the increasingly prominent role of military actors themselves. In large part, the emerging defense-growth coalition mirrored the NSC-68 bloc. But one change was the increasing role of military figures themselves in advocating higher spending. In 1949-50, the military had lagged behind civilian

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[1026] Union Hits Layoffs in Missile-Aircraft Work: Economic Effects of ...
Los Angeles Times (1923-1995); Aug 13, 1957; ProQuest
pg. 12

[1027] "AFL-CIO Sets Legislative Goals," The Signalman's Journal (Dec 1958) 376

[1028] Samuel Lubell, "Sputnik and American Public Opinion," *Columbia University Forum* (Winter 1957) 12-21.

planners like Acheson and Nitze in their budget requests. But over the course of the 1950s, a military-industrial complex with full emphasis on the *military* part took shape rapidly. The revolving door between military and corporate worlds began to attract serious attention in the mid-1950s. Even Eisenhower's Secretary of the Air Force, Harold Talbott, had to resign in 1955 after a local newspaper revealed that he had used government letterhead to drum up business for his own investment firm.[1029] But more momentous than any specific corruption was the emerging structure linking military and industry. A 1959 congressional investigation led by Louisiana Democrat F. Edward Hébert tallied 1,400 retired officers (holding the rank of major or higher) employed by the top 100 defense contractors.[1030] Naturally, the Air Force itself was an important part of the air power lobby. But the Army became newly active as well.

While the defense-growth coalition was most at home in the Democratic Party, a parallel (and sometimes overlapping) group could be found within the northeastern wing of the Republican Party. An analogous movement was organized within the Republican Party by forces associated with Nelson Rockefeller, whose vast internationalist interests include not just oil and banking but also the aircraft industry and foreign direct investment, especially in Latin America. Rockefeller had resigned from his role as special assistant to Eisenhower in 1956. The same year, he took control of the Rockefeller Brothers Fund and initiated a series of Special Studies aimed to bolster his presidential aspirations. The Studies amounted to a "an elite attack on the Eisenhower equilibrium," including the themes of inadequate defense and laggard economic growth.[1031] The Rockefeller reports were, in part, public-facing versions of the Gaither report, an

[1029] https://media.defense.gov/2016/Mar/11/2001479130/-1/-1/0/AFD-160311-577-005.PDF

[1030] https://library.cqpress.com/cqalmanac/document.php?id=cqal63-1317449

[1031] Cracks in the Consensus: The Rockefeller Brothers Fund Special Studies Project and Eisenhower's America, 550

attempt within the Eisenhower administration to build pressure for more defense spending. Though pushed internally by Republicans, Nitze provided important work drafting the Gaither report, which helps explain its echoes of NSC-68:

> increased defense spending would have some influence on capital investment. If a moderate recession is impending, tax receipts would decline, but the increase in Federal expenditures would help to sustain production and employment.[1032]

The Gaither report was named for its chair, H. Rowan Gaither. During World War II, Gaither was assistant director of the MIT Radiation Lab. By 1957, when Eisenhower called on him to chair the Security Resources Panel, Gaither had been a chairman of the RAND Corporation board and President of the Ford Foundation. Gaither died a few years after giving Eisenhower his report, but not before a final momentous business venture. In August 1959, Gaither helped to found Palo Alto-based Draper, Gaither & Anderson, the first venture capital firm in the area that would soon be known as Silicon Valley. Gaither's partners were equally well connected. In addition to a distinguished career in the military, General William H. Draper Jr. had been an executive at Dillon, Read, the Wall Street investment bank that also employed James Forrestal and Paul Nitze.

According to historian William Steinert Hill, whose work thoroughly documents business opposition to the Truman administration's defense budgets, "By 1958, business leaders were becoming military Keynesians by default."[1033] This is an offhand remark in a dissertation that only covers the years 1943-1950, but there is strong evidence to support Hill's periodization.

The CED, the business organization closest to Rockefeller's perspective, was also

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[1032] 158. National Security Council Report, Nov. 7, 1957. FRUS 1955-1957, National Security Policy, Vol XIX < https://history.state.gov/historicaldocuments/frus1955-57v19/d158>

[1033] Hill, "Business Community and National Defense."

increasingly at odds with the Eisenhower administration (even though so many of its members populated the administration). According to the group's semi-official history, "in the middle of the winter of 1958 the long and peaceful accord between the Committee for Economic Development began to weaken under the economic tensions. An impatience with the administration's policies began to manifest itself."[1034] The CED called for higher growth rates and insisting on the economic feasibility of higher defense spending. This included recommending to Congress reforming the debt limit so that it would "not force the Government to reduce its spending precisely when the economy needs the stimulating effect of a Government deficit and when provision for national security demands increasing defense outlays."[1035]

Remarks by Fred Lazarus, chairman Federated Department Stores, Inc, and a CED leader, demonstrated the connection and offered a clear example of increasing business impatience with Eisenhower's sound money politics. In October 1957, Lazarus rejected "tight credit and monetary policy" as a means of fighting inflation, arguing that such policy could only work "by the deliberate purpose of creating substantial unemployment." The retail executive went on to endorse a memorandum prepared by Harvard economist Sumner Slichter (also a CED associate), which stated in part, "almost all our basic industries have capacity in excess of demand. This excess capacity will be increased by the current defense cutbacks."[1036] Years earlier, Slichter had privately proposed to Lazarus that "a dual economy which combines private enterprise with a large defense program can be made more stable than a private enterprise

[1034] Schrieftgesser, *Business Comes of Age*,193-194

[1035] Fiscal Policy Implications of the Current Economic Outlook Hearings Before the Subcommittee on Fiscal Policy of ... 85-2 ..., April 28, 29, 30, and May 1, 1958, p. 178

[1036] "Businessman Airs Inflation Problem: The Memorandum: Inflation and Its Causes," *Christian Science Monitor*, Oct 8, 1957, 14.

economy without a defense program and the reason is that any drop in private spending can be offset by an increase in defense spending [1037] While it is unclear how many shared Slichter's blunt view of the issue, by late 1957 the CED had recognized the need for expansionary policy and the room that excess capacity had created for increased defense spending.[1038]

At the CED's fifteenth anniversary gathering, vice president Richard Nixon and the CIA's Allan Dulles joined a panel on the meaning of the Sputnik threat. At the CED's fifteenth anniversary gathering, vice-president Richard Nixon and the CIA's Allan Dulles joined a panel on the meaning of the Sputnik threat. The speeches from this panel were published with an introduction by the recently-elected CED head Donald K. David, who outlined the fundamental anxieties of the moment. The meaning of *Sputnik*, Donald warned, was not just technological or even military: rather it was the proof that the Soviet Union represented "a social system of human institutions that, in this case, has made the correct decision about what was important to achieve and has motivated and organized efforts to achieve it." [1039] What would it portend if the capitalist world could not demonstrate the same capacity for social choice?

The CED had always been the most internationalist and Keynesian of business organizations, but there were important shifts elsewhere in the business community as well. As recently as mid-1957, the Chamber of Commerce had demanded such severe cuts to defense spending that even the austere Charles E. Wilson was forced to publicly rebuke his "friends" in

[1037] Slichter to Lazarus, March 23, 1954 in Box 2, Folder "Committee for Economic Development," HUG 4795.10 Sumner Slichter Papers: General Correspondence. I am indebted to Andrew Elrod for this citation.

[1038] "Businessman Airs Inflation Problem."

[1039] Harry Schwartz, Briefing on Russia: Soviet Progress vs. American Enterprise. Report of a Confidential Briefing Session Held at the Fifteenth Anniversary Meeting of the Committee for Economic Development on Nov. 21, 1957, in Washington, DC," *NYT,* Mar 23, 1958, BR14.

the Chamber.[1040] But in February 1958, after *Sputnik II,* the Chamber announced that it supported "every item" in Eisenhower's expanded appropriation request.[1041] Similarly, the NAM had called for billions in defense cuts in March 1957. After Sputnik, the organization immediately offered the "all-out help in enlisting the aid of its 22,000 member companies in whatever program is necessary to regain America's prestige and commanding position."[1042]

The Far Right Embraces the Cold War

In addition to Rockefeller's liberal Republicanism, there were also new ideological wrinkles on the hard right-wing of the Republican Party. The right wing of the Republican Party—traditionally the most powerful domestic opponent of massive military spending—was also coming to embrace limitless military spending. To be sure, historians have sometimes overstated this shift. Fiscal conservatism, including on defense issues, remained a feature of the ideological landscape. Nationalist icon Douglas MacArthur, who had become chairman of the Sperry Rand corporation, continued to expound these older conservative themes.[1043] In 1957, MacArthur charged that "[o]ur Government has kept us in a perpetual state of fear with the cry of grave national emergency," and warned that fiscal policy was "even now probably adequate eventually to socialize the United States."[1044]

[1040] "Wilson Opposes 'Meat Axe' Cuts: Defense Budget Is at 'Peril Point' and Must Be Voted, He Tells Junior Chamber," *NYT*, 12 May 1957: 4.

[1041] "Big Defense Budget Backed by Chamber," *NYT*, 05 Feb 5, 1958, 12.

[1042] Niles Peebles, "NAM Urges 10 Percent Cut in Budget," *Washington Post*, 4 Mar 4, 1957, A2; "N.A.M. Pledges Aid To Outdo Russians," *NYT*, Nov 8, 1957, 2.

[1043] Back in 1949, MacArthur had been approached with an offer of executive employment from typewriter manufacturer Remington Rand, which had seen violent and protracted labor conflict in the late 1930s. MacArthur likely met James H. Rand through Robert E. Wood). He joined the company in 1952. In 1955, Remington Rand was acquired by Sperry Corporation; the new Sperry Rand was increasingly focused on military computing. William Manchester, American Caesar: Douglas MacArthur 1880 - 1964 (Boston: Little, Brown, 1978) 154, 520, 691-692

[1044] Address to the Annual Stockholder's Meeting of the Sperry Rand Corporation, July 30, 1957 (New York, NY). For an earlier criticism of the "arms economy which was bred in an artificially induced psychosis of war hysteria,"

Another good example of continued nationalist fiscal reticence is the John Birch Society (JBS), founded in 1958 by New England candy manufacturer Robert Welch and a coterie of classic Taft/NAM conservatives drawn from sectors such as auto parts, metal components, and independent oil.[1045] Welch continued to believe that "our danger remains almost entirely internal, from Communist influences right in our midst and treason in our government." The post-Sputnik buildup, Welch complained, meant that "under the guise of fighting communism, we are being stampeded into the biggest jump ever towards, and perhaps the final jump right into, socialism and then the Communist camp."[1046] JBS members, including at least one congressman, would raise alarms about excessive defense spending into the 1970s.[1047]

But notwithstanding examples such as MacArthur and the JBS, there was an unmistakable militarist shift in right wing politics following Taft's death in 1953. In large measure, this reflected the shift in political gravity from the Midwest to the West. The most important state was California, which passed New York as the top recipient of prime military contracts in 1953, and by 1959 laid claim to nearly a quarter of total contract awards. An exemplary figure here was Senator William Knowland, scion of an Oakland dynasty with extensive landholdings and extractive business interests. Knowland was in some ways an heir to

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see MacArthur, Speech to the Michigan Legislature (15 May 1952), contained in General MacArthur Speeches and Reports 1908-1964

[1045] The Society's early governing Council included three past presidents of NAM and perhaps a dozen former NAM directors. Burch, "The NAM as an Interest Group."

[1046] Robert Welch, *Blue Book of the John Birch Society* (Boston: Western Islands, 1961). Welch saw all this as part of a conscious Russian design to get Americans to spend themselves into socialism: Welch, "The Effects of Sputnik" (December 1958), reprinted in The New American 23, 20 (Oct 1 2007) 35.

[1047] The JBS would continue to frustrate Cold War big spenders into the 1970s. In 1974, Defense Secretary James Schlesinger complained that "The Birch Society Congressmen are starting to work against Defense on economic grounds." One of those he had in mind must have been Rep. John H. Rousselot, former western regional director of the JBS. 43. Memorandum of Conversation. in FRUS, 1969-1976, Vol XXV, National Security Policy 1973-1976 https://history.state.gov/historicaldocuments/frus1969-76v35/d43

Taft, whom he replaced as Senate Majority leader: Knowland was a leading China Lobbyist, ally of Joseph McCarthy, and a frequent critic of Eisenhower from the right. Just as the Taft family's portfolio included the conservative *Cincinnati Times-Star,* Knowland's family owned the ferociously anti-union *Oakland Tribune*, one of the state's three major papers. As Senate leader, Knowland supported cuts to the defense budget that focused on manpower but sought to protect military hardware from cuts. He would support the "Sputnikized" budget increases but still hoped to balance the budget by cuts to foreign aid.[1048] This was far from full military Keynesianism, but it signaled that there was no longer daylight between Republican internationalists and the Republican right.

In the 1958 California gubernatorial elections, "aircraft industry executives were especially anxious" to install Knowland in place of moderate Republican Goodwin Knight. John McCone, the L.A. military-industrialist and veteran of the Finletter Commission, successfully pushed Eisenhower to support Knowland, who won the GOP nomination.[1049] Since McCone "had supported the GOP's internationalist wing in its battle for control of the party in 1952," the McCone-Knowland alliance symbolized the resolution of bitter inter-Republican conflict under the sign of military spending.[1050] But the California Republicans suffered because their image of the military-industrial complex excluded labor. Knowland was defeated by Democrat Edmund "Pat" Brown, who drew many votes from union members opposed to Knowland's vocal support

[1048] "Knowland Backs Cuts in Military," *New York Herald Tribune*, Apr 9, 1955, 3; John Fisher, House Defeats First Move to Restore Cuts, *Chicago Tribune*, May 29, 1957, 11; Don Shannon, "Knowland Urges Missiles Speed-up, *Los Angeles Times,* Jan 6, 1958, 1; "Knowland Raps Satellite Lag, Blames Foreign Aid," *Los Angeles Time*, Oct 14, 1957, 2; "Sputnikized Budget Soars into Congress," *Newsday*, Jan 16, 1958, 24.

[1049] Kevin Starr, *Golden Dreams*, 213.

[1050] David Robarge, *John McCone as Director of Central Intelligence, 1961-1965 (*Washington, DC: Center for the Study of Intelligence, declassified 2015) 15.

for the open shop. For his part, Brown enjoyed good relations with industry figures like Tom B. Carvey, a Hughes engineer who served as president of the California Democratic Council.[1051] In defeat, Knowland laid groundwork for the future. In 1966, veterans of Knowland's campaign constituted thirty out of 42 members of the finance committee that underwrote Ronald Reagan's successful bid for the governor's mansion.[1052]

Regional Dynamics

The South, often grouped neatly with the West into the Sunbelt meta-region, displayed its own distinctive qualities. To be sure, the long-term trend was toward increasing Southern support for the military spending. Pentagon contracts flowed disproportionally toward the Southern States, largely as a result of the white Southern Democratic grasp on key committees. Between 1951 and 1958, Southern states more than doubled their share of contracts awarded.[1053] William Faulkner put the point dramatically in 1956: "Our economy is no longer agricultural. Our economy is the Federal Government."[1054] Committee chairmen such as Mendel Rivers ("Rivers Delivers") of South Carolina and Richard Russell and Carl Vinson of Georgia became reliable champions of new military installations and weapons systems in their states.

Southern politicians readily accepted defense largesse for their constituencies, but they had hardly become out-and-out military Keynesians in macroeconomics. Traditional fears of deficit spending and federal power remained operative. Conventional accounts of military-led development do not mention that the Democratic Congress—led by Southern chairmen like

[1051] Frederick B. Tuttle, "The California Democrats: 1953-1966" (UCLA dissertation, 1975) 265.

[1052] Kim Phillips-Fein, "As Great an Issue as Slavery or Abolition[euro]: Economic Populism, the Conservative Movement, and the Right-to-Work Campaigns of 1958," *Journal of Policy History* 23:4 (2011) 505.

[1053] Schulman 140

[1054] Schulman, 135

Harry F. Byrd—called for cuts to defense spending in 1957.[1055] Louisiana's F. Edward Hébert led a congressional investigation into the explosion of employment of former military officers by defense contractors. During debate on the post-Sputnik supplemental defense appropriation, Mississippi's Jamie Whitten used his seat on the House appropriations committee to denounce "those in favor of pump priming the domestic economy through defense spending."[1056] Whitten—a recalcitrant racist who represented the Delta plantocracy—could plausibly be characterized as a holdover, perhaps fearful of federal use of defense contracts in service of racial integration.[1057] But this cannot be said of Florida governor LeRoy Collins, an archetypal modernizer and racial moderate. Speaking just weeks after *Sputnik* II, Collins pled on behalf of "the worst casualties of this cold war squeeze," namely "urban resident[s]" deprived of needed public investment.[1058]

Sunbelt communities, like Downey, California, built over the citrus groves between L.A. and Orange County, naturally became key constituencies for military Keynesianism. In July 1957, the Pentagon cancelled North American Aviation's contract for the Navaho missile, which had already absorbed more than half a billion dollars. North American immediately laid off

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[1055] In The Nation: The Growing Dispute Over the Budget. Byrd's Compilation ARTHUR KROCK. New York Times (1923-); New York, N.Y. [New York, N.Y]. 02 Apr 1957: 30.

[1056] *Supplemental Defense Appropriations for 1958: Hearings* < https://books.google.com/books?id=IOQtAAAAMAAJ&pg=PA28&lpg=PA28&dq=#v=onepage&q&f=false> Despite his opposition, Whitten (who was in a good position to know) believed the practice was widespread. He stated in 1960: "I am convinced defense is only one of the factors that enter into our determinations for defense spending. The others are pump priming, spreading the immediate benefits of defense spending, taking care of all services, giving all defense contractors a fair share, spreading the military bases to include all sections, etc." *Impact of Defense Procurement Hearings* (1960) https://www.google.com/books/edition/Impact_of_Defense_Procurement/ShzBI_RLFewC?hl=en&gbpv=1

[1057] On Whitten's delta context, Clyde Woods, Development Arrested; on Southern fears of integration through defense spending, Schulman, 137-138.

[1058] On Collins' as a leader of the region's developmentalist "vanguard," Schulman, 209. For the quoted remarks, see LeRoy Collins, "Cold War Casualties," *National Municipal Review*, XLVII (January, 1958), 11-15, quote at p. 15

6,305 workers and anticipated laying off 15,600—almost a third of total employment.[1059] Ultimately layoffs reached 12,000.[1060] In a telegram to his congressman, Downey's mayor warned: "For a city of 90,000 to have 11,000 unemployed would create economic chaos. I appreciate your assistance and any help that you can give to prevent this catastrophe." The congressman, in turn, wrote to the Secretary of the Air Force: "11,000 unemployed then means 40 to 50 thousand dependents necessarily in a state of economic uncertainty and insecurity which logically results in a terrifically destructive and hazardous attitude and circumstances surrounding each of the families concerned; surrounding the total community and geographical area, including the merchants of all necessities of life, and convenience also."[1061] The appeal was joined by Leonard Woodcock, head of the UAW's aircraft division (Local 887 represented workers at North American). Woodcock said plainly that "the Government *must not be permitted to cancel weapons contracts purely on the basis of national defense needs* or national politics," but should also consider "social, moral, and economic effects on the workers."[1062] The cancelled contract reached widely: North American (the prime contractor) quickly canceled $35 million in orders from 2,680 suppliers, half of them in the Los Angeles area. [1063]

Even though places like Southern California stood out for concentrated aircraft employment, the industry's employees could be found in every state of the United States.

[1059] When a Big Missile Contract is Cancelled," Business Week, (20 July 1957) 28–30; https://latimesblogs.latimes.com/thedailymirror/2007/07/aerospace-crash.html

[1060] https://latimesblogs.latimes.com/thedailymirror/2007/07/aerospace-crash.html

[1061] Congressional Record, July 16, 1957, 11924-5

[1062] Emphasis added.

[1063] "When a Big Missile Contract is Cancelled," Business Week, (20 July 1957) 28–30, quote at 30 (quote is Business Week's paraphrase)

Production of the Atlas ICBM, first tested in 1957, involved more than 5,000 firms in 32 states and 344 municipalities, with 86% of the firms having under 500 employees.[1064] Manufacturers dispersed production to maximize their political power. The B-70, which the Air Force awarded to prime contractor North American in 1957, within a year encompassed more than forty subcontractors and roughly 2,000 vendors and suppliers. According to nuclear physicist York, 70 out of 96 U.S. Senators had "a major part of the program in their states, and something like a majority of the Congressional districts had at least one supplier of consequence." [1065]

A newspaper profile of Al Ignatowski, a Lockheed engineer from Canoga Park, CA (also home to another North American Aviation division) provided an even finer-grained portrait of the multiplier effects of the defense slowdown. Ignatowski had been working 45-hour weeks for three years, drawing consistent overtime pay. The Pentagon's curb on overtime work reduced his weekly take-home pay by 20 percent. He and his wife were forced to postpone their plans to buy carpeting and a small air conditioner "way into the future." Ignatowski, a nine-year veteran at Lockheed, had experienced times without the steady overtime, but his younger colleagues who only knew the 1950s aircraft boom had never considered having to live on the pay from just 40 hours a week. These younger men were forced to try to make up the difference by slashing their grocery and entertainment budgets, to the detriment of local merchants who traced their misfortune "directly to the defense department." [1066]

In a speech in Los Angeles, Kennedy also invoked the logic of the multiplier:

> Full employment is not merely of importance to the working man and woman. When a layoff hits a plant in southern California, every business and professional man in town feels the effect. A worker on an unemployment check of less than $35 a week cannot buy the same goods for his family that his paycheck bought and he cannot even pay all his

[1064] "Wide Industrial Base Supports Atlas Program" *Missiles and Rockets* September 22, 1958, p. 21)
[1065] York, Race to Oblivion, 53
[1066] Thomas W. Bush, Aircraft Stretch-Out: Overtime Ban Pinches Workers' Budgets, WSJ, July 15, 1957, 1.

> bills. But what should shock every citizen was the Republican decision to cut national defense and defense employment, *without regard for either our national security or the needs of our workers*.[1067]

Unmistakable as the rise of the Sunbelt was, there was more to militarization of American conservatism than just the displacement of the Midwest by the Sunbelt. Even in the old Midwest strongholds, things were dynamic. Eager to shed the organization's hidebound reputation, N.A.M. reorganized itself after 1958 to become more friendly to the government and particularly the Pentagon. The changes included kicking out N.A.M.'s sizeable JBS contingent, establishing a National Defense Committee, and appointing an armaments executive (Werner Gullander of General Dynamics) as the organization's first full-time president.[1068]

Perhaps the best crystallization of the changes on the far right is the trajectory of the American Security Council (ASC). In 1955, Robert E. Wood of Sears had co-founded the (ASC) with Robert McCormick of the *Chicago Tribune*, Paul Galvin of Motorola, and other midwestern nationalists. Partnered with former FBI agents and McCarthyists, the ASC was originally a private intelligence service providing employers with information on subversive workers (drawing on their library of "what was then believed to be America's largest file on the private beliefs of individuals.")[1069] But by the end of the 1950s, Wood and the ASC had turned their

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[1067] John F. Kennedy, Excerpts of Speech by Senator John F Kennedy, East Los Angeles College Stadium, Los Angeles, CA - (Advance Release Text). Nov 1, 1960. Online by Gerhard Peters and John T. Woolley, The American Presidency Project <https://www.presidency.ucsb.edu/node/274066>

[1068] Jonathan Soffer, "The National Association of Manufacturers and the Militarization of American Conservatism," *The Business History Review* Vol. 75, No. 4 (Winter, 2001) 775-805. Burch interprets the same period in terms of the rising power of larger corporations on the NAM executive. Delton suggests the connection between both phenomena: "large government contractors were also multinational corporations seeking an international economic infrastructure to make investment in the developing world safe and profitable." As ever, direct defense dependence was but part of the landscape of business attitudes towards military spending. Burch, "NAM as an Interest Group," 129; Delton, *The Industrialists,* 208.

[1069] Austin C. Wehrwein, "Group Lists Data On 'subversives': Business Men Aid Chicago Council," *NYT*, Jul 10, 1958, 56.

attention to the Cold War. In 1957, Wood and Frank Barnett founded the foreign policy-oriented Institute for American Strategy (IAS), which became affiliated with the ASC. In 1959, a former comrade lamented to Wood that this marked the ascension of "those groups and activities that have a vested interest in perpetuating big government and deficit spending under the banner of fear of the Red Menace," but Wood defended the trend.[1070] By 1960, the ASC had sold off its labor-spy files and opened a Washington-based lobby expressly focused on national security issues, with a regular newsletter to match.

A major factor in the ASC's "change of mission" was the victory of the Cuban revolution in 1959, in which American businesses were nationalized without compensation, including Sears property valued at $5 million.[1071] "Isolationists" had always looked on Latin America as their own backyard. Back in 1940, when he was president of America First, Wood had made clear that "no government in Mexico, Central America, and the Caribbean South American countries will be tolerated unless it is friendly to the United States...we are prepared to use force to attain that objective."[1072] Even Taft had allowed that "we might be prompted to go to war if Russia tried to force a communist government on Cuba."[1073] After Castro came to power, Wood became obsessed, calling for U.S. military intervention even after Bay of Pigs and the Cuban missile crisis. Agustin Rey, a former employee of Sears de Cuba, became the head of the Chicago Council for a Democratic Cuba, which openly sought weapons for another invasion.[1074]

[1070] Dolores E. Janiewski, Eisenhower's Paradoxical Relationship with the "Military-Industrial Complex" *Presidential Studies Quarterly*, Vol. 41, No. 4 (Dec 2011), pp. 667-692

[1071] SEARS BIDDING ADIEU TO ITS CUBAN STORES: PROPERTY WORTH 5 MILLIONS
Ellis, Raymond
Chicago Daily Tribune (1923-1963); Oct 26, 1960; ProQuest
pg. C5

[1072] Doenecke Storm on the Horizon, 130

[1073]

[1074] CUBANS HERE SEEK ARMS FOR INVASION BID: WANT PRISONERS FREED, BUT OPPOSE RANSOM
Chicago Daily Tribune (1923-1963); Apr 23, 1962; ProQuest

Southern California conservative money-man Patrick J. Frawley joined the ASC in reaction to the nationalization of one of his Cuban razorblade factories in 1960: "That woke me up…I found that not enough was being done." Another important Southern Californian who joined the ASC was Henry Salvatori, founder of the offshore oil exploration firm Western Geophysical. Salvatori, who immigrated from Italy in his childhood, had much in common with the former America Firsters who had founded the ASC. Salvatori had sympathized with Mussolini and had visited the fascist state oil company (AGIP) in Rome. AGIP sent a team to observe Western Geophysical operations in Oklahoma and California, and Salvatori dispatched a Western exploration team to look for oil deposits that would make fascist Italy nationally self-sufficient (the team continued to work in Italy until October 1940).[1075] Years later, Salvatori would serve as liaison between the Nixon administration and the Italian right, including the neofascist *Movimiento Sociale Italiano* (MSI).[1076]

By the early 1960s, Salvatori (like others in the ASC) was less interested in national self-sufficiency than he had once been. For one thing, he sold Western Geophysical to Litton Industries, in the process trading in his status as an independent oilman for one as director of a large, defense-dependent multinational conglomerate.[1077] In some cases, his interest in foreign policy grew directly out of his business operations. In 1961, he cited "observations made by

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pg. A2

[1075] Bob Colacello, *Ronnie and Nancy Their Path to the White House—1911 to 1980* (Grand Central Publishing 2004), p. 421; Roberto Cantoni, Oil Exploration, Diplomacy, and Security in the Early Cold War (Taylor & Francis 2017)

[1076] According to MSI deputy Franco Servello, around 1968 Salvatori told the Italian neofascists that he had considered himself a fascist in his youth, but did not any longer, partly because in the U.S., Jewish control of the media made fascism an untenable position for conservatives. Franco Servello, *60 anni in fiamma. Dal Movimento Sociale ad Alleanza Nazionale* (Soveria Mannelli : Rubbettino, 2006) 77. For attestation of Salvatori's liason with the Italian ultraright by another MSI deputy, see Raffaele Delfino, *Prima di Fini: intervista su Democrazia nazionale* (Foggia: Bastogi: 2004) 52.

[1077]

employees of our company during nearly two years in Portuguese Guinea" in support of his opposition to decolonization. Guinea's indigenous "tribesmen" were "still in the shadow of savagery," and if "released from discipline and supplied with liquor" they would carry out "rampages" like those associated with the end of Belgian rule in the Congo.[1078] In the early Cold War, Americans on the hard right had looked askance the Cold War because it focused on Europe, which they disdained or feared. But in the late 1950s, the Cold War was moving to the Third World, a frontier zone of extraction much more familiar to American nationalists. The result was a further weakening of any conservative opposition to increased military spending.

The gathering strength of the defense-growth coalitions could also be felt in an increasingly frank military-Keynesian discourse. One still encountered the familiar double-step: defense spending could be predicted to have beneficial economic effects, but of course the motivation was purely strategic—it was a happy coincidence, determined by the regrettable external pressures of Red aggression.[1079] But in certain corners, one could now detect a growing frustration with this reticence and a desire to simply call a stimulus a stimulus.

The gravity of the shift and its timing were best captured in a remarkable speech by Frank Pace to the American Bankers Association in Atlantic City in September 1957. As Truman's deficit hawkish budget director, Pace had been an important bureaucratic obstacle to rearmament. His removal in April 1950 was essential to acceptance of NSC-68. Now, Pace was head of the conglomerate General Dynamics, the largest Pentagon contractor in 1957 and an almost purely military business. Something in his experience—whether his personal interest in defense contracts or just seven years of huge defense budgets without economic collapse—now led him to reverse his position on NSC-68. He told the assembled bankers that, in light of the

[1078] Henry Salvatori, "Cries Against Portugal Held Communist Ploy," *Los Angeles Times*, Dec 2, 1961, B4.
[1079] "Called for by considerations entirely independent of economic conditions. [1079]

"direct relation between the stimulus of large defense spending and a substantial increased rate of growth of gross national product…defense spending per se might be countenanced on economic grounds alone as a stimulator of the national metabolism."[1080] A month later, *Sputnik* launched.[1081]

From the Crisis of 1958 to the Turning Point of 1960

Not everyone reacted to *Sputnik* the same way. Americans within and outside the political elite were polarized. To a remarkable extent, their experience with the economic downturn seemed to correlate with their feelings on the meaning of *Sputnik*.[1082] National security and economic anxiety were braided together into two opposing structures of feeling: one which worried that irrational *Sputnik* panic would wreck the budget, another which saw increased defense spending as necessary to both full employment and national survival.[1083] Ultimately, the contest went to the anxious. Either recession or Soviet breakthrough might have been tolerable on its own, but the combination was hard to bear (especially when no one seemed willing to deny that the two problems could be solved simultaneously).

[1080] Frank Pace Jr., "Price of Defense Is Not a Military One Alone" [Address before the 83rd annual convention of the American Bankers Association, Atlantic City, NJ, Sept 24, 1957] *Commercial and Financial Chronicle* (October 3, 1957) 1458-9. Soviet observers were characteristically quick to report Pace's remarks, *see Current Digest of the Soviet Press,* Volume 9 (1957) 13.

[1081] In answer to a Senate questionnaire, Pace would later blame the 1958 recession on the government's "rather drastic steps to curtail the rate and scale of defense expenditures." Pace also wrote: "The extent to which security expenditures should be used as economic regulators should be more clearly examined and understood. And the true impact of security expenditures on our economy—favorable as well as unfavorable—must be put in proper perspective." Frank Pace, Jr to Hon Harry F. Byrd, May 7, 1958 in *Investigation of the Financial Condition of the United States Joint and Supplemental Comments of the Presidents of the Federal Reserve Banks in Response to the Questionnaire of the Committee on Finance, United States Senate, Eighty-fifth Congress, Second Session* (Washington, DC: GPO, 1958) 303-307.

[1082] Samuel Lubell, "Sputnik and American Public Opinion*," Columbia University Forum* (Winter 1957) 12-21.

[1083] Raymond Williams, *Marxism and Literature* (Oxford and New York: Oxford University Press, 1977) 128-135.

The Gaither report was presented in a National Security Council meeting on November 7—four days after Sputnik II.[1084] Around a month later, the "dramatic" NSC meeting was reported (along with the contents of the Gaither report) on the front page of the *Washington Post* under the headline, ""Enormous Arms Outlay Is Held Vital to Survival." The item was written by chief diplomatic correspondent Chalmers Roberts, who drew on sources and leaks from the highest levels. According to journalist Evan Thomas, Roberts' major source was "almost certainly" Nitze, which would help explain the story's distinctly military Keynesian tone: the Gaither Committee had "started on the premise of a recession" which meant that "the proposed additional expenditures would come at a fortuitous moment in the American economy."

Tellingly, this rendition centered not on full employment but on secular growth trends. According to Roberts, GNP "should normally increase by about 3.5 percent per year over the long run. But this is not now occurring...the new expenditures should get the gross product back to the normal growth rate."[1085] Crucially, Roberts reported that "two of the President's most valued friends in the financial world – John J. McCloy and Robert Lovett" had "pledged to Mr. Eisenhower the complete backing of the American financial community if he would approve the program proposed."[1086] If this was not an executive committee for managing the common affairs of the whole bourgeoisie, it is hard to know what would count as an example.

[1084] 156. Memorandum of Discussion at the 343d Meeting of the National Security Council, Washington, November 7, 1957 https://history.state.gov/historicaldocuments/frus1955-57v19/d156

[1085] Chalmers M. Roberts, "Enormous Arms Outlay Is Held Vital to Survival: U.S. in Gravest Danger, Gaither Report Holds." *Washington Post* (Dec 20, 1957), p. A1. Thomas, *Ike's Bluff*. In a reflection at the time of the report's declassification, Roberts regretted that his reporting had helped publicize the "alarmist" report and thereby accelerated the arms race. Roberts, "Fifteen Years Later: Reflections on a Top Secret Report," Washington Post, Feb 24, 1973.

[1086] The quote is Chalmers Roberts' paraphrase. Lovett and McCloy were also present at a smaller, preliminary presentation of the Gaither Report. 153. Memorandum of a Conference with the President, White House, Washington, November 4, 1957, FRUS. <https://history.state.gov/historicaldocuments/frus1955-57v19/d153>

After a brief attempt to hold the budgetary line, the Eisenhower administration embraced military stimulus. CEA chair Raymond Saulnier declared, "More spending on defense will be good for the nation and good, too, for the economy. The economy needs a shove."[1087] The minutes of an NSC meeting from January 1958 record a discussion of whether to use fallout shelter construction as an "an anti-recession measure."[1088] The official history of the Defense Department from this period states, "The deepening recession perhaps helped to head off any push for budget reductions."[1089] The *Economic Report of the President* that Eisenhower sent to Congress in January 1959 boasted that "the rise in defense contracting in the first half of 1958 did result in an expansion of defense production, and through its effect on the inventory policies of defense contractors had a significantly stimulative effect on the economy."[1090] It helped that Humphrey and Wilson both departed in Summer 1957.[1091] Their replacements were more flexible. In November 1958, Defense comptroller McNeil provided McElroy with "a memorandum adopting an unusual line of justification for the DoD budget. Shifting the argument from military to civilian considerations, he warned that to reduce military expenditures to $40 billion …would have harmful effects on the national economy, which had not yet fully recovered from the recession."[1092] The System of 1896 was finally dead.

[1087] Charles J.V. Murphy, "The White House and the Recession," *Fortune*, Vol. 57 Issue 5 (May 1958) 106.

[1088] https://history.state.gov/historicaldocuments/frus1958-60v03/d4

[1089] Robert J. Watson, History of the Office of the Secretary of Defense into the Missile Age, 1956-1960, p. 149

[1090] *Economic Report of the President, 1959* (Washington, DC: GPO, Jan 1959), 41.

[1091] It was rumored that Wilson had announced his opposition to "partial financing" before his departure. "Wilson Denies Break with Ike Over Defense Budget," Boston Globe, Aug 6, 1957, 3.

[1092] Goldberg, Into the Missile Age, 310.

Throughout 1957-1958, the idea that military spending had averted a serious slump became ubiquitous. Readers of *Iron Age, Air Force Magazine*, and *Harvard Business Review* learned that a new "defense cycle" had replaced the old business cycle, while an executive at Sealectro Corporation proposed that economic forecasters add defense spending to their list of leading indicators, along with housing starts and stock prices.[1093] The debt ceiling was raised by $5 billion in February 1958, another $8 billion in September, and another $7 billion in June 1959**.** Martin Gainsbrugh, chief economist of a leading business organization, who hailed "the emergence, with bipartisan support, of expanded outlays for defense and related technology and scientific efforts as the most potent economic stimulant as yet at work on the economy."[1094]

At this time, no other form of stimulus on the same scale was possible. Eisenhower vetoed liberal proposals for a depressed areas redevelopment bill twice, in 1958 and 1960. He also successfully opposed increasingly popular proposals for a stimulatory tax cut, leading CED economist Herbert Stein to declare 1958 "the year taxes were almost cut but weren't."[1095] At their May 1958 meeting, the majority of the Business Advisory Council voted against supporting the tax cut. [1096] Among Democrats, both JFK and LBJ voted against a tax cut amendment sponsored by economist-senator Paul Douglas, which went down to defeat 71-14.[1097] The sound

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[1093] Eliot Janeway, "Economics of National Defense: Fiscal Policy Hamstrings Defense Policy," *Air Force Magazine,* 59-61; Casper M. Bower, "A New Economic Barometer Needed: To Measure Impact of Peacetime Defense Expenditures," *The Analysts Journal*, Vol. 15, No. 5 (Nov. 1959) 33-37.

[1094] The Economic Report of the President: Hearings Before the Joint Economic Committee (Washington: GPO, 1958), p. 136. Gainsbrugh had earlier been a critic of the economic burden of rearmament: see "Rearmament Seen Leading to Inflation," *Washington Post*, June 1, 1948, 8.

[1095] Herbert Stein, *The Fiscal Revolution in America*, 319.

[1096] According to Herbert Stein, the CED's research director at the time, the Eisenhower administration would have been strongly influenced if the BAC had instead supported a tax cut. Stein, *Fiscal Revolution,* 341.

[1097] JFK did support another Douglas tax cut initiative later in the year, reflecting the influence of his new Keynesian advisors. Stein, *Fiscal Revolution*, 334.

money men who still dominated the making of fiscal policy feared the inflationary effects of deficits more than they feared unemployment—unless an independent motivation, like the Cold War intervened. Moreover, they believed that given the wide post-Sputnik consensus in favor of rising defense expenditures, it would be dangerous to increase government expenditures (or decrease tax receipts) even further. Military requirements, combined with concerns about inflations, crowded out other ways of further unbalancing the federal budget.

It was not only that that a policy carried out by a Republican government (widely considered a "businessman's government" reflect a much wider base of support than the controversial Truman rearmament. Just as importantly, whereas the Korean War mobilization had begun during an existing economic upswing, and as a response to armed conflict, the 1958 episode took place during a peacetime recession, a fact which made the military Keynesian nature of the policy response stand out especially dramatically. Thus, the 1958 response was not merely a revival of the Truman program, but represented a marked advance for military Keynesianism—and, therefore, a turning point in 20th century U.S. history: the first conscious use of military spending to get out of a recession in peacetime U.S. history.

A wider group than ever before now saw military spending as complementary with economic objectives. Organized labor, political liberals, Keynesian economists, and Cold War statesmen had already lined up behind the politics of NSC-68 back in 1950, but now in 1958 they were joined by a much larger contingent of business interests. As Democratic and Republican presidents realized, little could be achieved over the opposition of organized business. In 1950, the widely-felt emergency of the Korean War helped get business on board, but after the war ended most capitalists—even the quasi-Keynesians among them—looked to Eisenhower and his

cabinet of millionaires to get spending back down. Now, in 1958, widespread business support for a peacetime defense spending hike became an important part of U.S. politics.

How did it work out? In December 1957, the AIA predicted sales would decline to $10 billion in 1958; the actual figure ended up being $11.5 billion, just a hair below the 1957 level and higher than any other year except 1957.[1098] Thus the policy turnaround may have supported about 10 or 15% of the industry's total volume. The effect on employment was not as complete. In October 1957, the Pentagon planned cuts that would reduce private employment by 200,000, half in aircraft and related industries.[1099] By the May 1958 nadir, industry employment had in fact shrunk by about 119,000, and even a rebound in the second half of the year only restored about 25,000 jobs.[1100] As unit costs rose and missiles became increasingly important in the product mix, the direct employment effects of procurement had evidently weakened. But the falloff should also be kept in perspective: even at the May 1958 nadir, aircraft employment was higher than it had been in 1955, and more than double what it had been in 1950.

The conclusion was justified: a contemporary Brookings Institution concluded that the shift in defense spending did "tip the balance toward aggregate expansion" during the first half of 1958.[1101] A more recent study found that "The only significant fiscal change that occurred soon after the onset of the recession was an acceleration of defense spending" and that "at least some of the motivation was antirecessionary."[1102] One path the multiplier took was "the tapering,

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[1098] "Aircraft Trade Group Sees '58 Sales Below 1957 by $1.5 Billion," *WSJ*, Dec 27, 1957, 12; *Aviation Facts and Figures* (AIA) 1959 9.

[1099] Albert L. Kraus, "Sputnik Flashes Financial Signal," *NYT*, Oct 13, 1957, 163.

[1100] *Aviation Facts and Figures* (1959) 3, 62.

[1101] Bert Hickman, *Growth and Stability of the Postwar Economy*, p. 153.

[1102] Christina D. Romer and David H. Romer, "What Ends Recessions?" NBER Working Papers 4765 (National Bureau of Economic Research: 1994) 31. <https://www.nber.org/system/files/chapters/c11007/c11007.pdf>

late in the winter, of the heavy liquidation in aircraft manufacturers' inventories which had developed early in the business recession."[1103]

While the post-*Sputnik* stimulus ended the recession, Eisenhower and the Fed were unwilling to continue expansionary policy after it had become clear there would not be a depression. The 1958 stimulus prevented a depression but was not large or sustained enough to restore long-run dynamism. This was typical of conservative macroeconomics, which could countenance Keynesianism in emergency situations but would resume fighting inflation as soon as the economy bottomed out, even as unemployment remained high after the technical end of the recession.[1104] By 1960, Eisenhower had returned the federal budget to surplus and the Fed had raised interest rates to points unseen since the early 1930s. Inflation dissipated, but at the price of stagnation. The post-1958 expansion lasted just two years, the shortest since the 1920s. Even during the expansion, excess capacity had afflicted steel, aluminum, copper, zinc, machine tools, chemicals, paper, and oil.[1105] Total capacity utilization in manufacturing barely scratched 85 percent, compared to peaks of 89 percent in 1955 and 92 percent in 1953. The economy began to contract in April 1960. When Americans went to the polls in November 1960, real GDP per capita was just 1.2% higher than four years earlier. Unemployment, which had dipped below 4 percent in 1957, averaged almost 6% during the subsequent expansion (concretely, this meant an additional one million jobless workers, to which the recession would add another million).

[1103] Osborne, "National Income and Product," Survey of Current Business (Nov 1958) 14-15.

[1104] Allan Meltzer, *History of the Federal Reserve,* Vol II, Book 1, 173.

[1105] "Aluminum: An Industry Heading for Trouble," *Business Week*, Nov 14, 1959; Clare M. Cotton and Thomas O'Toole, "Price Turnabout: Industrial Chemicals Reverse 5-Year Slide," *WSJ*, Feb 2, 1960, 1; Everett G. Martin and R.W. Apple, Jr., "Paper Industry Expects Growth In '60, But It Won't Be a Boom Year," *WSJ*, Feb 26, 1960, 7; Roger W. Benedict, "Gasoline Push: Excess Capacity Leads to More Price-Cutting, Increased Promotion," *WSJ*, April 1, 1960, 1.

Why did a business-oriented president like Eisenhower not embrace an expansionary program? His reticence had deeper sources than just old-fashioned fiscal ideology. First, capitalists had reasons to welcome recessions, especially when they had government guarantees against full-on depression. “No one likes to be quoted that a recession is a good thing,” said plastics executive and recent Business Council president Harold Boeschenstein in 1958, “but actually it's a damn good thing every now and then.” Another executive told Fortune, on condition of anonymity, that recession "makes people appreciate their jobs more."[1106] Recessions were especially tolerable for oligopolistic firms. By restricting production and raising prices, these firms could maintain target rates of profit even at reduced levels of capacity utilization.[1107] The clearest exemplar was steel, whose executives were among the most solidly Republican.

Another reason to refrain from stimulus was inflation, whose troublingly persistence into the 1958 recession prefigured stagflation and made counter-cyclical policy even less attractive than usual to inflation hawks. The defense sector was directly implicated in what was widely understood to be a capital goods inflation. George A. Lincoln, a military economist who collaborated with Nitze, acknowledged “major inflationary elements within the national security economy” but since defense spending was absolutely necessary, “It seems only logical to accept some inflation over a period of several years looking forward.”[1108]

The anchor of the deflationary coalition was the Federal Reserve. Both the 1958 and 1960 recessions were preceded by the highest interest rates in the post-New Deal period. The

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[1106] George B. Bookman, “How Top Businessmen View the Recession,” *Fortune*, April 1958, 256.

[1107] John M. Blair, *Economic Concentration: Structure, Behavior and Public Policy* (New York: Harcourt Brace Jovanovich, 1973).

[1108] Memorandum for: Mr. Sprague, Mr. Foster, Members of the Steering Committee from: George A. Lincoln, “List of Topics and Policy Points for Report” (19 September 1957) Nitze Papers Box 103 Folder 4: Gaither Report/Working Materials 1957, n.d.

central bank was structurally anti-labor. New York Fed chair Allan Sproul rejected the idea of a labor representative because of "their record as militant class interest advocates." Conversely, Sproul believed that "the interests of 'savers…are legitimate concern [of the Fed]."[1109] The Fed placed the primary blame for inflation on union wage demands. Tight money was explicitly seen as a form of labor discipline. Even after the recession had begun, one FOMC member maintained: "The Committee should have in mind the possibility of the coming wage negotiations and should maintain as far as possible the kind of climate that would hold some restraint against wage moves such as had been witnessed in the past."[1110] Management took full advantage, launching what the *NYT* called a "corporate rebellion" to recover the whip-hand in bargaining and on the shopfloor.[1111] By September 1960, the FOMC was pleased to discover "the almost incredible fact that, despite all the upward biases associated with wages, hourly earnings of production workers actually declined."[1112]

Despite their sympathy for the employers' offensive, the Fed also saw a need to discipline capitalists, especially the big industrialists who they believed shared in the blamed for overinvestment and price increases. Fed chairman Martin connected these problems, speaking of "an excess of capacity created indiscriminately under the impression that industry could pass increased costs on to the public in the form of higher prices."[1113] By keeping money tight, they refused to validate bad investments. After a shakeout, stable prosperity could eventually return.

[1109] Quoted in Epstein and Schor, "The Federal Reserve-Treasury Accord," 10.

[1110] FOMC 11/12/57

[1111] A.H. Raskin "Labor: A New 'Era of Bad Feelings'?" *New York Times Magazine*, July 5, 1959, 8, 18. See also: Herbert R. Northrup, "Management's 'New Look' in Labor Relations," *Industrial Relations* 1:1 (Oct. 1961): 9-24; George Strauss, "The Shifting Power Balance in the Plant," *Industrial Relations* 2 (1962).

[1112] FOMC 9/13/1960.

[1113] FOMC minutes 8/21/56.

The Fed's tight money had its own internal logic. But it condemned U.S. industry to years of high-level stagnation—a condition that a broad coalition of Americans now experienced as intolerable. *Business Week* wrote: "Through five years of chronic unemployment, idle plant, and 'high level' stagnation, the government continued to fight the ghost of inflation."[1114] With so much slack, capitalists had little interest in expanding fixed investment. Business spending on new plant and equipment would remain below its late-1957 peak for half a decade. Business investment as a share of GDP investment would not fully recover until 1965.

The persistence of excess capacity helped make Keynesians out of previously hidebound capitalists. A good example of the latter is Crawford Greenewalt, president of DuPont from 1948 to 1962. The chemical industry, and DuPont in particular, had been anti-New Deal stalwarts. Greenewalt supported Taft in 1952, reflecting his sector's support for labor repression, low taxes, import protection.[1115] Greenewalt was thus to the right of Eisenhower, but by the early 1960s he found himself propounding Keynesian economics in a friendly meeting with a Democratic president. As Greenewalt explained to Kennedy, "the whole chemical industry… has this excess capacity…the fact that there is the excess capacity, weakens prices, weakens profits, and is frustrating for all participants." DuPont was operating around 80 percent capacity, leaving an unrealized "sales potential of 600 million dollars." Idle capacity meant that production could be increased "without spending *anything* for capital investments." In turn, this meant that stronger investment could not take place until the economy approached full capacity. Greenewalt

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[1114] "The U.S. Needs Tax Cuts Now," BW, June 16, 1962, 155.

[1115] Du Pont's textiles lines, which provided 30% of sales in 1953, suffered low profit margins and were highly vulnerable to European competition. Regarding chemical dyes in particular, Greenewalt fretted "We have no technology not available to European manufacturers, and manufacturing plants cost less abroad." Free trade would mean "in the long term be forced out of those businesses." Jessica E. Martin, "Corporate Cold Warriors," 178, 188.

recommended that "some needle could be stuck in the economy in a way that would encourage demand and make people more willing to spend or buy things."[1116] By 1964, Greenewalt told LBJ's representatives that he was considering voting Democratic for the first time.[1117]

In Nixon's judgment, "The power of the 'pocketbook' issue was shown more clearly perhaps in 1958 than in any off-year election in history… the economic dip in October was obviously uppermost in people's minds when they went to the polls."[1118] The Democrats picked up 48 House seats, 15 Senate seats, and eight governorships. Quantitative political science has confirmed the importance of economic issues in 1958, especially for working class voters.[1119] Among those elected were not just Democrats but programmatic liberals far more open to expansive federal spending than their predecessors. As historian Jonathan Bell has written, "the response of the voters to the Eisenhower recession set the scene for the dramatic change in the political zeitgeist in the 1960s."[1120] The election was also structured by military concerns: John F. Kennedy gave his first speech on the supposed "missile gap" in August 1958, was re-elected to the Senate by a huge margin in November, and made the missile gap a centerpiece of his run for president.[1121]

[1116] "Meeting with Business Leaders on the Tax Cut Proposal, August 9, 1962, 4:30-5:47 PM" in *John F. Kennedy: The Great Crises · Volume 1,* edited by Philip Zelikow and Timothy Naftali (New York: Norton, 2001) 355.

[1117] Conversation with WALTER JENKINS, October 11, 1964, Miller Center. < https://millercenter.org/the-presidency/secret-white-house-tapes/conversation-walter-jenkins-october-11-1964>

[1118] Richard Nixon, *Six Crises* (New York: Doubleday, 1962) 310.

[1119] Angus Campbell et. al., *The American Voter* (New York: Wiley, 1960) 386-393; M. Stephen Weatherford, "Economic Conditions and Electoral Outcomes: Class Differences in the Political Response to Recession," *American Journal of Political Science*, Vol. 22, No. 4 (Nov 1978) 917-938.

[1120] Jonathan Bell, *California Crucible: The Forging of Modern American Liberalism* (Philadelphia: University of Pennsylvania Press, 2012) 124. On the 1958 breakthrough, see also Brick, *Transcending Capitalism,* 186.

[1121] https://www.jfklibrary.org/archives/other-resources/john-f-kennedy-speeches/united-states-senate-military-power-19580814

In the 1960 election, both candidates embodied a version of the defense-growth coalition. As a representative and then senator from Massachusetts, John F. Kennedy was familiar with both industrial decay and the promise of militarized high-tech. Nixon came from Orange County, California, a region which exemplified the American right's increasingly unhesitating support for expensive military buildups. Southern California was without question the outstanding example of a regional economy centered on aerospace. According to the local branch of the CED, one in three jobs in Southern California, as well as $10 billion in income (one-third of the region's total gross product), depended on defense spending in 1961.[1122] In 1962, with a thousand people moving in per day, California celebrated becoming the most populous state in the country.[1123] Across the southern part of the state, and beyond, new suburban developments filled up with defense workers and their families.[1124] Just as important as federal purchases were the deep pools of capital that drained into California from elsewhere in the United States, attracted by investors' expectations that the defense boom would continue. As Hyman Minsky pointed out at the time, this imported capital swelled California commercial bank reserves and thereby underwrote the credit creation that drove residential construction and civilian business expansion.[1125]

Compared to Eisenhower, Nixon and Kennedy agreed on the need for faster growth and more military spending, and both had accepted that those two goals need not be at odds. There

[1122] Southern California Associates of the Committee for Economic Development*, National Defense and Southern California, 1961-1970,* p. 9, 89

[1123] "Brown's Arid California, Thanks Partly to His Father," *The New York Times*, 16 May 2016.

[1124] Lisa McGirr, *Suburban Warriors,* 49-55; Sale, *Power Shift*, 55-71; Lynne P. Doti, *Financing California Real Estate: Spanish Missions to subprime mortgages,* Routledge, 2016, pp. 8, 102-114; Stuart W. Leslie, "Cold War Suburbs: Thinking about the Unthinkable in Style, *Southern California Quarterly*, Vol. 102, No. 1, pp. 24–56.

[1125] Hyman P. Minsky, "Commercial Banking and Rapid Economic Growth in California" in *California Banking in a Growing Economy: 1946–1975,* ed. Hyman P. Minsky (Berkeley, 1965) 79-134, esp. 89-91 and 129-134.

was, however, a third term in the trilemma. Military spending might boost domestic economic activity, but no different than any other kind of fiscal expansion it raised fears about international pressure on the dollar. On the eve of the election, *Business Week* described the basic problem:

> whether to concentrate upon policies to stimulate domestic growth and full employment, even if this means letting international economic relations go to pot—or whether to fight to maintain the stability of the national currency and the trading relations among nations, even though this may involve either slow growth or shrinkage, and high levels of unemployment.[1126]

The editors had no solution to offer besides balance. As the election came to an end, the two candidates moved from each end towards the center. A well-publicized uptick in gold outflows in October 1960 served notice to Kennedy that the international financial community would not tolerate excessive expansion. Even before his election, the candidate stopped attack "tight money" and offered various other reassurances to European bankers.[1127]

From the other side, Nixon (acting on advice from Arthur Burns) tried to get Eisenhower to accelerate defense spending in the run up to the election. Retellings of this episode stress Eisenhower's refusal to do so, which Nixon blamed for his defeat[1128]. What is less often remembered is that in at least one instance, Nixon got his way. At the last minute, the Eisenhower administration restored some funding to the cancelled B-70, for which North American Aviation in Southern California was the prime contractor. The announcement of this decision was accompanied by "a detailed statement by North American" on the employment effects of the decision. On November 1, a week before election day, the *Los Angeles Times* front page screamed: L.A. AIRCRAFT PLANTS GET HUGE U. S. ASSIST. Nixon carried by

[1126] "The Election and the Economic Dilemma," *Business Week*, Oct 29, 1960, 144

[1127] Panitch and Gindin, *Making of Global Capitalism*, 123.

[1128] Nixon, *Six Crises,* 309-310.

California by just 30,000 votes: the NYT reported that "many attribute these [votes] to aviation workers."[1129] The causation is impossible to prove, but the mathematics are plausible: North American's Los Angeles Division employed 17,000 aircraft workers at the end of 1960, a figure they expected to soon rise to 20,000 as a result of the well-timed B-70 award.[1130] Supposing every North American worker in L.A, plus one dependent, voted for Nixon, their votes alone would account for the Republican margin in California.

The Substitute Stimulant

From one perspective, Kennedy's victory was a breakthrough. By the turn of the 1960s, a constellation of social forces had congealed into a bloc powerful enough to overthrow the fiscal politics of sound money and the security politics of the New Look. This coalition would drive the Democratic Party victories in the elections of 1958 and 1960; in turn, the experience of defeat in these elections would help push the Republican Party in the direction of expansionary economic policy and bigger defense budgets (as embodied in the experience of Richard Nixon, whose bitter memories of 1960 directly shaped his later forays into military Keynesianism).[1131]

But even before the election, the gold outflow had made Kennedy aware of how limited his room for maneuver would be. Desperate to restore business confidence—and perhaps also eager for the approval of the WASP business community that had excluded his father—

[1129] "L.A. Aircraft Plants Get Huge U.S. Assist: Millions for B-70 Project," *LA Times,* Nov 1, 1960, 1; Jack Raymond, "B-70 Stirs A Wide-Ranging Controversy: Air Force and Congress Have Championed Disputed Bomber, While Two Presidents Have Fought," *NYT*, Mar 11, 1962, E5; Herbert York, *Race to Oblivion*, 56; Peter Roman, *Eisenhower and the Missile Gap*, 167.

[1130] "L.A. Aircraft Plants Get Huge U.S. Assist"; John F. Lawrence, "Defense Speedup: Big Rise in Pentagon Spending Will Bolster Sales," *WSJ*, Dec 8, 1960, 1.

[1131] On Nixon's career, see Tim Barker, "'Don't Discuss Jobs Outside This Room': Reconsidering Military Keynesianism in the 1970s' in *The Military and the Market*, eds. Jennifer Mittelstadt and Mark R. Wilson (Philadelphia: University of Pennsylvania Press, 2022).

president-elect Kennedy turned immediately to Republican bankers. Kennedy approached Robert Lovett, who had voted for Nixon, to offer him his choice of top cabinet posts. Lovett declined but Kennedy took many of his recommendations for appointments. In his major attempt to reassure business, Kennedy named Douglas Dillon—a major Nixon donor, the son of the founder of Dillon, Read, not to mention a member of the same Harvard final club as Kennedy—to head Treasury. Lovett also suggested the Republican auto executive Robert McNamara for Defense and Dean Rusk (who Lovett knew from the Rockefeller Foundation) for State.[1132]

By contrast, the new economists found themselves relatively out of favor. Kennedy asked Lovett "about the acceptance of some of these men [specifically Samuelson, Galbraith, and Harris] in the financial community," Lovett replied that the Kennedy campaign's "apparent reliance on the views and theories of some of his outer-fringe Harvard economists 'caused me to look longingly at Republican conservatism.'"[1133] Kennedy yielded to such concerns, dispatching Galbraith to an embassy in India, far from the levers of domestic power. Harris, his oldest intellectual ally, was not offered a cabinet position and never rose higher than the role of Treasury consultant. Kennedy apparently promised Harris a seat on the Federal Reserve Board, though in November 1963 he passed Harris over for Dewey Daane.[1134] After Kennedy's assassination, Johnson told advisors he intended to honor Kennedy's commitment to put Harris

[1132] Isaacson and Thomas, *The Wise Men*, 592-593.

[1133] Robert A. Lovett, recorded interview by Dorothy Fosdick, August 17, 1964, (page number), John F. Kennedy Library Oral History Program. https://www.jfklibrary.org/sites/default/files/archives/JFKOH/Lovett%2C%20Robert%20A/JFKOH-ROAL-02/JFKOH-ROAL-02-TR.pdf

[1134] The CEA remembers that Galbraith was the most important person pushing Kennedy to make this commitment to Harris, and that Robert Roosa was one of the most important anti-Harris forces within the administration. https://www.jfklibrary.org/sites/default/files/archives/JFKOH/Council%20of%20Economic%20Advisers/JFKOH-CEA-01/JFKOH-CEA-01-TR.pdf

on the FRB, but abandoned the idea after Texas banker Robert Anderson told LBJ that Harris was not "not highly regarded at all" by bankers, including "foreign central bankers."[1135]

Hand in hand with the hostility to the new economics came a hostility to social spending. Sidney Weinberg complained Kennedy's advisors--"a bunch of professors with a lot of theories, who don't have much business experience"—had persuaded him to present Congress with "too much welfare legislation." The conservative coalition in Congress ensured that almost none of it would pass. Kennedy not only faced opposition from the financial community, but from the legislature. As Walter Lippman wrote, "During his first two years, however, the President did not think that he could convince Congress or a majority of the people that economic growth can be promoted deliberately ."[1136] As the CED's Herbert Stein explained, old-fashioned ideology was "not the main basis of [Kennedy's critics'] opposition. They objected to the particular spending programs aside from their effects on the deficit, just as Kennedy wanted those programs for reasons other than their contribution to the deficit and to economic recovery."[1137]

Only one form of fiscal policy remained open. Military spending became the "substitute stimulant," a phrase used by one of Kennedy's closest advisors.[1138] Military Keynesianism had

[1135] https://www.discoverlbj.org/item/tel-01220. On this call Anderson calls the Fed appointment Johnson's "most important world appointment." For Johnson's ultimate conclusion that "I can't name this damn fellow Seymour Harris to the Federal Reserve," see https://www.discoverlbj.org/item/tel-01227. For Johnson's deference to Martin and Dillon on FRB appointments, https://fraser.stlouisfed.org/archival-collection/papers-lyndon-b-johnson-1172/telephone-conversation-lyndon-b-johnson-456940. Cf. John T. Woolley, *Monetary Politics: The Federal Reserve and the Politics of Monetary Policy* (New York: Cambridge University Press, 1984) 52.

[1136] Hobart Rowen, *The Free Enterprisers: Kennedy, Johnson, and the Business Establishment* (New York: Putnam, 1964), 298n7, 392.

[1137] Stein, *Fiscal Revolution*, 393. See also Henry Fowler memo to JFK: "Your Address to the Economics Club," Dec 14, 1962. Papers of John F. Kennedy. Presidential Papers. President's Office Files. Speech Files. Remarks to Economic Club of New York, 14 December 1962. JFKPOF-042-008-p0002.

[1138] Theodore C. Sorensen, *Kennedy* (New York: Harper and Row, 1965), p. 398

been on the agenda during the campaign, of course. But there had been some tension among his advisors about how frankly to make this connection. On the eve of the election Kennedy's advisors reportedly "called for stepped up defense spending but some disliked putting this in the context of an aid the economy plan."[1139] Besides the discomfort with open stimulus talk, some advisors also still hoped for social as well as military spending. They soon settled on "an increased emphasis on military spending and ... decrease in social outlays" because it "It is much easier to get Congress to approve an extra dollar for arms than an extra dollar for public works."[1140] By April 1961, Kennedy was telling reporters that "we have asked for a substantial increase in expenditures for the national defense. This will affect, beneficially, employment."[1141]

A historic breakthrough came that summer, when the USSR demanded the removal of NATO troops from West Berlin and, eventually, began construction of the Berlin wall. We remember Kennedy's 1963 announcement that he was a Berliner, but the fiscal response to the Berlin Crisis two years earlier was just as momentous. He sought over $3 billion in emergency military appropriations.[1142] Most of his advisors wanted to pay for this with higher taxes, which they hoped would demonstrate national resolve and move the budget closer to balance. But the Council of Economic Advisers believed that they "just can't let this happen with so much slack in the economy." Backed by Ted Sorensen and an emergency trip to Hyannisport by Paul

[1139] Bernard D. Nossiter, "Economic Shot-in-Arm Discussed: Kennedy Advisers Map Booster Plan to Use if Elected," *Washington Post*, Oct 1, 1960, 1.

[1140] Bernard D. Nossiter, "Bid Fund Requests Due for Arms, Space Budgets: Reasons Cited Frontal Attack," *Washington Post*, May 20, 1961; A1.

[1141] News Conference 9, April 12, 1961. JFK Library. <https://www.jfklibrary.org/archives/other-resources/john-f-kennedy-press-conferences/news-conference-9>

[1142] "Congress Assures President Fast Action on Defense Funds Requested," *WSJ*, Jul 27, 1961, 3.

Samuelson, the CEA prevailed against the rest of the administration.[1143] Billions in new spending was announced, without any tax offset.

The stimulative effects were instantly recognized for what they were. Labor Department manpower expert Seymour Wolfbein told *Nation's Business* that the crisis would ""add upward lift to national employment" and "ease somewhat the unemployment problem with which we have been plagued."[1144] Fortune announced in July 1, 1960 that "a rise in demand in most sections of the economy is to be expected, led by an increase in defense spending." [1145] Paul Samuelson, whose last-minute call to Hyannisport had helped Kennedy reach his decision, noted with relief: "It appears to me that the Berlin crisis has fortuitously brought the economy the extra expenditures we needed for a more vigorous recovery."[1146] Samuelson's insight can be fleshed out: Walter Heller's memo of March 17, 1961 called for the budget deficit to increase from $2.5 billion to $10 billion in order to bring unemployment down to six percent by the end of 1961 (a number well short of "full employment," which Heller and his ilk defined as four percent unemployment).[1147] With the Berlin appropriation, the deficit for FY1962 reached just over $7 billion—still less than Heller wanted, but still utterly conceivable without the Berlin Crisis.[1148]

[1143] "Council of Economic Advisers Oral History Interview –JFK#1, 08/1/1964," JFK Library, pp. 377-400; Schlesinger, *A Thousand Days*, p. 390, Walter Heller, "WALTER HELLER ORAL HISTORY, INTERVIEW II" LBJ Library < https://fraser.stlouisfed.org/files/docs/meltzer/heller_interviewII_19711221.pdf>

[1144] BERLIN CHANGES JOB OUTLOOK: Federal manpower authority assesses impact of crisis in special interview Nation's Business (pre-1986); Washington Vol. 49, Iss. 9, (Sep 1961): 38.

[1145] "Business Roundup," *Fortune* (July 1, 1960), p. 47

[1146] Collected Papers of PAS, Vol III,731

[1147] Council of Economic Advisors, "A Second Look at Economic Policy in 1961," March 17, 1961, Papers of John F. Kennedy. Presidential Papers. President's Office Files. Folder: Heller, Walter W., 1961

[1148] FRED

The Fed was willing to accommodate the fiscal impetus from the Berlin buildup. [1149] The FOMC had an extensive discussion of the economic effects. A staff economist reported that new defense appropriations had "dispelled very rapidly the doubts that were growing in some quarters about the continuing strength of the recovery." The head of the Boston Fed noted the "ramifications in terms of consumer expectations, public psychology, and business reactions as well as its direct impact in terms of the placing of orders and subsequent increase in expenditures." Multiple participants welcomed the fact that the new spending was concentrated in conventional weaponry, production of which could be increased immediately using idle capacity in regions left behind by the missile age.[1150] On Wall Street, a bull market was driven by "national defense stocks" and "basic industrial companies" which would benefit from the "emphasis on limited war—the infantry, artillery type."[1151]

One force pushing for more flexible monetary policy was Robert Roosa. Back in 1956, Roosa and Alfred Sproul (both then officials of the New York Fed) had pondered the possible "influence of Government waste in helping to maintain a stable growing economy." According to Roosa, this was "certainly a paradox reminiscent of the disturbing aspects of Keynes' General Theory—which I remember vividly trying to wrestle with when the book first appeared just 20 years ago, while I was a struggling undergrad, overawed by what struck me as learned nonsense."[1152] Despite this early confusion, Roosa would play an important role in establishing

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[1149] Chief Economist Sanford S. Parker and Associate Economist Morris Comb, "Business Roundup, " *Fortune* (July 1, 1960), p. 47.

[1150] Historical Minutes, FOMC Meeting 8/1/1961, p. 8, 21, 25, 32. https://www.federalreserve.gov/monetarypolicy/files/fomchistmin19610801.pdf. For industry testimony on excess capacity, see Arlen J. Large, "Berlin's Impact: Defense Build-Up Leads Federal Units to Ready Anti-Inflation Moves," *Wall Street Journal*, August 8, 1961, 1.

[1151] Warren Berry, Highest Ever-- Stock Values Up $3.8 Billion: New York Herald Tribune, August 2, 1961, 1.
[1152] "Defense spending" is specifically mentioned elsewhere in the letter. Roosa to Sproul October 4, 1956, Allan Sproul Papers, Bancroft Library, UC Berkeley, Box 6, Folder 43.

the monetary policy that was a precondition for the application of the New Economics. As a Treasury Undersecretary under Kennedy, Roosa was a crucial broker between the executive branch and the Fed. Under his influence, the Fed abandoned its restrictive "bills only" doctrine and cooperated with the Treasury on "Operation Twist," an effort to bring down long-term interest rates.[1153] Roosa also engineered various other measures for coordinating international central bank support of the dollar, such as currency swaps and the London Gold Pool.

The Berlin Crisis was a genuine and unplanned international conflict, but it was not just the force of world politics that caused so much of Kennedy's budget to be military. The ICBM buildup provides the most momentous case of instrumental military Keynesianism undertaken because of domestic pressures. In January 1961, the U.S. had 12 operational ICBMs, a figure the Eisenhower administration already planned to bring up to 1,100 strategic missiles. The Kennedy administration raised the target to 1,710, a level attained in 1967. According to McNamara himself, this strategic advantage was "greater than we had originally planned and in fact more than we require."[1154] The overkill was a result of pressure from the military, Congress, and industry as well as the administration's macroeconomic strategy.[1155]

Less imposing than the nuclear buildup was the routine direction of defense spending toward counter-cyclical ends, evident in the frankly counter-cyclical acceleration of defense

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[1153] The "bills only" policy meant that the Fed would only intervene in the markets for short-term securities. Operation Twist sought to reduce long-term rates (to spur economic expansion in the U.S.) while keeping short term rates high enough to attract foreign capital inflows. This strategy required the Fed expand its range of open market operations to include long term securities. Hetzel and Leach, After the Accord: Reminiscences on the Birth of the Modern Fed, 62.

[1154] Desmond Ball, Politics and Force Levels, xiv-xv; 241-2

[1155] At the conclusion of his detailed study (which drew on interviews with insiders), Desmond Ball protests that "the relationship between the prevailing economic situation and the U.S. missile decisions" was "subtle" and "circumstantial" before confirming that "perceived economic necessities" played a major role. Ibid. 262-3

spending as an anti-recession measure in 1961.[1156] One of the CEA's first allies in promoting deficit spending was Kenny O'Donnell of the "Irish Mafia," who immediately understood how military Keynesianism fit into older practices of machine politics.[1157] True to his campaign promises, Kennedy directed spending toward surplus labor areas. Aerospace became an early weapon in what would become the War on Poverty. West Virginia, where Kennedy had conspicuously campaigned to draw attention to the economic crisis of Appalachia, received disproportionate favor, jumping from 46th to 26th place among states receiving the most defense contracts between 1960 and 1963.[1158] At Kennedy's personal request, North American Aviation built a plant in West Virginia, which a North American lobbyist described as just one of "all the little plants that we put around the country to make [good] Mr. Kennedy's promise of good things for downtrodden people."[1159] Senator John Sparkman of Alabama, placed in charge of a new program to help channel contracts, spoke frankly of military spending "as an instrument…to decrease unemployment and in general bolster the economy of distressed areas."[1160]

The record featured explicitly in the 1962 midterm elections. At an October rally in the steel town of McKeesport, Kennedy boasted that "since 1960, we have increased by 50 per cent the number of prime defense contracts that come to Pennsylvania."[1161] The same month, Kennedy (whose brother was running for Senate in Massachusetts) personally intervened to

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[1156] Ball, Politics and Force Levels, 261-262.

[1157] CEA oral history, JFK Library.

[1158] https://library.cqpress.com/cqalmanac/document.php?id=cqal63-1317449

[1159] Oral History Interview: Fred B. Black, Jr., February 27, 1973, 8-9. Robert Sherrod Apollo Collection, NASA Archives. <https://docslib.org/doc/11902755/oral-histories-command-and-service-module>

[1160] "Hearings on Nuclear Space Projects Set," *Aviation Week* (August 20, 1962) 36.

[1161] John F. Kennedy, Remarks at City Hall, McKeesport, Pennsylvania. Oct 13, 1962. Online by Gerhard Peters and John T. Woolley, The American Presidency Project <https://www.presidency.ucsb.edu/node/236140>

prevent the phase-out of M-14 rifle production in Worcester.[1162] Less than a week before election day, the federal government awarded $102.5 million missile contract to Sterling, Michigan, where hundreds of homes formerly owned by Chrysler workers were "vacant by reason of repossession. The award was announced by a joint press conference of four Democratic candidates, who called it "one of the most important industrial developments of recent years in Michigan" and emphasized that laid-off auto workers would be given preference in hiring. Sterling's Township Supervisor told the press, "All I can say is, 'wow.'"[1163] In California, Nixon (a losing candidate for governor in 1962) complained that Kennedy was "really loading up the defense contracts into this area and getting maximum publicity every time such an allocation is made. With all of their faults we will have to agree that they play their politics to the hilt!"[1164]

The Kennedy administration's embrace of military Keynesianism was only one piece of a larger policy landscape. While the overall military budget was markedly increased, Defense Secretary Robert McNamara oversaw an ambitious attempt to contain costs through technical reform of the procurement process. McNamara even insisted that the Pentagon "cannot be expected to create a level of demand adequate to ensure a healthy and growing economy" (a denial that suggests some people held the opposite belief).[1165] But McNamara's reforms were no match for the political pressures to keep defense dollars flowing, as demonstrated most strikingly in the continuation of various employment-creating manned bomber programs that McNamara

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[1162] Jerry Landauer, "Alleged Favoritism in Letting of Defense Contracts Spurs Probe," *WSJ*, Feb 27, 1963, 1.

[1163] Tom Kleene, "$100 Million Missile Deal to Make 5,000 Jobs Here," *Detroit Free Press*, Nov 2, 1962, A1-A2.

[1164] To Burns, the same year, he wrote: "If only we had done likewise in 1960 as you so strongly urged!" Both quoted in Stephen Ambrose, *Nixon Volume I: The Education of a Politician 1913-1962* (New York: Simon and Schuster)660

[1165]

himself believed served no strategic purpose. One of these, the TFX, was at the time the largest single U.S. military contract of all time; the award of the TFX to a struggling General Dynamics (rather than Boeing) was almost certainly the result of a direct political pressures from a cluster of administration with figures with ties to Texas or General Dynamics.[1166]

Another feature of the policy landscape was the under-recognized role of the Kennedy administration in launching what would eventually become known as financialization. At the behest of Clarence Dillon and Robert Roosa, Kennedy appointed James J. Saxon, a veteran of both the DNC and the American Bankers Association, as comptroller of the currency. From this little-known office, Saxon launched an energetic crusade of discretionary bank deregulation.[1167] In 1961, Walter Wriston of First National City Bank introduced the negotiable certificate of deposit (CD) and regulators, presented with a fait accompli, allowed it—a decision that would transform the financial system by radically expanding the ability of commercial banks to create new liquidity.[1168] The early 1960s financial breakthrough also took shape through the CED, whose Commission on Money and Credit (established in 1957) issued its final report in June 1961. As Onur Özgöde has documented, the CMC "set the course for an economic growth strategy relying on risk-taking and financial speculation." Like military Keynesianism, the CMC's project of reactivating the circuits of finance was a response to the sluggish growth of the late 1950s and the perceived institutional limits to fiscal policy. [1169] Within a few decades, a new

[1166] Marshall, *Dark Quadrant*, 169-175; Chris Hansen, *When Pigs Flew: The TFX Affair* (Tucson: Able Baker Press, 2021).

[1167] Panitch and Gindin, *Making of Global Capitalism*, 122.

[1168] Albert M. Wojnilower "The Central Role of Credit Crunches in Recent Financial History," Brookings Papers on Economic Activity, No. 2 (1980), 287.

[1169] Onur Özgöde, "Governing the Economy at the Limits of Neoliberalism: The Genealogy of Systemic Risk Regulation in the United States, 1922-2012" (dissertation, Columbia University, 2015) 333-362, quote at 352.

sort of demand management focused on credit conditions and asset prices would have eclipsed military Keynesianism—but its origins lay in the same problematic.

Another sign of things to come was the Kennedy CEA's enthusiasm for tax code inducements to business investment (what Paul Samuelson candidly called the "bribe to capital formation").[1170] But this did not get underway until October 1962, with the passage of an investment tax credit. Business investment began to rise appreciably in mid-1963, marking an end to seven years of stagnant private investment. Before then, defense provided the primary fiscal impulse for economic expansion. As late as 1962, this was in the future: Business Week could still write that "every postwar government has sought to conceal its discretionary moves by simply speeding up defense spending rather than by going to Congress for tax reductions."[1171] At the starting line of the 1960s expansion, the fiscal starter's pistol was fired from the Pentagon.

Conclusion: The Party of Movement

As Kennedy advisor Harold L. Nieburg said, *Sputnik* "provided a clarion call to all groups who sensed or suffered the social standstill of the 1950s and wanted change. Every energetic group sought to capitalize on the alleged mortification."[1172] National security became the sign under which the economic stagnation could be attacked and, ultimately, overcome. The "Eisenhower stagnation" was long and deep enough that contemporaries could not ignore it, but brief enough that it has been almost entirely forgotten. Its brevity is due to the success of the military-growth coalition, which gained power by politicizing stagnation and used that power to impose a program of economic expansion which would not otherwise have occurred. The price

[1170] Samuelson, Economics: An Introductory Analysis (1967 edition) 769

[1171] "Where Fiscal Policy Went Wrong," *Business Week*, December 29,1962, 88.
[1172] H. L. Nieburg, *In the Name of Science* (Chicago: Quadrangle Books, Chicago, 1966) 381

paid was that, at the very moment when fears of secular stagnation returned, the critique of prevailing economic arrangements was absorbed into the project for more energetic militarism.

Whether militarism was the only political path available to developmental social forces is ultimately unknowable, but every indication suggests that social Keynesianism was off the table, even after the Democratic electoral breakthroughs of 1958 and 1960. Even tax cut stimulus, manifestly favorable to business, remained untenable until 1964; any fiscal priorities less attractive to business must be considered *a fortiori* unfeasible before that point. This reflected the continued power of corporate internationalists, whose direct role in the staffing of the Kennedy and Johnson administration was the most direct obstacle to alternative forms of expansion.

The political business cycles of 1952 through 1960 show that the intersection of defense and economic growth had become the central issue in national politics. The historical evidence reveals that the nature of this intersection defies simplistic summary. In many instances, the defense issue was instrumentally or even cynically exploited on behalf of electoral or economic ends. At the highest level, the "missile gap" was a fabrication whose authors personified the conspiratorial image of the military-industrial complex.[1173] Countless cities, towns, and businesses provide more modest but cumulatively overwhelming examples of the militarized pork barrel. Yet there is no mistaking the reality of American fears that they might lose their preponderance of power and influence over the course of world politics. Without these fears, no amount of prospective economic stimulus would have generated a military buildup like the one that took place between 1957 and 1964. Starting from this fundamental commitment to military power, people who would otherwise have had little interest in economic expansion discovered its

[1173] Even McNamara and Kennedy eventually realized it was a "myth." Christopher A. Preble, "Who Ever Believed in the 'Missile Gap'?": John F. Kennedy and the Politics of National Security," *Presidential Studies Quarterly.* 33 (4): 801–826.

charms. The linkage went both ways: military spending was a means to prosperity, but new economic thinking also unfettered military power from the budget ceiling.

The formula's power was proven across the first half of the 1960s. Kennedy's .17% margin of victory in 1960 gave way to LBJ's 44-state landslide in 1964. Sidney Weinberg, the New Deal financier who had defected to Eisenhower and Nixon, returned to the Democratic fold.[1174] After an LBJ addressed the Business Council, Weinberg said "No one has ever made a more stirring address to businessmen, and in 30 years I've heard a lot of them."[1175] The good feelings were reflected in soaring animal spirits: the share of fixed business investment in GDP increased two full points between 1960 and 1966. Keynes belatedly made the cover of *Time*, testimony to the success of the 1964 tax cut, which had displaced military spending as the major fiscal impetus. *Business Week* declared that "the transformation of the U.S. from a relatively low-investment to a high-investment economy—one of the principal aims of the expansionary fiscal policy of the past five years—is now essentially complete."[1176] By the time that article ran there were almost 400,000 U.S. soldiers in Vietnam. The war enjoyed nearly universal support in the United States, a sign that the Kennedy planners' "flexible response" strategy had become just as popular as had Keynesian stimulus. The tide was high.

[1174] The *New York Times* estimated that 60 percent of Business Council members supported Johnson in 1964. BC members donated 50% more to Johnson than Goldwater (by comparison, Nixon had received 7 times more from BC members than did Kennedy in 1960. McQuaid, *Big Business and Presidential Power,* 231-232.

[1175] "State of Business: Banish Your Fears," *Time,* 13 Dec. 1963.

[1176] "The high-investment economy," *Business Week*, 12 Nov. 1966, p. 202.

Chapter 5: The Vietnam War Boom and the Crisis of Cold War Capitalism

[The Vietnam War] has damaged the lives and living conditions of the American people and fomented a broad and vigorous struggle movement of the American people…In this background, inflation along with increased taxes "has made everyone angry and want to cause trouble."
-*Học Tập* (theoretical journal of the Communist Party of Vietnam), 1970

Inflation, no chance/To increase finance
Bills pile up sky high/Send that boy off to die
-Marvin Gaye, 1971

In every history of U.S. or world capitalism, 1973 is a turning point, the bookend to the golden age that began after 1945.[1179] Naturally, the crisis did not arrive suddenly in 1973 but had been gathering since the mid-1960s. The Marxist theorist Ernest Mandel places the end of the long wave of post-war growth in 1966, while conservative monetarist economists date the onset of the Great Inflation precisely to December 1965.[1180] Not coincidentally, the years between 1965 and 1973 witnessed the peak of the U.S. war against Southeast Asia. The scale and speed of the escalation (which cost around $1 trillion in 2022 prices) had a dramatic effect on economic activity in the U.S. and many other countries.[1181]

[1177] Serious Inflation in the United States, 2274110039. Vietnam Center and Sam Johnson Vietnam Archive. August 1970, Box 41, Folder 10, Douglas Pike Collection: Unit 03 - US Economy and US Mission (Saigon), Vietnam Center and Sam Johnson Vietnam Archive, Texas Tech University. <https://www.vietnam.ttu.edu/virtualarchive/items.php?item=2274110039>

[1178] Marvin Gaye, "Inner City Blues (Make Me Wanna Holler)." Tamla Records (May 1971).

[1179] The 1945-1973 periodization is ubiquitous. Some early examples include Paul M. Sweezy, "The Present Stage of the Global Crisis of Capitalism," *Monthly Review*, vol 29, no 11 (April 1978) 1-13; Samuel Bowles, David M. Gordon, and Thomas E. Weisskopf, *After the Waste Land: Democratic Economics for the Year 2000* (Armonk, NY: M.E. Sharpe, 1990); *The Golden Age of Capitalism*, ed. Marglin and Schor (New York: Oxford University Press, 1991); Eric Hobsbawm, *The Age of Extremes: A History of the World, 1914-1991* (New York: Vintage, 1994).

[1180] Ernest Mandel, *Late Capitalism* (Verso/New Left Books: 1975), 178; Michael D. Bordo and Athanasios Orphanides, "Introduction" in *The Great Inflation: The Rebirth of Modern Central Banking*, edited by idem. (University of Chicago Press, 2013) 9.

[1181] Figures from Edelstein, "War and the American Economy in the Twentieth Century," adjusted for subsequent inflation.

This chapter is an examination of the immediate economic consequences of the Vietnam War on the domestic U.S. economy. A brief first section sets the stage by looking at the American economy before the escalation, in order to demonstrate that the U.S. had not achieved full employment in 1965 and that the prospects for the continuation of the 1960s expansion were highly uncertain. The second section offers an economic history focused narrowly on the years of the war's peak domestic economic effects, 1966 through 1968. I show how the Vietnam escalation quickly generated inflationary pressures, and develop an interpretation of the inflation which emphasizes specific sectoral dynamics rather than a generic "overheating" or monetary overexpansion. The Vietnam inflation, and therefore the origin of the Great Inflation, was the result of a conjoined defense buildup and private investment boom, not the generic excess evoked in phrases like "too much butter and guns." The counterpart of booms in the defense and capital goods sectors was repression of consumer demand and nondefense spending.

In the chapter's third section, I look at Vietnam-era dissension within three key Cold War constituencies: workers, African-Americans, and major capitalists. I show how the direct and indirect economic effects of the war contributed to conflicts in the realms of labor struggles, urban uprisings, and business-government relations. This was a kind of social "overheating" that helped turn the war's economic pathologies into a political problem demanding urgent attention. In the final section, I look at developments in 1968 through 1972, years when the war continued but its direct economic effects were reduced relative to the peak years of the escalation boom. With a particular focus on the changing policies of Richard Nixon, I show how the sharpest edges of economic crisis and social conflict were contained but economic problems remained unresolved. Throughout years of seeming upheaval, basic political economy of investment

booms and high defense spending remained in place, ensuring that the problems first encountered around 1966 would come to define the entire decade of the 1970s as well.

The Sixties Before the Vietnam Escalation

No one has ever suggested that the American war in Vietnam was escalated to stimulate the U.S. economy. To be sure, the determination of the American state to defeat a peasant army in a small and distant country is incomprehensible outside of the larger Cold War project of containing revolutionary challenges to capitalist social relations everywhere in the world. Southeast Asia fit into this project in different ways at different times. During the Marshall Plan years, Indochina was France's main source of dollar-earning exports and thus a key to France's ability to import American goods needed for reconstruction.[1182] As Japan developed into the designated center of East Asian capital accumulation, American planners dreamed that Vietnam could trade rice and raw materials for Japanese manufactured goods.[1183] Southeast Asia was also a frontier between revolutionary China and important non-aligned states such as India and Indonesia (the latter home to the PKI, the world's largest nongoverning communist until the massacres of 1965-6).[1184] But all of this concerned the American economy only through complex mediations.[1185] To the extent that Lyndon Johnson's thought about the economy during the

[1182] Robert E. Wood, *From Marshall Plan to Debt Crisis: Foreign Aid and Development Choices in the World Economy* (Berkeley and Los Angeles: University of California Press, 1987) 29-67.

[1183] Michael Schaller, "Securing the Great Crescent: Occupied Japan and the Origins of Containment in Southeast Asia," *Journal of American History*, Volume 69, Issue 2 (September 1982) 392–414.

[1184] After the physical elimination of the PKI, McNamara gloated in private that "the trend in Asia was now running in America's favor, which reduced the importance of South Vietnam." Richard Nixon (a New York corporate lawyer awaiting his next presidential bid) stated publicly that Indonesia was "by far the greatest prize in the Southeast Asian area," and credited the U.S. war in Vietnam with allowing the Indonesian junta "to rescue their country." McNamara quoted in A.J. Langguth, *Our Vietnam: The War, 1954-1975* (New York: Simon & Schuster, 2000) 446. Richard Nixon, "Asia After Viet Nam," *Foreign Affairs*, Vol. 46, No. 1 (Oct. 1967) 111-125.

[1185] 52. Letter from Secretary of Commerce Connor to Certain U.S. Business Leaders, undated [c. March 1965]. *FRUS, 1964-1968, Vol VIII, International Monetary and Trade Policy* <https://history.state.gov/historicaldocuments/frus1964-68v08/d52>

escalation, it was in the spirit of his 1964 boast: "Hell, we're the richest country in the world, the most powerful. We can do it all."[1186]

It is frequently, and correctly, noted that U.S. business had neither markets nor investments to protect in Vietnam. It is less well known that the Vietnam escalation decisions were made while the government was trying to redirect foreign direct investment (FDI) by U.S. firms away from Europe and towards the Third World.[1187] In February 1965, the administration announced the participation of leading multinational capitalists in a program of voluntary investment restraint, which explicitly exempted the Third World. Many individuals involved with the balance of payments effort also took part in the successful campaign to sell the escalation to the business elite between August and October 1965.[1188] The head of the Balance of Payments Advisory Committee came from Socony Mobil Oil, one of the few American corporations with major interests in Southeast Asia, whose lobbyist advocated an "unlimited" U.S. military commitment Vietnam back in 1963.[1189]

[1186] Quoted in Robert Collins, *More: The Politics of Economic Growth in Postwar America*, 54.

[1187] The rationale was that FDI in Western Europe was a drain on the U.S. balance of payments, but investment in the developing world brought more in repatriated corporate earnings than it sent out in capital outflows. James P. Hawley, *Dollars and Borders: U.S. Government Attempts to Restrict Capital Flows, 1960-1980* (New York: Routledge, 2016) 69-71.

[1188] The crossovers included John Connor and Henry Fowler (who had both joined the cabinet from the Business Council), Sidney Weinberg (Goldman Sachs), Fred Borch (GE), Carl J. Gilbert (Gilette), J. Ward Keener (Goodrich), and Stuart Saunders (Pennsylvania Railroad), For full guest lists, see President's Daily Diary: Aug 17, 1965; Sept 16, 1965; Sept 30, 1965; Oct 5, 1965. Lyndon B. Johnson's Daily Diary Collection, LBJ Library. <http://www.lbjlibrary.net/collections/daily-diary.html>

[1189] The Advisory Committee Chairman was Albert Nickerson. The "unlimited" quote is from William Henderson, "Some Reflections on United States Policy in Southeast Asia" (1963) cited in Peter Dale Scott, "Vietnamization and the Drama of the Pentagon Papers," in Noam Chomsky and Howard Zinn, eds, *Pentagon Papers, Volume 5: Critical Essays* (Boston: Beacon Press, 1972) 229. Socony did business in Southeast Asia as Stanvac, a joint venture with Standard of New Jersey. On Stanvac's complex but ultimately antagonistic relationship with Sukarno's revolutionary nationalism, see Bradley R. Simpson, *Economists with Guns: Authoritarian Development and U.S.-Indonesian Relations, 1960-1968* (Stanford: Stanford University Press, 2008).

Was there any connection? Clearly, the differential effects of Third World FDI on the balance of payments were not the motivation for the escalation. It plausible that the post-hoc business consensus in favor of the escalation decision was lubricated with dinner table rationalizations about FDI.[1190] But it is just as plausible that FDI controls were necessary because foreign military expenditures were expected to wreak havoc on the balance of payments. Or it could be a coincidence: the administration believed that promoting the national interest independently required the destruction of the Vietnamese revolution *and* increased FDI to the rest of the Third World; people like Weinberg and the oilmen were involved with both because they were involved with everything. The example shows only that economic and military affairs were conducted by a small, overlapping group and that their mere social proximity elite explains little about the exercise of power at different levels.

Though there is no sign it swayed his thinking, LBJ did seek macroeconomic counsel on how the war would affect the economy. In a memo dated July 30, 1965, CEA head Gardner Ackley explained that the needs of the economy and the need for war were in harmony. Despite the economic expansion that had been underway since 1961, the economy still had "a $15-$20 billion margin of idle industrial capacity and excessive *unemployment*." Given high rates of investment, the problem of idle capacity would only increase. Only government spending could close the output gap: "Apart from the defense effort, *market demand would not be likely to grow as fast as* productive capacity during the course of FY 1966, and unemployment would probably be creeping up." In a classic military Keynesian two-step, Ackley insisted that he was "certainly

[1190] At least one businessman apparently made the link publicly in the summer of 1965. Alfred Wentworth, vice president of the Rockefeller-led Chase Manhattan Bank, said that "foreign investors have been somewhat wary of the overall political prospect for the region" but that "U.S. actions in Vietnam this year… have considerably reassured both Asian and Western investors." Wentworth went on to compare the effect to that of NATO on investment in Europe and the Korean War on investment in Japan. Harry Magdoff, *The Age of Imperialism: The Economics of U.S. Foreign Policy* (New York: Monthly Review Press, 1969) 201. Magdoff cites a July 1965 interview with Wentworth in a journal identified as *Political* [sic].

not saying that a Vietnam crisis is just what the doctor ordered" but added that "on a coldly objective analysis, the over-all effects are most likely to be favorable to our prosperity."[1191]

The significance of Ackley's analysis was not that the war should be pursued as a stimulus, but that the war would be politically acceptable because it would utilize excess capacity rather than diverting resources from other uses and causing inflation. This was particularly important for the nation's corporate elite, whose support would make it much easier to go to war. Ackley reassured the president that business had no reservations except the fear the war would lead, as earlier wars had, to price controls and an excess profits tax. In other words, capitalists would object to government encroachment on their private prerogatives to set prices and control surplus, but not to government spending *per se*. Ackley advised, "*We can say—and perhaps should emphasize publicly—that direct controls are simply not live possibilities.*"[1192]

Johnson enjoyed a warm relationship with the business community, particularly compared to the peculiar mistrust with which capitalists had regarded Kennedy. In the 1964 election, big business had lined up with Johnson against Barry Goldwater. This support was organized through the National Independent Committee for President Johnson and Senator Humphrey, whose "membership, now 75 per cent Republican, is limited to top-level business and financial leaders." One of the group's leaders, investment banker John L. Loeb Sr., praised Johnson as one who "seems to understand and believe in the free-enterprise system and the profit motive."[1193] A study of 8,000 businessmen showed that one-third would support LBJ, compared

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[1191] 101. Memorandum from the Chairman of the Council of Economic Advisers (Ackley) to President Johnson. Subject: Economic Aspects of Vietnam. Washington, July 30, 1965. *FRUS, Vol III, Vietnam, June-December 1965.* <https://history.state.gov/historicaldocuments/frus1964-68v03/d101>

[1192] Ibid. Emphasis in original.

[1193] "Republican Split Helping Johnson," *NYT* (Sept 20, 1964) 65.

to just one-fifth for Kennedy in 1960.[1194] Johnson's wide base of corporate support naturally included representatives of the aerospace-electronics-defense complex, with which had he worked intimately in Texas politics for decades. Members of the National Organizing Committee of Scientists and Engineers for Johnson/Humphrey included executives from Northrop, Lockheed, Douglas, General Dynamics, Honeywell, North American, Aerojet, and IBM.[1195]

Over the three months after he received Ackley's memo, Johnson invited business, labor, and media figures to White House dinner discussions on Vietnam. The administration also helped put together the Committee for an Effective and Durable Peace in Southeast Asia, a public relations outfit headed by Arthur Dean, a senior partner at Sullivan & Cromwell (the Dulles' corporate law firm). [1196] Committee members included Dean Acheson, David Rockefeller, John McCloy, and other bankers and industrialists.[1197] The pro-escalation front group built on the National Independent Committee which had organized business against Goldwater.[1198] Goldman Sachs chief Sidney Weinberg, who had been FDR's top fundraiser before defecting to support Eisenhower and Nixon, returned to the Democratic fold as an informal advisor to Kennedy and then as a major backer of LBJ in 1964. In May and June 1965,

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[1194] David T. Bazelon, "Big Business and the Democrats," *Commentary* (May 1965) 39-46.

[1195] Members, National Organizing Committee, Scientists and Engineers for Johnson/Humphrey, attending meeting with President Lyndon B. Johnson at the White House, October 6, 1964." LBJ Library, NSF: Country File: Vietnam. Folder: Vietnam/Arthur Dean/Committee for an Effective and Durable Peace in Asia.

[1196] Erik A. Devereux, "Industrial Structure, Internationalism, and the Collapse of the Cold War Consensus: Business, the Media, and Vietnam," in Ronald W. Cox, ed., *Business and the State in International Relations* (Boulder, CO: Westview, 1996) 19-20.

[1197] List of members from LBJ Library, NSF: Country File: Vietnam - Folder: Vietnam/Arthur Dean/Committee for an Effective and Durable Peace in Asia.

[1198] According to Marriner Eccles, a Republican supporter of LBJ in 1964, "It quickly became apparent that . . . the object was to convert the 1964 ' independent committee into a source of support for the *Johnson* administration's escalation of American intervention in the Vietnam conflict." William Conrad Gibbons, *The U.S. Government and the Vietnam War: Executive and Legislative Roles and Relationships, Part III: 1965-1966* (Princeton: Princeton University Press, 1989) 452.

at the White House's behest, Weinberg raised $27,000 for the American Friends of Vietnam, a nominally private lobby for escalation.[1199]

In addition to their disdain for Goldwater, many business leaders had also come to interpret economic trends through a Keynesian lens after the success of the Kennedy-Johnson tax cuts. This new attitude was evident in a report filed by CEA member Otto Eckstein after a dinner with leading mutual fund executives in October 1965. According to Eckstein, "Despite their party affiliations, the fund presidents were genuinely enthusiastic for your economic policies and for you personally. They felt you understood business problems, credited the current prosperity to your tax reductions." One fund executive "paid tribute to the New Economics," which Eckstein glossed for his dinner mates as "the common sense use of the Federal budget to assure that purchasing power matches our productive potential."[1200]

This analysis led business leaders to share Ackley's concerns about the economy in 1966. Shortly after Ackley's memo, investment banker and National Independent Committee organizer John Loeb wrote to Johnson that "whatever incremental defense spending will become necessary will undoubtedly, by adding to the volume of final demand, help to maintain a strong forward momentum at a time when the beneficial effects of the 1964 cut in corporate and personal income taxes will have largely spent their strength." Loeb even worried that a "favorable turn of events in Vietnam" might raise "new doubts about the economy." His letter mentions "a number of business economists who had predicted a recessionary 1966 [and] are now raising their sights

[1199] The donors to AFVN included Weinberg himself, Ford Motor Company, Federated Department Stores, the Cabot-Saltonstall Charitable Trust, the Thomas S. Lamont Charitable Trust, the Procter and Gamble Fund, John L. Loeb, Robert Benjamin and Arthur Krim, and Robert Lehman. Joseph G. Morgan. *The Vietnam Lobby: The American Friends of Vietnam, 1955- 1975* (Chapel Hill: The University of North Carolina Press, 1997) 112, 196n39.

[1200] Otto Eckstein, Acting Chairman, CEA, "Memorandum for the President: Dinner with the Mutual Fund Presidents," October 26, 1965, LBJ Library WHCF BE 5 National Economy, 9/1/1965-11/2-1965. LBJ Library. Emphasis in original.

for next year because of the prospect of additional defense spending."[1201] It is hard to know how many businessmen shared Loeb's views, but 7 of the 48 members of the pro-escalation Committee for an Effective and Durable Peace were trustees of the business-Keynesian Committee for Economic Development.[1202]

2. The Shape of the Vietnam Boom

The Tragedy of Investment

The opening chapter of the Vietnam boom is the story of an unnaturally prolonged period of high investment. By 1964, observers already spoke of an "investment boom," and by 1965 many worried that the high level of investment was creating productive capacity in excess of final demand.[1203] Unless a new source of demand materialized, business investment would fall off, probably bringing a recession. This is what had happened in 1957, at the end of the last capital goods boom. Even those who did not want a recession knew that the rate of accumulation was too fast. In January 1966, the CEA cautioned: "it is obvious that business fixed investment cannot continuously grow twice as fast as GNP, as it did in 1964 and 1965, and that it cannot always be a propelling sector of demand."[1204] But the boom did not abate. In the first three months of 1966, capital expenditures rose another 5 percent, bringing investment in plant and equipment to its highest share of GNP since the immediate post-WWII reconversion boom.[1205]

[1201] Letter quoted in Erik A. Devereux, "Industrial Structure, Internationalism, and the Collapse of the Cold War Consensus," 21.

[1202] Domhoff, *Myth of Liberal Ascendancy*, 143.

[1203] "Capital Outlays May Boom in 1964," *NYT*, Jan 5, 1964, F1; Genevieve B. Wimsatt, "Business Expects Plant and Equipment Expansion and Larger Sales in 1964," *Survey of Current Business* (March 1964) 8-13.

[1204] *Economic Report of the President, 1966* (Washington, DC: GPO, Jan 1966) 57.

[1205] "Capital Spending Programs in Second Half of 1966," *Survey of Current Business* 46:9 (Sept 1966) 3-7.

Private investment continued booming because demand conditions were strong businesses expected that expansion would be profitable. In March 1966, capacity utilization reached a post-WWII peak of 91.6% (recently as 1961, the figure had been just 77.6%).[1206] Backlogs of new orders reached record levels as well. The average return on invested capital for Fortune 500 companies in 1966 was 12.7 percent.[1207] But the ultimate source of the strong demand conditions was the military escalation. There was a direct stimulus from Pentagon orders, which jumped more than 25% (about $15 billion) between January 1965 and December 1966.[1208] There was also a broader effect on the climate of expectations which, as Keynes had argued, ultimately determined investment demand. CEA veteran Arthur Okun wrote that "*The explanation of the capital goods boom must lie in the effect of the defense buildup on business expectations.* In the view of the American businessman, the initial *i*ncrements to the defense budget virtually eliminated any danger of recession or sluggish growth in 1966. A high floor was established under the economy, and *the downside risks essentially disappeared*."[1209]

As observers had realized since at least the late 1950s, the conjunction of a defense and investment boom was a recipe for a specific kind of inflation. Defense production and the production of capital goods required many of the same inputs: materials like specialty metals, durable goods like machine tools, and the skilled labor of machinists, engineers, and draftsmen.

[1206] Martin H. Wolfson, *Financial Crises: Understanding the Postwar U.S. Experience*, 2nd edition (Armonk, NY: M.E. Sharpe, 1994) 31.

[1207] Albert E. Burger, "A historical analysis of the credit crunch of 1966," *Review, Federal Reserve Bank of St. Louis,* vol. 51 (September 1969), 13, 15.

[1208] Riddell, "A Political Economy of the American War in Indo-China," 259. Recall that Walter Heller had argued a few years earlier that it would be impossible for the government to increase nondefense purchases by $9 billion without "waste, bottlenecks, profiteering, and scandal."

[1209] Arthur M. Okun, *The Political Economy of Prosperity* (Washington: Brookings Institutions, 1970, 67. Emphases added.

Construction was also a crucial investment goods sector, since construction workers and their equipment were required to build new plant. It was in precisely these sectors that backlogs began to build up and prices began to rise. As early as May 1965, "metal-working companies … complained to Washington that they need government help in getting parts for machines."[1210] According to the CEA's overview of developments in 1966: "Because of the strong demand for investment goods, the largest price increases came in the machinery producing sector, though prices of metals and metal products also rose appreciably." Furthermore, "manufacturing employment rose sharply, particularly in the durable-goods sector, reflecting the sharp increase in defense and capital goods spending." Materials prices rose because "the increase in demand was heavily concentrated in defense and capital goods which use large amounts of mineral raw materials." On the manpower side, the CEA reported shortages of "machinists, toolmakers, modelmakers and patternmakers, aircraft mechanics, and setup operators for various metalworking machines" and "skilled construction labor in many parts of the country."[1211]

The defense-cum-investment boom caused inflation, which fed back into increased investment demand. Once fears of inflation took hold, businesses hurried even faster to buy capital goods and build plant before prices and wages rose. By March 1966, *Business Week* wrote that "the producers of capital equipment are in no position to deal with an increase in orders on the scale that business now anticipates."[1212] By May, the unemployment rate for craftsmen and foremen had fallen to 2.2%.[1213] The tightening labor market further increased

[1210] "Impact of Vietnam begins to register," *Business Week*, May 15, 1965, 27-28.

[1211] *Economic Report of the President, 1967* (Washington, DC: GPO, January 1967) 74, 78-90.

[1212] "Editorial: When capital spending gets out of hand," *Business Week*, March 26, 1966, 200.

[1213] U.S. Bureau of Labor Statistics, *Employment and Earning: July 1966*, ed. Joseph Finerty and Kathryn D. Hoyle (BLS, July 1966) Table A-7: Unemployed persons, by occupation of last job, 26. FRASER.

demand for labor-displacing equipment. Reported *Women's Wear Daily*, there is virtually no pool of semi-skilled or skilled labor left in the South or for that matter in the nation. The consensus of machinery men is that mills will be forced to purchase equipment, if it is at all feasible economically...because of man-power shortages."[1214]

Since every other industry was a consumer of capital goods, price increases in these sectors were transmitted through the rest of the economy. Rather than a general excess of demand or money, this early inflation expressed physical limits of the economy's capacity to produce specific outputs. For a concrete example, consider Lockheed's C-141 Starlifter. Shortly after taking office, Kennedy placed the initial orders for the plane, whose airlift capacities were called for by his strategic vision of fighting small conventional wars anywhere in the world.[1215] Lockheed delivered the first operational C-141 in April 1965. Over the next three years, Lockheed built 284 C-141s at a unit cost of about $6 million each.[1216] This fleet which flew untold tons of equipment and thousands of people from California to Vietnam (and carried the wounded and dead, and released POWs, back home). This was great business for Lockheed, which did about $1.5 billion in war-related sales between 1965 and 1970 (the second highest figure of any company).[1217] But the orders quickly strained capacity, and "Lockheed was forced

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<https://fraser.stlouisfed.org/title/employment-earnings-60/july-1966-19993/unemployment-rates-among-white-collar-blue-collar-workers-111344>

[1214] Albert Mari, "The Fabrics: Ending 7% Investment Tax Credit Could Weaken Mills Against Imports," *Women's Wear Daily* (Sep 6, 1966): 52.

[1215] Richard P. Cooke, "Weapons for Limited Wars: Aircraft Makers Seen Benefiting from Army Push for Special Planes," *WSJ*, Nov 7, 1962, 26; "Bolstering U.S. Defenses: Pentagon Plans to Strengthen Non-Nuclear Capabilities; McNamara Indicates No Cut Soon in Military Outlays" *WSJ*, Jan 31, 1963, 30.

[1216] The quantity is given in Richard S. Combes, "Aircraft Manufacturing in Georgia: A Case Study of Federal Industrial Investment," in *The Second Wave,* ed. Scranton, 24-42. The unit cost is given in Harold H. Martin, *StarLifter: the C-141: Lockheed's High-speed Flying Truck* (Brattleboro: Stephen Greene Press, 1972) 183.

[1217] Riddell, "Political Economy of the American War in Indo-China," 273.

to pay its own men for a great deal of overtime, hire extra men at higher wages, and farm some of its work out to engineering firms in England." By 1971, Lockheed was close to bankruptcy because of cost overruns, saved only by a large federal loan guarantee.[1218]

But at least Lockheed, as a key military supplier, could continue production. The shortages were even worse for Douglas Aircraft, which was largely oriented toward civilian business. In its final annual report (1966), Douglas reported: "Escalation of the Vietnam War and a general rise in business activity created shortages of material, parts and skilled labor which affected both the Aircraft Division and its suppliers. Delays in the delivery of engines, landing gear and other key components to Douglas seriously disrupted the acceleration of aircraft assembly rates programmed for 1966." Specifically, Pratt and Whitney, which supplied jet engines for Douglas's DC 8 and DC 9, was swamped by military orders and cut down its deliveries for civilian production.[1219] Douglas was forced to merge with St. Louis-based McDonnell, a firm focused mainly on military production. The merged McDonnell-Douglas became the number one Vietnam War contractor as measured in contract dollars.[1220]

Lockheed and Douglas demonstrate concretely what it means for an economy to strain the limits of its capacity. The U.S. lost 4,866 helicopters and 3,706 fixed wing planes in Vietnam, a loss representing $6.5 billion in procurement costs.[1221] For years, the American industrial economy worked overtime to replace these planes as they went down, bidding up the

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[1218] Berkeley Rice, *The C-5A Scandal: An Inside Story of the Military-Industrial Complex* (Boston: Houghton Mifflin, 1971) 31.

[1219] Jonathan S. Leonard and Adam Pilarski, "Overwhelmed by success: What killed Douglas Aircraft?" Berkeley/ Haas Working Paper 2018.
<https://faculty.haas.berkeley.edu/leonard/Active%20Papers/What%20Killed%20Douglas%20Aircraft.pdf>

[1220] Riddell, "Political Economy of the American War in Indo-China," 273.

[1221] Ibid. 97.

prices of skilled labor, materials, and capital goods in the process. These pressures—fundamental to the beginning of the Great Inflation—did not originate in loose monetary policy, overgenerous welfare programs, or recalcitrant trade unions. Rather, they reflected the attrition of high-tech military hardware over the course of an unprecedented aerial assault.

Through the first half of 1966, fears grew that investment had gotten out of hand. In May, former CEA chief Walter Heller wrote to LBJ, "Apart from inflation as such, I'm worried about the investment boom—it's distorting what has been a beautifully balanced expansion."[1222] Throughout the first half of 1966, consensus opinion converged on the same view. There was an irony to this situation: the goal of the White House Keynesians had been to raise the share of investment in GDP. But no sooner had they accomplished this goal than the investment share threatened to be excessive. As well as any Marxist, the business press recognized that the accumulation of capital was a contradictory process. Wrote *Business Week*, "Capital spending is a good thing. But spending at this rate promises to be too much of a good thing."[1223] The *Times'* Edwin Dale was more dialectical: "Investment by business in new plant and equipment is one of those economic paradoxes. It is a good thing and a bad thing at the same time."[1224]

There were two major problems with overinvestment. As *Business Week* wrote, investment could be bad now and good later, "When it finally comes on stream, the new plant and equipment will help satisfy the soaring demand" but "In the immediate future… the rapid escalation of capital spending threatens to overtax suppliers and intensify inflationary strains."[1225] But as Heller put it to LBJ, investment could be good now and bad later: "All that

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[1222] Devereux, "Industrial Structure, Internationalism, and the Collapse of the Cold War Consensus," 24

[1223] "Editorial: capital spending climbs too fast," *Business Week*, April 16, 1966, 196.

[1224] Edwin L. Dale, Jr., "How Investment Fuels the Inflation," *NYT*, April 6, 1969, E2.

[1225] "Capital spending climbs too fast," *Business Week*.

new plant and equipment is great stuff for a Vietnam economy, but it will soon build up excess capacity and invite post-Vietnam investment slump."[1226] The immediate problem was inflation, and the distant problem was excess capacity. The union of these two investment-driven maladies—inflation and idle capacity—would soon come to be known as stagflation.

The Credit Crunch and the Mini-recession

The investment boom posed a collective action problem for capitalists. As an editorial in *Business Week* argued, the rate of accumulation was "disturbing" and needed to slow. But the feverish level of investment was not a "speculative bubble that should be exploded abruptly." Given well-grounded expectations that demand would continue to be strong, firms needed to invest if they wanted to increase profits and avoid losing ground to competitors. Each individual investment decision was rational, but the unplanned sum of the decisions threatened to undermine the conditions of continued expansion. Only some collective rationality—a partial socialization of investment decisions—could slow down accumulation without forcing the economy to a halt.

At the time the *Business Week* editorial ran, Johnson personally asked leading industrialists to review their plans for capital expenditures and delay or cancel them where possible.[1227] He enlisted the help of Werner P. Gullander, a former General Dynamics executive then serving as president of the National Association of Manufacturers, who approached dozens of executives on Johnson's behalf, reporting back that his conversations "met with complete success" and that "the cutback in capital expenditures will be greater than the President

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[1226] Quoted in Devereux, Industrial Structure, Internationalism, and the Collapse of the Cold War Consensus" 24.

[1227] Bill Moyers, Memo for the Secretary of Commerce [Connor], May 2, 1966; Joe Califano, For the President, April 21, 1966, 9:00 PM WHCF BE 4, 2/26/65-7/6/66. LBJ Library.

anticipated."[1228] At the high point of American Keynesianism, such personal and informal connections were as important as any technocratic levers.

But Johnson's gladhanding campaign for voluntary compliance was ineffective. In the end, effective centralized action against the investment boom would come from the Federal Reserve—but not without novel and frightening consequences. Central bankers always worried about inflation, and by December 1965 the Fed had already raised rates out of concern over the Vietnam expansion. The prime bank loan rate, which had remained unchanged for five years, jumped a whole point between November 1965 and April 1966. But the rising cost of credit did not stop banks from making business loans at an accelerating rate, in response to the persistent investment boom. The Fed then undertook more drastic measures. First, they refused to raise the interest rate ceiling that regulated how much banks could pay on savings accounts. This would limit commercial bank reserves by limiting their ability to compete for savings deposits. At the time, the Fed directly withdrew bank reserves through open market operations and restricted access to the discount window (through which member banks could borrow from the Fed).

All these measures limited liquidity at a time when economic expansion required ever more of it. The boom in investment by nonfinancial corporations was increasingly debt-financed. This was a departure: since 1945, businesses had been able to pay for capital spending with retained earnings and by selling off the war bonds they had piled up in the 1940s. This ample liquidity meant that periodic episodes of "tight money" (e.g., the late 1950s) did not turn into financial crises. As late as 1964, only 2.7% of corporate purchases of physical assets were externally financed. But as the investment boom gathered strength, this figure rose to 10.7% in

[1228] W. Marvin Watson to LBJ, Re: Capital expenditures cutback by private industry, April 11, 1966, 6:00 PM. WHCF BE 4, 2/26/65-7/6/66. LBJ Library.

1965 and 20.6% in 1966.[1229] Thus, firms were paying higher interest rates on increasing levels of debt, a fragile situation made worse by the decline in profits that began around 1966.

The Fed's aggressive limitation of credit growth kicked off a search for liquidity which threatened to destabilize the whole structure of debt obligations linking financial and nonfinancial institutions throughout the economy. Credit dried up, finally bringing a stop to business lending. Business investment fell into the middle of 1967, reflecting liquidation of inventories and a freeze in spending on new plant and equipment. Mortgage lending and housing construction cratered, and local and state governments found it extremely difficult to borrow. Desperate for liquidity, banks sold off hundreds of millions of dollars of municipal bonds (commercial banks had purchased over half of the value of municipal bonds issued between 1961 and 1965). It was soon difficult to find a market for the bonds at any price, as the sector became "disorganized" (as the situation was euphemistically referred to by bankers.)[1230]

The Fed, faced with "progressively deepening gloom in all financial markets," was forced to reverse course and ease monetary policy.[1231] Specifically, they reopened the discount window to banks which would stop liquidating municipal bonds and restrain business lending (a form of planning, in that the central bank was now not just controlling monetary aggregates but targeting credit at certain sectors).[1232] According to the chief economist of the First Boston investment

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[1229] Hyman Minsky, "The Crunch of 1966 — Model for New Financial Crises?" *Trans-action* 5:4 (1968) 44–51; Table 1.

[1230] Wolfson, *Financial Crises,* 37.

[1231] Board Of Governors of The Federal Reserve System, *Fifty-third Annual Report, Covering Operations for The Year 1966* < https://fraser.stlouisfed.org/title/annual-report-board-governors-federal-reserve-system-117/1966-2421/fulltext>

[1232] Wojnilower "The Central Role of Credit Crunches in Recent Financial History," 287, citing the letter made public in *Federal Reserve Bulletin*, vol. 52 (September 1966) 1338-39. From the perspective of monetarist economics, the central bank's use of the discount window in 1966 represented an irruption of central planning: the

bank, “The Federal Reserve appeared particularly startled and shaken by the brush with apparent disaster, as shown by a long-lasting series of private and public reassurances that no such crisis would ever be permitted to recur.”[1233] This was the first time the since the 1930s Fed had acted as “lender of last resort” to avoid financial collapse. It would not be the last.

The Fed’s reversal of its tightening stopped the credit crunch from becoming a full-blown financial crisis. But the crunch had succeeded in slowing the investment boom, and many still believed a recession was possible. There was a sharp decline in housing starts, a development almost always associated with the onset of a recession.[1234] Industrial production declined slightly. But overall, real GDP growth remained positive, though it slowed dramatically from 6.6% in 1966 to 2.7% in 1967. People tried out different names for the strange performance. Was it a “mini-recession,” “growth recession,” or “a mini-crisis, as befits an era of mini-skirts”? Was the economy “moving sideways,” tracing a “crabwise mini–slump,” or had it “progressed in stagnancy”?[1235] *Business Week* reported on the generally confused mood: "It has been a long time since the perennial greeting of 'how's business' has caused the American businessman to look so confused, uncertain, and perplexed as he does today.”[1236]

Fed was “now involved in allocating credit to different uses, a policy inconsistent with the fungibility of money and credit.” Meltzer, *History of the Federal Reserve*, Vol II, Book 1, 506.

[1233] Ibid. 238

[1234] Edward E. Leamer found that in the post-1945 era, there were only two episodes when "housing was weakening substantially but there was no recession.” These were 1951-2 (the Korean War) and 1966-7. Edward E. Leamer, “Housing *is* the Business Cycle,” NBER Working Paper No. w13428 (National Bureau of Economic Research, 2007) <https://www.nber.org/papers/w13428.>

[1235] H. Erich Heinemann, “1967's Mini-Recession,” *NYT*, Aug 8, 1967: 49; Minsky, “The Crunch of 1966”; “Semantic stew: a crabwise mini-slump?” *Newsweek*, March 6, 1967; Walter W. Heller, “Getting Ready for Peace,” *Harper's* (April 1968) 57-62.

[1236] “The Doubts That Won’t Get Away,” *Business Week*, Sept 17, 1966, 40-1, quote at 40.

The confusion reflected the limits of using economic aggregates instead of sector specific information. In early 1967, economist Arthur Burns (formerly of Eisenhower's CEA, later head of Nixon's Fed) told Congress that "[t]he economy is now full of crosscurrents," with "aerospace and machine industries…continuing to boom" while homebuilders faced "serious depression" and many other industries faced "noticeable weakness."[1237] Call it what you would, no one could deny that the force keeping recession at bay was the escalating war. If the first part of the Vietnam boom was driven by private investment and defense-driven expectations, the next period was properly dominated by military orders.

Remembering the credit crunch and the mini-recession is important because it suggests the limits of prevailing accounts of the Vietnam economic fallout, which tend to emphasize LBJ's failure to raise taxes in 1966. The familiar narrative has two key elements: White House economic advisors clearly foresaw the danger of inflation and recommended a tax increase, but LBJ did not take their advice because he was unwilling to face the tough political choice between guns and butter. While they contain elements of truth, both claims are in important respects misleading. While it is true that Ackley recommended a tax increase as early as December 1965, his advice over the next six months was inconsistent.[1238] In September 1966, as the need to brake the capital goods boom became unmistakable, Johnson's domestic advisors got the president to

[1237] *1967 Economic Report of the President: Hearings Before the Joint Economic Committee, Congress of the United States, Ninetieth Congress, First Session (1967): Part 3, February 15, 16, and 17, 1967*. Cf. Arthur Okun, Memo for the President: Cross Currents in the Economy, March 18, 1966, WHCF WHCF BE 5 – National Economy, Folder: 11/30/1966-3/21/-1966. LBJ Library.

[1238] As money tightened over the summer of 1966, Ackley wrote memos on "reassuring news on the economy," hailed signs of "welcome relief from ominous imbalances," and reassured the president that "the economy has resumed a more moderate and sustainable rate of advance, after its spurt in the closing months of 1965 and early this year." Ackley memos dated June 10 and July 15, 1966, quoted in Ronald F. King, "The President & Fiscal Policy in 1966: The Year Taxes Were Not Raised," *Polity*, Vol. 17, No. 4 (Summer, 1985), 697.

support legislation suspending the investment tax credit.[1239] Their success itself is notable, since it means that there *was* a tax increase during "the year taxes were not raised."[1240]

LBJ signed the bill on the day of the midterm elections, showing that crude electoral concerns were not necessarily a barrier to restrictive fiscal policy (indeed, several observers saw the tax *increase* as a political ploy).[1241] Rather than vote-maximization, the chief barrier to suspending the tax credit was opposition from organized business and Treasury Secretary Henry Fowler, which LBJ proved perfectly able to overcome.[1242] Even more significant than the fact of the tax increase was its aftermath. As growth slowed dramatically, economic advisors now specifically opposed further tax increases. On December 13, 1966, Fed chair Martin and McNamara requested tax increases, but Ackley "forecast lower economic growth for 1967 and suggested postponing any tax increase because it might provoke a serious recession."[1243] If taxes were not raised until 1968, it was in part because White House experts believed that "The economy is more likely to need a stimulant in the next several months than a sedative."[1244]

[1239] The legislation was introduced by Louisiana Senator Russell Long, who was motivated by a desire for lower interest rates, and who claimed to have Ackley's backing. Hobart Rowen, "Long Submits Bill to Suspend 7% Investment Tax Credit," *Washington Post*, Aug 31, 1966, D9; "Business & Finance: Sen. Long Asks End to Investment Tax Credit," *Los Angeles Times*, Aug 30 1966, B9.

[1240] This is the subtitle of King, "The President & Fiscal Policy in 1966."

[1241] Barry Goldwater, "Inflation 'Controls' Are Only Politics," *The Atlanta Journal-Constitution,* Sep 18, 1966, 28; "Political Stakes Are Large," *NYT*, Sept 4, 1966, 135. If nothing else, the suspension coopted a Republican talking point: Hobart Rowen, "GOP Aide Asks End to Investment Tax Credit," *Los Angeles Times,* Aug 1, 1966, 4.

[1242] "Industrialists Hit Bill to Suspend Tax Credit," *Washington Post*, Sept 3, 1966, D6; "Johnson Urged by N.A.M. Not to Suspend Tax Credit," NYT, Sep 3, 1966, 14.

[1243] Edward J. Drea, *McNamara, Clifford, and the Burdens of Vietnam 1965-1969* (Washington DC: OSDHO, 2011), 159.

[1244] Francis Bator, Memo for the President: Your FY '68 Tax Decision, Dec 21, 1966. U.S. Declassified Documents Online. For persistent ambivalence, see M.J. Rossant, "'Ifs' and 'Buts' On a Tax Boost," *NYT*, Feb 12, 1967, idem. "The Mini-Consensus: Support for a Tax Increase Is Said to Lack Conviction and Enthusiasm" *NYT*, Sep 13, 1967: 61); "Withdrawal of Johnson Tax-Rise Proposal Urged by Former Commerce Chief Connor," WSJ, May 4, 1967.

It is not surprising that the "policy mistake" narrative is misleading. The interpretation has its origins in the self-exculpatory accounts given by the CEA members themselves. But it is important that historians get the story right. Clearly, this was no simple case of economic expertise versus political realities, but a situation where even the economic experts were unsure whether they could restrain inflation without bringing the economic expansion to an end. At one point in late 1966, Walter Heller even told LBJ that he hoped "you will get Divine guidance" on tax policy "since economic guidance gives you no very firm answer at the moment."[1245] The fact that the suspension of the investment tax credit was followed by a "mini-recession" shows that they were not wrong to worry. The prevailing narrative implies that LBJ could have prevented the war's economic fallout by simply listening to his advisers and making a hard but necessary choice. But the American economy in the mid-1960s was far more vulnerable than we have remembered: even with the stimulus from the war, serious recession loomed as a real possibility. In this context, the war was not just a source of economic troubles (which it certainly was) but also the only thing keeping the economy moving forward at all.

Remembering the "sideways" 1966-7 slowdown nestled within the long 1960s expansion also offers a corrective to our understanding of stagflation. Daniel Rodgers writes that the "that the expected patterns of the business cycle" held "through 1969," as if the economy were waiting for the decade to turn before letting "its phases [collide] into one another in the phenomenon Americans called 'stagflation.'"[1246] Less sensitive historians claim the problem was literally

[1245] King, "The President & Fiscal Policy in 1966," 703.

[1246] Daniel Rodgers, *Age of Fracture*, 48. In the same passage, Rodgers says that what "Americans called "'stagflation'…the British…called "slumpflation." In fact, "stagflation" was a British coinage dating back to the mid-1960s. Americans had used terms like "recession-inflation" since the 1950s. Norman Shrapnel, "Chancellor pledges reorganisation of steel industry," *The Guardian* (London) Nov 18, 1965, 1; Edwin L. Dale, "Simultaneous Inflation, Recession Are Forecast for U.S. in 1958," *NYT*, Jan 6, 1958, 6.

unthinkable within Keynesian paradigms or associate it exclusively with the oil crises of the 1970s. But stagflation did not arrive as a bolt from the Middle East in 1973 but grew within the deep structures of the military-industrial mixed economy. In the aftermath of conjoined armaments/capital goods boom like the late 1950s and the Vietnam escalation, the phenomenon emerged into public consciousness.[1247] In 1966, Arthur Burns had noted that "Unhappily, recession and inflation can go together."[1248] In 1967, Tennessee congressman Bill Brock said, "the concern that I feel...is the possibility that exists for both occurring at the same time. I don't think this is economically impossible. I think you can have inflation and recession."[1249]

The Vietnamized Economy

What were the contours of the "Vietnamized" economy?[1250] In 1968, 7.8 million Americans (one in ten American workers) found themselves in defense-generated employment, an increase of 2 million compared to 1965.[1251] Of these, 3.2 million Americans worked in defense-generated *private* employment (an increase of more than one million over 1965). Two thirds of them worked in manufacturing, accounting for 10.9% of manufacturing workers (up from 7.9 percent in 1965). Defense employment effects were strongest in transportation, electronics, and specialized equipment, as well as metal products.[1252]

[1247] On the Eisenhower expansion as a capital goods/armaments boom, see Chapter 4 of this dissertation. On proto-stagflation, see Krisotoffer Smemo, Samir Sonti, and Gabriel Winant, "Conflict and Consensus: The Steel Strike of 1959 and the Anatomy of the New Deal Order," *Critical Historical Studies* vol 4, no 1 (Spring 2017) 39-73.

[1248] Arthur F. Burns, "Letters to the Editor." *Washington Post*, Aug 15, 1966; pg. A14

[1249] *Hearings on 1967 Economic Report of the President* (Washington: GPO, 1967) 421.

[1250] Murray Weidenbaum, "After Vietnam: Our Vietnamized Economy," *Saturday Review*, May 24, 1969, 15-17.

[1251] For reference, around 1.25 million new workers were entering the labor force annually in the peak Vietnam years. Riddell, "Political Economy of the American War in Indo-China," 276.

[1252] These estimates include indirect employment along the supply chain for defense end-items, but not the second-order effects of defense workers spending their paychecks or non-defense businesses increasing their investment because of high demand. If such effects were to be estimated, not only would more jobs be revealed to be defense-

Conventional war brought new life to geographic and industrial sectors which had been marginal during the age of the ICBM. The share of missiles in major procurement declined, while orders for tanks and vehicles, artillery and small arms, ammunition, textiles, and building supplies increased dramatically.[1253] Airframes and aircraft engines increased their share as well, especially helicopters. The ten largest defense contractors (aerospace and electronics companies, plus General Motors) received just 29.9 percent of awards in 1968, down from 32.2 percent in 1963. Over the same period, firms designated as "small" increased their share from 15.8 percent to 18.4 percent. Companies like Colt Industries (makers of the M16) and Atlas Chemical (makers of ordnance and explosives) joined the ranks of top defense contractors.[1254]

The states that most significantly increased their defense involvement during the war fell into two main groups: older midwestern and northeastern manufacturing areas and the south. For an illustration of the former, you might imagine South Bend, Indiana, where 7,000 workers had lost their jobs when Studebaker closed its American operations in late 1963. In a deal facilitated by elected officials, Kaiser Jeep took over Studebaker's Chippewa Street plant—built during World War II—and its defense contracts. The coming of the war in Vietnam kept the

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dependent, but we would also see a different industrial profile (including, for example, the consumer goods bought by defense workers). Richard P. Oliver, "The Employment Effect of Defense Expenditures," *Monthly Labor Review*, Vol. 90, No. 9 (September 1967) 9-16.

[1253] Tanks were not notably well-suited to Vietnamese terrain, yet the capture of 500-600 American tanks after the liberation/fall of Saigon in 1975 left the victorious People's Army of Vietnam (PAVN) with a tank force equivalent to Britain's. Most of the U.S. tanks sent to Vietnam were old (sometimes newly retrofitted) M48 Pattons, which had gone out of production before the escalation. However, the Army also used Vietnam as a testing ground for the M551 Sheridans (1,662 of which were built by General Motors between 1966 and 1970, at a cost of $1.3 billion). Military analysts had repeatedly determined that the M551 was useless for Vietnam, but Gen. Creighton Abrams "was aggravated that 1,500 expensive vehicles were sitting unused at depots back in the United States" and deployed at least 300 of them. George Wilson, "$5 Billion in US Arms Seized," *Boston Globe*, May 1, 1975, 1; Steven Zaloga and Tony Bryan, *M551 Sheridan: US Airmobile Tanks, 1941-2001* (New York: Osprey Publishing, 2009) 24-27, 44.

[1254] Riddell, "Political Economy of the American War in Indo-China," Table IV- 8, 273.

South Bend plant busy building 2 ½ and 5-ton trucks for the Army, with a long backlog of defense orders.[1255] Between 1964 and 1968, the South Bend plant received a billion dollars in military contracts. Kaiser Jeep's civilian business was reliably unprofitable, but with military orders the division made $15 million in profits in 1968.[1256] In South Bend and elsewhere, the bottomless demands of Vietnam held off the post-industrial twilight.

In the American South, declining industries bypassed by the missile age also benefited from the requirements of a new conventional war. The initial troop build-up brought defense demand for textiles to $1.2 billion in FY1967, compared to just $234 million in FY1963.[1257] But the South also partook of a distinct ammunition boom. Between 1965 and 1966, defense purchases of ammunition increased by $2 billion, and ammunition procurement continued to increase after this.[1258] Ammunition represented 2.8% of the value of prime military contracts in 1964 and 9.6% in 1967.[1259] The M-14 rifle, standard between 1959 and 1964, shot up to 150 rounds per minute; its successor, the, M-16 shot 750 (at least under ideal conditions; in the

[1255] Richard Rutter, "New Orders Due in Defense Field," *NYT*, Aug 1, 1965, F1; "Kaiser Jeep Gets $47,175,642 Order for Army Trucks," *WSJ*, June 28, 1966, 6; "Western Electric Gets $85,480,628 Missile Contract," *WSJ*, Apr 1, 1968, 6.

[1256] Jerry M. Flint, "Ford Will Close Its Dallas Plant," *NYT*, Jan 10, 1970: 38; "American Motors Holders Vote Purchase of Kaiser Jeep Corp," *WSJ*, Feb 5, 1970: 4; *Kaiser Industries Corporation Annual Report* – 1968, 1969, America's Corporate Foundation, ProQuest Annual Reports.

[1257] Richard P. Leger, "Textile Downturn," *WSJ*, Mar 2, 1967, 1; Progress of textile industry during the Johnson administration. Department Of Commerce, n.d. [c. Feb 1967] U.S. Declassified Documents Online; Timothy W. Vanderburg, *Cannon Mills and Kannapolis: Persistent Paternalism in a Textile Town* (University of Tennessee Press, 2013) 169, 175.

[1258] Statement of Dr. Roger E. Bolton, *Economic Effect of Vietnam Spending: Hearings Before the Joint Economic Committee, 90th Congress, 1st Session, April 24-27, 1967, Vol I: Statements of Witnesses and Supporting Materials* (Washington: GPO, 1967) 153-157.

[1259] Riddell, "Political Economy of the War in Indo-China," 269.

jungle, troops found the M-16 highly unreliable).[1260] These statistics reflected the increasingly eliminationist American strategy in Vietnam. An Air Force historian once wrote, "the unparalleled, lavish use of firepower as a substitute for manpower is an outstanding characteristic of U.S. military tactics in the Vietnam war."[1261] McNamara told the Senate that "The bomb tonnage that is resulting is literally unbelievable."[1262] The strategy echoed from My Lai ("kill everything that moves") to the White House (where Kissinger's plan for Cambodia was "Anything that flies on anything that moves.")[1263]

The result for the Vietnamese and Cambodians was millions of deaths and the destruction of millions of acres of farmland. But the experience in many parts of rural America was an economic boom. To meet the demand, the Defense Department turned to its network of dozens of Army Ammunition Plants around the country, built during World War II and idle since the Korean War. The AAPs came back on line in waves. As early as September 1961, the Louisiana Army Ammunition Plant was reactivated due to Vietnam-related demand; ultimately it would employ nearly 8,000 workers.[1264] In the next six years, AAPs would reopen in California, Illinois, Indiana, Kansas, Missouri, Minnesota, Nebraska, Pennsylvania, Tennessee, Texas,

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[1260] William Bowen, "The Vietnam War: A Cost Accounting," *Fortune* (April 1966) 195-197; *Report of the Special Subcommittee on the M-16 Rifle Program of the Committee on Armed Services, House of Representatives, , Ninetieth Congress, First Session, October 19, 1967* (Washington, DC: GPO, 1967).

[1261] Robert M. Kipp, "Counterinsurgency From 30,000 Feet – The B-52 in Vietnam," *Air University Review*, XIX:2 (Jan-Feb 1968) 17.

[1262] "Supplemental Military Procurement and Construction Authorizations, Fiscal year 1966, Hearings Before the Subcommittee on Department of Defense of the Committee on Appropriations, 89.," U.S. Congress, Senate, Armed Services, 1966, 29.

[1263] Nick Turse, *Kill Anything That Moves: The Real American War in Vietnam* (New York: Henry Holt, 2013) 2

[1264] https://apps.dtic.mil/dtic/tr/fulltext/u2/a175877.pdf; http://webarchive.loc.gov/all/20030328032516/http://www.army.mil/usapa/epubs/pdf/p700_16.pdf

Virginia, and Wisconsin. Though the plants (worth billions of dollars) were publicly owned, they were operated by private contractors who banked the profits of the ammunition boom.

The plants drew in people like Debbie Jackson, who worked at the McAlester Army Ammunition Plant in Oklahoma, a vast 44,800-acre complex, comprising 3,000 different buildings, built by the government. Jackson remembered, "Like many college students at the time, I had misgivings about the Vietnam War, but the Army Ammunition Plant job paid good money and I needed it for school." The plant ran three shifts, 24 hours a day, six days a week, turning out 6,000 finished bombs a day. One later McAlester manager reported seeing "old work orders from Vietnam where the Navy requested 1.25 million MK-82s [500-pound bombs]." The work could be dangerous, as it was for three workers who died in an explosion at McAlester on January 25, 1971.[1265] But they were central places to local economies. On the Pentagon's lists of which locales would suffer the most if peace broke out, the top three were rural ammunition towns—Harrison, TX; Radford-Pulaski, VA; and Texarkana, TX/AK—where it was estimated unemployment would rise between 15.5% and 16.5%.[1266]

Conventional war also called for vast supplies of raw materials. In 1968, 6.1% of those employed in mining owed their jobs to defense demand, including 10.1 percent in non-ferrous metal ores mining.[1267] This category included copper and bauxite (an aluminum ore), two materials with many defense applications. So great was the need for copper (whose uses include

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[1265] Debbie Jackson, "The day I dropped a bomb at the ammunition plant," Tulsa World, Apr 18, 2017 <https://tulsaworld.com/news/debbie-jackson-the-day-i-dropped-a-bomb-at-the/article_9a172951-f491-5e14-9698-d7ace2fb3f30.html>; Charles Fishman, "Boomtown USA," *Fast Company* (May 31, 2002) < https://www.fastcompany.com/44953/boomtown-usa>

[1266] The U.S. Economy After Vietnam, Table 2: Regions with Major Increases in Unemployment After Peace. LBJ Library, Papers of Alain Enthoven, Box 24, folder: [Impact on U.S. Economy].

[1267] Richard P. Oliver, "Employment effects of reduced defense spending," *Monthly Labor Review* Vol. 94, No. 12 (Dec 1971) 6.

ammunition jackets) that LBJ sent Averell Harriman to ask the president of Chile, Eduardo Frei, to roll back a price increase of two cents per pound (a deal was struck giving the U.S. a guaranteed supply at the old price, in exchange for $10 million in U.S. development loans).[1268] The U.S. government also financed private investment in new mines and released hundreds of thousands of tons of copper from its stockpile. But defense requirements called for 225,000 tons of copper a year during the height of the war, and prices increased through 1970.[1269]

These were hardly lean years for high-tech electronics and aerospace corporations (and the economic regions in which they were embedded). St. Louis-based McDonnell Douglas received more money in Vietnam orders than any other corporation, with Lockheed at number 2 and Textron (a conglomerate that included Bell Helicopter) at number 3, and Boeing and Honeywell rounding out the top 10. The aerospace industry hit a peak in 1968, generating $29.5 billion in sales ($16.6 billion of which came the Pentagon) and employing 1.43 million workers, including 800,000 production workers.[1270] In addition to the Vietnam-related demand for tactical aircraft, the industry also benefited from the Apollo program and healthy demand for airliners generated by the general economic expansion. Seattle was described as "one of the most rapidly developing areas" in the country. In Southern California, where aerospace employment declined after 1962, new records were set by the middle of 1966.[1271] The electronics industry around San

[1268] The negotiations with Chile are covered extensively in WHCF, BE Box 10, Ex BE 4/Copper. The broader context is set out in James L. Cochrane, "Moral Suasion Goes to War" in *Exhortation and Controls*, ed. Goodwin, 193-292, here 238; Joe Califano to LBJ, 1/20/1968, 12:05 PM, Memos to the President 1/1-1/22/68. Office files of Joe Califano. LBJ Library.

[1269] *U.S. Industrial Outlook: Industry by Industry* (Washington: Department of Commerce, 1968) 208.

[1270] Riddell, "Political Economy of the American War in Indo-China," 273; *Aerospace Yearbook* (1970) 48-50; T.A. Heppenheimer, *The Space Shuttle Decision: NASA's Search for a Reusable Space Vehicle* (Washington DC: NASA, 1999), 291-330.

[1271] William E. Ames, "Seattle payrolls fattened by war: Congressional role cited," *Christian Science Monitor,* May 23, 1969, 3; Arelo Sederberg, "Area's Aerospace Industry Rebuilds Market—and Jobs," *Los Angeles Times,* Feb 13, 1966, N1; "Southern California Economy to Gain, Panel Forecasts," *Los Angeles Times*, Nov 16, 1966: C9.

Francisco, briefly shadowed by a "McNamara Depression," boomed as well. Between 1966 and 1969, Hewlett-Packard increased its sales from $203 million to $324 million, with government business representing around 35 percent of total sales.[1272]

Who lost out in the Vietnamized economy? The clearest victim was residential homebuilding. In 1966, interest rates climbed higher than they had been since the 1920s. It became almost impossible to obtain a mortgage. According to the CEA, tight money cost the civilian economy $8 billion in foregone construction, an effect they compared to "a heavy across-the-board tax increase, but with most of its effect concentrated on a single industry."[1273] Housing starts would not recover their December 1965 level until January 1969.[1274] The housing slump led to declines in lumber, appliances, building supplies, and certain types of steel.[1275] One vignette from late 1966 captured the situation elegantly: 2,000 lumber mill workers laid off in the Pacific Northwest due to the housing slump quickly found new jobs at labor-hungry Boeing.[1276]

After years of steady increase, the auto industry saw consumer demand fall 12.4% between early 1966 and early 1967. This sectoral decline provides one context for the Detroit uprising. In Detroit, black unemployment had fallen to 3.4 percent in 1965, but by the time the uprising began in July 1967 this had climbed to 8 percent (and 11 percent in the central riot areas). One unemployed rioter said, "People been telling me if you can't make it in Detroit, you

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[1272] Hewlett-Packard Corporate Reports 1967, 1969

[1273] ERP 1967, 6

[1274] New Privately-Owned Housing Units Started: Total Units (HOUST), FRED <https://fred.stlouisfed.org/series/HOUST>

[1275] Martin J. Ward, "United Association Members and the Economy," *United Association Journal* [United Association of Journeymen and Apprentices of the Plumbing and Pipe Fitting Industries] (January 1967) 2, 50.

[1276] "Layoff Silver Lining: Some Skilled Workers Find New Jobs Quickly," *WSJ*, Dec 30, 1966, 1.

can't make it nowhere else. That's bullshit, man."[1277] Residents of cities like Detroit and San Francisco could also blame the war economy for the squeeze on municipal borrowing.[1278]

The squeeze on housing and auto was representative of the fate of personal consumption in the Vietnam expansion. The sectoral composition of the boom is represented by two figures below. The first shows the change in shares of GDP for fixed investment, consumption, and defense. A positive value means that the sector was growing faster than the overall economy. The movements show how investment and defense alternated as leading elements in the boom, while the consumption share was stagnant or declining. The second figure represents the same trends in terms of production. Production of business equipment (capital goods) initially grew fastest, before flattening out at a high level and being surpassed by defense production. The growth of consumer production lagged far behind both defense and capital goods.

[1277] Personal consumption expenditures: Durable goods: Motor vehicles and parts (DMOTRC1Q027SBEA), FRED < https://fred.stlouisfed.org/series/DMOTRC1Q027SBEA>; Sidney Fine, *Violence in the Model City: The Cavanagh Administration, Race Relations, and the Detroit Riot of 1967* (Ann Arbor: University of Michigan Press, 1989) 71, 92.

[1278] The war was the cause of overexuberant investment spending and the Fed's tight money, both of which in turn brought on the credit crunch of 1966, which "marked a major inflection point" in the ability of municipalities to sell their debt at manageable rates. Destin Jenkins, *The Bonds of Inequality: Debt and the Making of the American City* (Chicago: University of Chicago Press, 2021) 119.

Figure 14: The Vietnam boom as shares of GDP (percent change): fixed nonresidential investment (solid) leads the initial boom then declines; defense purchases (dot-dash) become predominant in the latter part of the expansion; consumption (dotted) stagnates or declines).

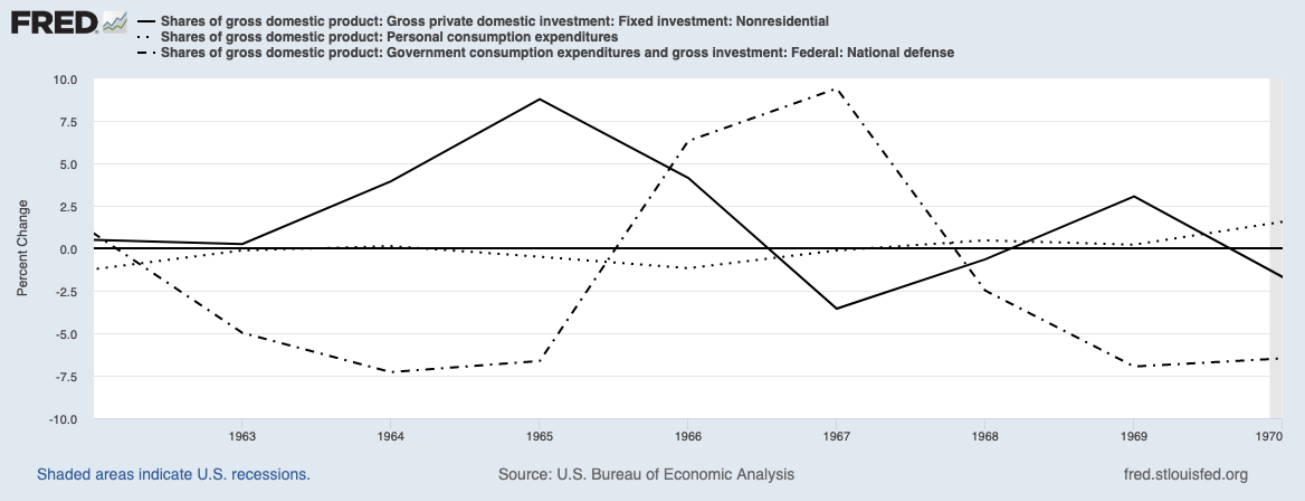
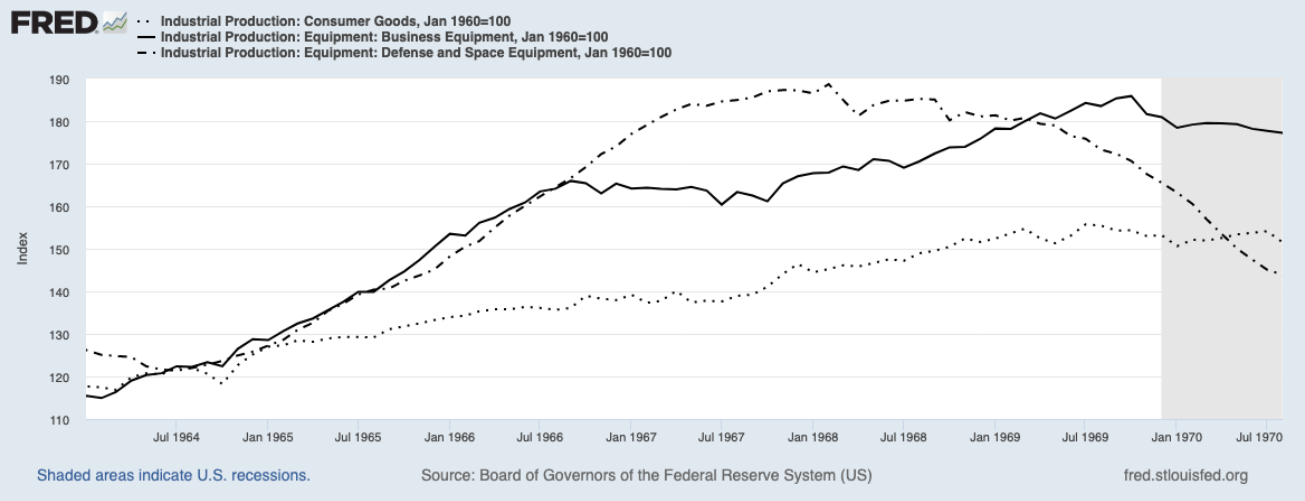


Figure 15: The Vietnam boom as measured by indices of industrial production: business equipment (solid) leads during the initial capital goods boom; defense equipment (dot-sash) then becomes predominant; consumer goods lag far behind, especially before 1968.



Social Conflict in the Cold War Coalition

The Revolt on the Shopfloors

The Vietnam boom brought with it a new mood in the American working class. Between 1965-66, unions of machinists and workers in steel, rubber, and electrical manufacturing all forced out presidents whose power dated back to the early days of the Cold War if not earlier. In auto, "Reuther's regime did not totter, but the new militancy made him scramble to say one step ahead of the turmoil."[1279] By 1967, strike activity had reached levels not seen since the Korean War.[1280] Just as significantly, the percentage of contracts rejected by membership rose. In July 1966, union members rejected one out of every five contracts they voted on.[1281] This pressure made it impossible for union leaders to enforce the Johnson administration's program of wage-price guidelines, even if they had wanted to cooperate. Through workplace struggles, workers fought to make sure the cost of the Vietnam inflation did not come out of their real earnings.

As CEA chair Gardner Ackley wrote to GM president Frederic Donner, "Labor's restiveness is well explained by just a few facts." The first problem was inflation: "after the correction for the change in consumer prices, weekly spendable earnings in manufacturing for the last several months have been running lower than a year earlier." (Ackley would not say it in this context, but this inflation was of course a direct result of the war).[1282] The second problem

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[1279] Stan Weir, "USA: The Labor Revolt," *International Socialist Journal* (April–June 1967) 279-296; Nelson Lichtenstein, *Walter Reuther*, 414.

[1280] Annual work stoppages involving 1,000 or more workers, 1947 – Present. Bureau of Labor Statistics <https://www.bls.gov/web/wkstp/annual-listing.htm>

[1281] Willoughby Abner, "A Mediator Views the Current Scene," *Labor Law Journal*, Vol. 19, Iss. 7 (Jul 1, 1968) 398.

[1282] Ackley to Mr. Donner, August 20, 1966, WHCF BE Auto. According to the BLS, "Rising prices as a highly explicit factor in wage determination were clearly evident by the middle of 1966." H.M. Douty, "Living Costs,

was the rate of exploitation: "the deterioration of real hourly compensation relative to productivity," "at the same time [that] profits, by almost any measure, have continued to improve substantially." Taken together, "labor finds such profits an inviting target for excessive wage demands, at a time when it feels pinched by a rising cost of living." The adjective—*excessive*—is incongruous in the middle of Ackley's lucid exposition of labor's grievances. Clearly, the administration's official policy of wage repression was increasingly unconvincing even to its architects. As Ackley wrote on another occasion, "labor cannot be expected to continue honoring the guidelines as well as it has when it sees prices and profit margins continually rising."[1283]

Ackley's astute recognition of the problem contrasted with his complete inability to do anything about it. Discussing the labor situation in auto, Ackley wrote to LBJ that "the source of the problem is fantastic automobile profits…there has never been such a profit record like this in the history of American industry." According to the CEA view of the economy, these profits should have been translated into lower prices for cars. As Ackley wrote, "If we can't pull their prices down, [UAW president Walter] Reuther will go after their profits in 1967 with a huge wage demand."[1284] But the administration had no way to manipulate prices or profits as policy variables. Even an excess profits tax, which had been policy during Korea, was off-limits. The mere hint of such measures drew protests. In January 1966, LBJ's special assistant Harry C. McPherson Jr wrote to Ackley in January 1966 that "a Wall Street friend says his colleagues, stock and bond men, are certain of a market down-turn in February or March. The reason is the

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Wages, and Wage Policy: Rising Prices, Income Lags, and the Problem of National Wage Policy," *Monthly Labor Review* Vol. 90, No. 6 (June 1967) 1-7.

[1283] Quoted in Dean Baker, Robert Pollin, and Elizabeth Zahrt, "The Vietnam War and the Political Economy of Full Employment," *Challenge* (May-June 1996) 43.

[1284] Quoted in Marc Linder, *Wars of Attrition: Vietnam, the Business Roundtable, and the Decline of Construction Unions,* 2nd edition (Iowa City: Fanpihua Press, 2000) 8.

'near certainty' of an excess profits tax." The evidence for the "near certainty" was an anodyne statement by Johnson that "those who benefit most" should help bear the costs of government expenditures.[1285] Later that year, Ackley's comments on the possibly excessive rise of profitability were blamed for a slide in the stock market.[1286]

As Ackley had outlined, workers were provoked by falling real wages and soaring corporate profits. But they were also emboldened by the tight labor market. In June 1966, the president of the Boston Fed told his colleagues that "the continuing strike of 11,000 workers at the General Electric plant in Lynn…confirmed the general impression of an economy operating at full capacity."[1287] At first glance, it may seem paradoxical that a major work stoppage was a sign that the economy was running full tilt, but central bankers immediately understood that strike activity was a consequence of full employment. The IUE, to which the electrical workers at Lynn belonged, had lost a disastrous strike against G.E. during the recession year of 1960, which the *New York Times* called "the worst setback any union has received in a nationwide strike since the war."[1288]

This weakness had allowed GE to squeeze workers during the first half of the 1960s expansion. The CEA's Ackley also noted that the industry's wages and benefits ran behind the manufacturing average, while GE's profits were "considerably" or "very much above" the

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[1285] McPherson, "Memorandum: For Gardner Ackley," January 14, 1966. Papers of Arthur M. Okun, Folder: McPherson, Harry. LBJ Library.

[1286] "Stocks Tumble in Wake of Warning by Ackley: Remedies Feared," Washington Post, May 4, 1966, D6. For Ackley's original comments, see Edwin L. Dale, "Profits Too High, Ackley Suggests to Businessmen, *NYT*, May 3, 1966, 1. For a skeptical take on the causal link, Bruce Davidson, "Stock Talk: Ackley's Market Not New," *Boston Globe* (May 8, 1966) B42.

[1287] FOMC Meeting Minutes, June 28, 1966, p. 92. <https://www.federalreserve.gov/monetarypolicy/files/fomchistmin19660628.pdf>

[1288] A. H. Raskin, "GE's Labor Formula: Its Technique in Strike May Foster Stiffening in Management's Approach," *NYT*, Oct 25, 1960, 31.

manufacturing average. Ackley had to admit, privately, that "this is a case where wages have lagged somewhat, and where 'catch-up' against a strict guidepost settlement can be made. [1289] Even at the inflation-obsessed Fed, it was recognized that "growth in productivity in the electrical industry appears to be well above the average for the economy," so significant wage increases "could probably be absorbed."[1290]

By 1966, the balance of power had shifted. Bureau of Labor Statistics included electrical machinery on its list of "industries with the tightest labor situation."[1291] Stories circulated of workers hired from England and managers offering gift certificates to workers who could bring in another machinist or welder.[1292] Having waited so long, the Lynn electrical workers knew a propitious moment when they saw it: "Now is the time we balance the books."[1293] The electrical industry was just one front in a concerted and successful labor effort to wreck the administration's policy of wage restraint. The first blow came from New York City's Transit Workers Union (TWU), but the most consequential push came from the International Association of Machinists, which struck five airlines during the summer travel season. After rejecting several proposals, the machinists won 5% raises, which the CEA announced it "greatly regrets that its settlement so substantially exceeds its guideposts for non-inflationary wage

[1289] Ackley to Califano, Memo: Electrical Negotiations, June 21, 1966, LA/6 Electric. Emphasis in original.

[1290] FRB, *Greenbook* (Nov 1, 1966) II-20, FRASER. <https://fraser.stlouisfed.org/title/federal-open-market-committee-meeting-minutes-transcripts-documents-677/meeting-november-1-1966-22919/content/pdf/FOMC19661101greenbook19661026>

[1291] Ackley to Califano, Memo: Electrical Negotiations, June 21, 1966, LA/6 Electric.

[1292] Ackley to Califano, Memo: Electrical Negotiations, June 21, 1966, LA/6 Electric.

[1293] *Electrical Union News*, July 8, 1966.

behavior.*"* IAM head Roy Siemiller crowed that the settlement "destroys all existing wage and price guidelines now in existence; in fact, it completely shatters them for all unions."[1294]

In Lynn, the electrical workers newspaper declared that the airlines strike "should serve notice that the workers of America have been pushed to the limit."[1295] Local strikes and walkouts began even before the national GE contract expired in October. GE was the second largest defense contractor, and plants like Lynn (which made aircraft engines) were deemed essential to the war effort. This gave labor leverage with the White House, which called GE to Washington to participate in arbitration overseen directly by three cabinet secretaries (McNamara of Defense, Wirtz of Labor, and Connor of Commerce). The White House forced GE to settle, but it also wielded the threat of a Taft-Hartley injunction to prevent the workers from a nationwide strike. Still, local strikes continued after the contract was signed, including at the crucial aircraft plant in Evendale, Ohio. Workers saw the settlement as a first blow against G.E.'s "Boulwarist" policy refusing to negotiate improvements to an original offer, though a final defeat of that policy would wait until the nationwide strike in 1969.

Beyond the industry, the settlement definitively killed the guideposts, and by extension played a direct (if hardly exclusive) causal role in the unmanaged wage-price spiral which would ultimately usher in the "Great Inflation" of the 1970s. Even after the airline settlement, *Newsweek* judged the GE talks "the year's most crucial wage negotiations."[1296] At that point, Ackley could continue to advise that the administration maintain that "the guideposts are still in

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[1294] "Senate Passes Bill to End Airline Strike." In *CQ Almanac 1966*, 22nd ed., 789-97. Washington, DC: Congressional Quarterly, 1967. http://library.cqpress.com/cqalmanac/cqal66-1300419.

[1295] "The Airlines Strike," *Electrical Union News* (August 5 ,1966) p2

[1296] "Labor: Who Is Unfair?" *Newsweek,* September 19, 1966, 87.

effect."[1297] After the electrical settlement, conversely, the administration's announcement avoided even mentioning the guidepost issue. The Fed worried that the GE settlement. "seems to have crystallized a wage and fringe increase pattern at about 5 per cent—well above the average productivity gains for the economy." This new 5 percent norm was now "likely to spread as other contracts are negotiated in coming months."[1298] Crucially, the GE settlement—unlike the airlines deal—had been brokered at the highest levels. As *US News and World Report* wrote, "In pushing for more of everything in 1967, unions have a pattern of sorts to follow: the General Electric settlement. It's a pattern that has the blessing of the White House."[1299]

After the guidelines were busted, nothing replaced them. Into 1967, Ackley advocated reviving the guideposts, but "asked if he would precisely what government steps he had in mind, Ackley replied, 'Nope.'"[1300] One alternative that Ackley considered in private was to put out a statement that said the administration is now going on an industry-by-industry basis for determining what's inflationary and what's not inflationary." This would have provided a rationale for the above-guidepost settlements in the airlines and electrical industry, which had seen relatively strong productivity gains, without conceding the fight against inflation altogether. But, as Califano recalled, "we didn't do that publicly; we just let that happen."[1301] The sense of

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[1297] Ackley to Califano, Memo: Council Statement on the Proposed Airline Settlement, Aug 1. 1966. WHCF BE4/A.

[1298] FRB, *Greenbook* (Nov 1, 1966) II-20, FRASER. <https://fraser.stlouisfed.org/title/federal-open-market-committee-meeting-minutes-transcripts-documents-677/meeting-november-1-1966-22919/content/pdf/FOMC19661101greenbook19661026>

[1299] Labor Week: Now A Pattern for Wages and 'Fringes' in 1967," *US News and World Report* (Oct. 31, 1966), pp. 76-77.

[1300] William Clark, "Regenerate Guideposts, Says Ackley: Prospect of New Price Pressures," *Chicago Tribune*, May 3, 1967, C7.

[1301] Califano oral history, Interview XXXV (9/20/1988) 12. LBJ Library.

drift was captured in a note Califano wrote to Ackley a year after the GE settlement: “I too would like to know what happened to the 3.2% guidelines.”[1302]

To an extent which has largely been forgotten, the Vietnam-era incomes policy relied on direct coercion in the form of Taft-Hartley injunctions against strikes endangering national security. The Johnson and Nixon administration issued injunctions against eight strikes between 1964-71 (and dangled the threat to force mediation in even more cases).[1303] In 1968, Dale Jorgensen, an early Reagan funder whose West Coast steel firm was a paradigmatic beneficiary of the war boom, told reporters why he did not worry about strikes: "If the war in Vietnam is still going on, Presidential action will be taken pretty soon after the strike starts."[1304]

Unionized industry was not the only active front in the labor struggle. The tight labor market benefited all workers. From 1966 on, the press was full of stories about the lengths employers would go to solve their labor problem: hiring people with criminal records, with disabilities, without high school diplomas; enticing immigrants and increasing on-the-job training for workers hired without the requisite skills.[1305] People had talked about full employment for decades, but when it arrived it felt like the world had gone topsy-turvy, so used to unemployment were workers and bosses. That this situation was the result of the Vietnam War

[1302] Ackley to Califano, Oct 10, 1967, WHCF BE 5.

[1303] This period accounts for 25% of all the injunctions listed in Michael H. Leroy and John H. Johnson, “Death by Lethal Injunction: National Emergency Strikes under the Taft-Hartley Act and the Moribund Right to Strike,” *Arizona Law Review,* Vol. 43, 2001.

[1304] “Jorgensen Says It Won't Be Hurt by Short Steel Strike,” *Los Angeles Times*, Apr 16. 1968, B7.

[1305] Willard Clopton, “Less Rigid Hiring Seen Easing Labor Shortage,” Washington Post, Jan 15, 1966, B3. In the LBJ Library files, see “Memorandum for the President, From: The Secretary of Commerce, Subject: Weekly Briefing Report” (December 6, 1965); “Memorandum for the President, Subject: Chemical, Cosmetics and Drug Industries—August 2, 1967,” WHCF BE-C; “Memorandum for the President, from Gardner Ackley Subject: The Latest Economic News and What We Do About It,” March 4, 1966 NSF, Agency Files: CEA.

proves how consequential military spending was for economic life, even among people who did not work for the military-industrial sector.

In this tight labor market, even workers without unions were able to demand more. Sometimes, this took the form of leaving a bad job for a better one. "Those who employ domestic workers," reported the *Washington Post*, "find it hard to hire them reportedly because such persons have climbed into better-paying office or retail jobs."[1306] In his definitive study of the period, historian Marc Linder reports that much of the notorious upward pressure on construction wages came from construction workers moving into other lines of work.[1307] Across the whole economy, studies found that the boom tended to decrease pay differentials across the working class, bringing disproportionate gains to low wage workers.[1308]

The tight labor market was shadowed by death and maiming. The Kennedy-Johnson economic planners had once worried about "helping the flood of teenage workers find their first jobs."[1309] Conscription solved this problem, withdrawing 1.8 million workers between 1964 and 1972. At its height, the draft took over 40% of new entrants to the labor market.[1310]

The policy of shipping the "hard-core jobless" off to war was an intentional strategy. In 1966, McNamara announced "Project 100,000," which would ultimately recruit 354,000 men (half volunteers, half conscripts) previously ineligible. 43% of the special recruits had been unemployed before joining the military. 40% were black, compared to just 9% of the overall

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[1306] David Foutquet, "Labor Shortage Here Nears Critical Level, Washington Post, Mar 30, 1966, B12.

[1307] Linder, *Wars of Attrition*, 78.

[1308] Hyman Minsky, "The Strategy of Economic Policy and Income Distribution*," The Annals of the American Academy of Political and Social Science* 409 (September 1973) 92–101.

[1309] Ackley to LBJ, "Thinking Ahead on Economic Problems," May 5, 1965. WHCF BE 3 – Economic Controls.

[1310] Riddell, "Political Economy of the American War in Indo-China," 276.

military. McNamara presented this as a Great Society effort to "salvage" the "subterranean poor," suggesting it might relieve pressure in the inner cities. Daniel Patrick Moynihan promoted the policy as a way to reduce disproportionate black unemployment. Harlem legislator Adam Clayton Powell, Jr, was nearer the truth when he said it was "nothing more than killing off human beings who are not members of the elite." They were disproportionately sent to Vietnam and into combat, where they were killed at two or three times the average rate.[1311]

The obverse was that the war planners deliberately spared highly skilled workers. The monthly *Business Review* of the Philadelphia Fed noted with relief in September 1965 that most conscripts were "in the age brackets which possess few developed skills and where unemployment is high."[1312] LBJ's decision never to call up the reserves allowed people with wealth and connections to avoid combat.[1313] Since reservists skewed older and more occupationally diverse than conscripts, it was also a way to relieve pressure on the already drum-tight skilled labor market. In early 1966, McNamara had argued that "the call-up of the Reserves presents extremely serious problems" including the "probability of a shortage of certain skills." Labor shortages could provoke inflation and thus "wage and price controls, excess profit taxes etc., all of which will add fuel to the fire of those who say we cannot afford this."[1314] As the

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[1311] "'Salvage' of Rejects to Be Role of Draft: Part of War on Poverty, U.S. Says," UPI, Aug 23, 1966; Assistant Secretary of Defense (Manpower and Reserve Affairs), *Project One Hundred Thousand. Characteristics and Performance of 'New Standards' Men* (Dec 1969). Defense Technical Information Center, Accession: AD0784582. <https://apps.dtic.mil/sti/citations/AD0784582>; Christian G. Appy, *Working-Class War: American Combat Soldiers and Vietnam* (Chapel Hill: University of North Carolina Press, 1993) 31-33; Hamilton Gregory, "McNamara's Folly," *Vietnam* 30:1 (June 2017) 50-55; Amy J. Rutenberg, *Rough Draft: Cold War Military Manpower Policy and the Origins of Vietnam-Era Draft Resistance* (Ithaca: Cornell University Press, 2019) 150-56.

[1312] "Vietnam: How Much Heat at Home?" *Business Review—Federal Reserve Bank of Philadelphia* (September 1965) 10-11.

[1313] Rutenberg, *Rough Draft,* 129, 175; Appy, *Working Class War,* 30, 35-37.

[1314] Quoted in Ivan, "March 1968," 192.

pressure on the skilled labor market only increased after 1966, it became ever more important for McNamara to ensure that poor, young, and unskilled Americans would be the ones removed from the labor force and put on the firing line. The policy of intentionally "lowering the class composition of the American military" did more than just let college kids off the hook.[1315] It also sought to prevent, via labor market effects, the controls and taxes which would lead organized business to withdraw its support from the executive branch's war effort.

In fact, as economic disruptions increased, capitalists did become increasingly skeptical about escalation. They also responded to tight labor markets with new technologies to control or displace and control production workers. Automakers had often simply expanded volume each year and generated profits through markups. But by 1971, they "[had] become obsessed with cost-cutting" in order to shore up "shrinking or disappearing profits." Ford's Lee Iacocca said: "We are looking at automation of the assembly process longingly…Most all of our capital investments are going to be in this area." [1316] But despite intermittent progress, import competition did not abate and profits remained unsatisfactory. One reason was that even the smartest machines needed human tending. As one 29-year-old UAW local president reminded an interviewer, "We have a say in how hard we're going to work."[1317] This became clear at GM's state-of-the-art, Lordstown Assembly in Ohio, built in 1966 and designated as the site for the new, import-competing subcompact Chevy Vega. In 1972, Lordstown workers struck, receiving

[1315] Appy, *Working Class War*, 33.
[1316] Charles B. Camp and Laurence G. O'Donnell, "New Age for Autos: With Profits Dwindling, Detroit Launches Drive to Hold Down Its Costs," *WSJ*, June 22, 1971, 1.

[1317] Studs Terkel, *Working: People Talk About What They Do All Day and How They Feel About What They Do* (New York: Pantheon, 1974) 263. For an argument that weak productivity growth despite high investment reflected shopfloor dynamics, see Panitch and Gindin, *Making of Global Capitalism,* 135-136.

national attention because their grievances centered on workplace alienation. The Chevy Vega, plagued by quality issues (some inflicted by discontented workers), was retired in 1977.[1318]

Did all this have something to do with the war? Many of the long-haired strikers at Lordstown had new priorities in light of their recent errand into Southeast Asia: "I just had 500,000 Vietnamese trying to kill me. You think I'm scared of GM?" When the UAW drafted a new program of disruptive stoppages to harness the spirit of Lordstown, they called their strategy "Operation Apache," after an operation in South Vietnam. At International Harvester outside Chicago, attacks on supervisors resembled "a sort of industrial fragging." When workplace drug use made the front page of the *New York Times*, readers learned that the problem would get worse "as Vietnam veterans, large numbers of them already addicted to heroin, return to their job."[1319] After experiencing the Vietnam boom, the Vietnam war, or both, many workers saw factory life as something to be dodged like the draft, if not fought like guerrilla war.

The Revolt in the Cities

When Gardner Ackley retired from CEA in 1968, he became ambassador to Italy, where he arrived just in time for the "hot autumn" of bitter industrial conflict. Ackley was bemused and dismayed by "the attitudes of most workers and many intellectuals toward government, property, employers." He considered their "exaggerated egalitarian ideology" to be an unmitigated "an unmitigated national disaster." By post-1945 American standards, Ackley's tenure at CEA was a highpoint of distributional conflict. But the view from Rome put the American labor revolt in

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[1318] David Moberg, "No More Junk: Lordstown Workers and the Demand for Quality," *Critical Sociology*, vol 8, no 2-3 (1978) 63-69.

[1319] Will Bunch, "In the 1970s, Workers at this GM Plant Tried to Reinvent the American Dream. Instead, They Watched it Fade Away, *Philadelphia Inquirer*, Nov 29, 2018; "Autos: Operation Apache," *Newsweek*, Nov 29, 1976, 94.; Lt. Harry Oyler, "Screaming Eagles Through: Time Operation APACHE SNOW," *Destiny* (Summer 1969) < http://101_lha.tripod.com/101st_lha/id83.html>; Bernard Rosenberg, "Torn Apart and Driven Together: Portrait of a UAW Local in Chicago," *Dissent* (Winter 1972) 61-69; Agis Sapulka, "Workers' Use of Drugs Widespread in Nation," *NYT*, June 21, 1971, 1.

perspective. At CEA, Ackley had never had to confront a labor movement which "pursued victory for the workers over the ruling propertied class in every factory, shop, and farm," or "created political and economic havoc through the traditional Italian weapons of mass demonstrations, sudden strikes, factory occupations or slowdowns."[1320]

If there was any social conflict in the Vietnam era that approximated the disruptive force of the *Autunno caldo*, it was the wave of urban black uprisings that occurred at the same time as the labor upsurge.[1321] The most nationally visible disturbances were in Harlem in 1964, Watts in 1965, and Newark and Detroit in 1967, but the phenomenon was far wider than these major city revolts.[1322] Ultimately, the riot wave included 752 episodes between 1964 and 1971. The violence included 228 deaths, around 13,000 injuries, 70,000 arrests, and 16,000 arsons. The "long hot summer" of 1967 was the deadliest year, with 83 deaths recorded, while 1968 (the year of King's murder) saw the largest number of disturbances, 289.[1323] Just after leaving the White House, CEA chair Arthur Okun expressed relief that "the threat of holocaust in our cities as a result of internal strife and injustice is being recognized as a greater and more disturbing danger than that of nuclear holocaust."[1324] Okun had handed off power to the Nixon administration,

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[1320] Gardner Ackley, "Down the Drain to Bangladesh?" *Challenge* (March-April 1979) 6-14. For a macroeconomic view of the Italian class struggle in these years, see Michele Salvati, "The Italian Inflation" in *The Politics of Inflation and Economic Stagnation: Theoretical Approaches and International Case Studies,* eds. Brian Barry, Charles S. Maier, and Leon N. Lindberg (Washington: Brookings Institution: 1985) 509-563.

[1321] Nicola Pizzolato, *Challenging Global Capitalism: Labour Migration, Radical Struggle and Urban Change in Detroit and Turin* (New York: Palgrave Macmillan, 2013).

[1322] For recent accounts that emphasize the experience of smaller locales, see Peter B. Levy, *The Great Uprising: Race Riots in Urban America During the 1960s* (New York: Cambridge University Press, 2018); Elizabeth Hinton, *America on Fire: The Untold History of Police Violence and Black Rebellion Since the 1960*s (New York: Liveright/Norton 2021).

[1323] William J. Collins and Robert A. Margo, "The Labor Market Effects of the 1960s Riots," NBER Working Paper 10243 (Jan 2004). Table 1: The Riots of the 1960s, Frequency and Severity, 27.
< https://www.nber.org/papers/w10243>

[1324] Arthur M. Okun, *The Political Economy of Prosperity*, originally given as the Crawley Lectures, University of Pennsylvania, April 28-39, 1969 (Washington: Brookings Institutions, 1970).

whose domestic program was organized around "an over-riding short term strategy to bring down the level of internal violence."[1325] The "war on poverty" had become an actual paramilitary conflict. Just as in 1940, war had displaced its analog.[1326]

The uprisings and the Vietnam War were connected by more than just violence and simultaneity. The weight of the connections was conspicuous in the report of the National Advisory Commission on Civil Disorders (Kerner Commission), which omitted "almost any mention of the Vietnam War." In fact, the Commission staff had been screened to exclude anyone active in the anti-war movement. Despite these efforts, a suppressed early draft of the report had contained more extensive analysis of these connections.[1327] New York Mayor John Lindsay, a liberal Republican who served on the Commission, said internally that the report should have "come out against the Vietnam War because of the resources it's draining away from the cities." His colleague on the Commission, aerospace tycoon "Tex" Thornton, focused on another connection: a black militant's testimony that "we've been in touch with North Vietnamese." Said Thornton, "That implies criminal conspiracy right there." [1328]

In some cases, the crowds that rebelled were the surplus population left behind by earlier defense booms. Former CIA director John McCone, who had made millions on defense contracts during WWII, was appointed by California Governor Pat Brown to study the Watts uprising. As

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[1325] Daniel Patrick Moynihan, *The Politics of a Guaranteed Income* (New York: Random House, 1973) 12.

[1326] William Leuchtenberg, "The New Deal and the Analog of War" in idem. *The FDR Years: On Roosevelt and His Legacy* (New York: Columbia University Press, 1995); Sparrow, *Warfare State*, 19-47.

[1327] Gary T. Marx, "Two Cheers for the National Riot (Kerner) Commission Report" in *Black Americans: A Second Look*, ed. J.F. Szwed (Basic Books, 1970) 77-95; "Recollections—David Boesel" in Robert Shellow, ed., *The Harvest of American Racism: The Political Meaning of Violence in the Summer of 1967* (Ann Arbor: University of Michigan Press, 2018) 125-132.

[1328] Samuel Morris Abramson, "A Struggle Unfinished: Riots, Race in America, and the Failures of the 1968 Kerner Commission" (unpublished dissertation, Rice University, 2017) 5, 202.

he analyzed the rebellion, McCone noted that African-Americans had come to Southern California in large numbers in the 1940s, when "they started to build ships." With an unmistakable air of mastery, he added "I brought them all in here, I know." The Black Panther Party was founded by people whose parents had migrated to Oakland during WWII, only to see "the largest shipbuilding center in the world" become a "depressed area" by 1964."[1329]

Bobby Seale, a talented sheet metal mechanic, was able to find work in the aircraft business, but he quit once "the war was going on and I felt I was aiding the government's operation." His next job was in a different sector: chairman of the Black Panther Party.[1330] Military installations continued to provide a significant employment in the East Bay. But no return of the Korean War demand for labor was in the cards. Black unemployment in Oakland was five times the national joblessness rate in 1966. In both Newark and Detroit—in many ways utterly dissimilar economies—it was estimated that around 30% of riot participants were unemployed. While this was far higher than the overall unemployment rate, it meant most participants were employed. But according to a survey of Newark, two-thirds of rioters "felt it was impossible to obtain the kind of job they wanted." [1331]

If black workers no longer benefited as much from defense industry as they once did, they were still being conscripted into the war effort as soldiers, where their active and passive

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[1329] Gerald Horne, *Fire this Time: The Watts Uprising and the 1960s* (Charlottesville: University Press of Virginia, 1995) 247; Donna Jean Murch, *Living for the City: Migration, Education, and the Rise of the Black Panther Party in Oakland, California* (Chapel Hill: The University of North Carolina Press, 2010) 16-17.

[1330] Bobby Seale, *Seize the Time: The Story of The Black Panther Party and Huey P. Newton* (Baltimore, Maryland: Black Classics Press, 1991) 11-12.

[1331] Monroe W. Karmin, "Racial Tinderbox: A Federal Study Finds Unrest Among Negroes Rising in Many Cities," *WSJ*, Jan 5, 1966, 1; Robert O. Self, *American Babylon: Race and the Struggle for Postwar Oakland* (Princeton: Princeton University Press, 2003) 172; Kevin Mumford, *Newark: A History of Race, Rights, and Riots in America* (New York: NYU Press, 2008) 102; Sidney Fine, *Violence in the Model City*, 333; *The Kerner Report National Advisory Commission on Civil Disorders* (Princeton: Princeton University Press, 2016) 129.

resistance to much to make the Army ungovernable the end of the U.S. war.[1332] During one uprising, Cincinnati residents told anti-riot cops that "they had faced bigger guns in Vietnam."[1333] Participation in uprisings by black Vietnam veterans led to a confidential White House report on how to stop militants "harnessing unemployed Negro servicemen to sinister causes."[1334] Beyond direct participation of veterans, the context of pointless and unequally distributed sacrifice was pervasive. In Watts, one participant was heard to say, ""If I've got to die, I ain't dying in Vietnam, I'm going to die here."[1335] The Detroit uprising was spurred by a police raid on a party for two soldiers back from Vietnam and one facing deployment.[1336] On Chicago's West Side in 1970, police killed "a decorated black Army sergeant home from Vietnam," reportedly leading to anti-police reprisals by snipers in the Horner Homes housing project.[1337] One the other side, Vietnam combat veterans (white and black) were recruited to join

[1332] David Cortwright, "Black GI Resistance During the Vietnam War," *Vietnam Generation* 2:1 GI Resistance: Soldiers and Veterans Against the War (1990) 51-64

[1333] Ashley Howard, Prairie Fires, 170-71

[1334] Flamm, Law and Order, 122

[1335] Horne, Fire This Time, 59

[1336] Fine, Violence in the Model City, 156.

[1337] A Special Correspondent, "Chicago Police Are Targets for Ghetto Violence: Beginnings of urban guerrilla warfare," *The Irish Times* (Dublin), Aug 15, 1970: 5. The publication here—understandable given the demographics of American police forces—is poignant when one recalls that 1969 and 1970 were also "long hot summers" in Belfast and Derry. Earlier in 1970, New York City's Irish-American political class had arranged to give a golden key to the city to the Northern Irish republican socialist Bernadette Devlin, who promptly handed over this "symbol of the freedom of New York" to the Black Panther Party, along with a message of sympathy for Americans "who are from slums, who are hated because they are black and despised because they are poor." "Irish Give Key to City to Panthers as Symbol," *NYT*, March 3, 1970, 31.

the police forces which disciplined urban space.[1338] "It was just like Vietnam, only they treated us like we were the Vietcong," said one mother in Philadelphia.[1339]

The uprisings had a powerful effect on Martin Luther King, who visited Watts with Bayard Rustin in the aftermath of the riots. According to Rustin, it was this experience that made clear to King "the centrality of economics to the movement for racial equality."[1340] Grappling with the riots also pushed King "to see the war as an enemy of the poor and to attack it as such," even at the cost of a direct break with the national Democratic Party. Figures like Rustin attempted to maintain the liberal-labor-civil rights coalition by keeping conspicuously silent on the economic costs of the war. Most notably, the Freedom Budget that Rustin prepared with A. Philip Randolph took as a premise that hundreds of billions of dollars of new social spending did not depend "on cutbacks in national defense nor on one or another position regarding the Vietnam conflict."[1341] The hand of economic consultant Leon Keyserling was evident here. Twenty years after he had married the remnants of the Fair Deal to the early Cold War, Keyserling still marked the limit of official social democratic dissent in the United States: committed to an unpopular radical expansion of social spending, but unwilling to object to military spending on either fiscal or humanitarian grounds.

Even Keyserling—who unlike Rustin and Randolph was personally in favor of the war until the bitter end—did not argue that Vietnam War itself was a positive economic good. Such

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[1338] Michael S. Sherry, *The Punitive Turn in American Life: How the United States Learned to Fight Crime Like a War* (Chapel Hill: The University of North Carolina Press, 2020) 47-54.

[1339] "Needed: progress without riots," *Business Week*, July 1, 1967, 20-22, quote at 21.

[1340] Daniel S. Lucks, *Selma to Saigon: The Civil Rights Movement and the Vietnam War* (Lexington: University Press of Kentucky, 2014) 96.

[1341] David Stein, "Fearing Inflation, Inflating Fears," 195.

arguments could, however, be found within the Johnson administration. Stung by King's accusations, the administration tasked a Pentagon systems analyst with investigating whether "the Great Society programs in education, anti-poverty, urban renewal, and civil rights been sacrificed to the war." The report concluded that defense spending had been good for growth, because it offered "a greater initial multiplier effect than non-defense spending."[1342] This document was approved by budget director Charles Schultze, but it seems that few in the administration were able to fully convince themselves there were no opportunity costs. Just as Ackley understood the reasons for the labor revolt, LBJ privately seemed to see the riots as understandable: "When you put your foot on a man's neck and hold him down for three hundred years, and then you let him up, what's he going to do?" Perhaps partly because of this bad conscience, policymakers experienced the uprisings as a policy constraint. Many shared Labor Secretary Willard Wirtz's fear that any "worsening in the economy—so that even people able and willing to work are denied the opportunity—would turn slum riots into revolutions."[1343]

There were countless points of contact between the labor revolt and the urban revolt. At some moments, they were inseparable. In Detroit, many black (and some Appalachian white) autoworkers participated in the uprising. When rioters "came back into those plants, they were different people," remembered General Baker of the League of Revolutionary Black Workers. Said Baker, "the difference the rebellion made was visible" in newly grown Afros and necklaces made from spent ammunition—an appearance which "scared the foremen to death."[1344]

[1342] Document quoted in Rhodri Jeffreys-Jones, *Peace Now: American Society and the Ending of the Vietnam War* (New Haven: Yale University Press, 1999), 124.

[1343] Wirtz, December 31, 1966, quoted in Anaïs Miodek Bowring, "The Ideological Boundary Condition on Great Society Employment Policy," *Journal of Policy History*: Vol. 30, Iss. 4 (Oct 2018) 673.

[1344] Michael Stauch, "Wildcat of the Streets: Race, Class and the Punitive Turn in 1970s Detroit" (Duke University, unpublished dissertation, 2015) 169.

Another crucial intersection was the dramatic rise of unionization among public sector workers. The number of public employees doubled between 1946 and 1968, by which time 11.6 million public employees made up 40 percent of the workforce.[1345] Because of federal equal employment laws, public employment had special importance to black workers. The impetus to public sector unionization came from concerns over pay and working conditions as well as broader currents of discontent. Perhaps the most dramatic episode was the eight-day illegal wildcat cat strike by federal postal workers in March 1970, which centered in New York locals but nationwide in scope. The overall postal workforce was around 20% black, and black postal workers led "mini-wildcats" in Newark in 1967 and the Bronx in 1969. The postal workers' movement was interracial in character but drew on distinct Black Power and anti-war energies. According to historian Philip Rubio, "On the post office shop floor, angry young black veterans took the lead in resisting supervisors, oppressive work rules, and poor working conditions."[1346] When Nixon sent troops to New York to deliver the mail during the 1970 strike, sanitation workers' leader John Delury called it an attempt to "Vietnamize relationships with federal employees."[1347] Ultimately, the troops failed to get the mail moving, both because they lacked the skill and because many sympathized with the workers.[1348] The government was forced to settle and meet many of the strikers demands. Fed chair Arthur Burns was "distressed by the fact

[1345] Philip F. Rubio, *There's Always Work at the Post Office: African American Postal Workers and the Fight for Jobs, Justice, and Equality* (Chapel Hill: University of North Carolina Press, 2010), 210

[1346] Rubio, *There's Always Work at the Post Office,* 227, 232.

[1347] Lawrence Van Gelder, "Labor Condemns Action, While Business Backs It," *NYT*, 24 Mar 1970, 35.

[1348] One worker remembered, "'We were already former troops! Some of them were former postal workers—the ones that were in the National Guard." Rubio, *There's Always Work at the Post Office*, 253-254.

that the Government had set an example of pushing up wages," especially in response to what he considered "an insurrection against the Government."[1349]

Despite moments of panic for people like Burns, the labor revolt and the revolt in the cities did not find a durable synthesis. After King was murdered while organizing municipal workers in Memphis, the only national labor leaders to attend his funeral were the UAW's Walter Reuther and the Teamsters' Frank Fitzsimmons.[1350] But, as Nelson Lichtenstein writes, even Reuther was unable to "capture even a slice of the social energy erupting out of the body politic" in 1969.[1351] As at other key moments of crisis in American history, arresting levels of working class militancy failed to translate into new organizational forms or independent political action. A much more effective collective agency emerged at the other pole of the class relation. In 1969, Roger Blough of U.S. Steel brought together other industrialists frustrated by the rising cost of building new factories. It was their organization, the Construction Users' Anti-Inflation Roundtable—soon renamed the Business Roundtable—that would set the tone for social conflict in the coming decade, rather than movements of workers and the poor.[1352]

The Establishment Bails Out

Back in July 1965, Marriner Eccles (a major business figure in the Mountain West, Fed chair from 1934-1948, and an architect of New Deal demand management) went to dinner at the White House. As one of the many business figures who had supported LBJ in 1964, Eccles was

[1349] FOMC Minutes, April 7, 1970, 49-50.
<https://www.federalreserve.gov/monetarypolicy/files/fomcmod19700407.pdf>

[1350] Reuther and Fitzsimmons would subsequently form a short-lived alternative to the AFL-CIO, the Alliance for Labor Action. Lichtenstein, *Walter Reuther*, 430-432.

[1351] Nelson Lichtenstein, *Walter Reuther*, 432.

[1352] Linder, *Wars of Attrition.*

among those summoned to Washington in an attempt to build consent for military escalation. After presentations by Rusk and McNamara, Eccles was asked to say a few words. In a response that left the room silent, the elderly banker said:

> I believe the administration's policy towards Vietnam to be based on fatal errors, and that our national interest would be best served if the administration disentangled itself from a course of action that is bound to be ruinous.[1353]

Eccles shared the usual central banker's fear of unsound finance, and had helped orchestrate the 1951 Fed-Treasury Accord in order to restrain the inflationary consequences of the Cold War. But he was also a principled foreign policy dissenter of a sort that had become almost non-existent in polite American society. In mid-1951, with blood still drying from the last major US counter-offensive in Korea, Eccles publicly charged that the U.S. had "given our blessing and backing to reactionary governments that lack the support of their people" in Iran, China, Korea, Indo-China, and beyond.[1354] It was no accident that Eccles' first and closest collaborator in organizing business opposition to the Vietnam War was investment banker F. Palmer Weber, who had spent the 1940s as research director of CIO-PAC and southern regional director of Henry Wallace's Progressive Party.[1355] In 1948, Eccles and Weber had both tried in their own way to stop the Cold War. Now, they would do so together, forming an organization called Businessmen Against the War in Vietnam. At first, they were lonely, but by September 1967, Eccles delivered the keynote at the September 1967 founding meeting of a larger

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[1353] Quoted in Jonathan Hughes*, The Vital Few: The Entrepreneur and American Economic Progress* (New York: Oxford University Press, 1986) 556.

[1354] Marriner Eccles, "The Way to Peace and Prosperity: Address at Luncheon of the Commonwealth Club of California, in San Francisco, California," July 27, 1951. Statements and Speeches of Marriner S. Eccles, FRASER. <https://fraser.stlouisfed.org/title/statements-speeches-marriner-s-eccles-446/way-peace-prosperity-7744>

[1355] "F. Palmer Weber, 72, Is Dead," *New York Times*, Aug 24, 1986: 36; Sidney Hyman*, Marriner S. Eccles, Private Entrepreneur and Public Servant* (197 (Palo Alto: Stanford University Graduate School of Business, 1976) 411, 423.

organization, Business Executives Move for Vietnam Peace and New National Priorities (BEM).[1356]

In Fall 1967, Eccles and BEM were unusual in their outright dovishness, but business opinion was moving their way. By early 1966, the business consensus in support of the war was already showing cracks. In February, Arthur Dean (LBJ's liaison to Wall Street on Vietnam matters) reported: "The latest from the New York business community is that they are in a complete and total state of confusion." They were not yet opposed to the war but confused by the lack of a coherent strategy, or even a definition of what victory would require.[1357] The business press also played a role in revealing the administration's budgetary deceptions. In early 1966 William Bowen, chief economist at *Fortune*, called an old colleague named Alan Greenspan to ask him to scrutinize the administration's public claims about the costs of the war. The resulting article in April's *Fortune* accurately forecast "economic strains beyond what most economists appear to foresee, and beyond what makers of public policy appear to be anticipating."[1358]

The latter stages of the Vietnam boom proved problematic for business, especially multinational corporations. In testimony before the Senate, Thomas Watson Jr of IBM, an exemplary internationalist Democrat, suggested how business had experienced the war in two stages. "During the first period, the first 2 years of escalation in Vietnam (1965-66)," said Watson, "we were in a period of rising prosperity. Sales and profits were strong." But after that,

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[1356] Eric R. Smith, "'What Would Peace in Vietnam Mean for You as an Investor?' Business Executives and the Antiwar Movement, 1967-75," in *Capital Gains: Business and Politics in Twentieth-Century America*, ed. Richard R. John and Kim Phillips-Fein (Philadelphia: University of Pennsylvania Press, 2017) 199-216.

[1357] R.W. Komer to Mac [McGeorge Bundy], cc: Bill Moyers, untitled memo, Feb 23, 1966. LBJ Library, NSF, Name Files: Komer Memos. Cf. 86. Notes of Meeting (February 26, 1966), *FRUS, Volume IV, Vietnam, 1966* <https://history.state.gov/historicaldocuments/frus1964-68v04/d86>.

[1358] William Bowen, "The Vietnam War: A Cost Accounting," *Fortune*, April 1966, 195–97; Alan Greenspan, *The Age of Turbulence: Adventure in a New World* (New York: Penguin 2009) 55-60.

"overcommitment fueled inflationary pressures and distortions began to occur." Watson went so far as to say, "When we are completely out of Vietnam, much of our economic problem will be solved."[1359] In addition to the inflation and "wage settlements" that worried Watson, Louis Lundborg of Bank of America pointed out international problems at the same hearings. Lundborg pointed increased military-related dollar outflows as a major reason for the deterioration of the U.S. balance of payments.[1360] In addition, he blamed war-borne inflation for the collapse of the U.S. export surplus, which had shrunk from $7 billion in 1964 to less than $500 million in 1968.[1361] The federal government had responded with mandatory capital controls, which aimed to limit foreign investment by U.S. multinationals. Even with these controls, it became increasingly clear that the fixed value of the U.S. dollar in gold would become impossible to maintain, probably sooner rather than later.

In the first half of 1968, this sense of impending breakdown turned the nation's business establishment decisively against further expansion of the war.[1362] On January 1, 1968, LBJ announced mandatory capital controls.[1363] The Tet Offensive, beginning at the end of January, contributed to the mood as well (at one point, American-owned banks in Saigon had to close because of fighting in the streets).[1364] In March, an existing pattern of speculative attacks on the

[1359] Hearings: Economic Impact of the War in Southeast Asia.

[1360] The war directly increased the payments deficit by $1.6 billion annually in 1967-69, or twice that much if all overseas military spending is included. J. Hawley, *Dollars and Borders*, 88.

[1361] Ibid.

[1362] A very detailed account is contained in a dissertation written under the direction Franz Schurmann. Paul Ivan Joseph, "March 1968: A Study of Vietnam Decision-making" (UC Berkeley, unpublished dissertation, 1975).

[1363] Joseph, "March 1968," 117

[1364] "Banks reopen in Saigon as fighting continues," *The Times of India*, Feb 7, 1968, 1.

pound sterling now began to target the dollar. Devaluation was averted only narrowly.[1365] Later that month, LBJ sought counsel from the "wise men," Cold War veterans mostly drawn from the internationalist business community (among those summoned were Dean Acheson, George Ball, Douglas Dillon, Arthur Dean, and Averell Harriman, plus Defense Secretary Clark Clifford.)

These establishment figures advised Johnson against further escalation. Acheson told Johnson that the bleak military outlook, "together with our broader interests in SEA [Southeast Asia], Europe, and in connection with the dollar crisis, requires a decision now to disengage within a limited time."[1366] LBJ took this advice. He turned down his generals' appeals for reinforcements, explaining to them that "Our fiscal situation is abominable," and "That [further escalation] would cost $15 billion. That would hurt the dollar and the gold [sic]."[1367] In an unusually direct fashion, international monetary constraints dictated military strategy. The postwar expansion (conceived both economically and imperially) had found its limit. LBJ put the matter squarely in terms of elite conflict: "the establishment bastards have bailed out."[1368] At the end of March, Johnson bailed out too, announcing he would not seek reelection.

Business pressure for military retrenchment continued after Johnson's abdication. A September 1969 *Fortune* survey found that top executives considered Vietnam the biggest problem facing the U.S. In April 1970, Business Week reported, "There are few hawks left in the

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[1365] Robert M. Collins, "The Economic Crisis of 1968 and the Waning of the 'American Century,'" *The American Historical Review* Vol. 101, No. 2 (Apr 1996) 396-422.

[1366] According to Clark Clifford, "Speaking almost ex officio as the leader of the foreign policy establishment, and with his customary authority, Acheson had an unquestionable impact on the President." Both quoted in Collins, "Economic Crisis of 1968," 415.

[1367] 156. Notes of Meeting: "Notes of the President's Meeting with General Earle Wheeler, JCS and General Creighton Abrams," Washington March 26, 1968. *FRUS Vol VI, Vietnam, January-August 1968* <https://history.state.gov/historicaldocuments/frus1964-68v06/d156>

[1368] A disappointed General Maxwell Taylor put it similarly: "my Council on Foreign Relations friends were living in the cloud of *The New York Times*." Kai Bird, *The Chairman*, 602.

business world." The same month, Bank of America chairman Louis Lundborg denounced the war in testimony before the Senate: "It seemed to me that the time had come to speak out."[1369] In early summer 1970, following Nixon's invasion of Cambodia, the stock market crashed. The head of the New York Stock Exchange told Nixon personally that recovery would depend on "strict adherence to the announced plans for withdrawal of American troops from Cambodia."[1370] John T. Connor, the chemical executive who had served as LBJ's Secretary of Commerce, denounced the invasion before a meeting of the usually conflict-averse Business Council.[1371] Erstwhile Nixon advisor Pierre Rinfret warned that "If the Cambodian war accelerates, we are witnessing the destruction of the American economic system as we know it."[1372] One problem with military Keynesianism was that you eventually had to win the wars for which you had spent hundreds of billions of dollars preparing.

In April 1968, just after the dollar crisis and LBJ's reelection abdication, Martin Luther King was murdered. Black uprisings spread across 196 cities, including the nation's capital.[1373] As Acheson put it, "Vietnam plus the riots is very bad."[1374] Clearly, an economic solution to the urban crisis would require de-escalation. In some business circles, it was also hoped that the urban crisis would substitute directly for falling military spending. Wrote *Business Week* in August 1968: "With a vast government commitment to end poverty and rebuild decaying cities,

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[1369] Gabriel Kolko, *Anatomy of a War*, 346.

[1370] John Brooks, *The Go-Go Years: The Drama and Crashing Finale of Wall Street's Bullish 60s* (New York: Weybright & Talley, 1973) 302.

[1371] Eileen Shanahan, "Former Secretary of Commerce Scores Move into Cambodia," *NYT,* May 9, 1970, 11.

[1372] Remarks at a National Bank of Washington luncheon, quoted in Hobart Rowen, "Walker Dismisses Gloom: Predicts 'Hat Trick' of Economic Stability," *Washington Post*, Apr 30, 1970, F14.

[1373] Levy, *Great Uprising*, 153.

[1374] Thomas and Isaacson, *The Wise Men*, 683.

there should be ample room for defense contractors and other businesses to find new markets."[1375] There were darker versions of this compensatory impulse as well. "Riot weapons," wrote Gary Wills after a visit to an annual convention of police chiefs, "have become a great new field for commercial competition."[1376] As the initial business expectation of a "social-industrial complex" faded in the 1970s, the business of "law enforcement assistance" continued to grow.[1377]

Just as the domestic situation held out possibilities of both welfare state expansion and internal repression, the post-Vietnam moment engendered dreams of peace and new modes of violence. The emergence of business opposition to the Vietnam War flowered into business support for détente and peaceful East-West Trade.[1378] But falling U.S. defense budgets also drove arms manufacturers to seek new business around the world. This trend found support within the federal government, where policymakers increasingly promoted arms exports as a way to address the Vietnam-era balance of payments crisis. There was also a strategic connection to the Nixon Doctrine, in which U.S. clients such as Iran would take enlarged roles in enforcing regional stability, providing their own manpower but fielding U.S. made weapons.[1379]

4. Rupture and Repetition

The Push for Austerity

[1375] "Editorial: if the war should end," *Business Week,* Aug 3, 1968, 112.

[1376] Garry Wills, *The Second Civil War: Arming for Armageddon* (New York: New American Press, 1968) 17.

[1377] Gregory McLauchlan, "LEAA: A Case Study in the Development of the Social Industrial Complex," *Crime and Social Justice* No. 4 (fall-winter 1975), 15-23.

[1378] Ferguson and Rogers, *Right Turn*, 94-100.

[1379] Jonathan Isaac Ng, "The Unquenchable Fire: The Arms Trade and Reproduction of the US Empire, 1960-1988," (unpublished dissertation, Northwestern, 2021).

After the March 1968 crisis, a bipartisan consensus prevailed regarding the excesses of the boom and the need for austerity. On March 19, Johnson announced "a program of national austerity."[1380] “The time to stop our economic overindulgence is now,” said CEA chair Arthur Okun, who compared the U.S. to a "a fat lady munching on candy." [1381] In June, the 10% surtax on personal and corporate income became law. The federal budget became a restraining influence on the economy, showing a surplus in 1969 (the last until the late 1990s).[1382]

Most of the business community wanted an even harder line, which they looked to Richard Nixon to deliver. David Rockefeller, an LBJ donor in 1964, backed Nixon in ’68 because he wanted “a somewhat higher level of unemployment in order to achieve a greater rate of price stability.”[1383] At the Business Council in October 1968, Arthur Okun said that he “felt as though I had wandered into a Republican convention. With a handful of exceptions, most of the business leaders were licking their chops at the prospect of conservative economic management for the nation. They are especially excited about big spending and inflation.”[1384]

Business Council leaders spoke privately of “the desirability of letting unemployment soar from September’s 3.6% to a persistent 5.5% or even 6%.”[1385] These levels had been seen as recently as 1963, but the urban uprisings led some to doubt whether such an increase was still socially acceptable. Henry Ford II of Detroit was among those businessmen who cautioned

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[1380] Philip Warden, “Lyndon Urges Austerity,” *Chicago Tribune*, March 19, 1968, 1.

[1381] H.J. Maidenberg, “The Economy: The Experts Plead for Belt-Tightening,” *NYT*, April 21, 1968, E2; John Cunniff, “‘Fat Lady Munching on Candy,’” *The Austin Statesman*, May 10, 1968, 16.

[1382] Robert A. Gordon, *Economic Instability and Growth*, p. 162

[1383] William Hoffman, *David: Report on a Rockefeller* (New York: Dell, 1971), 134.

[1384] Okun to LBJ, quoted in Kim McQuaid, *Big Business and Presidential Power*, 255.

[1385] “Administration Alarmed at Business Group Arguments to Extend Inflation Restraints,” *WSJ*, Oct 21, 1968, 2.

against a sharp deflation "because of its devastating effect on the poor, particularly Negroes concentrated in city slums."[1386] It was in this context that Nixon flirted with the guaranteed income, which held out the possibility of pacifying the poor without finding them jobs.[1387]

In office, Nixon set out directly to undo the investment-defense growth regime. The president's economic team identified "overinvestment" as a major economic problem, particularly the fact that "business's seemingly insatiable desire for more productive facilities is one of the main engines of inflation."[1388] They spoke of new national priorities such as "consumer demand" and "help to the cities."[1389] In 1969, Nixon suspended the investment tax credit in the face of business opposition. Pressed by an increasingly anti-militarist Congress, he also initiated significant defense budget cuts.[1390] Into 1971, Nixon's rhetoric centered on "a goal this Nation has not reached since 1956…prosperity with full employment in peacetime."[1391] As the defense budget dropped, Washington-linked corporations planned for a "social-industrial complex," in which the systems approaches developed in aerospace would be applied

[1386] The quoted language is the journalist's paraphrase. "What Business Wants from President Nixon," *Fortune*, Feb 1, 1969, 85.

[1387] Moynihan, *Politics of a Guaranteed Income*, 12.

[1388] "Why Nixon wants to Wield the Ax," *Business Week*, April 26, 1969, 108-114.

[1389] Alan Matusow, *Nixon's Economy: Booms, Busts, Dollars, and Votes* (Lawrence: University Press of Kansas, 1998) 41-42; Judith Stein, *Pivotal Decade,* 25. Cf. "It's Consumer's Turn: Economy Seen Shifting Stress from Defense, Capital Goods," *Boston Globe*, Jan 7, 1969, 22.

[1390] *Economic Report of the President, January 1971* (Washington: GPO, 1971), 43-44.

[1391] Richard Nixon, Address to the Nation Outlining a New Economic Policy: "The Challenge of Peace." Aug 15, 1971. Online by Gerhard Peters and John T. Woolley, The American Presidency Project https://www.presidency.ucsb.edu/node/240602

environmental cleanup and public transit.[1392] This vision preserved a privileged role for private industry, but contemplated significant expansions of public spending and sectoral rebalancing.

The Recession of 1970

In December 1969, the economy began to contract, marking an end to what was then the longest cyclical expansion in U.S. history. The year-long recession is barely remembered today, but it forms an important part of the economic history told in this chapter.[1393] For one thing, it was clearly a defense recession, with a $4.3 billion net decline in federal purchases accounting for 40% of the decline in GDP.[1394] In 1970 alone, 1.1 million defense-generated jobs were lost—accounting for more than half of the overall increase in unemployment.[1395] Between 1968 and 1971, two-thirds of defense-generated jobs in manufacturing disappeared. More than one-fifth of the overall contraction of manufacturing employment occurred in just two sectors: aircraft and ordnance sectors.[1396] When Phyllis Schlafly lost her 1970 run for Congress in southern Illinois, she found that voters were less concerned with her trademark social issues than with the fate of the massive Olin ammunition plant in East Alton, which had just laid off 3,000 workers.[1397]

[1392] "Viewpoint of the Times: Business as a Social Worker," *Los Angeles Times,* April 21, 1968, F7; Simon Ramo, "Toward a Social Industrial Complex," *Wall Street Journal,* February 16, 1972, 10; Sterling Green, "Nixon Era Technology Push: The Social-Industrial Complex," *Atlanta Constitution*, March 12, 1972, 17D.

[1393] Paul Krugman once opened a book by describing the "economic environment" in 1970 as a "paradise lost"

[1394] Military outlays fell by more than this but were partially offset by the growth in other federal spending. Gordon, *Economic Instability and Growth*, 161, Table 6.2, 172.

[1395] *Economic Report of the President, 1971*, Table 11, page 45; Unemployment Level [UNEMPLOY], FRED <https://fred.stlouisfed.org/series/UNEMPLOY, October 12, 2021> *ERP* 1971 suggests the relative effect of defense cuts is even greater if the effects of the late 1970 auto strike are separated out from the recession, but I have not attempted to do so here.

[1396] *Economic Report of the President, 1971* 44-45; Richard P. Oliver, "Employment effects of reduced defense spending," *Monthly Labor Review*, Vol. 94, No. 12 (Dec 1971) 3-11; All Employees, Manufacturing [MANEMP], FRED <https://fred.stlouisfed.org/series/MANEMP>

[1397] Donald T. Critchlow, *Phyllis Schlafly and Grassroots Conservatism*, 198.

Those who opposed the war and advocated new social spending pointed out that there was no inherent reason the reduced military spending had to mean increased unemployment.[1398] But this meant little in the face of Nixon's commitment to cooling the economy. The failure to fully offset the defense cuts was not a policy mistake but a political decision to bring on a "policy recession."[1399] Economist Paul Samuelson recognized this when he dubbed the recession "Made in Washington." Samuelson, a liberal Democrat, made clear that he did not mean the remark "in way of criticism." To the contrary, Samuelson claimed the Nixon administration had inherited the policy from LBJ's CEA chair Arthur Okun, who had "also prescribed contrived retardation for an inflationary situation."[1400] Mainstream Keynesians fully endorsed the principle of manipulating the economy to generate a recession, even if they tended to think Nixon had let the situation get a little out of control.[1401] The bipartisan retreat from full employment, which would gather strength over the next decade, began amid the wreckage of the Vietnam boom.[1402]

The recession had important consequences in terms of social politics. Black unemployment shot up above 10 percent, erasing the gains made during the tight wartime labor market. Without seniority, recently hired black workers were often the first fired. In Detroit,

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[1398] Emile Benoit, "Cutting Back Military Spending: The Vietnam Withdrawal and the Recession," *The Annals of the American Academy of Political and Social Science* Vol. 406, The Military and American Society (Mar 1973) 73-79.

[1399] The phrase is borrowed from Robert A. Gordon, Economic Growth and Instability, 171.

[1400] Statement of Paul Samuelson, Professor of Economics, Massachusetts Institute of Technology, in *The 1970 Midyear Review of the President: Hearings Before the Joint Economic Committee, 91st Congress, 2nd Session, Part 1, July 8-10, 1970* (Washington: GPO, 1970) 528-532. Cf. Arthur Okun, "Unemployment and Defense Spending," *Newsday* (Sep 3, 1970), 92.

[1401] Samuelson's remarks recall Luigi Pasinetti's comment: "The 'Keynesian' management of total effective demand has by now become such a common Government policy as to be used sometimes not only for achieving full employment, but also for deliberately causing 'Keynesian' unemployment." Pasinetti, *Essays on Growth and Income Distribution* (Cambridge, UK: Cambridge University Press, 1974) 41.

[1402] Richard Du Boff, "Full Employment: The History of a Receding Target," *Politics and Society* 7, no. 1 (March 1977).

"most of the new, post-riot jobs in the auto industry evaporated."[1403] One black worker named Bill was hired in Ford's River Rouge plant in 1967 as part of a program for the "hard core unemployed." Though treated with condescension and consigned to menial tasks, he had made $125 a week in take home pay at Ford. Laid off during the recession, Bill and his family had to survive on $55 in welfare benefits.[1404] But despite widespread fears that black unemployment was "social dynamite," there was no new wave of uprisings.[1405] "Urban disorder all but ceased in the summer of 1969," recalled Moynihan, "while by 1971 the topic itself had receded from public attention."[1406] Moynihan pleasantly imagined that "the issue of race" might be addressed through "benign neglect" rather than urgent assistance.[1407] The reality would be worse than neglect: state repression directed at radicals and, through policing, at entire communities.[1408]

By some measures, the labor revolt maintained its strength through the recession. Several long strikes (the 101-day national strike against GE in 1969-70, the 10-week strike against GM in 1970, a 174-day strike at the GM plant in Norwood, Ohio, in 1972) an ability to hold out despite the end of the boom. On the other hand, the same episodes could be seen as evidence of employers' stated willingness to take strikes rather than settle.[1409] In the rubber and appliance

[1403] Lichtenstein, *Walter Reuther*, 413.

[1404] Bob Hippler and Dave Riddle, *Hard Times in Detroit* (Detroit: Radical Education Project, 1971) 9.

[1405] The phrase in quotes was spoken by an unnamed "troubled government inflation fighter." Joseph R. Slevin, "Young Blacks Can't Find Employment," *Newsday*, Nov 5, 1970, 92.

[1406] Moynihan, *Politics of a Guaranteed Income*, 243. Collins and Margo, "Labor Market Effects," catalogs 158 riots in 1967, 289 in 289, 124 in 1969, 68 in 1970, and 38 in 1971.

[1407] Peter Kihss, "'Benign Neglect' on Race Is Proposed by Moynihan," *NYT*, March 1, 1970, 1.

[1408] Elizabeth Hinton and DeAnza Cook, "The Mass Criminalization of Black Americans: A Historical Overview," *Annual Review of Criminology*, Vol. 4 (January 2021) 261-286.

[1409] "Confrontation in Detroit," *WSJ*, July 24, 1970, 6.

industries, there was evidence that the recession had led to concessionary bargaining by unionized workers.[1410] Even during the recession, businesses undercut worker power by investing heavily in labor-saving technology. Persistent labor strife and production problems at GM's state-of-the-start Lordstown plant reminded managers that even automated factories required human tending. But once capital controls were removed, American capitalists found that the world was full of military dictatorships eager to move their peasantry into non-union factories. Already in 1972, Ford and GM's combined capital expenditures in Taiwan, South Korea, and the Philippines were higher than the cost of the Lordstown plant.[1411] Unionized workers would retain some ability to defend their standard of living, but their ability to shift the income distribution was reduced after 1970.[1412]

Perhaps the most important thing about the 1970 recession is what it failed to do: stop inflation. During the yearlong recession, consumer prices rose 5%.[1413] It was around this time that Americans started to use the word "stagflation."[1414] As in the earlier Vietnam boom, the capital goods sector remained central to structural inflation. Nine months into the recession, real

[1410] Everett Groseclose, "Conciliatory Mood: Increasingly, Workers Give Up Some Benefits So as Not to Lose Jobs," *WSJ*, Jan 26, 1972: 1.

[1411] Emma Rothschild, *Paradise Lost*: *The decline of the auto-industrial age* (New York: Random House, 1973) 240. On the notorious expense of the Lordstown plant, see Don Sider, "The Big Boondoggle at Lordstown," *Fortune*, September 1969, 106-109.

[1412] Naturally, there is much more to be said about U.S. working class power in the 1970s, which varied significantly by sector. But there is a clear contrast with Europe, where rising real wages continued to erode the profits share continued throughout the 1970s. Shares of gross domestic income: Compensation of employees, paid: Wage and salary accruals: Disbursements: to persons (W270RE1A156NBEA), FRED. <https://fred.stlouisfed.org/series/W270RE1A156NBEA>; Jeffrey D. Sachs, "Wages, Profits, and Macroeconomic Adjustment: A Comparative Study" (Brookings Papers on Economic Activity, 2:1979) < https://www.brookings.edu/wp-content/uploads/1979/06/1979b_bpea_sachs_branson_gordon.pdf>

[1413] Consumer Price Index for All Urban Consumers: All Items in U.S. City Average [CPIAUCSL], FRED <https://fred.stlouisfed.org/series/CPIAUCSL>

[1414] See e.g., Lawrence Mayer, "The World Economy: Into a Time of Stagflation," *Fortune*, August 1, 1971, 144.

spending on business plant and equipment was down only 1 point. Even at the trough, business fixed investment was higher than it had been during the boom years of 1965-1968.[1415] In turn, the price of capital goods continued to increase. In late 1968, companies forecast that the price of capital goods would increase 5% in the next year.[1416] In late 1970, at the bottom of the recession, they assumed plant and equipment inflation of 7%.[1417] 1970 was also an all-time peak year of strike activity by construction workers.[1418] Investment demand was not growing enough to drive the economy forward, but its high-level stagnation prevented the kind of shakeout that had resolved American capitalism's earlier brushes of capital goods inflation.[1419]

The ongoing investment boom generated a repetition of the 1966 credit crunch. Falling profits in 1968-69 meant that businesses turned even more to debt to finance their record-high capital spending. As rising interest rates increased the cost of debt service, the recession reduced the firms' inflows of the cash needed to remain solvent. Many companies found themselves borrowing just to make interest payments, turning for liquidity to the Eurodollar market or issuing commercial paper (unsecured, short-term corporate debt). Between 1965 and mid-1970, the value of commercial paper outstanding rose from $10 billion to $40 billion.[1420]

[1415] Private Nonresidential Fixed Investment/Gross private domestic investment: Fixed investment: Nonresidential (implicit price deflator), FRED. <https://fred.stlouisfed.org/graph/?g=HEOV>

[1416] "Capital outlay plans defy slowdown signs," *Business Week*, Nov 9, 1968, 54-57.

[1417] "Business spenders keep a steady pace," *Business Week*, Nov 7, 1970, 20-21.

[1418] Linder, *Wars of Attrition,* 136-137.

[1419] During the 1957-58 recession inflation-adjusted fixed business investment fell 12.8 %. In 1970 recession, it fell 4.4%. Private Nonresidential Fixed Investment/Gross private domestic investment: Fixed investment: Nonresidential (implicit price deflator), FRED.
< https://fred.stlouisfed.org/graph/?g=HEOV>

[1420] Thomas Timlen, "Commercial Paper—Penn Central and Others," *in Financial Crises: Institutions and Markets in a Fragile Environment*, ed. Edward I. Altman and Arnold W. Sametz (New York: John Wiley and Sons, 1977), 220-225.

The stock market fell sharply in the first half of 1970. In March, the wildcat postal workers' strike centered in New York briefly cut off the flow of "checks, stock certificates, bonds and the other financial papers that are the lifeblood of the world's busiest stock exchange."[1421] In May, the invasion of Cambodia and the killing of campus protesters brought the Dow's worst day in seven years. The market slid until Nixon brought around dozens of leading financiers and industrialists to a special White House dinner on May 27. In attendance was Bernard J. Lasker, chairman of the New York Stock Exchange and an important Republican fundraiser, who said that a rebound would only occur if the Fed was committed to further increases in the money supply to prevent a liquidity squeeze. Fed chair Arthur Burns reassured the audience that the central bank would act, as it had in 1966, as a lender of last resort.[1422]

The stock market slide brought down Penn Central, the nation's largest railroad and seventh largest corporation. The railroad industry had many serious problems, but one was that the waning of the Vietnam boom removed a major demand prop.[1423] In June 1970, unable to refinance its $200 million in commercial paper, Penn Central entered bankruptcy. The crisis threatened to go far beyond Penn Central.[1424] Investors thought the next domino could be Chrysler, which had lost $29 million in the first quarter of 1970 and had $1.6 billion in

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[1421] "The Strike That Stunned the Country," *Time*, Mar 30, 1970 <https://www.apwu.org/sites/apwu/files/resource-files/update09-2007-031907-iretdoc.pdf>; See also Robert J. Cole, "City's Economy Worsens In 2d Day of Postal Strike," *NYT,* Mar 20, 1970, 1; G. Vartan Vartanig, "Stocks Again Slip in Postal Strike," *NYT*, Mar 24, 1970, 81.

[1422] Arthur F. Burns, "Businessmen's Dinner at White House," May 27, 1970. Statements and Speeches of Arthur F. Burns. FRASER <https://fraser.stlouisfed.org/title/statements-speeches-arthur-f-burns-449/businessmen-s-dinner-white-house-7954>

[1423] In a 1966 article arguing that the end of the war would help the economy, the railroads were cited as a major exception. The article quoted the president of the American Railroad Association attributing the favorable 1967 outlook to "the nation's economic boom and Vietnam military demand." Alfred L. Malabre, Jr. "Business & Vietnam" Analysts Believe War Hurts Economy, Doubt A Slump if Peace Comes," *WSJ*, Nov 23, 1966, 1, 13.

[1424] Wolfson, *Financial Crises,* 52-60.

commercial paper outstanding. A Chrysler executive said, "if we can't [survive], there are a lot of companies that are going to go down." In tense personal meetings, New York banks arranged new credit lines worth $410 million, enough liquidity to keep Chrysler solvent.[1425] According to Senator Jacob Javits, whose Manhattan bailiwick kept him close to finance, "the economy has just skirted the edges of economic disaster…for some days it was a matter of touch and go."[1426]

As Chrysler was locked out of the commercial paper market, it was able to regain its footing by expanding its borrowing from commercial banks. Behind the commercial banks stood the Fed, which now embraced its role as the backstop to the entire economic system, including unregulated money markets and nonfinancial firms.[1427] In 1966, the Fed had engineered a crunch, but now they energetically encouraged banks to use the discount window and eliminated interest rate ceilings on large certificates of deposit. The money borrowed from the central bank and deposits attracted by higher rates allowed banks to extend billions of dollars in new loans to corporate borrowers shut out of commercial paper market.[1428] The Fed's interventions came about because the original plan cooked up by Nixon and his allies in finance—to rescue Penn Central via DPA loan guarantees—had been resisted by the Pentagon (jealous of its shrinking budget) and blocked by Congress (suspicious of conglomerate bailouts).[1429] This was an early sign that military Keynesianism was giving way to a new era.

[1425] Jerry M. Flint, "Bankers Rescue Chrysler Amid Developing Gloom," *NYT*, July 5, 1970, 73.

[1426] H. Eric Heinemann, "Javits Submits Bill to Let U.S. Guarantee Loans to Companies," *NYT*, July 28, 1970, 56.

[1427] Özgöde, "Governing the Economy," 369-375.

[1428] Wolfson, *Financial Crises,* 59-60.

[1429] Haldeman diary, Thurs, June 4, 1970 and Fri, June 19, 1970. H. R. Haldeman Diaries Collection, January 18, 1969 – April 30, 1973. Nixon Library. NARA Online Public Access Catalog Identifiers: 7787364; 7787364; Joseph R. Daughen and Peter Binzen, *The Wreck of the Penn Central* (Washington, DC: Beard Books, 1999) 287-307.

But there was no clean break. In the wake of the 1970 emergency, the government rescued Lockheed (the second largest defense contractor and 33rd largest industrial corporation) from bankruptcy with an emergency loan guarantee. A Lockheed failure might cost more than the jobs of white workers and the profits of California capitalists. The Fed worried that "the general financial situation could deteriorate as the result of problems in the aerospace industry."[1430] The loan was controversial, passing the Senate by a single vote. [1431] But bailouts were the wave of the future, as revealed by a phrase inspired by the Lockheed affair: "too big to fail."[1432] The term "systemic risk" would not emerge until later, but Nixon aide H.R. Haldeman had another metaphor ready to hand for the stakes of Penn Central: "possibly collapsing the economy on domino theory."[1433] A new form of stabilization without socialization—centered on finance and central bank power—emerged directly from the military-industrial wreckage.

The Reverse Course

The recession drove Nixon to abandon austerity. After 1970, Nixon would take active steps to resurrect the investment-defense boom conditions that had originally generated the Vietnam inflation. The most familiar explanation for his turnabout is electoral politics. Nixon, already obsessed with his 1972 reelection, was indeed panicked by Democratic pickups in the

[1430] The banks had lent $400 million to Lockheed, $3 billion to other aerospace manufacturers, and $4.5 billion to the airlines (which were also shaky). Federal Open Market Committee, Memorandum of Discussion. March 9, 1971, 64. Historical Materials, Board of Governors of the Federal Reserve System. <https://www.federalreserve.gov/monetarypolicy/files/fomcmod19710309.pdf>; "The Quality of Credit is Strained," *Business Week*, June 26, 1971, 70-74.

[1431] On the politics of the Lockheed bailout, see Brenes, *For Might and Right*, 145-151.

[1432] In the article which appears to have coined the term, Lockheed features most prominently. Other industrial problems (railroads and Chrysler) are mentioned, but curiously the Fed's recent lender of last resort interventions are not. John Cobbs, "When Companies Get Too Big to Fail," *Business Week*, Jan 27, 1975, 16.

[1433] Haldeman diary, Thursday June 4. Özgöde documents the continued use of the domino image, the first use of "systemic risk" in 1980, as well as a swelter of other Cold War metaphors ("containment," "chain reaction," Chernobyl). "Governing the Economy," 377, 380, 384, 415.

1970 midterms. But Nixon was not so much abandoning his principles as recognizing the failure of an experiment. Unemployment averaged 5.5% in the second half of 1970 and 6% in 1971. This was the upper bound of the Business Council's proposal for socially acceptable unemployment, yet prices continued to rise. Nixon and his advisers reasonably began to wonder whether recession was still a means to price stability. Even if a deeper recession might do the trick, there was more than Nixon's popularity at stake: a deeper downturn threatened financial crisis and bankruptcies of major nonfinancial firms.

Nixon reached for familiar methods to spur growth. "To goose the economy," he once told his cabinet, "the private sector is the best place. In government the best place is the military."[1434] In 1971, Nixon restored the investment tax credit on even more generous terms than before. As a new capital goods boom took shape, the President and his inner circle also "really put the heat" on Pentagon officials to use "the purchasing power we have to get the economy moving."[1435] Defense officials such as Melvin Laird and David Packard specifically welcomed the impact of procurement on the durable goods and capital goods sectors.[1436] The revival of the investment/defense strategy brought with it readymade constituencies. At the nation's largest machine tool firm, workers and managers cheered the investment tax credit "exactly as though the locally beloved Cincinnati Bengals were winning the football

[1434] Memorandum of Conversation: December 22, 1973 - Nixon, Schlesinger, Joint Chiefs, National Security Adviser. Memoranda of Conversations, 1973-1977 - Nixon Administration, 1973-74, Box 3. Gerald R. Ford Presidential Library.

[1435] Journal II (Blue Notebook), 152-153. Transcript of Burns Journal, Ford Library. < https://www.fordlibrarymuseum.gov/library/document/0428/burnstranscript2.pdf>.

[1436] Laird to Schultz. 20 October 1970.; Minutes of Defense Program Review Committee Meeting, Washington, November 9, 1970; Revisions to Defense Budget. January 13, 1971. Kissinger Telcons, DNSA. Accession number: KA04727. ProQuest document ID: 1679133908.

championship."[1437] Untold millions in legal and illegal campaign contributions poured in from defense contractors, while the trade press told readers that "It should not be difficult for anybody remotely involved in the aerospace industry to make a presidential choice."[1438]

Nixon gave the old formula a twist with the New Economic Policy, announced in August 1971. The package included a wage-price freeze, a protective surtax on imports, and the suspension of gold-dollar convertibility. The wage-price freeze (which developed into a series of controls) were invariably described as the first in "peacetime" history, despite the ongoing U.S. war in Southeast Asia and the fact that the authorizing legislation was the Defense Production Act. In adopting political management of incomes, Nixon was yielding to pressure from Fed Chair Arthur Burns and the Business Council, who saw wage restraint as a first priority. Arnold Weber, the economist in charge of Nixon's Cost of Living Council, confirmed that "Business had been leaning on Schultz and McCracken to do something about the economy, especially wages. The idea of the freeze and Phase II was to zap labor, and we did."[1439] The controls allowed growth to resume while containing labor, so that ultimately prices could stabilize and the

[1437] Robert Walker, "Joy in Cincinnati: Milacron Workers and Their Managers Cheer Plan," *New York Times*, August 22, 1971.

[1438] Robert Hotz, "The Shuttle Decision," *Aviation Week & Space Technology*, July 31, 1972, 7.

[1439] At the time, George Shultz was Secretary of Labor and Paul McCracken was CEA chair. For the Weber quote, see *Business Week*, April 27, 1974, 108. Jefferson Cowie's claim that this quote has been misinterpreted is unconvincing. Despite devoting a long footnote to the matter, he quotes only two words ("zap labor"). Cowie objects that Weber "used this phrase specifically about the controversial wage–price freeze." In fact, Weber referred to "the freeze and phase 2," a period which lasted from August 1971 until January 1973, hardly a brief exception. Cowie also ignores the real point of Weber's quote, which is not that Nixon never tried to reach out to labor (clearly, he did) but that business effectively pressured the administration to move towards wage repression. Cowie does not mention the Business Council once. But the Council's role is corroborated by more than a "single recycled quotation" from a marginal administration figure. In May 1971, the Business Council "moved to the unprecedented step of taking a straw vote" in support of controls, "subsequently conveying to the president an expression of discontent." Jefferson Cowie, "Nixon's Class Struggle: Romancing the New Right Worker, 1969–1973," *Labor History*, Vol. 43, No. 3 (2002) 257-283, here 258-259. On the Business Council, see Neil De Marchi, "The First Nixon Administration: Prelude to Controls," in *Exhortation and Controls*, ed. Goodwin, 295-352, here 340. For a more general critique of Cowie's view, see Edmund F. Wehrle, "'Partisan for the Hard Hats': Charles Colson, George Meany, and the Failed Blue-Collar Strategy," *Labor* (2008) 5 (3): 45–66.

profit share of income could rise. The fallout from the end of the gold-dollar standard would be immense and complex, but in the short-term it boosted U.S. exports and the manufacturing sector. Also in the summer of 1971, Kissinger visited China, the opening of a major diplomatic opening which struck at the U.S.S.R., opened the way for a settlement in Vietnam, and attracted the relatively dovish wing of multinational capital to support Nixon's reelection.[1440]

The old formula worked as promised, delivering one last great boom. Led by a rising share of fixed investment, real GDP grew over 5% annually in 1972 and 1973. Capacity utilization approached (but did not match) its Vietnam War highs. Downward trends in aerospace and defense production were reversed.[1441] Inflation slowed, productivity increased, and profits recovered. Nixon won a 49-state landslide against George McGovern, whose platform called for a guaranteed income, the repeal of the investment tax credit, and cutting the defense budget by nearly one-third. For a moment, it appeared that the winding paths of Nixonomics had led to the restoration of the military-industrial mixed economy whose future had been put into question by the social and economic crisis generated by the Vietnam escalation.

The Second Slump

But Nixon's political mastery was incapable of overcoming the underlying economic tendencies toward stagflation. The trouble began well before the oil crisis of October 1973 triggered the formal onset of recession in November. Between late 1972 and mid-1973, the rate

[1440] For example, Thomas Watson Jr of IBM and John T. Connor of Allied Chemical, both of whom had opposed Nixon in 1968, supported him publicly in 1972. Ben A. Franklin, "Rustling the strays from the Big D Ranch," *NYT*, Oct 1, 1972, SM14.

[1441] Industrial Production: Equipment: Defense and Space Equipment [IPB52300S], FRED, Federal <https://fred.stlouisfed.org/series/IPB52300S>; Capacity Utilization: Manufacturing: Durable Goods: Aerospace and Miscellaneous Transportation Equipment (NAICS = 3364-9) [CAPUTLG3364T9S], FRED, <https://fred.stlouisfed.org/series/CAPUTLG3364T9S>.

of inflation doubled. The Fed responded to by doubling interest rates, which had already reached record post-1945 levels by September 1973. Real GDP growth had already turned negative the quarter before the oil crisis. The bottom did not come until the first half of 1975, which saw industrial production fall by over 9%. Unemployment peaked at 9% and would not fall below 6% until the end of 1978. Over the course of the recession, consumer prices 15 points.

In response to the new recession, Nixon and his advisors (including Defense Secretary James Schlesinger and budget chief Roy Ash, the head of defense giant Litton) turned immediately to military Keynesianism, adding to spur the economy. Schlesinger told Congress frankly [1442] Indeed, military spending helped keep the mid-1970s recession from becoming a depression, though it can hardly be assigned chief importance.[1443] Overall capacity utilization in manufacturing fell by nearly 20 points, but aerospace slid less than 5%.[1444] Production of defense and space equipment rose during the recession.[1445] In the oil and aerospace hub of Fort Worth, “unemployment was half the national average, and skilled workers poured in for jobs." The chair of local Economic Development Council boasted that "People here will learn about the recession by reading their daily newspapers."[1446] According to U.S. News and World Report, “In

[1442] John W. Finney, “Military Budget Spurs Economy,” *New York Times*, February 27, 1974, 9. For extensive discussion of Nixon’s military Keynesianism, see Barker, “‘Don’t Discuss Jobs Outside of This Room.”

[1443] From 1974 to 1975, the federal budget deficit increased by $47 billion while defense spending increased by about $16 billion and federal transfer payments increased by $54 billion. Federal Surplus or Deficit [-] (FYFSD), FRED, <https://fred.stlouisfed.org/series/FYFSD>; FDEFX, FRED <https://fred.stlouisfed.org/series/FDEFX>; Government current transfer payments (A084RC1Q027SBEA), FRED <https://fred.stlouisfed.org/series/A084RC1Q027SBEA>.

[1444] Capacity Utilization: Manufacturing (NAICS) [MCUMFN], FRED. https://fred.stlouisfed.org/series/MCUMFN, October 11, 2021. Capacity Utilization: Manufacturing: Durable Goods: Aerospace and Miscellaneous Transportation Equipment (NAICS = 3364-9) [CAPUTLG3364T9S], FRED, https://fred.stlouisfed.org/series/CAPUTLG3364T9S.

[1445] Industrial Production: Equipment: Defense and Space Equipment [IPB52300S], FRED. https://fred.stlouisfed.org/series/IPB52300S, October 12, 2021.

[1446] James P. Sterba, “Bustling Fort Worth Hails Rich F-16 Jet Fighter Deal,” New York Times, Jun 15, 1975, 47; cf. Gerald Rosen, “Upswing in Aerospace,” *Dun's Review*, Aug 1974, Vol 104:2, 33-37, 85.

electronics, aerospace, shipbuilding, construction, other fields, federal dollars often made the difference between stability and staggering losses." Raytheon reported its best year of the decade to date, with $1.9 billion in sales and a $2.6 billion backlog of unfinished order in 1974. As the head of the Electronics Industry Association said, "People might not have been buying television sets, but the Government was still in the market for radar and communications equipment."[1447]

Just as defense put a floor under the business cycle, so did the business cycle put a floor under the defense budget. As unemployment rose to 9%, Congressional anti-militarism receded. One Hill staffer reported, "prospects of higher unemployment make increased defense spending particularly attractive" in 1974. [1448] The next year, the *Wall Street Journal* reported that the Ford administration believed "the current recession may protect much of the military budget from deep cuts."[1449] In 1976, Congress reversed its post-Vietnam practice of cutting Pentagon proposals, instead adding billions to the request.[1450] New justifications, stressing the balance of trade or productivity gains, were found to fit the decade's new crises.[1451] The stage was set for a major military buildup that would last most of the next decade.[1452]

[1447] "Arms: One Industry that Held up during the Slump," USNWR, September 29, 1975, 81-82.

[1448] Richard J. Levine, "Major Budget Cuts Unlikely: Congress Smiles on the Pentagon Again," *Los Angeles Times,* March 10, 1974, H3.

[1449] Richard J. Levine, "Ford to Seek a Defense Spending Increase Of $8 Billion, to $93 Billion, for Fiscal '76," *WSJ*, January 17, 1975, 4.

[1450] Ernest Volkman, "Congress Buying the Pentagon Line," *Newsday*, April 19, 1976, 13.

[1451] The Air Combat Fighter—The Largest Aircraft Procurement of the Next 20 Years. December 16, 1974. Richard B. Cheney Files, Box 3, Defense – general. Ford Library.
<https://www.fordlibrarymuseum.gov/library/document/0005/1561364.pdf>;
Implications of Not Doing Space Flight, enclosed in James C. Fletcher to Mr. Frank G. Zarb. November 6, 1974. Presidential Handwriting File, Box C7, Presidential Handwriting, 11/29/1974 (2). Ford Library
< https://www.fordlibrarymuseum.gov/library/document/0047/phw19741129-06.pdf>

[1452] David K. Henry and Richard P. Oliver, "The defense buildup, 1977-85: effects on production and employment," *Monthly Labor Review* (August 1987) 3-11.

The Nixon years show that military Keynesianism survived the Vietnam crisis and the stagflationary decade that followed. It helped to stabilize demand while preserving private ownership and rewarding key constituencies. But it did not point a way out of the impasse. The long mid-decade slump made clear that something else would have to give—but what? It was hard to guess the future of American capitalism. Even within the pro-business Nixon and Ford administrations, there were conflicting tendencies. One Nixon adviser, Pierre Rinfret, predicted that "within ten years, 50% of our industrial production will be controlled by the government." The existing statist management of "housing, airlines, railroads and aircraft production" would expand into new fields.[1453] But Nixon also chose Alan Greenspan—"known for his endorsement of Ayn Rand's philosophy and all-out ideological belief in laissez-faire"—to head the CEA in 1974.[1454] The Vietnam boom had determined the shape of the crisis. How it would be resolved was still an open question as the last American bank executives fled Saigon.[1455]

[1453] Gerald R. Rosen, "The Coming of the Managed Economy," *Dun's Review* (Dec 1971) Vol 98 No. 6, 27-29, 67-68, here 27.

[1454] Leonard Silk, "Nixon as Policy Maker: Impeachment Ordeal Worries Business Despite Administration's Conservatism," *NYT*, 31 July 1974, 41.

[1455] Andrew H. Malcolm, "Bank of America Left $40 in Saigon: Last Days Saw Brisk Filming of Records," NYT, May 19, 1975, 58.

Chapter 6: Rearming America, Recasting Keynes: The Second Cold War as Path to Neoliberalism

"Could the Pres... shut off spending by the world's biggest buyer of goods & services (the U.S. govt.) without risking a full scale depression?" – Ronald Reagan, c. 1972[1456]

"Jobs are created and investment is stimulated and tax revenues are generated – both individual and corporate. So you aren't really adding substantially to your deficit when you add defense spending." – Secretary of Defense Caspar Weinberger, 1981[1457]

Everyone knows that the rise of Reagan meant the end of the New Deal order, including its Keynesian undercarriage. For the fire-eating supply side theorists who made up Reagan's brain trust, "Keynesian" was a term of derision; even "macroeconomics" *tout court* could now be called an "enemy" on the op-ed page of the *Wall Street Journal*.[1458] Among the more sober practitioners of academic economics, the counter-revolution was just as complete, with pre-Keynesian ideas—about savings determining investment, supply determining demand—firmly reinscribed in introductory textbooks and Nobel Prize-winning models. To the extent that "Keynesian" had come to mean not just an economic theory but a form of society—one defined by welfare spending, the mixed economy, and strong nation states—that society also came apart irrevocably. In its place emerged a new society marked by *laissez-faire* and soaring inequality, governed only by the inexorable discipline (or, depending on your viewpoint, efficiency) of international capital markets.

[1456] Letter to Dr. McDowell, c. 1972, reprinted in *Reagan, in His Own Hand,* eds. Kiron Skinner, Annelise Anderson, and Martin Anderson (New York: Free Press, 2001) 453-455.

[1457] Casper Weinberger, address to the New York Economic Club, 295th Meeting, October 27, 1981. Economic Club of New York Legacy Archive. < https://www.econclubny.org/legacyarchive/-/blogs/1981-caspar-weinberger>

[1458] Jude Wanniski, "Macroeconomics: The Enemy Within," Wall Street Journal, June 27, 1991, A14., cited in Tim Shenk diss, Chapter 5. The interpretation of the fate of macroeconomics in this chapter is indebted to Shenk's discussion of Lawrence Klein.

But from the very beginning, a paradox was evident. Despite the rhetorical counter-revolution, no return to the political economy of Herbert Hoover and Andrew Mellon was accomplished, or even attempted. Big government remained quantitively big, and many of the qualitative capacities of the New Deal state also persisted, or even expanded. The biggest legacy of all was the permanent arms economy, which not only survived but prospered in the 1980s. Reagan's buildup was, by several measures, unprecedented: in absolute terms, it rivalled the outlays of World War II, while its breakneck speed exceeded even the Vietnam escalation. This "second Cold War" rearmament became the dominant influence on the American economy, leading observers (usually located on the defeated liberal-left) to charge that Reagan was one of history's greatest Keynesians. The idea of military Keynesianism became far more common in the discourse than it had ever been before, as shown in Figure 16 below.

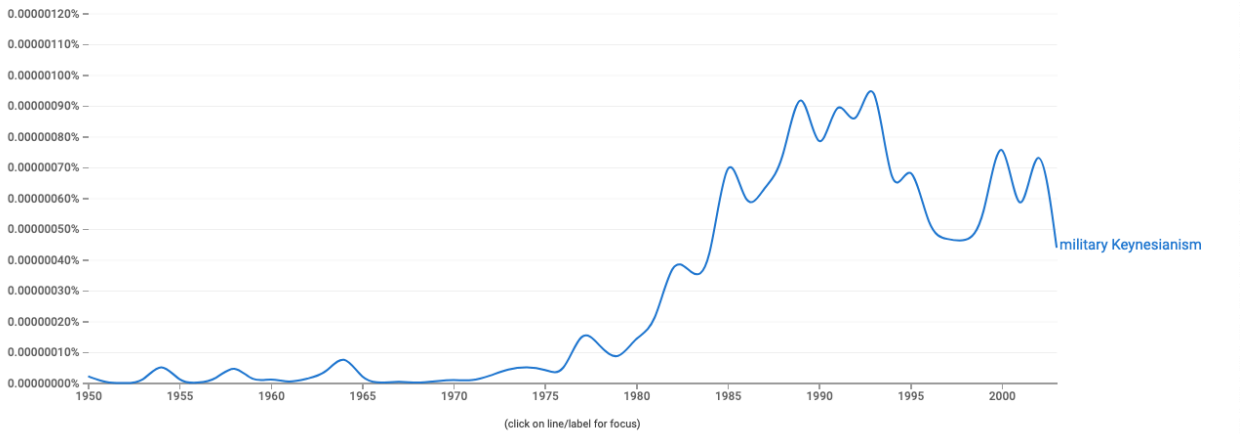

Figure 16: The late explosion of discourse around military Keynesianism (Google Ngram)

Clearly, historians are incorrect to claim that Reagan believed that government should be "brought to heel and, if possible, *eliminated*."[1459] But it is not incorrect that the years around 1980 brought the end of the one order and its replacement by something else. We must be precise

[1459] Gerstle, *Rise and Fall of the New Deal Order*, 122. Emphasis added

about what exactly was new, and how exactly the changes were wrought. One the hand, the transformation was even more thorough than the conventional narrative allows. Despite the obsessive focus of American historians on conservatism and on Reagan in particular, the new order was the product of deeper social forces which found their expression in both political parties. In the specific case of military spending, the policies typically associated with Reagan were already in place by the end of the Carter administration: the collapse of détente, rising real defense budgets, and nondefense austerity in response to demands from business and finance.[1460]

On the other hand, the rupture between the old and the new was less thorough than the prevailing narrative acknowledges. More than that, it was precisely through strategic appropriations of elements of the New Deal order that Reaganism was able to command a kind of popular legitimacy that Carter's wan neoliberalism never did. Where Carter's austerity doomed his re-election bid, Reagan blended harsh policies with a peculiar expansionary logic that forged a wide coalition stretching from high finance to middle-class homeowners. While several forces bound this bloc together (including religious revival, hostility to foreigners, and reaction against the gains made by women and racialized minorities), an indispensable element of the rise of the New Right was Reagan's embrace of deficit-financed big government—in other words, his embrace of the military Keynesianism that was a mainstay of the New Deal order.

[1460] As Brzezinski wrote proudly to Carter just before the election: "you have *reversed* nearly a decade's (Republican) decline in our spending, are increasing the defense budget by 3–4% in real terms." Emphasis in original. https://history.state.gov/historicaldocuments/frus1977-80v01/d152

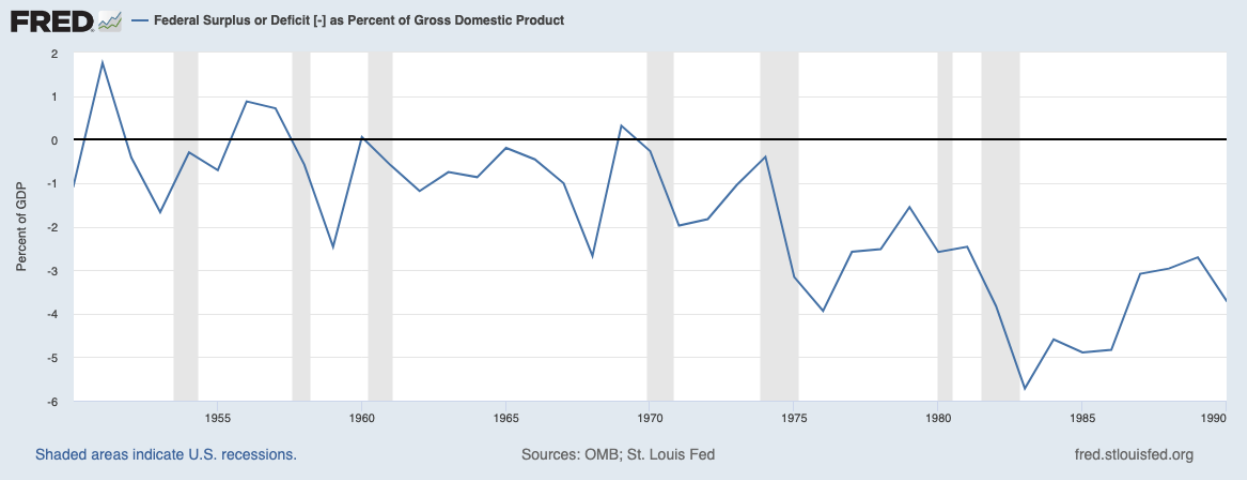

Figure 17: Federal surplus (+) or deficit (-) as percent of GDP

Just as the bloc around NSC-68 had been able to slip through constraints previously believed to be binding, Reagan's willingness to accept deficits not seen since WWII (figure 17, above) separated him decisively allowed him to bring together policies and constituencies which most observers had believed incompatible. This fiscal revolution in the Republican Party was not just a fading echo of an earlier moment. It can also be seen as the beginning of a new era: like Reagan's, the deficits of the Bush II, Obama, and Trump years would dwarf the retrospectively tiny deficits of the Kennedy-Johnson-Nixon years of high Keynesianism (see again figure 2). Where historians such as Gary Gerstle have suggested that Eisenhower and Nixon were committed Keynesians, but no subsequent Republican presidents have been, the opposite is clearly closer to the truth. Eisenhower balanced the budget during a recession, while George W. Bush's economic advisors responded to 2008 by affirming that Keynes' "diagnosis of recessions and depressions" remain "the foundation of modern macroeconomics."[1461]

Even less tenable than the claims that Keynes had been extirpated is the claim that neoliberals rejected the idea that the economy needs to be "managed by a strong central state

[1461] N. Gregory Mankiw, "What Would Keynes Have Done?" *NYT,* Nov 28, 2008, BU4.

able to govern the economic system in the public interest." Even in their own self-understanding, neoliberals clearly believed in this kind of economic management: what else does it mean to praise one central banker for "breaking the back" of inflation, or to celebrate another as a "maestro" capable of fine-tuning the gears of a "new economy"?[1462] At the primal neoliberal moment, Volcker proclaimed "We are not here to see the economy destroyed in the interest of not bailing somebody out." Even the neoliberal financial sector is better described as "reregulated" than deregulated. Between 1982 and 1989, spending by the federal Office of Comptroller of the Currency grew 25 percent faster than total assets in the banking system.[1463]

It is closer to the truth to say neoliberals favored strong government to "insure the smooth operation of markets" than to say they wanted to "eliminate" the government. But to present this as a novelty distorts the political economy of the New Deal order beyond recognition. The idea that government should promote the organization of the economy through private markets was central to the entire history covered in this dissertation, from the failure of the Fair Deal proposal for public construction of steel plants to Eisenhower's privatization drive to the Kennedy-Johnson "bribe to capital formation." The fundamental orientation of state power toward private ends is why military spending was so important during the high period of military Keynesianism: no other form of federal spending was legitimate. Even the notion that neoliberalism has emphasized the growth the state's coercive power, while partially illuminating, needs to be qualified by the dramatic fact that New Deal order military spending was far *higher* as a share of the economy and the budget than it was even during the Reagan rearmament.

[1462] Gerstle mentions this point, writing "neoliberals were committed to strengthening the state in other areas, by awarding it, for example, exclusive control of the money supply through a central bank or a kindred institution, such as the Federal Reserve." The implications are confusing. Who is supposed to have shared control of the money supply before neoliberalism? Why the implied distinction between the central bank and the Federal Reserve? Gerstle, *Rise and Fall of the Neoliberal Order*, 89.

[1463] Panitch and Gindin, *Making of Global Capitalism*, 178.

The difference between the New Deal order and neoliberalism resided in the domestic class character of the new political economy and the domestic and international financial institutions in which it was enmeshed. The new class society was one of sharpening inequality, rather than tendential egalitarianism.[1464] This inequality must be understood through its financial characteristics: on the one hand, the neoliberal era has been marked by government support for the appreciation of asset values, thereby rewarding the owners of wealth as opposed to those who rely on labor income; on the other hand, the characteristic neoliberal solution to the problem of aggregate demand has been a vast expansion of government, corporate, and household debt. Underlying this new financial landscape has been the massive inflow of foreign capital into U.S. markets, a transformational development which has allowed the growth of federal deficits and private debt alike while binding the world economy ever closer to the U.S. dollar and therefore to the policies of the U.S. government.

For the most part, neoliberalism reflects a profoundly regressive shift in the balance of class forces. But its origins and persistence can only be understood if we recognize the gains it delivered to many popular strata, which have not been limited to symbolic or ideological compensations. A defining feature of Cold War capitalism was the depressed level of personal consumption as a share of GDP, which was a deliberate part of military Keynesian policy. The neoliberal period has been marked by a spectacular increase in the consumption share, as well as a decrease in the defense share and the private investment share. There is much that is negative in the causes and consequences of these shifts, from the growth of luxury and debt-fueled

[1464] The years 1945-1980 were anything close to egalitarian. However, both in terms of objective tendencies as well as conscious policy goals, an integrative logic could be observed, especially during periods of economic expansion. There were recessions with serious unemployment in both 1958-60 and 1979-82, but during the expansions of the early 1950s and the later 1960s workers (including those workers most excluded from the job market) made real gains, while in the economic upswing of the latter 1980s labor continued to suffer the losses that had begun during the recession. See Figure 2: The Political Business Cycle in the Cold War United States, above.

consumption to the consequences of underinvestment. Yet through this frame something striking becomes clear. In terms of income shares, the neoliberal era is the mirror image of Cold War capitalism. Neoliberalism achieved what progressive critics of military Keynesianism (and, for that matter, Soviet economic reformers) could never accomplish: the rebalancing of the economy away from the high military spending, high investment growth model.[1465] Strangely enough, they did so through Reaganomics, a political program committed to rearmament and "supply-side" inducements, which is the subject of this final chapter in the story of Cold War capitalism.

[1465] A critic might add that they did so in part by accepting secular stagnation. For the US-USSR comparison, see Yakov Feygin and Tim Barker, "Superpower Stagnation: The Cold War Politics of Investment-led Growth in the U.S. and the U.S.S.R" (forthcoming).

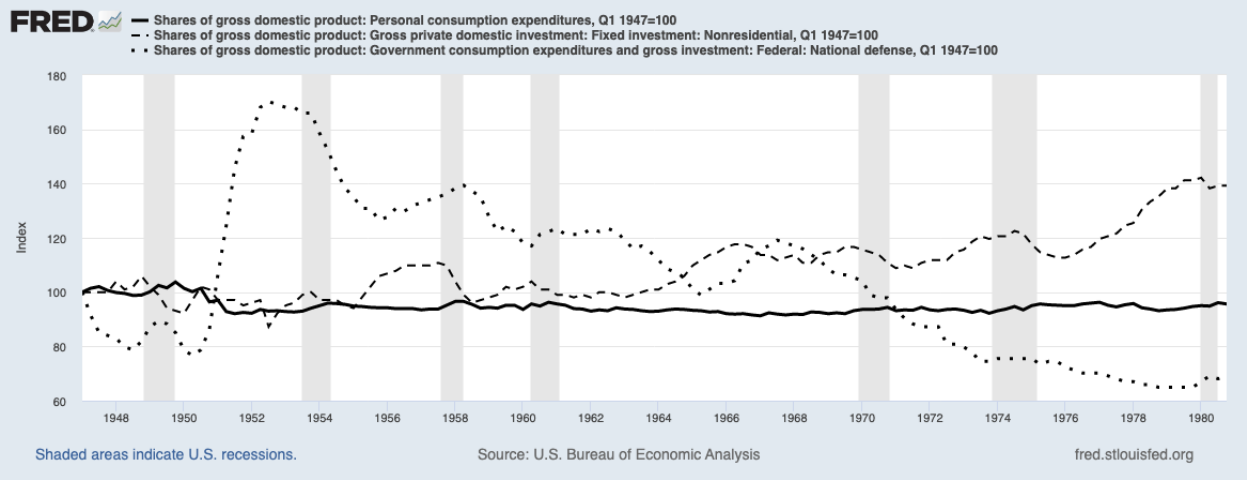

Figure 18: Cold War Capitalism interpreted through shares of GDP, 1947=100. The dominant phenomena are the elevated defense share (dotted) and the stagnant consumption share (solid). Fixed private investment (dashed) reaches high and rising level from the mid-1960s until 1980.

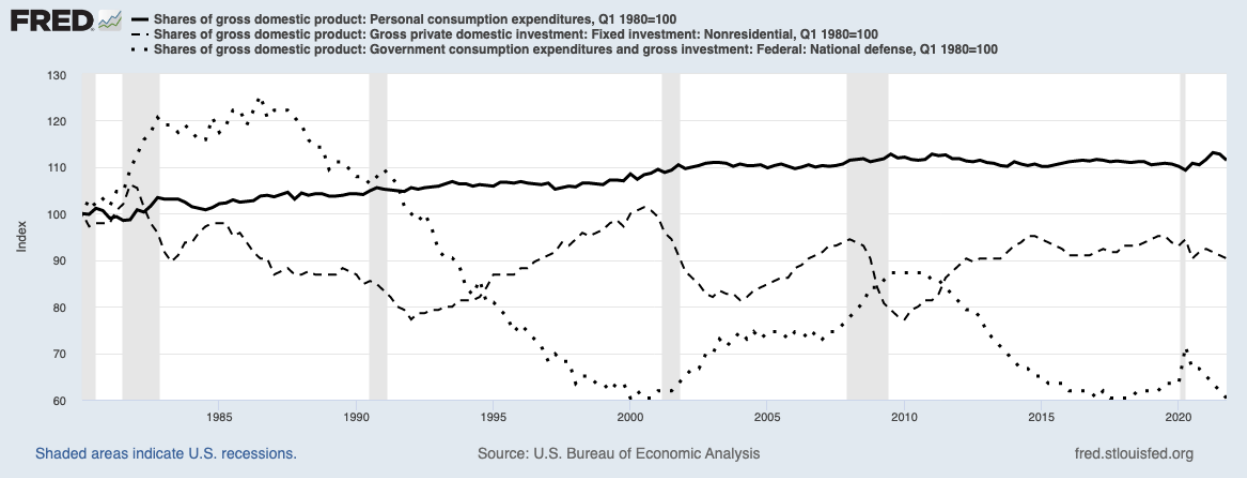

Figure 19: Neoliberalism interpreted through shares of GDP, 1980=100. The dominant phenomena are the decline of the defense share (dotted) and the fixed private investment share (dashed). The consumption share (solid) rises steadily.

The Pre-Reagan Neoliberal Consensus and Its Limits

Investment and Defense: The Dual Imperatives

There are two ways of looking at the transition from Carter to Reagan. One view emphasizes contrasts: Carter represents the sputtering end of the line of the New Deal order and hegemonic Democratic national politics, while Reagan represents the brave new world of the New Right. An alternative view emphasizes continuities: nearly everything one might wish to call neoliberal—from deregulation to the Second Cold War rearmament to the appointment of Paul Volcker to the assault on organized labor to regressive tax reform—had already occurred by 1978-1979, and almost always with the express support of Democrat Jimmy Carter. In a trivial sense, it is obvious that both viewpoints contain elements of the truth. The difficulty is understanding exactly how novelty and continuity were braided together in the evidently momentous transition between two presidents who evidently agreed on most of the basic neoliberal program. The moment was somehow both terminal and germinal.

It was not just by happenstance that one incarnation of the same basic policy consensus succeeded where the other failed. Before Reagan, the consensus around raising private investment and the defense share had been understood in terms of hard choices and popular sacrifices. In a special issue on the crisis of U.S. hegemony, the editors of *Business Week* brought both the issues together: "If the decline in U. S. power is to be arrested, *the trend toward spending a smaller share of the federal budget on defense must be reversed,* and economic policy must change in a way that encourages *investment at the expense of consumption*."[1466] Reaganism rejected the zero sum worldview in which an increase in defense and private investment would

[1466] "The Decline of U.S. Power: The New debate over Guns and Butter," *Business Week*, March 12, 1979, 36-42, quote at 36, emphasis added.

require cuts to ordinary living standards. It was a direct inheritor of the liberal growth economics/politics of productivity that had been invented around 1950. Just like Keyserling and Kennedy—and unlike Carter—Reagan promised to lift many (never all) boats.

Business Regrows its Talons

First, let us examine the consensus for a military buildup. In the 1980 election, Americans faced a choice between Carter, who promised 5% real growth in defense spending per year for the next five years, and Reagan, who promised 7%. Even George McGovern, the national politician who had most boldly offered Americans an option of reducing the defense share, had to come out in support of the B1 bomber (he lost reelection for Senate anyway).[1467]

What was the source of the consensus for a second Cold War rearmament? Organized business, which had begun the 1970s hungry for détente, was over the course of the decade reconverted to the gospel of higher defense budgets. In 1974, a survey of "elite" business opinion found 22% supporting more defense spending and 18% supporting less. In 1978, 44% wanted more and only 11 % less. Public opinion in general eventually shifted in the same direction, but business was "far ahead of the public" here.[1468] Even beyond the higher climes of business power, upper-class Americans were more hawkish than average.[1469] This growing concern about world affairs corresponded to the growth of foreign investment. Between 1969 and 1979, the

[1467] McGovern was one of six liberal senators specifically targeted by National Conservative Political Action Committee (NCPAC), a pioneering soft money effort. NCPAC spent $1.2 million and succeeded in defeating four of the six targets, including McGovern. https://www.washingtonpost.com/archive/politics/1980/06/24/in-turnabout-mcgovern-now-backs-bomber/df751dfa-84da-49dd-99b4-b14e7891ca07/

[1468] Louis Kriesberg and Ross Klein, "Elites and Increased Public Support for U. S. Military Spending," *JPMS: Journal of Political and Military Sociology;* Fall 1982; 10, 2.

[1469] In January 1980, 49 percent overall supported more military spending, compared to 52 percent of the college-educated and 55 percent making over $23,000 annually (around $73,000 in 2020 dollars). Bruce Russett and Donald R. Deluca, "Don't Tread on Me": Public Opinion and Foreign Policy in the Eighties," *Political Science Quarterly* Vol. 96, No. 3 (Autumn, 1981) 381-399.

value of foreign direct investment by Americans nearly tripled. About a quarter of this was invested in "developing countries."[1470]

There was reason to believe these assets were in danger. Describing the forces that brought the U.S. into Vietnam, Townsend Hoopes gave a good summary of the aims of U.S. foreign policy: "to control the pace and character of political change everywhere."[1471]After the defeat in Indochina, there were many indications that the U.S. had lost the ability to do this. In 1969, there had been just 24 expropriations around the world. In 1975, there were 83.[1472] Even more dramatic was a new wave of Third World revolutions, carried off with degrees of Communist support that ranged from nonexistent to preponderant. In Southern Africa, wars of national liberation (in concert with the Carnation Revolution in the Portuguese metropole) finally ended centuries of Portuguese imperial rule. Subsequent civil conflicts attracted sponsorship and intervention from not just the U.S., China, and the Soviet Union but also apartheid South Africa and socialist Cuba. Around the same time the Horn of Africa became another Cold War theater. Most traumatic to the United States were the overthrows in 1979 of two longstanding American clients: the FSLN's rout of the Somoza family in Nicaragua and the Islamic Revolution against Mohammed Reza Shah in Iran. 1979 also saw the Soviet invasion of Afghanistan to shore up a faltering and unpopular Communist government.[1473]

Events in Iran probably constituted the most important shock. The revolution cost American corporations—many of them military contractors—upwards of $10 billion in

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[1470] Obie G. Whichard, "U.S. Direct Investment Abroad in 1979," *Survey of Current Business*, Table 11: U.S. Direct Investment Abroad, Selected Items, 1966-1979. 16-37

[1471] Townsend Hoopes, *The Devil and John Foster Dulles* (Boston: Little, Brown, 1973), xiv.

[1472] Michael S. Minor, "The Demise of Expropriation as an Instrument of LDC Policy, 1980-1992" *Journal of International Business Studies* Vol. 25, No. 1 (1st Qtr., 1994) 177-188.

[1473] Richard Saull, *Cold War and After: Capitalism, Revolution and Superpower Politics* (Pluto: 2007) 140-145.

abrogated contracts.[1474] The CIA's estimate from November 1980 took as a premise that "The present state, and the anarchy into which it seems to be collapsing, is clearly a transitional phase." If civil war broke out, "a leftist outcome appears the most probable and a rightist one the least." The fallout could include the "export of radicalism" to the rest of the Gulf and, worse, "the extension of Soviet influence behind a shield of nationalism."[1475] Defense Secretary Harold Brown announced that given "chaos in a large part of the world, it is important to get to remote corners of the world."[1476] Brown made clear that the U.S. would "defend its vital interests with whatever means are appropriate, including military force where necessary," and that Persian Gulf oil "is clearly part of our vital interest."[1477]

There might be other vital interests, as well. An unnamed steel executive told Business Week, "we would be in big trouble if supplies of cobalt and manganese were cut off tomorrow" - 90% of these raw materials were imported.[1478] According to the *New York Times* "American companies are compelled, in the wake of this disaster, to ask themselves, 'Which country will be the next Iran?'" Business consulting firms sprang up specifically devoted to predicting revolutions, estimating how much of a profit premium firms would need to compensate for the risk. According to one firm's computer model, the biggest risks for 1979-80 included Rhodesia, Nigeria, Turkey, Lebanon, El Salvador, Libya, Portugal, Italy, Argentina and Zaire.[1479]

[1474] Silk, "Economic Scene: Business Wary of 'Next Iran'"

[1475] The U.S. Stake in Iran, 50. Paper Prepared in the Central Intelligence Agency, Washington, undated, FRUS. https://history.state.gov/historicaldocuments/frus1977-80v11p1/d50. Per FRUS footnotes, the memo's author was Richard Lehman and it was recommended by Brzezinski to Carter on November 22, 1980.

[1476] George C. Wilson, Carter Reversal on Arms Budget Meets Skeptical Hill Reception, Washington Post, Dec 15, 1979, A1, A13

[1477] Richard Halloran, 2 Aides Say U.S. Will Defend Oil Interests in Mideast, NYT, Feb 26, 1979.

[1478] "The shaky supply of key minerals," BW, March 12, 1979, 60-61, quote at 60

[1479] Leonard Silk, "Economic Scene: Business Wary of 'Next Iran'," NYT, Feb 14, 1979, D2

Given the pattern of business conflict over earlier rounds of Cold War buildup, the unanimity of business in the late 1970s is striking. The broad coalition —encompassing an increasingly conservative multinational Establishment and an increasingly powerful but still peripheral right wing—were exemplified in two organizations, the Committee on the Present Danger (CPD) and the American Security Council (ASC). The CPD revived the name used by an older organization that had been founded in December 1950 to build elite support for the Korean rearmament. Like the original, the core of the new CPD was corporate internationalist, with an admixture of labor leaders, ex-military figures, and neoconservative intellectuals. As sociologist John L. Boies has shown, the CPD mobilized in a context where defense spending was falling at exactly the same time that American corporations were acquiring larger and larger stakes in the rest of the world. Directors and other executives of multinational industries and financial firms were heavily represented on the founding committee of the CPD, suggesting that the membership was conscious of the increasing weight of foreign assets in their own portfolios.[1480]

Tellingly, many of the CPD founders were precisely those members of the business and financial community who had helped to put a stop to Vietnam escalation in March 1968: John T. Connor, William McChesney Martin, C. Douglass Dillon, and Paul Nitze (who had threatened to resign during the March '68 crisis). The start-up money for the CPD came from technology magnate David Packard, who had once worked to hold down military spending in the Nixon Pentagon. The same men who had worried ten years earlier about the effect of military spending on the dollar now worried about the ability of American military power to protect their overseas investments—in both cases, the logic flowed from the multinational orientation.

[1480] John L. Boies, Buying for Armageddon: Business, Society, and Military Spending Since the Cuban Missile Crisis (New Brunswick: Rutgers, 1994).

The basic approach of the CPD was identical to NSC 68 or the post-Sputnik Gaither and Rockefeller reports: to raise the alarm about falling behind the Soviets. This was no surprise, given the central involvement of Nitze and Keyserling in all three episodes. Although it was not the main argument advanced in the late 1970s, military Keynesian logics were freely tossed around by leaders of the new CPD. In May 1975, with unemployment higher than it had been since the 1930s, Eugene Rostow told Congress: "a little extra expenditure for defense will not be at the expense of anything else, because we have so many unemployed resources on hand."[1481] A year later, Rostow would be Chairman of the CPD Executive Committee. Rostow was also chairman of the Foreign Policy Task force of the Coalition for a Democratic Majority (CDM), a group of hawkish Democrats and trade union leaders substantially overlapping with CPD. CDM pleas for more defense spending likewise emphasized: "Current defense spending takes the lowest proportion of our current output… before Korea. *Even more significant,* we have over eight percent unemployment, and vast unused plant capacity."[1482]

Though many of the businesses it was linked to were military contractors, the CPD self-consciously distanced itself from the "military-industrial complex." By contrast, the American Security Council (ASC) was led by someone who said, "The military-industrial complex is a very healthy thing." The ASC had been founded the mid-1950s by midwestern backers of America First and Joseph McCarthy. Their initial focus was on keeping subversives and labor organizers out of the workforce, but by the early 1960s the ASC had set up a Washington bureau to focus on advocating for a more aggressive Cold War posture. They moved towards the center

[1481] *Hearings on Military Posture and H.R. 3689 [H.R. 6674] before the Armed Services Committee Feb 18-May 6, 1975,* 1611

[1482] Emphasis added. <https://www.fordlibrarymuseum.gov/library/document/0067/1562863.pdf>

of political power 1969 when they worked directly with the Nixon administration to build popular support for the ABM proposal.[1483] By 1972, the ASC "finally phased out its Chicago library, then believed to be America's largest file on the private beliefs of individuals" and became an exclusive MIC lobby. announced a shift to an international focus.[1484] By the late 1970s, the organization had somewhat domesticated harsher elements (which included a considerable representation of Holocaust revisionists) and drew more closely to large corporate donors (its intake of contributions doubled between 1972 and 1977).[1485] Major ASC backers included members of Reagan's California circle like the independent oilmen Henry Salvatori and A.C. Rubel and the razor magnate Patrick Frawley.

Where many leaders of the CPD had been part of the corporate establishment turn against Vietnam escalation in 1968, the ASC represented the bitter-enders, sending delegations to report on the lack of corruption in Saigon as late as 1974 and even offering to help American volunteers fight in Southeast Asia after the end of American ground involvement.[1486] Even in 1981, the ASC's John Fisher maintained: ""Vietnam was not lost on the battlefield, but in the minds of people."[1487] The ASC worked closely with Phyllis Schlafly, who regularly told her millions of readers that Paul Nitze was part of an "internationalist clique" intent on "unilateral

[1483] Matthew Storin, "Nixon Mounts Publicity Drive to Boost ABM: Aid Provided to Supporters of Plan by White House Unit," Boston Globe, Jun 7, 1969, 2. Charles Colson's direct coordination with the ASC is also documented in the Richard M. Nixon Library, Charles W. Colson (White House Special Files: Staff Member and Office Files) Box 34, American Security Council (2 folders)

[1484] "In 1972, the council finally phased out its Chicago library, then believed to be America's largest file on the private beliefs of individuals, and Fisher announced the council was shifting its focus to international security and nuclear strategy." J. Regan Kerney, "The Cold-War Campus: Boston, Va., Estate Near Blue Ridge Is Home of American Security Council Boston, Va., Estate Is Cold-War College," Washington Post, 08 Jan 1979: C1.
[1485] Ferguson/Rogers, Hidden Election, p.59 fn24

[1486] "Many U.S. Volunteer Offers," NYT, Aug 25, 1973, 3.

[1487] Juan de Onis, "Lobbying Body to Push Congress for a Nuclear Edge Over Soviet," NYT, Jan 6, 1981, A11.

disarmament."[1488] During the storm over Panama Canal Zone treaties, one of the headline foreign policy fights of the late 1970s, the group that the Carter administration considered the core of the CPD -- Paul Nitze, Admiral Elmo Zumwalt, the AFL-CIO's Lane Kirkland – lined up with the rest of multinational business to support Carter and the Treaty, which Schlafly, Reagan and the ASC opposed.[1489]

But for all these differences, there was no question that both the establishment business interests organized through CPD and the peripheral Cold Warriors in ASC would support Reagan in 1980, and both would be well represented in the new administration. There was overlap between the memberships. Robert Galvin of Motorola, whose father had founded the ASC with Robert E. Wood and Robert McCormick, had remained active in the ASC while serving on Ford's President's Intelligence Advisory Board. Galvin provided the crucial link to "Team B," the Nitze-advised shadow intelligence board whose alarmist second opinion on the state of Soviet buildup became a centerpiece of CPD rhetoric.[1490] To the extent that there was a division, it could be functional: the ASC, acting ostensibly independently from the government, could act as the agent of rogue regimes and individuals (Jonas Savimbi of Angola, Ian Smith of Rhodesia, apartheid South Africa, countless Central American death squads) while the establishment CPD kept an appearance of distance from the seamy particulars of power

[1488] Nitze's concern about Schlafly's attacks is documented in his papers, for example, Nitze "Eyes only: memorandum to Mr. Califano," Mar 22, 1965 Nitze Papers, Subject File, Box 142, Folder 7.

[1489] Hamilton Jordan to Carter, re: Panama Canal. [no date – c. Aug 1977] Carter Library. Office of the Chief of Staff Files, Hamilton Jordan's Confidential Files, Panama Canal Treaty 8/77 [2], Container 36 < https://www.jimmycarterlibrary.gov/digital_library/cos/142099/36/cos_142099_36_03-Panama_Treaty_8_77_2.pdf>

[1490] Anne Hessing Cahn, Killing Détente: The Right Attacks the CIA (University Park, PA: Pennsylvania State University Press, 1998),

projection into the global south.[1491] But differences of style could not conceal the significance: after decades of bad feelings, the marriage of Nitze and Schlafly had been consummated, leaving the business base for Cold War militarism was wider and more unified than ever.

The Underinvestment Panic

Just as striking was the consensus that investment share of GDP needed to rise. According to Carter, "we must channel a much larger share of our national output to investment."[1492] The same idea was at the center of "supply side" economics, the discourse around "capital formation," and—less technically—the idea that the U.S. was not "putting enough money into new machinery."[1493] The panic began during the initially weak recovery from the 1973-5 recession. *New York Times* economics correspondent Leonard Silk blamed the feeble recovery ("the worst of the postwar period") on the fact that "capital spending by business has been slow to ignite." Citing data from the New York Fed, Silk showed that "capital spending has lagged far behind the rate of recovery in the preceding four business-cycle upswings."[1494] Capital formation came to dominate discussion of the economy across the political spectrum. The basic idea continues to animate historical work on the 1970s, most prominently in Judith Stein's argument that the decade's fundamental problem that the "percentage of GDP devoted to investment" lower than the level "needed to sustain adequate economic growth."[1495]

[1491] [Visit of Jonas Savimbi to U.S.; Attachment Not Included] DNSA collection: CIA Covert Operations: From Carter to Obama, 1977-2010American Security Council. Non-Classified, Letter. March 21, 1986: 2 pp. DNSA.

[1492] *Economic Report of the President, 1981* (Washington, DC, Jan. 1981)

[1493] Charls E. Walker of the American Council for Capital Formation, quoted in Sidney Blumenthal, *The Rise of the Counter-establishment The Conservative Ascent to Political Power* (New York: Union Square Press, 2008) 73.

[1494] Leonard Silk, "The 'Secular Slowdown' Thesis," *NYT*, Oct 21, 1976, 67.

[1495] J. Stein, *Pivotal Decade*, 175.

What is strange about the consensus is that, in point of fact, the investment share of GDP reached record levels in the late 1970s. What's more, there is no reason to believe that a higher investment share would have had beneficial macroeconomic effects. The goal of an increased investment share begs important questions about final demand: if the investment share was increased at the expense of the consumption share and the government share, who would buy the new output?[1496] There are grounds for concluding that the record high investment rates of the late 1960s and 1970s were already yielding diminishing returns. One signal of this was an increasing level of idle capacity—especially in manufacturing—that remained unused even at cyclical peaks.[1497] Another index was the decline in "capital efficiency," as measured by the ratio of the capital stock to total output.[1498] Finally, in the short run, more investment was actually a force driving inflation. To the extent that the Carter administration succeed in raising investment, they failed at containing prices. By May 1979, purchases of business equipment had become "the most dynamic sector of the economy," driving prices for industrial materials and skilled labor higher.[1499] This problem would only be intensified as the military buildup gathered strength. There was simply no way that more investment could offer a quick solution to inflation.

[1496] Even if export demand in principle had been a possibility, an export strategy would have required a weaker dollar, which conflicted with the strong dollar constituency whose strength was manifest in the appointment of Volcker. "The Dollar Chooses a Chairman," *Business Week* (August 6, 1979) 20.

[1497] Overinvestment at an aggregate level was consistent with the appearance of specific supply bottlenecks, which seem to have been quite important in the inflation of the first half of the decade. But even these constraints seem to have been less binding in the second half of the decade, possibly because the earlier shortages had prompted new, sometimes excessive expansion. The question of investment behavior in the 1970s, and its relation to the ubiquitous rhetoric about inadequate capital formation, is a topic that deserves much more study. The situation in the first half of the 1970s is surveyed in Barry P. Bosworth, "Capacity Creation in Basic-Materials Industries" (Brookings Papers on Economic Activity, 1976, No. 2).

[1498] The ratio fell from over 1.05 in the mid-1960s to less than .85 by the end of the 1970s. Panitch and Gindin, *Making of Global Capitalism,* Figure 6.1, p. 135-136.

[1499] Clyde H. Farnsworth, Equipment Orders Stir Concern: Surging Outlays Seen Adding Price Pressure, NYT, May 21 1979, D1.

Fundamentally, the commitment to raising the investment share was ideological. It allowed capitalists to offer constant reminders of the control they exercised through the lever of investment demand. In turn, this allowed them to gain remarkable deference from elected leaders. A good illustration of the dynamic can be found in late 1977, when economic growth had virtually frozen.[1500] In October, the Business Council—which had furnished Carter with several of his closest external economic advisers, including GE's Reginald Jones and DuPont's Irving Shapiro—reminded Carter of the power they held. The Council announced that capital spending was "not advancing at a healthy rate" and predicted that the rate of investment would probably be even lower next year.[1501] They blamed this situation on a lack of investor confidence, specifically businesses' "fear" and "concerns" about "government economic policy." The Business Council modestly proposed that "a definitive statement" from the administration would lead to "greater confidence and certainty" and therefore to more capital investment.[1502]

Immediately, the administration's business liaisons promised that such a statement would be forthcoming and arranged for Carter to speak at the next Business Council meeting in December 1977. [1503] Carter opened his speech with a half-joke, "I understood this is where I was supposed to come to restore business confidence. [Laughter]." But he closed with a sincere

[1500] Real GDP growth in was .002% in 1977Q4 and .319% in 1978Q1. FRED.

[1501] The verb "predict" obscures the fact that Business Council members were more like rainmakers than weathermen: they themselves played a major role in determining investment behavior.

[1502] "Business Council fears growth lag may provoke unneeded stimulus," *The Globe and Mail*, Oct 15, 1977, B2.

[1503] The administration figures involved were Treasury Secretary Michael Blumenthal (former CEO of Bendix), U.S Trade Representative Robert S. Strauss (former DNC chairman and fixture of the John Connally machine), and Commerce Juanita Kreps (a former director of the New York Stock Exchange). Of Blumenthal in particular, Walter Wriston of Citibank/Business Council said, "Business does have a substantial ally in the secretary of the treasury." Jerry Knight, Major Carter Statement Is Promised, Washington Post, Oct 15, 1977; Uncertainty over U.S. economic policy leads to cloudy market, businessmen say, The Sun (Baltimore), Oct 16, 1977, A3; President Will Address Business Leaders' Group, WSJ, Dec 13, 1977, 18

pledge: “If you find something to be irrational or improper or unnecessary, that unnecessarily encroaches on your own effectiveness, I hope you'll let either my Cabinet officers or me know, and I'll do the best I can to correct it. … *I'll do the best I can to comply* with your request.”[1504]

The business elite had a clear (if predictable) answer to what would increase investment: better profits. At its October 1977 meeting, the Business Council stressed that it saw “no significant improvement in basic profitability” and that rates of return were “quite low by historic standards.”[1505] A few weeks later, Fed chair Arthur Burns announced in a public speech that “the fact that the profits being earned by American business are at an unsatisfactory level” constituted “an insurmountable barrier to the achievement of full employment in our country.”[1506] The speech contributed to Carter’s decision “to can Burns in spite of his widespread business support” in January 1978.[1507] But Carter could hardly ignore the message. Even IBM’s Thomas Watson, Jr, one of Carter’s most faithful allies in the business community, wrote to Burns praising the speech as an “unusually brilliant” treatment of the “fundamental problems” and thank Burns for “having the courage to make it.”[1508] Carter endorsed the view that growth required investment, which in turn required measures to increase profitability.

Ultimately, the problem with the move to subsidize investment and profits was that it conflicted with another pressing concern facing U.S. capital: the need to contain inflation. There

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[1504] Jimmy Carter, Business Council Remarks at a Meeting of the Council. Dec 14, 1977. Online by Gerhard Peters and John T. Woolley, The American Presidency Project <https://www.presidency.ucsb.edu/documents/business-council-remarks-meeting-the-council> Emphasis added.

[1505] “Business Council Fears Growth Lag.”

[1506] Burns, “The Need for Better Profits: Address at Gonzaga University's 1977 Founder's Day,” Spokane, Washington, October 26, 1977. Speeches and Statements of Arthur F. Burns. FRASER. <https://fraser.stlouisfed.org/title/statements-speeches-arthur-f-burns-449/need-better-profits-8086>

[1507] Woolley, *Monetary Politics*, 124-125.

[1508] Watson to Burns, Nov. 24, 1977. Watson Papers, Brown University, Series 8. Personal: Political, 1954-1991, Box 5, Folder 42: Carter, 1977.

were a number of reasons why inflation was an increasingly urgent concern, including the erosion of asset values and the looming disorganization of the long-term bond market. But the most important problem with inflation was the threat it posed to the international status of the dollar. The Carter administration embraced monetary austerity in two stages. In late October 1978, the dollar tumbled to a historic low after Carter's announcement of voluntary wage-price guidelines. Eight days later, the Fed and Treasury introduced a new program to support the dollar, including through higher rates.[1509] But this initial turn of the screw did not prevent the acceleration of inflation in the first half of 1979, which led to a more drastic step: Carter's appointment of Paul Volcker to head the Fed, the motives for which *Business Week* described as "The Dollar Chooses A Chairman."[1510] The die was cast: inflation would be broken not through juicing private investment but through an imposed recession, which would break the long trend of a rising investment share, and with it bring unemployment to levels unseen since the 1930s.

It is not clear exactly how much of this anyone (including Carter and even Volcker) foresaw in mid-1979. Volcker told Carter of his plans to impose painful discipline, and that Carter not only accepted but welcomed "someone who would apply tough medicine."[1511] But Carter may not have fully understand the magnitude of his decision. According to central banker Anthony Solomon, "No President really understands these things, but the disturbing thing about Carter was that he tried to use the economic jargon as though he did."[1512] Carter and his experts

[1509] Patrick Akard, *The Return of the Market: Corporate Mobilization and the Transformation of U.S. Economic Policy, 1974–1984.* (Ph.D. diss., University of Kansas, 1989) 289
[1510] "The Dollar Chooses a Chairman," Business Week (August 6, 1979) 20. For an even stronger argument on the primacy of the international in the Volcker shock, see Germann, *Unwitting Architect*, Ch. 6.
[1511] Meltzer, *History of the Federal Reserve*, Vol 2, Book 2, 1009.
[1512] Greider, *Secrets of the Temple*, 121. Solomon was Undersecretary of the Treasury for Monetary Affairs from 1977-1979 and, in 1980, took over Volcker's old position as head of the New York Fed. Because he was a close Volcker ally, it was reported that Solomon's appointment "as president of the Federal Reserve Bank of New York will further shift economic policymaking power toward the Fed and away from the Carter Administration." *BW*, Feb 4, 1980.

believed that recession was already inevitable and may have hoped to get the recession over with in time for the election.[1513] They also believed that a failure to deal with inflation (and the resulting dollar crisis) would be a major political liability. Thus, there is a way to reconcile Carter's seemingly suicidal support for Volcker with a political business cycle theory.

While no one knew how bad the recession would be, the unintended aspects of the Volcker shock should not be exaggerated. Within a month, *Business Week* reported that "most private economists expect joblessness to average 8% through 1980" and predicted "a period of stagnation that could last for years."[1514] An October 1979 meeting of the Business Council was described as an "an enthusiastic cheering section for the tight-money policy."[1515] But Carter's appointment of Volcker did not win business to his corner, and the hard money certainly did not attract many votes. In 1980, voters chose the candidate promising 7% real annual growth in defense spending and across-the-board tax cuts over the candidate promising 5% real annual growth in defense spending and diminished expectations for everything else.

One Neoliberalism Defeats Another

How can we reconcile the sense of 1980 as a momentous election with the recognition that Carter's Democrats had already accepted much of the neoliberal program? The most promising approach is to see the election as the defeat of one form of neoliberalism by another. The area of overlap was extensive: the military budget must increase while nonmilitary spending must be contained, inflation must be broken, labor should be weakened, profits and private investment must be promoted through tax policy, the dollar must be managed with an eye toward

[1513] In June, it was reported that ""Internally, the top economic advisers all expect a recession now. If, as is generally expected, the recession is short and shallow, a recovery could be well under way by the time the 1980 Presidential campaign heats up, and any relief from inflation that a slowdown brings would be an added bonus." "Quickening Recession Signals," BW, June 4, 1979.
[1514] BW Oct 29, 1979; BW, "The international forces dictating U. S. economic policy," Nov 5, 1979
[1515] BW Oct 29, 1979:

its international status, financial and nonfinancial markets should be deregulated. But the differences were just as important. Reagan's embrace of deficit-funded growthmanship gave his program a popular advantage. Put simply, far too many voters had absolutely no reason to vote for Carter's austerity. In this match, Reagan's promise of expanded consumption, and his commitment to a limitless rather than merely enormous rearmament, were winning cards.

On the elite level, American business—usually extremely fragmented—was never more unified than it was in 1980.[1516] Their support for Reagan was no exception: his election should not be seen as the project of a distinct group of independent capital, Sunbelt "cowboys," or firms with specific military-industrial interests, but as the result of an unusually unified and class-conscious business community.[1517] The large multinational firms, whose openness to Democratic candidates had once been so pivotal, lined up decisively behind Reagan.[1518] It is true that Reagan was not the first choice of organized business in the Republican primary. They initially preferred John Connally of Texas—if anything, even more of a Sunbelt figure than Reagan himself, yet one who raised more money than any other Republican candidate, much from Northeastern internationalist backers such as Citibank's Walter Wriston. Connally's bid collapsed because his interest in stable oil prices led him to criticize the Israeli occupation of territories captured during the Six Day War.[1519] The figure primarily responsible for shepherding Connally's business

[1516]Patrick J. Akard, "Corporate Mobilization and Political Power: The Transformation of U.S. Economic Policy in the 1970s," *American Sociological Review*, Vol 57 (Oct 1992) 597-615; Waterhouse, *Lobbying America.*

[1517] For one survey and critique of such arguments, see J. Craig Jenkins and Teri Shumate, "Cowboy Capitalists and the Rise of the 'New Right': An Analysis of Contributors to Conservative Policy Formation Organizations," *Social Problems* Vol. 33, No. 2 (Dec. 1985), 130-145.

[1518] According to Ferguson and Rogers, whose general approach emphasizes business conflict, "All but a few investment bankers and a handful of multinational business figures" supported Reagan in 1980. In addition to qualitive sources, Ferguson cites his own unpublished quantitative analysis as evidence that multinational firms which supported the Democrats as late as 1976 were unwilling to do so afterwards. *Right Turn*, 113, 248n51.

[1519] The tension between corporate internationalist relations to Arab states and U.S. support for Israel had been a tension going back to the recognition controversy between Robert Lovett and Clark Clifford in 1948. On Connally's

constituency into the Reagan camp was another Texan, Business Roundtable co-founder Charls E. Walker. In 1976, Reagan's business support had been limited, with even former Goldwater supporters, such as Henry Salvatori, opting not to gamble on Reagan. 1980 was different.

Why did organized business fail to reward Carter's abject deference ("I'll do the best I can to comply")? The answer has less to do with abstract positions and more to do with the logic of coalition. However little Carter and Reagan might have differed on economic policy, Carter's national power depended on an alliance with organized labor, African Americans, and Northeastern urban constituencies—who might be able to pressure Carter toward some form of concession.[1520] Any Democratic administration might include, at the second or third-tier, individuals with Naderite or environmentalist sympathies. These risks simply did not exist with a Republican candidate, so business had an easy choice to make between the two neoliberalisms.

Similarly, even as Carter repeatedly lifted the targets for military spending, he was never able to own the issue the way Reagan did. This was a direct result of political economy factors. Carter's commitment to balancing the budget meant that he had to sometimes say no to crucial defense constituencies if he believed costly line items contributed only marginally to national security. For example, Carter cancelled the B-1 bomber (which was projected to cost $1.5 billion in 1977 alone) as a way to save money that could then be spent more effectively on cruise

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brief rise and fall, see Joel Rogers and Thomas Ferguson, "The Reagan Victory: Corporate Coalitions in the 1980 Campaign," in *The Hidden Election: Politics and Economics in the 1980 Presidential Campaign,* ed. Idem (New York: Pantheon Books, 1981), pp. 3-64, here 45-46.

[1520] For example, even after the Volcker shock, the business press carefully monitored Carter's labor relations for signs of backsliding. See, for example, *Business Week*'s alarm over "the administration's change of posture from fighting inflation at any social cost to consulting with labor on how to dig out of the recession" in. Earlier, the same editors had referred to the "National Accord"—in which Carter and the new AFL-CIO president Lane Kirkland had agreed to give "top priority" to the "war on inflation"—as "a totally irrational sacrifice of the nation's welfare that brings nothing in return." "Carter's Labor Accord is Alive and Well," *Business Week,* May 19, 1980, pp. 33-34, here 33; "A Disastrous Bargain," *Business Week,* Oct 15, 1979, 178.

missiles and stealth bombers. The Air Force would not suffer any net loss of funds. But it was the cancelled B-1, rather than any of the military programs Carter accelerated, that became "the political symbol of his attitude toward defense spending."[1521] The cancellation, said Carter's Secretary of State Cyrus Vance, was "the most...politically costly decision of his presidency."[1522] The political costliness was, in part, a function of supply chains: prime contractor Rockwell had over 5,000 subcontractors and suppliers working on the bomber in 48 states and 400 congressional districts.[1523] As an official Defense Department history notes, "Rockwell lobbyists and pro B-1 forces fought back, primarily stressing to target senators and representatives the number of jobs that would be lost in their district if the bomber was not funded." [1524] The cancellation made it through the House with a margin of just three votes.[1525]

Reagan, a much more sensitive politician than Carter, understood the importance of both symbols and jobs. He reported in 1978: "I've found, out in the country there is an unease on the part of the people about our entire defense posture and the cancellation of the B-1 is a kind of symbolic [sic] of that unease." Carter's bloodless rationale— "it was too expensive"—was

[1521] Robert J. Art and Stephen Ockenden, "The Domestic Politics of Cruise Missile Development, 1970-1980' in *Cruise Missiles: Technology, Strategy, Politics*, ed. Richard K. Betts (Washington, DC: Brookings, 1981) 359-413, here 375.

[1522] Quoted in Michael Krepon, *Winning and Losing the Nuclear Peace: The Rise, Demise, and Revival of Arms Control* (Palo Alto: Stanford University Press, 2021) 176.

[1523] Gordon Adams, *The B-1 bomber: an analysis of its strategic utility, cost, constituency, and economic impact* (New York: Council on Economic Priorities, 1976).

[1524] Edward Coltrin Keefer, *Harold Brown: Offsetting the Soviet Military Challenge 1977-1981*, (Washington: OSDHO, 2018) 58.

[1525] Even this narrow victory had required the White House Congressional Liason Office to lead "an aggressive campaign … contacting key representatives, promising reversals of base closings or hinting that businesses in their districts might receive contracts to build parts for a new aircraft that would eventually carry the cruise missile." Keefer, *Harold Brown*, 58.

hardly adequate.[1526] This was one side of military Keynesianism, which we might call reactionary anti-austerity politics: national security (or American prestige) is priceless, and therefore more important than balanced budgets. But Reagan also knew the importance of the other, instrumental side of military Keynesianism. Just as Kennedy had done during the 1960 recession, Reagan freely brought up the employment effects of military spending and made campaign stops at defense plants.[1527] Returning the favor, Rockwell's political donations in the 1980 election "showed an unusually strong degree of partisan support for Republicans."[1528] Once elected, Reagan quickly restored funding to the B-1. The head of Rockwell's aircraft division, who framed his 1980 ballot stub on the wall behind his desk, told a reporter: "There's no question about it. We enjoyed the victory."[1529]

This instrumentalism could also be seen in the arena of strategy. Carter's strategic orientation emphasized personnel and readiness over military hardware, and conventional capabilities over strategic nuclear power. This focus disappointed some of those looking to the defense budget for an economic boost. In May 1980, Congress appropriated $7 billion more in military spending then Carter had requested, "[a]lost all the extra money it provide[d] would go

[1526] "B-1 Bomber" [Radio Commentary] (April 3, 1978) in *Reagan, In His Own Hand*, ed. Anderson et al, 103-104, here 103. Emphasis in original.

[1527] "Remarks and a Question-and-Answer Session With Rockwell International Employees, May 25, 1982," <https://www.reaganlibrary.gov/archives/speech/remarks-and-question-and-answer-session-rockwell-international-employees>; "Remarks and a Question-and-Answer Session at a Fundraising Reception in Columbus, Ohio, for Gubernatorial Candidate Bud Brown, October 4, 1982," <https://www.reaganlibrary.gov/archives/speech/remarks-and-question-and-answer-session-fundraising-reception-columbus-ohio>; "Remarks to Employees at a Rockwell International Facility in Palmdale, California, October 22, 1984" https://www.reaganlibrary.gov/archives/speech/remarks-employees-rockwell-international-facility-palmdale-california. Reagan Library.

[1528] Thomas B. Edsall, "Politics, emotions to play role in debate on manned bomber," *The Baltimore Sun* Nov 18, 1980, A1.

[1529] Ken Gepfert, "Defense Contractors Hail Reagan Win, *Los Angeles Times*, Nov 30, 1980, F1.

for hardware." If Congress had a "built-in bias in favor of military hardware," the causes were largely economic. In cancelling the B-1, Carter killed a program that the Air Force wanted, generally, military leaders wanted Carter's arms buildup to go even farther than it did.[1530] But in some case, Congress was seeking procurement of "ships and planes that the Defense Department has told Congress it does not want."[1531] A good example was the A-7 light attack aircraft, which the Pentagon had considered obsolete for years but which provided the major military contract for Texas's Vought Aircraft (a division of the LTV conglomerate).[1532] Unlike Carter, Reagan made sure that hardware procurement grew faster than overall defense spending.[1533] Between 1980 and 1985, the share of defense outlays going to procurement and R+D increased from 32 percent to 42 percent.[1534] Meanwhile, the Reagan administration rejected any need to choose between weapons programs. According to one member of the CEA, the defense budget came to resemble "little more than a stapled package of the budget requests from each service."[1535]

Reagan's social base extended even beyond the United States to encompass embattled ruling classes and military elites around the Third World. Just as Carter's military buildup could

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[1530] Air Force General David C. Jones, chairman of the Joint Chiefs of Staff, publicly criticized Carter's 1981 defense budget as insufficient. John K. Cooley, "Carter, Congress, Pentagon all vie on military budget," *Christian Science Monitor*, Jun 2, 1980, 3.

[1531] Anthony Lewis, "Abroad at Home: Tilt on Defense, *NYT*, May 29, 1980, A23.

[1532] Richard Halloran, "Defense Secretary Sees Waste in Military Spending: A 'Built-In' Problem," *NYT*, Dec 17, 1980, A25.

[1533] This marked a difference between Democratic and Reagan visions of rearmament. As Robert Komer wrote, "the chief differences between the likely Carter program and the actual Reagan one would lie in the former's much greater relative emphasis on conventional rather than nuclear capabilities, and on a more balanced mix of readiness, sustainability, modernization, and force structure than the latter's great stress on new procurement would allow." Robert W. Komer, What "Decade of Neglect"? *International Security* Vol. 10, No. 2 (Fall, 1985), 70-83, here 77.

[1534] Henry and Oliver, "The Defense Buildup, 1977-85"; Thomas R. Cusack, "On the Domestic Political - Economic Sources of American Military Spending," in *The Political Economy of Military Spending in the United States*, ed, Alex Mintz (London: Routledge, 1992) 103-131.

[1535] CEA member William Niskanen quoted in Collins, *More*, 202.

not go far enough to secure the support of domestic militarists, so did millions of dollars in military and economic aid fail to sate the appetites of counter-revolutionary dictatorships abroad.[1536] When Carter's defeat became clear on November 4, 1980, rich neighborhoods of Guatemala City and San Salvador reportedly lit up with fireworks, automatic gunfire, and marimba music.[1537] According to Guatemala's vice president between 1978-80, Guatemalan businessmen and landowners passed around $10 million in illegal donations to the Reagan campaign. Key members of the Central American far right were guests at the inauguration.[1538] When men like El Salvador's Roberto D'Aubuisson or Angola's Jonas Savimbi visited Washington, they were hosted by the American Security Council, which had established a sprawling complex in Boston, Virginia on a manorial estate acquired "from a Texas newspaper executive who was a close friend of" LBJ.[1539] If the new spectrum of polite opinion excluded George McGovern and included D'Aubuission and Savimbi, this was not just the work of the far-right fringe. It was deputy chief of staff Michael Deaver—routinely described as part of the

[1536] El Salvador provides a good example of Carter's vestigial interests in "human rights." In December 1980, Carter suspended aid to the Salvadoran junta after four American churchwomen were murdered by the Salvadoran National Guard. The very next month, he announced the resumption and augmentation of military aid to the junta (including the dispatch of U.S. military "advisors.") Russell Crandall, *The Salvador Option: The United States in El Salvador, 1977–1992* (Cambridge University Press: 2016) 134-135.

[1537] Richard Eder and Henry Tanner, "Hopefulness and Anxiety Characterize the Reaction Abroad to Reagan's Victory: Reaction in Central America," *NYT*, Nov 6, 1980: A10.; "Reagan Dashes Hopes of Guatemala," *NYT*, Dec 16, 1981, A3.

[1538] Peter Dale Scott, "Contragate: Reagan, Foreign Money, and the 'Contra' Deal," *Crime and Social Justice*, no 29 (Jan 1987) 110-147.

[1539] The Texan was oilman Charles E. Marsh and the estate was Longlea, which will be familiar (along with Marsh's wife, Alice Glass) to any reader of Robert Caro's *Years of Lyndon Johnson*. John H. Morgan, "Anti-Communist Business Group: Private American Security Council Pushes for Stronger Defense Posture," *Los Angeles Times*, Nov 4, 1979, D7; Donnie Johnston: "A look back at LBJ's connections to Culpeper," The Free Lance Star (Fredericksburg) Feb 18, 2019.

moderate and pragmatic wing of the administration—who had acted as a paid agent on behalf of the Guatemalan business lobby *Amigos del Pais*.[1540]

Reagan was able to break out of the zero-sum trap that had undone Carter. He increased the defense share of GDP without squeezing consumption, which in fact began a secular increase. As Figure 13 below shows, the components of GDP added up to over 100, which can be explained by the trade deficit. Admittedly, there was no investment boom.[1541] But despite the constant complaints in 1979 that investment needed to increase, organized business made few complaints about the stagnation and decline of the investment share under Reagan. Why such indifference toward what even Milton Friedman recognized as the "extraordinary shrinkage of America's capital formation in the 1980s?"[1542] The panic about underinvestment in the late 1970s was primarily ideological. Since Reagan was already so firmly committed to protecting American capital, there was no reason to deploy the underinvestment attack on him.[1543]

[1540] Lewis H. Diuguid, "U.S. Probing Firm with Ties to Reagan," Washington Post, Sept 8, 1980.

[1541] As Reagan's own CEA chair Martin Feldstein wrote in 1985, "There has been a lot of loose talk recently about the idea that we have been having 'an investment led recovery.' In fact, consumer spending has increased nearly twice as much as investment in business plant and equipment since the recovery began."

[1542] Collins, *More*, 211.

[1543] It can also be argued that the assault on labor in the 1980s made any given level of investment more efficient, so that "capital investments combined with work reorganization and labor layoffs led to more than proportionate increases in productivity, the upturn in profits...and the uptick in growth." Panitch and Gindin, *Making of Global Capitalism*, 183

Figure 20: Components of GDP under Reaganism

	Gross private investment	Personal consumption expenditures	Defense purchases	Federal nondefense purchases	State/local purchases	Total	*Net exports*
1979	20.6	60.3	6.1	3	10.9	100.9	-.9
1984	20.3	61.7	7.4	2.8	10.3	102.5	-2.5
1988	17.9	63.6	7.3	2.5	10.8	102.1	-2.1

The Last Cold War Boom

Designs within Disorder? A Rational Reconstruction of Reaganomics

Much like the New Deal, the Reagan administration experimented with a bewildering variety of economic policies, sometimes working at cross purposes and justified with mutually contradictory theories. But just as historians have imputed coherence to the incoherent New Deal, it is possible to interpret the Reagan experiment in coherent—if stylized—terms.[1544]

The place to begin is with the Reagan era's distinctive policy mix: contractionary monetary policy and expansionary fiscal policy. To many, this seemed a contradiction: what Volcker's high interest rates were supposed to be taking away with one hand, Reagan's cross-the-board tax cuts and massive military spending were giving back with the other. Indeed, it must be conceded that there was friction between Volcker and elements of the Reagan administration, which occasionally boiled over into public disagreement and behind-the-scenes

[1544] This represents an alternative to one common approach, which stresses the schizophrenia of Reagan's political economy. For one of the best studies from this other perspective, see Mike Davis, *Prisoners of the American Dream*, chaps. 4 and 6.

attempts to pressure the Fed. But when push came to shove, Reagan supported Volcker.[1545] The choice was not Reagan's to make. As the president confided to his diary: "The financial mkt. seems set on having [Volcker]. I don't want to shake their confidence in recovery."[1546]

But Reagan's support for Volcker also reflected the consensus among capitalists. In readings of Reaganomics that stress incoherence, the different economic tendencies are sometimes linked to different social bases. According to Mike Davis, Sunbelt capitalists tended toward expansionist supply-side economics because of an objective tended toward military Keynesianism and supply-side economics because of their "intrinsic dependence upon hothouse economic conditions and high growth rates" and perhaps even a preference for inflation. The traditional Eastern establishment underpinned the austerity wing of the Reagan agenda and looked on the supply-side faith as "voodoo economics." But this schema, while undoubtedly partially illuminating, is more often than not a poor guide to actual alignments. As Carter's CEA chair Charles Schultze said, "the general structure of political power was such that all of the business and financial community was solidly behind the Fed."[1547]

Likewise, "virtually all of American business" supported a major increase in defense spending, though given the absence of coherent strategy in the White House, much less the boardrooms, there was predictably disagreement on how high it should go.[1548] The other part of

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[1545] As attested by supply-sider Martin Anderson in idem. *Revolution: The Reagan Legacy* (Stanford, Ca: Hoover Institution Press, 1990) 250-253.

[1546] White House Diary, June 6, 1983. Reagan Foundation. < https://www.reaganfoundation.org/ronald-reagan/white-house-diaries/diary-entry-06061983/>

[1547] Greider, *Secrets of the Temple,* 121.

[1548] Ferguson and Rogers, *Right Turn,* 124. On strategic incoherence, see James Fallows, "The Spend-Up," *The* Atlantic, July 1986, 27-31; Barry R. Posen and Stephen Van Evera, "Defense Policy and the Reagan Administration: Departure from Containment," International Security Vol. 8, No. 1 (Summer, 1983), pp. 3-45

Reagan's fiscal stimulus, the tax cuts, is somewhat more complicated. As the sociologist Monica Prasad has shown, organized business did not support Reagan's adoption of Jack Kemp's proposal for an across-the-board tax cut. Their opposition was based precisely on the distinction between investment and consumption: they decried the "consumption bias in this nation since 1966" and advocated a "tax cut that will stimulate investment." But Reagan understood that personal tax cuts brought with them a powerful popular constituency that business tax cuts by themselves did not. Ultimately, "business accepted the Kemp-Roth tax cuts that Reagan wanted in return for corporate tax cuts."[1549]

Prasad argues that this means that business interests were not at the heart of neoliberalism, and indeed that "no one is in control" of such historical transformations.[1550] But it is surely better understood as an instance of hegemonic coalition building, in which a dominant group compromises in order to expand its appeal. It was Reagan's achievement to see that this was good politics, and his economists' responsibility to rationalize it. Moreover, it is misleading to frame the question of capitalist power and the rise of neoliberalism solely in terms of the explicit desires of peak organizations such as the Business Roundtable. There really was a popular wing of Reaganism which was at odds with organized business, but its ranks were heavily populated with upper-middle strata (homeowners, investors, small-scale employers.) whose cohesion with the business elite business was lubricated by shared interests, even if their programs were not identical. Understanding the popular roots of Reaganomics must be a complement to understanding the role of business power, not a simple counterexample.

[1549] Starving the Beast: Ronald Reagan and the Tax Cut Revolution (New York: Russell Sage Foundation, 2018) 139,

[1550] Monica Prasad, "The Popular Origins of Neoliberalism in the Reagan Tax Cut of 198," *Journal of Policy History*, 24:3 (2012) 375.

A revealing example of the unity of Reaganomics is Treasury Secretary Donald Regan, the member of the administration most frequently at odds with Volcker. Which class fraction did Regan belong to? Regan was a Northeasterner, but Boston Irish not Brahmin. He belonged to CED and the Business Council but had the image of an upstart in the world of finance. He had been CEO of Merrill, Lynch, the largest brokerage firm in the country, from 1971-80. Headquarters in lower Manhattan notwithstanding, Merrill had for decades "adopted the strategy of focusing a substantial share of its resources on the so-called Sun Belt states."[1551] In early 1977, they acquired an entire "relocation management" division dedicated to financing the movement of corporations and its upper-tier employees to "the lower-cost base areas of the South and West."[1552] To some right-wing activists, Regan was "an establishment mixed-economy moderate," but his appointment came about on the advice of Reagan's California "kitchen cabinet," the very center of the cowboy capitalist formation.[1553]

Regan is hard to categorize as insurgent or establishment, and his economics also defy binary schemes. Regan's outspoken nonchalance about the deficit marks him as part of the fiscal expansionist wing of Reaganomics. But his fiscal abandon went hand-in-hand with inflation hawkishness. Firms like Merrill had a fundamental interest in the bond market, one of the most dramatic casualties of the 1970s inflation. In particular, the market for long-term bonds had all but collapsed by the time Volcker was appointed.[1554] Describing bond managers, one investment

[1551] Perkins, Wall Street to Main Street, p. 170

[1552] Merrill Lynch & Company Incorporated Annual Report -- 1976 America's Corporate Foundation, (1976).

[1553] Peter Brimelow, "The Real Donald Regan: He Seems to Have Gotten Lost Somewhere Between Wall Street and Washington" Barron's Mar 9, 1981,4; Rowland Evans and Robert D. Novak, The Reagan Revolution (New York: E.P. Dutton, 1981, 97.

[1554] What the Bond Market Wants From: President Reagan Scalded during the Carter years, it seeks spending cuts and a tight budget. By MICHAEL QUINT. New York Times (1923-); New York, N.Y. [New York, N.Y]. 25 Jan 1981: F6.

executive said, “Nothing warms their hears more than high unemployment figures."[1555] Upon appointment, Regan announced that the administration “would rely on monetary policy to keep the lid on inflation."[1556] He would later tangle with Volcker over the extent of discipline, he saw the interest rate shock as the necessary prelude to renewed expansion. His most serious antagonism with the Fed chair concerned financial regulation, rather than monetary policy.

As inflation came down, Merrill Lynch took out a full-page ad hailing “the dawn of a new bull market in bonds.”[1557] At Treasury, Regan made sure that U.S. government bonds offered a return well above inflation. Anything else, he considered “a fraud.”[1558] Regan welcomed the strong dollar (a consequence of high rates) for its ability to pull capital into the U.S.[1559] The ability to fund the deficit, after all, depended on the sale of U.S. government bonds. Regan’s intervention exemplified the organic connection between contractionary monetary policy and expansionary fiscal policy that was the hallmark of Reaganism.

In addition to the unity of business as a class on these points, there was also an intellectual rationale for the cocktail of tight money and loose budgets. The innovator here was Reagan advisor Robert Mundell. Murray Weidenbaum, Reagan's first CEA chair, confirms that Mundell's “intellectual contribution…was important especially in the effort to reconcile stimulating tax cuts with inflation-curbing monetary restraint.”

[1555] Shift in Stocks: Wall Street Switches from Inflation Hedges to Disinflation Plays After a Plunge by Many Oils, Brokers Push Consumer, Bank and Insurer Issues Will Corporate Profits Drop? Patric O'Donnell, "Shift in Stocks: Wall Street Switches from Inflation to Disinflation Plays but Fears Corporate-Profit Drop," WSJ, 13 July 1981: 1.

[1556] Bill Neikirk, "Inflation: A tough bronco Reagan can't break fast," Chicago Tribune,07 Jan 1981: c1.

[1557] Display Ad 182 -- No Title Wall Street Journal (1923-); New York, N.Y. [New York, N.Y]. 06 May 1982: 55.

[1558] Regan quoted in Panitch and Gindin, 393, note5.

[1559] Jeffrey A. Frankel, "The Making of Exchange Rate Policy in the 1980s," in American Economic Policy in the 1980s, edited by Martin Feldstein, University of Chicago Press, Chicago, 1994, pp. 293-341.

Back in May 1971, Mundell had written that U.S. economic policy from 1968 to 1970 had been defined by "fiscal tightness combined with an excessive monetary expansion." The result was the then-novel problem of "depression without stopping the inflation." If the U.S. had followed the opposite policy mix—monetary contraction and fiscal expansion—policymakers could have "stopped the inflation rate without causing a depression." Why should this be? Mundell's case for fiscal expansion was an early variant of supply-side economics. Fiscal restraint had taken the form of tax increases, which aimed to balance the budget after the Vietnam deficits. But tax increases had lowered capacity utilization, output growth, and productivity growth, thus constraining overall economic growth. Tax reduction was indicated as a remedy.[1560] Monetary policy came back in as a way of restraining inflation during the fiscally-induced economic expansion. According to Mundell, high interest rates would affect prices more than output, so that inflation could be halted without tipping the economy into recession.

Mundell's own intellectual and political background suggests that there is nothing straightforwardly conservative about his ideas. Even more strongly, it suggests the impossibility of cleanly separating the New Deal order from neoliberalism as phases in the history of American capitalism. During graduate work at the University of Washington, LSE, and MIT, Mundell's teachers included James Cartwright (a student of pioneering Keynesian Lorie Tarshis); James Meade (a member of Keynes's original "Cambridge Circus"; and Paul Samuelson (who remembered Mundell as one of the program's best students ever). Of special importance was Mundell's MIT supervisor, Charles Kindleberger, a veteran of the Harry Dexter White Treasury Department and an intellectual architect of the Marshall Plan. In an important

[1560] Though focused on tax reduction, Mundell did note the effects of military spending as well: "The slowdown in real defense spending was a major cause of the increase in unemployment in 1970."

co-authored paper from 1966, Kindleberger had defended the idea that a U.S. capital account deficit was not in itself a problem. Far from problematic, the overhang of dollars over gold reflected the distinctive and advantageous U.S. role as a provider of liquidity to the entire world.[1561] Just like New Dealish figures such as Kindleberger and Despres, Mundell emphasized the critical role—and game-changing advantages—that attached to global dollar hegemony. Mundell loose spending /tight money policy mix recalled Kindleberger's own declaration, back in 1962, that "anti-cyclical policy should work through fiscal policy with fairly tight money maintained," since high rates would keep money in the U.S.[1562]

If Reagan was able to act (at least initially) as if deficits did not matter, it was not simply because he had a more accurate understanding of deficit finance than Carter, much less that Carter could have replicated Reagan's project if he had been less hidebound in his fiscal conservatism. The ability to run deficit finance was itself part of the Reagan-Volcker political achievement. In the aftermath of the election, Zurich banker Arthur Bolliger said, "The foreign exchange markets have been waiting for Reagan; the dollar will go through the roof."[1563] In part, reported Business Week, "Reagan's conservative sweep is seen as giving Federal Reserve Board Chairman Paul A. Volcker greater space to push up U. S. interest rates."[1564] As political scientist Jeffrey Frieden wrote, "Had global capital markets been wary of the Reagan administration,

[1561] Kindleberger's co-authors, Emile Despres and Walter Salant, had been co-authors of the 1938 stagnationist manifesto *An Economic Program for American Democracy*, and on the basis of that book they had been hired by Harry Hopkins of some of the first representatives of the "New Economics" in New Deal Washington. The link between Kindleberger and Mundell was hardly a one-off coincidence. Mundell's fellow Reaganite supply-sider, Arthur Laffer, had been a protégé of Kindleberger's colleague Emile Despres.

[1562] Kindleberger to Allan Sproul, June 27, 1962. Sproul Papers, Bancroft, UCB. Box 5, Folder 1.

[1563] European money joins the rush to Reagan, Business Week, Nov 17, 1980

[1564] Ibid.

disastrous difficulties in government borrowing might have resulted."[1565] Instead, the Reagan administration "capitalized on its international economic reputation to finance soaring military spending and a widening budget deficit."[1566]

However perspicacious Mundell was in certain respects, his original paper contains little hint of the fundamental reordering of social politics that would be required for the Reagan policy-mix to work its magic. The most conspicuous example is the politics of full employment. The original 1971 "Dollar and the Policy Mix" article is written in the political shadow of Nixon's "new majority" approach to the working class and his pursuit of relatively full employment. Wrote Mundell, "if it were indeed true that employing, say, two-thirds or three-quarters of the unemployed would cause inflation—and I deny that any evidence for it has been advanced—*it would be a shocking indictment of the system itself*." When Mundell wrote this sentence, unemployment was around 6%. His proposals for reemploying "two-thirds or three-quarters of the unemployed" imply an unemployment rate under 4%, and possibly as low as 1.5%. By contrast, unemployment under Reagan peaked at 10.8%, and the average for the years 1981-1986 was above 8%. Even at the peak of the 1980s expansion, it never fell below 5%. Thus, the Reagan disinflation was accompanied by unemployment that was fully twice as severe as the level that Mundell had considered scandalous in the early 1970s.

The disinflationary effects of unemployment worked through the institutional channel of an assault on organized labor. This much was clearly deliberate policy. Nowhere were Volcker and Reagan closer than in their hostility to labor. Budget Director David Stockman told the

[1565] Frieden, *Banking on the World*, 203.

[1566] Ibid.

Chamber of Commerce in 1982 that unemployment was "part of the cure, not the problem."[1567] The recession was especially valuable for the damage it did to workers' power. CEA chair Murray Weidenbaum extolled the uses of recession: "As we set a tighter external environment, when labor and management sit down to bargain, they will have to crank in a lower rate of inflation."[1568] Volcker similarly recognized an alliance with the Reagan administration on the labor front, declaring that "the most important single action of the administration in helping the anti-inflation fight was defeating the air controller's strike."[1569] What was great about the defeat of PATCO, according to Volcker, was that it contributed "even more to break the morale of labor" than did "breaking of the pattern of wage push in the auto industry."[1570]

For both Volcker and Reagan, progress was measured in falling wage pressure. Volcker carried around a list of upcoming collective bargaining sessions on an index card in his pocket. In regular testimony before Congress, Volcker gave updates, complaining that "only small and inconclusive signs of moderation in wage pressures have appeared" or that "general indexes in worker compensation still show relatively little improvement."[1571] U.S. Treasury Secretary Donald Regan measured success " by the concessionary wages that unions had been forced to accept."[1572] To many observers, 1982 stood out as the turning.[1573] That year, 66% of executives

[1567] As reported by Paul Craig Roberts, Supply Side Revolution, 225

[1568] https://www.nytimes.com/1981/09/18/business/economic-scene-reagan-goals-and-labor.html

[1569] *American Economy Policy in the 1980s*, ed. Martin Feldstein (Chicago: University of Chicago Press/NBER, 1994) 162.

[1570] Through his role in the bailout/structural adjustment of Chrysler, Volcker had himself had a hand in ending pattern bargaining in the auto industry. Panitch and Gindin, *Making of Global Capitalism*, 171-172

[1571] Quotes from 1981 and 1982 in McCarthy, Dismantling Solidarity, 138

[1572] Julian Germann, paraphrasing Horst Schulmann's notes of January 1982. Germann, *Unwitting Architect*, 159

[1573] Many contracts were three years long, so contracts settled during the tense bargaining year of 1979 were reopening.

believed labor costs had stabilized or would continue to fall."[1574] In 1983, Volcker told Congress that "the upward trend in nominal wages and salaries slowed noticeably last year."[1575]

In the long run, it was this unemployment—which had not been part of Mundell's original vision—that underlaid the transition to low inflation. Even when interest rates went down and deficits exploded, prices remained stable because workers remained discouraged.

One Last Cold War Boom

The final decade of the Cold War witnessed one last Cold War boom. During the first half of the 1980s, defense "probably provided the greatest momentum to growth," according to the chief economist at Wharton Econometrics, who estimated that rearmament was responsible for 15-20% of new jobs created in 1982-5.[1576] To the question "Why has the economy been so strong?", Lehman Brothers Kuhn Loeb's Allen Sinai answered: "The answer is straightforward: the huge fiscal stimulus of Reaganomics, approximately $650 billion in personal and business tax cuts for 1981 to 1986 and $250 billion of increased military spending. Their effects have far more than offset the drag of high interest rates and any reductions in nondefense spending."[1577]

The military influence was most obviously true during the Volcker recession itself: defense spending represented a large new source of final demand at a time when the rest of the economy was literally shrinking. Between 1980 and 1983, real GDP grew by just 0.3%, while

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[1574] "Businessweek/Harris Poll: Executives brace for an era of slow growth," *Business Week*, Aug 23, 1982, 12.

[1575] Michael McCarthy, *Dismantling Solidarity: Capitalist Politics and American Pensions since the New Deal* (Ithaca: Cornell University Press, 2017) 139.

[1576] "Pentagon Spending is the Economy's Biggest Gun," *Business Week,* Oct. 21, 1985. A separate BLS study found that between 1980 and 1985, defense-generated private employment increased by about 1 million—equivalent to 17 percent of all private sector job growth. Henry and Oliver, "The defense buildup, 1977-85."

[1577] Sinai quoted in Leonard Silk, "Economic Scene: A Key Political Barometer," *NYT*, April 6, 1984, D2.

real defense outlays increased by 25%.[1578] Compared to 1980, private nonfarm employment in 1982 was lower, and in 1983 the net increase was just 124,000 jobs.[1579] In the same period, defense spending generated anywhere from 600,000 to 1.5 million new jobs.[1580] After the recession hit bottom, the expansion became more broadly based, but defense remained pivotal. In both 1985 and 1986, for example, growth in defense spending contributed more to overall economic growth than did gross private investment (residential and non-residential).[1581] Former Carter CEA chair Charles Schultze predicted that 30% of the growth in goods production between 1982 and 1986 would be consumed by the military, compared to 6% in 1981.[1582] More than half the new defense jobs were in durable goods manufacturing, the sector hurting worst.[1583]

The boom differed from earlier episodes of military Keynesianism. The unevenness of the 1980s expansion was related to the peculiarities of the Volcker-Reagan policy mix. High

[1578]https://www.esd.whs.mil/Portals/54/Documents/FOID/Reading%20Room/Acquisition_Budget_and_Financial_Matters/16-F-1264_National_Defense_Budget_Estimates_For_FY_1983.pdf?ver=2017-05-15-134234-343

[1579] All Employees, Total Private (USPRIV) FRED https://fred.stlouisfed.org/series/USPRIV

[1580] Author's calculations based on Data Resources Inc (DRI) model in which $1 billion in defense spending directly generated 15,400 jobs, or 35,000 if multiplier effects were included. Statement Of George F. Brown, Jr., Group Vice President, Data Resources, Inc. *House Budget Committee, Hearings: Defense and the Economy: The Issues of Jobs, Inflation, and Long-run Growth* (Dec 1983) 168-173. Current dollar outlays taken from: https://www.esd.whs.mil/Portals/54/Documents/FOID/Reading%20Room/Acquisition_Budget_and_Financial_Matters/16-F-1264_National_Defense_Budget_Estimates_For_FY_1983.pdf?ver=2017-05-15-134234-343

[1581] Contribution defined on the BEA's national accounts basis, which answers the question: "how much did the change in one component impact overall change, compared to alternative of that component neither increasing nor decreasing." Contributions to percent change in real gross domestic product: Government consumption expenditures and gross investment: Federal: National defense (A824RY2Q224SBEA) FRED https://fred.stlouisfed.org/series/A824RY2Q224SBEA

[1582]Charles L. Schultze, "Do More Dollars Mean Better Defense?" *Challenge*, 24:6 (1982) 30-35, Compared to 6% of the increase in Fiscal 1981. Schultze is following a line of analysis laid out by Gary Wenglowski, head of research for Goldman Sachs. The Carter administration, which Schultze had served as CEA chair, had focused its buildup much less on procurement (goods-production) than Reagan would.

[1583] Seven out of every 10 jobs lost in 1981-82 was in durable goods manufacturing. Michael A. Urquhart and Marillyn A. Hewson, "Unemployment continued to rise in 1982 as recession deepened," *Monthly Labor* Review Vol. 106, No. 2 (February 1983), 3-12.

interest rates made for a strong dollar, which in turn made U.S. exports (which were already struggling with international competition) relatively expensive on the world market. The effects were felt most strongly in core industries such as steel, auto, and non-military capital goods. By contrast, post-industrial sectors that did not compete on the world export market (such as finance, real estate, or personal services) became increasingly important sites of economic activity.

There was, however, a major exception to this pattern: military production was both industrial *and* exempt from exchange-rate pressures (since the primary consumer was the U.S. government, rather than foreign buyers).[1584] Between 1980 and 1985, overall manufacturing employment declined by around 1 million; in the same period, defense spending generated 600,000 new manufacturing jobs. For durable goods, the equivalent figures are 680,000 jobs lost overall and 580,000 new defense jobs. As manufacturing employment in general contracted, the smaller industrial base that remained had become decisively more militarized. In 1985, defense-generated jobs represented 9 percent of all jobs in manufacturing (compared to 6% in 1980), and 14% of all jobs in durable manufacturing (compared to 8% in 1980).[1585] Industrial production in defense and space grew three times as fast as overall industrial production between 1981-4.[1586] According to the Pentagon, between 1980 and 1983 military contracts provided a 4.73% return on assets, compared to 3.65% losses for durable goods manufacturing in general.[1587]

[1584] On the other hand, the import surge did make inroads on U.S. defense production and employment. In 1987, the commander of US forces in the Pacific said that "All of the critical components of our modern weapon systems, which involve our F-16s and F/A-18s, our M-l tanks, our military computers, and I could go on and on, come from East Asian industries…the East Asian industries have really become an extension of our own military industrial complex." Admiral James Lyons quoted in James Kurth, "The Common Defense and the World Market," *Daedalus*, Fall, 1991, Vol. 120, No. 4, Searching for Security in a Global Economy (Fall, 1991), 215.

[1585] BLS methodology includes indirect jobs using input-output models but does not attempt to represent induced demand.

[1586] "Pentagon Spending is the Economy's Biggest Gun," *Business Week*, Oct. 21, 1985, 60-61.

[1587] DOD's Defense Financial and Investment Review, June 26, 1986, General Accounting Office, https://www.gao.gov/products/130211

The effect was especially dramatic in certain industries. In some military-adjacent sectors, production became almost completely militarized: in shipbuilding, the defense share of output went from 45% in 1977 to 93% in 1985; in aircraft and missile engines, the defense share rose from 47% to 78%; in aircraft, from 43% to 66%. But the same pattern of an increasing defense share of output can be seen across the spectrum of overall defense-dependence: for radio and TV communications equipment, from 35% to 50%; for machine tools (cutting), the defense share rose from 3% to 34%; for steel mill products, from 5% to 12%. Lockheed abandoned, this time for good, its attempts to enter the civilian jetliner market; share prices jumped when the company announced its new, purely military-oriented strategy.[1588] Even Boeing, which had long stood out in the industry for its relative success in civilian markets, was moving in the same direction: by 1984, military sales represented nearly half of all Boeing sales (up from 17% in 1979) and more than 70 percent of its profits.[1589]

The trend could be seen in the core import-threatened mass production industries as well. The Ford Aerospace division, reorganized in 1984, brought in one or two billion dollars in sales each year.[1590] This was small compared to the overall size of Ford, but the guaranteed profits from military work took on a larger significance for a company that reported combined losses of $3 billion in the first three years of the 1980s.[1591] GM bought Hughes Aircraft for $5.2 billion in

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[1588] "Can Lockheed fly on defense alone?" *Business Week*, Dec 21, 1981, 42.

[1589] Markusen, et al, Gunbelt, 157; Pattillo, *Pushing the Envelope*, 333.

[1590] Ford Aerospace posts record pacts year The Sun (1837-); Baltimore, Md. [Baltimore, Md]. 26 Jan 1983: B13.; Kathleen Day, "Ford Aerospace Consolidates Units Day," Los Angeles Times (1923-1995); Los Angeles, Calif. [Los Angeles, Calif]. 17 Jan 1984: sd_cB.; Paul C. Judge, Ford Selling Aerospace Unit as Military Spending Slows, *NYT*, Jan 13, 1990, 35.

[1591] Micheline Maynard, "Ford announces record 1983 profits," UPI, Feb 13, 1984 <https://www.upi.com/Archives/1984/02/13/Ford-announces-record-1983-profits/6730445496400/>

1985.[1592] Similar moves occurred in rubber (Goodyear and General Tire) and auto components (Bendix/Autolite absorbed into Allied Corporation).[1593]

The boom also reflected, and reinforced, regional unevenness. While deindustrialization brought socially catastrophic levels of unemployment to parts of the country, other regions actually saw a growth in manufacturing employment.[1594] The maps below the geographical incidence of manufacturing job losses. In figure 21, states colored in red suffered net loss of manufacturing jobs between 1977 and 1984, while states in gray saw a net gain. The hardest hit region was clearly the Great Lake industrial belt, but the chart also gives the lie to a simplistic frost-belt/sunbelt dichotomy. New England stands out as the most obvious complication.[1595] The region's relatively strong performance resulted from a mix of factors. In some states, such as New Hampshire and Vermont, unions were weak, making them more similar in terms of "business climate" to the Sunbelt. In states such as Massachusetts and Connecticut, high concentrations of military procurement helped sustain relatively skilled, highly paid, and in some cases unionized manufacturing jobs. Figure 22 shows regional variation in union density, and

[1592] Associated Press, "Timeline of General Motors' involvement with Hughes Electronics Corp." AP News. Jan 16, 1997. <https://apnews.com/article/87c98ed04c5ba88a73ddd7ce671ed97a>

[1593] Mike Davis, *Prisoners of the American Dream*, 243.

[1594] This unevenness was not wholly a product of military spending or the Volcker shock. In the decade after 1968, factory employment in the South by 900,000; in the west by 300,000; while it declined in the Northeast region by 800,000. At the aggregate level, these were years of relatively restrained defense spending. However, the *share* of all prime military contracts awarded to these regions continued to rise, albeit slightly, during the post-Vietnam interlude. Philip L. Rones, "Moving to the sun: regional job growth, 1968 to 1978," Monthly Labor Review Vol. 103, No. 3 (March 1980); John Rees, "Government Policy and Industrial Location in the United States," printed in Joint Economic Committee of Congress, *Special Study on Economic Change, Vol. 7, State and Local Finance: Adjustments in a Changing Economy* (1980), Table 11: Regions' Share of Prime Contract Awards in 1965, 1973, 1976, 159.

[1595] Wilfried C. Rogers, "N.E. jobless rate below national average," Boston Globe, Mar 20, 1984, 54; David L. Warsh, "War Stories—Defense Spending and the Growth of the Massachusetts Economy," *New England Journal of Public Policy*: Vol. 2: Iss. 1, Article 3; "The Nation's Golden Corridor -- Region on the Move," NYT, Jan 30, 1983: AS4.

figure 23 shows defense-dependence. There is a clear, if not total, association between non-union states, growing manufacturing employment, and defense dependence. The upshot is that the 1980s manufacturing recession was a crisis of production that was unionized and/or civilian, not a crisis of the “frost-belt” or older industrial regions per se.

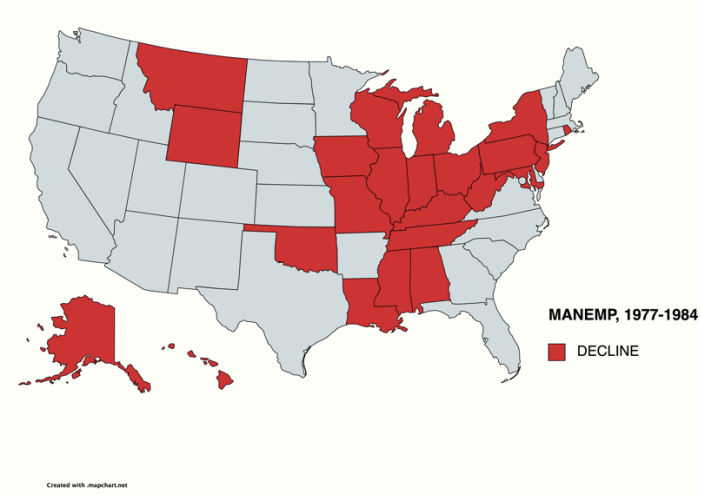

Figure 21: States with negative growth in manufacturing employment, 1977-1984

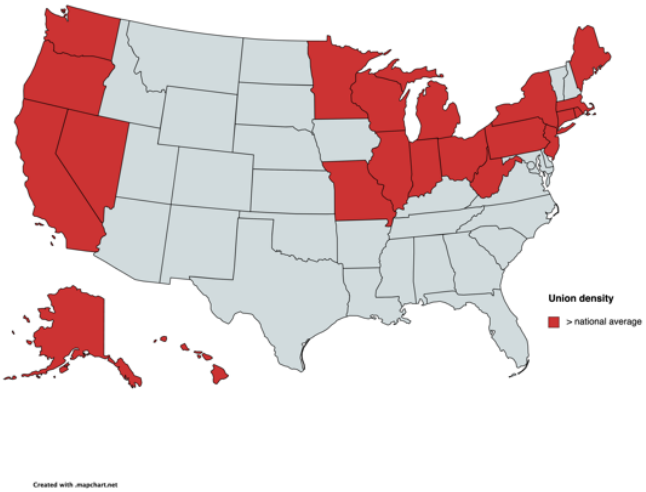

Figure 22: States with union density above the national average

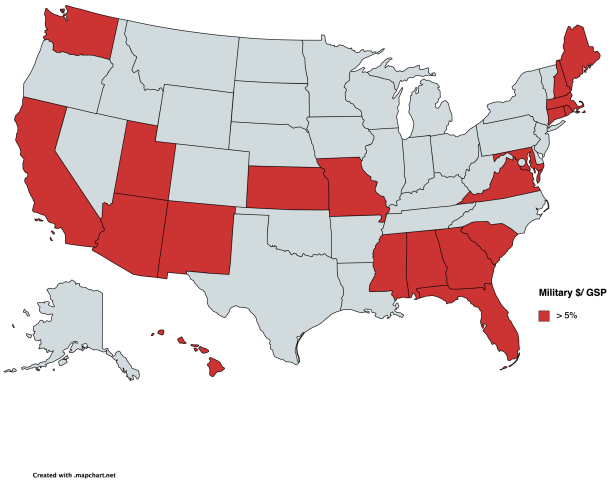

Figure 23: States with military contracts equivalent to more than 5% of gross state product

In earlier defense-driven booms, labor markets had tightened and workers became more willing to strike and more likely to win their demands. The Reagan rearmament was different because an enormous defense stimulus came wrapped inside a macroeconomic depression, with elevated unemployment (especially in union-heavy regions and industries) throughout the decade. Fittingly, military state capacities played a crucial role in breaking PATCO: trained military air traffic controllers were ready immediately to replace striking workers.[1596]

The threat of unemployment—and, bound up with that, the federal government's open commitment to breaking unions—meant that even the workers who benefited from the defense boom were unable to translate military Keynesianism into labor victories. Aerospace workers announced that they intended to buck the trend toward concessionary bargaining. After all, the defense economy was booming. As pattern bargaining was destroyed in auto, Machinists president William "Wimpy" Winpisinger said "patterning is likely to be sustained most strongly in aerospace."[1597] Under the rubric of managing costs, Air Force Secretary Verne Orr pushed unionized defense contractors to hold down wages, indicating that he was "fully prepared to accept work stoppages in some of our weapon acquisition programs, if that is what it takes."[1598] Ultimately, however, the aerospace unions were unable to buck the concessionary trend.

American labor leaders connived in their own irrelevance. The Cold War figured here as well. Though capable of criticism of Reagan's domestic policy, Lane Kirkland (who had succeeded in George Meany as head of the AFL-CIO in 1979) was fully committed to the

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[1596] Kim Moody, *An Injury to All: The Decline of American Unionism* (New York: Verso 1992) 304.

[1597] Damon Staton, "Wage Rise Moderation Seen for '82," NYT Nov 23, 1981.

[1598] Verne Orr quoted in Herbert Coleman, "USAF Seeks Industry Wage Limits," *Aviation Week & Space Technology*, 16 May 1983, pp. 16-17; Ann Markusen and Joel Yudken, *Dismantling the Cold War Economy* (New York: Basic Books, 1993) 161.

foreign policy of the Second Cold War, to the point of collegiality with an administration committed to the destruction of organized labor. In the mid-1980s, the AFL-CIO spent roughly similar amounts on domestic and international activity, with 90 percent of the latter budget provided by the U.S. government.[1599] Labor Secretary Bill Brock, who hailed the AFL-CIO as "one of the most effective tools the U.S. has possessed" in the Cold War was a frequent visitor to the labor federation's headquarters. While figures like Winpisinger fought an uphill battle to pass nonbinding resolutions criticizing atrocities in Central America, the AFL-CIO's international operations carried out real interventions in support of anti-labor dictatorships from El Salvador to South Korea. [1600]

The conservative ascendancy represented by Reagan did not mark a clean break with Keynesian practices of demand management. But in the Reaganite version of military Keynesianism, labor market effects were less important than stabilizing profits and investment. The distinction was not absolute: Kennedy-Johnson CEA had explicitly set out to provide better profits, and Casper Weinberger still talked about job creation. But the shift was real enough. In 1968, total defense-related employment had been 10.2%. Even in 1971, during a defense recession, the figure was 7.8%. In the boom year of 1985, the defense share of total employment was just 6%.[1601] By at least one measure, the trend with profits was the opposite. The political economists Jonathan Nitzan and Shimshon Bichler selected 16 leading military contractors (dubbed the "Arma-Core") and then calculated those firms' combined profits as a share of

[1599] Ferguson and Rogers, *Right Turn*, 142-3.

[1600] Kenneth B. Noble, "Walking a Tightrope Between Business and the Unions," *NYT*, Aug 10, 1986, sec. 3, p. 6; George Nelson Bass III, Organized Labor and U.S. Foreign Policy: The Solidarity Center in Historical Context (dissertation, Florida International University, 2012).

[1601] Richard P. Oliver, "Employment effects of reduced defense spending," 4; Oliver and Henry, "The defense buildup, 1977-85" 8.

overall net profits generated by the Fortune 500. On this index, the Arma-Core's relative share of profits increased from 4% in 1974 to over 10% in 1985.[1602]

Strategically, the shift was imposed through capital-intensive hardware procurement and R&D (this "investment" component of the defense budget grew 57% between 1980 and 1986).[1603] The volunteer army, a product of the 1970s, was too small to take up any meaningful slack in the labor market—another shift away from labor-intensive to capital-intensive methods. Ideologically, the focus on hardware was justified in quasi-Keynesian terms. According to Weinberger, transfer payments were generally spent on consumer non-durables, which he claimed had a lower multiplier effect than "the dollars that are spent on defense [and] actually go to the production of a number of different things."[1604] This argument had roots in the policies of Weinberger's old boss, Richard Nixon. As they attempted to stem the post-Vietnam pressure for lower military spending, Defense Secretary Melvin Laird and his Deputy David Packard had argued that hardware procurement was more effective stimulus than either civilian transfers or military personnel spending.[1605] Whatever the validity of the specific multiplier estimates, this was a relatively coherent ideology: the best method of government spending is that which directly boosts private investment and profits.

[1602] Jonathan Nitzan and Shimshon Bichler, Bringing Capital Accumulation Back in: The Weapondollar-Petrodollar Coalition-Military Contractors, Oil Companies and Middle East 'Energy Conflicts' *Review of International Political Economy*, Summer, 1995, Vol. 2, No. 3 (Summer, 1995), pp. 446-515.

[1603] Daniel Wirls, Buildup: The Politics of Defense in the Reagan Era (Ithaca: Cornell University Press, 1992) 45.

[1604] Weinberger, speech to New York Economic Club, Oct 27, 1981, 20.

[1605] Letter, Laird to Schultz. 20 October 1970. Reproduced in *Melvin Laird and the Foundation of the Post-Vietnam Military, 1969–1973: Documentary Supplement*, ed. Richard A. Hunt (Washington: Office of the Secretary of Defense Historical Office), 266-271; Revisions to Defense Budget. January 13, 1971. Kissinger Telcons, DNSA. Accession number: KA04727. ProQuest document ID: 1679133908.

Was this still Keynesianism? While most presentations of the New Economics had focused on employment and output, Kalecki and Minsky had always stressed that "Big Government stabilizes not only employment and income but also business cash flows (profits) and as a result asset value."[1606] The different components have been emphasized at different times, depending on ideological and institutional requirements, but spending by the government still has to show up as income somewhere else. It is just a question of who books the profits. The economist Amit Bhaduri argued that "the policy of demand management is" always "politically ambiguous," since aggregate demand can (within limits) be provided by private investment and luxury consumption as easily as public investment and mass consumption. The fungibility inherent in the aggregative approach of macroeconomics meant that there had always been the potential for "a politically conservative style of demand management based on profit, and private investment driven expansion."[1607]

A Political Business Cycle?

The timing of the Reagan recession and recovery naturally prompts suspicions about a political business cycle. Employment, real GDP, and industrial production hit bottom around the time of the 1982 midterm elections, which saw Democrats pick up 26 seats in the House.[1608] This was a setback but not disastrous because Republicans maintained control of the Senate, losing

[1606] Minsky, *Stabilizing an Unstable Economy*, 17.

[1607] Amit Bhaduri, "Nationalism and Economic Policy in the Era of Globalization" in in Deepak Nayar, ed. *Governing Globalization: Issues and Institutions* (New York: Oxford University Press, 2002) 19-50, here 34-35.

[1608] According to journalists, "in telephone interviews and in a post-election press conference, a varied group of freshmen said they have one priority: the economy. Among new House Democrats, most are from the South and from hard-hit unemployment areas such as Pennsylvania, Ohio, and Illinois." The Southerners included Rick Boucher, from Western, Virginia, who said deficit reduction and "cutting defense spending" were his top issues. Julia Malone, "The freshman class: ready to tackle economy," *Christian Science Monitor*, Nov 8, 1982.

one seat on net but sustained by pickups in defense-heavy Virginia, Nevada, and Washington.[1609] By November 1984, when Reagan won a crushing 49-state landslide, 4 million unemployed Americans had found work and real GDP was 11% above its pre-recession level.[1610]

It seemed too good to be a coincidence. It was common knowledge that "Unlike other appropriations (such as for pay) that are spent in a single year, procurement funds are spent over a much longer time—generally 5 years, *with highest spending in the middle 3 years*."[1611] Still stronger circumstantial evidence came from the background of Reagan's first CEA chair, Murray Weidenbaum, who had started his career as a corporate economist at Boeing. Weidenbaum was the leading academic expert on a very particular question: exactly how and when did military orders make themselves felt in economic activity?[1612] Thus, when Weidenbaum said things like "At this point, the expansion of defense contracts is beautifully timed," this was not idle chatter. According to economist James K. Galbraith, Weidenbaum told "liberal friends, 'Well, we're

[1609] In Virginia, Harry Byrd's old seat went to Paul S. Trible, Jr., who had represented the defense-dependent Newport News area in Congress and "devoted much of his career to catering to the shipyard from his seat on the House Armed Service Committee, where he has lobbied for bigger naval budgets." The Nevada newcomer, Chic Hecht, was a close ally of fellow Nevadan Paul Laxalt, a Reagan intimate and founding co-chair of the Congressional militarist lobby Coalition for Peace Through Strength. When "Scoop" Jackson died in 1983, the resulting special election was won by Republican Daniel J. Evans, a professional engineer and former Washington governor who had once fought side-by-side with Jackson for the SST. His Democratic opponent was against the MX missile and dismissed "the defense-jobs argument." David Maraniss, "New Faces for the Senate but Probably Not Much Change," *Washington Post,* Nov 10, 1982, A2; Christopher Lydon, "Nixon Backs SST; Battle for Funds Looms in Congress," *NYT*, Sep 24, 1969, 1; David S. Broder, "A Senate Contest of Contrasts," *Washington Post*, Nov 6, 1983, A1.

[1610] Employment Level (FRED); Real Gross Domestic Product (FRED).

[1611] Karl D. Galbraith and Joseph C. Wakefield, "National Defense Spending: A Review of Appropriations and Real Purchases," *Survey of Current Business,* Nov 1984. Emphasis added. Allen Sinai, senior vice president and chief economist of Lehman Brothers Kuhn Loeb said similarly that, "the fiscal stimulus has been like a 'time release' capsule, set for the greatest impact over 1983 to 1985." Sinai quoted in Leonard Silk, "Economic Scene; A Key Political Barometer," *NYT*, April 6, 1984, D2

[1612] Murray L. Weidenbaum, "Government Spending: Process and Measurement," (doctoral dissertation, Princeton, published by the Boeing Airplane Co, Seattle, 1958); Murray L. Weidenbaum, *Economic Impact of the Vietnam War*, Center for Strategic Studies (Georgetown University, Washington, D.C.: Renaissance Editions, 1967).

really clever. We've got our Keynesian stimulus in place looking for our reelection.' They knew what they were doing.'"[1613] A nice example of the fortuitous timing came when the first production-run B-1 bomber took flight in October 1984. Later that same month, Reagan made a triumphant visit to the Rockwell factory in Palmdale, California to see the new bomber. As he told his journal, "Some 10,000 U.A.W. members in a giant hangar & as enthused as the G.O.P convention."[1614]

There is also evidence that the administration thought carefully about the timing of the Volcker recession. In September 1981, German officials noted that the Reagan team "wishes for a recession as soon as possible."[1615] In fall 1981, some of Reagan's external economic advisors "urged the president to persuade Volcker to ease monetary policy and reduce the risk of recession during the 1982 election year. President Reagan rejected that advice," because he worried that stimulus in 1982 would require "restrictive policies afterwards."[1616] Thus, evidence from several sources suggests that the Reagan administration favored a restrictive policy in the earlier part of the first term, and a stimulus timed to have its effects around reelection time—in other words, just what was predicted in the classic articles on the political business cycle.

In any event, there could be little question that deficit spending made good politics. On Election Day 1984, three-fifths of voters "felt the economy was better off today than four years ago," and of these, 6 out of 7 voted for Reagan. In the same survey, voters "the voters rejected

[1613] James K. Galbraith, The Long-Overdue Revolution in Economic Thinking, INET (March 1, 2021) < https://www.ineteconomics.org/perspectives/podcasts/long-overdue-revolution>

[1614] Diary entry - Wednesday, October 24, 1984. Reagan Library, White House Diaries. <https://www.reaganfoundation.org/ronald-reagan/white-house-diaries/diary-entry-10241984/>

[1615] Horst Schulmann's summary of a conversation with Beryl Sprinkel in September, 1981, as cited in Julian Germann, *Unwitting Architect*, 156.

[1616] Meltzer, *History of the Federal Reserve, Vol II, Book 2*, 1088.

Mr. Mondale's argument that a tax increase was necessary to reduce the Federal deficit" by a 2 to 1 margin; naturally most of this large group voted for Reagan.[1617]

The only dissent came from the Democratic Party, and behind it, sections of finance capital. The centerpiece of Walter Mondale's doomed 1984 campaign was a plan to fix the deficit through measures including tax increases on the top 40% of Americans and slowing the annual growth of defense spending from 7% to 3-4%. He proposed to end the B-1 bomber and MX missile, with a small amount of the savings going to a billion dollar or so net increase in social spending.[1618] The hope was that this would peel deficit-wary sectors of business away from the Republicans, allowing the Democrats to co-opt the fiscal discipline issue the way Kennedy had once captured the national security issue from the Eisenhower GOP. Mondale did gain support from investment bankers and urban real estate interests (who calculated that some domestic spending was necessary to validate their investments in the cities).[1619]

But Mondale's strategy failed utterly, suggesting the revealed preference of most voters for deficit-driven expansion. The incumbent's team were well aware of this: one Reagan pollster said ""The more detail he [Mondale] provides, the more it will hurt him. We're happy to leave the deficit issue to him."[1620] Mondale's calls for fiscal retrenchment at a time when unemployment was still above 7% meant that he could offer little to the potential Democratic social base of struggling workers, white and black.

[1617] Hedrick Smith, Economy the Key Issue, NYT Nov 7, 1984, A1

[1618] "A One-Sided Debate on the Deficit," Business Week, September 24, 1984

[1619] Ferguson and Rogers, Right Turn, 162-165; 185-186.

[1620] "A One-Sided Debate on the Deficit," Business Week, September 24, 1984.

But Wall Street failed to line up behind Mondale. A month before the election, *Business Week* reported that "without acceptance by Wall Street, any [deficit reduction] program will have difficulty succeeding." Unfortunately for Mondale, "the market is...unlikely to be reassured by the fact that Mondale would be proposing tax increases at a time when economic growth is expected to be slowing sharply." Business worried about the deficit but recognized that without government stimulus, the private economy would slow to a crawl.[1621] Alan Greenspan and Joseph Carson of Merrill Lynch said Wall Street would look more kindly on spending cuts than tax increases. The implication was that "entrepreneurial incentives" (Greenspan) were more important than other forms of government demand support: the class character of Keynesianism was what really mattered, rather than some opposition to big government *per se*.[1622]

It was not an accident who won this tug of war. High interest rates meant that the wealthy benefited directly from the growth of the deficit, as the portion of the deficit constituted by debt service on earlier deficit spending increased. Even economists with dovish views on the deficit would concede that a country could run into trouble if the cost of servicing interest on public debt grew much faster than the overall economy. The fact that ownership of U.S. government debt (like ownership of financial assets in general) was concentrated at the top of the class structure provided even left-wing economists with a reason to worry about the deficit. [1623]

The Boom Crests

[1621] See also James C. Cooper, "Economic Diary: The Stimulus from a High Structural Deficit," Business Week Aug 27, 1984, 18; Louis Uchitelle, "The Hidden Pep in America's Economy: Are deficit cutters overlooking the economic machine's potential for growth?" NYT Oct 7, 1990; pg. F1.

[1622] "The Mondale Plan Won't Win Hearts and Minds on Wall Street," *Business Week*, Oct 1, 1984, 38.

[1623] Thomas Michl found that "the top 10 percent of households by income receive over 75 percent and the top one percent receive over 40 percent of the interest paid by the Treasury to the household sector." Thomas Michl, "Debt, Deficits, and the Distribution of Income," *Journal of Post Keynesian Economics* Vol. 13, No. 3 (Spring, 1991), 351-365.

Despite the clear business preference for Reagan's fiscal alchemy over Mondale's rectitude, there was still pressure on the reelected president to at least trim the deficit. It became increasingly accepted that some of the money would have to come out of defense—as in the Eisenhower years, there was no way to cut the budget without going where the money was. Even some of the most hawkish Reagan supporters of the late 1970s, such as retired Admiral Elmo Zumwalt, signed on to the call for economizing.[1624]

Already in 1981, Paul Thayer of the Chamber of Commerce warned "'defense dollars must be spent wisely. We cannot afford a huge arsenal of weapons at the cost of a sick economy.'"[1625] At the 1982 meeting of the Business Council, where Weinberger gave a closed-door speech calling for "military spending equal to 29 percent of the total budget." The executives met this with a standing ovation, but afterwards many of them expressed doubts to reporters. David Rockefeller of Chase Manhattan said, "I think the Secretary is correct - but it doesn't necessarily mean we can't cut a little bit out… Clearly the tax cut has not done an adequate job, 1 and I think we have to look at other possibilities." Philip Caldwell, chairman of Ford, said, "I think there is more room for debate on the military side than is being given," adding that selective military cuts could create political space to cut nondefense spending still further. Even executives from major defense players like United Technologies and GE called for economies to be found.[1626] Business Roundtable and NAM also called for a slowdown in

[1624] To the frustration of Reagan's National Security Adviser, whose response on White House letterhead warned: "Let's also be realistic: contract cancellation and deferral costs would be severe, and the impact on employment in the defense industry would be substantial." William P. Clark to Zumwalt, February 25, 1983. Zumwalt Collection, Texas Tech.

[1625] Quoted in Brownstein and Easton, *Reagan's Ruling Class*, 743-44.

[1626] Peter T. Kilborn, "Business Chiefs See Need to Cut Military Spending to Trim Deficit," NYT, Oct 11, 1982, A1.

military spending.[1627] In September 1981, West German Chancellor Helmut Schmidt warned National Security Advisor Richard Allen "about the dangers to the world economy of high US interest rates, and urged the administration to cut its 1982 budget deficit sufficiently to restore market confidence." Schmidt made clear that "America's allies would be relieved rather than disconcerted" if the cuts included defense cuts.[1628]

As deficit anxieties grew, the pure military-industrial complex suffered any number of setbacks. In 1984, Deputy Secretary of Defense Paul Thayer, former CEO of defense conglomerate LTV and president of the US Chamber of Commerce, resigned to face charges for passing inside information to a Dallas stockbroker. The next year, he was sentenced to four years in prison. Thayer claimed that the illegal profits (estimated at $3 million) in illegal profits were meant to create a "small nest egg" for his girlfriend, a former LTV receptionist—an unusually direct, but not at all uncommon, example of the political-financial road to wealth in the 1980s. In 1987, Navy Secretary John Lehman—champion of the extravagant 600-ship-navy program—had to resign too, ostensibly over political disagreements but shadowed by reports of corruption and performing a sex act in front of revelers at the Navy's Tailhook Convention.[1629] General Dynamics was suspended from defense work and several of its executives indicted.[1630] Popular discourse began to focus on the culture of Pentagon overcharges, including the notorious $640

[1627]Howell Raines, "Executives Bid Reagan Cut Deficit, March 13, 1982, *NYT*, section 2, p. 31.

[1628] Summary of a 9/4/81 meeting between Richard Allen and West German Chancellor Helmut Schmidt regarding West German concern over the effect of U.S. high interest rates upon the world economy. Department Of State, 10 Sept. 1981. U.S. Declassified Documents Online, Gale.

[1629] Glenn Bunting, "Old Friend Gave Companies Entree to Lehman: Consultant, Clients Had Many Meetings with Navy Secretary," July 21, 1988; William H. McMichael*, The Mother of All Hooks: he Story of the U.S. Navy's Tailhook Scandal* (New Brunswick: Transaction Publishers, 1997) 19

[1630] Fred Kaplan, General Dynamics facing eight investigations: General Dynamics undergoing 8-way probe," *Boston Globe*, Jan 25, 1985, 1.

toilet seats. The backlash against exorbitant military spending indicated clearly that budget priorities were set to serve U.S. capital in general, rather than the military-industrial complex in particular (however many cases of obvious particularist corruption one could point to). Among other things, this points up the truth of the quip, that the United States may have a military-industrial complex, but the Soviet Union *is* a military-industrial complex.

What was the problem with the budget deficit? Most economists and business leaders believed that the deficit was causally linked with the punishingly high interest rates of the early 1980s. According to orthodox macroeconomic theory, this was because government borrowing competed for the same pool of funds as corporate borrowers, thereby raising the price of credit and "crowding out" private investment. There are empirical and theoretical reasons to be skeptical of any simple relationship between deficits and interest rates.[1631] But institutionally a version of the mechanism did clearly apply. The unelected Fed governors, who set short-term interest rates, were committed to keeping interest rates up in order to pressure elected officials into acting on the deficit. This was not just Volcker's impulse. In March 1983, Nancy Teeters, arguably the most dovish member of the FRB, worried about the effect of high rates: "I don't think that we can get a sustained recovery, particularly with the high interest rates that we're dealing with at the present time." But she added, "I realize that there is still a booming federal deficit out there. And I think there is some movement in Congress to do something about it. But if we give up too soon, they won't do it."[1632] Politically, if not metaphysically, deficit reduction was the price for lower rates and the expansion of key areas of business activity. In 1993, this

[1631] One contemporary skeptic was Richard Kopcke, Vice President and Economist of the Boston Fed. See Kopcke, "Economic Outlook," *Title News* [publication of the American Land Title Association] (January 1983), pp. 13-15. For a more systematic case, see Martin H. Wolfson, "Corporate restructuring and the budget deficit debate*, Eastern Economic Journal* (Fall 199); 19:4.

[1632] FOMC Minutes, 3/28-29/83, pp. 52-3

understanding was formalized in a "gentleman's agreement" brokered by Lloyd Bentsen, according to which Clinton would trade deficit reduction for lower interest rates.[1633]

Why did the Fed feel the need to discipline elected officials? The fundamental reason was that they still worried about the return of inflation (and behind inflation, the specter of foreign loss of confidence in the dollar).[1634] Only in retrospect did it become clear to central bankers that they had already won the fight against the Great Inflation. They were not the only ones who were still concerned. Gary Hart, the most promising exponent of the self-identified "neoliberal" wing of the Democratic Party, included a tax-based incomes policy in his 1984 campaign platform, showing that the idea of politically-managed wage policy retained appeal on the center-left. As late as 1988, Larry Summers worried about "overheating" and prescribed reduced consumption through deficit reduction, presented here not as a way to spur economic expansion but as a way to brake the economy (and specifically, the labor share of income) after the excessive Reagan stimulus.[1635] For the next three decades, the Fed would allow rates to fall only until labor markets became tight enough that workers might increase their share of national income.[1636] Likewise, fears of a dollar crisis never fully dissipated, even after the massive growth of Japanese public debt in the 1990s had provided evidence that advanced capitalist countries could now fund public debt at a scale previously believed to be unsustainable.[1637]

[1633] Bob Woodward, *Maestro*, 100.

[1634] In February 1986, Manuel H. Johnson of the FRB still worried about "the potential for…the political environment to pressure this organization into partially monetizing the deficit and then inflation might result from that." FOMC minutes, 2/11-12/86, 21.

[1635] Lawrence H. Summers, "Good News on the Trade Deficit, But . . ." *NYT*, May 20, 1988.

[1636] Daniel J. B. Mitchell and Christopher L. Erickson, "Not Yet Dead at the Fed: Unions, Worker Bargaining, and Economy-Wide Wage Determination," *Industrial Relations*, 44(4), 565–606; Tim Barker, "Preferred Shares," *Phenomenal World* (June 24, 2021) < https://www.phenomenalworld.org/analysis/preferred-shares/>

[1637] Adam Tooze, *Crashed: How a Decade of Financial Crises Changed the World* (New York: Penguin, 2018) 25-41.

More profoundly, deficit anxiety revealed a deep-seated fear of freedom. One clear statement of this came from idiosyncratic economist Albert Wojnilower, an eminent veteran of the New York financial community. At a 1983 conference, Wojnilower was unusually blunt in telling the audience that "[t]he deficit is a bogus issue." Federal red ink did not crowd out private investment or consumption; if anything, larger deficits usually meant more economic activity of all kinds. But even Wojnilower was concerned about "the damage it [the deficit] does by undermining economic discipline." There was a risk of inflation, since massive deficits made it harder to "discipline aggregate demand" as needed. Despite this concern, Wojnilower was not advocating austerity per se. Rather, he believed that in the absence of a balanced-budget constraint, Americans would need to discover some other criterion for determining economic priorities. Even under functional finance, there were still physical limits on economic activity, so the economic community needed some way of deciding what to produce and how to distribute it (within classes as well as between generations). These could not be reduced to technical questions: "each economic decision implies a moral choice and vice versa."[1638] These were thorny questions, however, and the pseudo-problem of the deficit allowed people to evade a qualitative argument (what should we produce?) with a quantitative argument (what can we afford?) Military spending was a perfect example. Even on the center-left, the debate centered on whether the economy could stand the rearmament, rather than why there should be a Cold War

Compacting the Military-Industrial Complex

Writing in 1987, George Kennan warned:

> Were the Soviet Union to sink tomorrow under waters of the ocean, the American military-industrial complex would have to go on, substantially unchanged, until some

[1638] Albert M. Wojnilower, "Discussion of Benjamin Friedman" in *The Economics of Large Government Deficits* (Federal Reserve Bank of Boston, 1984) 99-111

other adversary could be invented. Anything else would be an unacceptable shock to the American economy.[1639]

But 1987 and 1996, 2.5 million defense-related jobs were eliminated (a number greater than the entire employment of the private health insurance industry, to take an example from another politically sensitive sector).[1640] Kennan's pessimism appeared overstated: clearly the defense budget had had something to do with the existence of the Soviet Union.

What was occurring in the 1990s was not the elimination of the military-industrial complex but its restructuring to ensure profitability for leaner times—a process not unlike what was happening to American industry in general. Given the general transition from the late Cold War to the asset economy, it was fitting that post-1989 "reconversion" took the form of a mergers and acquisition boom. The pioneer was Bernard Schwartz, who acquired a stake in a small, struggling defense firm called Loral in 1972. By 1996, Loral had absorbed over 40 other contractors, including defense and aerospace divisions spun off from Goodyear, Honeywell, Fairchild, Ford, LTV, and IBM after the 1986 rearmament peak.[1641] The process went to a new level at a famous July 1993 meeting, where Deputy Defense Secretary William Perry brought together military-industrial executives for what became known as "the Last Supper."[1642] Perry told the assembled to consolidate in preparation for defense cuts. In February 1994, Perry would be promoted to Secretary of Defense.

[1639] Kennan, "Foreword to *The Pathology of Power* by Norman Cousins" (1987), in Kennan, *At Century's Ending: Reflections, 1982-1995* (New York: Norton 1997) 116-122, here 118.

[1640] Employment in the private health insurance industry is estimated at 834,000. Allison Thomson, "Defense-related Employment and Spending, 1996– 2006," *Monthly Labor Review*, July 1998, pp. 14–33; Robert Pollin, et al, Economic Analysis of Medicare for All (University of Massachusetts, Amherst/PERI, Nov 2018).

[1641] "Under Schwartz, Loral Became Key Player," *Los Angeles Times*, Jan 9, 1996.

[1642] Jeff Cole, "War of Attrition: Defense Consolidation Rushes Toward an Era of Only 3 or 4 Giants," WSJ, Dec 6, 1996, A1.

Perry's own background was telling. After serving Carter as Undersecretary of Defense for Research and Engineering, Perry spent 1981-1985 as managing director of Hambrecht & Quist, ""a San Francisco investment banking firm specializing in high-tech and defense companies."[1643] In February 1994, he would be promoted to Secretary of Defense; upon retirement in 1997 he returned to Hambrecht & Quist.[1644] Loral's Bernard Schwartz had a similar political profile. He was reportedly the single largest Democratic donor between 1992 and 1996, including $217,000 to the Democratic Leadership Council. A fellow Loral executive said of the donations, "There's obviously a clear business rationale for this."[1645]

Within five years of Perry's message, 32 prime contractors had been compacted into 9 much larger firms.[1646] Not least among these, Lockheed and Martin Marietta merged in 1995, and the next year the new conglomerate bought Bernard Schwartz's Loral for $9.1 billion. In late 1997, after Perry had left the Defense Department, the Justice Department drew the line at a merger between Northrop Grumman and Lockheed Martin. But the purposes of the consolidation had been accomplished: despite lower defense spending, the share values of the remaining defense giants reached new heights. But, as the Wall Street Journal wrote, "shareholder gains have come at a big price for employees."[1647] In line with the pattern of the M&A boom, the

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[1643] William Hambrecht himself was a major Democratic donor with particularly close connections to Nancy Pelosi. William Perry biography, Luxembourg Forum, no date <http://www.luxembourgforum.org/en/structure/perry-william-j/>; "Want a voice in Washington? Invest in a politician," *San Francisco Examiner*, Dec 13, 2010 < https://www.sfexaminer.com/national-news/want-a-voice-in-washington-invest-in-a-politician/>

[1644] "Ex-Defense Chief to Join Hambrecht Board," NYT, Mar 22, 1997, 40.

[1645] Dave Eisenstadt, "Orbiter of Power," *Mother Jones* (May 1997) <https://www.motherjones.com/politics/1997/05/orbiter-power/>

[1646] Lockheed absorbed Martin Marietta, major defense components of General Electrics, General Dynamics, and the defense conglomerate Loral. Northrop did the same with LTV Aerospace, Grumman, and Westinghouse's defense division. Boeing took over Rockwell's defense/space business, plus McDonnell-Douglas.

[1647] Jeff Cole, "War of Attrition: Defense Consolidation Rushes Toward an Era of Only 3 or 4 Giants," WSJ, Dec 6, 1996, A1.

consolidations followed the principle, "If you want to save some money, you eliminate the people."[1648] This was encouraged by a change in official Defense Department policy, which allowed companies with fixed price contracts to

Knowing from history that defense budgets move in cycles, the consolidated defense industry was also poised for another expansion. In 1997, Lockheed Martin CEO Norman Augustine predicted that "Spending will have to increase if America is to maintain any kind of military force at all, and there's a growing awareness of this in the Congress and the Administration."[1649] In absolute terms, the post-Cold War defense cutbacks hit bottom in 1998 and then began to rise again—first gradually, then more quickly after the beginning of the Global War on Terror. In 2018, the long-term behavior of the defense cycle was put in a new perspective by two former Pentagon analysts, Chuck Spinney and Pierre Sprey, who charted defense spending authority against a baseline defined as 5% annual growth over the post-Korean War low of 1954.[1650] The chart, reproduced below as Figure 24, shows that both the 1970s and 1990s defense cuts were arrested before overall outlays fell below the long-term trendline. To be sure, the growth of the American economy since 1954 means that the weight of defense spending in the economy has diminished over time. But the Spinney-Sprey chart helps illustrate the secular reliability of the defense market, as it would appear to the increasingly concentrated number of firms for whom the Pentagon was their main, if not only, customer.

[1648] Quote from Wolfgang Demisch, a defense analyst at Bankers Trust Securities. Greider, *Fortress America*, 75.

[1649] Greider, *Fortress America,* 58.

[1650] Pierre Sprey, Chuck Spinney, and Winslow T. Wheeler, "Bankrupt and Irrelevant: The Presidential Debates and Four Recent Studies on Pentagon Spending," *Counterpunch*, Aug 30, 2019. <https://www.counterpunch.org/2019/08/30/bankrupt-and-irrelevant-the-presidential-debates-and-four-recent-studies-on-pentagon-spending/>

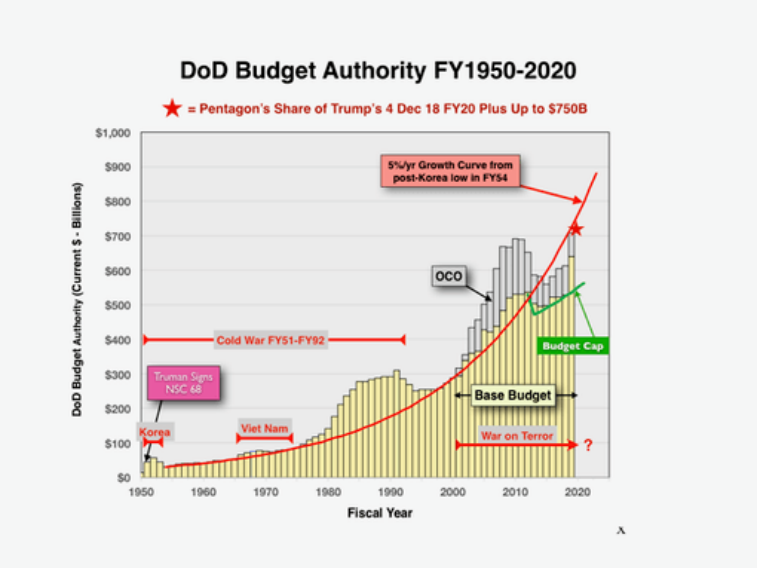

Figure 24: Growth of the defense budget (current dollars) compared to hypothetical baseline of 5% annual growth since 1954 (Created by Pierre Sprey and Chuck Spinney/Counterpunch)

Winners and Losers

At the nadir of the Volcker recession, Bruce Springsteen released the memorably bleak *Nebraska*. On the album's most famous song, the narrator sings "Down here, it's just winners and losers/and don't get caught on the wrong side of the line."[1651] For those without the defense cushion, the early 1980s were unforgiving. Black unemployment peaked at over 20 percent in early 1983 and averaged around 15 percent for the decade as a whole. In construction, one of the most cyclically exposed industries, housing starts collapsed by 31 percent in the first half of 1980 and then by 28 percent in the second half of 1981. Millions of jobs in mining and manufacturing also disappeared in the space of a few years, many never to return even in recovery.[1652] The high interest rate/strong dollar which hurt export industry also hit farmers, worsening the farm crisis

[1651] Bruce Springsteen, "Atlantic City" on *Nebraska* (Columbia Records, 1982).

[1652] New Privately-Owned Housing Units Started: Total Units (HOUST) https://fred.stlouisfed.org/series/HOUST; Unemployment Rate - Black or African American (LNS14000006) https://fred.stlouisfed.org/series/LNS14000006; All Employees, Manufacturing (MANEMP) https://fred.stlouisfed.org/series/MANEMP; All Employees, Mining and Logging (USMINE) https://fred.stlouisfed.org/series/USMINE

which had followed the credit-driven agricultural expansion of the 1970s. Between 1982-3, farm income collapsed by 64 percent.[1653] Before morning in America, it was very dark indeed.

How could this take place in a democracy without any notable political instability? "What cannot be foretold are the sociopolitical changes that will occur as unemployment rises to double-digit rates," wrote one otherwise incisive economic forecaster in February 1980.[1654] But, compared to the 1930s or even the 1970s, the 1980s slump only seemed to strengthen the popular legitimacy of American capitalism. Why this unlikely stability? One clue is presented by comparative analyses. One study found that monetary policy in West Germany and the U.S. was far more restrictive than it was in other advanced capitalist countries. In the German case, "the large foreign component of the German work force sheltered domestic labor from the consequence of contractions."[1655] In the U.S, instead of *Gastarbeiter,* it was black workers who sheltered the normative political community from the worst of unemployment. As Brandon Terry has written, "The racialization of unemployment makes joblessness appear, to many citizens, as a mark of pathology or grievance-driven free riding, rather than a feature of advanced capitalist economies."[1656] From the summer of 1974 to the summer of 1997, black unemployment never fell below 10 percent, a level reached by the aggregate only in the depths of 1982.

But racism by itself is an insufficient causal explanation. During the late 1960s and early 1970s, concern about scandalously high black unemployment had actually constrained the

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[1653] *History of the Eighties - Lessons for the Future* (FDIC Public Information Center: December 1997) <https://www.fdic.gov/bank/historical/history/259_290.pdf>

[1654] V. Lewis Bassie, "The Worst Prospect in 50 Years," *Illinois Business Review* 37:4 (Feb. 1980), 1-4.

[1655] Douglas A. Hibbs, "Inflation, Political Support and Macroeconomic Policy" in *Politics of Inflation and Economic Stagnation,* 175-195, here 195.

[1656] Brandon M. Terry, "This Faith," LA Review of Books, July 15, 2020 <https://lareviewofbooks.org/article/this-faith/>

formation of high-level economic policy. The business advisory firm Rinfret-Boston Associates formalized this concern over "the black trade-off" with a racially disaggregated Phillips Curve model that showed how high black unemployment would have to rise if inflation were to be brought under control.[1657] This mattered to investors because black unemployment would "result in major civil rights disturbances," a clear reference to the uprisings. Central bankers and foreign exchange artists around the world believed that this reality constrained American monetary policy.[1658] Fed Chair William M. Martin claimed that "it was rather naive to assume that there was any direct relation between urban riots and monetary policy."[1659] But the Fed's John E. Sheehan acknowledged the constraint. Rejecting Milton Friedman's demands for tight money, Sheehan said: "Milton could go to his farm … and sit this out but when he comes back he will find the cities burned down and the University of Chicago burned down along with them."[1660]

It is not surprising that many people expected a new wave of riots.[1661] Reagan did not even feign interest in the problem, destroying 310,000 public service jobs in one stroke by

[1657] Sidney Homer, "Inflation Versus Civil Disorders: Inflation Disaster Worse Than Rise in Jobless Rate," Los Angeles Times, Oct 26, 1969, H1.

[1658] On returning from an OECD conference, Andrew Brimmer (the first black FRB member) reported that: "There was a great deal of conversation about a press report alleging that the U.S. delegation at Basle had said this country was prepared to fight inflation but not to the extent of generating urban riots." FOMC Memo of Discussion, 11/25/69, 26. See also: Clyde H. Farnsworth, "U.S. Links Deficit in Payments to Black Unrest," NYT, Nov 18, 1969, 3.

[1659] Memorandum of Discussion, FOMC, 11/25/69, p. 31

[1660] Charles N. Stabler, "Fed's Sheehan Warns Against Big Effort to Squeeze Inflation: He Says Plans of Critics of Agency Would Make Many Hungry and Jobless," *WSJ,* March 29, 1974, 18.

[1661] Louis Martin, "Nation may soon face job riots," *Chicago Defender,* March 1, 1975, 3; David Anable, "Hot summer in the city: recession problems seen," *The Austin American Statesman*, May 16, 1975, A31; Martin Tolchin, "Carter Warned by Blacks of Unrest if He Slights Programs for Cities," *NYT*, Dec 5, 1978, A1; Jim Mann, "Recall Riots of 60s: 'Frustration in Air,' Black Leaders Say," *Los Angeles Times* 20 May 1980: b23; David Nyhan, "Jobless Detroit youths raise specter of rioting," *Boston Globe*, Nov 12, 1981; Jonathan Kaufman, "Black Mood: In Big-City Ghettos, Life Is Often Worse Than in the '60s Tumult But Expectations Are Lower," *WSJ*, 23 May 1980: 1; Percy Sutton, "Racism and Riots," *New York Amsterdam News*, May 24, 1980, 21.

scrapping the Comprehensive Employment and Training Act (CETA). [1662] Riots did occur: in Flint (1980), in Chattanooga (1980), and most dramatically Miami in 1980 (and again in 1983 and 1989).[1663] But nothing like the 1960s followed, either revolts or reforms.[1664]

Despite constant ideological efforts to conflate poor people and racialized majorities, black people were far from the only proletarians vulnerable to the Carter-Reagan-Volcker program. In 1983, an NAACP official predicted "that urban violence is a very real possibility, but … Whites would also be involved because they too are victims of high unemployment and inflation."[1665] After all, black Americans were hardly the only social group who had exerted extra-parliamentary pressure in recent memory. During the 1974 energy crisis, striking truckers had "slashed tires, cut brake lines, and littered the highways with nail…set aflame fuel tanks and big rigs" and even "opened fire on noncomplying trucks." Again in 1979, trucker protests had led to shootings across the country and a riot in Levittown, Pennsylvania. [1666]

But the 1980s were different. Some factors that had made the crisis more livable, or at least less seemingly apocalyptic, for some groups of working-class Americans: cheaper imports, slowing inflation, and eventually a fall in energy prices and an expansion of consumer credit. But

[1662] Ronald Smothers, "CETA Cutbacks Leaving Thousands Unemployed," *NYT*, April 11, 1981, 1.

[1663] "More Riots Likely If Black Unemployment Was at Fault in Miami," *The Washington Post,* May 25, 1980, H3; Charles McCoy, Rick Christie, and Jose de Cordoba, "In Miami, Rivalries of Minority Groups Fan Riot's Flames," *WSJ*, Jan 20, 1989, 1; "Riot in Flint: Slaying of black, heat wave linked to Michigan riot," *The Austin American-Statesman*, July 14, 1980: D18. There was also employment-related violence that did not officially register as riots: Peter Noel, "Job War Erupts!! Blacks Fight for Construction Jobs in New York City, Violence Erupts as Blacks Fight for Jobs," *The Amsterdam News*, July 25, 1981, 1.

[1664] David J. Blum, "Keeping Cool: The Long Hot Summer Ends Without Riots That Some Predicted WSJ, Sep 23, 1982, 1.

[1665] "Will Riots Happen In '83?" *Washington Informer*, June 22, 1983, 23.

[1666] Meg Jacobs, *Panic at the Pump: The Energy Crisis and the Transformation of American Politics in the 1970s* (New York: Macmillan, 2016), 91, 216.

just as important was the force of exhaustion and disillusion. No different from the bread rioters in earlier historical periods, poor Americans in the 1980s were capable of thinking politically—rioting could be a conscious tactic, not just something that happened mechanistically when unemployment hit a certain rate. In July 1980, a 33-year-old black welfare recipient named Shay Drummond told reporters that: "[The rich] go to their parties, wear their jewels and all the while, we starve a little bit more. Well, that's why people around here talk about striking back like we did before [i.e., the Watts uprising of 1965] and they did down in Miami."[1667] But these discussions, which must have happened in every American city, evidently ended with most participants deciding not to "strike back." Regina Hudson, an unemployed Birmingham resident in her fifties, gave one reason: "It wouldn't matter to Reagan if we rioted or not. He'll just keep doing his thing. You don't riot when no one is going to listen."[1668]

The basic conditions for effective political opposition from below were missing. The leadership of the labor movement had little interest either in exploring its own membership's potential for disruption or in linking union struggles to black struggles. Instead of organized disruption, the signature of the 1980s was diffuse interpersonal violence, from street gang warfare to the racist murder of Vincent Chin, a Chinese-American resident of Detroit beaten to death by unemployed autoworkers who blamed him for the growth of imports.[1669] The violence was endogenous to the decade's political economy. Austerity and deregulation ("a steady reduction in ATF activity and resources in the late 1970s and early 1980s") contributed to a massive "supply shock," driven by "a small group of manufacturers…specializing in a class of

[1667] Joel Kotkin, "L.A. Blacks Are a World Apart: Watts, 15 Years After Riots, Still Feels Cut Off," *Washington Post*, July 30, 1980, A4.

[1668] Blum, "Keeping Cool."

[1669] Frank H. Wu, "Why Vincent Chin Matters," *NYT*, June 23, 2012, A19.

extremely cheap handguns, highly involved with crime." Fittingly, this domestic military-industrial complex was centered in Southern California.[1670] The technology used to make these cheap guns—numerical controlled machine tools—was itself a military spinoff.[1671]

The force of rearmament was also a key bearing on the other side of the increasingly bimodal distribution of income, with a relatively larger number of high earners, many more working poor, and fewer workers in the middle. The ranks of the affluent were swelled by the ubiquitous "yuppie," a word which first appeared in print around the turn of the 1980s.[1672] California was held up as an example: in 1981, nine percent of its households already earned over $50,000 (almost $160,000 in 2020 prices) annually.[1673] By my rough estimate, more than one in every four members of this top earning group worked in aerospace.[1674] The modal California yuppie may well have been a defense worker. Hiring trends in the California aerospace sector industry between 1983 and 1987 fill out the picture: employment of executives under 30 and professional/technical workers under 30 years old increased 73% and 75%, respectively, compared to an increase of just 31% for production and craft workers.[1675]

[1670] Wm. Alan Bartley and Geoffrey Fain Williams, "The Role of Gun Supply in 1980s and 1990s Youth Violence," *Contemporary Economic Policy*, Vol 40, no 2 (April 2022) 328-329.

[1671] Noble, *Forces of Production*.

[1672] For one early usage, see R.C. Longworth, "Chicago: City on the brink: The social fallout of economic crisis," *Chicago Tribune*, May 13, 1981, 1. Generally, see Dylan Gottlieb, "Yuppies: Young Urban Professionals and the Making of Postindustrial New York," *Enterprise & Society* (2021), 22: 4, 962–969.

[1673] Davis, *Prisoners of the American Dream*, 218.

[1674] Aerospace accounted for 4% of the state's work force, and 60% of aerospace workers earned more than $48,000 annually, so 2.4% of Californian workers were aerospace workers making more than $48,000. For share of the labor force, James Dertouzos and Michael Dardia, *Defense Spending, Aerospace, and the California Economy* (Santa Monica: RAND Institution, 1993), 6. For wage scale, Robert F. Schoeni, Michael Dardia, Kevin F. McCarthy, Georges Vernez, *Life After Cutbacks Tracking California's Aerospace Workers* (Santa Monica: RAND, 1996), 20.

[1675] James Dertouzos and Michael Dardia, *Defense Spending, Aerospace, and the California Economy* (Santa Monica: RAND Institution, 1993Table 2, Changes in Aerospace Employment, by occupation, 15

High earners fueled the luxury consumption that helped define the decade's political economy. The strength of the dollar, disastrous for domestic manufacturing, made import consumption easier. Luxury car imports doubled, and the average age of a first-time fur coat buyer fell from fifty to twenty-six.[1676] The young aerospace executive who drove a BMW, wore a Swiss watch, and collected Japanese stereo equipment might spend his Saturday nights using cocaine on the Sunset Strip.[1677] In 1980, illegal drugs represented 5% of U.S. personal consumption expenditures, with annual cocaine imports estimated at 50 metric tons.[1678] In Miami, the local Federal Reserve branch "reported a $5 billion cash surplus, the largest in the nation," much of it apparently drug money.[1679] By the end of the 1980s, Colombia was the biggest recipient of U.S. military assistance, including the C-130 transport/gunships that Lockheed had produced continuously since 1954.[1680] With these business deals and countless others, the circuit linking luxury consumption to overseas violence to defense profits was closed.

The emerging social structure was also defined by the relationship of the expanded high earning class and the growing ranks of underpaid service employees. Lockheed contracted out its janitorial employment to firms like World Service, whose employees worked twelve hours a day,

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[1676] Gil Troy, *Morning in America: How Ronald Reagan Invented the 1980's* (Princeton: Princeton University Press, 2013) 123.

[1677] One high-tech CEO told a reporter that "You can buy drugs in this company anytime you want, and I don't think we are unique." Jan Klunder, "Labor Relations: Handful of Workers Talk About Life on the Job in '86," *Los Angeles Times,* Sept 1, 1986, VA6.

[1678] Thomas O'Toole, "Cocaine: America's 'Drug of Choice,'" Washington Post, Oct 27, 1981, A1; Rachel Soloveichik, "Including Illegal Activity in the U.S. National Economic Accounts," Bureau of Economic Analysis Working Paper (March 2020) < https://www.bea.gov/system/files/papers/WP2019-4_6.pdf>

[1679] Andy Rosenblatt/Knight Ridder, "$108 Million in Miami Banks Traced to Drug Suspects," *Washington Post*, June 7, 1980, A6.

[1680] Richard Halloran, "U.S. to Train Colombians," *NYT*, Sep 1, 1989: A1; Melissa Healy, "Air Force Seeking New Worldwide Role," *Los Angeles Times*, June 15, 1990: OCA11.

six to seven days a week, for low wages. World Service was cited by the NLRB for violations including illegally evading demands for union recognition and firing employees for failing to adhere to work rules printed in a language its largely immigrant workforce could not read.[1681]

Vanishing Mediators

Looking back on his life's work in 1986, Leon Keyserling lamented that the Employment Act of 1946 (which he had helped to write) was a dead letter: "the whole concept of full employment has been abandoned." Keyserling added that "the complete violation of that policy" had occurred "just as much during the Carter administration as during the Reagan administration."[1682] The bipartisan advent of neoliberalism had made Keyserling a man without a party. In 1987, when Keyserling died, his obituaries called him a "New Deal planner"—were there any other three words in the American political idiom that sounded quite so antediluvian?[1683] Yet Keyserling had also been on the winning side. Like Ronald Reagan, he was a member of the Committee on the Present Danger, an organization which successfully reoriented American politics around the question of rearmament in time for the 1980 election. Even beyond Cold War foreign policy, Reagan embraced a politics of economic growth (led by fiscal policy) that descended clearly from Keyserling's vision of economic expansion.[1684]

[1681] "Labor Board Complains on Behalf of Janitors," *Asian Week* (San Francisco), July 6, 1984, 3.

[1682] Kenneth M. Casebeer, "Holder of the Pen: An Interview with Leon Keyserling on Drafting the Wagner Act," *University of Miami Law Review*, 42:2 (1987) 318.

[1683] "Leon H. Keyserling; New Deal Planner, Adviser to Truman," *Los Angeles Times*, Aug 13, 1987, 39.

[1684] This point was recognized by the noted business writer Robert Sobel, who called Keyserling "the unacknowledged father of supply-side economics." Robert Sobel, "Reagan's FDR Connections Traced," *Newsday*, Jan 25, 1982, 26. Cf. Walter W. Heller, "Kennedy's Supply-Side Economics," *Challenge* Vol. 24, No. 2 (May/June 1981) 14-18.

One way to understand Keyserling's simultaneous eclipse and apotheosis is to think about him as a "vanishing mediator," a concept which Etienne Balibar has defined as "a transitory institution, force, community, or spiritual formation that creates the conditions for a new society and a new civilizational pattern … by rearranging the elements inherited from the very institution that has to be overcome."[1685] In these terms, Keyserling was the medium through which the New Deal gave way to the Cold War. The beginning of the Cold War coincided with the end of New Deal reform, but the Cold War was erected on principles imported from the New Deal—most notably, Keyserling's vision of demand-led economic expansion. By the time Keyserling died in 1987, few questioned the politics of economic growth and the existence of massive peacetime military budgets, but full employment was no longer pursued as a policy goal.

There was no better symbol of Keyserling's "vanishing" than the fact that, within a few years of the collapse of the Soviet Union, Paul Nitze could no longer even remember his former colleague's name. As Nitze told an interviewer in 1995: "there was a, a chairman of the President's Board of Economic Advisers, was a very intelligent fellow, I forget his name now, no I can't recall it at the moment."[1686] By this time, Nitze was 88 years old and the Cold War itself had become history (indeed, it had become *Cold War*, the twenty-four-part TV documentary for which the elderly statesman was being interviewed). Nitze lived long enough to endorse Bill

[1685] Etienne Balibar, "Europe: Vanishing Mediator," *Constellations*, vol. 10, no. 3, (Fall 2003), 334. The term was coined by Fredric Jameson to describe Max Weber's conception of the role that Protestant beliefs played in bringing about the rise of capitalist rationality, which in turn eradicated religious values. Fredric Jameson, "The Vanishing Mediator: Narrative Structure in Max Weber," *New German Critique*, No. 1 (Winter, 1973) 52-89.

[1686] "Interview with Ambassador Paul H. Nitze," June 12, 1995. National Security Archive. <https://nsarchive2.gwu.edu/coldwar/interviews/episode-2/nitze5.html>

Clinton, a president whose "first priority was to build out the liberal order of free trade into an encompassing global system under US command."[1687]

This new world of "neoliberal globalization" outstripped the wildest dreams of the early Cold War corporate internationalists, but it was clearly continuous with their vision of a new world system. Thus, the Cold War can also be represented as a vanishing mediator, in this case as the disappearing bridge across which the United States found its way to global hegemony. Not for the first time, Bruce Cumings captured the thought best:

> Our 1990s world is the anticipated consequence, the unfolding of an internationalist telos yielding the liberal hegemony that the internationalists envisioned. The boundless global power immanent in the peculiarly American moment of 1945, soon gave way to a global structure based in, and the outgrowth of, the maturing of liberal modernism. Because of the Other—Soviet communism, old-world imperialism, national liberation movements—the boundaries of the system were policed by naval task forces, the nuclear delivery capabilities of air forces, and, above all, the archipelago of American military bases. But *when the Other disappeared, the structure continued in place* and, in the 1990s, achieved the full florescence that its planners had imagined in the 1940.[1688]

As a final image for this chapter on Reaganism, consider Will Clayton. From one perspective, Clayton and Leon Keyserling had been part of the same historical bloc. They were both southern Democrats, closely tied to the cotton trade, whose commitment to economic expansion had led them to join in a powerful alliance with forces from New York City (including not just investment bankers but Columbia economists, the garment unions, and Robert Wagner). Both had been involved in the crucial half-decade (1948-1952) when the U.S. had rebuilt Western European and Japanese capitalism, rearmed itself on a colossal scale, and extended the

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[1687] Perry Anderson, *American Foreign Policy and Its Thinkers*, 116; Stephen S. Rosenfeld, "Return of the Neocons," *Washington Post,* August 28, 1992, A23.

[1688] Cumings, "Still the American Century," 297-298, emphasis added. Anders Stephanson, who defended his PhD a decade after Cumings, wrote even more directly in the shadow of the unipolar moment and, perhaps as a result, developed a set of arguments that go even further toward interpreting the Cold War as a strategic act of American self-assertion rather than a response to revolutionary disorder in the world system. Anders Stephanson, "Cold War Degree Zero."

direct application of military force across the world. When Clayton died in 1966, Keyserling eulogized him as "one of the greatest and most forward-looking and most competent figures who came into public life during the 35 years I have been interested in public policy."[1689]

But Clayton was not Keyserling. Back in 1949, Clayton had warned "Soviet Russia's *principal objectives* in the cold war are *to frighten democratic governments into excessive expenditures for defense,* and *to frighten private capital* and initiative so that it will not operate freely." Clayton supported NATO and rearmament because the alternative would be to "lose Europe to Communism." He looked forward to the rollback of huge budgets and their replacement by a world of economic expansion driven by private commerce.[1690] Clayton was a conservative Texan who had belonged to the reactionary Liberty League until the Republican embrace of protectionism forced him back to FDR. Though he died in the mid-1960s, Clayton's memory was alive during the Reagan years. Ellen Clayton Garwood, his daughter and biographer, personally donated $2.5 million (around $6.5 million in 2022 dollars) to support the Nicaraguan Contras. "Her donations," reported the Associated Press, "were inspired by memories of her father's opposition to Communism."[1691]

To some historians, the transition from Will Clayton to Ellen Clayton Garwood, from the Marshall Plan to the Contra war, might embody the rise and fall of the New Deal order. But to

[1689] Keyserling also remarked that, despite his "genius," Clayton had "really never held a top-level post… perhaps because being a rather immature political entity, we seldom put men of real courage and real ability in these posts." No one who has spent any time studying Keyserling could miss the reference to another particular unsung genius. "Monetary-Economic Panel Honors Will Clayton; His 'Testament' Renews Drive for Atlantic Union" [Federal Union Convocation Transcript], *Freedom & Union: Magazine of the Democratic World* (Washington, DC), vol 24, no 1 (Jan 1969) 14-17, here 14.

[1690] *North Atlantic Treaty: Hearings Before the Committee on Foreign Relations, U.S. Senate, 81st Cong. 1st. Session, Private Witnesses,* May 1949 (Washington: GPO, 1949) 377, 401. Emphasis added.

[1691] Associated Press, "Ellen Garwood, 89, A Prominent Donor to Nicaragua Rebels," *NYT*, March 23, 1993, B7.

Garwood, there was no rupture. It was not hard to trace the long arc of counter-revolutionary containment that linked Greece in 1947 in Nicaragua forty years later. But while the Truman Doctrine had been a step toward a massive expansion of the defense share of GDP, conflicts like the Contra war cost the U.S. almost nothing.[1692] The defeat of the Nicaraguan revolution in 1990 heralded a decade of lower defense budgets and even balanced budgets.

Will Clayton would have welcomed it. Now government spending could be cut while U.S. companies invested in Central America (backstopped by U.S military forces-in-being plus financial bailouts in response to events such as the 1994 Mexican currency crisis). Military Keynesianism had been a means toward an end, the launch of an American-superintended global capitalism. Along the way, it played an important, if often contradictory, function in promoting the growth and stability of the American economy. Both of these tasks—the maintenance of world order and the management of the economy—were tricky. But neither strictly required Cold War level defense spending on a permanent basis. The Reagan years, with their final military Keynesian boom, marked the final mediation between the generative tensions of the Cold War world and the dawning of the global capitalist millennium.[1693]

[1692] Circa 1990, *total* U.S. spending on "forces designed for intervention in the Third World" came to $97 billion, or 1.6% of GDP. Combined aid to four major proxies (the Khmer Rouge, UNITA, the mujahideen, and the Salvadoran junta) came to less than $1 billion annually. Stephen Van Evera, "The Case against Intervention," *The Atlantic* (July 1990) 72-80.

[1693] The last phrase is borrowed from Panitch and Gindin, *Making of Global Capitalism*, Part IV.

Figure 25: Leon Keyserling as a vanishing mediator

	Keyserling/New Deal	Keyserling CEA/ NSC-68	Reaganomics/ neoliberalism
Social democracy	+	-	-
Full employment	+	+	-
Growthmanship	-	+	+
Permanent arms economy	-	+	+

Figure 26: The Cold War as a vanishing mediator

	pre-1945	1945-1989	post-1989
American global hegemony	-	+	+
Cold War	-	+	-

Epilogue: From Military Keynesianism to the Asset Economy

Richard Nixon died in April 1994, which means he lived long enough to see someone who had volunteered for George McGovern ascend to the presidency. But whatever his youthful impulses, Bill Clinton's response to the death made clear how much he respected Nixon. Clinton declared a national day of mourning, ordered federal agencies and the stock market to close, then headed off to Orange County to take part in what George Ball described as "the most obscene orgy of revisionism I've ever seen in this country."[1694]

It was only fitting that the funeral of such a masterful politician would also be the setting for a little contemporary political business. The pressing matter was US-China trade relations—specifically, the ongoing controversy over whether the U.S. should make renewal of China's Most Favored Nation (MFN) status conditional on human rights guarantees.[1695] During the funeral itself, Clinton advisors Robert Rubin and Tony Lake met "very secretly" with Chinese ambassador Li Daoyu, "in a cramped meeting room in the Nixon Library." [1696] On the same trip, Bill Clinton met with local members of the Business Coalition for U.S.-China Trade, who delivered a petition endorsed by 450 California companies supporting MFN renewal. The petition warned that the "loss of [China's]…trade status would be an additional devastating blow to the California economy" at a time when the state remained "mired in recession." California

[1694] James Bill, *George Ball: Behind the Scenes in U.S. Foreign Policy* (New Haven: Yale University Press, 1997) 47.

[1695] I am indebted to Nelson Lichtenstein for drawing my attention to this macabre multitasking. On the MFN debate, see Ho-Fung Hung, "The Periphery in the Making of Globalization: The China Lobby and the Reversal of Clinton's China Trade Policy, 1993-1994," *Review of International Political Economy* Volume 28 (2021) 1004-1027; Nelson Lichtenstein, *A Fabulous Failure: Bill Clinton and American Capitalism* (forthcoming, Princeton University Press).

[1696] Elaine Sciolino, Thomas L. Friedman, and Patrick E. Tyler, "Clinton and China: How Promise Self-Destructed," *NYT*, May 29, 1994, 1, 8; Russell L. Riley, *Inside the Clinton White House: An Oral History* (New York: Oxford University Press, 2016) 242.

had something to offer Clinton, too. As the pro-MFN coalition leader explained, "we focused on California because Clinton absolutely needs the state for reelection."[1697]

It was undeniable that California's economy was suffering from a protracted, localized recession. Between 1992 and 1996, California's unemployment rate averaged around 8.5 percent—a full two points worse than average unemployment in Michigan over the same period. In LA County, the jobless rate broke into the double digits, right around the time that residents of South-Central LA launched a six-day revolt against police violence.[1698] The Golden State was experiencing Volcker-shock levels of unemployment and social decomposition, a decade after the rest of the country. The problem was that the U.S. had won the Cold War. Between 1990 and 1995, the aerospace industry in California collapsed, shedding at least 100,000 workers (or half the industry's workforce).[1699] Those who found new work could not be counted on to generate the same multiplier effects as they had before. This was illustrated by a RAND study tracing the fates of the cohort of half a million Californians who had been employed in aerospace in 1989: 20% left the labor force or moved to another state, while 48% of the group saw real earnings fall (of this latter group, more than two-thirds saw their earnings fall by at least 13%).[1700]

Bill Clinton's April 1994 trip to California captures in miniature a dizzying complex of intermestic forces. The complete U.S. victory over international communism had somehow

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[1697] In 1992, Clinton became the first Democrat in thirty years to win California, whose 54 electoral votes surpassed any other. But thanks to Ross Perot, Clinton won less than half the state's popular vote. Susumu Awanohara and Irene Wu, "United States: The China Game," *Far Eastern Economic Review*, vol. 157, issue 19 (May 12, 1994) 16.

[1698] Unemployment Rate in California. FRED. < https://fred.stlouisfed.org/series/CAUR>; Unemployment Rate in Michigan, FRED. <fred.stlouisfed.org/series/MIUR>; Unemployment Rate in Los Angeles County, CA, FRED. <fred.stlouisfed.org/series/CALOSA7URN>.

[1699] All Employees: Manufacturing: Durable Goods: Aerospace Product and Parts Manufacturing in California. FRED. <https://fred.stlouisfed.org/series/SMU06000003133640001SA>

[1700] Schoeni et. al., *Life After Cutbacks Tracking California's Aerospace Workers*. As comparison with the preceding footnote suggests, RAND employed a relatively broad definition of the industry.

condemned the largest U.S. state—indeed, the ninth largest economy in the world—to economic stagnation.[1701] To fill the gap left by evaporating military demand, Californian capitalists united to fight for the expansion of Pacific-facing foreign trade. In doing so, they acted as brokers between the Chinese party-state, with its ambitious goals for export-led development, and the U.S. president, who needed to generate new economic activity both for its own sake and as a precondition of his reelection. Even more amazing than the scope of the relations involved is the fact that the project worked: the volume of U.S.-China trade grew tenfold between 1989 and 2003, and by the 21st century the relations between the two countries had become the obvious pivot of a capitalist world system that for the first time encompassed almost the entire planet.

Not least, California recovered. The military-industrial complex had yielded long-term dividends in the industries that became known as "Silicon Valley" or simply "tech." But while information technology drove a powerful wave of investment in the 1990s, in the 21st century even these cutting-edge enterprises became increasingly financialized. Between October 2012 and December 2021, Apple spent nearly $500 billion (or 92% of its net income) on stock market repurchases, a maneuver which has driven huge appreciation in the value of the company's shares.[1702] Apple's market capitalization—the present value of all outstanding shares—reached peaks of $1 trillion in 2018, $2 trillion in 2020, and $3 trillion in 2022.[1703] Tech stocks were not

[1701] Legislative Analyst's Office, *The California Economy* (January 1995). <https://lao.ca.gov/1995/010195_calguide/cgep1.html>

[1702] William Lazonick, "Where Did You Go, Vice President Joe?" Institute for New Economic Thinking, March 4, 2022. <https://www.ineteconomics.org/perspectives/blog/where-did-you-go-vice-president-joe>

[1703] Kif Leswing, "Apple Becomes First U.S. Company to Reach $3 trillion Market Cap," CNBC.com. Jan 3, 2022. < https://www.cnbc.com/2022/01/03/apple-becomes-first-us-company-to-reach-3-trillion-market-cap.html>

the only kind of asset sustaining the new California economy. The average price of a home in Los Angeles in 2022 was nearly four times what it had been in 1990.[1704]

As went California, so went the nation. Asset price appreciation became increasingly central to the entire American political economy.[1705] Throughout the 1990s, affluent households expanded their consumption as the stock market swelled the value of their assets; this "wealth effect" became an important factor in the overall expansion of that decade.[1706] Clinton and Bush alike made a massive push to integrate workers, the poor, and racialized minorities into the asset economy by promoting the expansion of homeownership, explicitly conceived as a means of wealth accumulation that could offset stagnant labor market incomes. Asset values were central to social life as a whole—a point driven home dramatically when a localized crisis in subprime mortgage lending quickly threatened the very existence of the global economy. Even after the system was stabilized, the enduring shock to aggregate demand (largely a result of deteriorated household balance sheets) brought in its train almost a decade of macroeconomic stagnation.

The asset economy was, in many respects, the offspring of the military Keynesian political economy that it replaced. Neoliberal financialization has its origins in the massive outflow of dollars during the early Cold War, which found new homes in the unregulated Eurodollar market.[1707] It was the financial stress of the American war in Southeast Asia that ultimately ushered in the end of the gold-dollar standard after 1971 and opened the door to the

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[1704] S&P/Case-Shiller CA-Los Angeles Home Price Index. FRED. <https://fred.stlouisfed.org/series/LXXRSA>

[1705] Lisa Adkins, Melinda Cooper, and Martijn Konings, *The Asset Economy* (New York: Polity, 2020).

[1706] Robert Pollin, *Contours of Descent: US Economic Fractures and the Landscape of Global Austerity* (New York: Verso, 2005) 65-67.

[1707] The word "neoliberal" is not anachronistic: "as early as 1948," the IMF's Per Jacobsson "reassured American policymakers that something he called 'neo-Liberalism . . . has begun to gain ground' in Europe." Panitch and Gindin, *Making of Global Capitalism*, 97.

new world of floating exchange rates and unrestricted capital mobility. The Great Inflation that began during the Vietnam War was ultimately resolved by the Volcker interest rate shock, which together with the Reagan's Cold War deficit spending sucked capital from all around the world into the U.S. financial system on a scale no one had previously imagined.

Beyond these grand structural linkages, there were countless more particular passages connecting the two eras. A good example is the fate of America's physicists, whose training and employment had been guaranteed for decades by the military-industrial state. In 1986, one in three physicists/astronomers was employed in defense-dependent work.[1708] These knowledge workers were hard hit by the end of the Cold War, and particularly by budget balancing moves such as Congress' 1990 cap on discretionary science spending and the DOE's cuts to its high-energy physics budget.[1709] What came next was described in an acronymic fashion that recalled the military bureaucracy: POWs, or Physicists on Wall Street. The high-powered scientists who had once worked on the Pentagon's dime had become "quants," employed in large numbers at banks doing things like writing computer programs for options trading.

At the level of ideology, neoliberalism is defined by "free markets," but the financialized asset economy has obviously been produced and reproduced through state intervention on an unprecedented scale. During the heyday of military Keynesianism, John Kenneth Galbraith said that "a large public sector of the economy… is the fulcrum for the regulation of demand," and that "plainly military expenditures are the pivot on which the fulcrum rests."[1710] In the era of

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[1708] Data from the National Science Foundation's Survey of Scientists and Engineers, cited in Markusen and Yudken, *Dismantling the Cold War Economy*, "Table 6.4: BLS and SSE Estimates of Occupational Defense-Dependency, 1986," 144.

[1709] David C. Cassidy*, A Short History of Physics in the American Century* (Cambridge, Mass: Harvard University Press, 2013) 161.

[1710] John Kenneth Galbraith, *The New Industrial State* (London: Hamish Hamilton, 1967) 229.

financialization, it was now the Federal Reserve that "increasingly became the fulcrum on which the U.S. economy turned."[1711] During normal times, the Fed's embrace of historically low interest rate policy kept liquidity flowing through the system and bid up the price of assets—a form of macroeconomic stabilization that can appropriately be called "asset-price Keynesianism."[1712] People who had once rolled their eyes at the pretensions of Keynesian "fine-tuning" now unironically revered a new "Maestro," Fed chair Alan Greenspan. During the periodic crises that appeared to be inherent in the new financial environment, the Fed (in coordination with the Treasury Department) intervened on an almost incomprehensible scale to keep the system afloat. Just one example of these interventions is the escalating scale of financial assets purchased by the Fed and held on its books, represented in Figure 27 below.

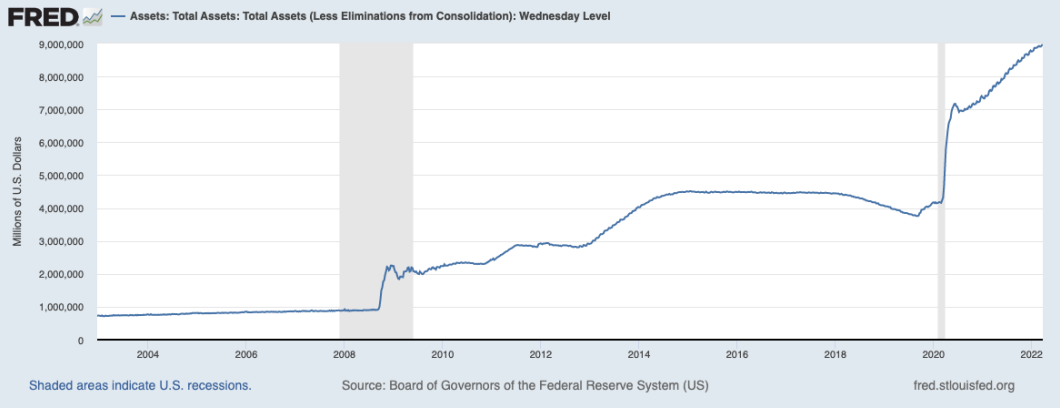

Figure 27: Federal Reserve, total assets

Without such extraordinary support, economic catastrophe on the scale of the Great Depression would undoubtedly have occurred, with global consequences without historical precedent. But despite the clear reliance of American capitalism on state support, even the most

[1711] Greta R. Krippner, "The Making of US Monetary Policy: Central Bank Transparency and the Neoliberal Dilemma," *Theory and Society,* Vol. 36, No. 6 (Dec. 2007) 488.

[1712] The term seems to have been first used in Robert Brenner, *Economics of Global Turbulence*, 293.

rudimentary social democracy remained off the table politically and no halfway adequate effort to address climate disaster could get off the ground. Even in the face of real disaster, there was little possibility of devoting resources on the scale of the Cold War to socially useful—and indeed existentially necessary—tasks. In 2022, this impasse was crystallized in the failed nomination of Sarah Bloom Raskin to the Fed. Raskin's opponents (prominently, Senator Joe Manchin of West Virginia) worried that "her views on climate change could discourage banks from lending money to fossil fuel companies." Raskin's insistence that "it's up to banks to decide which loans to make, not the Federal Reserve" was futile. [1713] Even the rumor of public control over the allocation of credit and investment was enough to sink the nomination.[1714]

For most people in the world, this state of affairs promises (indeed, has already delivered) disaster. But for some, the situation has its charms. As Barack Obama made clear in 2009, even the most extraordinary macroeconomic interventions must preserve a specific form of social relations: "We want to retain a strong sense of private capital fulfilling the core investment needs of this country."[1715] If in the future there are still American historians, they will be able to look back across the wreckage and marvel at the enduring success of the broader class project that encompasses both military Keynesianism and the asset economy: macroeconomic stabilization without the socialization of investment.

[1713] Both quotes are the reporter's paraphrase. Scott Horsley, "Sen. Joe Manchin Says He'll Oppose Sarah Bloom Raskin's Nomination to a Key Fed Role," NPR, March 14, 2022. <https://www.npr.org/2022/03/14/1086456895/sen-joe-manchin-sarah-bloom-raskin-nomination-fed-climate>

[1714] Historians who interpret neoliberalism as the abandonment of a golden age commitment to "public good … over private right" would do well to compare Raskin's fate to that suffered by Federal Power Commissioner Leland Olds in 1949. Gerstle, *Rise and Fall of the Neoliberal Order*, 25; Joseph P. Harris, "The Senatorial Rejection of Leland Olds: A Case Study," *The American Political Science Review,* 45:3 (1951) 674–692.

[1715] "Obama: No 'Easy Out' for Wall Street," *ABC News*, Feb 10, 2009. < https://abcnews.go.com/Politics/Business/story?id=6844330>